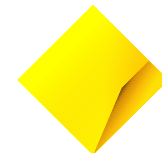


# On-Farm Storage – financing considerations

Modernising the Grain Supply  
Chain Summit

April 2021



**Commonwealth Bank  
of Australia**

# Executive Summary

- The ability to extend financing against inventory located in on-farm storage is currently limited.
- Storage due diligence is a considerable administrative process.
- Internal credit departments will always look for deals to be anchored to the most reliable part of a transaction.
- Key concerns regarding exposure to additional operational, legal and structural risks.
- Leads to financing focused on traditional forms of security (i.e. land, buildings) rather than capitalising on inventory levels.
- Where value is provided – it is provided at lower advance rates.

# CBA Existing Storage Framework

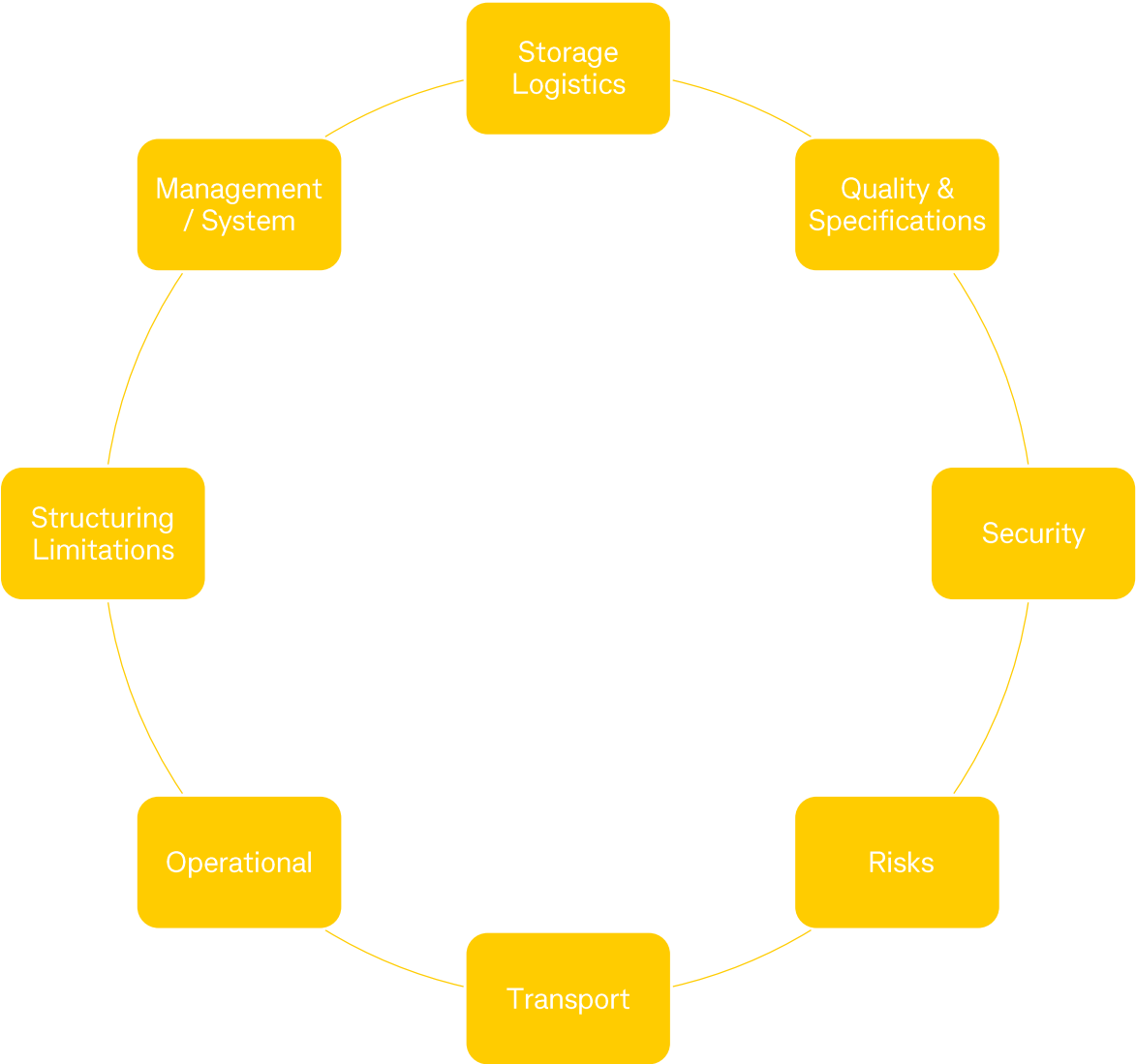
## Understanding operational processes

- CBA's existing grain supply chain financing mandate allows inventories to be held with a bulk handler or a private 3<sup>rd</sup> party site.
- This mandate covers both inventory/ownership (cash & carry) and financing (borrowing base, SCF) structures.
- To ensure adherence to internal policies and procedures, the commodities team is responsible for ensuring that appropriate site due diligence is completed for all existing and new storage locations.
- Under existing CBA policy, Bulk Handlers are excluded from the inspection requirements due to the impracticality of inspecting a bulk handling location, namely the frequency of turnover in such a site and large volume stored.
- Approval for storage of private 3<sup>rd</sup> Party Sites needs to be consistent with comprehensive site on-boarding and inspection policies.



# Extending finance against on-farm storage

## Key Considerations



# 3<sup>rd</sup> Party Private Storage

## On-boarding Requirements

- A requirement for on-boarding a new private site is that an Independent third party inspection is conducted to determine the suitability of the site for CBA inventory storage.
- The months have been selected based upon the seasonal behaviour of grains. There is no benefit attempting to carry out storage due diligence in the middle of the harvest.
- Priority is to ensure that inspections are carried out in February, June and October of each year.

