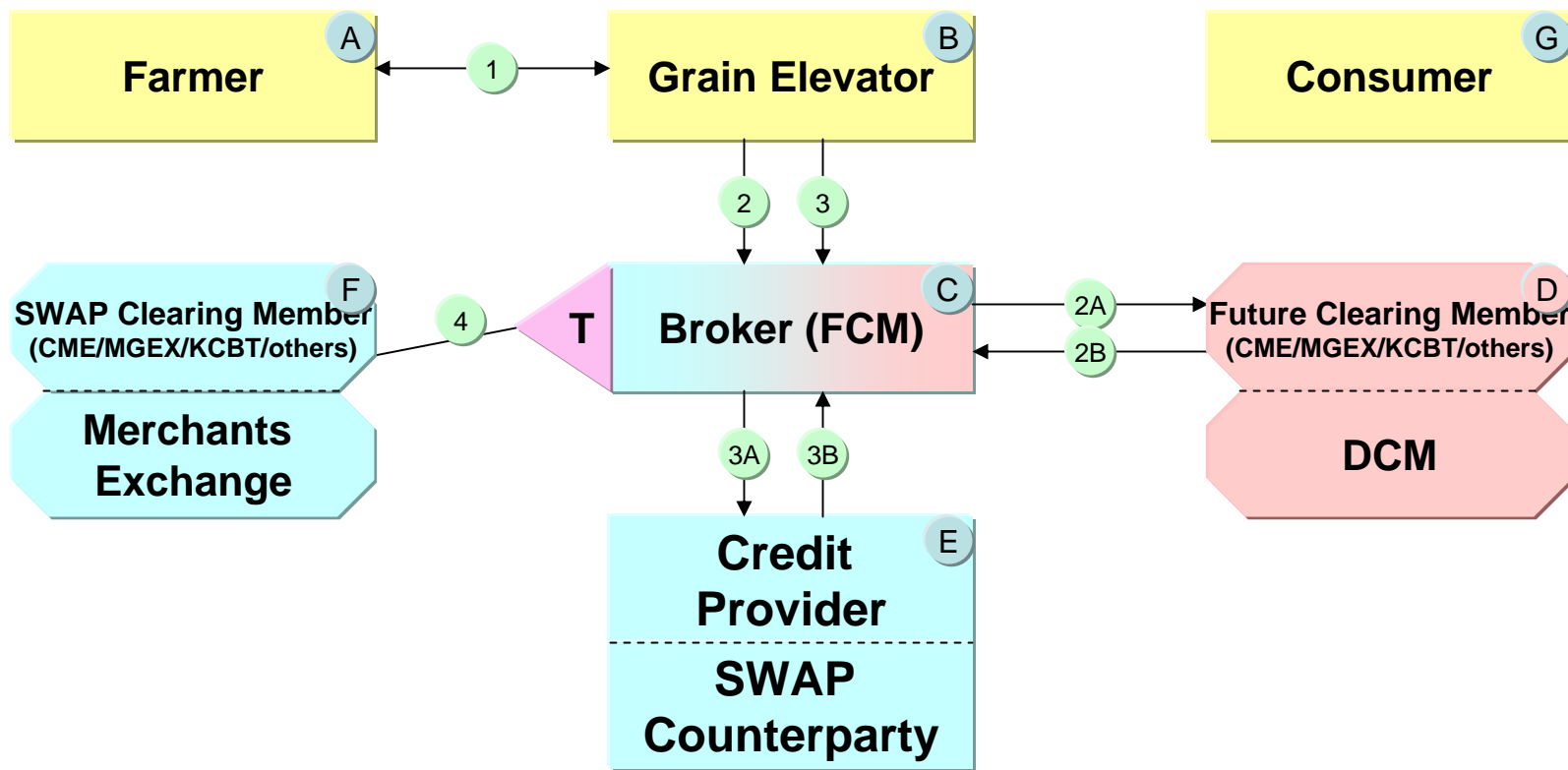
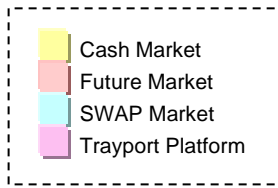




Margin Credit SWAP (MCS)

