



GrainCorp

31st May 2017

Feedback: GTA Technical Guidelines No4 Operating Standard for Pool Providers

Following the previous Pool Providers Sub-Committee meeting, GrainCorp proposes the following amendments to the GTA Technical Guidelines Document (TGD) No 4. Operating Standards for Pool Providers. GrainCorp believes these amendments are required to ensure that the Code of Practice provides clear, prescriptive and practical industry self-regulation, for the best interest of pool participants and to ensure the sustainable offering of pool service providers. The below amendments are aimed at reducing the ambiguity of the TGD and improving the auditability of the document.

2.2 ESR (Estimated Silo Return)

An EPR quoted at up country silo level. It shall be the EPR (ie quoted at Track level) less the applicable freight and any other costs for the respective silo.

GNC: This should allow for both TRACK and FIS for WA only. This aligns with the pricing point the WA grower uses, further enhancing the integrity and transparency of EPR's.

2.3 Material Adverse Change

In relation to an EPR means a reduction of the original published EPR of more than 5%.

GNC: Market price volatility in the traditional pool program window can be greater than +/-5%. A more robust definition or guide, would be when a reduction of 5% or more from the previously published EPR or a reduction of 10% or more from the original published EPR.

2.5 Pool Provider

Means a commercial organisation that derives a financial advantage from conducting a Pool for the benefit of Pool Participants.

GNC: All commercial organisations intend to “derive a financial advantage” from their operations, therefore we suggest that this definition be simplified to remove this unnecessary wording so that it reads: “*Means a commercial organisation that operates a Pool for the benefit of Pool Participants.*”

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5 Reporting and Audit of Pool

- a) *The PPDG may seek guidance from the Short-Form PDS format as described by ASIC Before or following closure of a Pool, and no later than three months of the final payment of a Pool, the Pool Provider will:*
- *engage an independent auditor to audit:*
 - *the accounting records of the Pool;*
 - *the Pool Provider's compliance with its duties under this TGD (to the extent it is practically possible) and by extent the Code of Practice (COP)*
 - *the Pool Provider's compliance with the terms and conditions of the Pool; and*
 - *publish and deliver the findings of the auditor to Pool Participants and publish the auditor's report on its website.*

GNC: GrainCorp pools are not able to conduct a comprehensive accounting audit prior to finalisation. As a publicly listed company GrainCorp must use a “top-tier” audit firm (e.g. KPMG, PWC, EY etc.) which adds further length to any audit process, making audit prior to finalisation unachievable.

GrainCorp agrees that an audit requirement can improve the integrity and transparency of smaller, less self-regulated pools. However, larger operators such as GrainCorp have comprehensive internal checks and audits that provide more value to growers than simple financial statement audits. For instance, GrainCorp's Business Risk Committee (a sub-committee of our Board) ensures that all contracts are at or above market price and that GrainCorp has sold into the best available market. As such, the cost of an external financial audit disadvantages our participants as it significantly reduces their ultimate return. GTA and the pools committee must consider what tangible benefit an accounting audit provides the individual pool participant and whether it outweighs the cost to them.

GTA should consider that the cost of an audit by a top-tier firm on a pool (volume dependant) could equate to a decrease in EPR's of more than 5% and in-itself trigger a Material Adverse Change to EPR's.

Despite the TGD's revamp, in our opinion, it remains too ambiguous for a top-tier auditor to confidently audit against. This has been the opinion of GrainCorp's auditor in the past previously.



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6. Pool Product Disclosure Guide

3. The PPDG may seek guidance from the Short-Form PDS format as described by ASIC

GNC: The references to “ASIC” and their style of language could potentially undermine the current regulatory status of the pools industry. The purpose of this committee and document is to ensure that the industry remains self-regulated so that we sustain the financial viability of pools and maintain marketing options for growers. References to ASIC and their preferred language (i.e. “PDG” or “Product Disclosure Guide”) simply draw attention to the fact that ASIC provide similar frameworks and may be used by people outside of the industry to press for greater involvement by ASIC. We think the proposed “PPDG” would be better termed as a “Pool Product Checklist” or “Pool Product Summary”.

8 References

- *GTA Code of Practice*
- *GTA Trade Rules*
- *GTA Arbitration and Dispute Resolution Rules*
- *ASIC, RG 168 - PDS*
- *ASIC RG146 – Staff*
- <http://asic.gov.au/for-finance-professionals/afs-licensees/your-ongoing-afs-licence-obligations/your-afs-licence-obligations-explained/>
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END.

GNC: The ASIC, RG references should be removed as per above commentary.

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