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agribusiness



# AGRICULTURAL SWAPS AND OPTIONS

**Product Disclosure Statement**

Dated 21 June 2019

Issuer: National Australia Bank Limited ABN 12 004 044 937, AFSL and Credit Licence 230686

# IMPORTANT INFORMATION

## Issuer and contact details

This Product Disclosure Statement (PDS) is issued by **National Australia Bank Limited ABN 12 004 044 937, Australian Financial Services Licence (AFSL) 230686 (NAB)** and is dated 21/06/2019. It provides important information about the Products and should be read before making a decision to enter into these Transactions. More information can be obtained by calling NAB on **13 10 12**, speaking to your NAB market's specialist on 1800 307 827 or speaking to your banker.

## Updated information

The information in this PDS is subject to change. If the change relates to an increase in fees or charges or is otherwise adverse to you, NAB will notify you by publishing an updated or supplementary PDS no less than 30 days before the change takes effect, otherwise, NAB will notify you of changes as soon as practicable. Please check NAB's website regularly, and before entering into a contract, for the latest PDS.

Whenever an updated PDS is published we will tell you by giving you written notice with information about the changes. We may give a shorter period of notice, or no notice, if we believe that doing so is necessary for us to avoid or reduce a material increase in our credit risk or our loss, subject to our legal obligations.

You can also access the latest version of this PDS, or request a free paper copy by calling NAB on 13 10 12, speaking to your NAB markets' specialist or your banker.

## Australian distribution only

This PDS is intended for distribution in Australia only. Anyone who comes into possession of this PDS, who is not in Australia, may be restricted by local law, and should seek advice.

## General information only

The information set out in this document is general in nature. By providing this PDS, NAB does not intend to provide financial advice or any financial recommendations. It has been prepared without taking into account your objectives, financial situation or needs. The Products are sophisticated financial products and may not be appropriate for you if you are not familiar with commodity swap products and the manner in which put and call options work.

Before acting on this information, you should consider its appropriateness, having regard to your objectives, financial situation and needs. You should carefully read and consider all of the information in this PDS and seek independent expert financial, legal and tax advice before making a decision about whether or not a Product is suitable for you.

In particular, NAB recommends that you utilise the services of a licensed commodity markets adviser when considering the use of Products in this document. NAB does not recommend any particular adviser but can supply you with the contact details for a number of licensed commodity market advisers.

## Privacy policy

We'll collect your personal information from you directly whenever we can, for example when you fill out a form with us, when you've given us a call, used our websites (including via cookies) or mobile applications or dropped into one of our branches or used our online or mobile banking services (including collection of information about your use of technology when you access these services, such as location data and information about how you use your devices) (see our Cookies Policy [www.nab.com.au/cookies](http://www.nab.com.au/cookies) for more information). Sometimes we collect your personal information from third parties. You may not be aware that we have done so. If we collect information that can be used to identify you, we will take reasonable steps to notify you of that collection.

For more information about how NAB collects, uses, shares and handles your personal information see our Privacy Policy at [www.nab.com.au/privacy](http://www.nab.com.au/privacy) and Privacy Notification at **nab privacy notification**. Information in these documents includes how you can:

- access and correct your information;
- make a complaint about how we manage your information; and
- view the overseas locations NAB discloses personal information to.

You can ask us for a paper copy of these documents at any time by calling **13 10 12**.

## Telephone recording

Please note calls to or from your NAB markets specialist and settlement and confirmations departments are recorded. This is standard market practice to ensure we have complete records of the details of the Transaction which can be used if there is a dispute, and for staff training and monitoring purposes. If you wish not to be recorded, you will need to advise your NAB markets specialist, however we will not enter into any Transaction over the telephone unless it is recorded.

## Banking Code of Practice (Banking Code)

The Banking Code applies to NAB's relationship with you if you are an individual or a small business referred to in the Banking Code.

You can obtain from us, on request:

- information on our current rates and standard fees and charges relating to these Products;
- general descriptive information concerning our banking services (including about cheques, account opening procedures, bank cheques, our confidentiality obligations and complaint handling procedures) and concerning the importance of reading the terms and conditions for each banking service we provide to you and informing us promptly when you are in financial difficulty;
- general descriptive information about the identification requirements of the Anti-Money Laundering & Counter Terrorism Financing Act 2006 (Cth) (**AML/CTF Act**) and the options available to you under the tax file number legislation; and
- a copy of the Banking Code.

To find out more about the Banking Code, visit [nab.com.au](http://nab.com.au) and look up “Banking Code”.

### **Anti-Money Laundering and Counter Terrorism Financing**

In accordance with NAB’s obligations under the AML/CTF Act, we may require you to provide additional information, or to verify information relating to your identity or your transaction(s) at any time. We may be required to block or suspend your account without notice, or to provide transaction and identification information to regulators or other parties.

### **Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)**

We are required to collect information about your tax residency status, including whether you are a US citizen or resident for US tax purposes, and other relevant information to determine your reporting status under the FATCA and the CRS rules. If you identify yourself as a foreign resident for tax purposes (including a US citizen or tax resident), your account information may be reported to the relevant tax authorities. You are required to inform us of any changes to your tax residency status within 30 days of such change.

### **Cooling off period**

There is no cooling off period after entering into Transactions.

Transactions may be cancelled, terminated early, or varied and may be subject to the risk that additional costs may be incurred which can be detailed at the time.

Cancellation, early termination or other variations of a Transaction are at NAB’s discretion. See ‘Varying or Terminating a Transaction’ on page 31 for more information.

### **Defined terms**

Capitalised words and expressions are defined in the Glossary section of this PDS.

### **Examples**

Examples in this PDS are used for illustrative purposes only and do not reflect current prices, outcomes, forecasts or predictions.

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# KEY INFORMATION

Key information	
<b>Products</b>	<p>NAB offers these agricultural Products:</p> <ul style="list-style-type: none"> <li>• Swaps; and</li> <li>• Options, which may be caps, floors or collars and combinations of the three.</li> </ul>
<b>Main purpose</b>	<p>These Products are designed to help manage existing commercial risks associated with exposure to adverse movements in the prices you receive and pay for agricultural commodities. These products are suitable when movements in the price of a commodity have a correlation with movements in reference futures exchange prices and, if applicable, foreign exchange rates. They are not designed for speculative purposes.</p>
<b>Suitability</b>	<p>The Products may only be suitable if you have a good understanding of commodity markets and how options work. The Products may be suitable for producers and consumers of selected agricultural commodities who purchase, sell or hold selected commodities denominated either in AUD or a foreign currency, or businesses with exposures to selected agricultural commodity price movements. They may assist in protecting you against the financial impact of adverse commodity price and currency movements. This is a general statement only, and NAB recommends that you obtain your own advice before determining whether this Product is suitable to your specific needs.</p>
<b>Significant benefits and features</b>	<p><b>Benefits</b></p> <p>The Products may provide greater liquidity for producers and consumers when managing their price risk than the underlying market for the physical commodity they are producing or consuming.</p> <p>Options may enable you to participate in some of the benefits from favourable movements in commodity prices.</p> <p>Options can reduce your exposure to adverse price movements where production or consumption is contingent or uncertain.</p> <p><b>Features</b></p> <p>Swaps have an agreed Fixed Swap Price, Quantity, Maturity Date and Settlement Date and Options have an agreed Strike Price, Quantity, Maturity Date and Settlement Date. These are <b>some of the</b> key determinants of the Premium you pay for Options and the effectiveness of Transactions in providing you with protection against adverse commodity price and currency price movements.</p> <p>The terms of the Transaction may vary depending on your requirements, and at NAB's discretion. See 'Varying or Terminating a Transaction' on page 31 for more information.</p>
<b>Significant risks</b>	<p><b>No Benefit</b> - With regards to Options, you may receive no benefit from paying the Premium if the Option is not exercised or is terminated, or the amount of the Premium that you pay may be greater than the value of the benefit obtained under the Option.</p> <p><b>No Cooling Off</b> – you are locked into the Transaction.</p> <p><b>Basis Risk</b> – The floating Commodity Reference Price used in settlement of the Products may not perfectly correlate with the price at which you are able to transact in the underlying commodity. The Products may expose you to the risk of an adverse move in your Swaps and/or Option position, and your underlying physical position. Matching your sale or purchase of the physical commodity on the date coinciding with the Settlement Date of your Swap or Option may reduce your basis risk, though it will not eliminate it completely.</p>

Key information													
<b>Significant risks</b>	<p><b>Production and Consumption Risk</b> - You will continue to bear production or consumption risk. This is the risk of loss arising from not being able to produce for sale, or purchase to consume, a physical amount of agricultural commodity equivalent to the quantity and quality for which you entered into the Swap or Option.</p> <p><b>Movements in commodity prices</b> can result in the agreed Fixed Swap Price or Strike Price being more expensive or of less value to you, compared to the commodity prices quoted on the relevant commodity futures exchange at the Settlement Date. For buyers of Options your risk is mainly limited to the loss of the Premium you pay for the Option. For collar Transactions you will have similar risks to those for Swaps. This will reduce your ability to participate in favourable commodity price movements.</p> <p><b>Currency Risk:</b> where the Transaction is not denominated in AUD you may be exposed to currency risk.</p> <p><b>Liquidity Risk</b> – the risk of receiving a less favourable price due to poor market liquidity.</p> <p><b>Counterparty Risk</b> – you are exposed to the risk of NAB defaulting on its obligations under a Transaction with you.</p> <p><b>Varying or Cancellation</b> - varying or cancelling a Transaction may result in you incurring additional costs. See ‘Varying or Terminating a Transaction’ section on page 31.</p> <p>See ‘Significant Risks’ on page 20 for further information on significant risks.</p>												
<b>Minimum Transaction Amount</b>	<table border="1"> <thead> <tr> <th>Commodity</th> <th>Minimum Transaction Amount / Quantity</th> </tr> </thead> <tbody> <tr> <td>Soybean</td> <td>100 metric tonnes</td> </tr> <tr> <td>Barley, Canola, Corn, Rapeseed, Soybean Meal, Sugar and Wheat</td> <td>50 metric tonnes</td> </tr> <tr> <td>Soybean Oil</td> <td>25 metric tonnes</td> </tr> <tr> <td>Coffee</td> <td>10 metric tonnes</td> </tr> <tr> <td>Cotton</td> <td>25,000 pounds/ 50 bales</td> </tr> </tbody> </table>	Commodity	Minimum Transaction Amount / Quantity	Soybean	100 metric tonnes	Barley, Canola, Corn, Rapeseed, Soybean Meal, Sugar and Wheat	50 metric tonnes	Soybean Oil	25 metric tonnes	Coffee	10 metric tonnes	Cotton	25,000 pounds/ 50 bales
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<b>Term</b>	<p>2 weeks to 5 years</p> <p>The maximum term of the Products varies depending on the Product and the commodity. See ‘What are the limitations on term?’ on page 11.</p>												
<b>Transaction cost</b>	<p>The cost of:</p> <ul style="list-style-type: none"> <li>• a Swap is quoted to you as a Fixed Swap Price; and</li> <li>• an Option is quoted to you as a Premium, paid in AUD or in a selected and available currency.</li> </ul> <p>You must pay NAB the Premium on the Premium Payment Date.</p> <p>The Premium paid for Options may at times be embedded into a less favourable Swap Price, rather than an upfront Premium.</p> <p>The price NAB quotes to you incorporates a market derived price for the relevant Product (and, if applicable, a market derived foreign exchange rate) plus or minus an adjustment to compensate NAB for its costs and its profit. These costs are explained in more detail in the section entitled ‘Transaction Cost’ on page 13.</p>												
<b>Important note</b>	<p>The Products should only be entered into if their use is consistent with your risk management strategy and financial circumstances. They are not suitable for speculative purposes. It is your responsibility to monitor any risks associated with your Transactions.</p>												

# PRODUCT DESCRIPTION

## Swaps

### What are Swaps?

A Swap is an agreement between you and NAB that fixes the price you receive, or pay, for an agreed Quantity of a commodity, on the Maturity Date. On the Maturity Date the Fixed Swap Price is compared to a Commodity Reference Price that is determined by reference to a specific Reference Futures Exchange for the relevant Contract Month. If the Commodity Reference Price is quoted in a foreign currency it will be converted to the currency of the Fixed Swap Price.

