Growing Forward 2

A federal-provincial-territorial initiative

# AgriStability

## Program Guidelines

British Columbia Alberta Government Government of Saskatchewan Manitoba Ontario Québec Newfoundland Labrador Nova Scotia Nouvelle-Écosse New Brunswick Nouveau-Brunswick Prince Edward Island Yukon Government Canada

**Note:** This document reflects agreements made by federal, provincial and territorial governments under Growing Forward 2

Minor modifications to the presentation of the original text of the AgriStability Program Guidelines have been made in preparing this version. This document is not a substitute for the original signed Agreement and Amending Agreements.

Where discrepancies exist between these guidelines and the text in The Federal/Provincial/Territorial Agreement with respect to AgriStability and AgriInvest, the text in The Federal/Provincial/Territorial Agreement with respect to AgriStability and AgriInvest shall be deemed to be correct.

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# DEFINITIONS

Unless otherwise indicated, terms that are defined in the Agreement have the same meaning in these Guidelines.

**Administrator**: Provincial or Federal body or agency that administers the Program for a specific province or territory.

**Administrative Cost Share (ACS):** The annual charge for a Program participant to cover a portion of the Program administrative costs.

**Agreement**: The Federal / Provincial / Territorial Agreement with respect to AgriStability and AgriInvest.

**Arm's Length Salaries**: Salaries paid to employees except those salaries paid to Related Persons.

**Benchmark Per Unit Margin (BPU):** The average Production Margin associated with producing a particular commodity or commodity group, based on industry standards.

**Calculation of Program Benefits:** A notice issued by the Administrator detailing the calculation of a participant's Program benefits for the Program Year.

**CRA:** Canada Revenue Agency.

**Claimant:** The party that is making a claim for reimbursement of eligible administrative costs, as defined in the Agreement.

**Contribution Reference Margin:** The Reference Margin used to calculate the participant contribution for a Program Year, as set out in clause 3.2.

**Current Program Year:** The Program Year for which Program Forms are submitted.

**Enrolment Notice:** A notice sent by the Administrator containing the participant's Contribution Reference Margin, as set out in clause 3.2, and participant contribution.

**Entity:** A participant, other than an individual, recognized by law as having rights and duties such as a corporation, cooperative, communal organization, or limited partnership.

**Farming Income:** Income derived from farming activities, as defined by CRA.

**Fund 1:** The account into which amounts paid by the participant, as set out in clause 3.4, are credited.

**Fund 2:** The account into which government contributions are credited.

**Hybrid Inventory Adjustment:** The adjustment set out in clause 4.4.1 of these Guidelines.

**Interim Payment:** An advance payment made to a participant based on an estimate of a participant's margin decline in the Current Program Year, relative to the participant's estimated Reference Margin.

**Inventory:** The tangible property of a farming business related to the Production Margin, which may include:

- held for sale (example: harvested grain)

- used for production of saleable goods (example: seed, feed); or
- in the process of being produced (example: standing crops, feeder livestock)

**Minimum AgriInsurance Coverage Level:** Coverage on each insurable commodity at the 70% coverage level; or at the lowest level offered where it exceeds 70%, subject to provincial exemptions.

**Olympic Average:** The average of the Production Margins for three of the five years immediately prior to the Program Year, where the highest and the lowest margins are excluded.

**Perishable Crops:** Edible crops that spoil or decay easily and cannot normally be held in fresh storage for periods longer than ten months.

**Production Cycle:** Includes one or more of the following activities:

- the growing and harvesting of a crop;
- the process of rearing livestock;
- the purchase and/or sale of livestock within a Program Year in the case of feeding or finishing enterprises.

**Production Margin:** The difference between allowable income and allowable expenses, as defined by Program Guidelines and subject to the adjustments set out in Program Guidelines.

**Program:** AgriStability as defined in the Agreement.

**Program Forms:** The forms prescribed by each Administrator for the reporting of required Program Year information.

**Program Year**: The period for which the participant files a return under the *Income Tax Act*, or for participants who are not required to file returns under the *Income Tax Act,* the calendar year.

**Program Year Margin:** The Production Margin for the Current Program Year.

**Province or Territory of the Main Farmstead:** Province or territory where all or the majority of the gross Farming Income was earned over the reference period subject to any adjustments including consideration of Program Year production units and location.

**Reference Margin:** The amount determined under clause 4.5.

**Related Persons**: As defined under the *Income Tax Act*, the following are considered to be related persons:

1. individuals connected by blood relationship, marriage or common-law partnership, or adoption;
2. a corporation and
    a. an individual, group of persons, or Entity that controls the corporation;
    b. an individual, group of persons, or Entity of a related group that controls the corporation;
    c. any individual related to a person described in (a & b) above.

3. two or more corporations if:

    a. they are controlled by the same individual, group of persons, or Entity;

    b. an individual or any member of a group of persons or Entity that controls one corporation is related to the individual or any member of a group of persons or Entity that controls the other corporation;

**Sound Management Practices**: The same management practices that would be followed by any conscientious participant under the same circumstances as determined by the Administrator.

**Status Indian:** A person entitled to be registered within the meaning of section 6 of the *Indian Act*.

**Structural Change:** A change in ownership, business structure, size of operation, farming practices, type of farming activity, method of accounting, or any other practice that a participant might undertake that may alter Production Margins or a farming operation's potential for profit or allowable expenses.

**Stub Period**: A fiscal period of less than 12 months.

**Whole Farm:** Farming Income derived from all sources, regardless of the physical location of the farming operation(s).

# PART 1 - ELIGIBILITY

## 1.1 General Eligibility Requirements

An individual or Entity is eligible to participate in the Program for a Program Year if, with respect to that Program Year, they have:

1. carried on the business of farming in Canada and reported Farming Income (or loss) for income tax purposes;
2. completed a minimum six consecutive months of farming activity;
3. completed a Production Cycle;
4. met all Program requirements by the deadlines established by the Administrator; and,
5. met any other applicable provincial requirements as specified in these Guidelines.

The eligibility requirements of six consecutive months of farming activity and a completed Production Cycle in that Program Year may be waived if the Administrator determines they could not be completed due to circumstances beyond a participant's control.

- Status Indians who carried on the business of farming on a reserve in Canada, and did not file returns for income tax purposes, are eligible to participate provided they submit information that would have otherwise been reported for tax purposes for that Program Year and reference years based on the requirements of the *Income Tax Act*, and meet all other Program requirements. For Program purposes, Status Indians will be deemed to have a December 31 fiscal year-end.

- Partners are eligible to participate in the Program as individuals. Each partner's share of the Production Margin of the partnership shall be attributed to that partner for the purpose of calculating that partner's AgriStability entitlements. However, a partnership is eligible to participate as an Entity, provided the partners have reported Farming Income (or loss) for income tax purposes for the Program Year, and the partnership is recognized as:

    1. a legal Entity under Article 2188 of the *Quebec Civil Code* and if so, the Program will apply the same treatment to the partnership as a corporation with the appropriate adjustments; *or*
    2. a limited partnership

- Research stations, universities, colleges, and other government-funded institutions are not eligible for the Program.

- Former federal public office holders or servants who are not in compliance with federal conflict of interest guidelines are not eligible to receive payments under the Program.

- In the province of Quebec, in addition to meeting the specific requirements relating to account management and the prescribed forms for presenting financial data using the accrual accounting method, participants must also meet the following provincial requirements:

- register farm businesses and market farm products in accordance with the Regulation respecting the registration of agricultural operations and the payment of property taxes and compensations, enacted pursuant to An Act respecting the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (L.R.Q., c. M-14), with the exception of participants affected by section 1.4 of these Guidelines and not eligible for registration;

- market concerned products in accordance with the regulations and conventions in effect, enacted pursuant to *An Act respecting the marketing of agricultural, food and fish products* (L.R.Q., c. M-35.1).

## 1.2 Deceased Participants

The estates of deceased participants are eligible to participate provided they meet all of the eligibility requirements specified in these Guidelines. These requirements may be met through a combination of activities performed by the deceased participant and their estate. The executor or administrator of the estate must notify the Administrator of the participant's death.

In the case of deceased participants, the filing of more than one income tax return may be involved. The Production Margin for deceased participants for the Program Year in which the death occurs will be based on their final return (start of Program Year to the date of death), plus any return filed from the date of death to the end of the Program Year. Any Inventory, prepaid expenses, deferred income or accounts receivable, and accounts payable existing at the date of death (or at the end of the fiscal period if more than one return is filed) shall be accrued to the final return. If, in addition to the final return, an optional return for the year of death for a deceased participant is filed (such as a return of rights and things), this information must be submitted to the Administrator. Where the death of a participant results in less than 12 months of income and expenses being reported in the Program Year, the Program Year will be treated as a Stub Period (see clause 4.6).

A beneficiary whose farming operation consists of all or most of the deceased participant's farming operation may be considered as continuing to operate the same farming operation as the deceased. If there is more than one beneficiary, a common business arrangement must be created to carry on the same farming operation as the deceased participant in order to retain the reference history.

In order to close estate accounts, the Administrator may require the executor or administrator of the estate to submit the following documentation:

- a written request to close the account signed by the executor or administrator;
- a certified copy of the probated will or letters of administration/probate; and
- a certified copy of the death certificate.

## 1.3 Final Year of Farming

If participants are in their final year of farming and meet Program eligibility requirements, but report less than 12 months of income and expenses in the Program Year, the Program Year will be treated as a Stub Period (see clause 4.6).

