

Product Disclosure Statement  
for AWB Fixed Basis

# AWB Fixed Basis

Commodity Futures and Foreign Exchange Components



**AWB RiskAssist**

Version Dated  
10 March 2008

4.5	+23.8	+7.9	+14.1	
2.6	+6.0	+0.3	-5.8	
4.8	+24.8	+8.4	+16.5	

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## IMPORTANT NOTICE

### About this document

This document is part of a **Product Disclosure Statement (PDS)** that relates to the AWB Fixed Basis contract that you can enter into with AWB RiskAssist Limited ABN 38 086 627 465, AFS licence number 244 128 (**RiskAssist**). The PDS for the futures and foreign exchange components of the AWB Fixed Basis contract is comprised of this document and the contract schedule (part 2 of this PDS), located at the back of this document.

### Changes to information

This document is current as at 10 March 2008. Information in this PDS is subject to change from time to time. To the extent that the change is not materially adverse to customers, we may update it by posting a notice of the change on our website. A paper copy of any updated information will be given to you without charge on request. We may also issue a supplementary PDS with new information. This PDS (and any supplementary PDS) is available in paper form and in electronic form from the AWB RiskAssist website at [www.riskassist.com.au](http://www.riskassist.com.au)

### Your decision to invest

This PDS is an important document, which should be read in full before making a decision in relation to futures and foreign exchange positions. A document of this kind cannot take into account your own investment objectives, financial situation or particular needs. Accordingly, nothing in this PDS is a recommendation by us or by any other person concerning the futures and foreign exchange components of the AWB Fixed Basis contract. You should not only consider the information in this PDS but also obtain independent financial and taxation advice as to the suitability of the futures and foreign exchange components for you bearing in mind your investment objectives, financial situation and particular needs.

## 1. About us

### 1.1 About RiskAssist

This PDS has been prepared by RiskAssist (referred to as **we, us, our** in this document). We offer price risk management solutions across a range of agricultural enterprises. These solutions allow you to manage your commodity and foreign exchange exposure. We issue commodity futures and foreign exchange products in connection with deliverable grain contracts.

We are a wholly owned subsidiary of AWB Limited (**AWB**) and part of the AWB Group.

### 1.2 About the AWB Group

The AWB Group is Australia's leading agribusiness and one of the world's largest wheat managing and marketing companies. Having evolved from the Australian Wheat Board, which operated as a government statutory marketing authority for 60 years, AWB is now a listed Australian public company. AWB is the exclusive manager and marketer of all Australian bulk wheat exports through what is known as the Single Desk System. It also markets and trades a range of other grains including barley, sorghum and oilseed.

## 2. Our products

The AWB Fixed Basis (**Fixed Basis**) product involves you entering into a contract with us (the **Contract**) under which you agree at a future point in time to deliver grain to us for a price to be determined in accordance with the Contract.

The gross amount, which we pay you under the Contract, will depend on:

- the commodity futures price locked-in (**futures component**);
- the foreign exchange rate locked-in (**foreign exchange component**); and
- the basis (**basis component**).

Other factors will also affect the amount you are paid. For more details refer to part 2 of this PDS.

This PDS relates to the futures and foreign exchange components of the Contract. This PDS does not relate to, nor describe in detail, the basis component. A brief discussion of basis is set out in part 2 of this PDS in order to give context to the discussion on the futures and foreign exchange components.

## 3. Introduction to futures and foreign exchange contracts

### 3.1 Background

The Contract involves you entering into futures and foreign exchange positions with us. We enter into the futures positions on the relevant exchange or OTC (over the counter) market based on your instructions. When those orders are filled, we enter into equivalent positions with you. We enter into foreign exchange positions with you, either in the same way, or at our quoted rate.

It is important for you to understand the general features of futures and foreign exchange contracts because the value of the futures and foreign exchange positions that you enter into with us is directly determined by the value of the futures and foreign exchange positions which we enter into to hedge our exposure.

The Contract also allows you to enter into option contracts over futures and foreign exchange so, again, it is important that you understand the general features of these contracts.

### 3.2 What are grain futures contracts?

The futures component of Fixed Basis is based on the contracts traded on the Chicago Board of Trade (CBOT) and the Winnipeg Commodity Exchange (WCE).

Futures contracts traded on CBOT and WCE are agreements to deliver or take delivery of a specified quantity and grade (or quality) of a particular commodity. A summary of the contract specifications for the contracts

we trade, for hedging purposes, on CBOT and WCE is shown in figure 1.