If you are a producer of a commodity and your intention is to manage the risk of a price fall using a Swap, you and NAB agree that if on the Maturity Date:

- the Fixed Swap Price is greater than the Commodity Reference Price, then NAB will pay the Cash Settlement Amount to you on the Settlement Date;
- the Fixed Swap Price is less than the Commodity Reference Price, then you will pay NAB the Cash Settlement Amount on the Settlement Date; or
- the Fixed Swap Price is equal to the Commodity Reference Price, no amount is payable between the parties.

If you are a consumer of a commodity and your intention is to manage the risk of a price rise using a Swap, you and NAB agree that if on the Maturity Date:

- the Fixed Swap Price is less than the Commodity Reference Price, then NAB will pay you the Cash Settlement Amount on the Settlement Date;
- the Fixed Swap Price is greater than the Commodity Reference Price, then you will pay NAB the Cash Settlement Amount on the Settlement Date; or
- the Fixed Swap Price is equal to the Commodity Reference Price, no amount is payable between the parties.

### What is the Cash Settlement Amount?

The Cash Settlement Amount is the amount calculated as the difference between:

- the total price of the agreed Quantity at the Fixed Swap Price; and
- the total price of the agreed Quantity at the Commodity Reference Price at the close of trading on the Reference Futures Exchange for the relevant Contract Month on the Maturity Date.

The example on page 17 illustrates the operation of a Swap transaction.

### What is the Commodity Reference Price?

The Commodity Reference Price is a floating price that is based on the prices quoted on a Reference Futures Exchange for the relevant commodity and converted into the currency of the Fixed Swap Price.

On some Reference Futures Exchanges there may be more than one futures market for the relevant commodity. As an example, in Australia, the Australian Stock Exchange has futures markets for both Australian Milling Wheat and Western Australian Wheat.

Each Swap has a number of contracts (Contract Months) for each commodity that can be used as a Commodity Reference Price. The Commodity Reference Price can be either:

- the official cash settlement price for a Contract Month for a given date, published by the relevant Reference Futures Exchange; or
- the average of the official cash settlement prices for a Contract Month for an agreed period. This is known as an **average price swap (Average Price Swap)**.

Refer to page 10 for more information on the Commodity Reference Price and how Commodity Reference Prices denominated in a foreign exchange are converted into AUD.

### When is a substitute for the Commodity Reference Price used?

Some Reference Futures Exchanges have price limits on their futures markets which cap the allowable daily price movement. When daily price limit caps are triggered, a Commodity Reference Price may be published but it is not reflective of where the futures price would be if the daily limit was not in effect. In these circumstances the Reference Futures Exchange may publish a replacement price. NAB will use the published replacement price as a substitute for the Commodity Reference Price. If a published replacement price is not available NAB will determine a substitute for the Commodity Reference Price using an approach for futures contracts which is market standard and commercially reasonable. There may also be instances of market disruption and a Commodity Reference Price is not available. In these instances NAB will also determine a substitute price consistent with the commonly used approach for that contract.

## Options

### What are Options?

An Option is an agreement between you and NAB that gives you the right, but not the obligation, to buy or sell a Quantity of the commodity at the Strike Price on the Maturity Date. In return, you must pay NAB a Premium.

Options allow you to achieve an agreed maximum or an agreed minimum price for a Quantity of an agricultural commodity on the Maturity Date.

Options are written as caps, floors or collars or combinations of these.

NAB only offers European Options. European Options are a style of option that can only be exercised on its Maturity Date.

### Caps

If you are a consumer and your intention is to manage the risk of a price rise, you may use a cap.

A cap allows you to set a maximum price (the Strike Price) on the Maturity Date for an agreed Quantity of a commodity that you will pay, while also allowing you to participate in price falls below the Strike Price.

On the Maturity Date, if:

- the Commodity Reference Price is above the Strike Price, NAB will pay you the Cash Settlement Amount on the Settlement Date; or
- the Commodity Reference Price is the same or less than the Strike Price, no Cash Settlement Amount is payable by either party.

For a cap, the Cash Settlement Amount is the amount by which the Commodity Reference Price exceeds the Strike Price, multiplied by the agreed Quantity.

### Floors

If you are a producer and your intention is to manage the risk of a price fall, you may use a floor.

A floor allows you to set a minimum price (the Strike Price) on the Maturity Date for an agreed Quantity of a commodity, while also allowing you to participate in price rises above the Strike Price.

On the Maturity Date, if:

- the Commodity Reference Price is less than the Strike Price, NAB will pay to you the Cash Settlement Amount; or
- the Commodity Reference Price is the same or more than the Strike Price, no Cash Settlement Amount is payable by either party.

For a floor, the Cash Settlement Amount is the amount by which the Strike Price exceeds the Commodity Reference Price, multiplied by the agreed Quantity. The example on page 18 illustrates the operation of a floor.

## Collars

A collar provides you with a known maximum price and minimum price on the Maturity Date for an agreed Quantity of a commodity, while also allowing you to participate in price movements between these two amounts. It therefore has two Strike Prices: the maximum Strike Price and the minimum Strike Price. The effect of a collar is to limit the risk of an adverse change in the price of your commodity exposure, at the cost of limiting the benefit of a favourable change.

If you are a consumer and your intention is to manage the risk of a price rise, if on the Maturity Date:

- the Commodity Reference Price is above the maximum Strike Price, NAB will pay to you the Cash Settlement Amount. The Cash Settlement Amount in this case is the amount by which the Commodity Reference Price exceeds the maximum Strike Price, multiplied by the agreed Quantity;
- the Commodity Reference Price is below the minimum Strike Price, you must pay to NAB the Cash Settlement Amount. The Cash Settlement Amount in this case is the amount by which the Commodity Reference Price is less than the minimum Strike Price multiplied by the agreed Quantity; or
- the Commodity Reference Price is below the maximum Strike Price and above the minimum Strike Price, no amount is payable by either party.

If you are a producer and your intention is to manage the risk of a price fall, if, on the Maturity Date:

- the Commodity Reference Price is below the minimum Strike Price, NAB will pay to you the Cash Settlement Amount. The Cash Settlement Amount in this case is the amount by which the Commodity Reference Price is less than the minimum Strike Price multiplied by the agreed Quantity;
- the Commodity Reference Price is above the maximum Strike Price, you must pay to NAB the Cash Settlement Amount. The Cash Settlement Amount in this case is the amount by which the Commodity Reference Price exceeds the maximum Strike Price, multiplied by the agreed Quantity; or
- the Commodity Reference Price is below the maximum Strike Price and above the minimum Strike Price, no amount is payable by either party.

The example on page 19 illustrates the operation of a collar. The Premium for a collar may be as low as zero dollars.



### **When must I pay the Premium?**

The Premium is payable on a date, or dates, agreed between you and NAB (Premium Payment Date). It may be paid in a single payment or in instalments, usually in advance. Sometimes the Premium will be embedded into an overall, zero cost structure. In this case the cost of the Premium is reflected through a less favourable Strike Price.

However, if you have not previously paid the Premium to NAB, you must pay the Premium on the Settlement Date. If the Cash Settlement Amount is payable by NAB to you, NAB will subtract the amount of the Premium from the amount of the Cash Settlement Amount that NAB pays to you (the '**Net Cash Settlement Amount**').

If the Net Cash Settlement Amount is a positive number, NAB will pay the Net Cash Settlement Amount to you; if the Net Cash Settlement Amount is a negative number, you will pay the absolute value of the Net Cash Settlement Amount to NAB.

The Premium must be paid in the currency that was agreed between you and NAB.

### **What is the Commodity Reference Price?**

The Commodity Reference Price is a floating price that is based on the prices quoted on a Reference Futures Exchange for the relevant commodity and converted into the currency of the Strike Price.

On some Reference Futures Exchanges there may be more than one futures market for the relevant commodity. As an example, in Australia, the Australian Stock Exchange has futures markets for both Australian Milling Wheat and Western Australian Wheat.

Each Option has a number of contracts (Contract Months) for each commodity that can be used as a Commodity Reference Price. The Commodity Reference Price can be either:

- the official cash settlement price for a Contract Month for a given date, published by the relevant Reference Futures Exchange; or
- the average of the official cash settlement prices for a Contract Month for an agreed period. This is known as an average price option (**Average Price Option**).

Refer to page 10 for more information on the Commodity Reference Price and how Commodity Reference Prices denominated in a foreign exchange are converted into AUD.

### **How are Strike Prices set?**

Strike Prices for Option Transactions are set by you at the level of commodity protection you require and with regard to the amount of Premium you are prepared to pay.

# GENERAL INFORMATION ON SWAPS AND OPTIONS

## What is the Maturity Date?

The Maturity Date is the date on which a Transaction ends and the date on which the Commodity Reference Price is determined.

## What is the Settlement Date?

The Settlement Date is the date on which it is agreed that the Cash Settlement Amount will be paid. The Settlement Date is stated in the Confirmation given to you at the beginning of the Transaction. It is usually 2 Business Days after the Maturity Date, but NAB may agree to an earlier or later date.

## How are Commodity Reference Prices denominated in a foreign currency converted into AUD?

For Commodity Reference Prices quoted in USD, the exchange rate used to determine the Cash Settlement Amount for an AUD denominated Swap or Option is the WM/Reuters Australian Fix 10:00 AM (**the Fix**). The Fix is displayed daily on the Reuters Page WM at around 10 a.m. Eastern Standard Time on the first Business Day after the Maturity Date.

