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DEPARTMENT OF AGRICULTURE

Risk Management Agency

RIN 0563–AB61

Dairy Options Pilot Program

AGENCY: Risk Management Agency, USDA.

ACTION: Notice of Availability.

SUMMARY: This notice announces the availability of a new Dairy Options Pilot Program (DOPP) to be administered by the Risk Management Agency (RMA) in conjunction with the private sector. The objective of DOPP is to provide education, training and assistance to producers to ascertain whether put options can provide producers with reasonable protection from the price risk.

EFFECTIVE DATE: December 14, 1998.

FOR FURTHER INFORMATION CONTACT: For further information and a copy of the cost-benefit analysis to the DOPP, contact Joe Connor, Financial Analyst, Reinsurance Services Division, Risk Management Agency, United States Department of Agriculture, 1400 Independence Avenue, S.W., Stop 0804, Room 6739–S, Washington, DC., 20250–0804.

SUPPLEMENTARY INFORMATION:

Executive Order 12866

The Office of Management and Budget (OMB) has determined this rule to be significant for the purposes of Executive Order 12866 and, therefore, has been reviewed by OMB.

Cost-Benefit Analysis

The program is designed to increase the level of understanding of options contracts as risk management tools among dairy producers and to explore their specific applicability to the dairy industry. The costs to the Government of options premium under the program are estimated to be about $10 million annually. If successful, the program will help create liquid markets in basic formula price (BFP) futures and options contracts which would be sustained, in part, by the on-going hedging of output price risk by dairy producers who have benefited from the educational aspect of the program. Under that scenario, the benefits of the program would include furnishing producers with a viable price risk management alternative, exerting a stabilizing influence on the dairy industry, and contributing to the Department's goals of supporting market oriented reforms in the agricultural sector.

Paperwork Reduction Act of 1995

Pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. chapter 35), the collections of information for this notice have been approved by the Office of Management and Budget (OMB) under control number 0563–0054 through February 28, 2001.

Unfunded Mandates Reform Act of 1995

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), Pub. L. 104–4, establishes requirements for Federal agencies to assess the effects of their regulatory actions on State, local, and tribal governments and the private sector. This notice contains no Federal mandates (under the regulatory provisions of title II of UMRA) for State, local, and tribal governments or the private sector. Therefore, this notice is not subject to the requirements of sections 202 and 205 of UMRA.

Executive Order 12612

It has been determined under section 6(a) of Executive Order 12612, Federalism, that this notice does not have sufficient federalism implications to warrant the preparation of a Federalism Assessment. The provisions contained in this notice will not have a substantial direct effect on States or their political subdivisions, or on the distribution of power and responsibilities among the various levels of government.

Regulatory Flexibility Act

This notice will not have a significant impact on a substantial number of small entities. The provisions included in this notice will not impact small entities to a greater extent than large entities. The amount of work required of brokers will only increase slightly because the information to determine the eligibility of producers and trading activities is already collected by brokers specializing in hedge positions and the only additional burden is the electronic transmittal of this information. Therefore, this action is determined to be exempt from the provisions of the Regulatory Flexibility Act (5 U.S.C. 605) and no Regulatory Flexibility Analysis was prepared.

Federal Assistance Program

This program is listed in the Catalog of Federal Domestic Assistance under No.10.450.

Executive Order 12372

This program is not subject to the provisions of Executive Order 12372 which require intergovernmental consultation with State and local officials. See the Notice related to 7 CFR part 3015, subpart V, published at 48 FR 29115, June 24, 1983.

Executive Order 12988

This notice has been reviewed in accordance with Executive Order 12988 on civil justice reform. The provisions of this notice will not have a retroactive effect. The provisions of this notice will preempt State and local laws to the extent such State and local laws are inconsistent herewith. The administrative appeal provisions published at 7 CFR part 11 must be exhausted before any action for judicial review of any determination made by RMA may be brought.

Environmental Evaluation

This action is not expected to have any significant impact on the quality of the human environment, health, and safety. Therefore, neither an Environmental Assessment nor an Environmental Impact Statement is needed.

Background

Section 191 of the Federal Agriculture Improvement and Reform Act of 1996 authorizes the Secretary of Agriculture (Secretary) to conduct a pilot program for one or more agricultural commodities to determine the feasibility of the use of futures and options as risk management tools to protect producers from fluctuations in price, yield and income. Accordingly, the Secretary directed RMA to develop DOPP.

The purpose of this notice is to announce the implementation of DOPP. DOPP will not be published as a proposed or final rule unless the program is authorized to be and is offered on a wider basis. DOPP will be in effect when applications and contracts are made available by RMA and producers in selected counties are provided actual notice through the mail of the program's availability.