Futures	Exchange	Size	Months traded	Minimum fluctuations	Daily trading limit	Exchange trading hours
Wheat	CBOT	5,000 bushels	Mar, May, Jul, Sep, Dec	US ¼ c/bushel	US 30 c/bushel	electronic 9:30- 13:15 18:00-6:00
Corn	CBOT	5,000 bushels	Mar, May, Jul, Sep, Dec	US ¼ c/bushel	US 20 c/bushel	electronic 9:30-13:15 18:00-6:00
Canola	WCE	20 tonnes	Jan, Mar, May, Jul, Sep, Nov	CAD \$0.10/t	CAD \$30/tonne	20:00-13:15

Figure 1. Information in this table is subject to change by CBOT and WCE.

One purpose of these contracts is to provide those who deal in commodities with a facility for managing the risks associated with changing prices of the commodities (ie hedgers). There are also those who trade in the hope of profiting purely from changing prices in commodities (ie speculators).

CBOT and WCE futures contracts are deliverable contracts. That means that, on maturity of the contract, the seller agrees to deliver to the buyer, and the buyer agrees to take delivery of, the quantity of the commodity described in the contract.

The terms of the CBOT and WCE futures contracts are determined by the operating rules of the commodity exchanges on which they trade and can be found on [www.cbot.com](http://www.cbot.com) and [www.wce.ca](http://www.wce.ca)

Commodity futures contracts traded on the CBOT and WCE are standardised. This means that, because futures contracts of a particular class are perfect substitutes for each other, they can be closed out against an opposite position in the same class. A consequence of contract standardisation is that the price is the only factor that remains to be determined between the buyer and the seller.

A person who holds a futures contract to buy may cancel this obligation by taking a new contract to sell in the

same futures delivery month. This process is known as closing out the contract. In the same way, the holder of a contract to sell can close-out by taking a new contract to buy. In each case there will be a profit (or loss) equal to the difference between the buying and selling prices multiplied by the contract quantity, less any transaction costs.

In practice, the vast majority of futures contracts are offset in this manner, the remainder being fulfilled by delivery or by mandatory cash settlement where no provision for delivery exists.

### 3.3 What are forward foreign exchange contracts?

A forward foreign exchange contract is an agreement to be paid or to pay an amount of money on a specified date based on a predetermined exchange rate. These types of contracts allow exporters, importers and others exposed to adverse movements in foreign exchange rates to hedge their exposure to foreign exchange rate risk.

For example, an exporter who agrees to sell wheat to an overseas buyer for payment in a foreign currency in 3 months time is exposed to the risk of an appreciation in the exporter's local currency over this period. In other words, an exporter would receive less local currency than he would otherwise receive if the agreement settled immediately.

To protect against (hedge) this risk, an Australian exporter could enter into a foreign exchange contract to fix now the amount the exporter will receive in AUD in 3 months time.

### 3.4 What are options over futures contracts?

On the CBOT and WCE, several option contracts are traded over futures contracts (commonly known as futures options). From a buyer's viewpoint, a futures option is a right, not an obligation, to enter into a futures contract at the exercise price of the option in return for a premium. From a seller's viewpoint, the seller has no right as such (other than a right to the premium). The seller will be under an obligation to enter into a futures contract at the exercise price of the option if the option is validly exercised.

Like futures contracts, futures options are standardised so that, having bought an option, it is possible (subject to the payment of any costs) to close it out later by entering into an opposite position in the same contract and vice versa.

In relation to options over futures contracts, options can be exercised at any time on or before the expiry date of the option (an American style option).

The seller of an option must be prepared for that option to be exercised at any time before the expiry date.

There are two types of options over futures contracts:

- A call option over a futures contract is an option to buy a futures contract at the exercise price.
- A put option over a futures contract is an option to sell a futures contract at the exercise price.

Each put or call option has a buyer and a seller. The table below sets out the results from the buyer's and seller's viewpoint.

Buyer	
Action	Entitlement
<b>Bought call option</b>	The right but not the obligation to a long (bought) futures position (at the exercise price of the option).
<b>Bought put option</b>	The right but not the obligation to a short (sold) futures position (at the exercise price of the option).

Seller	
Action	Entitlement
<b>Sold call option</b>	The seller grants the buyer the right to assign a short futures position (at the exercise price of the option).
<b>Sold put option</b>	The seller grants the buyer the right to assign a long futures position (at the exercise price of the option).

### 3.5 What are options over foreign exchange?

Fixed Basis allows you to take a position with us, which replicates the use of options over foreign exchange. This is similar to the use of options over futures contracts except that the underlying component is foreign exchange.

## 4. Futures and foreign exchange components of the contracts

### 4.1 The futures component

The Contract allows you to manage the risks associated with fluctuations in the commodity price by agreeing a notional futures price in advance (**Forward Price**).

For example, for every 136 tonnes of wheat that you agree to supply, we will establish a futures position equivalent to 1 CBOT wheat futures contract at the Forward Price.

