

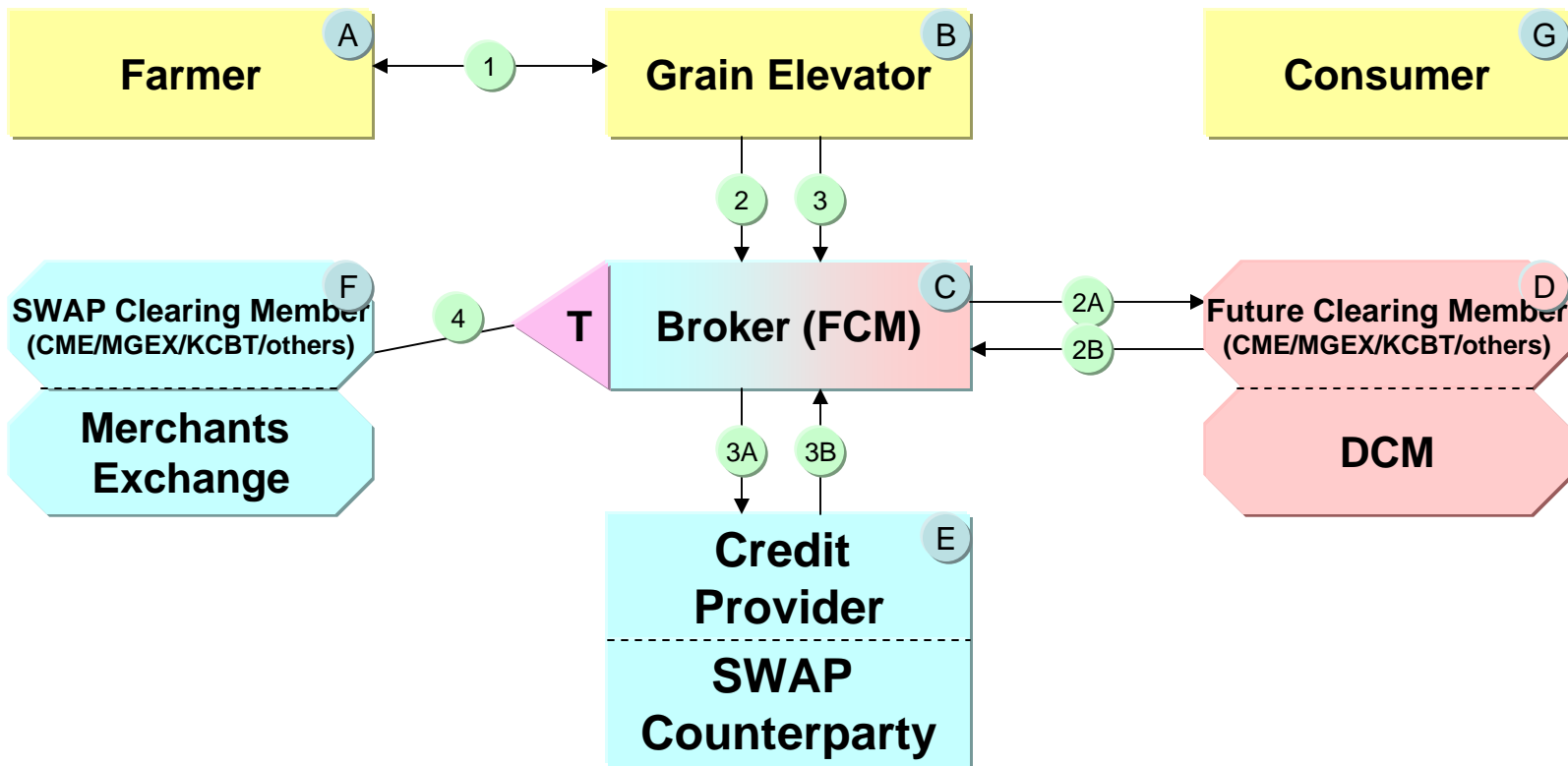
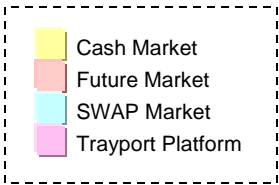


