

2011-12

# Early Payment Options

for wheat, durum and barley

**PPO**

**Producer Payment Options**



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**2011-12** EPO program information, pricing schedules, forms and contact information are all available on the CWB Web site. Below is a list of pages related to the EPO programs, with a brief description of the information listed on the page. To be re-directed to the web page, please click on the title.

### E-Services

- Log-in and e-Services registration

### Program Service Representative

- Contact information

### Farm Business Representatives

- Contact information for these reps who live across the Prairie region

### Forms

- EPO sign-up
- EPO terms and conditions

### Price charts

- Current and historical price charts for all Producer Payment Options programs

### Pricing schedule

- EPO prices
- Reference grades

### Program information

- Program guide
- EPO worksheets and information sheets

Information is also available by calling the CWB at 1-800-275-4292 or contacting your Program Service Representative or Farm Business Representative.

## Producer Payment Options

PPOs provide pricing flexibility and alternative payment options to the CWB pool accounts while maintaining the integrity of the price pooling system. PPOs are pricing tools that can be incorporated into producers' marketing portfolios to manage returns on their crops. Combined with price pooling, they can be used to maintain a balanced marketing strategy.

PPOs can improve producers' budgeting for crop rotations and returns, and create better cash flow by providing earlier payment on grain deliveries. PPOs also allow producers to react to market signals, allowing them to take advantage of market rallies during the crop year.

However, there are also risks associated with using PPO programs. If production is not sufficient to fulfill the contract, producers could be subject to buy-out costs or pricing damages. Futures markets can be extremely volatile, and reducing contractual obligations can be costly if the market goes against the producer.

The programs are designed to have no adverse impact on the pool accounts, grain delivery or single desk sales. The cost of administering the programs is borne entirely by program participants. Gains or losses in hedging activities flow through a Contingency Fund\* that backstops each program.

### New for 2011-12

No. 3 CWRS/No. 3 CWHWS and No. 3 CWAD reference grades have been added. Producers now have the opportunity to lock in prices at a different grade level which will allow them to reduce price spread risk.

The reference grade for Canada Western Red winter is No. 1 CWRW 11.0. Previously, it was No. 1 CWRW.

## Early Payment Option overview

The Early Payment Option (EPO) program was established to give producers increased cash flow following delivery. At the same time it provides a floor price with upside potential for future CWB payments.

The EPO allows producers to lock in a percentage of the current reference grade Pool Return Outlook (PRO) value. The PRO is a forecast, based on the best available information at the time of release, of the value of CWB sales at export position (in store St. Lawrence or Vancouver) for the crop year.

The percentage of the PRO locked in at EPO sign-up is called the Early Payment Value (EPV). Producers locking in an EPV are charged an EPO discount that covers the CWB's costs associated with market risk, time value of money and administration.

The CWB will withdraw the lower EPV percentages when the initial payment for the relevant reference grade (see below) is increased during the crop year and approaches or exceeds the EPV.

**\*The Contingency Fund can be in a surplus or deficit position in any given crop year. Financial details for the Contingency Fund are contained in the CWB annual report. Risk management practices must keep the Contingency Fund sustainable. The CWB manages the price risk associated with the programs using futures markets and CWB sales throughout the crop year.**

EPO programs are offered for the seven classes of wheat, durum and selected barley.

The reference grade posted by the CWB is used as the base grade for the pricing contract and is based on instore Vancouver and St. Lawrence values.

The table below shows the reference grade and the grades that can be delivered against each program.

Reference grades	Deliverable grades
No. 1 CWRS 13.5	Only Nos. 1 and 2 CWRS grades and protein levels
No. 3 CWRS	Only No. 3 CWRS grades and protein levels
No. 1 CWHWS 13.5	Only No. 1 CWHWS grades and protein levels
No. 3 CWHWS	Only No. 3 CWHWS grades and protein levels
No. 1 CWES No. 1 CPSR No. 1 CPSW No. 1 CWRW 11.0 No. 1 CWSWS	All grades and protein levels except feed grades, sample grades and mixed grain
CW Feed	CW Feed, CW General Purpose, No. 4 CWRS, No. 4 CWHWS and No. 3 CWSWS
No. 1 CWAD 13.0	Only Nos. 1 and 2 CWAD grades and protein levels
No. 3 CWAD	Only No. 3 CWAD grades and protein levels
No. 4 CWAD	Only No. 4 CWAD grades
No. 5 CWAD	Only No. 5 CWAD grades
Select CW 2-Row barley Select CW 6-Row barley	All select and food grades except sample grades

### Settlement

Deliveries must be applied against existing EPO contracts at the time of settlement.

Previous deliveries cannot be applied to EPO contracts.

Upon delivery, the grain company or acting CWB agent issues the initial payment for the actual grade delivered. The additional payment for the balance of the contract will be issued from the CWB within 10 business days of the deliveries being applied to the EPO contract. The additional payment will equal the EPV – discount – reference grade initial price at the time cash tickets are applied to the contract

The additional payment is paid on the highest priced contract at time of settlement.

EPOs are pricing contracts, not delivery contracts. All deliveries, whether to a pool account or a PPO, must have an associated CWB delivery contract. Producers must deliver 100 per cent of the tonnage committed to PPOs.

## Important dates

### Sign-up periods

The sign-up period for the EPO program runs from August 2, 2011 to July 31, 2012.

EPOs can be signed up every business day between 3 p.m. and the expiry time posted on the daily pricing schedule.