CFTC Agricultural Advisory Committee
July 29, 2008

Executing the SWAP



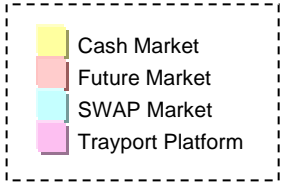
1 **Forward contract** between A+B @ \$ 6.00/bu

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

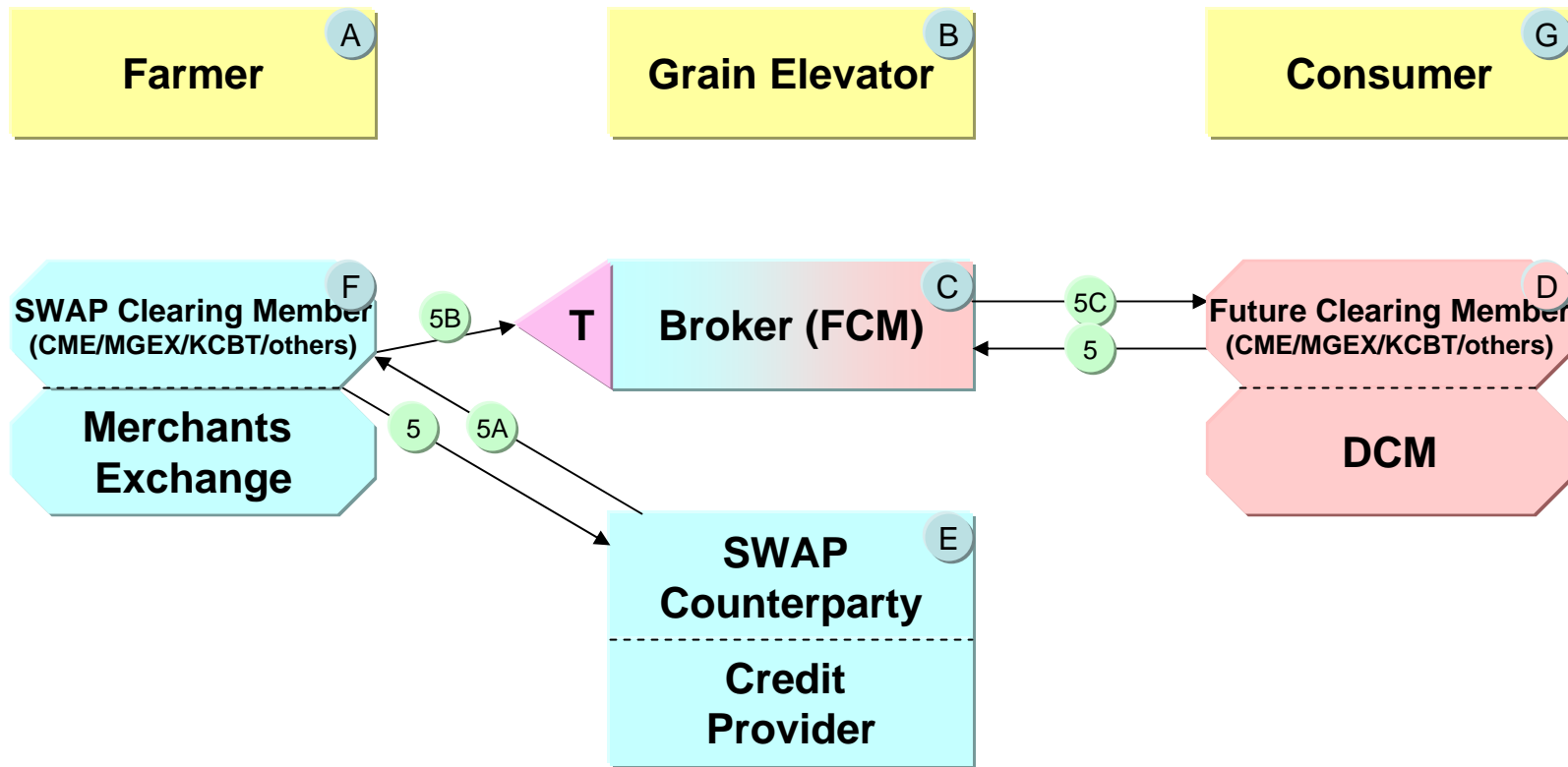
3 **SWAP:** B buys MCS @ \$ 6.30/bu
 -3A: C order to buy MCS @ \$ 6.30/bu
 -3B: E fill MCS @ \$ 6.30/bu

