



## OPERATING POLICY

<b>Policy #:</b>	<b>9.34</b>
<b>Section Heading:</b>	<b>Quota &amp; Production Facilities</b>
<b>Policy Title:</b>	<b>Quota Exchange</b>

### POLICY

**Last Updated:**

**March 7 , 2023**

### I. Introduction

As part of the Board's Strategic Planning Session in October 2016, the Board determined that by December 2017, a system is in place to ensure equal access to quota sales and transfers.

The goal is to ensure accessibility, transparency, and equal access to Alberta's egg quota transactions.

### II. Regulations

Section 13.1 & 13.2 applies to transfer of quota without production facilities.

- 13.1(1) No registered producer shall transfer any of the registered producer's quota, without production facilities, except in accordance with this section and a transfer of quota other than in accordance with this Regulation is void.
- (2) The Board shall establish a quota exchange for the purpose of facilitating the transfer of quota without production facilities between registered producers.
- (3) No registered producer shall transfer a quota without production facilities other than through the quota exchange.
- (4) A registered producer who wishes to transfer a quota without production facilities through the quota exchange shall
  - (a) make an application for transfer of quota to the Board in accordance with the quota policies, and
  - (b) pay any transfer fee required under the quota policies
- (5) This section does not apply to a registered producer who is transferring quota without facilities to
  - (a) a name change for the registered producer, or
  - (b) a family member of the registered producer, or
  - (c) a daughter colony originating from the registered producer's colony of the Hutterian Brethren Church.

- 13.2(1) The Board shall not approve an application to transfer a quota under section 13 or 13.1 unless the following requirements are met:
  - (a) the transferee has been or will be issued a licence to operate as producer under this Regulation.



- (b) subject to subsection (2), the registered producer applying to transfer the quota has been in continuous production of the regulated product for not less than 3 years immediately proceeding the date of the application to transfer the quota to the transferee;
  - (c) the transferee undertakes to the Board that the quota to be transferred will be in production in the production facilities of the transferee within 10 years after the date the quota is transferred;
  - (d) The transferee and the transferee's production facilities comply with the on-farm food safety policy and the animal care policy;
  - (e) The registered producer applying to transfer the quota has paid the transfer fee required under section 13(4) or the quota policies as applicable.
- (2) The Board may exempt a registered producer from the requirement under subsection (1)(b) if the Board is satisfied that extenuating circumstances exist.

Family member is defined in the Plan/Regulation as spouse, adult interdependent, partner, child, parent, sibling, son-in-law, daughter-in-law, father-in-law, mother-in-law, first cousin, aunt, uncle, niece, or nephew.

### III. General

- A Person or Related Corporate Producers may submit only one offer to sell or offer to buy on each QE.
- The Board reserves the right to limit a person's participation in the QE.
- The Board has no liability of obligation to a person in the event the QE is cancelled, or in the event that layer quota does not transfer.
- Provided that at least one offer to sell has been submitted by a prospective seller, the QE will be held on quarterly basis.
- Notice of a pending QE will be sent to all registered producers and published on EFA's website at least 4 weeks in advance of the date of which the QE is to be held.
- All QEs will be conducted by EFA.
- Family transfers of quota, Colony splits or quota transfers for tax purposes are exempt from participating on the QE.
- Quota transfers with production facilities may also be exempt from participating on the QE, however the Board must be notified of these transactions in advance.
- It operates on the premise that quota is traded at the actual value of the bid and sale offer.
  - Sellers are removed if their asking price is 20% higher than the highest buyer's price OR higher than the market clearing price.
  - Buyers are removed if their buying price is lower than the market clearing price.
- Through the QE, in no case do the buyers and sellers interact and all quota loses its identity.

### IV. Operation of the Quota Exchange

Producers who wish to sell quota will submit an application indicating the number of quota units for sale, and the price per unit of quota.



Producers who wish to buy quota will submit an application indicating the number of quota units to purchase, and the price per unit of quota.

The quota transfer system will be run by staff members of EFA. It is important to note that other than following specific operating procedures to confirm that the quota is eligible to be transferred and that the transfer meets regulatory and policy requirements, the exchange will not be subject to Board involvement.

## V. Quota Exchange Schedule

The Quota Exchange Schedule will be populated so that producers are able to determine the dates for the next 4 exchanges. This schedule will be posted to the producer portal prior to the launch of each of exchange. The following is a list of deadline dates which will be included in the schedule:

Notification:	Notice announcing the launch of the Quota Exchange
Sales deadline:	Final date for farmer to submit units for sale in the quota exchange
Red/Green Date:	“GO” or “NO GO” for a Quota Exchange to be held; EFA will announce the number of units in the QE available for sale
Purchase deadline:	Final date a farmer can submit purchase bids and documents required to participate in the Quota Exchange.
QE Date:	The date the exchange will run.
Summary of the QE:	Successful/unsuccessful buyers and sellers will be notified.
Quota Transfer Date:	Date that the quota will transfer.