**Programs will be terminated before July 31, 2012 if the initial payment of the reference grade approaches or exceeds the respective EPV level. Programs may be withdrawn when market risk warrants.**

### PRO release dates

The PRO is released on the fourth Thursday of the month. In December, it is released on the third Thursday. In 2011-12, PROs for wheat, durum, selected barley and feed barley are issued monthly from February 2011 to August 2012. Release dates for the 2011-12 crop year are as follows:

PRO month	Release date
August	August 25, 2011
September	September 22, 2011
October	October 27, 2011
November	November 24, 2011
December	December 15, 2011
January	January 26, 2012
February	February 23, 2012
March	March 22, 2012
April	April 26, 2012
May	May 24, 2012
June	June 21, 2012
July	July 26, 2012

## Terms and conditions

The EPO is a legal contract and producers who commit grain are bound by the obligations listed in the terms and conditions of the contract. Definitions, sign-up methods, obligations, pricing information and contract provisions are described in the terms and conditions. Before making a commitment, producers should be familiar with these obligations. Terms and conditions are available through e-Services and on the CWB Web site (see page 3 for link).

## EPO components

An EPO has two components:

1. Early payment value (EPV)
2. Discount (time value of money, risk and administration)

### Early payment value

The EPV is equivalent to a percentage of the PRO for the corresponding reference grade and is quoted in Canadian dollars per tonne in store Vancouver or St. Lawrence. The EPV is based on the PRO value in effect on the day the EPO contract is signed.

### Discount

A discount for risk, time value of money and program administration is deducted from the EPV that is locked in at sign-up. There are separate discounts for each EPV level. Discounts are posted on the daily pricing schedule. The discount is deducted from the EPO additional payment the CWB issues following delivery.

1. Time value of money – represents the cost in lost interest of financing earlier payments to producers.
2. Risk – this discount is taken to offset the risk the CWB is assuming and the cost of hedging this risk using various North American commodity futures and options markets.
3. Administration – covers the cost of administering the program.

### Factors that influence the daily EPO discount

The daily discount cost for the higher EPV-levels is substantially more than the lower EPV levels because the CWB is exposed to greater price risk. The cost of hedging this position is higher because the CWB must take a more aggressive market position to protect the price guarantee.

A number of factors other than the EPV can affect the EPO discount. The impact on the discount of these factors is discussed below. More than one of these factors can influence the discount at any one time.

**PRO** – If the PRO is increased, there is also increased risk and hedging cost to the CWB to guarantee the higher EPVs. The time value of money for earlier payment also increases. As a result, the EPO discount cost will be higher.

**North American futures** – A significant portion of the overall EPO discount (especially early in the crop year when only a fraction of the pool accounts are sold) is the cost to the CWB of hedging the risk associated with the program on various North American commodity exchanges. For the most part, the CWB purchases put options to secure the downside risk. The cost, or strike price of the options increases when the futures value moves closer to the EPV value.

**Foreign exchange** – Most hedging for the EPO programs is conducted at U.S. exchanges in U.S. dollars. When the Canadian dollar strengthens in value relative to the U.S. dollar, the foreign exchange results in a lower futures value in Canadian funds. A lower futures price in Canadian dollars will cause the EPO discount to increase in cost.

**Percentage of pool sold** – If the PRO remains relatively stable from month to month, the EPO discount typically decreases later in the crop year because the risk to the CWB decreases as more of the pool is sold. However, volatile market conditions can make the PRO less predictable, which can cause the discount cost to increase.

## Factors to consider when making an EPO commitment

The EPO program gives producers two distinct benefits: increased cash flow and the ability to lock in a floor price. There are different factors to consider, depending on the producer's objective.

### Increased cash flow

#### Delivery calls

Producers looking for a cash flow benefit should consider contracting only the amount of production that the CWB has called to date. If the tonnes committed to an EPO are greater than the amount called for delivery, producers will have to wait for the next delivery call before applying more deliveries towards the EPO. If the initial payment is increased above the EPV before the next delivery call is issued, the producer will have paid for the EPO discount without receiving any additional cash flow benefit.

#### Example

On August 1, a producer signs up 1 000 tonnes of CWRS production on an 80 per cent EPV. The PRO value for the reference grade is \$210 for an EPV of \$168. The discount is \$10 for a net EPV of \$158 (\$168 - \$10). The initial payment is \$135.

By early November, the CWB has called for 25 per cent delivery and the producer has delivered 250 tonnes against the EPO. The producer has received additional cash flow of \$23 per tonne on the EPO:

$$\begin{aligned} \text{EPV} - \text{discount} - \text{initial price for the reference grade} \\ &= \$168 - \$10 - \$135 \\ &= \$23 \end{aligned}$$

On December 1, the CWB issues an adjustment payment of \$48, which increases the initial payment to \$183. The EPO is now worth less than the initial payment so there would be no additional cash flow on future deliveries. However, the producer must still pay the \$10 discount.

### EPV vs. initial payment

Before signing an EPO, producers should consider what percentage of the PRO is already being issued in the form of the current initial payment.

If the initial price is beginning to approach the current EPVs, producers should decide if it is worthwhile to lock in an EPO contract, or consider locking in a higher EPV.

### Example

The PRO value for the reference grade is \$210 for an 80 per cent EPV of \$168. The discount is \$5 for a Net EPV of \$163. The initial payment is \$155.

**Initial payment as percentage of PRO**

$$\begin{aligned} &= \text{initial payment} / \text{PRO} \times 100\% \\ &= \$155 / \$210 \times 100\% \\ &= 74\% \end{aligned}$$

The initial payment is already paying the producer 74 per cent of the PRO value.

**EPV – discount – initial price for the reference grade**

$$\begin{aligned} &= \$168 - \$5 - \$155 \\ &= \$8 \end{aligned}$$

The producer would be paying a \$5 per tonne discount for additional cash flow of \$8 per tonne.

Depending on cash flow requirements and discount levels, the producer may want to consider locking in a 90 per cent EPO.

### Floor price protection

Producers who want to set a floor price for their grain should consider only the higher EPV-levels, as the 80 per cent level likely will not be sufficient for this purpose. If the objective is to lock in a price that will be higher than the final pool return, the 100 per cent or higher EPV levels are the most likely to achieve this goal.

