



National Cattlemen's
Beef Association

Live Cattle Marketing Committee

Minutes

Denver, CO

Hyatt Regency, Capitol Ballroom 4
July 14, 2017 • 9:15 AM – 12:30 PM

- I. The meeting was called to order at 9:15 AM by Chairman Williams. The agenda for the meeting and minutes of the 2017 Cattle Industry Annual Convention in Nashville were approved without objection.
- II. COMMITTEE ACTIONS:
 - a. Consideration of Expiring External Policy:

After conclusion of the speakers and presentations during the meeting, Chairman Williams moved to consideration of expiring policy. The following expiring policies were acted on:

1. M 1.4 – Feedlot Registration. Troy Stowater of Nebraska Cattlemen moved to renew. There was a second. The committee renewed the policy.
2. M 1.5 – Law Enforcement Pete Bonds of Texas and Southwestern Cattle Raisers moved to renew. There was a second. The committee renewed the policy.
3. M 2.3 – Futures Commission Merchants Insurance Suroy Peoples of Texas Cattle Feeders Association moved to amend. There was a second. The amendments are reflected below.

M 2.3

~~2012/New~~-2017/Amended

Futures Commission Merchants Insurance

WHEREAS, many cattle and beef producers and other agricultural entities endured negative financial impacts as a result of the bankruptcy of ~~commodity brokerage and clearing firms, and CME Group clearing member MF Global, and~~

WHEREAS, ~~in the wake of the bankruptcy, it has become clear that~~ customer “segregated funds” on deposit in futures margin accounts are not secured, ~~and may be used by Futures Commission Merchants (FCMs),~~

THEREFORE BE IT RESOLVED, NCBA urge the development of an insurance program for FCMs (similar to FDIC and/or SIPC insurance) that would protect the value of excess customer funds on deposit in futures margin accounts.

The amended policy was passed.

- b. Consideration of Expiring Internal Policy:
 1. **M Directive 2012 – Reporting Feeder Cattle.** Allowed to expire.
 2. **M Directive 2012 – Mandatory Price Reporting.** Allowed to expire.

3. **M Directive 2012 – Cattle Payment.** Surey Peoples of Texas Cattle Feeders Association moved to renew. There was a second. The committee renewed the policy.
4. **M Directive 2012 – CFTC Section 1.25.** Allowed to expire.
5. **M Directive 2012 – Eastern Livestock Investigation.** Allowed to expire.

c. Consideration of Merging Existing Policy:

Chairman Williams then turned the floor over to Vice Chairman Sunderman to open the floor for Merging Existing Policy. Vice Chairman Sunderman turned over the floor to the Market Policy Task Force Chairman, Ed Grieman to walk through the merged policies. The merged policies are reflected below.

- *Futures (general futures policy): combines 2.1 and 2.8*
- *Contract Specifications: combines 2.4 and 2.9*
- *Feeder Cattle Index: combines 2.2 and 2.5*
- *Cash Settlement: combines M.7 (Nashville interim) and 2.7*
- *High Frequency Trading: existing 2.6*

2. FUTURES

M 2.1

2016/Amended

Futures Trading

WHEREAS, NCBA supports viable futures exchanges to facilitate effective risk management opportunities for the livestock industry, and

WHEREAS, the primary purpose of futures and options markets is to perform the functions of price discovery and risk transfer, and

WHEREAS, a healthy price discovery and risk transfer mechanism requires transparency, participation of numerous agents on both the buy and sell side, and equal access to transactions and information for all participants.

WHEREAS, NCBA recognizes the traditional role of the CME Group as the primary market venue for the trading of futures and options on Live Cattle and Feeder Cattle contracts, and

WHEREAS, NCBA will continue to monitor any pending rule or regulatory changes that may impact the ability of the futures markets to provide a meaningful risk management function, and

WHEREAS, the trading of commodities on the futures markets has attained an influential position within the cattle industry, and

WHEREAS, it is absolutely imperative that all markets operate in a responsible manner, free and clear of market abuse, and

WHEREAS, contract specifications should match industry needs and facilitate convergence of futures prices with the cash market to ensure a useful risk management function is provided, and

~~WHEREAS, a July Feeder Cattle contract would better reflect seasonal trading volume and help producers improve risk management during that time frame,~~

