



Transforming an Entrepreneurial Marketplace

DECEMBER 2008

Formed in 1887 as the Winnipeg Grain and Produce Exchange



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- Canada's first and only commodity exchange
 - Futures trading was adopted in 1904



- 1980 moved to current location at 360 Main St. and introduced an automated board
- Demutualized in 2001 (Winnipeg Commodity Exchange Inc.)



2004 first North American commodity exchange to move to fully electronic trading



IntercontinentalExchange (ICE) trading platform interface showing a list of commodity contracts and their market data. The interface includes a menu bar, a toolbar, and a main data table.

Product	Sub	Exp	Qty	Bid	Offer	Qty	High	Low	Last	Volume	Settlement	Change	Mid Point
Carolina Futures	WCE	Jul08	1	877.00	878.70	5	876.20	879.90	878.20	2011	871.90	2.90	Open
Carolina Futures	WCE	Nov08	1	647.90	649.10	5	648.30	650.90	648.30	2014	648.90	2.90	Open
Carolina Futures	WCE	Jan09	1	656.10	657.50	5	654.70	658.70	654.70	20	657.20	-2.90	Open
Carolina Futures	WCE	Mar09	1	667.40	668.60	5	665.80	669.60	667.40	5	667.40	-2.90	Open
Carolina Futures	WCE	Jul09	1	682.20	683.20	5	679.90	683.20	682.20	5	683.10	Open	
Carolina Futures	WCE	Nov09	1	651.00	652.00	5	648.00	654.00	651.00	5	650.90	Open	
Carolina Futures	WCE	Jan10	1	648.00	649.00	5	645.00	651.00	648.00	5	647.90	Open	
Carolina Spr	WCE	Jul08/Nov08	100	-24.90	-24.90	8	-23.40	-24.90	-24.10	1421	-24.90	0.40	Open
Carolina Spr	WCE	Jul09/Jan09	100	-24.80	-24.80	50	-24.40	-24.80	-24.40	19	-24.40	Open	
Carolina Spr	WCE	Jul09/Jan09	47	-24.70	-24.70	19	-24.30	-24.70	-24.30	61	-24.40	Open	
Carolina Spr	WCE	Jul09/Jan09	374	-24.80	-24.80	61	-24.30	-24.80	-24.30	2	-24.40	Open	
Carolina Spr	WCE	Jul09/Jan09	104	-24.80	-24.80	2	-24.30	-24.80	-24.30	2	-24.40	Open	

Contract Summary:

- Carolina Futures - WCE - Jul08, 1 @ 878.20 @ (1.3242 COT)
- Carolina Futures - WCE - Jul08, 1 @ 878.20 @ (1.3242 COT)
- Western Barley Futures - WCE - Jul08, 15 @ 236.10 @ (1.3228 COT)
- Western Barley Futures - WCE - Jul08, 10 @ 236.10 @ (1.3228 COT)
- Western Barley Futures - WCE - Jul08, 50 @ 236.10 @ (1.3228 COT)
- Western Barley Spr - WCE - Jul09/Oct08, 25 @ -12.70 @ (1.3228 COT)
- Western Barley Spr - WCE - Jul09/Oct08, 10 @ -12.70 @ (1.3228 COT)
- Western Barley Spr - WCE - Jul09/Oct08, 50 @ -12.70 @ (1.3228 COT)
- Western Barley Futures - WCE - Oct08, 15 @ 248.60 @ (1.3228 COT)



- WCE was acquired by IntercontinentalExchange, Inc. (ICE) in 2007
- Name changed to ICE Futures Canada, Inc. January 1, 2008

Role of an Exchange

- To provide the facilities and rules of trade that allow buyers and sellers to meet, conduct business, and determine prices via open competitive interaction.
- Open outcry or electronic.

A screenshot of a financial trading software interface. The window title is "Intercontinental Exchange". The interface displays a list of securities with columns for bid, ask, and volume. The data is organized into a table with multiple rows and columns. The interface includes various tabs and a search bar at the top. The data is presented in a clear, structured format, typical of a trading platform.

Why did exchanges develop?

- Prior to organized exchanges, markets were very inefficient
- The need for an organized way of buying and selling grain resulted in the creation of exchanges
- Dealers began to write contracts for forward delivery
 - the precursor of today's futures contracts



Futures Contracts

- **Forward contracts:** a contract for purchase and sale of an asset for delivery at a future date. All terms and conditions are subject to negotiation.
The “Cash market”.
- **Futures contracts:** a forward contract that is standardized and exchange traded, backed by a clearinghouse, and regulated. Futures markets theoretically converge with cash markets during a delivery month, a designated time period in which the physical commodity may be used to satisfy the outstanding contract.