DOPP is intended to offer an educational experience to dairy producers whose need for risk management tools has risen sharply as a result of unprecedented price volatility, the elimination of price supports, and the current unavailability of production insurance. DOPP will be offered on a pilot basis to determine the usefulness of commodity futures and options markets to manage risk in the dairy industry.

The program represents a joint initiative between RMA and the private sector. DOPP procedures were first proposed to RMA by the Coffee, Sugar & Cocoa Exchange (CSCE). During the development of this program, the Chicago Mercantile Exchange (CME) provided additional recommendations. If successful, the educational benefits of DOPP will prepare producers to manage their price risk independently through the milk futures and options markets.

The program will be available in the following States and counties: Stanislaus, Merced, Tulare, San Bernadino, San Joaquin, and Kings counties, California; Stearns, Otter Tail, Todd, Morrison, Winona, and Goodhue counties, Minnesota; St. Lawrence, Oneida, Steuben, Chautaugua, Jefferson, and Lewis counties, New York; Lancaster, Bradford, Franklin, Crawford, Berks, and Chester counties, Pennsylvania; Hopkins, Wood, Van Zandt, Erath, Johnson, and Comanche counties, Texas; Marathon, Clark, Grant, Vernon, and Chippewa counties, Wisconsin; and Franklin, Addison, Orleans, Orange, Rutland, and Caledonia counties, Vermont. At the discretion of the Secretary, States and counties are subject to change throughout the duration of this pilot program.

The participation limit per county is set at 100 producers, subject to adjustments as described below. Counties with a higher number of participants signing-up will have participants selected through a lottery. Applicants who miss the opportunity to participate in the first round of the program will obtain preference in the next round offered in their county. When a county has fewer than the maximum number of participants, the excess program vacancies will be pooled and distributed among counties where more than the maximum number has signed up. Producers wishing to participate in the program must fill out and sign an application (Form CCC–320) and a release of information from their broker to RMA (CCC–321).

The program will last a maximum of 8 months for each participating producer commencing at the date of training through the close-out of DOPP options positions. After registration and training, producers will have up to 2 months to purchase DOPP options and all DOPP options must expire within 6 months from the date of purchase. Producers are required to buy ''put options'' at least two months in the future in order to allow time for the educational benefits of the program to be realized. For the same reason, producers will be required to hold their options until the four week period immediately prior to the expiration date.

In order to introduce the new trading volume onto the markets slowly, each round of participants will commence trading at different times by state.

The two exchanges where the BFP futures and put options are currently available are CSCE and CME. The contracts on the two exchanges differ with regard to quantity. Under the program, a participating producer will be permitted to purchase contracts to hedge between 100,000 and 600,000 pounds of milk over a six-month period. Producers will be required to submit documentation supporting their farm's production of at least 100,000 pounds of milk over a six-month period.

Discussion of Comments and Changes to the Program

On Friday, January 2, 1998, RMA published an Advance Notice of Availability and Request for Comments in the **Federal Register** at 63 FR 51 to seek input from the public on a new DOPP to be administered by the RMA in conjunction with the private sector. The public was afforded 30 days to submit written comments and opinions.

Approximately one-hundred comments were received from dairy producers, cooperatives, industry associations, milk processors, members of Congress, commodities exchanges, academics, state representatives, and the general public. Over 95 percent of the comments were in favor of the concept of the program, though many suggested ways to improve the program's design features.

Comments received generally revolve around 4 major issues: (1) what states and counties would be first implemented; (2) what exchange or exchanges would be used to trade DOPP options; (3) whether cooperatives should be able to participate as eligible producers; and (4) various modifications to the constraints on trading behavior placed on DOPP participants. The comments received and RMA's responses are as follows:.

Comments: Seventy comments were solicitations by producers, agricultural extension agents, brokers, futures exchanges, association of dairy cooperatives, state and Federal government representatives, and legislators to implement DOPP in their states and counties or congressional districts. One cooperative suggested that the county selection criteria should be: (1) the majority of farms (but not all) should be family operations; (2) states should be representative of the industry as a whole; (3) states should not be selected if they are dominated by just one or two cooperatives; and (4) favor should be given to states with strong pre-existing support structures such as active university extension, marketing clubs, etc. An extension agent suggested selecting states and counties from the several regions of milk production, and makes a point of selecting one state from the west and from the southeast.

Response: Selection of the counties where the DOPP is to be implemented first was based on the concentration of production and the geographical proximity of selected counties to one another. The former criterion is relatively objective and was based on 1992 agricultural census data. The latter criterion is more subjective but is necessary to enable RMA to increase operational efficiency with regard to training and compliance. The selected counties contain a diverse mixture of family farms and corporate farms of all sizes, as well as regions where many cooperatives are active, not just one or two dominant cooperatives. Extension support and marketing clubs are also found in many of these areas.

