



\*Includes an adjustment for foreign exchange

## Late sign-up adjustment factor

The late sign-up adjustment factor is the cost of committing tonnage to the Basis Price Contract (BPC) and Fixed Price Contract (FPC) programs after August 1, when the CWB starts recording sales and begins buying futures as part of its risk management strategy. The late sign-up adjustment factor offsets the gain or loss on long positions that would otherwise be absorbed by the BPC and FPC hedging program by passing it back to program participants. It is designed to provide later sign-up into the fall once production is known, while ensuring the integrity of the pool accounts. It is calculated as follows.

**Late sign-up adjustment factor = (average futures on CWB sales\* to date – current futures\*) x percentage of pool sold**

The CWB hedges the BPC and FPC program throughout the crop year, buying futures based on the percentage of the pool that has been sold. Tonnage committed to the BPC and FPC program after August 1 is essentially bought out of the pool accounts based on the relationship between the average futures on sales, the current futures values and the percentage of the pool sold.

### Example

If the average futures value on CWB sales is \$200 per tonne and the current futures price is \$195 per tonne, there would be a gain of \$5 per tonne on the futures position. Assuming the pool account is 30 per cent sold, the late sign-up adjustment factor would be a premium of \$1.50 per tonne.

**Late sign-up adjustment factor = (Average futures on CWB sales\* to date – current futures\*) x percentage of pool sold**

$(\$200 - \$195) \times 30\% = \$1.50$  per tonne

The late sign-up adjustment factor is posted on the daily pricing schedule.

If the current futures are lower than the average futures value, the late sign-up adjustment factor will be a premium to reflect the lower cost to the hedging program of buying futures at the current market value rather than earlier. Conversely, if the current futures are higher than the average CWB futures position, the late sign-up adjustment factor will be a discount.

The late sign-up adjustment factor becomes more volatile as the crop year progresses and more sales are made. For instance if the pool was 70 per cent sold in the above example, the late sign-up adjustment factor would be \$3.50 per tonne rather than \$1.50.  $(\$200 - \$195) \times 70\% = \$3.50$  per tonne.

## When is the late sign-up adjustment factor applied?

The late sign-up adjustment factor is always applied on the date tonnage is committed to an FPC or BPC contract. Prior to August 1, the late sign-up adjustment factor is zero. Adjustment factor values are available on the daily pricing schedules on the CWB Web site at [www.cwb.ca](http://www.cwb.ca).

## Effect of the late sign-up adjustment factor on buyouts

After August 1, buyout costs become increasingly influenced by the adjustment factor as the CWB's long position increases as the crop year progresses.

The impact of the adjustment factor on buyout costs is exactly the opposite to the impact on contract prices at sign-up because futures are being sold rather than bought. Therefore, the effect on buyout costs due to the adjustment factor is a reduction in cost if futures are rising and an increase in cost if they are falling.

All buyout calculations are subject to a \$15 administration fee.

### Example

A producer locks in a December CWRS basis on June 29 at \$11.62 per tonne over the Minneapolis Hard Red Spring futures and an adjustment factor of \$0 per tonne. The futures market begins to rally in the summer and continues into the fall. The producer hopes the market will rise even higher and decides to roll the BPC to the July futures month in order to extend the pricing deadline until the end of June. The producer's new basis is \$10.50 per tonne over the July futures.



However, the futures market peaked in October and deteriorated steadily into the spring. As the June 30 pricing deadline approaches, the producer calls the CWB to buy out the BPC. The July basis deteriorated slightly to \$10 per tonne since the producer rolled his basis in June. However, since significant pool account sales were made earlier in the year at much higher prices, the adjustment factor has climbed to \$6 per tonne.

Since the producer has not locked in his futures the cost is calculated as:

**(Current basis + current adjustment factor) –  
(producer's basis + producer's adjustment factor)**

$$\begin{aligned} &= (\$10 + \$6) - (\$10.50 + \$0) \\ &= \$16 - \$10.50 \\ &= \$5.50 \text{ per tonne} \end{aligned}$$

Plus a \$15 administration fee.