## 1.4 Multi-Jurisdiction Farms

The province or territory of participation for participants who live and farm in different provinces or territories is the province or territory of the Main Farmstead. Participants may not participate in the Program in more than one province or territory. If there is Farming Income (or loss) reported for income tax purposes in more than one province or territory, Program Forms must be submitted to the Administrator for the province or territory of the Main Farmstead. Reconciliation of billing between provinces and territories may occur after the Program Year through the Government of Canada.

# PART 2 – PROGRAM ACCOUNTS

## 2.1 Closing Program Accounts

The Administrator shall close a participant's account on request, on the dissolution of the Program, where the participant has become ineligible, or where the participant fails to confirm participation in the Program for a Program Year under clause 3.3.

Where a participant's account is closed, the participant's remaining balance in Fund 1 shall be applied to the amount owing under clause 3.20 of the Agreement, and will not be returned to the participant.

Where a participant's account would be closed but the processing of a previous Program Year's Program benefit is pending, the Administrator may leave the account open until the processing of the previous Program Year is completed, or close the account and re-open it, if necessary, to make a payment in relation to a previous year.

## 2.2 Administrative Cost Share (ACS)

Participants shall pay an annual Administrative Cost Share (ACS) for each account. The amount of the ACS will be $55 per participant, or an amount established by the Administrator whereby the average ACS per participant is equal to $55 per participant. The ACS amount may be included on the Enrolment Notice for that year. ACS amounts owing by a participant may be set off against any payments made to the participant for the Program Year or any subsequent Program Years.

The Administrator shall charge the ACS to a participant for a Program Year if the participant has confirmed participation for that Program Year under clause 3.3.

## 2.3 Interest

The Administrator is not obligated to pay interest on any balance in Fund 1 or Fund 2. Any interest which the Administrator chooses to pay to participants shall be deposited into the participant's Fund 2 account, and shall not be eligible for cost-sharing.

# PART 3 – APPLICATION PROCESS

## 3.1 New Participants

Participants who did not participate in the Program for the previous Program Year must follow the enrolment procedures established by the Administrator by the deadline specified by the Administrator. If such a participant does not follow the enrolment procedure by the deadline specified by the Administrator, the participant shall not be eligible to participate in that Program Year. The Administrator shall specify a deadline that can be expected to permit the Administrator to issue Enrolment Notices to new participants on time.

New participants must supply the information required by the Administrator to determine their Contribution Reference Margin and issue an Enrolment Notice. If the new participant had previously participated in the Program, the Administrator may use the participant's previous information to calculate the Contribution Reference Margin and require the participant to supply any missing information only.

## 3.2 Enrolment Notice

The Administrator shall issue an Enrolment Notice to:

- participants who confirmed participation in the Program for the previous Program Year, unless they have indicated that they do not wish to receive Enrolment Notices; and

- new participants who have followed the procedures required by the Administrator under clause 3.1.

The Administrator may also send an Enrolment Notice to a person who has previously participated in the Program if the Administrator has sufficient information to calculate the Contribution Reference Margin. Alternatively, the Administrator may require the previous participant to indicate that they wish to receive an Enrolment Notice before issuing one.

The Enrolment Notice shall include the Administrator's determination of the participant's Contribution Reference Margin.

The Contribution Reference Margin for a Program Year shall be the Reference Margin for the previous Program Year, calculated according to the first of the following procedures which applies (without applying the Reference Margin Limit provided for in clause 4.5.3):

- In cases where the participant has been provided with a Calculation of Program Benefits for the Program Year prior to the previous Program Year, the Reference Margin for the previous Program Year shall be calculated using the Production Margin indicated on that Calculation of Program Benefits for each relevant year, without further adjustment except for adjustments previously determined for the participant in relation to that Calculation of Program Benefits, and the removal of program payments from the Production Margin calculation.

- In cases where the participant has not been provided with a Calculation of Program Benefits for the Program Year prior to the previous Program Year, and the Administrator has sufficient information to calculate the previous year's Reference Margin, the Administrator shall calculate the Reference Margin for the previous Program Year using that information.

- In cases where the Administrator does not have sufficient information to calculate the previous year's Reference Margin, the Administrator shall require the participant to supply any information that it deems necessary to calculate the previous year's Reference Margin, by the deadline specified by the Administrator. The Administrator may permit a participant to supply information relating to the three years immediately preceding the previous Program Year and calculate the Contribution Reference Margin using only those three years. If the participant has not participated in the Program for any of the years included in the previous year's Reference Margin, the Administrator may calculate the Contribution Reference Margin using only the three years immediately preceding the previous Program Year by creating margins for those years based on the farm's productive capacity of the Current Program Year. Participants who fail to meet the deadline specified by the Administrator shall not be eligible to participate in that Program Year.

The Administrator shall endeavour to issue Enrolment Notices no later than 3 months after the beginning of the Program Year, and shall establish the deadlines required in order to be able to do so.

With respect to participants with non-calendar year ends, the Administrator shall endeavour to issue Enrolment Notices on a Program Year basis, but may issue Enrolment Notices as if the participant had a calendar year-end.

## 3.3 Confirmation of Participation

Each participant will confirm their participation in the Program within 30 days of receiving an Enrolment Notice, or 4 months after the beginning of the Program Year, whichever is later. Participants who fail to confirm participation by this deadline shall not be eligible to participate for that Program Year.

The Administrator may, in an Enrolment Notice, notify the recipient that the recipient will be considered to have confirmed participation unless the recipient indicates otherwise by the established deadline. A recipient who is so notified and does not respond by the established deadline shall be considered to have confirmed participation in the Program, and to owe the associated participant contribution.

## 3.4 Participant Contribution

### 3.4.1 Amount of Participant Contribution

The participant contribution for a Program Year shall be calculated using the Contribution Reference Margin calculated by the Administrator, multiplied by 0.45 percent, multiplied by 70 percent.

### 3.4.2 Initial Deadline

The participant contribution shall be due within 30 days of receiving an Enrolment Notice, or 4 months after the beginning of the Program Year, whichever is later. If the participant contribution is not paid as of this initial deadline, the amount of the required participant contribution shall increase by 20 percent.

### 3.4.3 Final Deadline

If the original amount of the participant contribution for a Program Year remains unpaid at the end of that Program Year, or 60 days after the Enrolment Notice is issued, whichever is later, then the participant shall be ineligible for payments for that Program Year.

### 3.4.4 Non-calendar Year End

For participants with non-calendar year-ends, the Administrator may extend the initial and final deadline for payment of the participant contributions to the date that would apply to participants with calendar year-ends.

### 3.4.5 Set-Off

Where a payment is triggered under the Agreement and a participant contribution is payable, the Administrator may set-off the participant contribution against the payment, in adherence with the collection principles set out in clause 6.4.

## 3.5 Determining Program Benefits

The Administrator shall establish the deadline for participants to submit completed Program Forms with all required documentation. The deadline shall be no earlier than 6 months after the end of the Program Year, and no later than 9 months after the end of the Program Year. The Administrator may extend the deadline for participants with non-calendar year-ends, up to 9 months after the end of the calendar year.

Participants must submit completed Program Forms with all required documentation to the Administrator. Forms and information may be considered not received by the deadline unless all of the required information and documentation has been provided. The Administrator shall require on an annual basis, at a minimum:

1. the Farming Income and expense information submitted for income tax purposes (e.g. the Statement of Farming Activities), or other documentation showing Farming Income and expense information; and,

2. information detailing opening and ending information for Inventories, accounts payables and accounts receivables, and prepaid expenses, if required to adjust information reported on a cash basis;

In addition, program payments shall be supported by any information detailing production and accrual information required by the Administrator to calculate those payments.

If a participant provides the required documentation after the deadline, but within three months of the deadline, then the Administrator shall reduce any amount payable to the participant for that Program Year by $500 for each month (or part thereof) which has passed since the deadline. If the reduction is greater than the amount otherwise payable, the amount payable shall be reduced to zero, and the remainder of the reduction shall not be applied to any other Program Year.

If a participant fails to provide the required documentation within three months after the deadline, then the participant shall not be eligible for a payment for that Program Year.

Participants who are required to file returns for income tax purposes must report Program Year farming income (or loss) for income tax purposes to CRA no later than 3 months after the deadline for submitting Program Forms for that Program Year. Where the participant fails to do so, the participant shall not be eligible for a payment for that Program Year.

### 3.5.1 Calculation of Program Benefits

After their Forms have been processed, the Administrator shall send a Calculation of Program Benefits to participants detailing their Program Year Margin and Reference Margin. Subject to Program criteria and eligibility, if the participant's Program Year Margin has declined relative to the Reference Margin, the Calculation of Program Benefits will indicate the amounts payable to the participant, according to the rules set out in the Agreement.

### 3.5.2 Payment Limitations

The maximum total payment to a participant is three million dollars. The Administrator may establish an amount below which a payment will not be issued.

## 3.6 Exceptions to Deadlines

The Administrator may excuse a missed deadline where a participant can demonstrate exceptional circumstances. Exceptional circumstances can be cited where the failure to meet the deadlines of the Program could not have been avoided by the exercise of due care by the participant or a third party acting on behalf of the participant.

## 3.7 Payments for Positive Margins

If the participant's Reference Margin for a Program Year is greater than zero, and the participant's Program Year Margin has declined by more than 30% compared to the participant's Reference Margin, the amount payable to the participant will be 70% of the portion of the margin decline that is greater than 30% but less than or equal to 100% of the Reference Margin.