Comments: Fifty-one comments from cooperatives, futures exchanges, legislators, association of dairy cooperatives, brokers and industry associations suggested the use of a single exchange or a single contract in the program. They can be summarized as follows:

(A) DOPP options should be traded solely on the Coffee Sugar & Cocoa Exchange (CSC) because: (1) Trading on two exchanges diffuses liquidity the program could be expected to build; (2) it makes the program less confusing to the new trader; (3) it makes data collection and analysis easier; (4) it recognizes CSC's longer commitment to the project and innovative contribution to the program's design; and (5) CSC has an excellent track record on aggressive efforts to present educational seminars.

(B) DOPP options should be traded using any single contract and exchange but not more than one of either to make the program less complicated.

(C) DOPP options should be traded on any eligible exchange as established by the language of the statute and the Advance Notice of Availability and let the market decide where DOPP options should be traded and inform the producers of the different contracts available on the market.

Response: Dairy producers should be able to choose the options product that best fits their needs both in terms of contract size and in the exchange used. The market alone should dictate where options are traded and it would be inappropriate for RMA to intervene in that process. Further, the complexity of these markets is not something the producer should be sheltered from under the program. Rather, the program is intended to be an educational opportunity for the producer to become familiar with this complexity.

Comments: Two cooperatives and one association suggested DOPP should allow cooperatives to be DOPP participants, thus making the program less time consuming to the producer and bringing their key partner, the cooperative, up to speed on futures and options as well as indirectly encouraging cooperatives to expand their forward contracting programs.

Response: Based on the language in section 191 of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), there is no authority to allow other than those producers who are eligible for a production flexibility contract, a marketing assistance loan, or other assistance under title I of the 1996 Act. Cooperatives are not eligible for any of the programs listed. Therefore, no change has been made.

Comment: One exchange suggested that RMA should clarify restrictions on the timing of purchases.

Response: RMA has clarified the provisions regarding the date by which all purchases must be complete. RMA has also added a provision to clarify for what months the options can be purchased.

Comment: One broker and one crop insurance company suggested that RMA should remove the 600,000 pound maximum production that can be hedged under the program.

Response: This program is experimental and intended to determine the feasibility of such a risk management tool. The 600,000 pound maximum is intended to allow sufficient use of the market while protecting taxpayers from larger outlays than necessary to achieve the educational objective of the program. Therefore, no change has been made.

Comment: One association and one broker commented that RMA should change the maximum strike price of 25 cents out-of-the-money to the first strike price that is ''at'' or ''in'' the money.

Response: This change would also be too expensive to implement and, potentially, less relevant educationally because producers wishing to hedge production might be less inclined to choose an expensive ''in'' the money option. However, the 25 cent requirement has been reduced to 10 cents.

Comment: One legislator and one producer suggested that DOPP should be implemented in the statutorily allowed 100 counties.

Response: As RMA's first options pilot program, it has been determined that a smaller scale of operation will allow greater opportunity to observe and make adjustments to the program before expanding it. Further, implementing the program at its full capacity would increase the likelihood that a proposed and final rule be published prior to implementation, instead of a Notice of Availability. This would eliminate RMA's ability to modify the program expeditiously in its early stages. Therefore, no change has been made.

Comment: One broker suggested that the separate billing scheme would detract from the realism of the producer's experience.

Response: In any subsidized program, the producer will not receive a perfectly realistic free-market experience. By using a billing scheme that bills RMA for the subsidized portion of the transaction, RMA has enhanced the speed and efficiency of the payment system. A 72 hour turn around time is required by brokers under their industry regulations. Other alternatives such as asking producers to put up the money and be reimbursed later, or advancing funds to the producer to conduct DOPP trades were considered. However, the former alternative was rejected on the grounds that it would negatively impact participation due to the limited working capital of many small dairy producers. The latter was deemed to subject the program to increased risk of misuse of funds while significantly complicating the compliance audit process. Further, timeliness of trading and compliance information will play a critical role as RMA evaluates the program for program expansion and relocation. Therefore, no change has been made.

Comment: One cooperative suggested that 6 months is too short a period for the program to last for each participant and stated that 12 months is better.

Response: The program can actually last as long as 8 months from the date of the producer's attendance at the required training class. RMA determined that an 8 month time period encompasses enough of the dairy marketing cycle to enable the producer to implement and complete a useful price risk hedge and allow the producer to decide whether to continue utilizing this risk management strategy. Therefore, no change has been made.

Comment: One state government employee commented that RMA should clarify that producers cannot buy options on more milk than they produce over six months.