## VI. How Do I Buy or Sell Quota?

All applications to buy and sell quota must be submitted to the Board office by one of the two options:

1. Paper application forms provided by the Board, that can be obtained by contacting the Board office or from the producer portal. Applications must be submitted in a sealed envelope, with the outside of the envelope clearly marked “Quota Exchange Application – Seller” or “Quota Exchange Application –Buyer”. For confidentiality purposes, the envelopes will not be opened until the respective deadline has passed.

Offers to sell and offers to buy must be signed by the prospective buyer or seller as the case maybe. In the case of a partnership, or corporation, the offer must be signed by all partners or by the corporation’s legally authorized signatories, as the case maybe.

2. Electronic forms available on Producer Portal. Electronic submissions will not be available to staff until the respective deadline has passed, however, staff can see that a submission was made.

Offers to sell and offers to buy must be signed by the prospective buyer or seller as the case maybe. In the case of a partnership, the offer to sell or the offer to buy must include a letter signed by all partners confirming their approval.

Every offer to buy must include:

- (a) Confirmation of an automatic download of funds to the Board’s bank account, a certified cheque drawn on a bank account of the purchaser, or irrevocable letter of credit, payable



to the Board, in an aggregate amount equal to 10% of the full value of the offer to buy, and

- (b) Certification by a responsible financial institution indicating that the prospective buyer has made the necessary financial arrangements to purchase the full value of the layer quota set out in the offer to buy.
- (c) A quota exchange fee of \$105.00 (including GST)

Any monies received on behalf of the Board as a deposit payment towards the purchase price of the layer quota shall be non-refundable except where:

- (a) The offer to buy is withdrawn prior to the purchase deadline
- (b) The offer to buy is unsuccessful, or
- (c) The Board elects, in its sole discretion, not to retain the deposit.

Registered producers who wish to sell and have a financial interest or appointment of attorney registered with EFA, must along with his/her application provide consent by the financial interest holder or attorney.

If either an application to purchase or application to sell is incomplete or incorrect, the producer will be given a maximum of 3 business days to provide any missing documentation or correct any errors, failing which the Board will disallow the sale offer to be included on the QE. Sellers need to ensure the quota they wish to transfer is free of lease commitments as of the quota transfer date.

No offer to sell or offer to buy may be withdrawn unless written notice of withdrawal is received by EFA no later than the quota exchange date. Should a producer wish to amend an application that was submitted, they must first withdraw the preceding application prior to the relevant application deadline date.

All offers to sell, and all offers to buy that are not received prior to the applicable deadline will be rejected and must be resubmitted in a subsequent QE in order to be processed.

Quota must be available and free of lease commitments by the Quota Exchange date (see Quota Exchange Schedule for date).

For producers who are offering to purchase quota for which they do not have capacity, a signed undertaking must accompany the application form which commits the purchaser to activate the quota within a 10-year time frame.

Any offer to purchase received in excess of the amount offered for sale, will be reduced to amount offered for sale and the purchaser will be notified by email of the adjustment.

## VII. Eligibility

The Sellers and Purchases must be in compliance with the Board's Regulations. An individual producer cannot submit an application to purchase and application to sell on the same Quota Exchange. If a producer who has submitted an application to sell and then subsequently submits an application to purchase for the same exchange, the producer's application to purchase will be rejected.



## VIII. What do I Pay for the Service?

Eligible persons must pay a \$105.00 application fee inclusive of GST, to the Board for each offer to purchase or sell quota. The quota exchange fee will not be withdrawn, nor deposited unless the quota exchange is successful.

## IX. Minimum and Maximum Amounts

A prospective seller may specify in an offer to sell that the offer is to be withdrawn from the QE if there are insufficient offers to buy and clear 100% of the layer quota offered for sale in that offer to sell.

A prospective buyer may specify in an offer to buy that the offer is to be withdrawn from the QE if there are insufficient offers to sell to clear a specified minimum amount of layer quota sought to be purchased in that offer to buy.

The maximum amount of layer quota which may be contained in an offer to buy is 10,000 layers through the QE provided that his quota does not exceed 7.0% of the total provincial allocation.

## X. Determining Successful Buyers and Sellers: Market Clearing Price (MCP)

Actual offers to sell and bids to purchase quota are used to establish the MCP of each exchange. The MCP is used to determine buyers and sellers that are successful but does not determine the amount of money that will be paid by/to the buyer/seller.

