Agricultural Marketing Service
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Washington, DC 20250

Operational Guidance for Definition of Forward Contract Purchase Type of Live Cattle

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

LGMN 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 what the industry commonly considers being a forward contract. 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. The things that make the CME unique are prices are publicly available for months in the future, and producers have the option during the course of the contract to lock in a price for the selected delivery month.

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 flat cash price is negotiated for delivery more than 30 days out.

LGMN 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. Also considered as forward contracts are firm cash price purchases with a delivery for slaughter of over 30 days from the date of purchase.

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

Date Issued 9/04
Date Revised 5/15

Approved by