Response: RMA has added a provision that specifies that producers cannot purchase put options for more production than the producer has documents to prove was produced during the 6 month period.

Comment: Two brokers suggested that RMA should clarify the flow of funds.

Response: RMA has clarified that RMA and the producer will make their respective required payments directly to the broker.

Comment: One broker suggested that funds should be committed to subsidize additional floor brokers (market makers) to ensure continued viability of the program.

Response: New floor brokers should naturally gravitate toward the BFP contracts in response to the new volume the program will provide. Therefore, no change has been made.

Comment: One association of dairy cooperatives suggested that DOPP should be funded for three years to allow a diverse group of producers to participate.

Response: RMA has received funding approval to operate the program for three years.

Comment: One association suggested that the requirement that producers cannot exercise or sell an option until the four weeks prior to expiration should be eliminated or modified.

Response: Previous options pilot programs administered by USDA were criticized for failing to educate producers by permitting them to sell their options the same day they obtained them. In order to maximize the educational experience in hedging strategies, the producer should hold a position until the month they are actually hedging. To allow the sale of the option before that time may re-expose the producer to price risk for the rest of time before the expiration date.

RMA will take this into consideration as it conducts its ongoing evaluation of the program and make such changes as are necessary. Therefore, no change has been made.

Comment: One association suggested that RMA should clarify the reporting requirement for participation.

Response: The only reporting requirements for eligibility is that producers must report their milk production history for 6 months to establish that they meet the 100,000 pounds of production during a consecutive 6 month period within the previous 12 month period and maintaining the record of each transaction to ensure that the maximum amount of production for which options may be purchased under the program is not exceeded. These requirements are clearly stated. Therefore, no change has been made.

Comment: One producer perceived the program as Federally sponsored gambling and suggested the program be abolished prior to implementation.

Response: Futures and options contracts are widely recognized risk management tools. The intent of DOPP is simply to educate producers on the use of these tools. While there is some risk involved, the value of these risk management tools, which after DOPP expires is at no cost to the taxpayers, outweighs the risks. Therefore, no change has been made.

In addition to the changes described above, and minor reformatting and word changes for clarity, RMA has made the following changes to DOPP:

1. In section 1 of the producer contract, RMA added definitions of ''hedge,'' ''round turn,'' ''Secretary,'' ''strike month,'' and ''USDA'' for clarification.

2. In section 2(a)(4) of the producer contract, RMA reduced the minimum production in a consecutive 6 month period to be eligible for the program from 200,000 pounds to 100,000. This change will ensure that smaller producers are not excluded from the program.

3. In section 2 of the producer contract, RMA added a provision that requires the producer to execute the DOPP contract and comply with all its terms and conditions in order to permit enforcement of program requirements.

4. In section 3(a)(2) of the producer contract and broker agreement, RMA reduced the amount of milk upon which producers must purchase put options from 200,000 pounds to 100,000 to allow smaller producers to participate. RMA also added a provision that specifically states that options on no more than 600,000 pounds of milk production can be purchased by any producer. This requirement is intended to limit the potential costs of the program until such a time that its viability can be assessed.

5. In section 3 of the producer contract and broker agreement, RMA clarified when put options may be sold or exercised and has included an example.

6. In section 3(b) of the producer contract, RMA added a provision requiring the producer to submit the application to RMA within 30 days after receiving notification and application materials from RMA through the mail so that RMA can timely select producers to participate in the program and reallocate any unfilled slots.

7. In section 5(a) of the producer contract, RMA reduced the number of producers allowed to participate in each county from 150 to 100. This change was based on information indicating that it is unlikely that any county will have more than 100 producers interested in participating. A reduction in the number of participants per county will also allow RMA to increase the number of states participating from 6 to 7, which will allow for a greater geographic representation of milk producers in the program without increasing budget outlays.

8. In section 5(d) of the producer contract and broker agreement, RMA deleted the requirement that no put option could be purchased at a premium that was more than 160 percent of the previous day's settlement premium because such limits could routinely be exceeded under normal trading situations.

9. In section 6(d) of the producer contract, RMA added a new provision that authorized the Chicago Mercantile Exchange and Coffee, Sugar, and Cocoa Exchange to replace BFP options contracts with options contracts based on a milk price index other than the BFP in order to provide greater flexibility into the program. This change is necessary because USDA may stop publishing the BFP at some point in the future.

10. In section 1 of the broker agreement, RMA added definitions of ''hedge,'' ''Secretary,'' ''strike month,'' and ''USDA'' for clarification.

11. In section 2 of the broker agreement, RMA added provisions that require the broker to attend at least one DOPP training session and have specified hardware and software to electronically receive and transmit data to RMA to be eligible to participate.