If not closed out earlier, we will close-out the futures positions at or near the CBOT futures closing price on the Flat Price Date. The price at which any futures position is closed out is called the **Close-out Price**.

$$\text{Futures profit (loss)} = (\text{Forward Price} \times \text{contract size} \times \text{no. of futures contracts}) - (\text{Close-out Price} \times \text{contract size} \times \text{no. of futures contracts})$$

We add (or subtract) the futures profit (or loss) to the amount we pay you under the Contract.

You can ask us to vary the Forward Price at any time. For instance, if market conditions change, you may want to re-position your Forward Price. When you ask us to vary the Forward Price in this way, we close-out any existing futures positions in respect of the old Forward Price and re-enter new futures positions at the new Forward Price.



### Wheat Example

On 2 April you anticipate harvesting 408 tonnes of wheat in December. You enter into a Fixed Basis Contract to sell us 408 tonnes (equivalent to 3 December CBOT wheat futures contracts) to assist you in managing your exposure to adverse market movements in the price you receive for your 408 tonnes of wheat. December CBOT wheat futures are trading at USD 3.25 per bushel. You are satisfied with this price.

To price the futures component, we sell 3 CBOT December wheat futures contracts at USD 3.25 per bushel and enter into an equivalent futures position with you.

**Total value sold** = Forward Price USD/bu x contract size  
x number of futures contracts  
= USD 3.25/bu x 5,000 bu x 3  
= USD 48,750

### Result – Scenario 1

By harvest, the December wheat futures price has fallen to USD 2.99 per bushel. You close-out your futures position with us.

**Total value sold** = USD 48,750  
**Total value bought** = USD 44,850 (USD 2.99/bu x 5,000 bu x 3)  
**Profit** = USD 3,900

Assuming all other price components remain constant, the USD 0.26 per bushel profit from the difference in the sold and bought value of the futures hedge is likely to be offset by the lower price you receive for your flat price (physical) component in December.

### Result – Scenario 2

By harvest, the December wheat futures price has risen to USD 3.50 per bushel. You close-out your futures position.

**Total value sold** = USD 48,750  
**Total value bought** = USD 52,500 (USD 3.50/bu x 5,000 bu x 3)  
**Loss** = USD 3,750

Assuming all other price components remain constant, the USD 0.25 per bushel loss from the difference in the sold and bought value of the futures hedge is likely to be offset by the higher price you receive for your flat price (physical) component in December.

Note, the above example is a simple one and does not take into account other costs associated with futures or foreign exchange positions or the underlying commodity contract.

### Important notice

The Forward Price is conditional upon us being able to hedge our exposure by either selling CBOT or WCE futures contracts, or buying or selling options over those contracts. We will give you details of the futures contracts (or options) that we have bought or sold to hedge our exposure.

## 4.2 The foreign exchange (FX) component

Because the Forward Price discussed in section 4.1 is expressed in USD, it will be affected by fluctuations in the AUD/USD exchange rate.

You can manage your foreign exchange exposure by entering into forward foreign exchange contracts (settled in AUD) to sell a notional fixed USD (or CAD) amount at a particular AUD/USD (or AUD/CAD) exchange rate\*.

The following is a brief description of how the foreign exchange component of the Contract is determined in respect of sorghum and wheat. In respect of canola, the following also applies (except CAD replaces USD).

Each Contract has a facility for you to manage the risks associated with fluctuations in the AUD/USD exchange rate by setting a forward exchange rate (**Forward Rate**).

To do this, you must nominate an amount in USD (**Conversion Amount**) against which the Forward Rate will be applied.

The Conversion Amount that you nominate will generally reflect the amount you estimate as the USD value of your grain contract (i.e. the futures and the basis components).

\*The arrangement involves a notional USD amount only. All payments under the Contract are settled in AUD. You never have a contractual obligation to buy, sell or exchange one currency for another.

### Example

On 2 April, you anticipate harvesting 408 tonnes of wheat in December. You enter into a Fixed Basis Contract to sell us 408 tonnes (equivalent to 3 December CBOT wheat futures contracts).

You decide that you do not want to fix the futures component yet. However, you want to make sure that the appreciating AUD does not adversely affect your December returns. You enter into a forward foreign exchange position equivalent to a December forward AUD/USD contract at a rate of 0.6800.

#### Step 1

You calculate the USD amount that you want to hedge based on your anticipated futures price of USD 3.20 per bushel and estimated basis result of USD -0.10 per bushel. For example:

Amount of Bushels to hedge	= tonnes to hedge x conversion factor = 408 tonnes x 36.74371 = 14,991 bushels.
USD amount to hedge	= number of bushels x (anticipated USD price per contract/bu + USD estimated basis/bu). = 14,991 x (USD 3.20/bu + USD -0.10/bu) = USD 46,472.