For Average Price Swaps and Average Price Options, the following two currency exchange methods can also be used as determined by NAB:

- the average Fix over the averaging period, when used with the average of the official cash settlement price for the period; or
- the Fix for each pricing date when used with the official cash settlement price for each pricing date in the averaging period.

For Commodity Reference Prices quoted in CAD or EUR, the exchange rate is determined by reference to Bank of England Closing Spot Market Rates. The rates are displayed daily on the Reuters Page BOE/EES 4:00pm.

If these rates are not available for any reason the exchange rate is determined by NAB in good faith.

## What are the Reference Futures Exchanges?

The Reference Futures Exchanges used to source Commodity Reference Prices in Swaps and Options are set out below. Not all the exchanges listed below are offered as Reference Futures Exchanges at all times.

Commodity	Reference Futures Exchange
Barley	Australian Stock Exchange
Canola	Intercontinental Exchange
Coffee	Intercontinental Exchange
Corn	Chicago Mercantile Exchange
Cotton	Intercontinental Exchange
Rapeseed	Euronext.Liffe

Commodity	Reference Futures Exchange
Soybean, Soybean Meal, Soybean Oil	Chicago Board of Trade' as the exchange
Sugar	Intercontinental Exchange Euronext. Liffe
Wheat	Australian Stock Exchange Chicago Mercantile Exchange Kansas City Board of Trade Euronext.Liffe Minneapolis Grain Exchange Intercontinental Exchange

## How are commodities quoted on a Reference Futures Exchange?

Commodities are quoted in a variety of ways depending on the commodity and on which Reference Futures Exchange they are quoted. They include: US cents per American pound, US cents per bushel, USD per American pound, CAD per metric tonne, EUR per tonne and AUD per tonne.

Details as to the method by which specific futures contracts are quoted by a Reference Futures Exchange are available from your NAB markets' specialist. Your NAB markets' specialist will also advise how a Swap or Option will be quoted by NAB.

## What commodities are available for Swaps and Options?

At the date of this PDS, the commodities for which NAB will agree to enter into Swaps are: barley, canola, coffee, corn, cotton, rapeseed, soybean, soybean meal, soybean oil, sugar and wheat.

Options are offered for canola, corn, cotton, sugar and wheat. At the date of the PDS, the minimum physical volumes or Quantity for each commodity are set out below:

Commodity	Minimum Transaction Amounts (minimum physical volumes)
Barley	50 metric tonnes
Canola	50 metric tonnes
Coffee	10 metric tonnes
Corn	50 metric tonnes
Cotton	25,000 pounds / 50 bales
Rapeseed	50 metric tonnes
Soybean	100 metric tonnes
Soybean Meal	50 metric tonnes
Soybean Oil	25 metric tonnes
Sugar	50 metric tonnes
Wheat	50 metric tonnes

NAB may vary the Minimum Transaction Amount from time to time.

The current list of available commodities for each Product and information about minimum volumes can be obtained by speaking to your NAB markets' specialist or your banker.

### **Am I required to deliver physical commodities to NAB?**

No. Swaps and Options entered into with NAB are not contracts involving physical delivery. Any contracts you have entered into with other parties for the physical delivery of a specific agricultural commodity are separate from any Swap or Option Transaction you enter into with NAB.

### **What currencies are Swaps and Options denominated in?**

Swaps and Options are usually denominated in AUD. If the Commodity Reference Price is denominated in a foreign currency it will need to be exchanged into AUD on the Maturity Date so that the Cash Settlement Amount can be calculated.

Swaps and Options can also be denominated in the foreign currency of the Commodity Reference Price so that no currency exchange is required. If you enter into a Swap or Option that is not denominated in AUD and you do not have a foreign currency account, you will need to transact a foreign exchange transaction with NAB to convert the amount of foreign currency due to, or payable by you to AUD.

### **What are the limitations on term?**

Swaps usually have a term of 2 weeks up to 5 years as set by NAB, depending on the commodity. Options are usually for a term of up to 2 years.

### **Can the Maturity Date be shortened after the Transaction has been entered into?**

You may request early termination at any time up to the Maturity Date.

Early termination may result in either additional benefits or costs to you dependent on prevailing market conditions at the date of early termination. Refer to the section on Transaction Cost on page 13.

### **Can the Quantity be increased or decreased after the Transaction has been entered into?**

You can reduce the Quantity subject to a Swap or Option by requesting an early termination date for the amount of the commodity you no longer require to be the subject of the Swap or Option. NAB may agree to the reduction in its absolute discretion. If NAB agrees to an early termination you will be quoted a price for cancelling the Quantity you no longer require under the existing Swap or Option Transaction. Refer to the section on Transaction Cost on page 13.

For example a producer may not be able to produce the predicted crop as a result of drought or flood. In a case such as this the producer may wish to consider whether it is necessary to reduce the amount of the Swap or Option to reflect their likely lower production. This can be achieved by a partial early termination transaction. Any unpaid Premium must still be paid on the original Settlement Date.

Similarly if a producer is likely to see above expected production due to favourable conditions, the producer may wish to consider increasing the amount hedged by varying the existing Transaction and/or entering into additional Transactions.

### **Can the currency be varied after the Transaction has been entered into?**

You can vary the currency of the Transaction upon request. NAB may agree to vary the currency in its absolute discretion. For example if the Transaction is denominated in the same foreign currency as the Commodity Reference Price, it can be converted into an AUD denominated Transaction by NAB applying a foreign exchange rate, agreed between you and NAB. If any Premium is still to be paid at the time of conversion then NAB may agree to convert the Premium as well using an agreed foreign exchange rate.

### **Comparison of Options with Swaps**

Swaps can provide protection against adverse movements in commodity prices. However, because a Cash Settlement Amount is paid by a producer to NAB when the Commodity Reference Price rises above the Fixed Swap Price or is paid by a consumer to NAB when the Commodity Reference Price falls below the Fixed Swap Price, all of the benefit from improving commodity prices may be foregone for the Quantity covered by a Swap Transaction having already fixed the price.

In a cap or floor Transaction there is no Cash Settlement Amount paid by the producer or consumer. Accordingly any favourable price movements in the market for their physical commodities will not be offset by any Cash Settlement Amount payable to NAB. Any unpaid Premium will still need to be paid.

There is a significant risk from using Swaps if your production or consumption of a commodity is contingent or uncertain. For example a producer may be hesitant to use a Swap because of uncertain climatic conditions affecting production (expected quality and quantity). A producer may suffer significant cost if commodity prices rise after entering into a Swap and it suffers an unexpected production fall. The use of caps and floors may be more suitable for consideration by both producers and consumers who will have their financial risk from buying a cap or floor limited to the Premium paid. For further information on 'Production / Consumption Risk' see 'Significant Risks' on page 20.

# VARIANTS FROM STANDARD TRANSACTIONS

## Agreements with third parties

A producer may have, or enter into, a physical supply agreement with the buyer of their agricultural commodity.

The producer, the buyer and NAB may enter into a separate agreement which will allow the producer to match a price component in their supply agreement with their buyer with the amounts and Fixed Swap Price agreed with NAB under a Swap.

The availability of this variation is restricted to certain commodities and to selected producers whose buyers have agreed with NAB that NAB will provide this service. Each agreement is subject to its own terms and conditions. Each transaction is subject to approval by NAB.

If such an agreement is entered into, no Cash Settlement Amount with NAB usually occurs on the Settlement Date. Instead the obligations of both the producer and NAB under a Swap become assumed into the supply agreement between the producer and their buyer, provided that both the producer and the buyer meet all of their obligations under the separate agreement they have with NAB and their buyer.

Transactions subject to these agreements must be so designated at the time of entering into the Transaction.

The price you will be paid for your commodity by your buyer is usually based on a formula in your supply agreement.

Entering into the separate agreement with NAB and your buyer will normally not affect the formula used to calculate the price of the physical commodity.

## Order watch

You may utilise a Fixed Swap Price or Strike Price order watch service and a currency variation order watch service.

A Fixed Swap Price order watch is an order you leave with NAB and NAB may accept your order to enter into a Swap at a Fixed Swap Price specified by you for an amount of commodity specified by you. The order must be for at least the current Minimum Transaction Amount set by NAB. A Strike Price order watch involves NAB accepting your order to enter into an Option at an agreed Strike Price(s) for an agreed Premium.

Under a currency variation order watch service, NAB accepts your order to convert all or part of an existing Transaction into, or from, AUD from, or into, USD, CAD or EUR at a foreign exchange rate specified by you. Such an order may not be accepted if the remaining part of an existing Transaction would be less than the prevailing Minimum Transaction Amount.

There are 2 types of orders that NAB will accept:

1. **A take profit order.** A take profit order is an order placed by you with a specified price, Premium or exchange rate which is more favourable to you than the prevailing NAB price. Such an order would be used by you to try to achieve a more favourable Fixed Swap Price, Premium or exchange rate (**Take Profit Order**); and
2. **A stop loss order.** A stop loss order is an order placed by you with a specified price, Premium or exchange rate which is unfavourable to you when compared to prevailing NAB prices. Such an order would be used by you to endeavour to limit unfavourable price movements whilst you wait for a more favourable price or exchange rate. For a producer a stop loss order may be filled by NAB at prices lower than the selected price or exchange rate of the order (**Stop Loss Order**).

NAB cannot guarantee completion of your order at the specified price in illiquid or fast moving markets. Your order may be completed at prices worse than your specified price. Refer to the section 'Order watch risk' on page 21.

All orders are accepted at NAB's sole discretion. Determination as to whether orders have been filled will be solely NAB's decision. Market volatility, illiquidity and NAB's internal processes may prevent NAB from filling orders. NAB will not be liable to you for any inability or failure to fulfil your order. NAB may contact you and advise you that we cannot hold your order open and of the reasons why.

Orders will be in place until filled or until you advise to cancel them.

# TRANSACTION COST

## What is the cost of entering into a Swap?

There is no stand-alone or upfront cost for a Swap. The cost of entering into a Swap is embedded into the Fixed Swap Price quoted to you. NAB will calculate the Fixed Swap Price for each Swap by taking into account the following factors:

- the futures contract prices for the relevant commodity;
- market demand and supply dynamics at the time of determining the Fixed Swap Price;
- the price NAB pays to offset your Transaction;
- your Quantity;
- NAB's calculation of prices for the relevant commodity when there is no equivalent futures contract;
- NAB's compensation for its costs and profit; and
- If the Fixed Swap Price is denominated in a different currency (such as AUD) from the Commodity Reference Price (which is typically denominated in USD, EUR or CAD), the Fixed Swap Price will also incorporate a foreign exchange rate.

A forward exchange rate is incorporated into the Fixed Swap Price if you subsequently change the currency denomination of a Transaction. Additional costs may apply to early terminations. Refer to the paragraph entitled 'Varying or Terminating a Transaction' on page 31 for more details.

There are no stand-alone charges for entering into these Transactions. NAB covers its costs and derives its profit through the adjustment.