12. In section 3 of the broker agreement, RMA added provisions specifying that brokers cannot allow producers to purchase a DOPP option that expires during a month that is more than 6 months after the month of purchase for that option in order to protect the integrity of the program.

13. In section 3 of the broker agreement, RMA also added a provision specifying the applicable sanctions if the broker fails to comply with the terms and conditions of the broker agreement.

14. In section 3 of the broker agreement, RMA deleted the provision mandating that brokers cannot accept an application unless the producer's marketing receipts show the requisite production since RMA will be accepting the applications.

RMA will enter into contracts with producers and brokers who elect to participate in DOPP.

Notice: The terms and provisions for the DOPP Producer Contract are as follows:

United States Department of Agriculture

Risk Management Agency

Dairy Options Pilot Program Contract

Participation in the Dairy Options Pilot Program is voluntary. Neither the United States, the Commodity Credit Corporation, the Risk Management Agency, the Department of Agriculture, nor any other Federal agency is authorized to guarantee that participants in this pilot program will be better or worse off financially as a result of participation in the pilot program than the producer would have been if the producer had not participated in the pilot program.

1. Definitions.

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.

Basic formula price (BFP). The price established by USDA, and provided to the USDA marketing order administrators to be used to set regional minimum prices.

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.

CME. Chicago Mercantile Exchange.

CSCE. Coffee, Sugar, and Cocoa Exchange.

DOPP. Dairy Options Pilot Program.

Eligible markets. Commodity futures and options markets designated as contract markets under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*).

Exercise. The action taken by the holders of a put option on a futures contract if they wish to sell the underlying futures contract.

Expiration date. The last date on which the put option may be exercised.

Futures contract. A contract to buy or sell a commodity on an eligible market at some point in the future.

Hedge. To take compensatory measures to counter a possible loss.

Open outcry. Method of public auction required to make bids and offers in the trading pits, or rings, of commodity exchanges.

Out-of-the-money. Put option whose strike price is less than the underlying futures contract price.

Premium. The price of a put option determined by open outcry. The premium does not include related brokerage commission fees.

Producer. An individual, entity, or joint operation, which as owner, operator, landlord, tenant, or sharecropper, is entitled to share in the production available for marketing from the farm, or share in the proceeds thereof.

Program. The Dairy Options Pilot Program.

Put option. A contract traded on eligible markets that gives the buyer the right to sell the underlying futures contract at the strike price on or before the expiration date.

RMA. Risk Management Agency, an agency of the United States Department of Agriculture.

Round turn. The broker's service in transacting a single put option consisting of consultation services and the purchase and liquidation (sale or exercise) of a put option, including the subsequent sale of the underlying futures position if the put option is exercised.

Sale. Transfer of title through the selling of the value of the put option.

Secretary. The Secretary of Agriculture.

Settlement price. The price of a specific put option as published by the exchange on which that contract trades at the end of each day's trading.

Strike month. The month preceding the month in which a DOPP options contract expires, *e.g.*, the strike month for a DOPP option contract that expires in March would be February.

Strike price. The price at which the holder of a put option may sell the underlying futures contract.

USDA. The United States Department of Agriculture.

2. Eligibility.

(a) To be eligible for any benefits under this contract, a producer must:

(1) Be eligible for a production flexibility contract, a marketing assistance loan or any other assistance under title I of the Federal Agriculture Improvement and Reform Act of 1996;

(2) Volunteer to participate in this program;

(3) Operate a farm located in a county selected for the pilot program; and

(4) Have documented production history of at least 100,000 pounds of production over any consecutive six month period during the most recent 12 months.

(b) This program is available to producers in states and counties designated.

(c) Execute this contract and comply with its terms and conditions.

3. Responsibilities.

(a) Producers who elect to participate in the program agree:

(1) To attend not less than one training session conducted by RMA to educate the producer on the use of put options and the program's operations;

(2) To buy all put options on a minimum of 100,000, and a maximum of 600,000, pounds of milk on an eligible market, through an eligible broker, within 2 months after the date the producer attends the required training session;

(3) That put options on no more than 200,000 pounds of milk will be purchased for any one strike month under this program;

(4) That put options on no more than the producer's total average production over the 6-month period used to establish the producer's eligibility shall be purchased under this program (For example, if a producer has provided copies of marketing receipts for 245,000 pounds of milk production eligible for the program, only 200,000 pounds can be hedged under the program because there are no 45,000 pound contracts or less currently available on the market);

(5) That the producer shall not purchase a DOPP option that expires on a date that is less than 2 months after the date the DOPP option was purchased (For example, assume the producer wants to hedge August 1998 production with BFP put options. The last date on which he or she shall be able to purchase an August option is Friday, July 3, because the August options expire exactly two months later, September 3. On July 4, the earliest option the producer could purchase is the September contract);