4 **Open position** MCS @ \$ 6.30/bu

Maintaining the SWAP

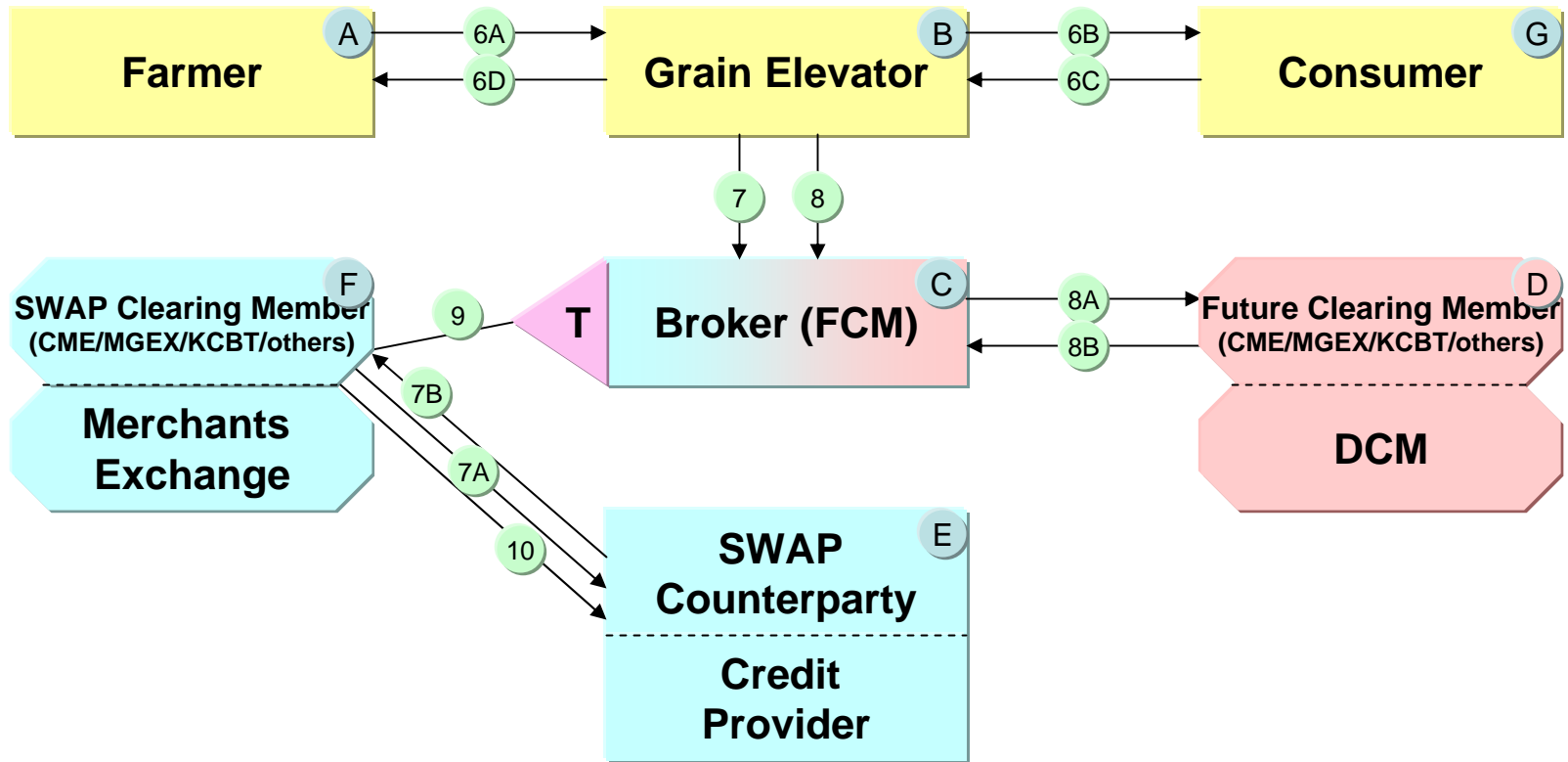
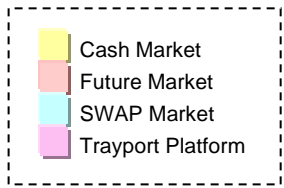


