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Bruce Bass, Vice President Cattle Procurement

COMMENT

February 8, 2000

Jean A. Webb
Commodity Futures Trading Commission
Three Lafayette Centre, 21st Street, NW
Washington, DC 20581

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Dear Ms. Webb:

I am Bruce Bass Vice President-Cattle Procurement for IBP, the world's leading producer of fresh beef and pork. Our company participates in the trading of live cattle futures as a way to hedge forward-purchased cattle. We offer to accept basis risk for producers who wish not to take basis risk themselves. We do this today, based upon our ability to utilize the CME as a hedging mechanism for IBP, and as a service to cattle producers who supply our manufacturing plants.

On behalf of IBP, I writing to comment on the recent request by the Chicago Mercantile Exchange (CME) for an increase in the spot month speculative trading limits for live cattle contract. IBP strongly opposes this request. We believe that doubling the speculative limits, a change that took effect in June 1998, has already had a negative impact on the ability of IBP, and cattle producers alike, to utilize the CME as an effective hedging tool for live cattle purchases and sales.

In fact, we would encourage the commission to restore the spot month speculative trading limit to 300 contracts long or short at the close of business on the first notice day, with no more than 200 contracts long or short any time during the last four trading days.

The CME has sought throughout the 1990s to increase the spot trading limits. We assume the intent has been to enhance the ability of traders to effectively use the CME market. Unfortunately, these changes have instead decreased the ability of livestock producers and companies such as IBP to use the live cattle futures to hedge live cattle transactions.

We fear the CME's latest proposal will only further exacerbate the situation. Instead of servicing the live cattle market, the CME would offer a few speculative traders a significant advantage, to the detriment of the rest of the market. In fact, allowing larger limits in a delivery month would create a situation where the futures market cannot and does not effectively mirror the live cattle market. If this happens, the CME will no longer be an effective "hedging" mechanism for cattle producers or companies like IBP that provide hedging services to their customers. In such event, IBP will have

to seriously consider whether it should 1) offer these hedging services for its customers, or 2) whether IBP should participate in the settlement process through the slaughter of carcass settled contracts.

A limit larger than 300 contracts gives an excessive advantage to the long position holder over other traders. This leverage is a result of the CME's position to systematically reduce the pool of deliverable cattle by allowing different delivery specifications between live and carcass delivery. This creates a significant advantage for the long contract holder, which does not exist in the real marketplace. In order to deliver even one-third of the maximum contracts in a delivery period, it would take the capacity of more than sixty 20,000 head feedyards.

The CME's stance is also to the contrary of the recommendations of the National Cattlemen's Beef Association (NCBA) on both equalizing the live versus carcass delivery specifications and providing a means by which heifers could be delivered under CME contracts, both policies aimed at ensuring the CME remain an effective hedging mechanism mirroring the cash market. I personally have communicated these concerns to members of the CME Live Cattle Committee. Officials of the NCBA, Texas Cattle Feeders Association and Kansas Livestock Association, have also expressed concerns. To date, however, these concerns have been ignored.

To reiterate, we would again request the CFTC deny the CME proposal for increasing the spot month speculative trading limits, and reconsider its prior decision to raise those limits. Thank you in advance for this opportunity to make these comments.

Sincerely,

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.