~~THEREFORE BE IT RESOLVED, NCBA requests that the CME Group make the following changes in Live Cattle contract specifications:~~

- ~~1. — Analyze on an annual or appropriate timeline delivery weights which reflect current industry weights/standards.~~
- ~~1. — Include the delivery of fed heifers.~~
- ~~3. — Add the months of January, March, May, July, September, and November to the existing Live Cattle contract months.~~

~~BE IT FURTHER RESOLVED, NCBA requests that the CME Group change the Feeder Cattle contract specifications by adding the month of July to the existing Feeder Cattle contract months,~~

~~THEREFORE BE IT RESOLVED, NCBA support initiatives between cattle producers, the CME Group, and other market participants to increase transparency, level access to information and transactions, and foster an environment that builds confidence in the ability of the hedging community to effectively manage forward price risk using futures and options on Live Cattle and Feeder Cattle contracts.~~

~~BE IT FURTHER RESOLVED, NCBA shall oppose any changes by the CME Group that would adversely affect cattle feeders' ability to deliver on Live Cattle contracts including, but not limited to, the discounting of deliveries to any delivery point,~~

BE IT FURTHER RESOLVED, NCBA ~~will work on supports~~ the following:

1. *Educational Activity:* Coordinate various groups to develop and initiate comprehensive programs for ~~the~~ NCBA membership ~~hip not only~~ on the mechanics of the commodity futures and options markets, ~~but also on~~ the application of those risk management tools to individual operations and management objectives.
2. *Law and Compliance:* ~~Seek Support~~ enforcement of the law and compliance of the regulations of the Commodity Futures Trading Commission (CFTC), the National Futures Association, and the CME Group to protect the integrity of agricultural futures markets.

3. *Market Research:* ~~Continue to e~~ncourage the cooperation of government, ~~and~~ private agencies, ~~and along with~~ universities, to allocate resources for basic commodity futures market research and to explore the market potential for new risk management products; ~~wholesale boxed beef, retail boxed beef, finished heifers, and calves.~~
4. *Margin Authority:* ~~Work for Support~~ continued authority of commodity futures exchanges to have explicit frontline responsibility for setting futures contracts' and options' initial and maintenance margin requirements with improved CFTC oversight.
5. *Exclusivity:* ~~Work for Support~~ reauthorization to maintain the CFTC as the independent and autonomous regulatory agency of the commodity futures trading industry.
6. *Protection of customer funds:* ~~work to Support efforts to~~ safeguard funds held on deposit at brokerage houses on behalf of customer-~~segregated~~ accounts.
7. *Delivery points:* ~~encourage and s~~ Support the existence of numerous well-designed and efficient physical delivery points to which cattle may be delivered.

M 2.8

2016/New

~~CME Group's Live Cattle and Feeder Cattle Futures~~

Recommendation: combine with 2.1 as shown above

~~WHEREAS, NCBA recognizes the importance of the availability of effective risk management tools for members to use for offsetting price risk, and~~

~~WHEREAS, NCBA recognizes the traditional role of the CME Group as the primary market venue for the trading of futures and options on Live Cattle and Feeder Cattle contracts, and~~

~~WHEREAS, the primary purpose of futures and options markets is to perform the functions of price discovery and risk transfer, and~~

~~WHEREAS, a healthy price discovery and risk transfer mechanism requires transparency, participation of numerous agents on both the buy and sell side, and equal access to transactions and information for all participants;~~

~~THEREFORE BE IT RESOLVED, NCBA support initiatives between cattle producers, the CME Group, and other market participants to increase transparency, level access to information and transactions, and foster an environment that builds confidence in the ability of the hedging community to effectively manage forward price risk using futures and options on Live Cattle and Feeder Cattle contracts.~~

M 2.2
2015/Amended
CME Feeder Cattle Index

WHEREAS, the Chicago Mercantile Exchange (CME) Feeder Cattle contract's primary purpose is to serve as a viable risk management mechanism for producers, and

~~WHEREAS, the CME Group Feeder Cattle futures contract is often used as a vehicle to aid in price discovery of the cash feeder cattle market, and~~

~~WHEREAS, the CME Group Feeder Cattle contract is a cash settled contract, and~~