## 3.8 Payments for Negative Margins

In addition to any amount payable under clause 3.7, if a participant's Program Year Margin is less than zero (negative margin), the participant will be eligible to receive payments for that part of the margin decline that falls within the negative margin providing that, in that Program Year the participant has:

1. incurred a negative margin resulting from any peril beyond the participant's control;
2. followed Sound Management Practices;
3. a Reference Margin greater than zero, or had a Production Margin (as determined for the purposes of calculating the Reference Margin) greater than zero in at least two of the three Program Years used in calculating the Reference Margin, including Program Years for which Production Margins were estimated under clause 3.13.2 of the Agreement, but excluding Program Years which were excluded under clause 3.13.1 of the Agreement.

Payments will be calculated based on 70% of that part of the Program Year Margin decline that falls within the negative margin, less any amounts adjusted under clause 3.8.1.

### 3.8.1 Deemed AgriInsurance Benefits

Participants who did not participate in an AgriInsurance program at the Minimum AgriInsurance Coverage Level will have their negative margin benefit reduced by seventy percent of the deemed AgriInsurance benefit (deemed benefit), which represents the indemnity that a participant would have received had they participated in AgriInsurance, less the premium that a participant would have paid to participate in AgriInsurance.

The deemed AgriInsurance benefit will not be included as income for the purpose of calculating Production Margins.

The deemed benefit for individual commodities insured at less than the Minimum AgriInsurance Coverage Level will not be offset by other commodities insured at more than that level.

For purposes of calculating the deemed benefit, a participant that has not purchased any coverage amounts from AgriInsurance will have coverage, premium, loss and benefit for each insurable commodity deemed at the Minimum AgriInsurance Coverage Level. A participant that has purchased AgriInsurance coverage, but less than the Minimum AgriInsurance Coverage Level, will have coverage, premium, loss and benefit for each insurable commodity deemed at the Minimum AgriInsurance Coverage Level net of the coverage actually taken.

AgriInsurance agencies will calculate the deemed benefit based on information provided by the Administrator, following the standard rules used to set coverage, premium and loss within AgriInsurance programs as they existed at the time that coverage would have been obtained. AgriInsurance agencies may contact the participant in order to obtain additional information needed to calculate the deemed benefit. The Administrator will determine the applicable crop year for each crop to be imputed that corresponds to the participant's fiscal year.

If a participant has no AgriInsurance history, coverage, premium and losses (if any) will be determined as for a new entry into the AgriInsurance program. This may require the use of "regional or provincial average" information rather than the usual individual underwriting process.

If a participant has an AgriInsurance history, then those records will be used to establish coverage, premium and loss based on the standards used in the province or territory. If the historical information does not reflect current management practices and potential productive capacity, AgriInsurance agencies may adjust the coverage and premium.

If crop production can be insured under an "acreage value option", and revenue for this crop is reported to the Administrator at less than the coverage provided under the AgriInsurance program, the "insured acreage value" will be used to calculate the deemed benefit.

If crop production can be insured either as an "acreage value option" or a "production loss option" under the AgriInsurance program, the deemed benefit is calculated using the "production loss option". A participant that has purchased the "acreage value option" with a lower coverage value than the coverage that could have been provided under the "production loss option" at the Minimum AgriInsurance Coverage Level will have coverage, premium, loss and benefit deemed at the Minimum AgriInsurance Coverage Level net of the coverage actually taken.

The highest available price option under the AgriInsurance program will be used to calculate the deemed benefit. If a variable or floating price option is available under an AgriInsurance program, the most common price option that the farm population elects for AgriInsurance will be used to calculate the deemed benefit.

For AgriInsurance participants, any assessed uninsured causes of loss will be counted in calculating the deemed benefit, in order to include indemnities refused to an AgriInsurance client because of poor management or non-insured causes of production loss.

Deemed benefits will be calculated for participants who were excluded from participating in AgriInsurance for reasons of fraud, misrepresentation, non-payment of premiums or failure to comply with other AgriInsurance participation requirements.

### 3.8.2 Exceptions to Deemed AgriInsurance Benefits

In calculating the deemed AgriInsurance benefit, the Administrator may exclude the following:

1. Losses that are based on in-field appraisals, rather than post-harvest losses. This would include establishment benefits for perennial forage, unseeded acreage and re-seeding benefits, and any spot loss payments;

2. Losses that are based on proxy measurements, such as weather derivatives or where the loss for one crop type is used to approximate the loss for a second crop type;

3. Losses insurable under an AgriInsurance Pilot Program. This would include an insurance product that is being tested for the first time in a province or territory and the designated test area does not represent a significant portion of the potentially insurable area;

4. Losses on commodities where the aggregate insured coverage of the exempted AgriInsurance programs in a province or territory does not exceed 5% of the total insured coverage for that province or territory.

## 3.9 Interim Payment

### 3.9.1 Regular Interim Payments

A participant may request an Interim Payment for a Program Year before the deadline established by the Administrator, which shall not be later than three months after the end of that Program Year. The Administrator will allow an Interim Payment if the following criteria are met:

- the participant has completed six months of farming activity in that Program Year;

- the participant has completed a Production Cycle in that Program Year;

- the participant's projected Program Year Margin has declined by more than 30% of their Reference Margin;

- if the enrolment deadline has passed, the participant has confirmed participation in the Program for that Program Year.

If the enrolment deadline has not passed and the participant has met the other criteria, the Administrator will consider a request for an Interim Payment as confirmation of participation for the Program Year.

The eligibility criteria of completing six months of farming activity and/or completing a Production Cycle may be waived if, in the opinion of the Administrator, sufficient farming activities have been concluded to enable a reasonable estimate of the Production Margin for that Program Year.

Interim Payments will be made based on the participant's projected margin decline in that Program Year, relative to their Reference Margin, as calculated at the time of the Interim Payment. Interim Payments will be issued at a rate established by the Administrator, which shall not be greater than 50% of the total estimated payment. Canada and an individual province or territory may agree on a higher maximum payment rate, not greater than 75%, for Interim Payments to some or all of the participants in that province or territory for a Program Year. The Administrator may establish a schedule of rates which vary according to the timing of the request.

The Interim Payment calculation may include a projected payment for negative margin in cases where the participant would qualify for a negative margin payment. The Administrator may refuse to include a projected negative margin payment in the Interim Payment calculation where the participant has not participated in AgriInsurance to a level specified by the Administrator.

Participants receiving Interim Payments are required to submit final Program Forms by the established deadline, and must comply with all Program requirements and established deadlines as set out in these Guidelines. Failure to do so will result in any Interim Payments received by the participant being considered an overpayment in full. Any Interim Payments received by a participant that exceeds the actual calculated payment available to the participant for that Program Year will be considered an overpayment.

### 3.9.2 Targeted Advance Payment

If agreed to between Canada and the affected province or territory, the Administrator may establish a Targeted Advance Payment for a Program Year for participants in a designated sector or region. Canada and the affected province or territory shall apply the principles set out in Annex B when determining whether to establish a Targeted Advance Payment.

When a Targeted Advance Payment has been established for a Program Year, eligible participants may request a Targeted Advance Payment for that Program Year before the deadline established by the Administrator, which shall be not later than three months after the end of that Program Year. The Administrator will allow a Targeted Advance Payment if the following criteria are met:

- the participant has completed six months of farming activity in that Program Year;
- the participant has completed a Production Cycle in that Program Year;
- the participant's projected Program Year Margin has declined by more than 30% of their Reference Margin;
- if the enrolment deadline has passed, the participant has confirmed participation in the Program for that Program Year.

If the enrolment deadline has not passed and the participant has met the other criteria, the Administrator will consider a request for a Targeted Advance Payment as confirmation of participation for the Program Year.

The eligibility criteria of completing six months of farming activity and/or completing a Production Cycle may be waived if, in the opinion of the Administrator, sufficient farming activities have been concluded to enable a reasonable estimate of the Production Margin for that Program Year.

For the purposes of the Targeted Advance Payment, participants will be considered part of a designated sector if a significant portion of their farm sales are with respect to that sector in the most recent Program Year for which information is available; for the purposes of this clause, "significant portion" may be defined as 50% or more of farm sales.

Targeted Advance Payments will be made based on the participant's projected margin decline in that Program Year, relative to their Reference Margin, as calculated at the time of the advance. The participant's projected margin decline will be determined as follows:

1. The industry average margin decline on the participant's farm is calculated for the Current Program Year by:

   i) Determining the number of the participant's productive units for each commodity (or commodity group) in the most recent Program Year for which information is available.

ii) For the Current Program Year and each of the reference years, multiplying the productive units determined in (i) by the respective BPU for each year;

Note: Where the BPU is for a commodity (or commodity group) insurable under AgriInsurance, the appropriate premium and payment amounts will be reflected in the BPU.

iii) The resulting values for each commodity (or commodity group) are added together for the Current Program Year and each of the reference years.

iv) An Olympic Average Reference Margin is calculated using the total values for each of the reference years.

v) The difference between the Olympic Average calculated in (iv) and the Program Year Margin calculated in (iii) expressed as a percentage of the Olympic Average is the industry average margin decline.

2. The industry average margin decline calculated in (1) is applied to the Reference Margin for the most recent Program Year for which information is available to determine the participant's projected margin decline.

The Targeted Advance Payments will be issued at a rate established by the Administrator, which shall not be greater than 75% of the total estimated payment. No participant shall receive a Targeted Advance Payment greater than one and one-half (1.5) million dollars.

Participants who request both a Targeted Advance Payment and an Interim Payment, as provided for in clause 3.9.1, for a Program Year will be eligible to receive an amount equal to the greater of these two payments.

Participants receiving Targeted Advance Payments are required to submit final Program Forms by the established deadline, and must comply with all Program requirements and established deadlines as set out in these Guidelines. Failure to do so will result in any Targeted Advance Payment received by the participant being considered an overpayment in full. Any Targeted Advance Payment received by a participant that exceeds the actual calculated payment available to the participant for that Program Year will be considered an overpayment.