## What is the adjustment?

The adjustment covers NAB's transaction costs, compensation for risk and profit. The size of the adjustment varies from customer to customer and from Transaction to Transaction and is influenced by:

- the size of the Transaction and the inability to trade smaller transactions in the interbank market and smaller transactions in the interbank market;
- the frequency and value of Transactions you enter into with NAB;
- market volatility;
- the currency and time zone traded in;
- internal costs and profit margin; and
- other relevant transaction costs (for example specific client service).

## What costs are applicable to early terminations and other variations of Swaps?

Early termination requires you to enter into an offsetting Transaction. The Commodity Reference Price, Fixed Swap Price, and where applicable, a forward exchange rate may be different to those in the original Transaction.

This will result in either payment of a resultant profit to you from NAB or payment of a loss by you to NAB (the **Partial Cash Settlement Amount**), depending on how the Fixed Swap Price and, if appropriate, the foreign exchange rates have moved since the execution of the original Transaction.

The Partial Cash Settlement Amount is to be paid at the original Settlement Date however you may agree with NAB to have immediate settlement calculated at an agreed discount rate. A partial early termination is the same as a full termination except that the remaining balance after early partial termination continues on the same terms and conditions as the original Transaction.

An extension requires you to firstly terminate the original Transaction. You will then enter into a new Transaction for the new term and Maturity Date at a new Fixed Swap Price.

## Examples of calculation of early termination cost for Swaps

The following examples are used for illustrative purposes only and do not reflect current prices or outcomes.

### Producer pays NAB

A wheat producer enters into a Swap position with NAB to sell the equivalent of 1,000 tonnes of wheat at a Fixed Swap Price of AUD300 per tonne. The Reference Futures Exchange is CME.

Subsequently, the producer wishes to terminate this Transaction.

NAB quotes a Fixed Swap Price of AUD344.50 per tonne to terminate this Transaction.

The producer has sold wheat at AUD300 per tonne and now buys it back at AUD344.50 per tonne. The amount payable to NAB by the producer is  $1,000 \times (344.50 - 300) = \text{AUD}44,500$ .

This is payable by the producer on the original Settlement Date.

### **NAB pays Producer**

A wheat producer enters into a Swap position with NAB to sell the equivalent of 1,000 tonnes of wheat at a Fixed Swap Price of AUD300 per tonne. The Reference Futures Exchange is CME.

Subsequently the producer wishes to terminate this Transaction.

If instead the market fell after the producer entered into the Swap, and NAB quotes a Fixed Swap Price of AUD245.50 per tonne to terminate this Transaction, NAB would pay the producer.

The producer has sold wheat at AUD300 per tonne and buys it back at AUD245.50 per tonne. The amount payable to the producer by NAB is  $1000 \times (300 - 245.50) = \text{AUD}54,500$ .

This is payable by NAB on the original Settlement Date.

### **Consumer pays NAB**

A wheat consumer enters into a Swap position with NAB to buy the equivalent of 1,000 tonnes of wheat at a Fixed Swap Price of AUD300 per tonne.

The Reference Futures Exchange is CME.

Subsequently, the consumer wishes to terminate this Transaction.

NAB quotes a Fixed Swap Price of AUD278.50 per tonne to terminate this Transaction.

The consumer has bought wheat at AUD300 per tonne and now sells it back at AUD278.50 per tonne. The amount payable to NAB by the consumer is  $1,000 \times (300 - 278.50) = \text{AUD}21,500$ .

This is payable by the consumer on the original Settlement Date.

### **NAB pays Consumer**

A wheat consumer enters into a Swap position with NAB to buy the equivalent of 1,000 tonnes of wheat at AUD300 per tonne. The Reference Futures Exchange is CME.

Subsequently, the consumer wishes to terminate this Transaction.

NAB quotes a Fixed Swap Price of AUD325.50 per tonne to terminate this Transaction.

The consumer has bought wheat at AUD300 per tonne and now sells it back at AUD325.50 per tonne. The amount payable to the consumer by NAB is  $1000 \times (325.50 - 300.00) = \text{AUD}25,500$ .

This is payable by NAB on the original Settlement Date.

## **What is the cost of entering into an Option?**

In return for NAB selling you a floor, cap, collar or any combination of these, you must pay NAB a non-refundable Premium, which is calculated based on the market price of Options in the currency you are transacting in.

NAB derives its primary financial benefit by making an adjustment to market prices to compensate it for its costs and profit. The size of the adjustment may vary for each customer and each Transaction and is included in the Premium. Refer to the paragraph entitled 'What is the adjustment' page 13 for more details about the adjustment.

### **How is the Premium determined?**

You are required to pay a Premium when entering into an Option. We will determine the Premium for each Option on a Transaction-by-Transaction basis having regard to a number of factors including:

- futures contract prices for the relevant commodity;
- the Maturity Date;
- market demand and supply dynamics at the time of transacting;
- the difference between Strike Price(s) and physical market prices;
- market volatility;
- the level of interest rates;
- the transaction volume;
- the foreign exchange rate for the foreign currencies in which the Strike Price and Commodity Reference Price is expressed;
- NAB's calculation of market prices for the relevant commodity when there is no equivalent futures contract; and
- other markets factors which may present from time to time.

We will provide you with a quote for the Premium for you to consider prior to entering into a Transaction. The quote for the Premium will be given as a dollar amount.

### **What is the relationship between Strike Price and Premium?**

Premiums become more expensive for you the more favourable the Strike Price is to you. This means that (all other things being equal), for consumers, the lower the Strike Price, the higher the Premium will be and for producers, the higher the Strike Price, the higher the Premium will be. The rate at which Premiums move in response to changes in the Strike Price is not even. As you move your Strike Price to less favourable prices in order to reduce your Premium, you will generally be lessening the effectiveness of the Option in providing you with protection against adverse commodity price movements.

### **What costs are applicable to early terminations and other variations for Options?**

If NAB agrees to an early termination, in whole or part, you will be quoted a price for NAB to buy the Option from you, based on prevailing market prices plus or minus NAB's cost of execution. This price may be zero. NAB will pay you this price, but you will still be required to pay any unpaid Premiums.

For collars, early termination may result in you having to make a payment for the value of the second Strike Price to NAB, plus any unpaid Premium. Although a collar may have been purchased with a zero Premium, market conditions at the time of termination may mean that the value to NAB of the maximum Strike Price for a producer, or minimum Strike Price for a consumer, has increased.



# SIGNIFICANT BENEFITS

The benefit of entering into a Swap or Option depends on how the Transaction satisfies your risk management strategy and financial circumstances.

The main benefit is that these Transactions may protect against the financial cost of adverse movements in prices of selected agricultural commodities, and if applicable, the exchange rate of the currencies in which the Transaction is denominated. Purchasing an Option achieves this through fixing a worst case Commodity Reference Price on an agreed future date (the Maturity Date), but at the same time allowing you to benefit from favourable physical commodity price movements. If your physical commodity price moves adversely, the financial loss may be offset in whole or part by receipt of the Cash Settlement Amount.

Swaps and Options are suitable for primary producers and businesses that sell and/or purchase agricultural commodities whose price movements have a correlation to movements in the futures prices. The benefit of the Transaction depends on the degree of correlation between movements in the price of your commodity and movements in the Commodity Reference Price (or AUD equivalent). The extent to which the rate of movement in these prices differs will increase your basis risk, as described on page 20 and illustrated on pages 23-25.

You should be aware that use of these Transactions requires a good understanding of the international and domestic market for the relevant commodity, what drives the physical prices of the commodity and how the product works.

Producers and consumers of agricultural commodities may be able to obtain protection against the effects of adverse movements in commodity prices by entering into long term or forward contracts for the supply or purchase of physical commodities. Swaps and Options commonly have the following features which may make their use more attractive than the use of long term or forward contracts in physical markets. They include:

- Swaps and Options may trade further into the future;
- Swap and Option markets may offer better liquidity than physical markets and thus allow the producer or consumer better priced early termination prices in the occurrence, for example, of a production failure; and
- the key components of the commodity price do not have to be hedged simultaneously if a Swap is used. For example a producer may enter into a Swap denominated in USD. This 'locks in' the Fixed Swap Price in USD only and allows the producer to 'lock in' the AUD price separately at a more suitable time.

The use of Options may offer significant benefit to producers or consumers who are uncertain about the volumes of their underlying physical production or consumption. Refer to page 11 'Comparison of Options with Swaps'.

## Realisation of benefits

The benefits of Swaps and Options are realised at the Maturity Date when either NAB or you are required to pay the Cash Settlement Amount. This can either be the original agreed Maturity Date, early termination Maturity Date or extended Maturity Date.

If you are a producer and you entered into the Swap or Option to manage the receipt of revenues from selling agricultural commodities, you will receive a benefit if the prevailing Commodity Reference Price at the Maturity Date is less than the Fixed Swap Price or Strike Price. To the extent that the Fixed Swap Price or Strike Price exceeds the Commodity Reference Price, a Cash Settlement Amount is paid to you by NAB equivalent to the benefit. If you entered into a collar, the amount of adverse price movement for your physical commodity that will be offset by movements in the Commodity Reference Price may be limited.

If you are a consumer and you entered into the Swap or Option to manage the payments for commodities, you will receive a benefit if the prevailing Commodity Reference Price at the Maturity Date is more than the Fixed Swap Price or Strike Price. To the extent that the Fixed Swap Price or Strike Price is less than the Commodity Reference Price, a Cash Settlement Amount is paid to you by NAB equivalent to the benefit. If you entered into a collar, the amount of adverse price movement for your physical commodity that will be offset by movements in the Commodity Reference Price may be reduced.

The Commodity Reference Price includes the cost of converting the Commodity Reference Price into the same currency as the Fixed Swap Price or Strike Price.



# EXAMPLES ILLUSTRATING REALISATION OF BENEFITS

The following examples are used for illustrative purposes only and do not reflect current prices or outcomes.

## Swaps

The following example illustrates the main uses of Swaps from a producers' viewpoint.

### Scenario

Assume you are an Australian primary producer and you wish to manage the risk of prices falling when you sell 500 tonnes of your commodity in 12 months' time. The current Commodity Reference Price is AUD290 per tonne.

### If you do nothing, what risks do you face?

If you do nothing, the amount of AUD you will receive in 12 months' time will be determined by the market price you receive for your produce.

Assume in this example that in 12 months' time, the Commodity Reference Price is AUD260 per tonne and movements in the physical market price are exactly linked to movements in the Commodity Reference Price. Your returns will be reduced by AUD15,000 (AUD500 x 30).

If, however, the Commodity Reference Price has moved up by AUD30 per tonne to AUD320 per tonne, you will receive an extra AUD15,000.

If movements in the market price for your commodity do not move exactly in line with the Commodity Reference Price, your gains or losses will be greater or lesser than AUD15,000.

### How will a Swap alter this?

If you wish to reduce your exposure to the financial impact of adverse movements in Commodity Reference Prices and enter into a Swap then you will need to ask NAB for a quote based on a Maturity Date of 12 months in the future.