Producers should closely monitor the monthly PRO updates. When they feel a PRO is at a level that gives them an acceptable floor price, they should consider locking in the value.

To achieve the highest possible floor price, producers will attempt to lock in a combination of the highest possible PRO value along with the least expensive EPO discount to provide the highest possible net EPV.

The floor price is equal to the initial price of the grade delivered plus the additional payment.

### Example

A producer delivers No. 2 CWRS against a 100 per cent CWRS EPO. The reference grade is No. 1 CWRS 13.5. The initial price for No. 1 CWRS 13.5 is \$135. The initial price for No. 2 CWRS is \$115.

Early Payment Value = 100% of current PRO value of \$300.

<b>No. 1 CWRS 13.5</b>		<b>No. 2 CWRS</b>	
100% EPV	\$300	Initial price	\$115
less: Discount	<u>\$ 30</u>	Additional payment	<u>\$135</u>
Net EPV (floor price)	\$270	Floor price	\$250
less: Initial price	<u>\$135</u>		
Additional payment	\$135		

## Delivery requirement

A key requirement of the EPO program is that producers must deliver 100 per cent of the tonnage committed to their contract(s). Also, it is important to remember that EPO contracts are pricing contracts only, separate from delivery contracts. Producers must still sign up their production to CWB delivery contract programs and deliver against delivery calls in effect.

Grain committed to a 2010-11 delivery contract can be settled against a 2011-12 EPO contract only if the producer completed a 2010-11 New-pool pricing application and paid the applicable per-tonne fee plus administration fee to price into the 2011-12 crop year.

Producers must advise grain company staff to assign their deliveries to the payment option of their choice before settlement.

## Delivery guarantee

The CWB's delivery guarantee for PPO programs offers producers a guideline to determine their tonnage commitment to the programs. The guarantee applies to tonnage signed up under all PPO programs combined. Producers must also take into account any pool deliveries.

For 2011-12, the guarantee for durum is 90 per cent of tonnage committed to an EPO before Series A acceptance levels are announced, to a maximum of a producer's total contracted tonnage. For CWRS, CWHWS, CWRW, CPSR and CWSWS wheat, the guarantee is 100 per cent of production offered for delivery up until Series A acceptance levels are announced.

Delivery against PPO contracts signed up after Series A acceptance levels are announced is only guaranteed up to Series A acceptance levels.

The guarantee for CWES and CPSW wheat is 100 per cent until the sign-up deadline because there are no Series contracts for these classes. Tonnage must be offered under Guaranteed Delivery Contracts (GDCs) as they become available.

Producers must take advantage of all delivery opportunities to be eligible for the guarantee.

If overall acceptance levels are less than the delivery guarantee, the CWB will provide additional delivery opportunity.

### Example

A producer signs a 1 350-tonne EPO contract for durum on August 25 based on the expectation of producing 1 500 tonnes in the upcoming crop year ( $1\ 500 \times 90\% = 1\ 350$ ). In the fall, the producer signs a 1 500 tonne Series A delivery contract. Tonnes offered under Series A are automatically rolled to the next available Series. Below are the acceptance levels.

Series	Sign-up tonnage	Acceptance level	Tonnes accepted
A	1 500	80%	1 200
B	300 rollover	0%	0

After the Series B acceptance announcement, the overall acceptance level for the crop year is 80 per cent for both series combined. Because the overall acceptance has not reached the minimum guaranteed level of 90 per cent, a special delivery provision will be made for the producer to deliver an additional 150 tonnes. The producer will receive notification to deliver the 150 tonnes by letter. This will bring the total accepted tonnage to 90 per cent (1 350 tonnes) of the total durum tonnage that was committed to delivery contracts. The 150 tonnes must be settled against the EPO for durum.

## Reporting deliveries

Cash tickets reported against an EPO contract must contain an "E" in the payment indicator field. The delivery contract number must be entered in the authorization field.

Deliveries will be applied to the highest priced EPO contract for the same grain and class at the time of settlement. If producers want deliveries applied to a different contract, they must contact the CWB at time of settlement. Once the CWB issues the additional payment, deliveries cannot be reapplied to another contract.

**Deliveries are automatically applied to the highest priced EPO first. Producers must contact the CWB at settlement if they want their deliveries applied to a different contract.**

## Landlord (interested party) deliveries

Landlords are eligible for payment against an EPO contract signed under the actual producer's CWB producer ID number by entering the producer's delivery contract number in the authorization field and the appropriate letter in the payment designation field.

The elevator must ensure deliveries are applied using the correct landlord prefix. If the wrong prefix is used, the deliveries will not be applied to the producer's EPO contract and an additional payment will not be generated until the cash ticket is corrected.

Landlords may also sign up their own EPO contract. If both the producer and the landlord have an EPO, the landlord's deliveries will be applied to their own contracts first and then to the actual producer's.

## Multiple contracts/splitting cash tickets

Deliveries are applied to the highest priced EPO contract first. If the tonnage on the cash ticket exceeds the contract amount, the excess tonnage is automatically applied to the next-highest priced EPO contract. However, if a producer has contracts of a different type, the elevator must split the cash ticket, so that the EPO contract is completely filled and the remaining tonnage can be applied to another type of contract. Otherwise, the overage will go into the pool.

## Initial payment settlement at the elevator

Producers receive the initial payment at the elevator for the grade and protein of the actual grain delivered, less freight and handling.

## CWB additional payment

Once the cash ticket has been applied to the EPO contract, the CWB will issue an additional payment within 10 business days.

The CWB additional payment is the difference between the contracted EPV less the discount and the current initial price for the reference grade.