Major Benefits of Futures Markets

- Improves market efficiency
“law of one price”
- Fair price realization
“the market is never wrong”
- Facilitates liquidity – a secondary market
“for every buyer there is a seller”
- Creates an opportunity for a “clearinghouse” to evolve.
“every participant is equal”

Clearinghouse-ICE Clear Canada

- The clearinghouse stands between the buyer and the seller as the counterparty to every trade
- Clearinghouse functions:
 - guarantee trades - eliminating counter-party risk;
 - facilitate the offsetting and netting (including delivery) of contract obligations through the system.
- This allows the parties to the transaction to:
 - make further decisions fully independent of each other
 - limit counterparty risk to a single contractual entity

Risk Mitigation

- Futures markets are marked to market, losing positions pay funds into the clearing house and gaining positions collect funds from the clearing house.
- All positions are required to deposit margin with the clearing house. This margin is a deposit against potential adverse price moves.
- A Guarantee Fund is also maintained which is contributed to by all clearing members and can be drawn against if any member fails to meet their margin requirements .

Market Uses

- **Hedging:** use offsetting positions to protect against adverse price moves in the underlying cash market
 - this mitigates the risk of carrying inventory.
- **Arbitraging:** look for anomalies in the price correlation of different commodities.
 - i.e. canola and soybeans

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- **Speculating:** assume the price risk for an uncertain, but anticipated return.
 - add liquidity to the marketplace therefore diminishing the spread between bids and offers
 - add volume to the market
 - tend to seek out volatility and therefore take on risk when others are looking to offload risk

Types of Exchange Participants

- Only “registered participants” of the exchange are allowed to trade directly
- **Merchant Participants:** main concern is the underlying cash market, and facilitate futures delivery.
- **Locals:** are independent traders acting exclusively for their own account or for other exchange participants.
- **Futures Commission Merchants:** the only type of participant permitted to deal with the public.

Regulation of Exchanges

- Exchanges are recognized by regulatory authorities
- In Canada, it is The Manitoba Securities Commission (MSC)
- In the U.S. it is the Commodity Futures Trading Commission (CFTC)
- All exchange rules are reviewed to ensure the “public interest is protected”

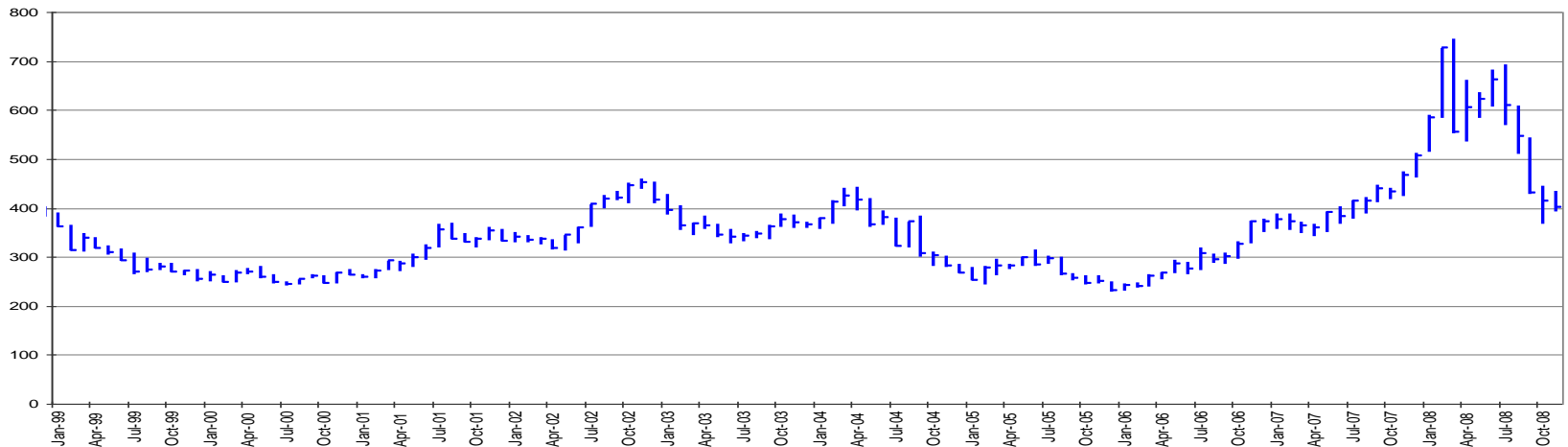
How is Trading Regulated

- All recognized exchanges operate as Self Regulatory Organizations (SROs)
- Exchanges create their own rules subject to regulatory oversight
- Principle rule enforcement is by the exchange's market regulation department
- Rules and Disciplinary panels are vetted by the Special Review Committee which reports directly to the MSC

Needs of the Marketplace

- Broad (lots of independent participants)
- Deep (lots of commodity to trade)
- Accurately reflect market conditions
- Capable of being globally competitive

Canola Nearest Futures



Market Size – Broad

- As markets mature, they tend to consolidate
- To maintain market breadth you must attract :
 - Similar interest from new regions (Hedgers?)
 - Canola merchants from Ukraine
 - Different interests (Speculators?)
 - Hedge funds
 - Energy traders
 - F/X traders

Market size - DEPTH

- Does the global trade of the underlying commodity have the scale to warrant a futures market.
- Is there sufficient demand for risk transfer present in the market place.