## 3.10 Debts Due to the Crown

Debts due to the Crown may be deducted from any monies paid to a participant and applied to the debt in adherence to the collection principles set out in clause 6.4.

Participants will be notified of these offsets.

## 3.11 Account Transfers

If an individual participant incorporates the participant's farming operation, the participant can transfer the individual account to the corporation. To do this, a participant must provide the Administrator with notification in writing of the intention to transfer, including the corporation's Business Number (if available) and the last year for which an individual application will be filed. If available, the Administrator may also request:

- documentation confirming the transfer has legally taken place in accordance with the *Income Tax Act* or a signed declaration from the participant that the participant has filed an election under s.85 of the *Income Tax Act*;

- a copy of the original contract (or relevant sections) between the participant and the corporation which identifies the assets being transferred and the related value.

## 3.12 Treatment of Payments under the Program

Program payments are considered Farming Income for income tax purposes. Program payments cannot be assigned, or otherwise encumbered, except for the purposes of the Advance Payments Program as set out under the *Agricultural Marketing Programs Act*.

In Quebec, program payments can be assigned as allowed under provincial law.

## 3.13 Adjustments to Financial Information

Participant-initiated adjustments to information used in calculating Program benefits for a Program Year (including information used in calculating the Reference Margin for that Program Year) may be requested by submitting a written request to the Administrator up to 18 months after notification of the original Calculation of Program Benefits for that Program Year. Additional benefits will not be paid with respect to a previous Program Year as a result of a participant-initiated adjustment submitted outside the 18 month period for the previous Program Year.

If the Administrator rejects the adjustment, the participant may submit an appeal under clause 5.3 with respect to the decision to reject the adjustment, within 90 days of being notified of that decision. Otherwise, an adjustment request which has been rejected may not be resubmitted by a participant.

If the Administrator accepts the adjustment and provides an adjusted Calculation of Program Benefits, adjustments related to changes made in that Calculation of Program Benefits may be made within 90 days after notification of that adjusted Calculation of Program Benefits, or within 18 months of notification of the original Calculation of Program Benefits, whichever is later.

All adjustments require supporting documentation and are subject to verification, audit and/or inspection by the Administrator. Where adjustments affect taxable income, the Administrator may require that the adjustment be accepted by CRA before it is accepted for Program purposes.

Where a participant submits an adjustment to AgriInvest for a Program Year, and the AgriInvest Administrator accepts that adjustment, then the AgriStability Administrator may accept the same adjustment for the purposes of AgriStability (to the extent that it is relevant to AgriStability calculations), even if the prescribed period for AgriStability adjustments has passed. Where the AgriStability Administrator accepts the adjustment and as a result the participant’s Program Year benefit changes, additional benefits may be paid and overpayments may be collected pursuant to clause 5.2.

The deadlines specified in this clause do not apply to adjustments initiated by the Administrator.

# PART 4 – PROGRAM PARAMETERS

## 4.1 Participation Requirements

- Sole proprietors, partners in a partnership (with the exception of limited partners and partnerships in Quebec), and estates participate in the Program as individuals. Individual participants must each hold a Program account and must provide their Social Insurance Number (SIN), as well as any other relevant information as required by the Administrator. For partnerships, the Administrator will calculate each partner's share of payments based on each partner's percentage share of the operation in the Program Year.

- An Entity must provide the Business Numbers and/or Taxation Numbers used by the Entity for income tax purposes, as well as any other relevant information as required by the Administrator. Corporations and co-operatives may also be required to provide the SIN's of each shareholder or co-operative member. Any payments will be made directly to the Entity.

- Multiple Operations: Each individual or Entity that reports Farming Income (or loss) for income tax purposes must participate in the Program separately. A participant must report the Farming Income (or loss) of all sole proprietorships and/or partnerships (that are not considered a separate participant) in which they are involved.

- A participant must participate in the province or territory of the Main Farmstead.

## 4.2 Method of Accounting

Unless otherwise specified by the Administrator, the same method of accounting that is used to report financial information for income tax purposes must be used for the purposes of participating in the Program.

If the method of accounting is not consistent across all years in the reference period, the participant will be required to convert financial information, unless otherwise specified by the Administrator, as required to ensure that all reference years are reported to the Administrator on a consistent method of accounting.

## 4.3 Allowable and Non-Allowable Income and Expenses

The Production Margin is calculated as the difference between allowable income and allowable expenses in a fiscal period. Income and expense items that are considered allowable for Program purposes include:

**Allowable Income**

- Agricultural commodity sales
- Rebates for allowable expenses
- AgriInsurance proceeds
- Insurance or other proceeds for allowable income and expense items
- Wildlife damage compensation payments

**Allowable Expenses**

- Commodity purchases
- Containers and twine
- AgriInsurance premiums
- Insurance or other premiums for allowable income and expense items
- Pesticides
- Fertilizer and soil supplements
- Veterinary fees, medicine, breeding fees
- Minerals and salts
- Machinery gasoline, diesel fuel, oil
- Electricity
- Freight and shipping
- Heating fuel
- Arm's length salaries
- Storage/drying
- Trucking (including contract trucking) that is used to transport eligible commodities to market or eligible inputs to the farm
- Feed
- Commodity futures transaction fees

The Program Administrators will, from time to time, discuss questions of interpretation which are found to typically arise in analyzing the eligibility of income and expenses.

Income and expenses related to farming activities outside of Canada are not eligible for coverage under the Program.

Income and expenses related to aquaculture, peat moss production, or operation of a wild game reserve are not eligible under the Program. Income and expenses related to the operation of a hunt farm (where permitted by law) are allowable to the extent that they are directly related to the production and sale of livestock, excluding any ancillary services (such as transportation, lodging, outfitting, etc.).

Income and expenses related to agri-tourism that were reported as Farming Income (or loss) by the participant to the CRA for income tax purposes are allowable to the extent that they are directly related to the production or sale of allowable commodities. Income and expenses related to ancillary services (such as transportation, lodging, recreation, tours, etc.) are not eligible under the Program.

Any income or expenses that cannot be substantiated by a verifiable explanation or are considered by the Administrator to be unreasonable may be adjusted by the Administrator.

### 4.3.1 Program Payments

Payments and premiums related to government programs are considered non-allowable income for Program purposes, except as follows:

The following program payments will be included as allowable in both the Program Year Margin and the Reference Margin:

(i) AgriInsurance payments in respect of eligible agricultural commodities;

(ii) Unsubsidized insurance payments in respect of eligible agricultural commodities;

(iii) Wildlife Damage Compensation Payments;

(iv) Canadian Food Inspection Agency (CFIA) payments that are reportable as farm income for income tax purposes and which were calculated on the basis of the replacement value in respect of allowable income or expense items;

(v) Government program payments that meet the following conditions:

   a. The payments were calculated on the basis of the replacement value in respect of allowable income or expense items, and

   b. The federal government and at least two thirds of the participating provinces or territories concur that the payment should be allowable for both the Program Year Margin and the Reference Margin.

The following program payments are allowable for the Program Year Margin only:

- Payments from other government income support programs as agreed to bilaterally between the federal government and a province or territory.

The following program payments are allowable for the Reference Margin only:

- AgriInsurance premium adjustment payments which were formerly made under the AgriStability program.

### 4.3.2 Crop/Livestock Share

Landlord or lessor income, whether cash rent or payments-in-kind, earned through a crop or livestock share or lease arrangement must be reported as rental income for income tax purposes, and therefore is considered non-allowable under the Program. However, where the arrangement constitutes a joint venture, such that the landlord or lessor’s share in the allowable expenses reasonably approximates their share in the allowable related income, those income and expenses may be considered allowable.

Landlords or lessors reporting Farming Income or Inventory derived from a joint venture must report income and expense information based on their percentage share of eligible production.

Tenants or lessees reporting Farming Income or Inventory derived through a crop or livestock share or lease must report their income and expense information based on their percentage share of eligible production.

### 4.3.3 Contract Work and Machine Rental

All contract work/machine rental income and expenses are considered non-allowable, except to the extent that (a) expenses are itemized separately on the participant's financial statements submitted with their income tax return (or other documentation if accepted by the Administrator under clause 3.5); and (b) the items represent allowable expenses.

Where there is a discrepancy in the method used to itemize expenses for the Current Program Year Margin and the reference period, the reference period expenses shall be adjusted according to the method used in the Current Program Year.

Income generated from non-allowable services is excluded from Production Margin calculations. In addition, an amount equal to 30% of reported contract work income will be deducted from allowable expenses. Where the 30% ratio is inappropriate for the operation, the Administrator may use a different expense ratio, and where required, request supporting documentation from the participant.

### 4.3.4 Custom Feeding Operations

In order for income and expenses from a feeding operation to be considered allowable, the operation must have made an appreciable contribution to the growth and maturity of the livestock. In the case of cattle, an appreciable contribution will have been made if the animals are fed for at least 60 days, or gain an average of at least 90 kilograms. A custom feeding operator must grow or purchase the feed used in the operation. Operations are not considered to have made a contribution to the growth and maturity of the livestock, and their income and expenses are therefore non-allowable, if they are:

1. acting as an agent or broker for the sale of livestock;
2. buying livestock for short-term resale, or;
3. assembling and preparing livestock for shipment.

Income and expense amounts reported as custom feeding must be limited to include otherwise allowable income and expense items. For example, for income based on feed plus yardage charges, the feed portion would be considered allowable, while the yardage fees are not.

For cattle, an amount equal to 5% of reported custom feeding income will be deducted to account for yardage fees. Where the 5% is inappropriate for the operation, the Administrator may use a different percentage, and where required, request supporting documentation from the participant.