Assumption: Prices increase from \$ 6.30/bu to \$ 6.50/bu



- 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

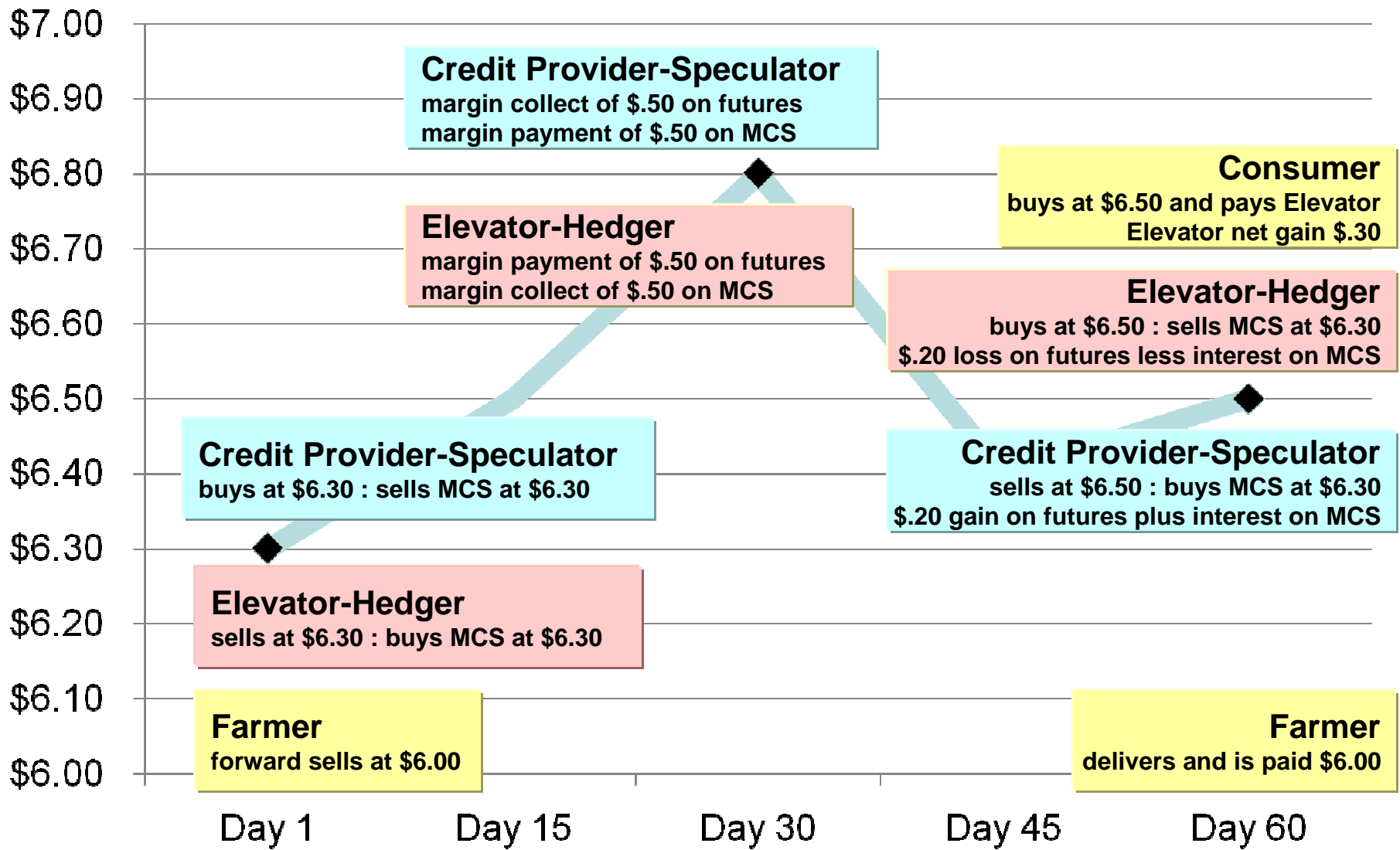
Liquidating the SWAP



- 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
- 9**
- 9: C closes SWAP at F
- 10**
- 10: F 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.

