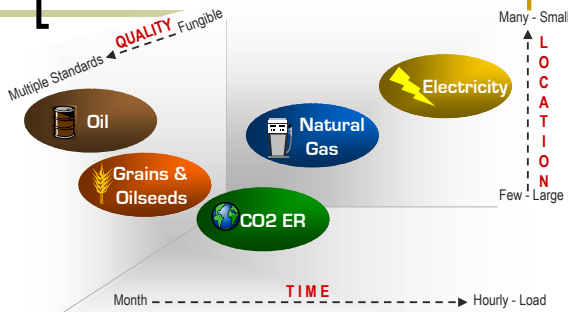


Canadian Agricultural Clearing House Has Its Time Come?

Agricultural Clearing House

- What is it ?
 - Project supported by WBGA and PSRMP
- How does it work?
 - Design to 'clear' agricultural transactions
- Where else is it used?
 - Used extensively in energy sector
- How do I benefit?
 - Improved transaction infrastructure = greater returns
- Why should I be interested?
 - WBGA as sponsor is leading the initiative

It's All About 'Basis'



Role of OTC Clearing House

- **Assure Delivery and Payment:**
 - A-CH is obligated to assure the delivery from seller to buyer, and the payment for all deliveries
- **Standardize Contracts and Rules:**
 - Common contract specifications, rules and regulations provide for a fair and efficient marketplace as well as a secure clearing operation
- **Measure and Manage Risk:**
 - Development and enforcement of rules to mitigate risk on behalf of all Contracting Parties
 - Risks must be measured accurately in real-time, and proactively managed using accepted clearing principles

OTC Clearing Facility

- Transaction Registration
- Monitoring

Performance Monitoring

Seller

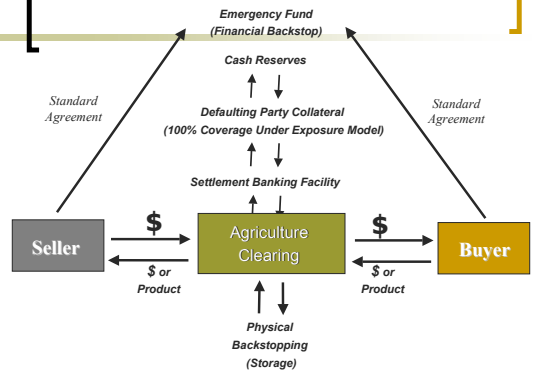
- Delivery
- Time
 - Location
 - Quality

=

Buyer

- Payment:
- Security
 - Margin
 - Liquidation

Clearing Structure



How is Risk Mitigated?

- **Standard Rules:**
 - All Contracting Parties are subject to the same rules and regulations as set forth in the standard contracting party agreements
- **Collateral Provisions:**
 - CH holds liquid collateral from all Contracting Parties equivalent to their highest probable failure scenario
- **Liquidation Rights:**
 - In the event that a default occurs, CH is able to close-out (or accelerate) all forward positions for the defaulting party
 - Collateral is utilized to cover any liquidated damages

Central Clearing Benefits

- **Neutral, Independent Risk Management:**
 - A-CH is impartial and the nature of the clearing business provides a strong incentive to maintain a default-free clearing operation
 - A-CH is not a market participant, does not take a market view and earnings are not directed by commodity prices
- **Centralized Collateral Requirements**
 - Concentration of capital affords most efficient use across all other contracting parties
 - Opportunity for position 'offsets'

Central Clearing Benefits

- **Counterparty Netting Facilities**
 - Central clearing operator and standardized netting rules create an environment to net physical and financial exposures across multiple counter parties and locations
- **Acceleration, Liquidation, Close-Out Procedure**
 - CH has embedded, and has enforced, rights of acceleration for all contracts traded to mitigate risks to all Contracting Parties

Collateral Utilization

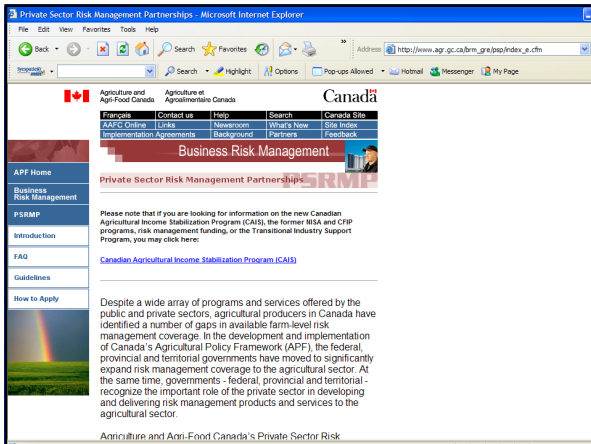
- **Posting matches risk exposure**
 - All positions valued at market liquidation value
 - Collateral requirement matches exposure – no under or over posting of credit
- **Bonding vs Margin**
 - Bonding a function of enterprise
 - Margin a function of position exposure
 - Margin matches risk exposure – bonding may or may not cover exposure

Why Participate?

- OTC benefits accrue to both buyer and seller
- **Buyer benefits:**
 - More effective use of collateral
 - Competitive advantage over non-CH competitors
 - Assurance of contract performance by sellers
- **Seller benefits:**
 - Assurance of payment on delivery performance
 - Ability to forward sell with performance protection
 - Increased range of potential buyers
 - Increased opportunity for secure forward deals

Agricultural Clearing House

- **How does it work?**
- Source of funds - who owns it
- Revenue stream
- What is cost to build
- Efficiency of working capital vs current bonding system.
- How to get Users to participate
- Market development potential. Processor and Foreign Customer



PSRMP Status

- Application made for a generic clearing facility
- Will support any and all agricultural products
- Initial phase includes:
 - Standard contract development
 - Clearing house rules and procedures
 - Preliminary business case
 - Discussions with prospective third parties
- Subsequent phases will be crop and/or livestock specific
- Awaiting final approvals from Ag Canada

OTC Clearing – Activities

- **Who operates:**
 - NFP Crown Corporation
 - Private Sector – WCCL – TSX - CCDC
 - Clearing members
- **Financing**
 - What are the costs:
 - Development
 - Operations
 - Backstop
 - Who is at risk?
- **Margining and Security**
 - What constitutes security
 - VAR margins
 - Liquidation rights
- **Standard Contracts**
 - Market
 - Production
- **Mechanisms**
 - Registration
 - Transaction capture
 - Monitoring

