

## PRODUCT DISCLOSURE STATEMENT

15 February 2005

# Commodity Broking Services Pty Ltd

AFSL 280372

ABN 32 110 128286

## Commodity Swaps

This Product Disclosure Statement (**PDS**) was prepared on 15 February 2005.

This PDS supplements and should be read together with the Product Disclosure Statement (Foreign Exchange and Commodities) dated 23/03/05 and issued by Commodity Broking Services Pty Ltd. If you receive an electronic copy, you should download or otherwise receive all of this PDS as one document.

You should read all of this PDS before making a decision to deal in financial products covered by this PDS.

The information in this PDS is up to date at the time it was prepared but is subject to change from time to time. If the new information is material to you, we will either issue a new PDS or a supplementary PDS with the new information. If the new information is not material to you, we will not issue a new PDS or a supplementary PDS to you, but you will be able to find the updated information on our website [www.commoditybroking.com.au](http://www.commoditybroking.com.au) or by calling us using the contact details given in the Directory in this document. If you ask us, we will send you a paper copy of the information.

### This PDS

CBS is required to give this PDS because it is deemed to be the issuer of OTC derivatives, including the financial products described in this PDS. The financial products covered by this PDS have special features which might not be specifically already covered by the PDS, so it is issuing this PDS to explain to potential investors the key features and significant risks associated with those financial products.

This is a non standard financial product so you should read this PDS and the account terms in full before making any decision to invest in this financial product. If you are in any doubt on any information or terms contained in these documents you should seek professional guidance.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in these financial products, you should be satisfied that such trading is suitable for you having regard to those objectives, your financial situation and needs. CBS recommends that you consult your adviser or obtain independent advice before trading under this facility.

This PDS aims to provide you with enough information for you to decide whether to trade in financial/ commodity products with CBS. You may also use this PDS to compare this financial I commodity product and service with others. Be careful how you do this, because other facilities may differ significantly, depending on their structure.

### Key Features and Risks

The key features and risks of trading these financial products are set out in the accompanying description.

Entering into Transactions will expose you to risk. The risk of trading these can be substantial. You should carefully consider your financial position and obtain independent financial advice before deciding to trade.

CBS is not, and will not be, responsible to you (or to any other person including your associates) for any loss sustained by you pursuant to any one or more on all Transactions.

It is generally considered that a person should not enter into this type of Transaction unless:

- 1 the person is an experienced investor;
- 2 the Transaction is part of a balanced portfolio of investments;
- 3 the person understands the nature of and risks associated with the Transactions; and
- 4 the person has determined that those risks are appropriate to their financial needs and circumstances.

## Key Features of Commodity Financial Products

### Commodity Pricing

Historically, a large percentage of production (depending on prevailing prices leading into the relevant crop year) will be sold by growers (farmers) such as you prior to processing of the harvest. This takes place with the use of commodity swaps (sometimes referred to as a forward contract). A commodity swap is an agreement to buy or sell a quantity of a commodity at an agreed price (to a nominated quality) at some point in time in the future.

There are three principal components that are used to derive the value of a commodity swap (Forward Contract) in the agricultural markets:

- (a) the futures component
- (b) the foreign exchange component; and
- (c) the basis component.

Collectively, these components make up the price of the commodity contract.

In general, to calculate the Australian Dollar per Tonne price for a commodity, the following formula is used by market participants.

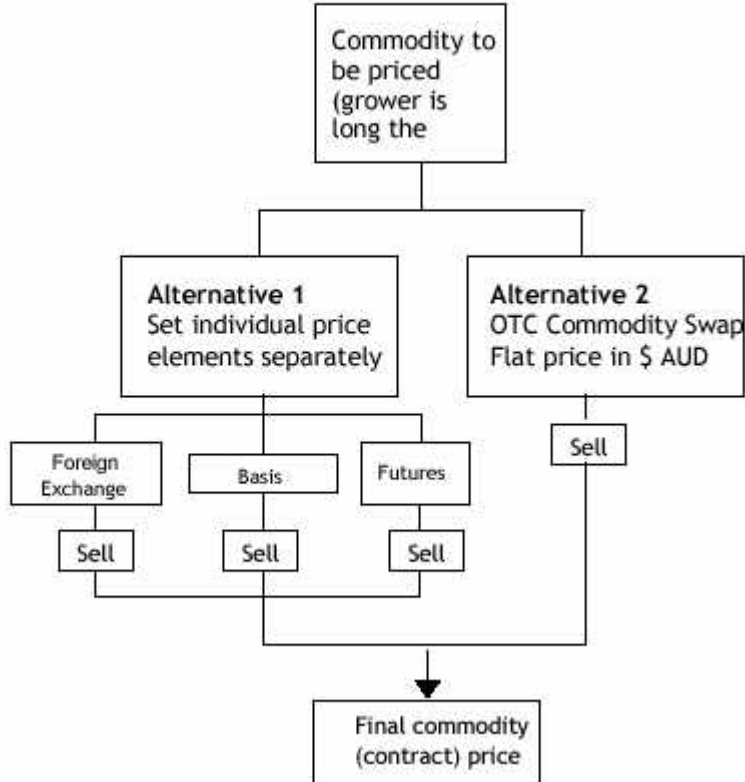
$$\text{A\$ per Tonne} = ([\text{Futures Price} + \text{Basis}] * \text{Conversion rate to metric tonnes}) / \text{Forward Exchange Rate}$$

Through your agent and CBS, you have access to price management facilities by which you can better manage the pricing of your commodities.

- (a) **Alternative 1** - you can determine your cash price by setting the futures component, the foreign exchange component and the basis component independently of each other component; or
- (b) **Alternative 2** - using a commodity swap, you can elect to fix the total cash price at the prevailing price in Australian Dollars.