### 4.3.5 Custom Grazing Operations

The income and expenses for custom grazing are allowable where the participant can demonstrate that the transaction is for custom grazing and not pasture rent. The Administrator may require a copy of a written agreement between the livestock owner and the pasture owner to support that income/expense is for custom grazing. In a custom grazing operation the operator actively manages the forage resources of the land base in contrast to renting out pastureland to a livestock owner. To be allowable, the associated income and expense must be reflective of a reasonable feed volume for the animals on pasture.

### 4.3.6 Tree Production and Wood Sales

Income and expenses related to tree production must be generated through farming activity to be allowable under the Program. Farming activity would include the planting, nurturing and harvesting of trees, with significant attention paid to managing the growth, health, and quality of the trees.

Income and expenses generated in the production or harvesting of trees for use as firewood, construction material, poles or posts, fibre, pulp and paper, or for use in reforestation are considered non-allowable under the Program. Income generated from these sales is excluded from Production Margin calculations. The Administrator may adjust reported expenses to remove the non-allowable portion.

### 4.3.7 Commodity Futures

Futures market transactions (including options and forward contracts) are allowable income and/or expenses to the extent that these transactions are considered a hedging strategy. To demonstrate that the futures market transactions are a hedging strategy, a participant may be required to demonstrate through a written summary of their futures market strategy and brokerage statements recording their futures transactions for the years in question that:

- all futures transactions are hedging, not speculation;
- all futures transactions were undertaken in currencies, or in commodities produced and/or consumed on the farm or would be considered a proxy for that commodity (e.g., a participant that does not grow or feed grain could not include wheat futures transactions as eligible income and/or expense); and
- all futures transactions represented a volume of product that could either be reasonably produced and/or consumed on the farm, or would be considered a proxy for that commodity.

Allowable transaction costs include, but are not limited to purchases and sales of futures contracts, penalties for buying out forward contracts and premiums for options.

### 4.3.8 Processing and Resale

Income and expenses from processing are allowable for a participant if:

- the commodities were produced on the participant's agricultural operation; and
- the income and expenses were reported as Farming Income (or loss) by that participant to the CRA for income tax purposes.

"Processing" is defined as a changing the state of the commodity (e.g., milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour).

Income and expenses related to the purchase of commodities for resale are not allowable.

A purchased commodity may be considered purchased for resale if the Administrator determines that the participant has not made an appreciable contribution to the commodity's growth or its increase in value. For example, in the case of cattle an appreciable contribution will have been made if the animals are fed for at least 60 days or gain an average of at least 90 kilograms.

## 4.4 Program Year Margin

For participants who report Current Program Year information on a cash basis, the Administrator shall adjust the Program Year Margin for changes in Inventories using the Hybrid Inventory Adjustment, and shall also make adjustments for changes in accounts payable and receivable, and prepaid expenses.

For participants who report Current Program Year information on an accrual basis, the Administrator shall adjust the Program Year Margin for changes in Inventories using the Hybrid Inventory Adjustment.

Where Program Years are less than 12 months, they will be treated as a Stub Period (see clause 4.6).

### 4.4.1 Hybrid Inventory Adjustment

Where margins are adjusted using the Hybrid Inventory Adjustment for a Program Year, Inventory shall be included in the margin by calculating the difference between (a) the ending quantity multiplied by the ending price; and (b) the beginning quantity multiplied by the beginning price, with the following exceptions:

- Inventory of breeding livestock and culled breeding livestock shall be included in the margin by calculating the difference between (a) the ending quantity multiplied by the ending price; and (b) the beginning quantity multiplied by the ending price.

- For Inventory of Perishable Crops, or commodities marketed through marketing pools, the Administrator may apply a receivables adjustment to more accurately reflect the income associated with the crop production in that Program Year.

The Hybrid Inventory Adjustment shall be applied to margins reported on an accrual basis only with respect to Inventory of breeding livestock and culled breeding livestock.

## 4.5 Reference Margin

Use of the Olympic Average requires that a participant report Farming Income (or loss) for income tax purposes in each of the five years immediately prior to the Current Program Year. For participants that did not have farming activity and did not report Farming Income (or loss) in each of the five years of the reference period, Reference Margins will be calculated based on the average Production Margin of the three years immediately prior to the Current Program Year.

Where a participant did not have farming activity and did not report Farming Income (or loss) in each of the three years immediately prior to the Current Program Year, the Administrator will create margins for these missing years based on the farm's productive capacity of the Current Program Year. Margins will not be created for any reference year in which the participant reported or should have reported Farming Income (or loss) for income tax purposes, based on the requirements of the *Income Tax Act*. However, where a reference year was the participant's first year of farming and they did not complete a Production Cycle and/or 12 months of farming activity, the Administrator may create a margin for the year even where Farming Income (or loss) was reported for income tax purposes.

The Administrator may establish a deadline by which participants must report Farming Income (or loss) for income tax purposes for any reference year for which the participant should have reported Farming Income (or loss) for income tax purposes.

The Administrator will apply any Structural Change adjustment under clause 4.7 to the participant's Production Margins in the reference period prior to determining which years will be used to calculate the Olympic Average.

### 4.5.1 Accrual Adjustments to the Reference Margin

For reference years that were reported on a cash basis, the Administrator shall adjust the reference year margin for changes in Inventories using the Hybrid Inventory Adjustment, and shall also make adjustments for changes in accounts payable and receivable, and prepaid expenses.

For reference years that were reported on an accrual basis, the Administrator shall adjust the reference year margin for changes in Inventories using the Hybrid Inventory Adjustment.

### 4.5.2 Accrual Adjustments to the Reference Margin and the Olympic Average

The Administrator will apply any adjustments to reference period information prior to calculating the Olympic Average Reference Margin.

### 4.5.3 Reference Margin Limit

A participant's Reference Margin with respect to a Program Year shall not exceed the average allowable expenses of the three years used to calculate the Reference Margin for the Program Year. However, the Administrator shall not apply this limit when calculating the Contribution Reference Margin, and may elect not to apply this limit when calculating the Reference Margin for the purpose of Interim Payments or Targeted Advance Payments.

For reference years that were reported on a cash basis, the Administrator shall adjust the amount of the expenses for each year for changes in accounts payable and prepaid expenses.

Where a Structural Change adjustment was applied under clause 4.7 for a reference year, the Administrator will also apply a Structural Change adjustment to the allowable expenses for that reference year. In cases where no Structural Change adjustment was applied under clause 4.7, the Administrator may apply a Structural Change adjustment to the allowable expenses if, in the opinion of the Administrator, there has been a Structural Change which can be expected to result in a significant change in allowable expenses. The parties will establish common procedures that can be used by the Administrator to identify those cases.

Where there has been a change in productive units, the Administrator shall structurally adjust the allowable expenses using the same method that was applied under clause 4.7. However, in cases where, in the opinion of the Administrator, the method that was applied under 4.7 is not appropriate for structurally adjusting the allowable expenses, the Administrator may apply a different method. The parties will establish common procedures that can be used by the Administrator to identify those cases.

When using the ratio method, the Structural Change adjustment shall be performed as follows for each of the three reference years used to calculate the Reference Margin:

1. For each reference year, the number of productive units (for each commodity or for commodity groups established by the Administrator) in that year will be multiplied by the expense portion of the BPU in that reference year for that commodity or commodity group. A benchmark level of expenses for each reference year will be established in this manner.

2. For each reference year, the number of productive units (for each commodity or commodity group) in the Current Program Year will be multiplied by the expense portion of the BPU in that reference year for that commodity or commodity group. A benchmark level of expenses for each reference year will be established in this manner.

3. The benchmark expense level calculated in (2) will be divided by the benchmark expense level calculated in (1).

4. The ratio calculated in (3) will be multiplied by the actual level of expenses for that reference year.

## 4.6 Greater than 12 months or Stub Periods

Participant’s fiscal periods ending within the same calendar year may be combined by the Administrator. If they represent a period greater than 12 months (long year), the combined income and expenses will be prorated to reflect a 12 month period and neither of those periods will be considered a Stub Period.

However, if within the long year, the participant completes only the number of Production Cycles the operation would expect to complete in a 12 month period the Administrator may consider the long year as the full fiscal period and not prorate the long year to reflect a 12 month period.

If a participant’s fiscal period represents less than 12 months (a Stub Period) or if the combined fiscal periods ending within the same calendar year jointly represent less than 12 months, the income statement for this Stub Period will be combined with the information from preceding statements until a minimum period of 12 months is available. The combined income and expenses will be prorated to reflect a 12 month period.

However, if at least one Production Cycle is completed within a Stub Period, the Administrator may consider the Stub Period as the full fiscal period in calculating the Production Margin for that Program Year (whether it is the Current Program Year or a reference year) and apply, if the Administrator determines it is needed, a Structural Change adjustment to reflect the Stub Period.

Separate income statements must be provided for each fiscal period.

As a result of a change in a participant’s year end, the participant may have a reference year in which no fiscal year end occurred and the Farming Income (or loss) for the farming activity during that time was reported for income tax purposes in the subsequent tax year. The Administrator may create a margin for that reference year based on the farm’s productive capacity of the Current Program Year.

Participants changing their year-ends within a Program Year will, for that Program Year, be bound by their fiscal year-end deadlines at the beginning of the Program Year for the purposes of the Enrolment Notice.

## 4.7 Structural Change

If the Administrator determines that there has been a significant change in a farming operation’s potential for profit as a result of a Structural Change, adjustments will be made to the reference year and/or Program Year Margins to reflect the change.