WHEREAS, a narrower range of weights included in the index results in a more clearly defined and more representative cash index, and

WHEREAS, the contract is meant to represent steer cattle that are destined to be placed directly into feedyards to be finished to harvest weight, and

WHEREAS, the current cash index parameters for the CME Feeder Cattle contract tend to include many cattle that are destined to go back to grass or into backgrounding facilities while excluding many cattle that are being placed directly into feedyards,

WHEREAS, the current CME Feeder Cattle index composition lists a number of exclusions based upon body and/or flesh condition ~~in addition to and~~ breed type, and

WHEREAS, NCBA believes the CME Feeder Cattle index may not be fully representative of the cash market,

~~THEREFORE BE IT RESOLVED, NCBA support the removal of 650-699# steer cattle from the calculation of the CME Feeder Cattle Index;~~

~~BE IT FURTHER RESOLVED, NCBA support the inclusion of 850-899# steer cattle in the calculation of the CME Feeder Cattle Index;~~

THEREFORE BE IT RESOLVED, NCBA support ongoing evaluation of the CME Feeder Cattle Index parameters to ensure the index is representative of the cash market for the cattle that are destined to be placed directly into feedyards to be finished to harvest weight.

BE IT FURTHER RESOLVED, NCBA support implementing ~~the feeder cattle contract changes described above with the listing of the next available November contract; and implementing~~ any subsequent CME Feeder Cattle contract changes to coincide with the November issue of the contract in subsequent years,

BE IT FURTHER RESOLVED, NCBA support the industry's involvement in increasing the volume of direct trade reported to USDA Market News.

BE IT RESOLVED, NCBA work with other industry stakeholders (CME Group, United States Department of Agriculture, etc.) to initiate university research and determine the feasibility and expected impacts of the following actions:

1. Including in the CME ~~Group~~-Feeder Cattle Index transactions from currently unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA in combination with,
2. The inclusion of all excluded feeder cattle due to condition (fancy, full, fleshy, gaunt and thin) and all cash sales of feeder cattle which are predominately of beef breeding reported in the CME ~~Group~~-Feeder Cattle Index via a combination of ~~USDA-USDA~~-reported and unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA,
3. Removing market outlier transactions that are reported via a combination of USDA reported and unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA through a process of statistically eliminating the transactions with extreme prices (very high prices and very low prices) relative to the total distribution, and
4. Inclusion of feeder cattle from other regions in the CME Feeder Cattle Index with potential adjustments for transportation costs and other relevant factors.

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~~M 2.5~~

~~2015/New~~

~~**CME Group Feeder Cattle Index — Commented Cattle and Market Outliers**~~

~~*Recommendation: combine with 2.2, merged policy shown above.*~~

~~WHEREAS, the CME Group Feeder Cattle futures contract is often used as a vehicle to aid in price discovery of the cash feeder cattle market, and~~

~~WHEREAS, the CME Group Feeder Cattle contract is a cash settled contract, and~~

~~WHEREAS, the cash feeder cattle market index acts as an objective target for the CME Group Feeder Cattle contract to settle to, and~~

~~WHEREAS, the current index composition lists a number of exclusions based upon body and/or flesh condition in addition to breed type, and~~

~~WHEREAS, NCBA believes the index may not be fully representative of the cash market,~~

THEREFORE BE IT RESOLVED, NCBA work with other industry stakeholders (CME Group, United States Department of Agriculture, etc.) to initiate university research and determine the feasibility and expected impacts of:

1. Including in the CME Group Feeder Cattle Index transactions from currently unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA in combination with,
2. The inclusion of all excluded feeder cattle due to condition (fancy, full, fleshy, gaunt and thin) and all cash sales of feeder cattle which are predominately of beef breeding reported in the CME Group Feeder Cattle Index via a combination of USDA reported and unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA,
3. Removing market outlier transactions that are reported via a combination of USDA reported and unreported feeder cattle auctions through a systematic electronic reporting process that is audited and verified by the USDA through a process of statistically eliminating the transactions with extreme prices (very high prices and very low prices) relative to the total distribution, and
4. Inclusion of feeder cattle from other regions in the Index with potential adjustments for transportation costs and other relevant factors.

