



Operational Guidance for Definition of Forward Contract Purchase Type

Issue: Definition of “forward contract purchases” and how to distinguish them from other types of purchases.

Livestock, Poultry and Grain Market News (LPGMN) Position: The definition contained in the law and the regulations for contract and formula purchases are vague when it is necessary to separate contract and formula purchases and with what the industry commonly considers being a formula purchase. A contract purchase is defined as; “base price is established by reference to prices quoted on the Chicago Mercantile Exchange, or other comparable publicly available price”. The key part of the definition is that the contract is based on the CME or some “comparable” and publicly available price. Items that make the CME unique are: 1. Prices are publicly available for months in the future; 2. Producers have the option during the course of the contract to lock in to the selected delivery month price.

Forward contracts are those purchases based on the CME and/or other “futures” type pricing mechanisms where the price is available for months in the future and a price can be locked in at any time based on those prices. Forward contracts can also be those transactions where a price is negotiated for delivery for 31 or more days out.

LPGMN Guidance: Cattle purchases coded as forward contracts will be those based on the Chicago Mercantile Exchange or some other publicly available price comparable to the CME that is available for months in advance of slaughter and provides the producer the opportunity to lock in a price at any time during the contract period.

Negotiated purchases with a delivery for slaughter for 31 days and beyond from the date of purchase will identify as forward contract purchases. In these situations, packers should report the basis level on the LPS-115C input form as blank, reflecting the negotiated price of the transaction.

****Note:** This guidance was originally named incorrectly as GU4244TTA. It has been changed to reflect the correct identifier of GU4244TTB.

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Approved by _____

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