Amendment 003 - RFQ 5K002-133712/B
Questions and Answers from Supplier

This solicitation amendment 003 is raised to extend the closing date to **June 18, 2013 at 14:00 ET** and to answer Supplier's questions on the Request for Qualification 5K002-133712/B.:

Question 1:
As was stated at the Suppliers' Conference May 14, 2013, please confirm SECURITY clearance must have commenced upon award of contract.

Answer 1:
The Security Requirement is important. In part 4, page 17: Security Requirement. PWGSC encourages potential suppliers to launch this process immediately in order to prevent delays implementing the proposed security model. PWGSC can sponsor bidders at this time, please review the requirements and contact Jocelyne Gagnon (Jocelyne.c.gagnon@tpsgc-pwgsc.gc.ca / 819-956-0575) as soon as possible. Once obtained, security clearances can be utilized for other government projects.

Question 2:
Please advise when the meeting minutes will be published along with all attendees (in person and those who called in via teleconference).

Answer 2:
Minutes were posted on MERX, May 23, 2013

Question 3:
Page 36, "6. Tasks", point 9 requires the supplier to communicate the names of grain companies that have paid premiums in full. What actions are taken regarding the grain companies who have not paid?

Answer 3:
Grain companies that do not pay their premiums will not become insured under the master insurance policy agreement, and will not receive a licence from the CGC. Without a licence, companies are not permitted to purchase grain from producers.

Question 4:
Annex A states there are 149 licensees. It further states in 3.5.1 Rationale, 2nd paragraph, "The risk of one or more of the largest licensees defaulting on their payment or delivery obligations to producers cannot be eliminated."

Given that the financial proposal of the bid is based on the complete volume, how is the supplier reimbursed for the licensee's failure to pay their share promptly or at all? There is no indication in the bid that the supplier must assume this additional cost or the risk associated with it.

We bill in December, but have to make our firm commitment in July… in the event of any defaults we cannot change the cost. How will this be addressed?

Answer 4:
The use of a deposit premium and final premium would provide the opportunity to make adjustments based on changes to the licensee population. If a company is required to pay an individual premium amount and fails to make this payment, the outstanding balance will be redistributed among the current licensee population when premium payments are reconciled at the end of the term to establish the adjusted premium.

A review committee with representatives from the CGC and the Supplier would meet quarterly to review the performance of the pool and determine how to address any significant changes to the risk profile.

Question 5:
How will the supplier be made whole if the licensee defaults on the premium payment?

Answer 5:
The supplier will be made whole at the end of the term through premium reconciliations.

Question 6:
pg 26, 4.4 Termination on Thirty Days Notice. This contract will require a bidder to make major financial and personnel commitments that cannot be adjusted in only thirty days. How does this affect existing insurance policies and commitments?

Answer 6:
Existing insurance policies and other security instruments will be cancelled subsequent to the master insurance policy agreement taking effect.

Question 7:
The estimated distribution of losses (Table 4) reveals volatility in results yet it appears expectations are the rates will be static. What happens if the results are worse than expected, can the supplier incorporate a retrospective rating element based on actual results?

Answer 7:
The pricing structure is not retrospective, as described in attachment 1 to part 3 of the RFQ. A review committee with representatives from the CGC and the Supplier would meet quarterly to review the performance of the pool and determine how to address any significant changes to the risk profile.

Question 8:
Will the supplier be obligated to carry the rating forward from the first 3 years to the last 2 if the CGC requests an extension?

Answer 8:
The total premium in the response applies to all five years, in accordance with attachment 1 to part 3 of the RFQ with annual adjustments based on amounts of producer purchases and changes in consumer price index. The risk assessment of each licensee would be reviewed annually with the supplier and any potential adjustments would be made prior to determining the premium amounts payable by each licensee and invoicing licensees for renewal.

Question 9:
We understand Deloitte was contracted out to perform the actuarial work and they subcontracted this out to Dion Durrell. Are Deloitte and Dion Durrell eligible to bid on this RFQ?

