



Sask Flax Presentation January 8, 2007



Clearinghouse Concept

Who's Behind This Initiative?

- **Agriculture & Agri-Food Canada**
 - Agricultural Policy Framework
 - Purpose – Develop Private Sector Business Risk Management solutions.
 - Supporting multiple projects across Canada
- **Clearinghouse Sponsor**
 - The Western Barley Growers Assn on behalf of the agricultural community.
- **Assessment and Development Team**
 - Includes independent professionals who bring specific expertise to the project
- **Goal**
 - Involve other commodity groups in developing a useful risk management tool.

Presentation Objectives

- What do we hope to accomplish today?
 1. Introduce “clearing” to those unfamiliar with the concept.
 2. Review the progress of the project.
 3. Discuss our next steps and critical success factors.



AGENDA

- What is a Clearinghouse?
- Industry Trends
- Project Status
- Next Steps

What is a clearinghouse?

- A separate, independent corporation
 - assures contract performance –
 - delivery and settlement
 - collecting and maintaining margin monies
 - reporting trade data.
- Protects buyers and sellers from financial loss
 - standardized contracts
 - customer agreements
 - rules and regulations
 - procedures and performance standards.



A clearinghouse manages contract performance

How Does it work?

- In its simplest form, a buyer and seller register their trades with the clearing house.
- Then the clearinghouse reports, registers and monitors the trades until execution.
 - Clearinghouse constantly ensures the parties have the financial ability to execute in the event of any market condition
 - Clearinghouse services include:
 - Credit Evaluation
 - Margining
 - Delivery
 - Settlement

Examples

- Futures markets like WCE and CBOT
- Credit card companies and banks
- BC Grain Shippers' Clearance Assn

Trends in the Industry

- General trends in the industry are reinforcing the need for clearing
 - Potential changes in respect to the CWB
 - Developing domestic processing industries in grains and oilseeds
 - High “individual” cost of business failures
 - Desire to increase forward contracting
 - Increasing desire for contract specification more related to the product value – buyer and seller.

Why is this project important to producers?

A clearinghouse will:

- provide neutral price discovery for nearby and forward markets.
- Expand markets and trading opportunities.
- Assure delivery and payment.
- Offer fairer, more balanced contracts.

Farmers say grain commission negligent

Producers angry over compensation for failed dealer

■ The Canada Grain Act stipulates the commission is not liable for a shortfall in bankruptcy compensation.

nior grain commission official showing the agency received an estimated 29 payment inquiries from farmers involving Venture Seeds dating back to 2002.

“I have evidence for two years they knew that Venture Seeds was having producer payment

THE *Western Producer*

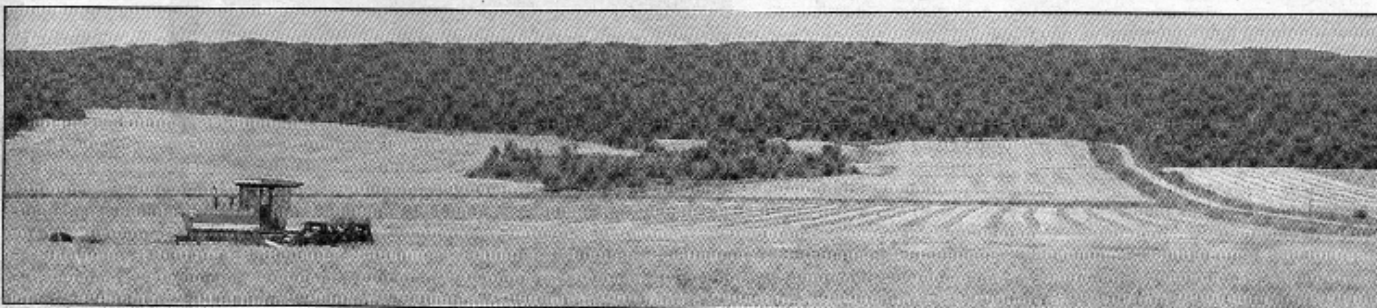
AUGUST 24, 2006

SERVING WESTERN CANADIAN FARM FAMILIES SINCE 1923

VOL. 84

No. 34

\$3.00



REAPING THE REWARDS — Bert Stewart swaths canola on his brother's farm next to the forests of Thunderhill near Berito, Man. Despite receiving no significant rain during July and August and having to spray against borthe armyworms, Stewart is optimistic about the harvest. (Cowan Creek photo)

Target date for the \$1 million project is August 2007

Clearinghouse could offer security

By Adrian Ewins
Saskatoon newsroom

By this time next year, grain buyers and sellers could be doing business through a new agricultural commodity clearinghouse attached to one of Canada's three major trading exchanges.