The financial product described in Alternative 2 is explained in this PDS i.e. pricing and using a commodity swap. For a detailed explanation using the individual products mentioned in Alternative 1 above, we refer you to the respective Product Disclosure Statements found on CBS's web site (at [www.commoditybroking.com.au](http://www.commoditybroking.com.au)).

The diagram below helps illustrate your alternatives:



In either case you have the ability to protect (hedge or enhance) the sale price for your commodity.

### **Description of a commodity swap contract**

A commodity swap is a cash-settled derivative transaction offered to the holder by an institution (market maker, such as CBS), at a known commodity price and settled on an agreed date. These are traded as an Over the Counter product (also known as "OTC" or off market product).

An OTC commodity swap is a private, tailor-made, non-standardised agreement between two entities for a specific term, at a specific price for a specific date in the future.

Swap and swap option contracts may be for a commodity priced in Australian dollars, hence removing the foreign exchange risk and conversion costs.

The swap and/or swap option prices quoted to your agent by the market maker (CBS) each day are at a bid/offer spread i.e. the market maker will regularly state a price at which it is prepared to deal (in Australian dollar) and will provide a bid (if it is prepared to buy the commodity) and offer (if it is prepared to sell the commodity). Consequently, you set the swap or swap option price at the equivalent quoted bid.

To close out a swap or swap option requires cash settling. The required transaction will be executed at CBS's best offer that you or your agent can obtain - if CBS is prepared to deal.

When trading OTC derivative products you should be aware of the risks and benefits (as set out in this PDS).

### **Benefits of OTC Products (such as commodity swaps)**

The use of OTC products provides important risk management tools. The major benefit of entering into an OTC contract is that you can tailor the price of the contract to your specific circumstances based on your anticipated yield of production.

Unlike exchange traded derivatives, OTC contracts are not standardized and can be personally tailored to suit your requirements.

Another advantage of OTC products, compared with exchange traded derivatives, is the flexibility in the contract quantity. Exchange traded derivatives are standardised. Furthermore, the date of settlement for OTC products is negotiable and can be set to mature some months from initial settlement.

Some OTC products (such as the commodity swaps) have already factored in the various elements that make up the price of the product / commodity. Accordingly, the price quoted is in Australian dollars. Hence, you do not need to consider complex investment strategies to hedge your crop.

## **Risks**

The following describes other potential risks in trading in OTC products such as commodity swaps which are not already set out in CBS's PDS:

### ***Market volatility***

The markets in general are subject to many influences which may result in rapid fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility. There may be three underlying markets (commodity, FX, futures), whose combined volatility may significantly increase the complexity of movements in pricing of your contract or close out contracts. If you are entering into OTC contracts (commodity swaps) as a hedge, the impact of market volatility will not affect your position unless you have over hedged or under hedged.

### ***Under or Over Hedge***

If you have not correctly hedged your exposure by giving orders to us to enter into contracts, you may decide under your own risk management policies to add or to close out some of those contracts (to match your exposure). The loss or profit arising as a result of this additional trading with CBS will be credited or debited to your account. You will need to take into account the cost of additional hedging adjustment contracts when considering your overall risk management.

### ***Opportunity costs***

Once you have fixed your forward contract or exchange rate you will not be able to take advantage of subsequent favorable movements in the market if that occurs in relation to your existing contract. On the other hand, you will be protected from any adverse movements.

### ***Counterparty Risk***

CBS is your counterparty, not your agent. If you do not pay the amounts you are obliged to pay under your contracts, CBS may sue you in your name or in the name of your agent.

### ***Margins***

When we ask, you must provide initial margins (deposits), variation margins (additional margin) and such amount of money or collateral which we consider necessary to protect us you're your personal obligations arising from dealing in OTC products.

You must meet a request made by us within the stipulated time (which in volatile markets may be one hour) or, if no time is stipulated when the call is made, within 24 hours. If you do not meet the request within the stipulated time, we may:

- (i) re-price your contracts and if required, convert them into Australian dollars by entering into the necessary contracts at the prevailing market prices; or
- (ii) close out without notice to you or your agent some or all of the contracts held for your account;

Your liability to pay the initial margin arises at the time the contract is acquired for your account and your liability to pay a variation margin arises at the time the margin comes into existence, in each case regardless of when a request is made for them. Your liability for margins is not limited to the assets held in your account.

## **How is the commodity swap rate calculated?**

We cannot predict future prices and the rate quotations are not a forecast of where we believe prices of commodities or other financial products or their companies will be at a future date. We calculate rates (prices) taking into consideration the current rates (such as commodity prices), the quantity of your crop you wish to hedge and the prices offered by other market participants to provide financial products we acquire to hedge our obligations to you.

## **Your agent**

If we have issued an OTC contract or other financial product through your agent, our dealings are legally with you. You are responsible to us and we are responsible to you, although orders will be placed only through your agent with us and we will only communicate with your agent. We obtain our benefit through the pricing of the contracts we offer. You may be required to pay a fee or other charge to your agent. This should be disclosed in your agent's financial services guide to you.

We will rely on your agent to give us your orders and otherwise to give us instructions about your account or to receive notices from us. We are not obliged to try to contact you directly and will not attempt to do so. You will need to study your arrangement with your agent carefully and abide by the terms of your agreement with your agent.

## **Fees, Charges, Remuneration**

CBS earns its profit through quoting you a price for the contract. Please consult your agent at the time you are considering entering into a contract. We would normally earn revenue from both a spread on the quoted buy/sell price and commission on a percentage basis.

If you feel this does not adequately explain what a commodity swap is then please do not hesitate to contact our offices:

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