

CCC-320-1  
(08-30-01)

U.S. DEPARTMENT OF AGRICULTURE  
Commodity Credit Corporation  
Risk Management Agency

**BROKER AGREEMENT OF THE DAIRY OPTIONS PILOT PROGRAM**

**NOTE:** The following statement is made in accordance with the Privacy Act of 1974 (5 USC 552a) and the Paperwork Reduction Act of 1995, as amended. The authority for requesting the following information is the Federal Agricultural Improvement and Reform Act of 1996 (Pub. L. 104-127). The information will be used to evaluate the effectiveness of the program and to verify compliance with program procedures. Furnishing the requested information is voluntary, but failure to furnish the requested information will result in termination of this contract and ineligibility for the program. This information may be provided to other agencies, IRS, Department of Justice, or other State and Federal Law enforcement agencies, and in response to a court magistrate or administrative tribunal. The provisions of criminal and civil fraud statutes, including 18 USC 286, 287, 371, 641, 651, 1001; 15 USC 714m; and 31 USC 3729, may be applicable to the information provided.

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The terms and conditions for the Dairy Options Pilot Program (DOPP) broker agreement are as follows:

**1 DEFINITIONS**

- A **Abandonment.** The surrender of the right possessed by an option buyer, an alternative open to an option buyer whose option is to expire worthless.
- B **Application.** Form CCC-320 that is required to be completed and signed by the producer before the producer is eligible to participate in this program.
- C **Broker.** A broker or brokerage firm registered under the Commodities Exchange Act that has entered into an agreement with RMA to participate in the program.
- D **Class III and Class IV.** Milk prices determined monthly by the USDA from which futures and options contracts are derived.
- E **Contract Month.** A month designated in an eligible market for which futures and options contracts are quoted for trading.
- F **County Official Training Date.** The date designated by RMA as the training date for a pilot program county. This date will be used as the reference date for trading deadlines regardless of the date an individual producer within the county completes the training requirement.
- G **CME.** Chicago Mercantile Exchange.
- H **DOPP.** Dairy Options Pilot Program.
- I **Eligible markets.** Commodity futures and options markets designated as contract markets under the Commodity Exchange Act (7 U.S.C. 1 et seq.).
- J **Exercise.** The action taken by the holders of a put option on a futures contract if they wish to sell the underlying futures contract.
- K **Expiration date.** The last date on which a put option may be exercised or sold.
- L **Futures contract.** A standardized contract to make or take future delivery of a commodity traded on an eligible market at some point in the future.

- M **Hedge**. To take compensatory measures to counter a possible loss.
- N **Open outcry**. Method of public auction required to make bids and offers in the trading pits, or rings, of commodity exchanges.
- O **Out-of-the-money**. Put option with a strike price that is less than the underlying futures contract price. For the purposes of determining the strike price under DOPP, brokers can reference the higher of either the last trade or the current bid for the relevant futures contract.
- P **Pilot County**. The county in which DOPP is offered. To be eligible for DOPP, a producer must operate a dairy with a milking barn in the pilot county.
- Q **Premium**. The value of a put option determined by open outcry. The premium does not include related brokerage commission fees.
- R **Producer**. An individual, entity, or joint operation, which as owner, landlord, tenant, or sharecropper, is entitled to share in the production available for marketing from the dairy farm, or share in the proceeds thereof.
- S **Program**. The Dairy Options Pilot Program.
- T **Put option**. A contract traded on eligible markets that gives the buyer the right, but not the obligation to sell the underlying futures contract at the strike price on or before an established expiration date.
- U **RMA**. Risk Management Agency, an agency of the United States Department of Agriculture.
- V **Round turn**. The broker's service in transacting a single put option consisting of consultation services and the purchase and liquidation (sale or exercise, or abandonment) of a put option.
- W **Sale**. An alternative available to the purchaser of an option by which the option is liquidated through an offer in an eligible market.
- X **Secretary**. The Secretary of Agriculture.
- Y **Settlement price**. The price established at the end of each days trading of a specific put option, as published by the exchange on which that contract trades.
- Z **Strike Price**. The price at which the holder of a put option has the right, but not the obligation, to sell the underlying futures contract.
- AA **USDA**. The United States Department of Agriculture

## 2 ELIGIBILITY

To be eligible to execute options orders on behalf of DOPP participants under this agreement a broker must:

- A Be properly licensed and in good standing with the National Futures Association;
- (1) Not be suspended or debarred by any U.S. Government Agency;
  - (2) Complete at least one approved DOPP training session for each year of participation in the program;
  - (3) Have the following hardware and software and service in order to operate the DOPP communications software: Internet Service Provider; Internet E-mail address; a Windows 95 PC; Internet Browser, either Microsoft Internet Explorer or Netscape; minimum 28.8 modem; minimum 8 meg RAM (16 meg recommended); and
  - (4) Execute this agreement and comply with all its terms and conditions.

