RISK MANAGEMENT SOLUTIONS

Collateral Margining for Agricultural Swaps

The Commonwealth Bank understands that you may be interested in sophisticated and innovative ways to hedge your commodity exposures. As a result, we are pleased to offer Agricultural Swaps with Collateral Margining to support your hedging needs.

If you are a producer or consumer of commodities and you have exposure to commodity price movements, our team of agricultural specialists have the expertise to assist you in selecting the agricultural commodity hedging solution that best suits your individual needs and delivers your desired outcomes.

What is Collateral Margining?

Collateral Margining allows you to enter into agricultural swap transactions with the Bank by using an Australian dollar cash deposit as security.

Why use Collateral Margining for Agricultural Swaps?

If you have exposure to commodity price movements and you would like to hedge this exposure with Agricultural Swaps you can use Collateral Margining to help you establish Agricultural Swaps limits with the Bank.

Who can use Collateral Margining for Agricultural Swaps?

To use Collateral Margining for Agricultural Swaps you have to qualify as a Wholesale Client as defined by the Corporations Act 2001.

Benefits

- You can establish an ongoing arrangement with the Bank which will allow you to enter into Agricultural Swaps by posting cash cover as security.
- Cash cover is calculated based on a short term peak exposure, keeping your initial cash commitment low.
- Margin calls are based on the daily mark-to-market price of the underlying commodity at close of business.
- A competitive interest rate is paid on cash balances held by the Bank in a Cash Deposit Account.

Risks

- If you do not respond immediately to margin calls made by the Bank (either on the Initial or Variation Margins) the Bank has the right to close out all your swap transactions. Any loss to the Bank will be debited to your Cash Deposit Account.
- The initial margin amount may be recalculated by the Bank. If so, the Bank may make a margin call, and you will need to top-up the Initial Margin by paying further cash into your Cash Deposit Account.
- The Bank is under no obligation to repay any cash deposited in the Cash Deposit Account while there is money outstanding under any of your swap transactions. If you request the return of surplus cash deposited in the Cash Deposit Account, the Bank may, at its discretion, return some of the surplus amounts to you.
- You should also refer to your Agricultural Swaps documentation for details of risks involved with Agricultural Swap transactions.

Eligible Commodities

All Agricultural Swap products offered by the Bank, are included.

How does it work?

The following example illustrates how an Agricultural Swap with Collateral Margining can be used to assist you access hedging products to manage exposure to commodity price movements. Please note that this is an example only and that there will be many variations depending on individual needs.

Customer need

Mr Andrews (a producer) would like to establish an Agricultural Swap* with the Bank where he can receive a fixed price for his commodity transactions at a future date. This will provide him with certainty for budgeting and planning purposes.

*For further information on Agricultural Swaps please refer to the Agricultural Swaps brochure.

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The benefits of an Agricultural Swap include:

- Protection against any fall in the commodity reference price below the agreed fixed price level.
- Customisation in pricing dates and transaction sizes.

Mr Andrews wants to deposit cash as security to support this arrangement.

Solution

Mr Andrews discusses his needs with one of our agricultural specialists who recommends an Agricultural Swap using Collateral Margining as security.

Getting started

Mr Andrews' application for Collateral Margining must be approved by the Bank. Approval will be based on his previous trading or investment experience that demonstrates his understanding of financial and market risk.

Mr Andrews will also need to enter into a cash collateral agreement with the Bank and complete an application form for a Cash Deposit Account. The provisions of the cash collateral agreement will govern the Collateral Margining-arrangement with the Bank.

Transacting under Agricultural Swaps with Collateral Margining

Once the application for the Cash Deposit Account is approved and the cash collateral agreement is signed, Mr Andrews is able to enter into an agricultural swap transaction with the Bank. He will then follow these steps to set up his arrangement.