**EPO additional payment = EPV - discount - reference grade initial price in effect when cash tickets are applied to the contract**

### Example

A producer signs up a 90 per cent EPO contract on 200 tonnes of CWRS wheat when the PRO for the reference grade No. 1 CWRS 13.5 is \$202 per tonne. The discount for the 90 per cent EPV is \$3 per tonne.

$$\begin{aligned}\text{Net EPO contract price} &= \text{EPV} - \text{discount} \\ &= (\$202 \times 0.90) - \$3 \\ &= \$181.80 - \$3 \\ &= \$178.80\end{aligned}$$

The producer delivers 200 tonnes of No. 1 CWRS 14.5 to the elevator and advises the agent to apply the deliveries against the EPO contract. The producer receives the initial payment of \$150 per tonne for the grade delivered, less freight and elevation of \$47 per tonne.

The initial price for the reference grade is \$140 per tonne. The CWB issues an additional payment in the amount of \$38.80 per tonne.

$$\begin{aligned}\text{EPO additional payment} &= \text{EPV} - \text{discount} - \text{reference grade initial price} \\ &= \$181.80 - \$3 - \$140 \\ &= \$38.80 \text{ per tonne}\end{aligned}$$

$$\begin{aligned}\text{Total EPO payment (in store Vancouver or St. Lawrence)} \\ &= \text{initial price of grade delivered} + \text{EPO additional payment} \\ &= \$150 + \$38.80 \\ &= \$188.80\end{aligned}$$

$$\begin{aligned}\text{Farmgate payment} &= \text{Total EPO payment} - \text{freight and elevation} \\ &= \$188.80 - \$47 \\ &= \$141.80\end{aligned}$$

## Payment deductions

The additional payment is subject to any deductions that may be appropriate. These include, but are not limited to, outstanding defaulted cash advance accounts, liquidated damages, pricing damages or transaction fees related to the PPO programs.

## Initial price spreads

When producers deliver against an EPO contract, they receive the initial price for the actual grade delivered. This effectively reduces or raises their contract price by the spread between the initial price for the reference grade and the initial price for the delivered grain.

If producers have a range of grades and/or proteins available to deliver against an EPO contract, they should watch initial price spreads to determine which will provide them with the best return. However, this is only relevant if the producer is locking in a floor price that he or she believes will be higher than the final pool return. Producers who lock in an EPO contract that is lower than the final pool return will receive the final pool return spreads.

Changes to the PRO spreads during the crop year should also be watched to determine trends. If there is an adjustment payment recommendation, the PRO spreads reflected at the time of the recommendation are used to set the new initial payment rate. If there is delivery opportunity, knowing the trends in the PRO spreads will help producers decide which grade and/or protein to deliver against their PPO contract.

### Example

On May 30, a producer commits 50 tonnes of CWRS to an EPO contract with a net EPV of \$200 per tonne.

The producer has 50 tonnes of No. 1 CWRS 14.0 per cent protein and 50 tonnes of No. 3 CWRS 13.8 per cent protein available for delivery and must decide which grade to apply to the EPO contract and which to apply to the pool.

In late October, the CWB recommends an increase to the initial payment. An adjustment payment is expected in the middle of November. Since deliveries against the EPO contract are subject to the initial price spreads on the date of delivery, the producer reviews the CWB PROs and initial prices to determine which grade to apply to the EPO contract. Remember, the adjusted initial prices will reflect the changes in the PRO spreads.

	Reference grade No. 1 CWRS 13.5	No. 1 CWRS 14.0	Spread
Initial price	\$135	\$140	\$5
July PRO	\$195	\$200	\$5
October PRO	\$205	\$220	\$15

The PRO spread between 1 CWRS 13.5 per cent protein and 1 CWRS 14.0 per cent protein has improved by \$10 per tonne (\$15 - \$5) from July to October.

	Reference grade No. 1 CWRS 13.5	No. 3 CWRS 13.8	Spread
Initial price	\$135	\$120	(\$15)
July PRO	\$195	\$180	(\$15)
October PRO	\$205	\$172	(\$33)

The PRO spread between No. 1 CWRS 13.5 per cent protein and No. 3 CWRS 13.8 per cent protein has deteriorated by \$18 per tonne (\$33 - \$15) from July to October.

Fundamentals suggest this trend will continue and that it will be reflected in the upcoming adjustment payments. The following table illustrates the consequences of delivering before and after the adjustment payment:

	No. 1 CWRS 14.0	No. 3 CWRS 13.8
<b>Net EPV</b>	\$200	\$200
<b>- Initial price of reference grade</b>	\$135	\$135
<b>= Additional payment</b>	\$ 65	\$ 65
<b>+ Initial price of delivered grade</b>	\$140	\$120
<b>= EPO price before adjustment payment</b>	\$205	\$185
<b>+ Change in PRO spread</b>	\$ 10	(\$18)
<b>= Estimated EPO price after adjustment payment</b>	\$215	\$167

Based on the change in PRO spreads, the producer's net EPO contract price would increase by \$10 per tonne for No. 1 CWRS 14.0 per cent protein following the adjustment payment and decline by \$18 per tonne for the No. 3 CWRS 13.8 per cent protein. Therefore, the producer would be better off to deliver the No. 3 CWRS 13.8 per cent protein against the EPO contract before the adjustment payment and leave the No. 1 CWRS 14.0 per cent protein in the pool.

## Future payments

When an adjustment, interim or final payment is issued after a producer has been paid an additional payment on an EPO contract, the producer will not receive future payments, called EPO increase payments, until the pool return rises above the producer's gross EPV value. If a producer received an additional payment of \$21.85 and the EPO discount was \$6, no EPO increase payments would be issued until the initial payment rises more than \$27.85 (\$21.85 + \$6) above the initial payment received. EPO increase payment cheques have the description EPO Increase – Adjustment.