Margin Credit SWAP (MCS)

**National Grain & Feed Association
Country Elevator/Feed Industry Conference**

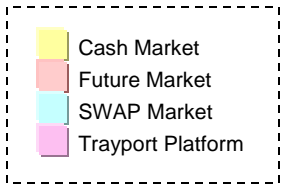
December 8, 2008

Executing the SWAP

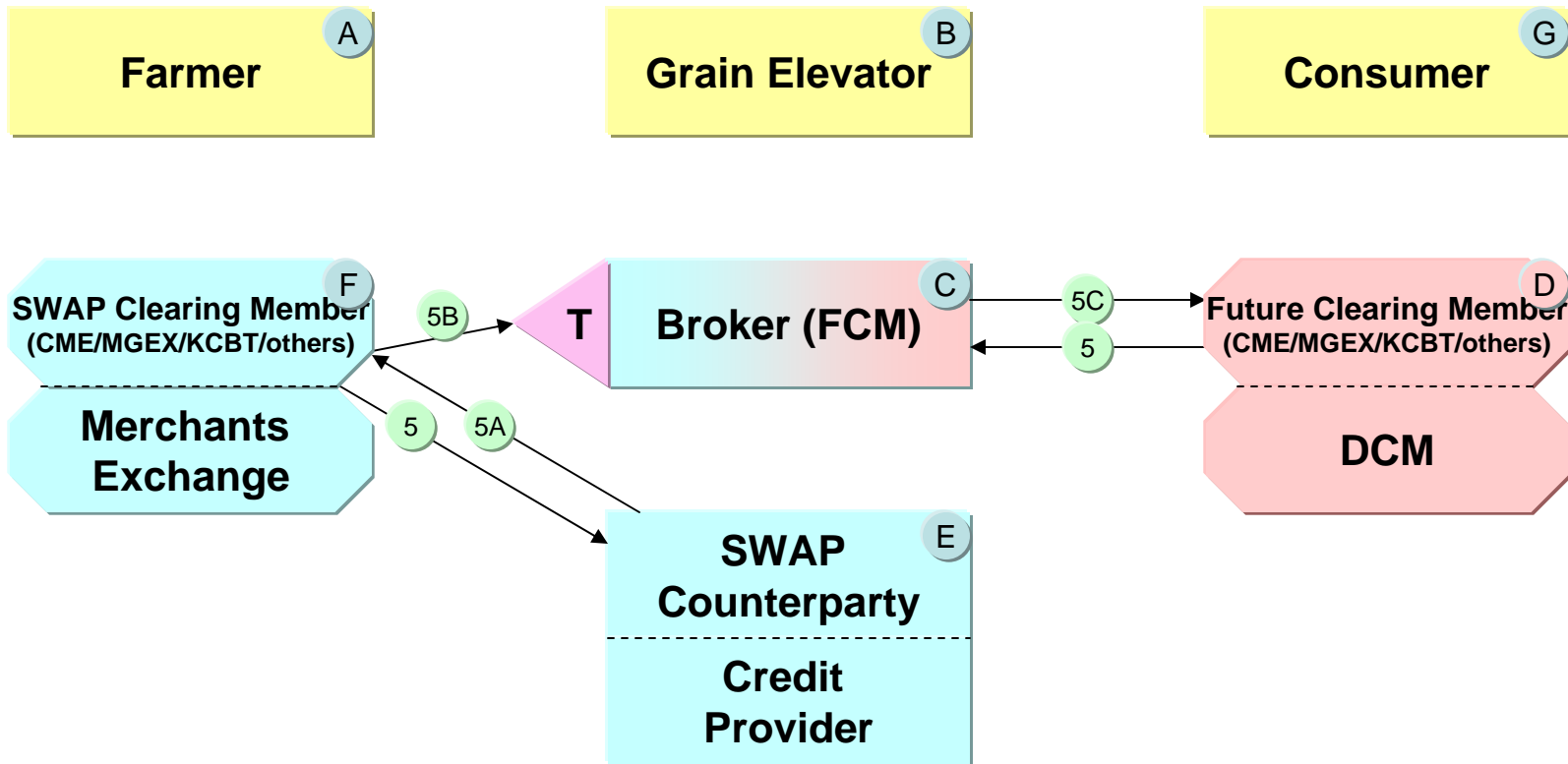


- 1 Forward contract** between A+B @ \$ 6.00/bu
- 2 Hedge:** B sells Dec08 Contract @ \$ 6.30/bu