Answer 9:
Deloitte and Dion Durrell are not eligible to bid on this RFQ.

Question 10:
The previous security program had dollar limitations by licensee. Under the new proposed model it appears there are no dollar limitations up to the aggregate $100M limit. If this is the case what controls are in place to stop a licensee from perpetuating reckless trading and unduly exposing the program?

Answer 10:
The current security program does not place restrictions on the amount of producer liabilities a licensee may incur. Licensees are and will continue to be responsible for ensuring adequate

internal controls are in place to manage their businesses appropriately. It may not be in a licensee's best interest to undertake reckless trading and jeopardize their business. Licensees can protect their interests by implementing controls to prevent reckless trading or other activities that could create risk. Producers are also encouraged to perform their own due diligence because eligibility would be reduced to 45 days from the date of delivery with a maximum payment of up to 95% of eligible claims.

Question 11:
Table 3 (page 41) displays a summary of annual aggregate losses in the past. Is the relevance of the historical data flawed if "Board Grains" were never included until 2012? One might contest that the frequency and severity of losses would be greater pre-2012 had the numbers included "Board Grains". Was this factored in the Dion Durrell actuarial study?

Answer 11:
The historical data is not flawed, and remains relevant even with the removal of the Canadian Wheat Board monopoly. Wheat and barley losses have been included in the Table 3, and historical security coverage applied to failures where licensees dealt in these grains. Liabilities reported by licensees include board and non-board grain obligations. Dion Durrell's actuarial study considered both liability reports and historical loss data.

Question 12:
How do we handle the addition of licensees throughout the term and contract period? Our quote is based on the current 149 licensees. If we add 10 licensees throughout the year, how does that affect the annual premium?

Answer 12:
New licensees will be charged an initial premium based on their volume projections and applicable risk rating. At the end of the term, the premium reconciliation process to determine the adjusted premium would resolve any potential imbalance in the total annual premium amount among the new complement of licensees.

Question 13:
How does the CGC intend to deal with the issue of the deterioration of the financial condition of a Licensee?

Answer 13:
The deterioration of the financial condition of a licensee would be addressed through the risk rating criteria developed with the supplier in the upcoming coverage term. Each licensee's risk rating is established prior to the beginning of the term year. At the end of the policy term, if a licensee's financial condition has changed, this will result in an adjustment in the premium for the next year.

Licensees currently have several requirements to obtain and maintain a licence. The CGC has several options for dealing with licensees who do not uphold their licensing requirements. In the proposed new model, some changes to these requirements may be necessary. The CGC expects to review the current criteria and potentially make revisions in consultation with the supplier.

Question 14:
Under the proposed Program, does the CGC envision any curbs on the ability of Licensees to transact any volume of business once licensed? If so, how does the CGC intend to monitor fraudulent activity and moral hazard of licensees.

Answer 14:
The CGC does not intend to place any volume restrictions on licensees. Licensees are responsible for their own business decisions. Any changes to the volume of a licensee's producer purchases would be captured by a higher proportionate premium. The accuracy of licensee

financial and volume reporting information will be monitored by the CGC through risk-based audits.

Question 15:
How many current licensees are under credit watch from the CGC or have shown financial deterioration in the last 12 months.

Answer 15:
The CGC does not monitor licensee credit ratings; currently this is done at the discretion of individual licensees' financial institution(s) and is not reported to the CGC. Licensees are currently monitored for their ability to tender adequate security, and not necessarily for the state of their financial records. The CGC expects to work with the successful supplier to identify the important financial indicators and how they should be monitored. Changes to these financial indicators could impact the annual risk rating which could affect the premium payable by the licensee..

Question 16:
How many licensees have been de-licensed in the past 3 years due to failure to provide adequate security under the existing program? How many companies have been declined a CGC license due to inability to post suitable security or other reasons?

Answer 16:
The CGC does not communicate the reasons for the removal or refusal of a CGC licence. Denial of licence applications can be based on any of the eligibility criteria, but it is not unusual for a delay in initial licensing due to a company's delay to tender security or fulfill its other licensing obligations.

