

POLICY & POSITION STATEMENTS (NOV. 2016)

1. Price benchmarks provide transparency and promote market efficiency, and they are relied upon in every commodity market.

- A market price assessment, or benchmark, is the price of a commodity traded in a single marketplace, or across multiple markets.
- Price Reporting Agencies (PRAs), like New Leaf Data Services, are independent objective assessors of price. PRAs do not buy, sell, trade or otherwise take positions in the commodities that they assess; but rather use statistical methods to analyze, assess and establish benchmarks that are then published for the education and use of market participants, analysts, investors and observers:
 - Traders utilize benchmarks to develop trading and hedging strategies, and to settle physical and financial transactions.
 - Risk managers utilize benchmarks to measure, manage and report risk.
 - Analysts and investors utilize benchmarks to complete economic pro forma analyses and go / no-go investment decisions.
 - Exchanges require an independent price assessment to facilitate trading and indexation of physical trades, and to implement mark-to-market (or fair value) accounting.
- In addition to assessing and establishing market price benchmarks, PRAs also explain why prices are moving by reporting on the underlying drivers of price change.
- Benchmarks provide markets with price transparency. Price transparency creates market efficiency, particularly in opaque markets, like cannabis, where nearly all deals are conducted bi-laterally—essentially in secret—between a buyer and seller.
- A commodity price benchmark serves as a guide for traders to negotiate the best possible price, regardless of whether they are the buyer or the seller. Benchmarks also facilitate liquidity by creating and/or reporting on a standard commodity contract with clearly and consistently defined attributes, such as volume, quality, and point of delivery.
- Asymmetrical information—when one player (or a small group of players) has more information than others—leads to inefficiency and a few big winners, creating more

losers with bigger losses. When markets have symmetrical information, there is more homogeneity to the winners and losers.

- Benchmarks promote competition, and facilitate and catalyze market efficiency, which benefits the long-term interest of all market participants.

2. Black market cannabis prices are implicitly captured and reflected in legal market cannabis prices.

- NLDS gathers, analyzes and assesses legal wholesale market cannabis prices.
- Legal market prices are strictly state-specific. Black market prices may differ by city, state or region, but they are not strictly state-specific.
- Where legal markets exist, medical and adult-use buyers have—and exercise—their choice to obtain supply from the legal market or from the black market. If potentially legal buyers decide to obtain cannabis on the black market, the resulting legal market supply remains larger than it would have otherwise been (had legal sales occurred), and the legal price should/will come down to encourage demand.
- The degree of this linkage will be different for each state:
 - California has a large medical market that is legal, but it operates like a gray market due to lack of tracking. Since California is also a primary supplier of black market cannabis, and the legal and black markets are bi-directionally porous, the black market price has a high correlation to the legal market price.
 - Connecticut has a small medical market that is legal and fairly well segregated from the black market. Nevertheless, some portion of potentially legal buyers may choose to obtain cannabis via the black market, and some black market buyers may find supply that originated as legal production. Therefore, even in a State like Connecticut, where the two markets operate nearly independently of one another, there will be some linkage and correlation between the legal and black market prices.

3. NLDS is an advocate for, and promoter of, open competitive markets.

- Legislators and regulators face a daunting task in balancing a multitude of factors—each with deep and lasting implications—in structuring and implementing rules that provide

legal avenues for the cultivation, extraction, transportation, distribution, sale, and safe consumption of medical and adult-use cannabis.

- Among these factors are satisfying the demands of their constituents, the policy priorities of administrators, compliance with Federal law, and a variety of budgetary, technical and consumer safety constraints.
- Deciphering and balancing these factors is further complicated by a shortage of robust and meaningful facts, figures and statistics to serve as a foundation for sound public planning and rule making.
- NLDS acknowledges this significant and ongoing challenge faced by legislators and regulators.
- NLDS also recognizes that legislators and regulators are often compelled to make trade-offs to satisfy constituents and stakeholders to advance legislation. We believe that it is important that regulators choose schema and mechanisms that promote open competition—rather than anti-competitive “command and control” policies—for medical and adult-use cannabis.
- We know from the history of other markets that have been deregulated, unregulated or reregulated that anti-competitive laws and rules deny industry participants choice, and frequently result in higher consumer prices than under competitive mechanisms and structures. Anti-competitive policy decisions cast a long shadow—and inflict long-term damage—that persists even after free market-oriented rules eventually replace anti-competitive policies, such as stated-mandated monopolies.
- In some cases, mandated processes, procedures and systems (such as Colorado’s required use of a single vendor’s seed-to-sale tracking system) can be an efficient and effective way for regulators to monitor and report on the progress of new markets. However, mandated monopolies deny consumers choice, and often result in fewer product options, higher prices, inferior customer service, and less-than-optimal operations.
- Today, nearly all legal cannabis transactions are spot arrangements intended for immediate, or near-immediate, delivery. As the volume of legal cannabis produced and consumed increases, so too will the volume and number of transactions. Moreover, the type of transactions will evolve from predominately spot arrangements to forwards, futures and derivatives contracts.

- As legislators and regulators contemplate and prepare for the seemingly inevitable future of expanding cannabis markets with eroding borders, NLDS urges lawmakers to err on the side of more choices and more competition.
- Specifically, NLDS advocates and promotes multiple commodities exchanges on which cannabis can be bought and sold via spot contracts as well as derivative contracts for both cash and physical settlement. By definition, more exchanges mean more choices. In turn, more choices for traders will mean more competitive exchanges, lower transaction and brokerage fees, and diversified markets that are more resistant to manipulation.

4. NLDS advocates the comprehensive repeal of marijuana prohibition.

- The healing and medicinal properties of cannabis are uncontestable and expanding, and the documentation of its millennial-long history of broad benefits to patients is now common knowledge.
- Furthermore, it is now well established among law enforcement authorities, and confirmed by public policy analysts, that prohibition and the “war on drugs” has been a complete disaster:
 - The consequences for those on the losing side of violence and criminal prosecution have been devastating, destabilizing families and communities.
 - The financial enrichment of criminals and drug-lords has strengthened and expanded their control over the illicit production, sale and distribution of marijuana. The drug trade has had a destabilizing effect on a number of countries, such as Mexico and Jamaica, where the drug-lords wield substantial power with violent repercussions.
 - Federal and state governments have spent time, money and the lives of civil servants on law enforcement initiatives that have produced negligible benefits and could have been dispatched on more productive, higher priority initiatives.
 - Patients in pain with life-threatening medical conditions have been denied access to proven pain-relieving and potentially condition-healing treatment, without exposing themselves to criminal charges.
- NLDS advocates and promotes repealing prohibition and replacing it with a sane, rational and pragmatic regulatory scheme that facilitates safe and legal access for patients and adult users, while generating tax revenue that can be allocated to education and treatment programs.