Note: Structural Changes made for the purposes of maximizing or receiving a payment will not be recognized by the Administrator. The onus is on the participant to establish that changes have been made for sound business reasons.

A Structural Change adjustment will not be applied unless:

a. the difference between the Reference Margin before and after applying the Structural Change adjustment is at least 10% and $5,000; or

b. the difference between the Reference Margin before and after applying the Structural Change adjustment is at least 50% and the Administrator considers that applying the Structural Change adjustment would avoid an anomalous result i.e. where the unadjusted Reference Margin does not reflect the farming operation’s Program Year productive capacity.

If a partnership, considered as a single unit, would meet one of these criteria, then the Structural Change adjustment may be applied to any partner whose only participation in the Program is through the partnership, even if that partner, considered alone, would not meet either one of these criteria.

### 4.7.1 Changes in Productive Units

Where there has been a change in productive units, the Administrator shall perform the Structural Change adjustment using the ratio method unless, in the opinion of the Administrator, another method would more accurately reflect the Structural Change.

The ratio method assumes that the previous performance of the farming operation is an accurate predictor of the performance of the farming operation with respect to the change in productive units or commodities. There are cases in which the Administrator may consider that this assumption is not realistic, and another method is more appropriate. The Administrator shall apply Annex C when identifying these cases.

When using the ratio method, the Structural Change adjustment shall be performed as follows:

1. For each year in the reference period, the number of productive units (for each commodity or for commodity groups established by the Administrator) in that year will be multiplied by the BPU in that reference year for that commodity or commodity group. A benchmark Production Margin for each reference year will be established in this manner.

2. For each year in the reference period, the number of productive units (for each commodity or commodity group) in the Current Program Year will be multiplied by the BPU in that reference year for that commodity or commodity group. A benchmark Production Margin for each reference year will be established in this manner.

3. The benchmark Production Margin calculated in (2) will be divided by the benchmark Production Margin calculated in (1).

4. The ratio calculated in (3) will be multiplied by the actual Production Margin for that reference year.

### 4.7.2 Structural Change and Disaster Circumstances

The Structural Change adjustment may be waived if, in the opinion of the Administrator, a Structural Change was as a result of disaster circumstances. These situations will be dealt with on a case-by-case basis to ensure that all relevant factors affecting production in the Program Year are considered. Moreover, the Structural Change adjustment may be waived until such time that is reasonable to restore or replace productive capacity.

In deciding whether to waive a Structural Change adjustment, the Administrator shall apply the following principles:

- Disaster circumstances include only those occurring for reasons outside of a participant's control. Common examples are flooded land and depopulation of livestock due to disease.

- Where compensation is received by the participant for lost productive capacity, it will be considered allowable income under the Program to the extent it is received in lieu of normal farm income or as an allowed program payment.

- Where the nature of the disaster is such that the participant's productive capacity can be restored, the Structural Change adjustment will be waived for such time as is reasonable for restoration to take place.

- Where the nature of the disaster is such that the participant's productive capacity cannot be restored, or restoration would be economically unfeasible, the Structural Change adjustment will be waived for such time as is reasonable for the participant to develop alternative capacity. Generally speaking, a reasonable time period would not exceed one year.

### 4.7.3 Structural Change and Olympic Average Reference Margin

The Administrator will apply any Structural Change adjustments to the Production Margin of each reference year prior to calculating the Olympic Average Reference Margin.

## 4.8 Combining Participants

The income and expense information of two or more persons or Entities may be combined if; in the opinion of the Administrator their farming operations are part of a Whole Farm, even though the operations report separately for income tax purposes.

### 4.8.1 Assessing the Independence of Operations

In determining whether farming operations are part of the same Whole Farm, the relevant factors are each operation's respective degree of legal, financial, and operational independence, considering the following criteria:

**Legal Independence**

- Land Ownership (Land title, Consideration, Liens/encumbrances)
- Land Rental (Lessor/lessee, Consideration, Terms)
- Business Registrations / Agreements (Formality, Intent, Terms)

**Financial Independence**

- Transactions (Arm's length, Special considerations)
- Equity (Amount, Risk, Guarantors)
- Separate Accounting (Books and records, Bank accounts/loans, Income tax filing, Accounts with suppliers)

**Operational Independence**

- Equipment (Owned/rented, Custom contract)
- Decision Making (Education/training, Knowledge/experience)
- Storage and Sales (Independent storage, Permit books)

### 4.8.2 Transactions Not At Fair Market Value (FMV)

Transactions between all parties (whether they are Related Persons or otherwise) must be at FMV to be considered allowable for inclusion in the calculation of margins. Transactions above or below FMV may be adjusted by the Administrator to reflect FMV. Where these transactions cannot be clearly defined, the Administrator may combine the income and expenses of the parties involved in these transactions.

### 4.8.3 Margin and Payment Calculation for Combined Participants

The margin and payment calculation for combined participants will be performed as follows:

1. For each reference year, the allowable income and expenses of all operations are combined to arrive at a Production Margin for that year.

2. Based on the combined Production Margin for each reference year, a Reference Margin for the combined operation is calculated.

3. For the Current Program Year, the allowable income and expenses (including all adjustments for Inventories, prepaid expenses, payables, and receivables) for all operations is combined to arrive at a combined Program Year Margin.

4. Each participant is allocated a percentage of the combined Reference and Program Year Margins based on each participant's share of the combined operation's benchmark margin. The benchmark margin for the combined operation is calculated by multiplying the combined operation's production units in the Current Program Year by the average BPU of each unit over the previous five years.

5. Each participant contribution and payment is calculated based on the participant's share of the combined operation's Reference Margin, Contribution Reference Margin and Program Year Margin. Each participant is responsible to meet the participant contribution requirements and other Program requirements.

# PART 5 - PROGRAM MANAGEMENT

## 5.1 Audits, Verification and Accuracy of Information

By participating in the Program, a participant consents to the disclosure of personal information required for account administration. In doing so, the participant further consents to allow access to any information by the Minister of Agriculture and Agri-Food and the Provincial/Territorial Ministers of Agriculture for the purposes of audit, analysis, evaluation, Program development and calculating and delivering separate program payments subject to the provisions of their respective privacy legislation.

A participant may be subject to audit on a pre- or post-payment basis by the Administrator. Any information obtained through audit or inspection may be made available by the Administrator to CRA. Participants who are in the process of an audit must continue to adhere to all Program deadlines.

A participant who provides false or misleading information will be denied a payment for the Program, and will be required to repay any payment received. If audit or inspection otherwise results in a change to the amount a participant is entitled to under the Program Guidelines, any additional amount will be paid to the participant and any overpayment will be repayable by the participant.

If a participant has provided false information, or has breached a condition of eligibility, the Administrator may deem the participant to be ineligible to participate in the Program for up to two additional years under clause 10.7 of the Agreement. The Administrator must provide notice to the participant and an opportunity to respond before doing so.

If a participant fails to provide the required information or access to books and records, the participant will be denied all or part of the payment for the Program Year or will be required to repay any payment received.

It is the participant's responsibility to ensure that information supplied for income tax purposes and the Program is correct and complete. Participants must inform the Administrator of any changes or corrections to information supplied to the Administrator.

The Administrator will not be responsible for notifying participants of incorrect tax reporting. The Administrator may adjust tax information as necessary for the purposes of calculating Production Margins, but the Administrator will not be responsible for reporting the adjustments or corrections to CRA. Participants may be notified in writing that a correction of information reported for income tax purposes is required in order for a Program application to be processed.

## 5.2 Overpayments

A participant will be required to repay to the Administrator any payments received under the Program that are in excess of the amounts permitted under the Guidelines of the Program in adherence to the overpayment collection principles set out in clause 6.4.

## 5.3 Producer Appeals

A producer who is of the view that Program rules were not correctly applied in the processing of their Program Year file may request a review by the Administrator. The Administrator may refer matters raised by producers to an Appeals Committee it has established.

Appeals shall be conducted according to the Common Terms of Reference for Appeals Committees attached to these Guidelines as Annex A.

### 5.3.1 Submitting an Appeal

Appeals shall be subject to a deadline of 90 days from the date that the producer is notified by the Administrator of the decision which is subject to appeal.

Appeals must be submitted in writing to the Administrator. Appeal submissions must clearly identify the nature of the appeal and provide sufficient information and documentation to substantiate the appeal. The details surrounding the situation must be verifiable for the appeal to be upheld. Failure to identify the nature of the appeal and/or provide sufficient information and documentation to substantiate the appeal by the date specified by the Administrator will result in the appeal not being forwarded for appeal.

Appellants, including those who use the services of a third party, shall be considered responsible for knowing and following Program policies and adhering to deadlines. Disagreement with Program policies is not a valid ground for appeal.

The Administrator may decline to refer an appeal to an Appeals Committee where the appeal does not disclose a valid ground for appeal.

### 5.3.2 Appeals Committees

An Appeals Committee shall consider matters referred to it by the Administrator in accordance with procedures established by the Administrator and the Agreements governing the Program, and make non-binding recommendations.

# PART 6 – FINANCIAL PROVISIONS AND ADMINISTRATIVE COST-SHARE

## 6.1 Budgets and Invoicing

### 6.1.1 Invoicing of Government Contributions to Fund 2

The Administrator shall invoice the other party for its estimated share of Fund 2 payments based upon an agreed-to period, net of the other party's share of any revenue from participant contributions due to opt-out or dissolution under clause 3.20 of the Agreement (except where those participant contributions have already been credited to the invoiced party). The invoice shall contain actual Fund 2 payments to date, a forecast of estimated Fund 2 payments for the requested advance period, interest amounts on advance balances and total amounts advanced to date. The invoiced party shall pay the invoiced amount within thirty (30) days of receipt of invoice. The advances shall be accounted for by the Administrator on a basis consistent with the invoicing period through a reconciliation of the amount advanced with actual payments made to the participants. Any amount owing by one party on account of advances made shall be repaid within thirty (30) days of the receipt by both parties of the final audited reconciliation of payments made. Upon termination of the Program by one of the parties, any outstanding amount identified on the final reconciliation shall be paid or reimbursed to the appropriate party.