If the grade delivered is the same as the reference grade (e.g. No. 1 CWRS 13.5), producers will receive an EPO increase payment when the initial payment exceeds the EPV. The EPO increase payment brings the producer's total payment on the grain delivered against an EPO contract up to the current initial payment less the discount.

If the grade delivered is not the reference grade, producers are eligible for EPO increase payments when the initial payment for the grade delivered exceeds the total gross EPO payment they have received.

**Total gross payment = initial payment of grade delivered [in store value] + EPO additional payment + EPO discount**

When final payments are issued, EPO participants will have received at least the same value as pool participants less the EPO discount, if the pool returns are higher than the EPV locked in.

### Example

The producer in the previous example would become eligible for EPO increase payments when the initial payment for No. 1 CWRS 14.5 (the grade delivered) exceeded \$192.10 in store Vancouver or St. Lawrence.

$$\begin{aligned} \text{Total gross payment} &= \$150 + \$38.80 + \$3 \\ &= \$191.80 \end{aligned}$$

If the final pool return was \$200, the producer would receive the same payment value as pool participants, less the net EPO discount.

$$\begin{aligned} \text{Total payments to producer} &= \text{Total EPO payment} + \text{EPO increase payments} \\ &= \$188.80 + (\$200 - \$191.80) \\ &= \$188.80 + \$8.20 \\ &= \$197 \end{aligned}$$

Total payments to the producer are \$3 less than the pool payment.

## Changing contract commitments

The EPO program offers three options to reduce contract commitments. Producers may assign or buy out all or part of their contract. In the case of misgrades, there is a quality transfer clause that allows switching between milling and feed quality wheat and durum. The quality transfer is not available for selected barley and 125 to 200 per cent EPV levels.

If a producer chooses not to exercise any of these options and there is a shortfall on the contract, pricing damages will be assessed.

### Assignments

If a producer wants to reduce their EPO contract obligation, they may assign all or part of their tonnage commitment to one or more producers. The producer must complete an assignment form specifying the contract number and tonnage to be transferred. The assignment form is available by calling the CWB.

The CWB will provide the details of the contract and terms and conditions along with the assignment form. The form must be signed by both the assignor (producer transferring the contract) and the assignee (producer taking over the contract). It is the assignor's responsibility to ensure the assignee receives the contract information. The form must be signed by both producers and returned to the CWB by fax or mail. A \$15-per-transaction administration fee is applied to assignments.

### Buy-outs

Producers can initiate a buy-out at any time.

On EPV levels of 80 to 100 per cent, the buy-out is established at sign-up and does not change during the year.

**Per-tonne buy- rate = discount – time value of money**  
**All buy-outs are charged a \$15 per transaction administration fee.**

On EPV levels above 100 per cent the buy-out is based on market conditions and the formula is:

$(\text{Original discount of contracted EPV} - \text{current discount of contracted EPV}) + \$2.50 \text{ administration fee}$

If the formula results in a negative value, no buy-out cost will be assessed.

Producers can receive a buy-out quote or execute a buy-out transaction through e-Services or by calling the CWB with their CWB 10-digit producer ID number and four-digit PIN.

### Quality transfers

If producers are unable to fulfill their EPO contract commitment due to grading changes, they may want to consider a quality transfer, rather than an assignment or buyout. However, buy-outs should be considered in conjunction with the quality transfer to determine the lowest cost alternative.

Producers can switch between milling and feed wheat and durum EPOs. The transfer fee is based on the EPO discount of both classes and measures the cost of switching between feed and non-feed classes. Also, a risk premium (referred to as the "roll fee") is charged to cover the CWB's additional risk associated with transferring the contract. The roll fee is \$1 per tonne for 100 per cent EPVs, \$0.50 per tonne for 90 per cent EPVs and \$0.25 per tonne for 80 per cent EPVs. A \$15 per transaction administration fee will also be assessed.

**EPO transfer fee = (original discount of existing EPO – current discount of existing EPO)**  
**+ (current discount of transfer EPO – original discount of transfer EPO)**

A negative total equals zero, however, the applicable roll fee and \$15 per transaction administration fee still applies.

Once the transfer is completed, the original EPO contract will be cancelled. The producer will receive an EPO contract for the transfer class based on the values on the original contract date. The transfer fee, risk premium and administration fee will be deducted from future CWB payments.

### Example

A producer signed up a durum EPO contract on August 15 with an EPV of 90 per cent. The time value of money portion of the discount is \$0.50. On October 1, the producer contacted the CWB to advise that the durum had been downgraded and to request a transfer to a No. 4 CWAD EPO. The PRO for both grades is unchanged from August.

Date	Class	EPV (\$ per tonne)	Discount (\$ per tonne)
August 15	90 per cent durum	\$225	\$7
	90 per cent No. 4 CWAD	\$135	\$4
October 1	90 per cent durum	\$225	\$5
	90 per cent No. 4 CWAD	\$135	\$5

**EPO transfer fee = (original discount of existing EPO – current discount of existing EPO)  
+ (current discount of transfer EPO – original discount of transfer EPO)**

A negative total equals zero.

**Plus \$0.50 per tonne roll fee**

= (\$7-\$5) + (\$5-\$4) + \$0.50

= \$3.50 per tonne plus a \$15 administration fee

**Buyout cost = discount – time value of money**

= \$7 - \$0.50

= \$6.50 per tonne plus a \$15 administration fee

In this case, the quality transfer is the lowest cost alternative. The durum EPO contract will be cancelled and the producer will receive an EPO contract with a 90 per cent No. 4 CWAD EPV of \$135 per tonne with a discount of \$4 per tonne.