"I'd guess right now it's about \$3-20 it goes ahead," said Russ Crawford, a Calgary-based consultant working on the project for the Western Barley Growers Association.

The clearinghouse is designed to

Canadian Grain Commission's licensing and bonding system.

That system requires a company to put up a large security bond, which may or may not cover its total liabilities at any time.

"It assures payment and it assures delivery, so there is a benefit for both sides."

A number of dealer bankruptcies in recent years have seen farmers receive as little as 28 cents on the dollar.

The clearinghouse would use money put up as margin by individual buyers and sellers (perhaps 10 to 15 percent of the value of a

"It assures payment and it assures delivery, so here is a benefit for both sides," said Crawford, adding the system is essentially foolproof because the clearinghouse will cover any default through the margin money on each contract.

At the same time, he emphasized the proposal is not intended to replace the existing CCG system.

Pros and cons

There are certain circumstances in which bonding would be preferable and others in which the clearinghouse is a better alternative, especially

for the CCG, said the clearinghouse proposal is promising, but added the agency needs to see something more concrete before it would accept it as a substitute for security.

"We would have to be satisfied that a transaction through the clearinghouse and the protections it affords are at least as good protection as a letter of credit or bond we'd hold from a licensee."

Coscollin said the commission is willing to work with the proponents and if possible accommodate the requirements of the clearinghouse by possibly waiving security requirements



Project Status

Work Plan Time Frames

Work plan 1

April 2005.....March 2006

Work plan 1 – Generic Model / Market Assessment / Simulations and modeling



Work plan 2

April 2006.....March 2007

Work plan 2 – Business development/Business Case



Work plan 3 - if necessary

April 2007.....March 2008

Work plan 3 – Start up & Implementation



Situation Analysis

- **Generic Contract Development**
- **Simulation Modeling**
- **Outreach Programs**

Rules & Procedures

Customer Agreement



Commodity Contract Forms

Simulation Models

- Sophisticated modeling analysis of clearinghouse operations has been developed.
- Results using historical cash data for various commodities and verify viability of a cash commodity clearinghouse.
- Tested using rising, falling and rolling scenarios.
- Even survived the BSE crisis of May 2003.