If agreed to between the invoicing party and the invoiced party, the invoicing party may credit the invoiced party for the invoiced party's share of participant contributions made under clause 3.1.3 of the Agreement and debit the invoiced party for the invoiced party's share of participant contributions paid out under clause 3.5 of the Agreement. Where the invoiced party has been credited for a participant contribution, any revenue relating to that participant contribution under clause 3.20 of the Agreement (on opt-out or dissolution) will be retained by the invoicing party, and will not be credited to the invoiced party a second time.

### 6.1.2 Administrative Budgets and Invoicing of Eligible Administrative Costs

The Administrators shall invoice the other party for its estimated share of incurred administrative costs, net of any administrative revenue, at least quarterly.

Administrative costs eligible for cost sharing must be consistent with the Administrative Cost-Sharing Principles (clause 8 of the Agreement) and any other terms as in an exchange of letters between the parties.

Upon termination of the Program by one of the parties, any outstanding amount identified in a final reconciliation shall be paid or reimbursed to the appropriate party.

## 6.2 Interest on Program Advance Balances and Unpaid Administrative Invoices

Interest on Program payments made shall be calculated on the average daily closing balance of advances. The calculated interest shall be credited or debited, as the case may be, to the account of the party that advanced the funds.

Interest on administrative cost payments made shall be calculated on the average daily closing balance of advances. Once the invoiced amount is accepted by the invoiced party, that party agrees to pay the Administrator interest on accepted invoiced amounts not paid within thirty (30) days.

Upon written agreement of both parties, an Administrator may forego the receipt of the interest payment resulting from the advanced funds.

The rate of interest shall be ninety (90) percent of the monthly average of the weekly three-month Treasury Bill tender rates for the month immediately preceding the month in respect of which interest is paid.

## 6.3 Accounting Principles

1. Payers reserve the right to offset their cost reimbursement obligations to a Claimant with any eligible administrative costs they have incurred – subject to the principles set out in clause 8 of the Agreement and these Guidelines. Claimants retain the right to audit any such costs used by payers to offset their requests for reimbursement.

2. If a Claimant administers the delivery of another Claimant's AgriStability program initiative, and does not charge the latter for its services, then the former shall be allowed to claim the eligible administrative costs it incurred on behalf of both itself and the other Claimant for whom it is delivering the Program. The Claimant benefiting from this method of service delivery shall not be allowed to claim these costs. If the Claimant contracted to deliver the Program on behalf of another charges the latter for doing so, then all monies recovered by it for doing so must be netted against its previously incurred, eligible operating costs. In such a case, the Claimant paying for this service shall be allowed to report the amount it paid for this service delivery process as its own operating costs.

3. The reporting cycle for Program-related administrative costs shall be on a fiscal (March 31st) basis rather than on a calendar (December 31st) basis.

4. Minimum documentary evidence shall be maintained and made available for audit purposes.

## 6.4 Overpayment Collection Principles

### 6.4.1 Collection of Overpayments

The Administrator shall require participants to repay any overpayments and shall recover overpayments by any available means while materially adhering to the following collection principles:

- Participants are to receive a written notification when a debt is created containing at a minimum the following information: Amount of debt; Program name; Date of notification; Delivery agent contact; Interest rate and interest start date, if applicable;

- The notification must request repayment of the debt;

- Interest is to be charged at the prescribed rate on all outstanding debts;

- Interest will start 30 days after the notification date;

- The prescribed rate will be the 90 day Federal Treasury Bill rate plus two percent (2%) per annum (equivalent rates based on commercial prime rates are acceptable) or other rates with the agreement of cost sharing partners; and

- Interest waivers, at the Program level, can be granted with the concurrence of the cost sharing partner(s).

### 6.4.2 Set-Off

Where a participant is indebted to the Crown under an agricultural program, the Administrator may, upon request from a program administrator, have such amounts deducted from any monies otherwise payable by the Administrator into or out of a participant's account subject to the following set-off principles, unless otherwise agreed to by the cost-sharing partners:

- Setoffs of debts owing under AgriInvest, AgriStability and AgriInsurance against subsequent payments delivered by the Administrator will be processed first in accordance with the following priorities:
    - Setoff against same program; and
    - Setoff against other Business Risk Management Programs (AgriStability; AgriInsurance and AgriInvest) with oldest debts normally collected first.
- Setoffs will occur against the full payment amount (Federal/Provincial/Territorial); and
- Setoffs of non-Business Risk Management program debts can be made against payments delivered by the Administrator as a secondary priority to AgriStability, AgriInsurance and AgriInvest debts.

### 6.4.3 Debt Write-Off

Where an overpayment exists for a participant or former participant, the Administrator may have such debt, or a portion thereof, written off subject to the following write-off principles:

- Debt write-off shall only occur against criteria approved by the Federal/Provincial/Territorial cost-sharing partner(s). Minimum criteria would include:

  (a) a structured notification and follow-up process – minimum three notifications with the participant;

  (b) all reasonable collection actions have been taken, including consultations with legal services to identify any steps that may be taken to recover the amount, which may include, but is not limited to, court proceedings; garnishment proceedings; and use of collection agencies.
- A notification process is required to advise cost-sharing partner(s) (minimum quarterly if greater than $10,000; else annually) of complete write-off and partial write-off; and
- Approval of the write off by a senior official of the Administrator is required.

# PART 7 – MANAGEMENT OF GUIDELINES

## 7.1 Coming into Effect

These Guidelines shall come into effect for the 2013 Program Year.

The Guidelines in effect for the 2012 Program Year shall not apply to the 2013 Program Year or later Program Years.

## 7.2 Program Guidelines Review

Authorized representatives from each of the signatories to the Program will:

- monitor and periodically review Program Guidelines to ensure they are applied in a consistent manner by all Administrators;
- provide advice and guidance on administrative and policy issues related to the Program.

## 7.3 Amendment

These Guidelines may be amended from time to time according to the requirements set out in the Agreement for adopting Guidelines.

## 7.4 Termination

These Guidelines shall be terminated with respect to a province or territory upon the termination of the Agreement with respect to a province or territory.

## 7.5 Application

These Guidelines are subject to the Agreement, and any inconsistency between the Guidelines and the Agreement shall be resolved in favour of the Agreement.

# Annex A: Common Terms of Reference for AgriStability Appeals Committees

## 1. General Provisions for Appeals

1.1 A producer who is of the view that Program rules were not correctly applied in the processing of their application may submit an appeal to the Administrator.

1.2 Appeals shall be subject to a deadline of 90 days from the date that the producer is notified by the Administrator of the decision which is subject to appeal.

1.3 Appeals must be submitted in writing to the Administrator. Appeal submissions must clearly identify the nature of the appeal and provide sufficient information and documentation to substantiate the appeal.

1.4 The Administrator may refer matters raised by producers to an Appeals Committee it has established. The Administrator may decline to refer an appeal to an Appeals Committee where it does not disclose a valid ground for appeal.

## 2. Roles and Responsibilities of Appeals Committees

2.1 An Appeals Committee will review requests in writing from producers or their authorized representative who have appealed the Administrator's interpretation or implementation of Program policies and deadlines.

2.2 An Appeals Committee will make non-binding recommendations to the Administrator.

2.3 An Appeals Committee cannot create exceptions to the eligibility criteria or any other provisions included in the AgriStability Program Guidelines, the Agreement, or the *Farm Income Protection Act*.

2.4 Where a deadline appeal is referred to an Appeals Committee, the Committee may recommend exceptions to deadlines in cases of "Force Majeure" involving exceptional circumstances, where the failure to meet the requirements of the AgriStability program could not be avoided by the exercise of due care by the producer or a third party acting on behalf of the producer. Examples of "Force Majeure" include Acts of God such as flash floods, unscheduled surgery, or the death or serious illness of the producer or an immediate member of the producer's family. When reviewing cases involving "Force Majeure" the length of time prior to the deadline when the events occurred must be taken into consideration.

2.5 An Appeals Committees will decide on cases with similar factual circumstances in a consistent manner.

2.6 An Appeals Committee will provide for producers to attend meetings of the Committee when their case is being reviewed (in person or by telephone), and answer questions. Producers who attend meetings may bring their form preparer to the meeting to assist them in answering questions from members of the Committee. Attendance of other representation is not permitted. Where a producer attends an Appeals Committee meeting, a representative of the Administrator may also attend.

   2.6.1 Producers must give the Secretariat 14 days notice of their intention to attend a meeting, and are responsible for any costs incurred for attending meetings.

2.7 An Appeals Committee may request additional information from the Administrator or the appellant producer as required. An Appeals Committee may also invite the appellant producer or the Administrator to attend meetings to provide factual information to the Committee with respect to a case being adjudicated.

2.8 An Appeals Committee may rehear cases if new information is provided that was not originally considered by the Committee, or if the initial recommendation of the Committee is in contravention of a Program authority or other legal requirement. The Chairperson will decide if a case will be reheard in this regard.

2.9 An Appeals Committee may request that issues with respect to Program parameters, administrative practices, or these Terms of Reference identified in the course of carrying out their duties be raised by the Administrator to the Federal-Provincial-Territorial Administrators Working Group for review.

