Glossary

Actual grade
The grade and protein of grain delivered as reported on a cash purchase certificate.

Additional payment
A payment made by the CWB to producers after grain is delivered against a PPO contract. Additional payments equal the contracted price less the initial price for the relevant reference grade at time of delivery plus the incremental payment.

Adjusted basis
Adjustment to basis price caused by rollover of tonnes in a BPC from one futures month to another.

Arbitrage
Simultaneous purchase and sale of the same or equivalent security in order to profit from price discrepancies. Also known as riskless profit.

Basis Payment Contract (BPC)
A pricing option available for all classes of wheat, feed barley and selected barley that offers the choice of locking in the basis and futures components separately.

Basis risk
A measurement of the uncertainty whether the CWB will be able to perfectly hedge the PPO prices offered.

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

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

Contingency fund
A fund established for PPOs to operate without any impact to the CWB pool accounts. Included in the fund is the annual surplus or deficit arising from the operation of PPOs.

Country basis
The difference between the in store Vancouver or St. Lawrence value and the farmgate price. This is equal to the freight and elevator handling charges.

Daily Price Contract (DPC)
A pricing option available for all classes of wheat with the choice of locking in a daily cash price derived from U.S. elevator prices.

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 available on all grains, which provides a floor price based on a percentage of the CWB's Pool Return Outlook (PRO), less a discount and early cash flow upon delivery.

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

Feed discount
A discount applied to deliveries of Canada Feed, No. 4 CWRS, No. 3 CWSWS, No. 4 CWAD and No. 5 CWAD against FPC and BPC contracts. By discounting the posted FPC and BPC prices, the CWB can accommodate producers delivering lower quality grain against their PPO contracts.

Fixed Price Contract (FPC)
A pricing option available on all grains, which provides a set value that a producer can lock in on a quantity of grain.

Foreign exchange
Rate at which one currency may be converted into another. 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.

Futures Expiry Date
The last day that the CWB provides a futures price quote for a given futures month. For example, the last price quote for the December 2007 futures contract will be offered on November 30, 2007. Farmers with December BPC contracts should lock in this price or complete a rollover to a forward futures month. Farmers who take no action by the expiry date will be automatically priced at the last day's price.

Incremental payment
A payment to compensate farmers for wheat, durum and barley delivered later in the crop year. The payment represents the time value of money to the farmer. The value of this payment is set at the time of contract sign up and based on the month of delivery.

Late sign-up adjustment factor
Average futures and foreign exchange on CWB sales made to date multiplied by the percentage of the pool sold.

Lock-in price
The in store price obtained by farmers with basis contracts after they commit to a futures price. The lock-in price is equal to the basis and futures settlement price combined.

Long
One who has bought futures contracts or owns a cash commodity.

Nearby (delivery) month
The futures contract month closest to expiration. Also referred to as the spot month.

Original basis
A farmer's first basis contract, before any rollovers are completed.

Producer Payment Options (PPOs)
Contract programs that allow producers more flexibility in pricing their grain by choosing to be in or out of the CWB pool accounts and to improve cash flow by paying out or advancing money earlier in the crop year. This includes various CWB pricing alternatives such as the FPC, BPC, EPO and DPC.

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.

Relevant futures price
The daily closing price for one of following contracts: Chicago Soft Red Winter, Kansas Hard Red Winter, Minneapolis Hard Red Spring or Winnipeg Western Barley.

Rollover
Closing out the basis position in the currently held month futures contract and taking a fresh position on a different month futures contract. For example, a farmer holding a December contract basis can roll it over by closing it out with a short position and simultaneously taking a new basis position (adjusted basis) in the March contract.

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

Settlement price
The last price paid for a commodity on any trading day. If there is a closing range of prices, the settlement price is determined by averaging those prices. Also referred to as the settle or closing price.

Short
One who has sold futures contracts or plans to purchase a cash commodity. Selling futures contracts or initiating a cash forward contract sale without offsetting a particular market position.

Spread
The difference between the reference grade initial price and the initial price for the delivered grade. Spread may also refer to the price difference between two futures contracts trading at the same time. For example if the Minneapolis Hard Red Spring December 2007 contract closed at $4.04 per bushel and the corresponding March 2008 contract closed at $4.06 per bushel on the same day, the spread would be $0.02 per bushel.

Target price
A fixed price, futures price or basis at which a farmer has indicated that he/she will agree to the PPO contract terms and conditions as offered. Along with their requested target price, farmers also specify the class of grain, tonnage and time period for the order to stand.

Time value of money
A concept stating that a dollar paid now is worth more than a dollar paid in the future. PPO prices include a discount for the time value of money because farmers who deliver their grain early in the crop year have their full payment earlier than farmers who wait for pool account payments.

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