Producers can transfer less than the original contract amount, but cannot transfer more. Transfers must be of the same EPV level. For example, if a producer wants to transfer a 50 tonne feed wheat EPO with a 90 per cent EPV, the milling wheat EPO also must be 50 tonnes with a 90 per cent EPV. If the producer has more than 50 tonnes of milling wheat and wants an EPO for the entire amount, a second EPO contract can be signed up at current market values to cover the additional tonnes.

If the EPV level of either the original contract or the transfer class has been terminated, a quality transfer cannot be executed. The original contract must be bought out.

Producers can complete quality transfers by calling the CWB and providing their CWB 10-digit producer ID number and four-digit PIN.

## Pricing damages

Pricing damages are assessed if a producer fails to deliver 100 per cent of an EPO contract. All contracts with outstanding balances at year end will be assessed pricing damages.

Pricing damages are charged to ensure the CWB recovers the hedging costs associated with the EPO discount. The EPO pricing damages for 80 to 100 per cent EPOs are fixed at time of sign-up and will not change throughout the crop year. For levels above 100 per cent, pricing damages will be based on July 31 values.

# Contract transactions

The most convenient method of conducting contract transactions is through e-Services. Producers can apply for an e-Services account online, by completing and faxing in an application form (available on the CWB Web site), or by calling the CWB with their CWB 10-digit producer ID number and four-digit PIN.

Producers can also conduct contract transactions by phone at 1-800-275-4292 between 3 p.m. and 5 p.m. CT (Winnipeg time). To commit to an EPO contract or to execute any other contract transaction over the phone, producers must provide their CWB 10-digit producer ID number and four-digit PIN.

Producers may also execute contract transactions by faxing in the appropriate form between 3 p.m. and the expiry time posted on the daily pricing schedule. Forms are available on the CWB Web site (see page 3 for the link) or by calling the CWB.

## 2011-12 EPO pricing schedules

The daily EPO pricing schedules are posted by class and type of grain. Pricing schedules are posted on e-Services and the CWB Web site each business day at 3 p.m. CT (Winnipeg time) and prices are in effect until the expiry time posted on the daily pricing schedules (see page 3 for the link). Sign-up, buy-outs and quality transfers can only be executed during the pricing period.

The pricing schedules include the following details:

1. Reference grade for each class of grain.
2. Current reference grade PRO for each class.
3. EPVs for each class, posted in \$Cdn per tonne and \$Cdn per bushel.
4. Discounts for each EPV.

**Farmers**  
**Early Payment Options**  
**2011-12 pricing schedule**  
**Wheat (CWSWS)**

**Effective: August 02, 2011 3:00 p.m. CT**  
**Expires: August 02, 2011 9:00 p.m. CT**  
 All deadlines are listed as Central Time (CT). Winnipeg is in the CT zone.

The Early Payment Option (EPO) is a pricing contract only and you require a delivery contract for your grain.

Prices offered based on the reference grades for CWSWS, as per the "[2011-12 Early Payment Option for Wheat Terms and Conditions](#)", in store Vancouver or St. Lawrence, are:

1		\$ Cdn/tonne	\$ Cdn/bushel	
<b>No. 1 CWSWS, June 23, 2011</b>				
<i>(reference grade)</i>	<b>PRO</b>	\$275.00	\$7.48	2
	<b>100% EPO, Early Payment Value (EPV)</b>	\$275.00	\$7.48	3
	<b>Discount</b>	\$0.00	\$0.00	
	<b>Net guaranteed minimum</b>	\$275.00	\$7.48	
	plus any final payment over \$275.00/tonne or \$7.48/bushel			
	<b>90% EPO, Early Payment Value (EPV)</b>	\$247.50	\$6.74	
	<b>Discount</b>	\$0.00	\$0.00	4
	<b>Net guaranteed minimum</b>	\$247.50	\$6.74	
	plus any final payment over \$247.50/tonne or \$6.74/bushel			
	<b>80% EPO, Early Payment Value (EPV)</b>	\$220.00	\$5.99	
	<b>Discount</b>	\$0.00	\$0.00	
	<b>Net guaranteed minimum</b>	\$220.00	\$5.99	
	plus any final payment over \$220.00/tonne or \$5.99/bushel			

**The CWB reserves the right to withdraw this Offer at any time and without prior notice. In order to be valid, any acceptance must be received at the CWB's head office in accordance with the**

## Fax sign-up forms

**Please note: Joint operations, partnerships and trade names must submit a Continuing Personal Guarantee form to be eligible to sign up a PPO contract.**

To ensure fast and accurate service, it is very important that the correct form is used and that all requested information is provided accurately.

The producer's name and CWB 10-digit producer ID number provided on the form must match the CWB delivery permit book for which the EPO contract will be used to price deliveries. For example, if the producer is completing an EPO application for a corporation, the corporation's name and CWB 10-digit producer ID number must appear on the sign-up form.

It is important that the producer provides a telephone number and fax number (if available) to allow for verifying the information on the form. Pricing commitments must be received before the deadline time as posted on the daily pricing schedules. The CWB will attempt to contact the producer if there is an error on the form. If the producer cannot be reached, the contract will not be processed.


Please ensure all forms are signed and dated. All applications received by the CWB must be signed by the producer indicated on the form. Elevator staff cannot sign forms for the producer. Applications without a valid signature will not be processed. For company applications, the producer must indicate the position held within the company.

When an EPV is terminated, application forms will be updated on the CWB Web site. Discard expired forms as they are crop-year specific and cannot be used in later years.

## EPO sign-up application

Please refer to the "2011-12 Early Payment Option Sign-up/Lock-in Application" for wheat.



- 1) Mark the appropriate box for wheat class.
- 2) Enter the number of tonnes to commit.
- 3) Mark the EPV of your choice.