Assume the Fixed Swap Price quoted is AUD290 per tonne in 12 months' time and you have contracted for an amount of 500 tonnes.

### Example 1

On the Maturity Date the Commodity Reference Price is USD180 per tonne and the Fix is 0.7500 AUD/USD exchange rates resulting in a Commodity Reference Price of AUD240 per tonne.

To the extent that the Fixed Swap Price is above the Commodity Reference Price at the Maturity Date, undertaking the Transaction is beneficial. NAB will pay a Cash Settlement Amount of AUD50 per tonne (AUD290-240) multiplied by 500, equalling AUD25,000.

### Example 2

On the Maturity Date the Commodity Reference Price is USD255 per tonne and the Fix is 0.750 cents for AUD/USD exchange rate resulting in a Commodity Reference Price of AUD340 per tonne.

To the extent that the Fixed Swap Price is below the Commodity Reference Price at the Maturity Date, undertaking the Transaction is adverse. You will pay NAB a Cash Settlement Amount of AUD50 per tonne (AUD340-290) multiplied by 500, equalling AUD25,000.

	Example 1	Example 2
<b>Fixed Swap Price in AUD/tonne</b>	290	290
<b>Quantity in tonnes</b>	500	500
<b>Commodity Reference Price in USD/tonne</b>	180	255
<b>Fix</b>	0.750	0.750
<b>Commodity Reference Price in AUD/tonne</b>	240	340
<b>Benefit or (loss) per tonne</b>	50	(50)
<b>Total benefit or (loss) in AUD</b>	25,000	(25,000)

If the underlying sale of the physical commodity achieves the Commodity Reference Price then the effect of the Swap will have been to lock-in a price for your physical commodity of AUD 290 per tonne. Basis risk will move your physical commodity price higher or lower than this. Basis risk is explained on page 20.

# OPTIONS

## Scenario

Assume you are an Australian primary producer and you wish to manage the risk of commodity prices falling when you sell 500 tonnes of your commodity in 12 months' time. The current Commodity Reference Price is AUD330 per tonne.

### If you do nothing, what risks do you face?

If you do nothing, the amount of AUD you will receive in 12 months' time will be determined solely by the market price you receive for your product.

Assume in this example that in 12 months' time the Commodity Reference Price is AUD300 per tonne and movements in your market price are exactly linked to movements in the Commodity Reference Price. Your returns will be reduced by AUD15,000 (AUD 500 x 30).

If, however, the Commodity Reference Price has increased by AUD30 per tonne you will receive an extra AUD15,000.

If movements in the market price for your produce do not move exactly in line with the Commodity Reference Price then your gains or losses will be greater or lesser than AUD15,000.

### How will a Floor alter this?

If you wish to reduce your exposure to the financial impact of adverse movements in the Commodity Reference Price and purchase a floor, then you will need to ask NAB for a quote based on a Maturity Date in at least 12 months' time.

Assume the Strike Price is agreed at AUD300 per tonne, the Maturity Date is in 12 months' time and you have contracted for a Quantity of 500 tonnes, in return for which you pay NAB a Premium of AUD50 per tonne.

## Example 1

If on the Maturity Date the Commodity Reference Price is USD165 per tonne and the Fix is 0.750 cents for AUD/USD exchange rate, then the Commodity Reference Price will be AUD220 per tonne.

To the extent that the Strike Price of AUD300 per tonne is above the Commodity Reference Price of AUD220 per tonne, undertaking the Transaction is beneficial, even allowing for the premium of AUD50 per tonne.

The Cash Settlement Amount of AUD40,000 ((AUD300-220) x 500) will be netted off against the Premium of AUD25,000 (AUD50 x 500), resulting in NAB paying you a total benefit of AUD15,000 (AUD40,000-AUD25,000).

## Example 2

If on the Maturity Date the Commodity Reference Price is USD285 per tonne and the Fix is 0.750 cents for AUD/USD exchange rate, then the Commodity Reference Price will be AUD380 per tonne.

As the Strike Price of AUD300 per tonne is below the Commodity Reference Price of AUD380 per tonne and the Premium of AUD50 per tonne has been paid, undertaking the Transaction is adverse. There will be no Cash Settlement Amount. On a Quantity of 500 tonnes it results in a total cost of AUD25,000 being the Premium paid.

	Example 1	Example 2
Quantity in tonnes	500	500
Premium in AUD/tonne	50	50
Strike Price in AUD/tonne	300	300
Commodity Reference Price in USD/tonne	165	285
Fix	0.750	0.750
Commodity Reference Price in AUD/tonne	220	380
Benefit or (loss) per tonne	30*	(50)**
Total benefit or (loss) in AUD	15,000	(25,000)

\* Benefit is reduced by Premium of AUD50 per tonne.

\*\* Cost is the premium paid

### How will a Collar alter this?

If you wish to reduce your exposure to the financial impact of adverse movements in Commodity Reference Prices and at the same time have the potential to benefit in part from favourable commodity price movements, without having to pay the same Premium you would pay for a Floor, you may purchase a collar. You will need to ask NAB for a quote based on a Maturity Date of at least 12 months in the future.

Assume the minimum Strike Price is AUD300 per tonne, the maximum Strike Price is AUD330 per tonne, the Maturity Date is in 12 months' time, the Premium is zero and you have contracted for a notional quantity of 500 tonnes.

#### Example 1

If on the Maturity Date the Commodity Reference Price is USD165 per tonne and the Fix is 0.750 cents for AUD/USD exchange rate, then the Commodity Reference Price will be AUD220 per tonne.

To the extent the minimum Strike Price of AUD300 per tonne is above the Commodity Reference Price of AUD220 per tonne, undertaking the Transaction is beneficial, inclusive of the zero Premium. NAB will pay you a Cash Settlement Amount of AUD40,000 (AUD300-220 multiplied by 500).

#### Example 2

If on the Maturity Date the Commodity Reference Price is USD240 per tonne and the Fix is 0.750 for AUD/USD exchange rate, then the Commodity Reference Price will be AUD320 per tonne.

Because the minimum Strike Price of AUD300 per tonne is below the Commodity Reference Price of AUD320 per tonne, you will not receive any Cash Settlement Amount from NAB. Furthermore because the maximum Strike Price of AUD330 per tonne is above the Commodity Reference Price of AUD320 per tonne, you will not pay NAB a Cash Settlement Amount. If your physical commodity price has moved up by a similar amount as the Commodity Reference Price then your favourable outcome will not be offset by any payments under the collar.

#### Example 3

If on the Maturity Date the Commodity Reference Price is USD285 per tonne and the Fix is 0.750 cents for AUD/USD exchange rate, then the Commodity Reference Price will be AUD380 per tonne.

Because the minimum Strike Price of AUD300 per tonne is below the Commodity Reference Price of AUD380 per tonne there will be no Cash Settlement Amount paid by NAB to you.

In return for receiving the benefit of a zero Premium you have set a maximum Strike Price of AUD330 per tonne which means you will pay NAB a Cash Settlement Amount of AUD25,000 (AUD380-330 multiplied by 500).

	Example 1	Example 2	Example 3
<b>Quantity in tonnes</b>	500	500	500
<b>Premium in AUD/tonne</b>	nil	nil	nil
<b>Minimum Strike Price in AUD/tonne</b>	300	300	300
<b>Maximum Strike Price in AUD/tonne</b>	330	330	330
<b>Commodity Reference Price in USD/tonne</b>	165	240	285
<b>Fix</b>	0.750	0.750	0.750
<b>Commodity Reference Price in AUD/tonne</b>	220	320	380
<b>Benefit or (loss) per tonne</b>	80	nil	(50)
<b>Total benefit or (loss) in AUD</b>	40,000	nil	(25,000)

# SIGNIFICANT RISKS

## **Basis risk**

Basis risk arises because movements in the Commodity Reference Price do not perfectly correlate to movements in the prices achieved in the actual physical purchase or sale of your underlying agricultural commodities.

The difference in prices can arise from a number of sources such as:

- the grade quality and acceptability of the commodity;
- local supply and demand factors;
- transport costs;
- the impact of exchange rates on supply/purchase contracts negotiated in foreign currencies; and
- other market driven factors.

Any of these factors may result in reductions to any benefits realised under a Transaction. You will need to assess the likely correlation between movements in the Commodity Reference Price and movements in receipts or payments from selling or buying a commodity.

Basis risk will determine the effectiveness of using a Swap or Option. In particular where multiple Reference Futures Exchanges or Contract Months can be used as the Commodity Reference Price you should consider the appropriateness of the Commodity Reference Price you use.

If you enter into an agreement with a third party and NAB, as described on page 12, your buyer may agree to use the Fixed Swap Price for the purposes of calculating your price for an agreed amount of your physical commodity. This will reduce the basis risk you are exposed to.

## **Production/consumption risk**

You bear the risk that you will not be able to produce the quantity and quality or consume the quantity and quality of commodity that you forecast and for which you have entered into a Transaction. For producers, if the Commodity Reference Price is higher than the Fixed Swap Price or Strike Price and the amount produced is less than the notional quantity or of a lesser grade than those in your Swap or Option, the cash benefit you receive from the favourable price movement in your underlying physical transaction may be less than the Cash Settlement Amount or Premium paid in your Swap or Option.

It is important that you closely monitor your underlying physical production or consumption to minimise the above risk. If your underlying physical production or consumption changes either in quantity or quality, you may wish to consider varying or terminating your Swap or Option.

## **Agricultural commodity price risk**

All transactions involve the risk that the Commodity Reference Price on the Maturity Date will be more favourable to you than the Fixed Swap Price or Strike Price at which the Swap or Option is settled. The examples on pages 17-19 demonstrate how this can result in an opportunity cost if you cannot participate at all or in part in a favourable commodity and exchange rate movement occurring during the term of the agreed Transaction.

If you enter into a Swap to help manage the receipt of revenues from selling agricultural commodities, you will not receive a benefit if the Commodity Reference Price on the Maturity Date is higher than the Fixed Swap Price.

This represents an opportunity cost because it does not allow you to fully participate in favourable price movements.

Whether you perceive the opportunity cost to be a risk depends on your reason for entering a Transaction.

If you enter into a Swap to help manage the payments for agricultural commodities, you will not receive a benefit if the Commodity Reference Price on the Maturity Date is less than the Fixed Swap Price.

If you enter into a floor to help manage the receipt of revenues from selling agricultural commodities, you will not receive a benefit if the Commodity Reference Price on the Maturity Date is higher than the Strike Price. You will have paid a Premium to NAB for which you will not receive a direct financial benefit.

If you enter into a cap to help manage the payments for agricultural commodities, you will not receive a benefit if the Commodity Reference Price on the Maturity Date is less than the Strike Price. You will have paid a Premium to NAB for which you will not receive a direct financial benefit.

If you enter into a collar to reduce the Premium payable on a cap or floor, you may be required to make a payment to NAB. This payment will reduce the benefit you may receive from favourable commodity price movements for your underlying physical commodity purchase or sale.

