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**COMMENT**

November 12, 2002

Jean Webb, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre, 1155 Twenty-first Street, NW  
Washington, DC 20581

Dear Madam Secretary:

Until the Chicago Mercantile Exchange (CME) updates its Live Cattle Contract specifications to accurately represent the majority of fed cattle slaughtered in the U.S., measures such as the current proposed amendment, which reduces the number of speculative spot month positions held from 600 to 300, will be necessary.

It is well documented that during the last 20 years the genetic base of the U.S. cowherd has changed and steadily trended towards larger animals. The change in genetics combined with more advanced implant programs have resulted in a much larger average live fed steer and carcass than currently specified in the CME rulebook. The unfortunate reluctance by the CME and its staff and members, to acknowledge and update its contract has resulted in an artificial tightening of the available deliverable supply of CME cattle and caused a wider and wider basis to occur (live cash cattle prices minus spot live cattle futures prices).

The Live Cattle contract exists as a hedging mechanism for long and short hedgers and a speculative opportunity for long and short speculators. Long and short hedgers use historical basis when making their business decisions and count on the ultimate convergence between cash and futures prices as a key element of their programs. IBP is an active long and short hedger, as we work with both cattle producers and end users in various forward contracting programs. The out-of-line basis is detrimental to our conducting business as both a long and short hedger, as basis distortion creates more basis risk, which we must then pass on to our customers in less attractive forward contracting prices.

The artificially tight deliverable supply of CME cattle, which exists because of the CME's reluctance to keep its specifications current with industry standards, gives the long speculator the opportunity to "stand for delivery" and force the shorts to exit or deliver. This in itself is neither bullish nor bearish, unless the specifications themselves create an on going "tight deliverable supply" as the CME rules do currently.

As a result, the lowering of CME speculative position limits from 600 to 300 is a necessary stopgap measure to counter the current bias created by the out-dated live cattle contract specifications. Thus, until the CME live cattle delivery specifications are updated to reflect the current fed cattle supply, amendments such as this will be necessary to provide some balance to the current flawed and skewed price discovery method.

Thank you for the opportunity to share our thoughts on this very important matter. We are active hedgers in livestock futures and must rely on the integrity of the CME and the accuracy of its contracts as part of our daily business dealings.

Sincerely,

Bruce Bass, VP Beef Procurement, IBP Fresh Meat Division

Cassandra Fish, Senior Director of Commodity Risk Management, IBP Fresh Meat Division

Part of the Tyson Food Family

IBP, Inc.  
1655 Dakota Avenue, Dakota City, NE 68731  
TELEPHONE: 605-235-2061