 - **2A:** C order to sell Dec08 Contract @ \$ 6.30/bu
 - **2B:** D fills Dec08 Contract @ \$ 6.30/bu
- 3 SWAP:** B buys MCS @ \$ 6.30/bu
 - **3A:** C order to buy MCS @ \$ 6.30/bu
 - **3B:** E fill MCS @ \$ 6.30/bu
- 4 Open position** MCS @ \$ 6.30/bu

Maintaining the SWAP

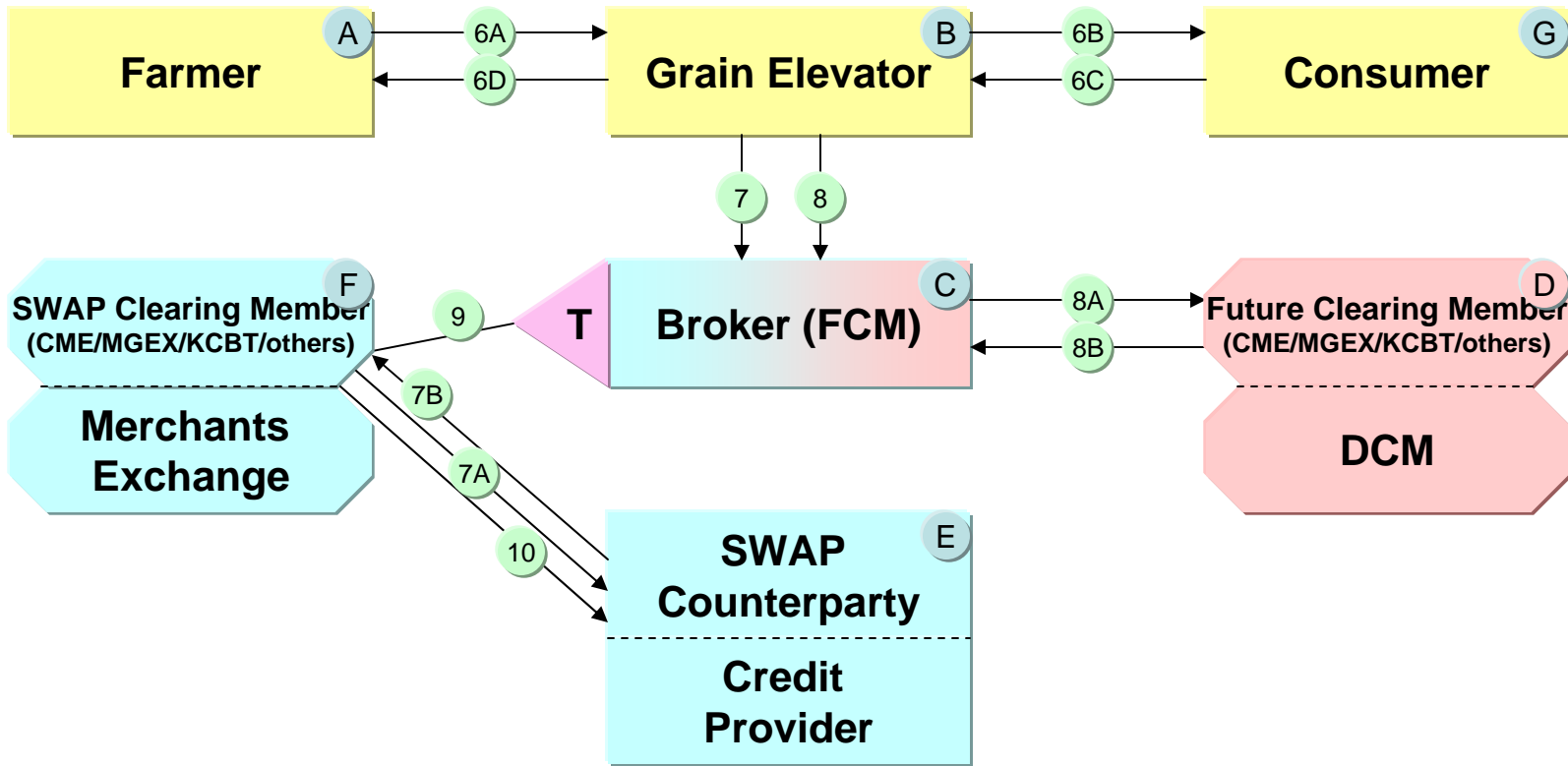
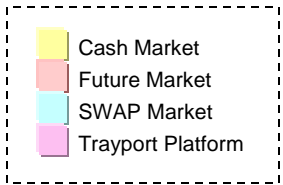