#### Step 2

Sell USD 46,472 at the AUD/USD Forward Rate of 0.6800 which buys AUD 68,341 (USD 46,472 ÷ 0.6800)

#### Result Scenario 1

By December, the AUD/USD spot rate is 0.7490. You Close-out your foreign exchange position with us.

Assuming all other price components remain constant,

Sold USD 46,472 ÷ 0.6800	= AUD 68,341
Buy USD 46,472 ÷ 0.7490	= AUD 62,045
Profit	= AUD 6,296

the profit from the foreign exchange hedge (AUD 6,296) is likely to be offset by the lower AUD flat price (physical) payment you will receive.

#### Result Scenario 2

By December, the AUD/USD spot rate is 0.6000. You close-out your foreign exchange position with us.

Sold USD 46,472 ÷ 0.6800	= AUD 68,341
Buy USD 46,472 ÷ 0.6000	= AUD 77,453
Loss	= AUD 9,112

Assuming all other price components remain constant, the loss from the foreign exchange hedge (AUD 9,112) is likely to be offset by the higher AUD flat price (physical) payment you will receive.

The terms of the Contract require that the foreign exchange position is closed out by taking a position equivalent to buying USD (or CAD) (at the **Close-out Rate**) on or before the business day after the Flat Price. We calculate the amount of any profit or loss on your foreign exchange as follows;

Foreign Exchange profit (loss)	=	USD Conversion Amount Forward Rate	-	USD Conversion Amount Close-out Rate
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We add (or subtract) your foreign exchange profit (or loss) to the amount we pay you under the Contract.

## 5. What are the benefits?

The following is a brief summary of the benefits of using the Contract:

- ✓ You are not subject to daily futures exchange margin calls or deposit requirements.
- ✓ You have flexibility and control over pricing decisions (i.e. the futures and foreign exchange components).
- ✓ You can determine when to fix the basis.
- ✓ You can fix pricing components in any order and proportion giving greater flexibility to maximise your return.
- ✓ You can reset your futures or foreign exchange components at any time up until the Flat Price Date.
- ✓ You can fix quality scales and grade spreads ensuring greater price certainty (for contracts relating to wheat only).
- ✓ You can use options over futures and foreign exchange contracts to establish minimum and maximum levels for the futures and foreign exchange components (i.e. apply price floors and ceilings).

## 6. What are the risks?

The returns generated through the use of the futures and foreign exchange components of the Contract depend on a number of variable factors and involve varying degrees of risk. In evaluating the merits and suitability of these components, careful consideration should be given to the following risk factors.

This section is not a comprehensive summary of all the risks associated with the futures and foreign exchange components of the Contract but highlights particular risks that you should discuss in detail with your professional adviser.

The risk of loss in using the futures and foreign exchange components can be substantial. You should carefully consider whether pricing your grain in this way is appropriate for you in light of your financial circumstances. In particular, you should be aware of the following matters:

- There is a risk that your final return could be lower than the lowest cash price bid during the season.
- Each time you close-out your position, you could incur losses; those losses could be substantial.
- Under certain conditions, it could become difficult or impossible for us to close-out a position we have entered into to hedge our exposure to you. This means that you may not be able to close-out or reset the Forward Price or the Forward Rate that you have agreed with us. This can happen, for example, when there is a significant change in prices over a short period.
- Trading in contract months which are not aligned with the date on which the price you receive for your grain is determined will expose you to “spread” risk. Spread risk does not necessarily involve less risk than the price movement risk of futures held in the stipulated month only.
- Using futures options, the maximum loss in buying an option is the amount of the premium, but the risks in selling an option are similar to futures contracts.
- Our ability to close out OTC options depends on us being able to agree a close out price with the relevant counterparty. The value of OTC options when closing out prior to maturity can be different to what you would expect by comparing with exchange traded options. As a result, costs associated with closing-out OTC options may be higher than costs associated with exchange traded options.
- Commodity and foreign exchange markets are unpredictable. The market analysis that you rely on, and the pricing decisions that you make, may not achieve the outcome you want.
- The obligation to deliver the commodity arises when the Contract is entered into, not when you establish futures and foreign exchange positions. If you cannot deliver the underlying physical commodity, then you could incur significant futures, foreign exchange and basis losses.
- It will be AWB’s “basis” component that is bid. This may or may not be the best basis bid in the market on that particular day. AWB’s posted “basis” component bid may be withdrawn or replaced at any time. Past performance should not be relied on to predict future performance.
- Because the futures component or the basis component may not be known at the time of pricing the foreign exchange component, the amount of foreign exchange priced (the “Conversion Amount” in section 4.2) might be inadequate or in excess of the required amount. This may affect your final price.
- Conversion of profits or losses of CAD canola futures may not be converted to AUD for up to 1 month. Until converted, a rising AUD/CAD exchange rate will lower AUD profits.