(6) That the put options will be purchased at a strike price that is at least 10 cents out of the money;

(7) That no put options will be sold or exercised before four weeks prior to the expiration date (For example, the BFP is announced by the USDA on the fifth of the month following the strike month, which is not on a weekend or Federal holiday. The September BFP will be announced by USDA on Monday, October 5, 1998. The September BFP option expires on the last day of trading of the September BFP futures contract, which is the day before the date of the BFP's announcement, or in this case, October 2, 1998 (October 4 is a Sunday). For purposes of DOPP, the four week period leading up to October 2, 1998, will begin on September 4, 1998. Therefore, a DOPP participant holding a September BFP put option would be free to sell or exercise that option at his or her discretion between September 4, 1998, and the expiration date. If the producer exercises the put option and holds the futures contract, the producer assumes the risk of any loss); and

(8) That all options purchased shall expire during the month that is not more than 6 months after the month of purchase. For example, assume a producer is trained on June 4, 1998, and makes all purchases in the months of June and July. The latest option contract the producer is permitted to buy is the December 1998 contract, which expires in January, 1999.

(b) The producer must open an account with an eligible broker in order to participate in the program and must do so before making any purchases.

(c) The producer must submit a properly completed and executed application and a copy of the marketing receipts for 6 consecutive months in the previous 12 months showing production in excess of 100,000 pounds to RMA within 14 days after receiving notification and application materials from RMA through the mail.

4. Costs.

(a) The producer will pay 20 percent of the premium of each put option to the broker.

(b) RMA shall pay transactions costs not to exceed $30 per round turn and 80 percent of the premium to the broker on behalf of the producer. The producer is free to deal with brokers who charge more than $30 per round turn, but the producer will be responsible for any amount that exceeds $30.

5. Restrictions and limitations.

(a) Except as stated herein, total program participation will be limited to 100 producers per county. If more participants are enrolled than the county limit, a lottery will be held by RMA to determine participants within a county. If fewer than 100 participants are enrolled in a county, the number of unfilled participation slots will be pooled and redistributed over counties where enrollment exceeds 100.

(b) The producer will be able to order put options from a broker after the broker has obtained verification from RMA of the producer's selection as a program participant and the date the producer received training. Verification will take place electronically after the producer selects an eligible broker.

(c) No producer may participate in the program more than once.

(d) If a producer who has participated in the program is not in compliance with the provisions of this contract, the producer will be required to repay any premiums and broker fees paid by RMA on behalf of the producer.

(e) This agreement is not effective until the producer executes and returns forms CCC–320, with supporting documentation of milk marketing, and CCC–321, and the producer receives written notice from RMA that the producer has been accepted into the program.

6. Other.

(a) The National Futures Association, on behalf of the Commodity Futures Trading Commission, maintains a current listing of brokers and brokerage firms who are licensed to conduct futures-related business. However, only those brokers who have entered into an agreement with RMA will be eligible to trade put options under this program.

(b) To assist in the evaluation of the program, producers participating in the program may be asked to complete entry and exit surveys by RMA. While completion of these surveys is voluntary, producers are encouraged to do so in order that an accurate assessment may be made of this program's overall effectiveness.

(c) There may be tax consequences with respect to participation in this program. Producers interested in participating in the program who have questions regarding the tax issues associated with this program should seek the advice of a tax advisor.

(d) The CME or the CSCE could replace BFP options contracts with options contracts on another milk price index. The program will permit the trading of options contracts on another milk price index selected by the CME or the CSCE.

Notice: The terms and conditions for the DOPP broker agreement are as follows:

United States Department of Agriculture

Risk Management Agency

Broker Agreement for the Dairy Options Pilot Program

1. Definitions.

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.

Basic formula price. The price established by USDA, and provided to USDA's marketing order administrators to be used to set regional minimum prices.

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.

CME. Chicago Mercantile Exchange.

CSCE. Coffee, Sugar, and Cocoa Exchange.

DOPP. Dairy Options Pilot Program.

Eligible markets. Commodity futures and options markets designated as contract markets under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*).

Exercise. The action taken by the holders of a put option on a futures contract if they wish to sell the underlying futures contract.

Expiration date. The last date on which the put option may be exercised.

Futures contract. A contract to buy or sell a commodity on an eligible market at some point in the future.

Hedge. To take compensatory measures to counter a possible loss.

Open outcry. Method of public auction required to make bids and offers in the trading pits, or rings, of commodity exchanges.

Out-of-the-money. Put option whose strike price is less than the underlying futures contract price.

Premium. The price of a put option determined by open outcry. The premium does not include related brokerage commission fees.

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.