Market Conditions

- What constitutes the market?
 - Only Canola?
 - All oilseeds
 - Agricultural commodities?
 - Crude oil?
- Limited price fluctuations?
- Limited participation?

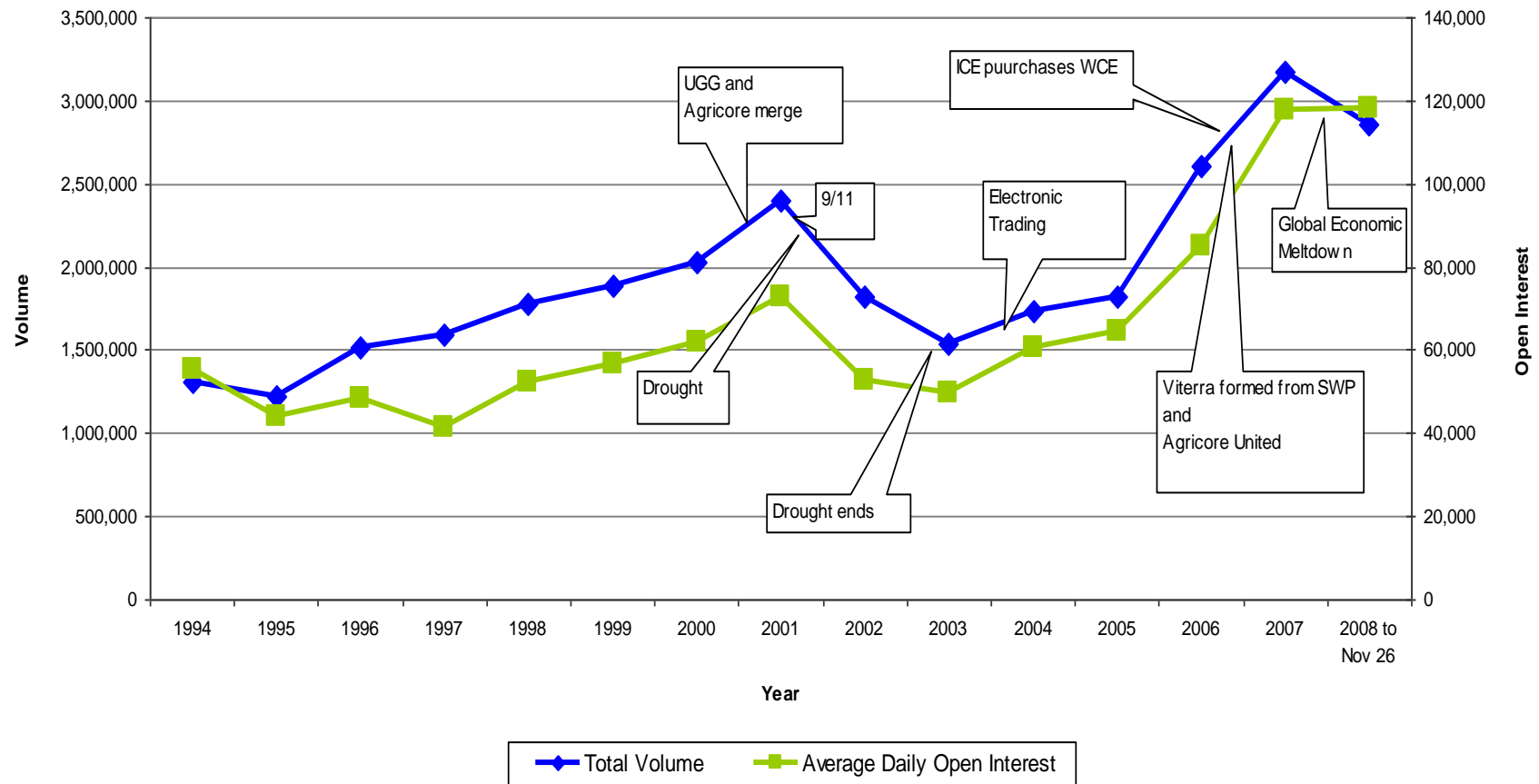
Globally Competative

- Cost of access
- Regulatory environment
 - Too little
 - Burdensome



How do we keep various interests balanced in the wake of varied and Material Events

Canola Futures Annual Volume & Open Interest



Questions?