### 3 RESPONSIBILITIES

- A Any broker who participates in the program agrees to enforce the following program requirements with respect to any DOPP participant who elects to purchase options:
- (1) To buy put options on a minimum of 100,000 pounds of milk on an eligible market, through an eligible broker, within four months from the county's official training date, (if market conditions fail to provide an opportunity to establish price protection above production costs producers are not obligated to purchase the minimum number of pounds);
  - (2) To purchase options on no more than 200,000 pounds of milk for any one contract month;
  - (3) To purchase put options on no more than the producer's total production over the consecutive 6-month period used to establish the producer's eligibility. (For example, if a producer has provided copies of marketing receipts for 245,000 pounds of total milk production for a consecutive 6 month period to meet the eligibility criteria of the program, only 200,000 can be hedged under the program because there are no contracts equal to or less than 45,000 pounds currently available on a eligible market);
  - (4) To purchase only those put options that expire at least two months after the purchase date. (For example, assume the producer wants to hedge January 2001 production with milk put options. The last date on which the producer shall be able to purchase a January put option under the program would be Thursday, November 30, because the January options expire two months later on Thursday, February 1, 2001. On December 1, 2000, the producer could purchase only February 2001 or more distant options);
  - (5) To purchase only those put options with a strike price that is at least 10 cents out of the money;
  - (6) That no put options will be sold or exercised before one month prior to the expiration date. (For example, assume the producer owns January, 2001 put options which expire on Thursday, February 1, 2001. The producer would not be allowed to sell or exercise the January options under the program prior to January 1); and
  - (7) To purchase only those put options with contract months less than 12 months from the county's official training date (For example, assume a county's official training date is December 15, 2000. The most distant options contract the producer is permitted to buy is the November 2001 contract).
- B Brokers must keep detailed records on each transaction and transmit all information to RMA electronically. RMA will provide the broker with security information and processing instructions for this purpose. Records required include:
- (1) The purchase date, time, and premium, strike price, contract type, and exchange for each put option;
  - (2) The expiration date and contract month for each put option;
  - (3) Whether the options are sold, exercised, or abandoned and, the date, time, and price of the futures contract transaction, in the event of exercise.
- C Brokers certify that systems used to transmit data are year 2000 compliant, i.e., be able to process accurately date and time data (including, but not limited to, calculating, comparing, and sequencing) from, into, and between the years 1999 and 2001 and leap year calculations, and to properly exchange date and time data with other information technology. Data transmission requirements and year 2000 compliance guidelines are available upon request.
- D Before accepting a DOPP order from the producer, the broker is required to determine the producer's eligibility and the timing and quantity constraints applicable to that producer. This information is available from the RMA's DOPP database.
- E If a broker participating in the program through this agreement is not in compliance with the provisions of this agreement, the broker will be required to repay any broker fees and premiums paid by RMA on options contracts traded by the broker under the program.
- F Brokers must enter into the software database all information regarding the sale, expiration, or exercising of all put options within two weeks of such events.

**4 COSTS**

- A Up to \$30 per round turn in broker fees will be paid by RMA for each put option purchased on behalf of the producer. Any transactions costs agreed upon between the broker and a producer in excess of \$30 will be the sole responsibility of the producer and not of RMA.
- B The broker will charge the producer’s account for 20 percent of the premium of each put option purchased. This 20 percent of the put option premium is the sole responsibility of the producer and not of RMA.
- C The broker will bill transaction costs not to exceed \$30 and the balance of the put option premium, 80 percent, to RMA. RMA will pay these amounts via the automated clearing house (ACH) payments process within three banking days after RMA’s acceptance of the transaction. Transactions will be considered accepted after RMA systems verify that the broker and participant have been selected for participation in the program, and that the transaction does not violate the trading limitations of the program established in Section 3 above.
- D The producer is solely responsible for any broker commissions or other costs associated with futures contracts when put options are exercised.

**5 PROGRAM CHANGES**

- A The broker acknowledges that, due to the pilot nature of this program, on-going modifications may be necessary. The broker agrees to abide by reasonable changes in the program by RMA.
- B RMA may approve the use of other put options contracts in DOPP, should RMA determine that those contracts provide dairy producers with an effective price risk management tool.

| 6. BROKER INFORMATION - REQUIRED               |   |          |
|--|---|----------|
| A. Broker’s Name                               | B. Brokerage Firm Name & Brokerage Firm National Futures Association (NFA) Number |          |
| C. Mailing Address                             | D. City, State, Zip   |          |
| E. Telephone Number <i>(Include area code)</i> | F. FAX Number <i>(Include area code)</i>  |          |
| G. Email Address                               | H. Broker’s Tax ID No. (SSN/EIN)  |          |
| I. Broker’s NFA ID Number                      | J. Futures Commission Merchant Name & NFA Number                                  |          |
| K. Broker’s Signature                          |   | Date     |
| 7. APPROVAL - FOR HEADQUARTERS’ RMA USE ONLY   |   |          |
| A. RMA Representative Signature                | Date  | B. Title |

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