## 7. Taxation considerations

The tax consequences associated with the futures and foreign exchange components of the Contract, such as the timing of recognising any profits or losses and whether such amounts should be recognised as capital or income, are complex. We strongly recommend that you contact your tax advisor to confirm the tax implications before you enter the Contract.

## 8. The AWB appeals service

We have a formal complaint handling procedure that is managed by the AWB Grower Advocate.

If you have a complaint against us you should first try to resolve it with your RiskAssist representative.

If you are not satisfied with the outcome, you can make a formal complaint by:

- Writing to the General Manager, RiskAssist, GPO Box 2069S, Melbourne Vic 3001; or
- Logging your complaint in the 'Grower Feedback' section of the AWB website located at [www.awb.com.au](http://www.awb.com.au)

The General Manager will try to resolve your complaint within 15 days of receiving the complaint. If you are still not satisfied with the outcome, you should contact the AWB Grower Advocate by:

- Writing to the AWB Grower Advocate, AWB Limited, GPO Box 4562, Melbourne Vic 3001; or
- Sending an email to [gadvocate@awb.com.au](mailto:gadvocate@awb.com.au)

The AWB Grower Advocate will investigate the complaint on behalf of the Managing Director.

Following this, if you remain dissatisfied with the Grower Advocate's decision, you are able to contact the external disputes body, the Financial Industry Complaints Service (FICS).

FICS' contact details are:

### Financial Industry Complaints Service

PO Box 579

Collins Street West

West Melbourne Victoria 8007

Toll Free: 1300 780 808

Facsimile: (03) 9621 2291

Website: [www.fics.asn.au](http://www.fics.asn.au)

## 9. Important additional Information

### 9.1 How to apply

Before you can enter into the Contract, you must register with us. Registration is free. Please contact us or your local AWB office for more information.

### 9.2 What information will I receive?

To assist you in making a decision about whether to enter into the Contract, and to provide ongoing information to you after you have entered into the Contract, you will receive additional information from us, including:

- Confirmation that we have accepted your registration, and an account number which you will use in your dealings with us;
- A copy of the Contract;
- A Financial Services Guide (FSG) which sets out important information about the services that we provide and the benefits we receive;
- Statements of Advice (SOA) when we give you personal advice;
- Transaction confirmations which may be given to you by fax, email or post;
- Periodic statements summarising open futures and foreign exchange positions;
- Settlement reports showing your profit or loss from the closing of futures and foreign exchange positions;
- Invoices for our fees; and
- Other material including market analysis.

### 9.3 Privacy policy

You privacy is important to us. When you enter into a Contract, or otherwise deal with us, you may need to give us personal information. The AWB Privacy Policy describes how the AWB Group collects, holds, uses, discloses, manages, accesses, corrects and disposes of that information. You can obtain a copy of the AWB Privacy Policy on [www.awb.com.au](http://www.awb.com.au)

### 9.4 Ethical considerations

We do not take labour standards, or environmental, social or ethical considerations into account when dealing in futures and foreign exchange.

### 9.5 More information

For more information please contact us at your nearest AWB office or by phone direct on 1300 666 011 or visit our website at [www.riskassist.com.au](http://www.riskassist.com.au)

## 10. What do we mean by...?

**AUD** means Australian dollar.

**AWB** means AWB Limited ABN 99 081 890 459 or a related body corporate.

**AWB National Pool** means the AWB National Pool No 1, which is a multi-varietal wheat pool managed by AWB.

**AWB Spot Rate** means the exchange rate set by AWB on a particular day for settlement 2 business days after that day.

**CAD** means Canadian dollar.

**CBOT** means the Chicago Board of Trade.

**close-out** means to enter into a futures or foreign exchange position to settle the futures or foreign exchange position which you have already established with us.

**Close-out Price** means the price at which a futures position is closed-out.

**Close-out Rate** means the rate at which a foreign exchange position is closed-out.

**Contract** means the Fixed Basis contract.

**Conversion Amount** means the foreign currency amount that you select to notionally exchange for AUD at the Forward Rate.

**Fixed Basis** means the amount that we agree to pay over or under a specified futures contract (expressed in US cents per bushel or CAD per tonne). In the absence of any agreement prior to the final pricing date, the amount quoted by us at the close of business on the earlier of the last delivery day or on the final pricing date.

**Flat Price Date** means the day you nominate (on or prior to the earlier of the day before you deliver the physical commodity to us or the final pricing date) to determine a physical contract price in AUD/tonne. This is also the date on which any existing futures and foreign exchange positions are closed out.