Assumption: Prices increase from \$ 6.30/bu to \$ 6.50/bu



- 5** Margin call for \$ 0.20/bu
- 5A: Margin Payment of \$ 0.20/bu
- 5B: Margin Collect of \$ 0.20/bu
- 5C: Margin Payment of \$ 0.20/bu

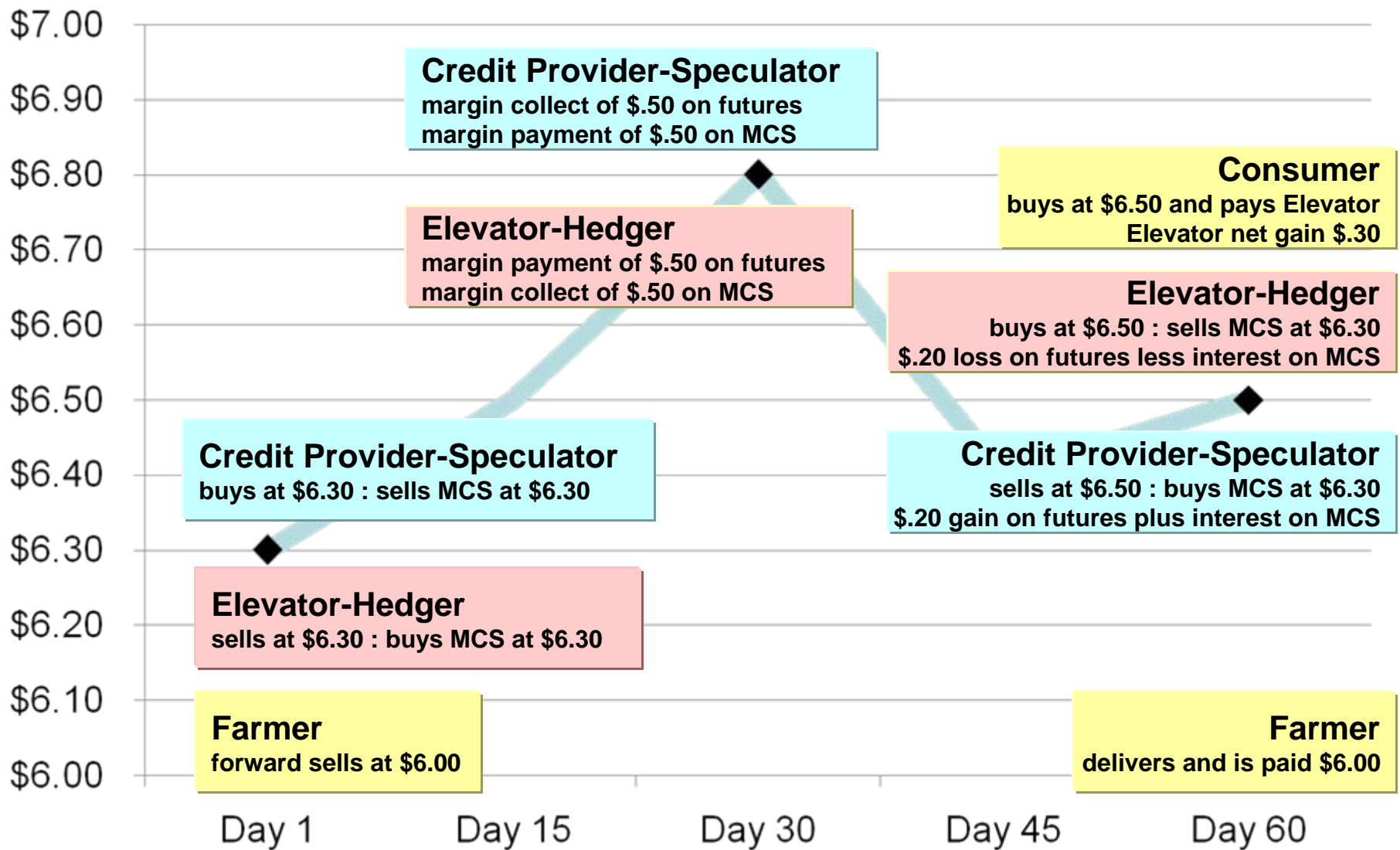
Liquidating the SWAP



- 6 Physical delivery**
- 6A: A delivers grain to B
 - 6B: B ships grain to G
 - 6C: G pays B for grain
 - 6D: B pays A for grain

- 7 Closing SWAP**
- 7: B orders C to lift SWAP
 - 7A: C notifies E to close SWAP
 - 7B: E confirms to C SWAP is closed
 - 7C: C closes SWAP at F
 - 7D: C returns margin credit to E plus fee

- 8 Closing Future**
- 8: B sends buy order to C
 - 8A: C sends buy order to D
 - 8B: D confirms to C buy order is filled



Short Hedge Unaffected by Margin Credit Swap

Date	Cash Market	Futures Market	MCS Swap Market
May	Forward purchase corn @\$6.00/bu	Sell Dec Corn @\$6.30/bu	Buy Dec MCS w/Reference to Dec Corn @\$6.30/bu
Price increase			
Oct	Sell cash corn @\$7.00/bu	Buy Dec Corn futures @\$7.00/bu	Sell Dec MCS w/Reference to Dec Corn @\$6.30/bu
Change	\$1.00/bu gain	\$0.70/bu loss	\$0.00/bu
Prices decrease			
Oct	Sell cash corn @\$5.00/bu	Buy Dec Corn futures @\$5.00/bu	Sell Dec MCS w/Reference to Dec Corn @\$6.30/bu