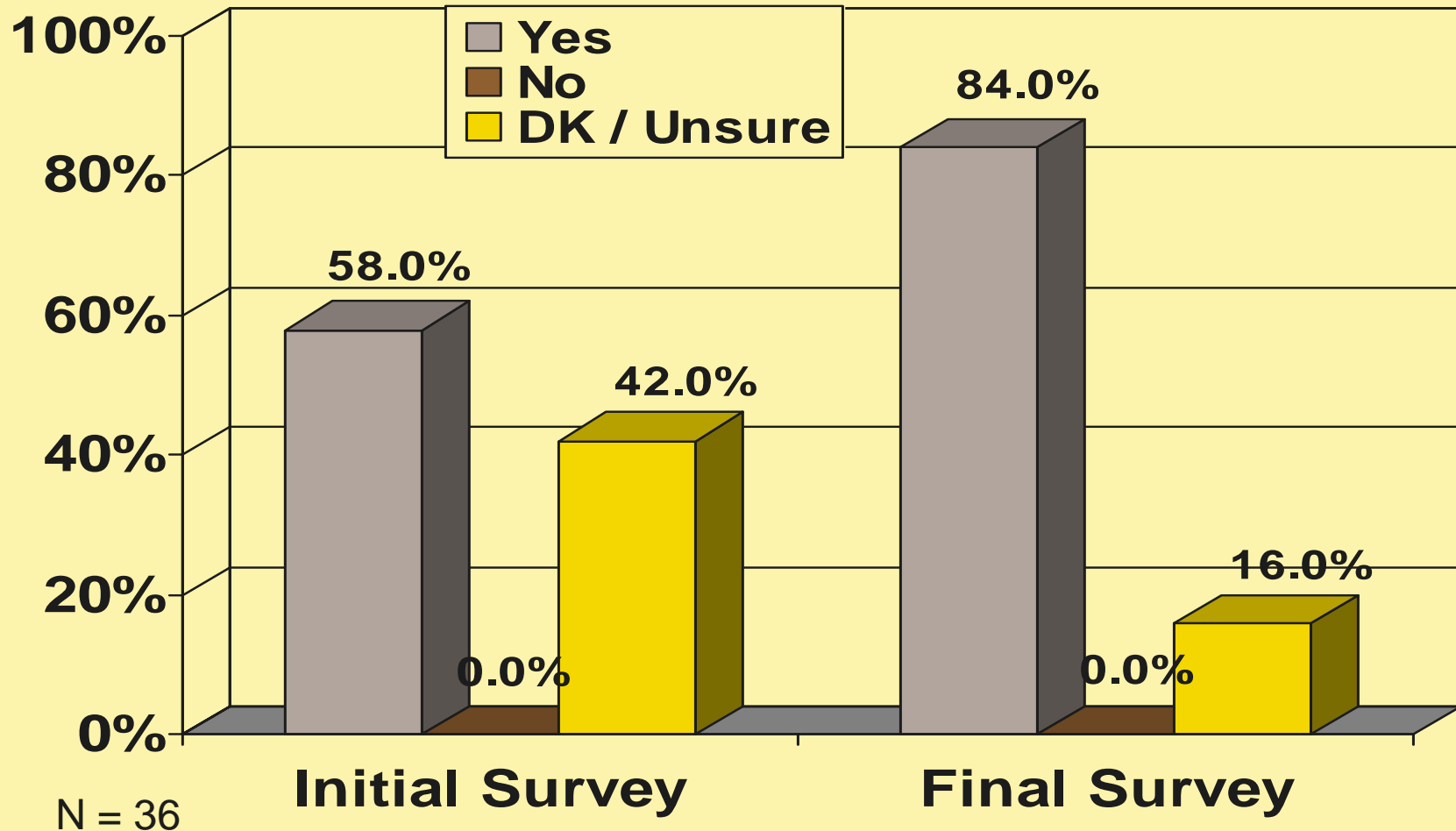
Outreach Strategy

A series of outreach sessions were conducted with producer groups & stakeholder groups with the objectives of:

1. Building awareness and understanding of the clearinghouse concept.
2. Determine attitudes to and support for the clearinghouse concept.
3. Understand particular needs of producers as they related to contracting and a clearinghouse's ability to meet those needs.
4. How to add value to the clearinghouse concept.

Support for the CH concept

Question: In general terms do you support the concept of an Agricultural clearing house?



Summary of Workplan 1

- Excellent generic model developed that can and will serve as the basis for the development of an operating clearinghouse.
- Simulations and modeling demonstrated that there are some very real benefits that are not clearly evident in the marketplace for buyers and sellers of commodities.
- Outreach sessions demonstrated that there is openness to the concept of a clearinghouse and real needs.

Summary of Workplan 1 (cont.)










- Strong support from grain producers has resulted in the addition of flax, wheat and canola to the original barley project.
- Still need to convince end user buyers and grain handlers of the benefits.
- Must attract the investment of a service provider who shares our vision.