Program. The Dairy Options Pilot Program.

Put option. A contract traded on eligible markets that gives the buyer the right to sell the underlying futures contract at the strike price on or before the expiration date.

RMA. Risk Management Agency, an agency of the United States Department of Agriculture.

Round turn. The broker's service in transacting a single put option consisting of consultation services and the purchase and liquidation (sale or exercise) of a put option, including the subsequent sale of the underlying futures position if the put option is exercised.

Sale. Transfer of title through the selling of the value of the put option.

Secretary. The Secretary of Agriculture.

Settlement price. The price of a specific put option as published by the exchange on which that contract trades at the end of each day's trading.

Strike month. The month preceding the month in which a DOPP options contract expires, *e.g.,* the strike month for a DOPP options contract that expires in March would be February.

Strike Price. The price at which the holders of a put option may choose to sell the underlying futures contract.

USDA. The United States Department of Agriculture.

2. Eligibility.

(a) To be eligible to trade options under this agreement a broker must:

(1) Be properly licensed and in good standing with the National Futures Association;

(2) Volunteer to participate in this program;

(3) Attend at least one DOPP training session;

(4) 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

(5) Execute this agreement and comply with all its terms and conditions.

3. Responsibilities.

(a) Brokers who elect to participate in the program agree to enforce the following program requirements with respect to any producer participating in the program who might use the broker's services:

(1) To buy all put options on a minimum of 100,000 and a maximum of 600,000, pounds of milk on an eligible market within 2 months after the date the producer attends the required training session;

(2) That put options on no more than 200,000 pounds of milk will be purchased for any one strike month under this program;

(3) That put options on no more than the producer's total production over the 6-month period used to establish the producer's eligibility of production shall be purchased under this program;

(4) That the producer shall not purchase a DOPP option that expires on a date that is less 2 months after the date the DOPP options contract was purchased (For example, assume the producer wants to hedge August 1998 production. The last date on which he or she shall be able to purchase an August option is Friday, July 3, because the August options expire exactly two months later, September 3. After July 3, the earliest option the producer could purchase is the September contract);

(5) That the put options will be purchased at a strike price that is at least 10 cents out of the money;

(6) That no put options will be sold or exercised before four weeks prior to the expiration date (For example, the BFP is announced by the USDA on the fifth of the month following the strike month, which is not on a weekend or Federal holiday. The September BFP will be announced by USDA on Monday, October 5, 1998. The September BFP option expires on the last day of trading of the September BFP futures contract which is the day before the date of the BFP's announcement, or in this case, October 2, 1998 (October 4 is a Sunday). For purposes of DOPP, the four week period leading up to October 2, 1998, will begin on September 4, 1998. Therefore, a DOPP participant holding a September BFP put option would be free to sell or exercise that option at his or her discretion between September 4, 1998, and the expiration date. If the producer exercises the put option and holds the futures contract, the producer assumes the risk of any loss); and

(7) That all options purchased shall expire during the month that is not more than 6 months after the month of purchase (For example, assume a producer is trained on June 4, 1998, and makes all purchases in the months of June and July. The latest option contract the producer is permitted to buy is the December 1998 contract, which expires in January, 1999).

(b) The broker must keep detailed records on each transaction and transmit that information to RMA through electronic data transmission. The broker will be provided with communications software for this purpose by RMA. Records required include:

(1) The purchase date, time, and premium for each put option;

(2) The expiration date and strike month for each put option; and

(3) Whether the options are sold or exercised and, if sold or exercised, the date, and price of the futures contract on the date of sale or exercise and the time of the transaction.

(c) Brokers certify that systems used to transmit data will be year 2000 compliant, i.e., be able to accurately process date and time data (including, but not limited to, calculating, comparing, and sequencing) from, into, and between the years 1999 and 2000 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) The broker cannot permit a producer to purchase a DOPP option until RMA has electronically notified the broker that the producer has been accepted into the program, the amount of milk for which the producer has provided production records, and the date on which the producer fulfilled the training requirements.

(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.

4. Costs.

(a) Up to $30 per round turn in broker fees will be paid by RMA. 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 per put option. The 20 percent of the transaction for which the producer is responsible 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 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 itemized in Section 3 above.

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) The CME or the CSCE could replace BFP options contracts with options contracts on another milk price index. The program will permit the trading of options contracts on a new milk price index selected by the futures exchanges at that time.

Signed in Washington, D.C., on November 2, 1998.

Kenneth D. Ackerman,

Administrator, Risk Management Agency.

[FR Doc.98–29724 Filed 11–5–98; 8:45 am]

BILLING CODE 3410–08–P

COMMITTEE FOR PURCHASE FROM PEOPLE WHO ARE BLIND OR SEVERELY DISABLED

Procurement List; Proposed Additions and Deletions

AGENCY: Committee for Purchase From People Who Are Blind or Severely Disabled.