Change	\$1.00/bu loss	\$1.30/bu gain	\$0.00/bu

Short Hedge Flow of Variation Margin

Date	Reference Price	Variation Margin		\$1,500 Initial Margin Account
		Pay	Collect	
Jun 2	643.25	\$ -	\$ -	\$ 1,500.00
Jun 3	636.25	\$ -	\$ 350.00	\$ 1,500.00
Jun 4	643.00	\$ (337.50)	\$ -	\$ 1,500.00
Jun 5	670.75	\$(1,387.50)	\$ -	\$ 1,500.00
Jun 6	677.75	\$ (350.00)	\$ -	\$ 1,500.00
Jun 9	685.25	\$ (375.00)	\$ -	\$ 1,500.00
Jun 10	702.75	\$ (875.00)	\$ -	\$ 1,500.00
Jun 11	732.75	\$(1,500.00)	\$ -	\$ 1,500.00
Jun 12	739.50	\$ (337.50)	\$ -	\$ 1,500.00
Jun 13	765.00	\$(1,275.00)	\$ -	\$ 1,500.00
Jun 16	765.00	\$ -	\$ -	\$ 1,500.00
Jun 17	776.00	\$ (550.00)	\$ -	\$ 1,500.00
Jun 18	780.00	\$ (200.00)	\$ -	\$ 1,500.00
Jun 19	761.50	\$ -	\$ 925.00	\$ 1,500.00
Jun 20	755.50	\$ -	\$ 300.00	\$ 1,500.00
Jun 23	759.25	\$ (187.50)	\$ -	\$ 1,500.00
Jun 24	747.50	\$ -	\$ 587.50	\$ 1,500.00
Jun 25	765.00	\$ (875.00)	\$ -	\$ 1,500.00
Jun 26	788.00	\$(1,150.00)	\$ -	\$ 1,500.00
Jun 27	787.00	\$ -	\$ 50.00	\$ 1,500.00

- Short Hedge placed on Jun 2 @ \$6.4325/bu

- Initial Margin is \$1,500, with Variation Margins totaling \$9,400 and \$2,212.50 paid and collected during the life of the hedge.