## **Exchange rates risk**

Any transaction in which the Commodity Reference Price is quoted in a foreign currency involves the risk that over time exchange rates move so that the benefits available to you from entering into a Transaction may be reduced or eliminated.

This arises as a result of either of the following scenarios.

### Scenario 1

The examples on pages 17-19 demonstrate that if the Commodity Reference Price is denominated in a foreign currency (usually USD) and the Fixed Swap Price or Strike Price is denominated in AUD, the Cash Settlement Amount to be made or received by you will be affected by the exchange rate at which the Commodity Reference Price is converted into AUD.

If the exchange rate movement has resulted in the AUD rising against the USD or other foreign currency, the Cash Settlement Amount in AUD will be reduced. This will be beneficial if the Cash Settlement Amount is payable by you. However, if the Cash Settlement Amount is to be received by you, it will reduce the amount you receive.

If the exchange rate movement has resulted in the AUD falling against the USD or other foreign currency the Cash Settlement Amount in AUD will be increased. This will be beneficial if the Cash Settlement Amount is to be received by you. However, if the Cash Settlement Amount is payable by you, it will increase the amount you have to pay.

### Scenario 2

If the Commodity Reference Price and the Fixed Swap Price are both denominated in a foreign currency, the subsequent exchange of the Cash Settlement Amount into AUD may be impacted by adverse exchange rate movements.

### Early termination costs

A Transaction may be terminated prior to the Maturity Date either:

- by agreement between you and NAB; or
- in accordance with the Master Agreement.

Where the Transaction may be terminated by agreement between you and NAB prior to its Maturity Date this may result in additional costs to you due to movements in market commodity prices.

Any offsetting agricultural Transactions are subject to movements in commodity prices or foreign exchange rates which may be adverse when compared to the commodity prices or foreign exchange rates on which the original Transaction was based. The costs of terminating a Transaction early are explained on page 31.

### Timing of underlying physical Transaction

The Settlement Date may differ from the date that you need the cash to pay for your underlying physical Transaction. Conversely, you may suffer a delay in the receipt of cash from your underlying physical transaction. This may mean that you will not have the required cash to deliver on the Settlement Date of your Transaction.

### Risk of third party agreements

If you enter into a separate agreement with a buyer and with NAB as described on page 12, you will be exposed to the risk that your buyer may not be able to meet their obligations under the agreement.

### Order watch risk

If NAB fills your order and the Fixed Swap Price, Premium or exchange rate moves to a level that would be more favourable to you than your specified Fixed Swap Price, Premium or exchange rate, you will not receive this more favourable price or exchange rate.

NAB is not obliged to accept an order. If NAB is unable to fill your stop loss order at your specified Fixed Swap Price or exchange rate and there are further price or exchange rate movements unfavourable to you, NAB will fill the order at more unfavourable prices or exchange rates. In such circumstances NAB will endeavour to fill your order at the first available opportunity.

### Payment of Premium

On a floor Transaction you have paid your Premium and may not have received any financial benefit from the Transaction itself.

### Counterparty and credit risk

NAB has operational and financial performance obligations under Transactions. You need to be satisfied as to NAB's creditworthiness and NAB's ability to meet those obligations when due. We are an authorized deposit taking institution regulated by the Australian Prudential Regulation Authority. Our website contains further information about us: <https://www.nab.com.au/>.

### Market Risk

The markets in which NAB trades can be volatile due to a number of factors, including government regulations, political factors and market sentiment. Market risk is the risk that the value of a Transaction will fluctuate as a result of movements in market prices.

### **Liquidity Risk**

The commodity market may be subject to trading limits or restrictions imposed which may have adverse effects on market liquidity. There may be a risk of you receiving a less favourable price due to poor market liquidity.

### **Legal, tax and regulatory risks**

Changes to the law (including tax laws) and regulatory changes may occur during the term of a Transaction, which may have adverse effects. You should seek independent legal and tax advice prior to entering into a Transaction.

### **Country risk**

The markets in which NAB may trade are subject to varying degrees of 'country risk', being the risk of adverse changes in the business, legal or investment environment in a particular country as a result of government action (e.g. governmental control over the economy, nationalisation, expropriation of assets, confiscatory or withholding taxation and controls on investment, repatriation and currency exchange). If you enter into a Transaction there is a risk you will be exposed to such adverse changes.

### **Movements in commodity prices**

Movements in commodity prices can result in the agreed Fixed Swap Price or Strike Price being more expensive or of less value to you, compared to the commodity prices quoted on the relevant commodity futures exchange on the Settlement Date. For buyers of Options your risk is mainly limited to the loss of the Premium you pay for the Option. For collar Transactions you will have similar risks to those for Swaps. This will reduce your ability to participate in favourable commodity price movements.

### **No Cooling Off**

When you enter into a Transaction with us, you are locked into the terms of that Transaction. If your needs change because an underlying commercial transaction is cancelled or substantially altered, you will still need to settle on the Settlement Date (unless we agree otherwise with you) and if you owe a Premium, it must be paid to NAB .

# EXAMPLES ILLUSTRATING REALISATION OF RISKS AND POTENTIAL COSTS

The following examples are used for illustrative purposes only and do not reflect current prices or outcomes.

## Production Risk

The following example illustrates the potential cost for a producer.

### Scenario

You are an Australian primary producer of wheat and you expect to sell 2,000 tonnes of wheat in five months' time. You wish to hedge 75% of anticipated sales of your wheat production in five months' time against fluctuating wheat prices. You enter into a Swap with NAB where you agree to sell 1,500 tonnes of wheat (75% of 2,000 tonnes of wheat) at a Fixed Swap Price of AUD300 per tonne with a Maturity Date in five months' time.

Two months prior to the Maturity Date of the Swap, a severe weather event has impacted the wheat crop. You estimate that you will only produce 25% of your harvest in two months, an amount equivalent to 500 tonnes.

You contact NAB to reduce the commodity amount of the Transaction down to 375 tonnes (represents 75% of 500 tonnes). NAB quotes a Fixed Swap Price of AUD410 per tonne to reduce the commodity amount by 1,125 tonnes (1,500 – 375).

Under the terms of the original Transaction, you have agreed to sell 1,500 tonnes of wheat at AUD300 per tonne and now wish to buy back 1,125 tonnes at AUD410 per tonne. If the Commodity Reference Price on the Maturity Date is AUD260 per tonne, the amount you will pay NAB on the original Settlement Date is calculated as the aggregate of the following:

### Cash Settlement Amount for the remaining quantity after partial termination

NAB will pay you a Cash Settlement Amount of AUD15,000 (AUD300-260 multiplied by 375).

### Cash Settlement Amount for the quantity representing the partial termination amount

You will pay NAB a Cash Settlement Amount of AUD123,750 (AUD410-300 multiplied by 1,125).

### Net Cash Settlement Amount payable to NAB

You will pay NAB a net Cash Settlement Amount of AUD108,750 (123,750-15,000).

Assuming the price you sell your 500 tonnes of your physical wheat is AUD270 per tonne, you will receive AUD135,000.

You will receive AUD26,250 (AUD135,000 – 108,750.00) for your wheat harvest.

## Basis Risk

The following example illustrates the potential cost for a producer on the pricing date.

### Scenario 1 - Basis risk increases over the life of the Swap

#### For a Producer

	Swap	Physical Sale of Commodity
<b>Forward Prices Available</b>	270 (P1)	300 (P2)
<b>Harvest Price Available</b>	220 (P3)	280 (P4)
<b>Potential Benefit or (Benefits forgone)</b>	50	(20)
<b>Swap Final Price in AUD</b>	280 + 50 = 330	
<b>Final Price in AUD</b>	Physical Harvest Price + Swap Gain = Final Forward Price (50 + 280 = 330)	Harvest Physical Price Only (280)

When forward hedging Wheat, the producer has the choice of selling a wheat Swap at AUD270 (P1) or Physical Wheat for Forward delivery at AUD300 (P2).

After selling the Swap at AUD270, at harvest, the Swap will need to be bought back at the prevailing market rate, AUD220 (P3). In this case, at the time when the Swap was bought back it resulted in a swap gain of AUD50. At the same time, the producer will need to sell physical wheat at the available price on the day, AUD280 (P4).

	Price	Gain/Loss
<b>Sell Swap</b>	270	
<b>Buy Swap</b>	-220	50
<b>Sell Physical</b>	280	
<b>Net Price</b>		330

In this example, the producer has gained from an increase in basis. The net price for the wheat was AUD330, compared to the AUD300 physical forward price originally available.

**The basis gain is AUD30 per metric tonne (AUD330 – AUD300) from entering into the Swap.**



### For a Consumer

	Swap	Physical Purchase of Commodity
Forward Prices Available	270 (P1)	300 (P2)
Harvest Price Available	220 (P3)	280 (P4)
Potential Benefit or (Benefits forgone)	(50)	20
Swap Final Price in AUD	280 + 50 = 330	
Final Price in AUD	Physical Harvest Price + Swap Gain = Final Forward Price (50 + 280 = 330)	Physical Price Only 280

When forward hedging Wheat, the consumer has the choice of buying a wheat Swap at AUD270 (P1) or Physical Wheat for Forward delivery at AUD300 (P2).

After buying the Swap at AUD270, the Swap will need to be sold back at the prevailing market rate, AUD220 (P3). In this case, at the time when the Swap was bought back it resulted in a swap loss of AUD50. At the same time, the consumer will need to buy physical wheat at the available price on the day, AUD280 (P4).

	Price	Gain/Loss
Buy Swap	-270	
Sell Swap	+220	- 50
Buy Physical	280	
Net Price		330

In this example, the consumer is disadvantaged from an increase in basis. The net price for the wheat was AUD330, compared to the AUD300 physical forward price originally available.

**The basis loss is AUD30 per metric tonne (AUD330 – AUD300) from entering into the Swap.**

### Scenario 2 -

**Basis risk decreases over the life of the Swap**

### For a Producer

	Swap (AUD/MT)	Physical Sale of Commodity (AUD/MT)	Basis (AUD/MT)
Forward Prices Available in AUD	270 (P1)	300 (P2)	30
Harvest Price Available in AUD	250 (P3)	230 (P4)	20

When forward hedging Wheat, the producer has the choice of selling a Wheat Swap at AUD270 (P1) or Physical Wheat for Forward delivery at AUD300 (P2).

After forward selling the Swap at AUD270, at harvest, the Swap will need to be bought back at the prevailing market rate, AUD250(P3). The Swap gain is AUD20. At the same time, the producer will need to sell physical wheat at the available price on the day, AUD230(P4).

	Price	Gain/Loss
Sell Swap	270	
Buy Swap	-250	20
Sell Physical	230	
Net Price		250

In this example, the producer has suffered a loss from a AUD10 decrease in basis. The net price for the wheat was AUD250, compared to the AUD300 physical forward price originally available.