	Effective August 2, 2011	<b>Wheat</b>
<b>2011-12 Early Payment Option Sign-up/Lock-in Application</b>		For office use only
<b>Please fax to 1-204-983-8031</b>		
This document forms part of the CWB 2011-12 Early Payment Option for Wheat: Terms and Conditions. To deliver against this EPO contract, you must sign a separate CWB delivery contract and a delivery call must be in place. Producers and landlords who appear on a delivery permit as a joint producer, partnership or trade name must complete and submit a Continuing Personal Guarantee in order to sign up an EPO contract. The form only needs to be completed once and is available on the pricing schedule, in the <i>Related information</i> box on the right-hand side of the Web page.		
Prices are posted at 3 p.m. CT (Winnipeg time) and are in effect until 9 p.m. CT the same business day. Please complete all information in this area.		
Producer's name ("the Producer") as shown on the delivery permit		
Producer's ID No.	Producer's telephone No. ( ) ( )	Producer's fax No. ( ) ( )
Alternative telephone No. (daytime/cell) ( ) ( )	E-mail address	
<b>Sign-up</b> When signing up an Early Payment Option (EPO), you are committing tonnes as well as locking in your EPV and Discount.		
<b>A. Wheat class</b> 1		
Please indicate the class of wheat you wish to commit. Choose only one class per application.		
<input type="checkbox"/> Canada Western Red Spring (CWRS)	<input type="checkbox"/> Canada Prairie Spring Red (CPSR)	<input type="checkbox"/> Canada Prairie Spring White (CPSW)
<input type="checkbox"/> Canada Western Hard White Spring (CWHWS)	<input type="checkbox"/> Canada Western Extra Strong (CWES)	<input type="checkbox"/> Canada Western Soft White Spring (CWSWS)
<input type="checkbox"/> Canada Western Red Winter (CWRW)		
<b>B. Net tonnes of wheat</b> Please indicate the net tonnes of wheat you want to commit.		
<input type="text" value=""/> .000 2		
<b>C. Early Payment Value</b> Please indicate the EPV and discount you wish to lock in. Choose only one option.		
<input type="checkbox"/> 80%	<input type="checkbox"/> 90%	<input type="checkbox"/> 100% Based on the reference grade Pool Return Outlook (PRO). 3
Forms received outside of the 3 to 9 p.m. CT pricing period will be void.		
See important information on next page.		
<b>READ THE FOLLOWING PARAGRAPH CAREFULLY.</b>		
I (the Producer) have read the CWB 2011-12 Early Payment Option for Wheat: Terms and Conditions. By completing this document and sending it to the CWB, I agree that all of the said terms and conditions will apply to the contract I have selected herein.		
Producer's signature	Position in company (If applicable)	
Date	FAX 1-204-983-8031 (3 to 9 p.m.) Phone 1-800-275-4292 (3 to 6 p.m.) Mon. - Fri. CT (Winnipeg time)	
Important: Please keep the original for your records.		

## Contract confirmation

When producers sign up, buy out or make another transaction on their contract, the CWB mails the producer a contract confirmation the next business day. Producers who conduct a transaction through e-Services can also print a confirmation.

1. The confirmation details the program, (class of grain, the contract number, the sign-up date, the net EPV and the net contract amount (tonnes and bushels) of the original contract commitment.
2. Below the original commitment information, a listing of activity against the contract is detailed by date. If a producer transfers or buys out all or a portion of the contract, the new transaction is added to the statement and sent to the producer. If a producer has outstanding tonnes at the end of the crop year, a final statement will be issued showing assessed pricing damages.
3. In the comments section, there is information on the pricing status of the contract, deadlines and administration fees charged.

 <b>The Canadian Wheat Board</b>		<small>423 Main Street, P.O. Box 816, Stn. Main, Winnipeg, Manitoba R3C 2P5          1-800-275-4292; Fax (204) 983-8031; www.cwb.ca</small>	
			
Producer John PO Box 123 R R 2 Anytown SK S4S 2W3		Crop Year: 2011-12	
Statement Date: September 15, 2011			
<hr/> <b>Producer Payment Options program</b> <b>Contract confirmation</b> <hr/>			
<small>This statement confirms the transactions you have entered into. By entering into this contract you have agreed to abide by the terms and conditions.</small>			
<b>CWB producer ID No.</b> <b>Contract program:</b> <b>Contract number:</b> <b>Contract sign-up date:</b> <b>Net contract amount:</b> <b>Early Payment Value based on:</b>	<b>00-12345678</b> <b>Early Payment Option contract</b> <b>999999</b> <b>Thursday, September 15, 2011</b> <b>90,000t / 4,134 bu</b> <b>90% of PRO</b>	<div style="border: 1px solid black; width: 20px; height: 20px; display: inline-block; text-align: center; line-height: 20px;">1</div>	
<div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 20%;"> <div style="border: 1px solid black; width: 20px; height: 20px; display: inline-block; text-align: center; line-height: 20px; margin-bottom: 5px;">2</div> <p><b>Date</b> Sep-15-2011</p> </div> <div style="width: 40%;"> <p><b>Activity</b> Sign-up</p> </div> <div style="width: 20%;"> <p><b>Tonnes</b> 90,000</p> </div> <div style="width: 10%;"> <p><b>Bushels</b> 4,134</p> </div> <div style="width: 10%;"> <p><b>Price</b> \$275.40 Net EPV</p> </div> </div>			
<div style="border: 1px solid black; width: 20px; height: 20px; display: inline-block; text-align: center; line-height: 20px; margin-bottom: 5px;">3</div> <p><b>Comments</b></p>			
<small>Please notify the CWB immediately of any errors or omissions.          Phone: 1-800-275-4292          Fax: (204) 983-8031</small>			

CWB agents can look under the *Contracts* tab in e-Services or call the CWB at 1-800-275-4292 to confirm contracted and outstanding tonnage when administering contracts for a producer.