**Forward Price** means the notional futures price that we agree, based on the price at which we have been able to hedge our exposure in a futures market.

**Forward Rate** means the exchange rate at which you agree with us to exchange one currency for another currency on a future date.

**hedge** means offsetting the price risk inherent in any physical or market position by taking an opposite position in the market. Hedging helps to protect you from adverse price changes.

**Hedge Settlement Rate** is the rate determined daily and published by AFMA (Australian Financial Markets Association) for conversion of USD to AUD.

**long** means a bought position (i.e. to buy futures).

**OTC** means 'over the counter' and is generally used to refer to futures or foreign exchange contracts (or options over these contracts) which are not traded on an exchange (such as CBOT or WCE) and their prices are not publicly available. OTC options are options written by financial institutions that are tailor made to fit the particular needs of the customer and are not standardised. OTC options incorporate specific components agreed between the buyer and seller including specific commencement and expiry dates, exercise price, option type and style.

**short** means a sold position (i.e. to sell futures).

**USD** means US dollar.

**WCE** means the Winnipeg Commodity Exchange.

## Part 2 - Contract Schedule

### AWB Fixed Basis Contract

10 March 2008

This document is part of a Product Disclosure Statement (**PDS**). The PDS for this Contract is comprised of this document and a separate document (part 1 of this PDS) that contains general information regarding this Contract.

## 1. Key features of AWB Fixed Basis

Fixed Basis allows you to manage the risks associated with fluctuations in the price of futures, foreign exchange and basis components that determine the price of your grain. The key features of Fixed Basis are summarised in the table below and described in more detail in this part of the PDS.

AWB Fixed Basis			
Commodity	Wheat	Sorghum	Canola
<b>Minimum contract size (and multiples)</b>	408 tonnes (equivalent to 3 CBOT wheat futures contracts) then in multiples of 136 tonnes.	381 tonnes (equivalent to 3 CBOT corn futures contracts) then in multiples of 127 tonnes.	100 tonnes (equivalent to 5 WCE canola futures contracts) then in multiples of 20 tonnes.
<b>Underlying futures contract</b>	You nominate December or March CBOT wheat futures contracts.	You nominate May or July CBOT corn futures contracts.	January WCE canola futures contract.
<b>Basis</b>	You manage the basis. AWB daily wheat basis bid derived from the MultiG bid quoted in US cents/ bushel delivered port under or over CBOT wheat futures.	You manage the basis. AWB daily sorghum basis bid derived from the daily sorghum cash bid quoted in US cents/bushel delivered port under or over CBOT corn futures.	You manage the basis. AWB daily canola basis bid derived from the daily canola cash bid quoted in CAD/tonne delivered port under or over Winnipeg (WCE) canola futures.
<b>Delivery period</b>	You may deliver during a two month window prior to the last delivery date.	You may deliver during a two month window prior to the last delivery date.	You may deliver during a two month window prior to the last delivery date.
<b>Deliverable grades</b>	All AWB MultiG grades	As per NACMA SOR receival standards	As per AOF receival standards for canola in all states except WA WA: as per WA CBH and/or WA Grain Pool receival standards for canola.
<b>Flat price date</b>	On or prior to the earlier of the day before your first delivery in the delivery period or the final price date.	On or prior to the earlier of the day before your first delivery in the delivery period or the final price date.	On or prior to the earlier of the day before your first delivery in the delivery period or the final price date.
<b>Final pricing date</b>	Dates set for the season in November (for December basis) and February (for March basis).	Dates set for the season in April (for May basis) and June (for July basis).	Date set for the season in November or December (for January basis).
<b>Payment</b>	Payment within 30 days after the day you deliver.	Payment within 30 days after the day you deliver.	Payment within 30 days after the day you deliver.
<b>Fixing pricing components</b>	Futures, foreign exchange and basis fixed in any order.	Futures, foreign exchange and basis fixed in any order.	Futures, foreign exchange and basis fixed in any order.
<b>Grade and quality Payments</b>	You choose when to fix the grade spreads and quality scales prior to the published date for the season.	Not applicable	As per AOF standards for canola in all states except WA. WA: as per WA CBH and/or WA Grain Pool standards for canola.

## 2. Background to the basis

Basis is the difference between the cash price of a commodity at a particular location and the price of a specific futures contract over the same commodity at any given point in time.

Basis = cash price – futures price		
<b>For example:</b>		
<b>November cash price</b>	<b>AUD/tonne</b> \$167.97	<b>Equivalent USD/bushel</b> \$3.20
<b>December futures price</b>		\$3.40
<b>November basis under December futures</b>		(\$0.20)

The example is based on an AUD/USD exchange rate of 0.7000.