M 2.9

2016/New

CME Group's Live Cattle Futures Contract Specifications & Delivery Points

Recommendation: combine with 2.4, merged policy shown below

WHEREAS, NCBA views an effectively functioning ~~physical delivery futures~~ contract as the most preferable form of risk management mechanism for the cattle feeding industry, and

WHEREAS, CME Live Cattle and Feeder Cattle contract specifications and ~~physical delivery points~~ must be balanced to the needs of both hedgers of the underlying commodity and speculative participants and market makers for such contracts to remain viable,

WHEREAS, it is imperative that the CME Group Live Cattle and Feeder Cattle contracts have daily price limits which are appropriate to allow the market to function efficiently in times of high volatility regardless of prevailing price levels,

THEREFORE BE IT RESOLVED, NCBA support CME ~~Group's~~ Live Cattle contract specifications that equally incentivize both short and long participation in the marketplace and the existence of numerous well designed and efficient physical delivery points to which cattle may be delivered.

M 2.4

2015/New

CME Group Live Cattle & Feeder Cattle Futures Contracts Price Limits

Recommendation: combine with 2.9, merged policy shown with 2.9

~~WHEREAS, it is imperative that the CME Group Live Cattle and Feeder Cattle contracts have daily price limits which are appropriate to allow the market to function efficiently in times of high volatility regardless of prevailing price levels;~~

~~THEREFORE BE IT RESOLVED, NCBA support recent CME Group modifications to daily price limits and the inclusion of expandable daily price limits, which have had a positive effect on the markets' ability to trade efficiently during times of increased volatility.~~

M 2.6

2016/New

Algorithmic / High Frequency Futures Trading

Recommendation: no changes, minor updates for clarity

WHEREAS, algorithmic / high frequency trading has become a disruptive force in the futures markets, causing artificial volatility not based on fundamentals which is eroding price discovery and negatively impacting the ability of cattle producers to manage risk, and

WHEREAS, the speed with which algorithmic / high frequency trading occurs puts fundamental traders at a competitive disadvantage, and

WHEREAS, NCBA supports viable futures exchanges to facilitate effective risk management opportunities and to enhance price discovery for the livestock industry, and

WHEREAS, it is imperative that all markets operate in a responsible manner, free and clear of market abuse, and

WHEREAS, many cattle producers are concerned about the integrity of the current futures markets, specifically spoofing, order flow, and market maker programs,

THEREFORE BE IT RESOLVED, NCBA ~~request support~~ the following CME Group ~~take the following~~ actions concerning algorithmic / high frequency trading to address concerns about market volatility and transparency:

1. Monitor, measure, and control livestock contracts through the CME Globex Messaging Efficiency Program.
2. Implement latency between trade actions (cancel, cancel/replace, etc.).
3. Implement proactive procedures to more quickly identify, monitor, and address spoofing, layering, and quote stuffing / excessive messaging.

4. Develop and implement robust procedures for monitoring market manipulation, acting on violations, and reporting violations to stakeholders.
5. Release annual audit trail data for independent analysis, which includes firm-level generic identification while maintaining confidentiality of individual trades and traders.
6. Evaluate effectiveness of market maker and trading incentive programs.

M 2.7

CME Live Cattle Physical Delivery

Merged Policy, 2.7 and M Resolution 7

WHEREAS, the CME Group's Live Cattle contract is an important risk management tool for the cattle industry, and

WHEREAS, physical delivery on the Live Cattle contract is a necessary function to facilitate convergence of futures prices with the cash market,

WHEREAS, variable timing, availability, and accuracy of reports of cash market trades used in a Live Cattle cash settlement index could create additional volatility, and

WHEREAS, additional research, study and industry agreement is needed before adopting a Live Cattle cash settlement index, and

WHEREAS, the Live Cattle delivery process serves to promote convergence of cash and futures prices and producer a more consistent basis,

THEREFORE BE IT RESOLVED, NCBA support physical delivery of live cattle,

BE IT FURTHER RESOLVED, NCBA opposed any changes to the Live Cattle contract by the CME Group that would create a Live Cattle cash settlement index or process in place of physical delivery for live cattle,

BE IT FURTHER RESOLVED, NCBA work with industry stakeholders to consider possible improvements in the delivery process to embrace new technologies and increase efficiencies.