Producer Recommendation

AGCLEARING CONCEPT EXPLORATION - 2006

PRODUCER RECOMMENDATIONS

- Should The Clearinghouse Move Forward or Not? -

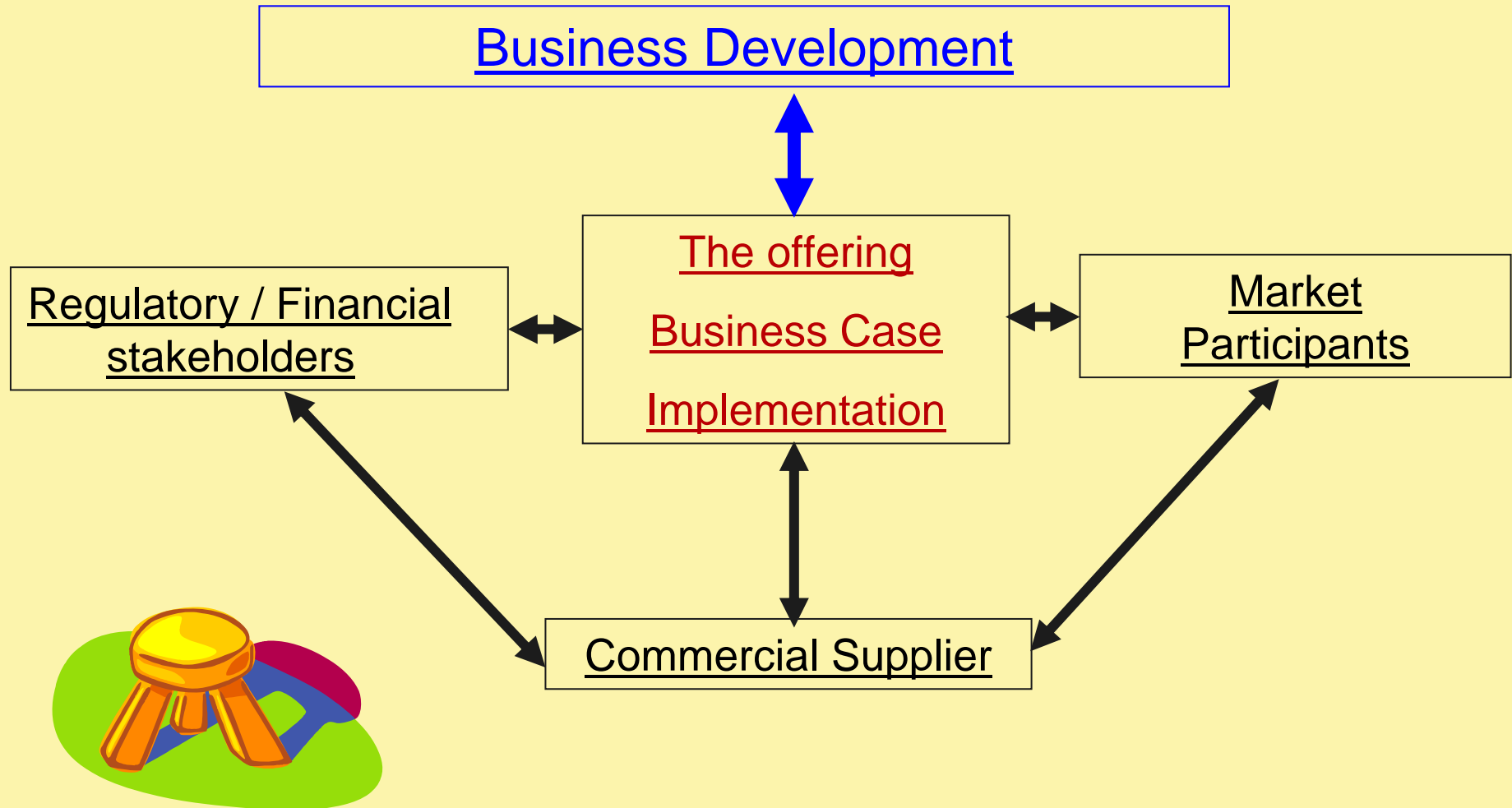
	- No -	- Yes -
		
		
		
	Video 8	Video 62

Quit • Help • Audio • Print Sub • Back • Main • Next



Next Steps

Business Development Framework



What do we need to accomplish next?

- Develop a sound business plan demonstrating value for all participants
- Show cost/benefit comparisons that present a case for participation at all levels
- Attract buyers, sellers, financial interests and regulatory agencies to participate in this venture



In Summary

1. Clearing agricultural cash commodity transactions - similar to grain futures, other industrial commodities and global financial instruments is a sound business practice. It addresses current industry needs with a voluntary, private sector solution offering new “value added” infrastructure.



In Summary (cont.)

2. Our efforts to date suggest this is an opportunity for a service provider to build on the support of the industry – particularly producers – to develop an agricultural clearinghouse.



In Summary (cont.)

3. Our challenge from here is to demonstrate a viable Business Case demonstrating solid, consistent benefits for industry participants leading to a service offering for Canadian agriculture.