The futures market prices are an indicator of the international price for a commodity and a benchmark in determining the value of Australian wheat, sorghum and canola. The cash price (and therefore, the basis) is affected by a number of factors, which create price disparities between the cash price and the equivalent futures price.

### 2.1 Basis risk can be managed.

For example, if you think the basis is weakening (i.e. the cash price is decreasing relative to the futures price), then you could lock in the basis now. Similarly, if you think a wheat shortage in the local market will result in the basis strengthening (because the local cash price of wheat will increase relative to the futures price), then you might decide not to lock in your basis until later. The Fixed Basis contract allows you to fix the basis at any time up until the earlier of the close of business on the Flat Price Date or the day before delivery.

The basis that can be fixed is derived from the difference in the daily cash bids for the relevant commodity (e.g. for wheat the basis is derived from AWB daily MultiG cash price) for a port zone and the respective futures price. The basis is quoted delivered port in US cents/bushel (CAD/tonne for canola). The basis bid by AWB will reflect the supply and demand for basis in your port zone having regard to domestic supply and demand, the physical grain quality and quantity, delivery period and the relevant futures price. In port zones where there is an expected exportable surplus of grain, basis may tend to be influenced by export basis market factors.

Where there is a perceived shortage of a commodity in a port zone then the basis may be influenced more by domestic supply and demand factors and therefore may move independently to the export market.

## 3. Components and other factors that affect your return

### 3.1 Components of your return

Your return is affected by the decisions you make in relation to:

- the futures and foreign exchange components; and
- the flat price component.

<b>Your gross return =</b>	<b>futures profit (loss) + foreign exchange profit (loss) + flat price component</b>
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### 3.2 Pricing the futures component

A simple example of how to calculate the futures component profit or loss is set out in section 4.1 of part 1 of this PDS. Your futures profit (or loss) is calculated on the business day after the Flat Price Date in accordance with the following formula:

Futures Profit (loss) (AUD) =	$\frac{(\text{Forward Price} \times \text{contract size} \times \text{no. of contracts}) - (\text{Close-out Price} \times \text{contract size} \times \text{no. of contracts})}{\text{AWB AUD/USD Spot Rate}}$
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An example of how the futures component may affect the return you receive under the Contract is set out in the pricing example at the end of this document.

### 3.3 Pricing the Foreign Exchange component

A simple example of how to calculate the foreign exchange component profit or loss is set out in section 4.2 of part 1 of this PDS. Your foreign exchange component profit (or loss) is calculated on the business day after the Flat Price Date in accordance with the following formula:

Foreign Exchange Profit (loss) (AUD) =	$\frac{\text{USD Conversion Amount}}{\text{Forward Rate}} - \frac{\text{USD Conversion Amount}}{\text{Close-out Rate}}$
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In respect of canola, the above also applies except CAD replaces USD. An example of how this Foreign Exchange component may affect the return you receive under the Contract is set out in the pricing example at the end of this document.

### 3.4 Pricing the flat price component

You can calculate the AUD per tonne flat price component that you will receive using the following formula:

Your flat price component return (AUD per tonne) =	$\frac{[\text{CBOT futures} + \text{Fixed Basis (+/-)}] \times \text{metric conversion factor}}{\text{Hedge Settlement Rate}}$
CBOT futures =	closing CBOT (or WCE) futures price on the Flat Price Date expressed in USD/bushel (or CAD/tonne)
Fixed Basis =	The Fixed Basis you have fixed expressed in USD/bushel (or CAD/tonne).
Metric conversion factor =	36.74371 for wheat (to convert bushels to tonnes). 39.3682 for sorghum (to convert bushels to tonnes).
Hedge Settlement Rate =	Hedge Settlement Rate (HSR) published on the business day after the Flat Price Date (or AWB AUD/CAD Spot Rate).

### 3.5 Other components that affect the price you are paid

Fixed Basis also gives you the ability to manage futures and foreign exchange risk with options. These options may affect your futures and foreign exchange profit or loss. Sections 3.4 and 3.5 of Part 1 include general information on the use of options.

The final price that you receive will include an adjustment for grade spreads, quality payment scales (if applicable), storage, handling, freight costs. After these adjustments have been made, we will deduct our Product Fee.