- The Hedge is lifted on Jun 27 @ \$7.87/bu

Short Hedge Margin Credit Balance with MCS Charges

Date	MCS Reference Price	Margin Credit	5%	Cumulative Payment (cents/bu)
			MCS Interest Payment	
Jun 2	613.25	\$ 1,500.00	\$ 0.21	0.00
Jun 3	636.25	\$ 1,150.00	\$ 0.16	0.01
Jun 4	643.00	\$ 1,487.50	\$ 0.20	0.01
Jun 5	670.75	\$ 2,875.00	\$ 0.39	0.02
Jun 6	677.75	\$ 3,225.00	\$ 1.33	0.05
Jun 9	685.25	\$ 3,600.00	\$ 0.49	0.06
Jun 10	702.75	\$ 4,475.00	\$ 0.61	0.07
Jun 11	732.75	\$ 5,975.00	\$ 0.82	0.08
Jun 12	739.50	\$ 6,312.50	\$ 0.86	0.10
Jun 13	765.00	\$ 7,587.50	\$ 3.12	0.16
Jun 16	765.00	\$ 7,587.50	\$ 1.04	0.18
Jun 17	776.00	\$ 8,137.50	\$ 1.11	0.21
Jun 18	780.00	\$ 8,337.50	\$ 1.14	0.23
Jun 19	761.50	\$ 7,412.50	\$ 1.02	0.25
Jun 20	755.50	\$ 7,112.50	\$ 2.92	0.31
Jun 23	759.25	\$ 7,300.00	\$ 1.00	0.33
Jun 24	747.50	\$ 6,712.50	\$ 0.92	0.35
Jun 25	765.00	\$ 7,587.50	\$ 1.04	0.37
Jun 26	788.00	\$ 8,737.50	\$ 1.20	0.39
Jun 27	787.00	\$ 8,687.50	\$ 3.57	0.46
Jun 30	613.25	\$ -	\$ -	0.46

- The MCS is placed on Jun 2 @\$6.1325/bu, \$.30 lower than current price to include Initial Margin

