

# **Rice Revenue Protection Coverage for 2015 Crop Year**

## **What coverage is being impacted by an insufficient trading activity issue?**

RMA is not providing 2015 crop year (CY) rice revenue protection coverage for any rice policy sold under any sales closing date (SCD). This includes revenue protection coverage under revenue-based insurance plans 02 (revenue coverage); 03 (revenue coverage with harvest price exclusion); 05 (area revenue coverage); and 06 (area revenue coverage - harvest price exclusion).

We are still providing yield protection coverage under these revenue-based insurance plans; these plans will not function in a manner that allows revenue protection coverage. The harvest prices are set equal to the projected prices and the volatility factors are set equal to zero. Thus, premium rates for these revenue-based plans of insurance are the same as the premium rates for the yield-based protection plans of insurance (01 - yield protection and 04 - area yield protection). Growers do NOT need to switch from a revenue plan to a yield plan in order to retain coverage. Revenue plans will automatically function as yield plans for the 2015 CY.

## **Why is revenue protection coverage NOT being offered?**

RMA's Commodity Exchange Price Provisions ([CEPP](#)) Section 1: General Information specifies conditions that must be met before revenue protection coverage can be offered. The CEPP states there must be at least eight full active trading days for the commodity contract listed in the [crop specific] CEPP – Section II document, during the applicable projected price discovery period ( [www.rma.usda.gov/policies/2014/14cepprice.pdf](http://www.rma.usda.gov/policies/2014/14cepprice.pdf).) A full active trading day requires

at least 25 open interest contracts be available for that day.

RMA utilizes the Chicago Board of Trade (CBOT) November rice contract for most states. The CBOT September contract is used for South Texas (January 31 SCD) and Louisiana (February 28 SCD). The 2015 contracts for these months did not meet the CEPP's threshold requirements for any of the projected price discovery periods under any of the SCDs.

- RMA released Informational Memorandums for the January 31 (South Texas; September contract) and February 15 (Florida; November contract) SCDs, notifying AIPs and growers that 2015 crop year revenue protection coverage will not be offered.
- RMA added text in a Message Center on our Price Discovery – Beta application notifying interested parties on February 5 that the CEPP's eight day threshold requirement would not be met for the February 28 SCD – for neither the 2015 September contract nor the 2015 November contract. The February 28 projected price discovery period ended February 14 (but the last trading day was Friday, February 13) and the related Information Memorandum was released Tuesday, February 17. This memorandum also notified parties that revenue protection coverage is not being offered for rice policies covered by the February 28 sales closing date. There are no further sales closing dates for rice for the 2015 CY.

Revenue Protection coverage also requires the calculation of a volatility factor which is used in the calculation of RMAs premium rates for revenue coverage. The RMA Volatility Factor Calculation Methodology uses the appropriate closing implied volatility for the contract, for the day, as defined in the CEPP. This information was also not available due to the limited liquidity of the contract.

### **Why is RMA able to set the projected price for yield protection using the established method defined in the CEPP, but not use it to establish a guarantee for revenue protection?**

The CEPP provides RMA authority to determine a projected price for yield protection when the projected price for revenue protection cannot be calculated by the procedures outlined in the CEPP. RMA evaluated several sources of information pertaining to the rice market and found that the price expected to be derived using

the contracts and dates of discovery outlined in the CEPP was reasonably in-line with other market expectations. Thus, the method outlined in the CEPP was used to establish the projected price for yield protection.

The minimum requirements to establish the projected price for revenue protection were not met. The risk of loss changes when shifting from indemnities being paid based on yield shortfalls only, to paying indemnities on yield shortfalls, revenue shortfalls, or the combination of the two. The requirements established in the CEPP are the minimum standards needed for a contract to be used for setting revenue protection.

Also, as previously stated Revenue Protection coverage requires the calculation of a volatility factor which is used in the calculation of RMA's premium rates for revenue coverage. The RMA Volatility Factor Calculation Methodology published on RMA's website uses the appropriate closing implied volatility for the contract, for the day, as defined in the CEPP. This information was also not available as there was not sufficient futures or options trading to generate an implied volatility factor, which RMA requires for rating revenue products. Without this, RMA cannot appropriately, or on an actuarially sound basis, establish premium rates for such revenue coverage. This also could become a contractual issue for AIPs since offering revenue coverage in this situation would require RMA to establish premium rates outside of approved methods, policy, and rules for establishing premium rates charged for revenue coverage risk.

## **Does RMA have alternative options for offering revenue protection coverage?**

The CEPP allows RMA to use a substitute contract, usually the preceding contract, provided the contract reflects marketing for the current crop year (i.e., the contract is used to market the "new" crop). For the November contract, the September contract can be used as a default. For the September contract, the preceding July contract can NOT be used since it is used mostly to market last year's crop (i.e., the "old" crop). As noted above, we are unable to default to the September contract this year since both 2015 September and 2015 November contracts fail to meet the CEPP's threshold requirements.

We could potentially use the subsequent 2016 January contract; however, this contract also fails to meet the CEPP's threshold requirements.

### **Do AIPs and insured growers need to switch to yield protection coverage plans of insurance for the 2015 crop year?**

No. As mentioned above, growers can continue to insure their crops under existing revenue plans of insurance. Their liability and indemnity will be established in the same manner as if they were insuring under a yield-based plan of insurance. They will be assessed the same premium as they would under a yield-based plan of insurance.

### **Has this insufficient trading activity issue arisen in previous years?**

This is the first time RMA has been unable to provide revenue protection coverage since the 2011 implementation of the combined yield and revenue "COMBO" product.

However, there have been four instances when we have been forced to default to the September contract instead of utilizing the specified November contract:

1. February 15 SCD, 2013;
2. February 28 SCD, 2013;
3. February 15 SCD, 2012;
4. February 28 SCD, 2012;

In 2005, RMA was unable to offer revenue coverage under the Crop Revenue Coverage (CRC) product for the February 15 and February 28 cancellation dates due to insufficient trading activity on both the September and November contracts.

### **Are other crops potentially susceptible to this insufficient trading activity issue?**

The 2013 and 2014 InterContinentalExchange (ICE) September cotton contracts failed to meet the CEPP threshold requirements for the January 31 SCD (South

Texas). In these instances, RMA was able to use the July contract.

Starting in the 2015 crop year, RMA began using the December contract for the January 31 SCD at the request of the cotton industry. The December contract is more heavily traded. It is also the contract used for all other cotton SCDs. This change should minimize instances in which RMA must either default to a different contract or withhold revenue protection coverage.