Steps:

1. Contact one of the Bank's experienced dealers.
2. The Bank calculates the initial cash deposit amount based on its short-term peak exposure under the swap transactions.
3. Mr Andrews must provide an initial cash deposit (in cleared funds as advised) to the Bank before entering the swap transaction.
4. This is lodged in his Cash Deposit Account and is known as the **Initial Margin**. The Cash Deposit Account will have a 'Security Stop' placed on the total balance in the account.
5. Mr Andrews enters into the Agricultural Swap transaction.

The margining process

The total AUD face value of all outstanding Agricultural Swap transactions is continually monitored and compared to the market price of the relevant commodity (mark-to-market) and the difference is calculated by the Bank. This is known as the Variation Margin.

If a calculation of the Initial Margin plus the Variation Margin is greater than the amount of cash deposited in the Cash Deposit Account, the Bank will make a margin call for the difference. Mr Andrews would then be required to respond immediately and deposit additional cleared funds into the Cash Deposit Account.

For example, Mr Andrews is receiving a fixed price of $209.18 for 1000 metric tonnes of commodity.

Date	Commodity price	Variation margin (mark-to-market)	Variation margin allocation	Margin call required	Account balance (includes initial margin)
Day 0	$209.18	-	-	-	$10,459
Day 1	$211.35	-$2,170	$2,170	$2,170	$12,629
Day 2	$213.75	-$4,570	$2,400	$2,400	$15,029
Day 3	$209.33	-$150	-	-	$15,029
Day 4	$210.01	-$830	-	-	$15,029
Day 5	$206.11	$3,070	-	-	$15,029

Day 0. At commencement of the swap, the face value of the swap transactions matched the market price of $209.18 and there is no variation margin. Mr Andrews has deposited an initial margin amount of $10,459.

Day 1. If the market price rises to $211.35 the variation margin called is $2,170. Mr Andrews deposits $2,170 and the collateral account holds $12,629.

Day 2. If the market price rises further to $213.75, the additional variation margin is calculated as $2,400. A margin call is made and Mr Andrews will be asked to deposit $2,400. Once this is done, the account will hold $15,029.

Day 3. The market price falls to $209.33 but Mr Andrews remains out-of-the-money. No additional variation margin is required.

Day 4. The market price rises, but not to a new peak. As the price of $210.01 is less than the peak of $213.75 no additional variation margin is called.

Day 5. The market price falls to $206.11. No additional variation margin is required.

Points to consider

- Your application must be approved by the Bank, you will need to enter into a collateral agreement and provide an initial deposit in cleared funds before commencing any swap transactions with the Bank. For more details, please refer to your collateral agreement. A copy of a collateral agreement can be obtained from your Relationship Executive or Global Markets Specialist.
- If you have multiple swaps, the bank will take into consideration your net position when calculating margin calls.

Contact us

For more information contact your Relationship Executive or Global Markets Specialist on **1800 633 957**.

Important Information

This is a sophisticated financial product which involves dealing in agricultural derivatives.

The information in this brochure does not take into account your personal objectives, financial situation and needs. Before applying for this product or entering into any swap transaction you should be satisfied that such product is suitable for you in view of those objectives, and your financial situation and needs. We recommend that you consult your investment adviser or obtain other independent advice. Unless you are familiar with agricultural derivative dealings and products of this type, the product may not be suitable for you.

The case study in this flyer is for illustrative purposes only and is intended to demonstrate how Collateral Margining for Agricultural Swaps operates. The case study is not meant to provide a projected outcome or forecast of any swap transaction. Identifying features and names used are fictional and do not reflect any particular person.

Applications for Collateral Margining for Agricultural Swaps are subject to approval and conditions apply. Financial Markets' products contain an element of risk: the level of risk varies depending on the product's specific attributes and how it is used. The Bank will enter into transactions on the understanding that the customer has: made their own independent decision to enter into the transaction; determined that the transaction is appropriate; ensured they have the capacity to evaluate and understand the terms, conditions and risks, and is not relying on any communication from the Bank as advice.

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