



Australian Government
Wheat Exports Australia

WHEAT POOLS: THE QUESTIONS YOU NEED TO ASK



Pools manage a large volume of wheat each year and are an important feature of Australia's wheat marketing landscape.

In 2010, there are a large number of pool providers all vying for grower's grain. Before you commit to a provider there are a number of things you need to consider and questions you need to ask a prospective pool manager.

Although a grower delivers a commodity to a pool, a financial commitment is established.

Would you invest with a super fund, bank or other financial institution without asking questions, doing research or seeking external advice? You should do the same with the marketing of your grain.

Growers need to be aware that they are typically an unsecured creditor. Hence if the company offering the pool fails, you will rank below a range of other creditors before getting paid.

With the liberalisation of the bulk wheat export market the number and type of pools has expanded. Pools are now managed in various ways, offer different payment streams and are operated over varying time periods.

Note: It is not intended that the following list of questions is exhaustive, or that all questions will be relevant in all circumstances. It is critical that growers understand how pools are managed and that the pool price is not limited on a rising market although it should be protected from a falling market. Growers need to understand the costs associated with this management.

Ask your pool manager if he or she provides the type of information typically found in a "product disclosure statement" as issued in the financial services industry. If not, what written information is provided?

Listed below are some questions a grower might like to ask a pool manager to understand the features and risks associated with a particular pool.

1. Does the company offering a pool hold a Financial Services Licence?

- If so, are the individuals operating the pool registered representatives under that Financial Services Licence?
- Is the pool management team and company representative remunerated - via a flat salary or performance based?

2. What is the strategy of the pool?

For example:

- Fixed tonnage?
- Area pool?
- Daily pool?
- Are the risks hedged? If so, which risks? Commodity price? Foreign exchange? Other?
- What risk management tools are used? Futures, options and swaps for the commodity and/or the foreign exchange rate?
- Average price over the life of the pool?
- Offer of early commitment incentives?
- Guaranteed minimum price?

3. What are the key features of the pool?

For example:

- Are harvest loans available?

4. What are the risks of early commitment to a pool?

For example:

- If I have a crop failure what are the cancellation or rollover options?
- What fees (if any) are associated with this eventuality?

5. What are the costs of committing wheat to the pool?

For example:

- Management fees
- Other fees

6. Are management fees charged:

- At a flat rate?
- Performance based? If performance based, what is the benchmark and does the pool manager share any downside risk?



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7. Does the pool have a cooling off period after committing wheat to the pool?

8. What is the distribution schedule of pool payments?

- If there are distribution payment options, can I change my choice during the life of the pool?
- Are there any costs associated with changing my option?

9. What are the taxation implications surrounding pool payments?

- Can I elect to delay distributions to a future financial year?
- If so, by what date would I need to make that election?

10. Is the pool externally audited?

- If so, is the auditor's report available to pool participants?

11. What are my rights and obligations in committing wheat to the pool?

12. How are potential conflicts of interest managed?

13. What are your complaint handling procedures?

14. Is there separation maintained between individual pools (wheat, canola etc), individual grades within pools and cash purchases from growers or the trade?

15. Is the trade permitted to deliver to your wheat pools?

16. If a pool purchases wheat for cash how does this affect pool equity?

17. Do you provide fixed grade spreads? If so, how do you protect these fixed spreads?

18. Do you forward contract deliveries to your pools?

- How is a price determined?
- Is the price protected? If so, by what means, futures, options, swaps or forward sales?

19. How are sales made?

For example:

- On a fixed schedule throughout the life of the pool?

20. If early commitment premiums are paid, how are these premiums extracted from the market?

21. When the Pool becomes cash positive during the period between distributions, how are these funds invested and what are the policies and procedures surrounding these investments?

- Who benefits from any investment earnings?

22. When grain is delivered into your pool(s), who is the beneficial owner of the Grain?

- What policies and processes are employed to ensure the equity of the pooled grain is separated from the rest of the business.

23. Are fees and costs charged to each pool :

- Transparent?
- Are they competitive with those available in the market?
- Have they been benchmarked to market rates?
- Does the pool allow contestability of service delivery?

24. Do all benefits and costs of a pool accrue only to participants of that pool?

- How are costs borne by the company, but not directly relevant to the pool quarantined from the pool?

More information

There is not a great deal of independent information available in relation to pools. One source is the Kondinin Group that recently released a Western Australian Wheat pools performance comparison which is available on their website.

In addition, there are a number of grain marketing consultants who can provide specialist advice to growers on implementing an effective grain marketing strategy for your business.

Further information

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