## Transaction corrections and program termination

### Correction procedures

Transactions for PPO programs must be received before the expiry time posted on the daily pricing schedule each business day. All required information on the fax form must be complete and accurate. Fax forms received outside of the pricing period will be void.

If a fax transaction is incomplete, the CWB will attempt to contact the producer to obtain the missing information. The producer will receive the contract price that is in effect at the time of confirmation.

If the fax form is complete, the CWB will process the transaction based on that information. When producers receive their contract confirmation, they should carefully review the transaction(s). If incorrect information was provided and the CWB acted on this information, producers are responsible for any costs to correct the transaction.

If a producer executes a transaction incorrectly in e-Services, the producer must contact the CWB immediately. Producers are responsible for any costs to correct the transaction.

### Fax transmission failures

If a transaction is faxed to but not received by the CWB, we need a copy of the sender's fax log confirming the transaction was successfully sent along with a copy of the transaction

The CWB fax machine maintains a log of all incoming faxes received. The log indicates the time, originating fax number, number of pages received and status of the transmission. This log will be used to verify if a fax was transmitted to the CWB. If the sender's fax number does not appear on their fax log or if the date and time are set incorrectly, the CWB may be unable to verify the transmission.

It is the sender's responsibility to ensure their fax transmits successfully. If there is any doubt, check the fax transmission log to see if the send was successful. If there is still doubt and the fax is re-sent, **write 'possible duplicate' on it to avoid double contracting.** If the sender re-sends the fax without notifying the CWB about a possible duplication and duplicate contracts are entered, the producer is responsible for all contracts processed.

If the fax appeared to transmit successfully but a contract confirmation has not been received within 10 days, contact the CWB to confirm.

### Program terminations

EPO programs are terminated when the initial prices are increased and begin to approach or exceed the respective EPV levels. Terminations will occur when an adjustment recommendation has been made.

This is done so that producers do not commit themselves to a contract that does not provide additional cash flow beyond the increased initial payment values.

The CWB reserves the right to terminate sign-up of PPO programs before the sign-up deadline, depending on market conditions

The CWB will issue a Country Elevator News (CEN) Bulletin advising the industry if a program is terminated.

Any contract commitments received after the program has been terminated will be rejected. The CWB will contact producers to advise them that their applications were received after the cut-off.

**Actual grade**

The grade and protein of grain delivered as reported on a cash ticket.

**Additional payment**

A payment made by the CWB to producers after grain is delivered against an EPO contract. Additional payments equal the contracted price less the discount less the initial price for the relevant reference grade in effect on the date the delivery is applied to the contract..

**Administration**

Represents the cost to operate the PPO programs. PPOs must be self-financed so there will be no costs incurred to the pool accounts. General administration costs include computer resources, staffing and office expenses.

**Assignments**

In the event producers want to reduce their EPO commitment, they can assign (transfer) their contract to another producer. Transfers involve completing an assignment form, available from the CWB, and assigning all or a portion of their contracted tonnage to another producer.

**Buy-out**

The cost producers pay to reverse their PPO contract obligations. A calculation is used to charge producers pricing damages for non-delivery of the contract based on market values.

**Cash ticket**

Certificate manually or electronically issued to the producer at time of settlement for a delivery. Includes value-only tickets for advance issuance or refunds against cash advance accounts.

**Contingency Fund**

A fund that backstops PPO operations. Included in the fund is the annual surplus or deficit arising from operating PPO programs.

**Discount**

Time value of money, risk and administration cost. This is the cost to the producer of signing a PPO contract.

**Early Payment Option (EPO)**

A pricing option which provides a floor price based on a percentage of the Pool Return Outlook (PRO), less a discount and early cash flow upon delivery..

**EPO increase payment**

The payment the producer receives when the initial price for the actual grade delivered rises above the gross EPO payment. The payment is equal to the new initial price less the gross EPO payment.

**Early payment value (EPV)**

A percentage of the reference-grade PRO.

**Farmgate price**

The net price the producer receives after relevant deductions are subtracted from the in store price.

**Feed grade wheat**

For the purpose of the EPO program, wheat grading No. 4 CWRS, No. 4 CWHWS, No. 3 CWSWS, CW Feed and CW General Purpose.

**Floor price**

A guaranteed minimum price which cannot be further reduced due to declining PROs or futures markets.

**Foreign exchange**

Rate at which one currency may be converted into another. The PPO prices are determined by converting the relevant U.S. futures prices into their Canadian dollar equivalents.

**Foreign exchange risk**

The exposure to changes in foreign exchange rates that may adversely affect Canadian dollar returns to the CWB.

**Minimum delivery guarantee**

Before the start of the EPO program, the CWB announces a guaranteed acceptance level for durum and wheat committed to PPO contracts. Producers should use the guarantee to determine how much grain to commit to a PPO.

**Pool Return Outlook (PRO)**

The CWB's forecast of the total market return for grain delivered during the crop year. PROs are not price guarantees. They are estimates based on price behaviour, sales volumes and handling costs, both actual and projected.

**Pricing damages**

Monetary damages assessed if producers fail to meet the performance clause of their PPO, which requires 100 per cent delivery of contracted tonnage.

**Producer Payment Options (PPOs)**

Contract programs that allow producers more flexibility in pricing their grain. Producers make their own pricing and risk management decisions through these programs. PPO pricing alternatives include the Fixed Price Contract, Basis Price Contract, EPO and FlexPro.

**Reference grades**

The grade within a class of grain used to establish the posted price. For example: the reference grade for the CWRS class is No. 1 CWRS 13.5 per cent protein.

**Risk**

Part of the cost associated with offering the PPO programs, specifically price protection and hedging activities on various North American commodity futures and options markets to protect against declines in the market price.

**Risk premium**

The cost to transfer an EPO contract to a feed grade or milling grade class.

**Settlement date**

The date on which a cash ticket is issued by a grain company.