## 3. Membership and Process

3.1 The voting members of an Appeals Committee will be producers appointed by the Administrator. Non-voting federal and provincial government representatives may also be appointed by their respective governments to be members of an Appeals Committee. Administrators may set the term of an appointment, and reappoint members to an Appeals Committee whose terms have expired.

3.2 Members of an Appeals Committee are responsible for the following:

3.2.1 attending Program training offered by the Administrator;

3.2.2 reviewing appeal submissions in advance of meetings;

3.2.3 meeting on a regular basis or as required to clear the appeals backlog;

3.2.4 declaring any conflict of interest (as per Appendix 1);

3.2.5 considering appeal cases in a fair and impartial manner;

3.2.6 voting on recommendations as moved by Committee members;

3.2.7 abiding by the decision of the majority; and

3.2.8 protecting the confidentiality of the information obtained in the course of their duties as Appeals Committee members.

3.3 One of the voting members of the Appeals Committee will be selected as the Chairperson, based on the process established by the Administrator. In addition to other duties that may be assigned in these Terms of Reference, the Chairperson will be responsible for ensuring that:

3.3.1 Committee business is completed in an impartial and efficient manner;

3.3.2 quorum requirements are met;

3.3.3 the actions of the Appeals Committee respect the Terms of Reference; and

3.3.4 records of discussion from Committee meetings prepared by the Secretariat are reviewed and approved in a timely manner.

3.4 For any given meeting of an Appeals Committee, there will be a minimum of three and a maximum of five voting members in attendance. In addition, one non-voting provincial representative and one non-voting federal representative, as nominated by the respective governments, may also attend.

3.5 The quorum required to make a recommendation to the Administrator is three voting members.

3.6 Recommendations of the Appeals Committees will be made by the majority of the votes of the voting members present.

## 4. Secretariat

4.1 The Secretariat to an Appeals Committee will be provided by the Administrator that has appointed the Committee. The Secretariat is responsible for:

4.1.1 providing the Appeals Committees with the information necessary to ensure the implementation of these Terms of Reference;

4.1.2 scheduling meetings and preparing the Administrator's submission for each appeal case;

4.1.3 forwarding both the Administrator's and producer's submission to the Appeals Committee in advance of the meeting;

4.1.4 providing the appellant with the time and location of the meeting, and inviting the appellant to indicate within 14 days of the meeting whether he or she wishes to attend, either in person or by phone;

4.1.5 preparing records of discussion and seeking the Chairperson's review and approval of the same;

4.1.6 contacting a producer for additional information requested by the Committee, and

4.1.7 notifying the appellant of both the Appeal Committee's recommendation and the Administrator's final decision once the case has been reviewed.

## Appendix 1 to the Common Terms of Reference

# Conflict of Interest Criteria

Members of the Appeals Committee are expected to make decisions in a fair and impartial manner, free from considerations affecting their own personal interest. A conflict of interest arises where the member has a personal interest in the outcome of an appeal which is sufficient to influence the member's judgment.

One way in which a conflict can arise is where the member has a relationship with the appellant. This could be a financial interest (in the case of a company or business associate) or a personal relationship (in the case or a family member or close friend). Generally speaking, cases affecting the member's immediate or extended family would be considered to raise conflicts of interest (i.e. spouses, parents, children, brothers and sisters as well as their children and spouses). However, the member will need to consider in each case the nature of the relationship (if any) and whether it could be expected to influence the member's judgment.

A conflict would arise where the member is the appellant, since members cannot consider their own appeals. It would be difficult to avoid the appearance of special treatment even when only the remaining members of an Appeals Committee consider a fellow member's appeal. For this reason, the chairperson should refer appeals brought by a committee member to a different appeals committee for determination.

A conflict can also arise due to the subject matter of the appeal, in cases where the issue to be determined would affect the member's own participation in the Program. To some extent this is unavoidable, since all members are Program participants and thus will be affected somewhat by the principles established in appeals. For this reason, issues which affect a broad range of participants would not require members to withdraw. However, there may be cases in which a member is among a narrow group which would be affected by an issue and in those cases a conflict may require the member to withdraw.

It is the member's responsibility to identify cases in which a conflict of interest may require the member to withdraw. This includes both real conflicts of interest and "apparent" conflicts. These arise where a reasonable person, fully informed of the circumstances, could be expected to believe that there would be a conflict. It is sufficient that an apparent conflict exists, since the appeal process must not only be fair but also be seen to be fair.

Members who identify potential conflicts of interest (real or apparent) should discuss the matter with the chairperson of the Appeals Committee, and if necessary withdraw from the case. Where the member and the chairperson disagree with respect to the potential conflict of interest, then the appellant and the Administrator should be informed of the circumstances, so that they can decide whether to waive the potential conflict.

In cases where the chairperson of the Appeals Committee is subject to a conflict of interest, the chairperson will withdraw from the case, and an alternate chairperson will be appointed by the remaining Appeals Committee members.

There may be cases in which most or all members of an Appeals Committee are subject to a conflict of interest. In those cases, it may be necessary to refer the appeal to another Appeals Committee which is free from the conflict. Alternatively, it may be that the appellant and the Administrator can agree to waive the conflict.

Members should also ensure that they do not take personal advantage of confidential information obtained because of their participation in the appeal process (that is, information which is not otherwise available to the public).

# Annex B: Conditions for Establishing a Targeted Advance Payment

The Targeted Advance Payment mechanism will only be implemented where the following principles are met:

- there is a need for a more timely cash flow that could not be addressed effectively and rapidly through the existing Interim Payment processes,
- the use of the Targeted Advance Payment would reduce the need for other ad hoc measures, and
- implementation of the Targeted Advance Payment will allow for an accurate estimation of economic loss and therefore will result in an acceptable level of overpayment risk.

The Targeted Advance Payment will be used in situations of abnormal production or market disruption that will have a significant negative financial impact on the producers of a certain commodity or in a specified geographical area. It will not be used to address individual farm situations. As a guideline, governments will only use the Targeted Advance Payment where there are both:

1. Production or Market Disruption

    - A situation where production, input costs, or markets are negatively impacted by circumstance beyond the control of the producer. The disruption may include, but is not limited to, changes in production, price, or market accessibility resulting from the impacts of abnormal weather, disease, or market cycles.

**AND**

2. Significant Negative Impact

    - It is estimated that at least 25% of the producers in a regional municipality, county or larger geographical area are affected,

    **OR**

    - It is estimated that at least 25% of the producers of a commodity are expected to suffer a drop in margin in excess of 30% with respect to that commodity.

Where a party wishes to initiate a Targeted Advance Payment, requests for the implementation of a Targeted Advance must be made in writing to the cost-sharing partner. Agreement will be required at the level of Program Guidelines authority to implement a Targeted Advance Payment.

# Annex C: Procedures for Structural Change Method Selection

Where there has been a change in productive units, the Administrator shall perform the Structural Change adjustment using the ratio method (as described in clause 4.7.1) unless, in the opinion of the Administrator, another method would more accurately reflect the Structural Change.

The ratio method assumes that the previous performance of the farming operation is an accurate predictor of the performance of the farming operation with respect to the change in productive units or commodities. However, there are cases where the Administrator may consider that this assumption is not realistic, and another method would be more appropriate.

**<u>Definition of the Additive Method</u>**

One alternative to the ratio method is the additive method. The additive method for Structural Change adjustment is performed as follows:

1. For each year in the reference period, the difference between the number of productive units (for each commodity or commodity group) in that year and the number of units in the Current Program Year is calculated.

2. The difference in productive units for each commodity is converted to a dollar amount by multiplying the difference in units by the BPU in that reference year for that commodity or commodity group.

3. This dollar amount will be added (subtracted) to the actual Production Margin for that reference year.

**<u>Method Selection Process</u>**

The Administrator shall apply the following method selection process in order to identify cases in which the additive method may be used instead of the ratio method. The Administrator shall apply the process annually, no matter which method was used in previous years. The process should be applied even if neither method results in a benefit to the participant.

However, the Administrator may also use other processes to determine which method to use for Structural Change adjustment, and may use methods other than the ratio method or additive method.

**Application**

This method selection process applies when:

(a) either the ratio or additive methods of structural adjustment results in meeting the requirements for applying a Structural Change adjustment; and

(b) more than one type of productive unit has been reported in the program or reference years. If only one type of productive unit has been consistently reported in all years the process will not be applied.

**Calculation**

When using this method selection process, the Administrator performs the following calculation:

**(Ratio Adjusted Margin - Additive Adjusted Margin) / Additive Adjusted Margin**

### Review and Selection

If (a) the result of this calculation is between -1 and +1; or (b) the absolute difference between the adjusted margins is less than $20,000, then the Administrator may use the ratio method without further review.

Where the calculation indicates that review is needed, and the ratio method is producing a Reference Margin that is smaller than the additive method, the Administrator may use the additive method where the Structural Change is mostly related to doing one of the following in the Current Program Year or previous 3 years:

- adding a significant quantity of new productive units; or
- moving a significant number of productive units from establishment categories to mature ones.

Where the calculation indicates that review is needed, and the ratio method is producing a Reference Margin that is larger than the additive method, the Administrator may use the additive method where the Structural Change is mostly related to doing one of the following in the Current Program Year or previous 3 years:

- adding a significant quantity of new productive units; or
- altering the composition of a mixed farm by increasing one set of existing units, while decreasing another.

However, Administrators may apply additional processes to identify situations where the process results indicate that review is not required or that the ratio method is appropriate but, in the opinion of the Administrator, the ratio method results in an adjusted Reference Margin that is anomalous.