**The basis lost is AUD50 per metric tonne (AUD300 – AUD250) from entering into a Swap.**



### For a Consumer

	Swap (AUD/MT)	Physical Sale of Commodity (AUD/MT)	Basis (AUD/MT)
Forward Prices Available in AUD	270 (P1)	300 (P2)	30
Harvest Price Available in AUD	250 (P3)	230 (P4)	-20

When forward hedging Wheat, the consumer has the choice of buying a wheat Swap at AUD270 (P1) or Physical Wheat for Forward purchase at AUD300 (P2).

After buying the Swap at AUD270, at harvest, the swap will need to be sold back at the prevailing market rate, AUD250 (P3). The swap loss is AUD20. At the same time, the consumer will need to buy physical wheat at the available price on the day, AUD230 (P4).

	Price	Gain/Loss
Buy Swap	-270	
Sell Swap	+250	-20
Buy Physical	230	
Net Price		250

In this example, the consumer has benefited from an AUD10 decrease in basis. The net price for the wheat was AUD250, compared to the AUD300 physical forward price originally available.

**The basis lost is AUD50 per metric tonne (AUD300 – AUD250) from entering into a Swap.**

# ENTERING INTO A TRANSACTION

## How do I initiate into a transaction?

You can initiate a Transaction by calling your NAB Markets' specialist on 1800 307 827 or our Business Markets desk on 1800 269 973.

The Products are complex financial products and may not be appropriate for you if you are unfamiliar with commodity markets or how these Products work. Before entering into a Transaction, NAB recommends that you obtain independent advice (including financial, legal and tax advice) to ensure that the proposed Transaction and Product meets your objectives and needs and is consistent with your financial circumstances and risk management strategy.

## How are the terms and conditions negotiated?

In addition to the contracts governing the terms and conditions of your Transaction with NAB (see 'Documentation preconditions' below) the terms of a Transaction are usually agreed verbally over the telephone. Once we have reached an agreement, both you and NAB are bound by the terms which have been agreed.

## What are the preconditions for acceptance?

NAB is not obliged to enter into a Transaction with you. Acceptance by NAB of any Transaction is at the discretion of NAB and subject to various credit and documentation preconditions outlined below. NAB does not accept trades for speculative reasons.

You will need to prove to our satisfaction that you have minimum suitability criteria for a Transaction such as an underlying exposure to the relevant commodity and involvement in a business involving the production, purchase, sale, distribution or consumption of the relevant commodity.

You must provide NAB with a 'Statement of Underlying Commodity Exposure' (**SUCE**).

The purpose of the SUCE is to give NAB an indication of the amount of market risk you are exposed to on a particular commodity. We will use this information when considering the hedging facility we may or may not make available to you. In particular, this information will guide NAB on the size of hedge positions which are suitable for your business over a given time frame.

In some circumstances, over hedging your exposure to a particular commodity may result in greater losses than not hedging at all. For your own commercial interests, it is therefore important that the SUCE be completed honestly and with careful consideration of the market risk you are exposed to for each particular commodity.

Providing the SUCE does not signify that we understand your financial position such that it constitutes personal advice. We may require as a further precondition that you receive independent financial and legal advice to determine whether this product is suitable for you.

If you do not use the services of a licensed commodities adviser NAB may require you to sign our 'No-adviser letter' and if you use the services of a licensed commodities adviser NAB may require you to organise the adviser to sign an 'adviser's letter'.

You are also required to provide NAB with information regarding other hedging positions you have in place with other banks or other commodity limits you have in place with other banks.

## Credit preconditions

Before entering into a Transaction, NAB will conduct a credit assessment in accordance with our standard credit requirements. We will advise you of the outcome of this review as soon as possible.

## Documentation preconditions

If we agree to enter into a Transaction, you first need to sign a Master Agreement. If you are a business customer you will also need to provide details as to which of your staff are authorised to deal on your behalf.

The Master Agreement governs your dealing relationship with NAB and sets out the terms and conditions that apply to any Transactions you enter into with NAB. In particular, it describes how Transactions are evidenced, the circumstances in which agreed Transactions can be varied and how agreed Transactions are priced.

The commercial terms for the Transaction will be contained in the Confirmation. The Master Agreement and Confirmation, taken together, comprise your agreement for the Transaction.

You can obtain copies of a Master Agreement from your NAB foreign exchange specialist or banker on request, at no charge. You may also be required to provide NAB with an authority to directly debit a bank account/s to settle any amounts payable by you to NAB as a result of entering into any Transaction with NAB.

You must read the terms and conditions of these documents carefully before entering into any Transaction. You should obtain independent advice (including legal, financial and tax advice) if you do not understand any aspect of the documents.

### **What information is required to enter into a Swap?**

You will need to provide us with the following information:

- whether you wish to enter into a Swap;
- the commodity exposure to be covered;
- the amount of commodity exposure to be covered;
- the Maturity Date;
- the Settlement Date (which is usually 2 Business Days after the Maturity Date);
- the currency in which you require the Fixed Swap Price to be denominated and the currency exchange method to be used;
- the Reference Futures Exchange, futures market and Contract Month to be used to determine the Commodity Reference Price;
- the participation percentage (if applicable);
- if the Transaction is to be an average rate Swap; and
- whether the Transaction is subject to a third party agreement.

NAB may set a maximum physical volume for any Transaction based on your forecast production or consumption of the relevant commodity.

For a producer, the fixed exposure is determined by multiplying the anticipated yield and the area under production. For a consumer, NAB will use the anticipated usage supported by historical requirements.

### **What information is required to enter into an Option?**

You will need to provide us with the following information:

- whether you require a cap, floor or collar;
- the Strike Price(s) you require;
- if a collar is required, the level of Premium you wish to pay for the commodity exposure to be covered;
- the quantity of commodity exposure to be covered;
- the Maturity Date;
- the Settlement Date (which is usually 2 Business Days after the Maturity Date);
- the currency in which you require the Strike Price to be denominated and the currency exchange method to be used;

- the Reference Futures Exchange, futures market and Contract Month to be used to determine the Commodity Reference Price; and if the Transaction is to be an average rate Option.

NAB may set a maximum percentage of forecast exposure that may be fixed with it. This may vary from time to time.

For a producer, the fixed exposure is determined by multiplying the anticipated yield and the area under production. For a consumer, NAB will use the anticipated usage supported by historical requirements.

### **What are the additional requirements for non-AUD denominated Transactions?**

If you enter into a Transaction that is not denominated in AUD, NAB will require details of your foreign currency account that you will be using to settle the transaction. If you do not have a foreign currency account you will need to transact a foreign exchange transaction to convert the amount of foreign currency due to, or payable by, you to AUD.

If you do not have a foreign currency account and you have not transacted a foreign exchange transaction to convert the amount of foreign currency due to, or payable by, you to AUD then NAB will calculate an AUD amount using prevailing market foreign exchange rates determined by NAB in good faith.

### **How do I ensure the executed Transaction agrees with what has been negotiated?**

Shortly after entering into a Transaction NAB will send you a Confirmation outlining the agreed commercial terms of the Transaction (even if you don't receive a Confirmation, the Transaction is still binding).

It is extremely important that you check the Confirmation to make sure that it accurately records the terms agreed by you and NAB. In the case of any error, contact your NAB markets specialist, the NAB confirmations team or your NAB banker immediately.

### **How do I enter into an order watch?**

If you wish to place an order, contact your NAB markets' specialist. Your order will be assumed to be a **Take Profit Order** unless you state otherwise at the time of placing your order.

For a Fixed Swap Price order you will need to inform us of the specified price you require and for a currency variation order you will need to inform us of the currency pair and exchange rate you require.

Your order will remain in place until:

- it can be filled; or
- you cancel the order by notifying NAB; or
- the commodity futures contract expires on the expiration date.

This type of order is known as a 'good till cancelled' order.

If you wish to utilise the order watch service for an Option you will need to inform us of whether you require a Strike Price order and/or currency variation order and whether you require a take profit or stop loss order. Your order will be assumed to be a **Take Profit Order** unless you state otherwise at the time of placing your order.

For a Strike Price order you will need to inform us of the commodity, the amount of Premium you will pay, the Maturity Date, the Strike Price(s) and the commodity futures contract. For a currency variation order you will need to inform us of the currency pair and specified foreign exchange rate you require.

You may place an order with NAB that has a time limit for NAB to fill it in. At the expiry of the time you have given NAB, any unfilled portion of the order will lapse.

You must notify NAB, by phone of your intention to cancel an order. An order cannot be cancelled after NAB has filled it. If the NAB has part filled an order, only the portion unfilled may be cancelled.

NAB is not obliged to accept an order and at any time may only offer the service on some commodities and some currencies that it trades.

NAB will do its best to fill your order, but its ability to fill your order may be limited by prevailing market conditions. Price volatility may be extreme and/or liquidity may be poor, thus preventing NAB from filling an order that may otherwise be filled. NAB will not be liable to you for any inability or failure to fulfil your order. NAB may contact you and advise that it cannot hold your order open and will advise you of the reason why.

# COMPLETING A TRANSACTION

For Options, NAB will determine whether the Option is 'in-the-money' on the Maturity Date. A call option is termed 'in-the-money' when the Commodity Reference Price on the Maturity Date is greater than the Strike Price. A put option is termed 'in-the-money' when the Commodity Reference Price is less than the Strike Price.

If NAB determines an Option is 'in-the-money' on the Maturity Date, NAB will automatically exercise the Option for you and pay you the Cash Settlement Amount on the Settlement Date.

If NAB determines an Option is not 'in-the-money' on the Maturity Date, the Option will automatically expire and NAB will not pay you any Cash Settlement Amount.

For Swaps, we will notify you on the Maturity Date or the following Business Day and advise you of the Commodity Reference Price.

## **How are Transactions settled?**

For Options, if the Transaction has been exercised, the Cash Settlement Amount may be payable on the Settlement Date. If you are required to pay the Cash Settlement Amount to us, you will need to deliver Cleared Funds to NAB either by telegraphic transfer or by transferring funds from a domestic or foreign currency account/deposit as appropriate. If NAB has requested, and obtained from you, authority for NAB to directly debit any bank account held by you, NAB will apply such authority to settle any amount owing by you.

If an amount is payable by NAB to you, NAB will credit an account held in your name upon your instructions.

# NON-PAYMENT OF AMOUNTS OWING

If you do not make a payment to NAB when due, NAB may;

- charge interest on the outstanding amount at a rate of interest described in the Master Agreement; and/or
- terminate early any outstanding Transactions in accordance with the Master Agreement. Any amount payable to you as a result of the early termination will be subtracted from the unpaid amount owing to NAB. Amounts payable by you as a result of early termination will be added to the unpaid amount owing to NAB.

# VARYING OR TERMINATING A TRANSACTION

A Transaction may be terminated prior to the Maturity Date either:

- by agreement between you and NAB; or
- in accordance with the Master Agreement as a consequence of an Event of Default or a Termination Event (each as defined in the Master Agreement).

