

## Technical Information Circular # 9

### COMMODITY FUTURES TRANSACTIONS

#### General Information

Commodity futures market transactions (including options and forward contracts) are considered allowable income and/or expenses to the extent that these transactions are used as a hedging strategy. To demonstrate that the futures market transactions are eligible, the participant may be required to demonstrate through a written summary of their futures market strategy and brokerage statements recording their futures transactions for the years in question that:

- The futures transactions are for hedging and not for speculative purposes;
- The futures transactions were undertaken in currencies relevant to the market;
- The futures transactions were undertaken in currencies, or in commodities produced and/or consumed on the participant's farm (e.g. a participant that does not grow or feed grain could not include wheat futures transactions as an eligible income and/or expense);
- The futures transactions represent a volume of product that could reasonably be produced and/or consumed on the farm (e.g. a participant that grows 500 acres of canola, but undertook futures transactions equivalent to 1,000 acres of canola, could not include those transactions in excess of what was produced on the farm);
- The allowable portion of foreign currency futures transactions is limited to the amount of gross farm revenues and/or relevant farm inputs (i.e. feed) and may be limited to transactions in those currencies of the participant's export market (this is typically limited to US Dollar currency futures); and
- Unrealized gains or losses from open hedging positions at the participant's year-end should not be included in income or losses for purposes of calculating Program Benefits.

Allowable transaction costs include, but are not limited to, purchase and sales of futures contracts, penalties for buying out forward contracts and premiums for options.

An Administrator may consider a highly correlated market as a proxy to hedge risk for a commodity where no direct market for hedging exists or where the market is thinly traded.

Futures transactions may be considered speculation if a participant continues to hold their futures position after the sale of their commodity in the cash market.

- See section 4.3.8 Commodity Futures in the Sustainable Canadian Agricultural Partnership - AgriStability Program Guidelines.