### **Coverage Requirements:**

Requirement to maintain comprehensive insurance coverage and ensuring the Bank has a right of entry and accessibility.

### Independent third party inspections:

- Understanding of the security and operational processes of any new storage site is key to understanding the risks of holding inventory at the site.
- The appointment of an independent third party inspection agent to review these points is therefore critical to the success of the control process.
- The following considerations will form the basis of the selection criteria:
  - > History of provision of services in commodity markets
  - > Technical expertise in grains/oilseeds
  - > Relevant geographic sector coverage
- This is to ensure the qualifications, technical expertise and suitability of the inspecting agent.

# Typical Due Diligence Requirements

## Ensuring appropriate controls

### Site Operator Due Diligence:

- Name of storage site company (legal entity)
- Is the operator a member of the GTA?
- How long has the company been operating, and other background information?
- Details of key management including experience in handling, qualification requirements, etc.
- Financials and other corporate information.
- Provision of stock holding information – format provided, how often?

### GTA Membership:

- A requirement of on boarding a private site for grain storage is membership of the GTA.

### Site Due diligence:

- Description of the condition and the number of sheds/silos/bunkers, storage capacity and types of grain stored.
- What operating licenses does the site have? Details of inspections and standards required for maintaining certifications.
- Whether the storage facility (including the land on which the facility is situated) is leased or owned by the warehouse company.
- Physical inspection to be carried out to confirm that the site is fit for storage.
- What insurance does the site operator maintain?
- Are there operating/safety procedures in place at the storage facility and the method of ensuring compliance?
- Details of two referees that regularly store grain at the site.

# Thank you

**Adam Rowe**

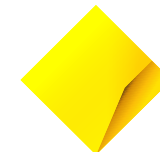
Executive Director

Head of Trade Finance

Global Commodities & Trade

M: 0435 127 428

E: [adam.rowe@cba.com.au](mailto:adam.rowe@cba.com.au)



**Commonwealth Bank  
of Australia**