1. Applications to sell quota are recorded based on the prices at which the quota is offered for sale. Selling applications with asking prices 20% higher than the highest buying price received for the last three successful exchanges, will be rejected.
2. Applications to purchase quota are recorded based on the prices at which producers have offered to purchase quota. Purchase applications with prices 20% lower than the lowest bid received for the last three successful exchanges, will be rejected.
3. At a price where a volume of quota offered for sale will equal, or very nearly equal, a volume of quota bid for the marketing clearing price established.



### Example of the MCP

Sellers			
Seller Number	A Units of Quota	B Selling Price	C C=(A*B)
1	92	\$45.00	\$4,140.00
2	185	\$50.50	\$9,342.50
Total	277		\$13,482.50

Buyers			
Buyer Number	D Units of Quota	E Price	F F=(D*E)
1	277	\$50.00	\$13,850.00
2	277	<b>\$56.00</b>	\$15,512.00
3	100	\$51.00	\$5,100.00
4	277	\$52.00	\$14,404.00
5	50	\$52.00	\$2,600.00
6	277	\$55.00	\$15,235.00
Total	1,258		\$66,701.00

G		H
Summary	Total Units of Quota	Total Dollar Figure
Buyers	1,258	\$66,701.00
Sellers	277	\$13,482.50
Total	1,535	\$80,183.50
MCP	H/G	<u>\$52.24</u>

In this example, both sellers would be successful as:

1. Their asking price is less than or equal to the MCP.
2. The highest buying price per unit of quota is \$56.00. At 120% this would be \$67.20. All sellers are below \$67.20

The successful buyers must be at or above \$52.24 to be successful (bidder 2 and 6). As such would be successful and they each would receive 138 quota.

## XI. Allocation Process

Where there is **less quota for sale than there are offers to buy**, the available layer quota will be allocated on an incremental basis to successful buyers. The incremental allocation process allocates the available quota in increments or blocks of a specific size until the quota has been fully equally distributed. In a situation where there is rounding, or distributing the quota equally leaves quota undistributed, the Board will hold the quota to sell on the next quota exchange at the market clearing price established in the next exchange.

### Allocation Example:

Assume that 9 persons were eligible to purchase 3,000 units of quota at the MCP, but only 2,496 units were available at that price. The attached table lists the producers, the total amount of quota of which they would be eligible to buy, the incremental distribution in block of 100 units and the distribution of available quota.



Quota would be distributed to the eligible producers in blocks of 100 units until their bid was satisfied or until there was insufficient left to provide all the remaining producers with another block of 100 units. In this example, there is sufficient quota to provide every producer with 300 (3 x 100) or the total of 2,325 which leaves a remainder of 171 to be allocated. At this point there are 5 producers left which have not had their bids fully satisfied; the remainder is divided equally amongst them, which will leave 1 unit remaining unsold. Each producer will receive 334 units of quota or full satisfaction of their offer to purchase whichever is the lesser. In this case, the Board would hold the 1 unit of quota at the market clearing price to be sold on the next successful exchange, at that exchanges market clearing price.

<i>Producers</i>	<i>Offer to Purchase</i>	<i>A1</i>	<i>A2</i>	<i>A3</i>	<i>B</i>	<i>Distribution</i>
<i>A</i>	500	100	100	100	34	334
<i>B</i>	350	100	100	100	34	334
<i>C</i>	400	100	100	100	34	334
<i>D</i>	125	100	25	-	0	125
<i>E</i>	500	100	100	100	34	334
<i>F</i>	150	100	50	-	-	150
<i>G</i>	300	100	100	100	-	300
<i>H</i>	250	100	100	50	-	250
<i>I</i>	425	100	100	100	34	334
<i>Total</i>	3,000	900	775	650	170	2,495

----2,325----

Where there are less offers to buy than there is quota available for sale:

- (a) The available layer quota will be transferred from each prospective seller on a pro rata basis to prospective purchasers.
- (b) The Board may use the following procedure to try and clear all the sellers' quota.
  1. The Board shall offer to all successful purchasers the right to buy additional quota at their respective bid. If the purchasers agree to buy more quota than is available on the exchange, the allocation process will be used to distribute the available quota.
  2. If the purchasers of the quota in number one do not wish to buy all of the quota available, the Board will then offer to those producers that participated in that quota exchange but who were not successful in purchasing quota the right to buy quota at their respective bid. If these purchasers then agree to buy more quota than is available, the allocation process will be used to distribute the available quota.
  3. If the Board is unsuccessful in selling the quota through subsection (1) or (2) the Board will use the allocation process to determine how much quota each producer will sell on that quota exchange. Some sellers may not be able to sell their entire quota on one exchange.



## XII. Determining the Final Price of Quota

### a. Step 1

Referencing the example in X above, once the MCP has been calculated, we determined that both sellers and 2 bidders have been successful and will trade quota.

