

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 substantiate that:

- The futures transactions are for hedging and not speculative purposes;
- 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 either be reasonably produced and/or consumed on the farm, or would be considered a proxy for that commodity (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);
- 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.

The AgriStability Program Administration may require documentation from the participant to support the treatment of the commodity futures transactions. This would include but is not limited to, copies of all contracts including dates that the contracts were opened and closed.

- See 4.3.7 or page 26 in the Canadian Agricultural Partnership Guidelines