## 4. What does it cost?

Fee description	Amount	How and when paid?
<b>Risk Management Product Fee – Wheat and Sorghum</b>	\$7.00 (plus GST of \$0.70) per tonne*	Invoiced at the time we pay you for your grain (within 30 days of the date on which you deliver your grain) and deducted from the proceeds of that amount.
<b>Risk Management Product Fee - Canola</b>	\$8.00 (plus GST of \$0.80) per tonne*	
<b>Brokerage for up to 2 commodity futures or option trades for quantities equivalent to 1 CBOT futures contract (wheat and sorghum) or 1 WCE futures contract (canola)</b>	Nil	
<b>Brokerage fee for each trade over 2 (wheat and sorghum) commodity futures or option trades for quantities equivalent to 1 CBOT futures contract</b>	\$80 (plus GST of \$8.00)*	Invoiced and payable at the same time as the Risk Management Product Fee.
<b>Brokerage fee for each trade over 2 canola commodity futures or options trades for quantities equivalent to 1 WCE canola futures contract</b>	\$30 (plus GST of \$3.00)*	Invoiced and payable at the same time as the Risk Management Product Fee.
<b>Option premium</b>	An amount equal to the option premium we pay.	Invoiced and payable at the same time as the Risk Management Product Fee.

\* We may, at our discretion, reduce these fees from time to time.

As set out in the Contract, there are other fees and charges, which do not relate to the futures and foreign exchange components of the Contract, but relate instead to the sale of the physical grain. These fees and charges will be incurred by you regardless of whether you use the futures and foreign exchange components and will be deducted from the proceeds of the physical sale. Some of those fees and charges cover costs incurred to third parties and, in some cases, costs incurred to members of the AWB Group.

## 5. What other benefits do we receive?

We may derive a benefit by entering into futures or foreign exchange positions with you that include a margin (or "risk premium") above or below the price that we are able to obtain for that same position in the relevant market. The margin will vary depending on a number of factors but will not be a component of the price that is paid to you.

## Wheat Fixed Basis pricing example

			Total
<b>Assumptions</b>	a	Contracted Tonnage	408.00
	b	Your estimate of basis (USD/bu)	-0.10
	c	Your estimate of forward price (futures) (USD/bu)	3.20
<b>Futures Component</b>	d	Exposure	No. of 5000 bu futures contracts
	e	Your Forward Price	sold futures (USD/bu)
	f	Sold value	d x 5000bu x e (USD)
	g	Close-out Price	(USD/bu)
	h	Value of futures profit (loss)	d x 5000bu x g (USD)
	i	Hedge Profit or loss	f-h (USD)
	j	AWB Spot rate <sup>1</sup>	AUD/USD
	k	AUD hedge profit or loss	i/j (AUD)
	<b>l</b>	<b>Per tonne equivalent</b>	<b>k/a (AUD)</b>
<b>Foreign Exchange Component<sup>2</sup></b>	m	Estimated exposure	(b+c) x 36.74371x a (USD)
	n	Your Forward Rate	sold AUD/USD rate
	o	Sold USD value	m/n (AUD)
	p	Close-out Rate	AWB spot AUD/USD rate <sup>1</sup>
	q	Close-out value	m/p (AUD)
	r	Hedge profit or loss	o-q (AUD)
	<b>s</b>	<b>Per tonne equivalent</b>	<b>r/a (AUD)</b>
<b>Flat Price Component<sup>3</sup> (Physical)</b>	t	Closing futures price on flat price date	USD/bu
	u	Your Wheat Fixed Basis	USD/bu
	v	USD physical price	(t + u) x 36.74371
	w	Hedge Settlement Rate	AUD/USD
	<b>x</b>	<b>Flat price delivered port</b>	<b>v/w (AUD)</b>
<b>Your Base Return</b>	Futures Component		AUD per tonne
	Foreign Exchange Component		AUD per tonne
	Flat Price Component (Physical)		AUD per tonne
	RiskAssist Product Fee		-7.00
	<b>Your AUD per tonne APW base price delivered port</b>		<b>\$160.82</b>

1 Applicable rate at which sold USD value of futures positions (item "f") is closed-out on or near the Flat Price Date.

2 Before hedging Foreign Exchange you need to estimate your USD exposure (refer to section 4.2 of part 1 of this PDS). This involves you estimating the "basis" and, if you have not fixed a Forward Price, the likely futures price. The Conversion Amount that you nominate should reflect those estimates.

3 Note the differences in this example between the Close-out Price (item "g") and the closing futures price (on the futures exchange) (item "t"). The closing futures price on the Flat Price Date (the price on which the physical component is calculated) may be different to the Close-out Price because it is not always possible to close-out the futures position at the closing futures price. Similarly, note the differences between the Close-out Rate (item "p") and the Hedge Settlement Rate (item "w"). The difference in these rates is known as "slippage".

4 Add AWB MultiG grade spreads and quality payment scales fixed by you. The delivered port return is inclusive of storage and handling charges. Some states will vary with respect to the inclusion of receival fees in storage and handling charges. The delivered port return is exclusive of levies and freight charges.



1.6	+23.8	+7.9	+21.9	
2.6	+6.0	+0.3	-5.4	-1.2
1.8	+24.8	+8.4	+16.5	+1.1

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