

## What is it?

An EFP is an exchange of grain for the equivalent quantity of futures. The EFP option offered by the CWB lets producers take a short futures position through their broker and exchange this position with the CWB to lock in the futures component of a Basis Price Contract (BPC). When the EFP is executed with the CWB, the producer receives a long futures position to unwind their short at the previous day's settlement price, posted on the CWB pricing schedule. The CWB takes on the short portion at the same price to lock in the futures portion of the BPC. EFP transactions occur outside of the futures pit.

## How does it work?

Producers must commit to a BPC with the CWB in order to exercise the EFP option. Commitments must be made in 136-tonne increments to correspond with the size of a futures contract. The basis month commitment and the short futures position must be the same month.

For the 2008-09 crop year, producers can sign a BPC until October 31, 2008. There are three ways to use the EFP option:

1. Lock in the basis component of the BPC and use the EFP to price the futures at a later date. The deadline for EFP transactions is June 29, 2009, which corresponds with the July 2009 futures month expiry date.
2. Price the futures component of the BPC using the EFP and lock in the basis component by October 31, 2008.
3. Price the futures component of the BPC using the EFP and lock in the basis component on the same day, essentially a Fixed Price Contract (FPC).

The producer's total return on the BPC in Canadian dollars will equal the producer's original short position plus the locked-in basis plus any gain or loss on foreign exchange. EFPs are executed at the U.S. closing price and producers are responsible for any foreign exchange risk on their U.S. futures accounts.

### Example

A producer sells one December Minneapolis Hard Red Spring futures contract (5 000 bushels) through a broker on March 8 at \$5.36 US per bushel (\$221.57 Cdn per tonne).

On April 16, the producer signs a 136 tonne BPC at a December basis price of \$0.15 Cdn per bushel (\$5.42 Cdn per tonne). The late sign-up adjustment factor is zero prior to August 1. The same day, the producer instructs the broker to contact the CWB's broker at the exchange to complete an EFP.

The December Minneapolis futures price on this day is posted on the CWB pricing schedule at \$5.23 US per bushel (\$215.92 Cdn per tonne). Assume a Canadian dollar exchange rate of \$1.12.

Producer's futures account	Cdn per tonne	US per bushel
Sold futures	\$221.57	\$5.36
EFP with CWB	\$215.92	\$5.23
<b>Gain on futures</b>	<b>\$5.65</b>	<b>\$0.13</b>

  

Producer's BPC	Cdn per tonne	Cdn per bushel
Basis	\$5.42	\$0.15
Futures	\$215.92	\$5.88
<b>BPC price</b>	<b>\$221.34</b>	<b>\$6.03</b>

<b>Producer's total return (before elevator deductions)</b>	<b>Cdn per tonne</b>	<b>Cdn per bushel</b>
Gain on futures	\$5.65	\$0.15
BPC price	\$221.34	\$6.03
<b>Total</b>	<b>\$226.99</b>	<b>\$6.15</b>
Producer's short position	\$221.57	\$6.03
Producer's basis	\$5.42	\$0.15
<b>Total</b>	<b>\$226.99</b>	<b>\$6.15</b>

## Executing an EFP

Notify the CWB of the intention to complete an EFP by calling the CWB at 1-800-275-4292 with your producer identification number (ID) and personal identification number (PIN) or fax an exchange for physicals (EFP) form.

Producers must contact their broker and inform him or her of their intent to complete an EFP with the CWB. The broker is responsible for contacting the CWB's broker before 10:30 a.m. to lock in the previous day's futures price. Call the CWB to get the name and phone number of the CWB broker at the relevant futures exchange.

The futures portion of the BPC will be locked in once the EFP has been completed. To confirm the EFP has been successfully completed, producers can view their contracts through e-Services under the e-PPO 2008 tab or call the CWB at 1-800-275-4292.

## Prices and forms

Web site	<a href="http://www.cwb.ca">www.cwb.ca</a> , <i>'Producer Payment Options'</i>
Telephone	<b>1-800-275-4292</b>
Contact	<b>CWB Farm Business Representatives</b>