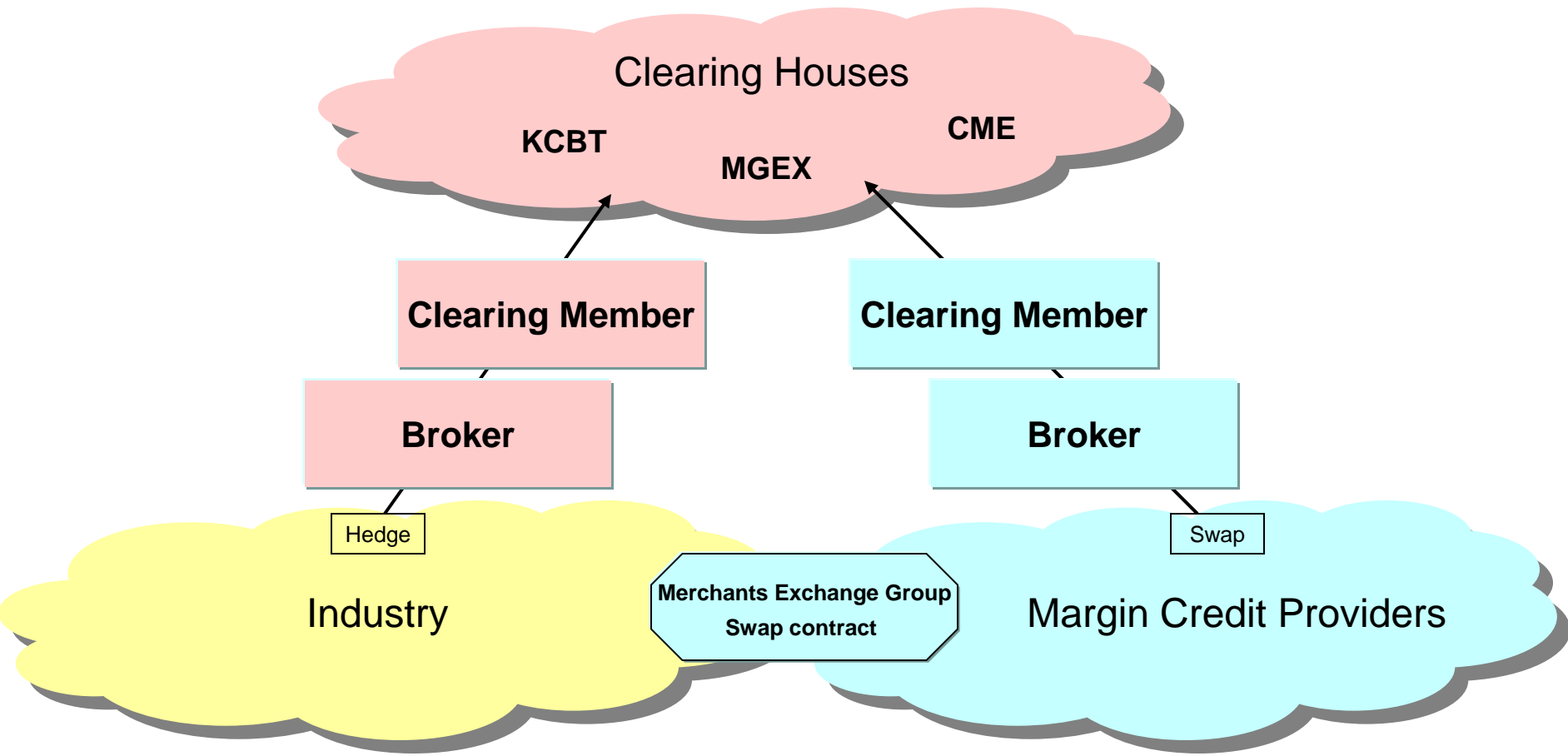
- During the life of the MCS the maximum margin credit provided is \$8,737.50

- The MCS is lifted on Jun 30 @\$6.1325/bu, the same as the initial price, \$8,687.50 is returned to MCS Counterparty

- MCS interest payments of \$23.15 equal .46 cents/bu

Clearing the Hedge / Margin Credit Swap

Cash Market
 Future Market
 SWAP Market



- 1 Enhance liquidity in core products:**
- Facilitates Hedge;
 - Brings new OTC Business.

- 2 Market place solution**
- Merchants support;
 - Commercial lending support;
 - Fund support.

- 3 No agriculture exemption needed**
- can start now utilizing OTC clearing

- 4 No antitrust issue**
- MEG is at arms length

Risk Matrix

Cash Market
Futures Market
SWAP Market

RISK	A Farmer	B Grain Elevator	C Broker (FCM)	D Futures CM	E Credit Provider	F SWAP CM	G Consumer
Risk type (cash/swap)	Production failure	Farmer default / Credit provider default	Elevator default	---	CM default	---	Defaults on payment
When at risk? (cash/swap)	At delivery	At delivery / Daily	Daily, At settlement	---	At settlement	At settlement	At delivery
Risk exposure (cash/swap)	Whole contract value	Contract value / Cumulative change	Cumulative change over term of SWAP	---	Cumulative change over term of SWAP	Cumulative change over term of SWAP	Whole contract value
Risk mitigation (cash/swap)	Crop insurance	Charge farmer a fee / Post capital	Proportional maintenance margin	---	Clearing member guarantee	Guarantee fund, reinsurance	Letter of credit
Risk type (futures)	---	Credit provider default	Elevator default	Broker default	---	---	---
When at risk? (futures)	---	Daily	Daily	Hourly	---	---	---
Risk exposure (futures)	---	Daily change	Daily change	Hourly change	---	---	---
Risk mitigation (futures)	---	Multiple lines of credit	Maintenance margin	Maintenance margin, letter of credit	---	---	---