~~M 2.7~~

~~2016/New~~

~~**CME Live Cattle Physical Delivery**~~

~~*Recommendation: merge with M Resolution 7 (interim from Nashville) and one BIFR from 2.1*~~

~~WHEREAS, the CME Group's Live Cattle contract is an important risk management tool for the cattle industry, and~~

~~WHEREAS, physical delivery on the Live Cattle contract is a necessary function to facilitate convergence of futures prices with the cash market,~~

~~THEREFORE BE IT RESOLVED, NCBA support physical delivery of live cattle,~~

~~BE IT FURTHER RESOLVED, NCBA work with industry stakeholders to consider possible improvements in the delivery process to embrace new technologies and increase efficiencies.~~

~~M Resolution 7~~

~~2017/New (interim from Nashville)~~

~~**Cash Settlement of Live Cattle Contracts**~~

~~*Recommendation: Amend 2.7 to include points below, then not adopt M Resolution 7.*~~

~~WHEREAS, the commodity futures markets provide a vital and necessary risk management tool for the livestock industry, and~~

~~WHEREAS, NCBA members support viable futures exchanges with low market volatility and consistent basis to facilitate effective risk management opportunities for the livestock industry, and~~

~~WHEREAS, variable timing, availability, and accuracy of reports of cash market trades used in a Live Cattle cash settlement index could create additional volatility, and~~

~~WHEREAS, additional research, study and industry agreement is needed before making wholesale changes to the CME Live Cattle contract, including movement to a cash settlement process, and~~

~~WHEREAS, the Live Cattle delivery process serves to promote convergence of cash and futures prices and produce a more consistent basis,~~

~~THEREFORE BE IT RESOLVED, NCBA opposes any changes to the Live Cattle contract by the CME Group that would create a cash settlement process in place of physical delivery for live cattle.~~

The merged policies were recommended and moved by Ed Grieman of Iowa Cattlemen's on behalf of the Market Policy Task Force. There was a second. The merged policies passed by a unanimous floor vote.

d. Consideration of Interim Policy

Chairman Williams moved to consideration of interim policy from Nashville.

1. M 1.10 – Fed Cattle Price Discovery. Troy Stowater from Nebraska Cattlemen made a motion. There was a second. The resolution passed.
2. M Winter Resolution 6 – Department of Transportation’s Livestock Transportation Hours of Service Standards. Weston Gibbons of Oklahoma Cattlemen made a motion. There was a second. The resolution passed.
3. M Winter Directive 1 – Livestock Mandatory Reporting/Mandatory Price Reporting. Surey Peoples of Texas Cattle Feeders Association moved to amend the directive. There was a second. The amendment passed. The amended policy is reflected below.

Amended M Winter Directive 1 2017

New Livestock Mandatory Reporting/Mandatory Price Reporting

WHEREAS, Livestock Mandatory Reporting/Mandatory Price Reporting (MPR) is being examined by industry stakeholders and USDA-AMS for possible changes, and

WHEREAS, industry practices have changed since enactment of the law, and

WHEREAS, improvements are needed to ensure that cattle producers have access to timely, accurate, more relevant, and useful pricing information,

THEREFORE BE IT DIRECTED, NCBA appoints a separate working group of knowledgeable and interested members and state affiliate staff to advise NCBA staff and identify improvements for consideration by the Live Cattle Marketing Committee, which could include, among other things:

1. Improving the flexibility and timeliness of MPR updates to reflect evolving market conditions.
2. Retaining public access to all historical MPR data through the USDA Data Mart.
3. Combining state daily cash summary and state daily cash weighted average reports.
4. Adding new data points to daily and weekly weighted average 5-area reports.
5. Increasing the number of summary reports formatted for mobile devices.
6. Improving cash trade reporting across delivery day categories.
7. ~~Segregating outlier cattle (non-beef, heiferettes, etc.) from conventional cattle to create more accurate data ranges.~~

7. Determine how carcass weights can be reported from FSIS to USDA AMS in a more timely manner than the current two-week delay.
8. Oppose creation of a “5 area Daily Direct Slaughter Cattle Report for Formula and Grid Purchases”.
9. Oppose inclusion of dressed yields in daily “5 area Negotiated Report” and the proposed new “5 area formula report”.
10. Oppose a change to LMR requiring packers to report the date that base formula prices were established.
11. Oppose changing the language from “scheduled” to “intended” for future deliveries.
12. Oppose reporting basis trades on a daily rather than weekly basis.