## Termination or variation of a Transaction by agreement

There is no cooling off period after entering a Transaction and the Premium is not refundable.

If you wish to vary or terminate a Transaction, please contact your NAB markets specialist on 1800 307 827 or call the NAB business markets desk on 1800 269 973. You cannot vary or terminate a Transaction without NAB's agreement.

If at our discretion we agree to your request, we will provide you a quote of the Fixed Swap Price or Strike Price applicable to such termination or variation, as well as any terms and conditions applicable to such termination or variation. If our quote and terms and conditions are acceptable to you, you must notify us of your acceptance, upon which the Transaction will be varied or terminated. Upon your acceptance, we will send you an additional Confirmation.

Our costs for terminating or varying a Transaction may include:

- compensating us for adjusting the risks that we assume under the Transaction (including our arrangements with other parties in the market);
- our internal costs and profit; and
- the cost to reverse or offset the remaining term of the Transaction in the prevailing market conditions.

If you seek to vary or terminate a Transaction and the prevailing market conditions at that time have moved since the Transaction Date, then our costs will reflect that movement. If this movement has been unfavourable, then your costs of varying or terminating the Transaction will be more (all other things being equal). If the movement has been favourable, then your costs of varying or terminating the Transaction will be less (all other things being equal).

## Termination by NAB following an Event of Default or Termination Event

If an Event of Default or a Termination Event (each as defined in the Master Agreement) occurs, NAB may terminate a Transaction prior to its maturity in accordance with the Master Agreement.

In this case, NAB will calculate in good faith the mark-to-market value of the Transaction (using applicable market rates) as chosen by NAB having regard to what it determines to be the value for another party to take over your rights and obligations under the terminated Transaction, had it not been terminated. If the value is expressed as a positive number, you must pay NAB an amount equal to the positive number and if the value is expressed as a negative number, NAB must pay you the an amount equal to the absolute value of the negative number.

If more than one Transaction is terminated, NAB will calculate the sum of the mark-to-market values. If the sum value is expressed as a positive number, you must pay NAB an amount equal to the positive number and if the sum value is expressed as a negative number, NAB must pay you the an amount equal to the absolute value of the negative number.

# OTHER SIGNIFICANT INFORMATION

## Financial Crimes Monitoring

You:

- undertake to provide us with all information and assistance that we request in order to manage our risks relating to money laundering, terrorism-financing or economic and trade sanctions or to comply with any laws or regulations in Australia or any other country;
- acknowledge that we have the right to delay or refuse any request or transaction if we believe that the request or transaction may be in breach of any of our obligations, or cause us to commit or participate in an offence under any law relating to, money laundering, terrorism-financing or economic and trade sanctions and we will have no liability to you or any associated party if we do so;
- agree that we may take any action that we reasonably believe is necessary to comply with any law relating to money laundering, terrorism-financing or economic and trade sanctions, including but not limited to disclosing any information that we hold about you to service providers whether in Australia or outside Australia, or to any relevant Australian or foreign regulator; and
- acknowledge that we may collect information about you from time to time (from you or from third parties) for the purposes of satisfying our obligations under any law relating to money laundering, terrorism-financing or economic and trade sanctions, and that we may use and disclose any such information as required.

## Conflicts Management

Transaction execution may take place through many different channels and with market participants like NAB taking on different roles with regard to that execution. Regardless of their respective roles in executing a transaction, market participants (including NAB and its clients) are expected to behave with integrity and to support the effective functioning of the commodities market. NAB as a market participant may handle a client order in one instance and place an order with other market participants in another.

Commodity traders may have divergent and conflicting interests to those of their counterparties. For example, NAB may from time to time act in several capacities with regard to financial products, such as market maker, calculation agent or hedge provider. Such functions can allow NAB to take different positions to a counterparty, which could raise potential conflicts of interest.

Other parts of NAB may act in different capacities with respect to the counterparty. NAB is obliged under its AFSL to have in place adequate arrangements to manage conflicts of interest that may arise in respect of its financial services business.

## Staff incentives

NAB staff members are salaried employees of NAB and in most cases do not receive any proportion of any fees or commissions paid to NAB or any other company in the NAB group in connection with the Products. Staff members may be entitled to receive additional monetary or non-monetary benefits and/or rewards resulting from participation in programs conducted by NAB.

Monetary benefits or rewards may include an annual bonus, the level of which may depend on the overall performance of the NAB group of companies.

Whether staff members receive any such benefits and rewards depends on a number of balanced performance and behavioural factors, which may include a measure linked to sales of unspecified products and services provided to customers.

Non-monetary benefits or rewards for eligible staff may be provided in the form of recognition points which can be redeemed for products from a regularly updated catalogue which may include items such as film tickets, home appliances, beauty & fashion products and personal experiences. It is not possible to determine at any given time whether a staff member will receive any form of benefit or reward or to quantify them. They are not directly attributable to any particular product or deal that the staff member has given advice on.

## Significant taxation implications

You may be liable for government charges and taxes relating to Transactions described in this PDS. The tax implications of these Transactions can be complex and may vary depending on your individual circumstances. You should discuss your specific taxation circumstances with and obtain advice from your independent tax adviser when considering whether to enter into a transaction.



## **Making a complaint**

We are always trying to improve our customers' experience, but we know things do not always go the way they should. Your feedback about the services you receive from us and our products can help us understand and address issues we otherwise might not know about.

For information about making a complaint or resolving problems or disputes, please contact your NAB business markets specialist on 1800 307 827, your banker or contact NAB markets on 1800 269 973.

If you feel your contact has not resolved the issue, then the next step is to speak to our Customer Resolutions Team. Here's how:

1. Call us:  
Call our dedicated Customer Resolutions Team any time between 8am and 7pm, Monday to Friday (AEST), on 1800 152 015
2. Send us a form online: complete our online feedback form at [nab.com.au](http://nab.com.au), or email us at [feedback@nab.com.au](mailto:feedback@nab.com.au)  
Write to us at:  
General Manager, NAB Resolve Reply Paid 2870  
Melbourne  
VIC 8060

## **Dispute resolution**

If you still feel your concerns have not been resolved to your satisfaction, you can raise your concerns with the independent external dispute resolution provider, the Australian Financial Complaints Authority (AFCA). Of course as a valued customer, we'd much rather try to resolve the issue together first. In fact, AFCA will encourage you to resolve the issue with NAB before they start to investigate.

The Australian Financial Complaints Authority (AFCA) can be contacted at:

Website: [afca.org.au](http://afca.org.au)

Email: [info@afca.org.au](mailto:info@afca.org.au)

Telephone: 1800 931 678 (free call)

In writing to: Australian Financial Complaints Authority,  
GPO Box 3, Melbourne, VIC 3001

AFCA is a new external dispute resolution (EDR) scheme to deal with complaints from consumers. AFCA replaces the three existing EDR schemes of the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and the Superannuation Complaints Tribunal (SCT) so that consumers have access to a single EDR scheme.

## **Labour standards and environmental, social and ethical considerations**

NAB does not take into account labour, environmental, social or ethical standards when entering into a Product under this PDS. To learn more about NAB's commitment to our Corporate Responsibility and to review a copy of our latest sustainability report go to [www.nab.com.au](http://www.nab.com.au).

# GLOSSARY

AUD	AUD
Banking Code	means the Banking Code of Practice, but before 1 July 2019 refers to the Code of Banking Practice (2013 version).
Business Day	a day on which commercial banks are open for general business (including dealings in foreign exchange and commodity derivatives) in each of the financial centres applicable to the currencies transacted or as specified in the Confirmation
CAD	means Canadian Dollars
Cancellation	the effect of entering into one or more offsetting Transactions in order to reverse the effect of the original Transaction
Cash Settlement Amount	In respect to a Swap means the difference between the total price of the agreed Quantity at the Fixed Swap Price and the total price of the agreed Quantity at the Commodity Reference Price  In respect to an Option means the difference between the Strike Price and the Commodity Reference Price, multiplied by the agreed Quantity
Cleared Funds	means funds that are immediately available on settlement
Commodity Reference Price (CRP)	is the price for the relevant commodity determined by reference to the Reference Futures Exchange for the relevant Contract Month on the Maturity Date and converted into the relevant currency of the Transaction
Confirmation	means a letter confirming the terms of a particular Transaction
Contract Month	means the relevant futures contract for the commodity published on the Reference Futures Exchange. This is confirmed as the “Delivery Date” on the Confirmation
EUR	means EURO Dollar
European Option	means a style of Option where the right to exercise is granted on the Expiration Date.
Expiration Time	means the time the Option expires on the Maturity Date as defined in the Confirmation
Fix, the	means the USD/AUD exchange rate expressed as the amount of USD per one AUD which appears on Reuters Screen AUDFIX10H Page at around 10:00 a.m. Sydney time. If the relevant AUDFIX10H Rate is unavailable for any reason, the relevant AUDFIX10H Rate shall be the USD/AUD exchange rate, expressed as the amount of USD per one AUD, as determined in good faith and in a commercially reasonable manner by NAB having regard to comparable rates then available.
Fixed Swap Price	means the agreed fixed price you will pay or receive under the Swap
Master Agreement	Master Agreement for Foreign Exchange and Derivative Transactions or other such agreement as agreed by NAB that governs the Transactions
Maturity Date	Means the date the on which a Transaction ends and the date on which the Commodity Reference Price is determined. This is the “Pricing Date” in the Confirmation
Minimum Transaction Amounts	The minimum quantity or physical volume of the Transaction.
MT	Means metric tonne
NAB/‘us’/‘we’	National Australia Bank Limited ABN 12 004 044 937, AFSL 230686
Option	is an agreement between you and NAB that gives you the right, but not the obligation, to buy or sell a Quantity of a commodity at a fixed price on the Maturity Date
PDS	means Product Disclosure Statement
Premium	means the amount payable on the Premium Payment Date
Premium Payment Date	means the agreed date or dates as set out in the Confirmation on which the Premium is to be paid

Products	means the following agricultural products: Swaps; and Options, which may be caps, floors or collars and combinations of the three.
Quantity	The agreed quantity of the underlying commodity exposure to be covered in a Transaction. This is called the “Notional Quantity” in the Confirmation.
Reference Futures Exchange	means the exchange the futures contract is priced from for that commodity
Settlement Date	the agreed date on which the Cash Settlement Amount is paid. This is confirmed as the “Payment Date” in the Confirmation
Strike Price	the strike price or prices agreed for the Option
Swap	an agreement between you and NAB that fixes the price of an agreed Quantity of the relevant commodity
Transaction	means each agreement between you and NAB to enter into a Product
Transaction Date	the date on which you and NAB enter into a Transaction. This is the “Trade Date” in the Confirmation
US	United States
USD	US Dollar

For more information call

**13 13 12**

8am – 8pm AEST, Monday to Friday  
9am – 6pm AEST, Saturday and Sunday  
or visit us at [nab.com.au](https://www.nab.com.au)



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