Successful Sellers			
Sellers	Units of Quota Sold	Offer Price	Total Value
1	92	\$45.00	\$4,140.00
2	185	\$50.50	\$9,342.50
Total			\$13,482.50

Successful Buyers			
Buyers	Units of Quota Bought	Bid Price	Total Value
2	138	\$56.00	\$7,728.00
6	138	\$55.00	\$7,590.00
Total from Bidders			\$15,318.00
EFA (at MCP)	1	\$52.24	\$52.24

The successful sellers are paid according to their sale offer price. Successful bidders pay according to their bid price. The Board clears the market of the 1 extra unit of quota at the MCP and will offer that for sale in the next quota exchange, at the next quota exchange MCP.

### b. Step 2

If the total value of the quota sold by the sellers and the total value paid by the bidders does not match evenly, a refund to the bidders will be applied to balance the exchange. In the example above,  $\$13,482.50 < \$15,318.00$ , therefore, a refund will be issued.

Summary	
Sellers Total Value (I)	\$13,482.50
Bidders Total Value (J)	\$15,318.00
Board Clearance Total (K)	\$52.24
Sellers Total less Board Clearance(I-K)	\$13,430.26
Total Refund Generated (L) = J-(I-K)	\$1,887.74
Total Amount of Quota Transferred to Bidders (M)	\$276.00
Refund to Bidders (per unit) (L/M)	\$6.84



<u>Summary</u>				
Buyer	Units of Quota Awarded	Buying Price	Final Price Per Unit of Quota (Bid Price-Refund)	Total Refund
2	138	\$56.00	\$49.16	\$943.92
6	138	\$55.00	\$48.16	\$943.92
EFA	1	\$52.24	\$52.24	\$0.00

### XIII. Notification and Payment

EFA will notify all persons participating in the QE of the results as per the above schedule.

EFA will provide all successful sellers and buyers with statements. Buyers shall be required to pay an amount equal to the balance of the purchase price required for the purchase of the layer quota. Such payment shall be made to EFA, not later than the quota transfer date by direct deposit, certified cheque, money order or bank draft.

If payment is not made as required:

- (a) The offer to buy made by the defaulting buyer shall be deemed to be withdrawn;
- (b) The whole or any part of the deposit paid by the defaulting buyer together with any accrued interest, shall be forfeited to the Board, and
- (c) Other successful buyers will have the option to purchase the quota per their original application, and submit payment within 5 business days.
- (d) Should the above not be successful, the amount of layer quota sold by all successful sellers will be reduced proportionately by the amount of layer quota not transferred by the defaulting purchaser.

Payment to the seller(s) will be calculated by multiplying the seller's offer price for a QE by the amount of the layer quota sold by the seller on that QE. Payment to a successful seller will be made by EFT or cheque drawn on EFA's bank effective the quota transfer date.

### XIV. Pullet Orders

When a producer chooses to sell his quota, it is their responsibility to ensure that he has no chicks on order or pullets being grown. As the onus is on the seller, he/she must make appropriate arrangements with his hatchery person or pullet grower. The Board may withhold the costs of chicks or pullets from payment to the producer to compensate the hatchery person or pullet grower for any losses that may occur.

### XV. Ineligible Applications

In the event a bid or offer submitted to the exchange is considered to be an obvious attempt to disrupt the success of the QE, the Board of Directors may use discretion to reject the bid or offer. The application will be returned with notification as to why it has been rejected.

### XVI. Quota Transfers



Unless otherwise authorized by the Board, registered producers who have purchased quota, must have it in continuous production for a period of 3 years before it can be further transferred. If a registered producer decides to sell quota, he/she must have activated all increases prior to the purchase plus the purchased quota in question for a 3-year period.

For the purposes of quota tracking, EFA will activate quota First In, First Out. Provincial decreases in quota will be Last In, First Out (LIFO), and transfers will be First In, First Out.

Quota transfers (the sale and purchase of quota) must adhere to the requirements outlined in EFA's Quota Transfer Policy (OPP 9.2) and Quota Exchange Policy (OPP 9.34)

For example: if a producer receives 2 increases and then purchases quota:

- Increase #1 100
- Increase #2 400
- Purchase #1 600
- Increase #3 200

The producer would have to activate and operate Increase #1, 2 and Purchase #1 for 3 years before it could be sold. However, he could sell the amount equivalent to increase #3; 100 would come from Increase #1 and 100 from Increase #2 when determining where the quota came from.

## XVII. Cancellation of the Quota Exchange

The Board at its sole discretion may cancel the Quota Exchange at any time.

### For Internal Use Only

Policy updates must be uploaded	Specify location
Producer Website	<a href="http://www.albertaeggproducers.ca/information-center/EFA-Policies/">http://www.albertaeggproducers.ca/information-center/EFA-Policies/</a>
Consumer Website	N/A