Question 17:
What is the CGC's experience with failures of licensees with respect to licensees having obligations greater than the posted security under the existing program?

Answer 17:
Of the 25 failures identified in Table 3, five resulted in producers receiving less than 100% of their eligible claims.

Question 18:
Can the CGC comment on the nature / cause of failures of licensees in the past 3 years in comparison to prior years. In particular is there any noticeable new trends for cause of failure such as inappropriate use of commodity hedging instruments, fraud, etc.

Answer 18:
The CGC does not investigate the cause of licensee failures.

Questions 19:
In the 1.1.1 Mandatory Technical Requirement for the RFQ, if the supplier cannot meet one of the three mandatory requirements (M-1, M-2 or M-3), is the supplier disqualified from the RFQ and will not be considered? Please advise.

Answer 19:
As specified under 1.1.1, responses which fail to meet the mandatory technical criteria M-1, M-2 **and** M-3 will be declared non-responsive. The supplier will be disqualified from the RFQ and will not be considered.

Question 20:
The particular requirement that is of concern are the requirements under M-1 Experience of the Mandatory Technical Criteria due to corporate mandated privacy and confidentiality issues. We are not able to provide detailed information on our insured such as their name, contact information and details on the policies (e.g. start and end date and annual aggregate coverage limit).

In lieu of the required information, can Canada Grain Commission instead consider other information such as number of years we have been doing credit insurance business, approximate aggregate portfolio policy limit, number of policies written, etc. to support our track record in the industry and our established trade credit insurance business?

Answer 20:
The Canadian Grain Commission requires this information to verify the work that potential suppliers are bidding to supply. Information included in responses will be treated as commercially confidential if considered by potential suppliers to be such and consistently treated as confidential by them.

Question 21:
Re. Attachment 1 to Part 3, Premium Schedule.

Please advise the differences between the following and how a bidder can submit a price for:

a) “Quoted Total amount of Premium (in Cdn $)”
b) “1. Period 1 – 01 December 2013 to 30 November 2014, Total Period 1 $” [The period of time extends beyond July 2014]
c) “2. Evaluated Price (Applicable Taxes excluded): Total Period 1 $”

These three prices are requested on page 15. Please confirm you are in fact seeking three prices.

Answer 21:
There is only one price to be included in the Response. Suppliers are to provide a price for the total premium for year 1 (December 1, 2013 – November 30, 2014) based on the information provided, particularly the producer purchases total for the crop year ended July 31, 2012.

We recognize that the table on page 15 may cause confusion due to the format.
“Quoted Total amount of Premium (in Cdn $) – this is a header and requires no input.
b & c) Because one price is being quoted, sections 1 & 2 (Period 1 & Evaluated Price) of the table on page 15 are the same number. This price excludes applicable taxes.

Question 22:
Pg 25, Part 6 – Basis of Negotiations. Based on the first sentence, are we correct that Standard Clauses and Conditions and other elements are subject to negotiation?

Answer 22:
Standard clauses and conditions are the basis for negotiating the required content of a Master Insurance Policy Agreement, but the expectation is that responses will align with the requirements set out in the RFQ.

Question 23:
Re: “2. Summary” (page 3) it states: “… is looking to qualify one (1) supplier…will be for three (3) years with two (2) option years, for a potential life of five (5) years.”

Within section “Part 6 – Basis of Negotiation” (page 26), it states: “4.2 Option to Extend the Master Insurance Policy Agreement…up to two (2) additional one (1) year periods under the same conditions." It further states: "4.3 Option to Extend –Transition Period… by a period of twelve months…" Is this in addition to the two options years? Which clause governs?

Answer 23:
The option to extend as described in section 4.2 (page 26) refers to the two option years for the Master Insurance Policy Agreement. The option to extend as described in section 4.3 is for transition purposes, and could be applied in addition to the two option years described in section 4.2. Option 4.3 can be exercised at any time if required, whereas option 4.2 can only be exercised after the three years of the Master Insurance Policy Agreement.