A motion was made by Joel Jarnagin of Nebraska Cattlemen. There was a second. The directive was passed.

4. M Winter Directive 2 – CME Live Cattle Physical Delivery. A motion was made by Surcy Peoples of Texas Cattle Feeders Association. There was a second. The directive passed.
5. M Resolution 7 – Cash Settlement of Live Cattle Contracts. Allowed to expire.

e. Chairman Williams opened the floor for NEW RESOLUTIONS:

1. A motion was made by Ed Grieman of Iowa Cattlemen on behalf of the Market Policy Task Force to consider a new resolution titled CME Contract Specifications. Pete Bonds of Texas and Southwestern Cattle Raisers Association and Surcy Peoples moved to amend CME Contract Specifications. There was a second. These amendments are reflected below.

CME Contract Specifications

WHEREAS, many expected and unforeseen variables contribute to cattle markets being dynamic and ever-changing, and

WHEREAS, the CME Group’s Live and Feeder Cattle futures contracts have defined contract specifications, and

WHEREAS, changes in the marketplace can warrant changes to the Live and Feeder Cattle futures contracts,

THEREFORE BE IT DIRECTED, NCBA appoint a standing working group comprised of members and state executives who are interested and impacted by futures contract specifications, including but not limited to the current Market Policy Task Force members to review the CME Group's Live and Feeder Cattle contract specifications on a yearly basis in order to evaluate the current cattle market and determine whether any changes need to be recommended to the CME Group in order to ensure the Live and Feeder Cattle futures contract specifications reflect the current state of the cattle markets,

BE IT FURTHER DIRECTED, the working group utilize existing NCBA policy to help formulate the recommended changes,

BE IT FURTHER DIRECTED, the working group's recommendations be submitted for review and approval by NCBA's Live Cattle Marketing Committee and Board of Directors before being sent to the CME Group.

The amended policy was passed.

2. A motion was made by Troy Stowater of Nebraska Cattlemen to consider a new resolution titled CME Live Cattle Dynamic Contract Specs. There was a second. There was opposition. The resolution did not pass in a floor vote.
3. There was a motion made by Ed Grieman of Iowa Cattlemen's to consider a new directive titled CFTC Resources. There was a second. The directive consists of the following:

M Summer Directive
2017/New
CFTC Resources

WHEREAS, the Commodity Futures Trading Commission (CFTC) provides important regulatory oversight and enforcement of agricultural futures and options contract specifications and regulations; and

WHEREAS, the CFTC lacks sufficient resources (i.e. computer hardware/software and staff) to provide complete surveillance and oversight of electronically traded contracts.

THEREFORE BE IT RESOLVED, NCBA work to secure adequate funding for these CFTC needs and activities through Congressional authorization and appropriations as soon as possible.

The directive was passed.

4. There was a motion made by Ed Grieman of Iowa Cattlemen's to consider a new resolution titled CME Live Cattle & Feeder Cattle Futures Contract Price Limits. There was a second. The resolution consists of the following:

M Summer Policy
2017/New

CME Live Cattle & Feeder Cattle Futures Contracts Price Limits

WHEREAS, the current daily price limit for Live Cattle is \$3.00 and Feeder Cattle is \$4.50; and

WHEREAS, the current rules allow for daily limits to expand to \$4.50 on Live Cattle and \$6.75 on Feeder Cattle on the next day following a limit's close; and

WHEREAS, the current limits and expanded limits have on most occasions allowed the market to function and trade on the second day; and

WHEREAS, the CME has the ability to temporarily expand daily price limits in times of extreme market conditions.

THEREFORE BE IT RESOLVED, NCBA supports the current daily limits and would oppose any increase in daily price limits to Live Cattle and Feeder Cattle.

The resolution was passed by unanimous voice vote.

III. New Business

No other business was brought before the committee.

IV. Adjournment - The committee adjourned at 10:25 AM