- Variation Margins totaling \$9,400 and \$2,212.50 paid and collected, respectively, 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 |

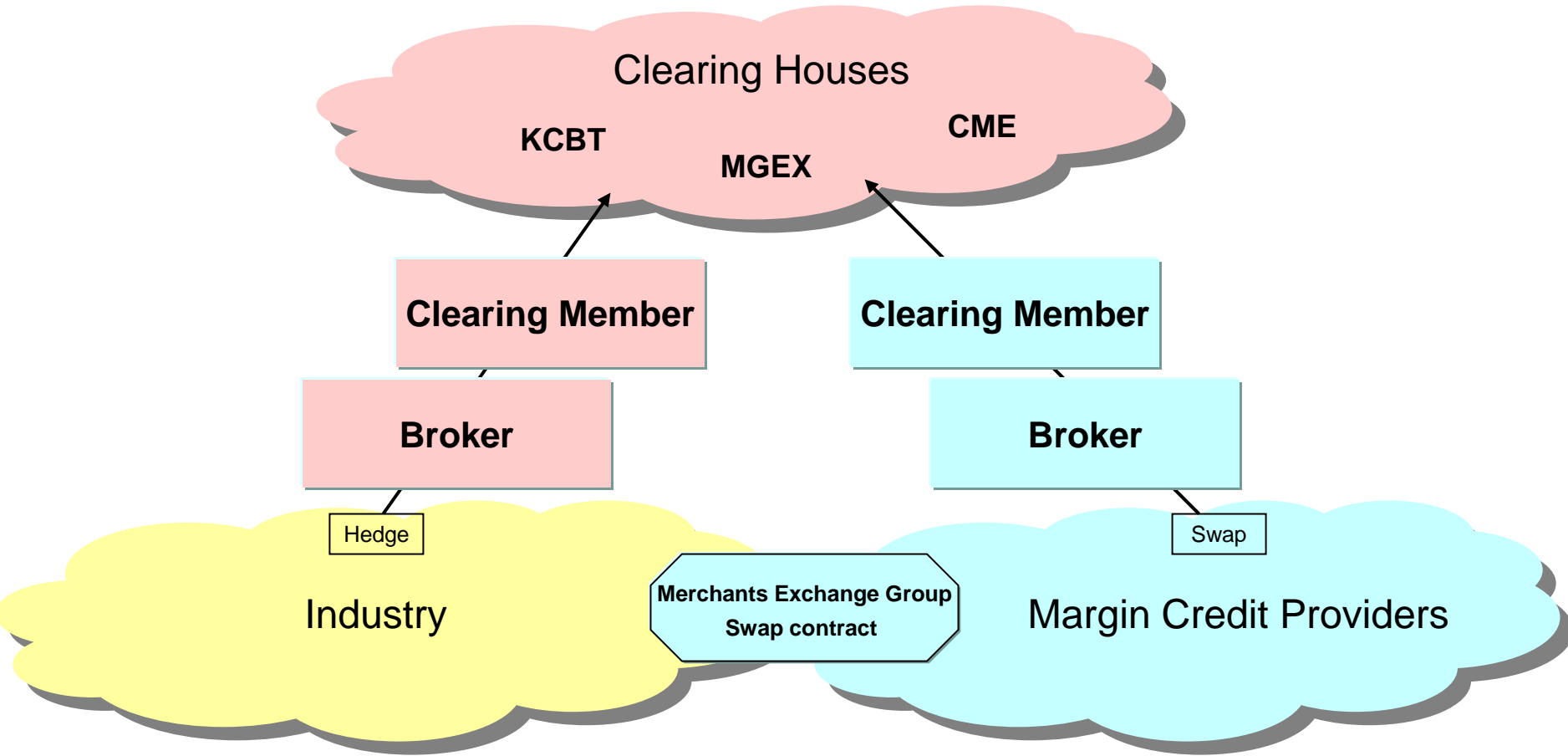
- The MCS is placed on Jun 2 @\$6.1325/bu, \$.30 lower than current price to include Initial Margin

- 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



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/ Curtail business | Maintenance margin | Maintenance margin, letter of credit | --- | --- | --- |