ACTION: Proposed additions to and deletions from Procurement List.

SUMMARY: The Committee has received proposals to add to the Procurement List services to be furnished by nonprofit agencies employing persons who are blind or have other severe disabilities, and to delete commodities previously furnished by such agencies.

COMMENTS MUST BE RECEIVED ON OR BEFORE: December 7, 1998.

ADDRESS: Committee for Purchase From People Who Are Blind or Severely Disabled, Crystal Gateway 3, Suite 310, 1215 Jefferson Davis Highway, Arlington, Virginia 22202–4302.

FOR FURTHER INFORMATION CONTACT: Beverly Milkman (703) 603–7740.

SUPPLEMENTARY INFORMATION: This notice is published pursuant to 41 U.S.C. 47(a)(2) and 41 CFR 51–2.3. Its purpose is to provide interested persons an opportunity to submit comments on the possible impact of the proposed actions.

Additions

If the Committee approves the proposed addition, all entities of the Federal Government (except as otherwise indicated) will be required to procure the services listed below from nonprofit agencies employing persons who are blind or have other severe disabilities.

I certify that the following action will not have a significant impact on a substantial number of small entities. The major factors considered for this certification were:

1. The action will not result in any additional reporting, recordkeeping or other compliance requirements for small entities other than the small organizations that will furnish the services to the Government.

2. The action will result in authorizing small entities to furnish the services to the Government.

3. There are no known regulatory alternatives which would accomplish the objectives of the Javits-Wagner-O'Day Act (41 U.S.C. 46–48c) in connection with the services proposed for addition to the Procurement List.

Comments on this certification are invited. Commenters should identify the statement(s) underlying the certification on which they are providing additional information.

The following services have been proposed for addition to Procurement List for production by the nonprofit agencies listed:

Janitorial/Custodial, Federal Bureau of Prisons HOLC Federal Building, 320 First Street, NW, Washington, DC, NPA: The Chimes, Inc., Baltimore, Maryland.

Janitorial/Grounds Maintenance, U.S. Courthouse and Federal Building, Carleton Avenue & North Spur Drive, Central Islip, Long Island, New York, NPA: The Corporate Source, Inc., New York, New York.

Microfilming, Department of Treasury, Financial Management Services, Hyattsville, Maryland, NPA: Didlake, Inc., Manassas, Virginia.

Deletions

I certify that the following action will not have a significant impact on a substantial number of small entities. The major factors considered for this certification were:

1. The action will not result in any additional reporting, recordkeeping or other compliance requirements for small entities.

2. The action will result in authorizing small entities to furnish the services to the Government.

3. There are no known regulatory alternatives which would accomplish the objectives of the Javits-Wagner-O'Day Act (41 U.S.C. 46–48c) in connection with the services proposed for deletion from the Procurement List.

The following commodities have been proposed for deletion from the Procurement List:

Block, Currency Packing

BEP Stock #L–1391

Cover, Mattress

7210–00–171–1091
7210–00–998–7745

Beverly L. Milkman,

Executive Director.

[FR Doc. 98–29807 Filed 11–5–98; 8:45 am]

BILLING CODE 6353–01–P

COMMITTEE FOR PURCHASE FROM PEOPLE WHO ARE BLIND OR SEVERELY DISABLED

Procurement List; Additions and deletions

AGENCY: Committee for Purchase From People Who Are Blind or Severely Disabled.

ACTION: Additions to and deletions from the Procurement List.

SUMMARY: This action adds to the Procurement List commodities and a service to be furnished by nonprofit agencies employing persons who are blind or have other severe disabilities, and deletes from the Procurement List commodities previously furnished by such agencies.

EFFECTIVE DATE: December 7, 1998.

ADDRESS: Committee for Purchase From People Who Are Blind or Severely Disabled, Crystal Gateway 3, Suite 310, 1215 Jefferson Davis Highway, Arlington, Virginia 22202–4302.

FOR FURTHER INFORMATION CONTACT: Beverly Milkman (703) 603–7740.

SUPPLEMENTARY INFORMATION: On August 14 and September 25, 1998, the Committee for Purchase From People Who Are Blind or Severely Disabled published notices (63 F.R. 43660, 51336 and 51337) of proposed additions to and deletions from the Procurement List:

Additions

After consideration of the material presented to it concerning capability of qualified nonprofit agencies to provide the commodities and service and impact of the additions on the current or most recent contractors, the Committee has determined that the commodities and service listed below are suitable for procurement by the Federal Government under 41 U.S.C. 46–48c and 41 CFR 51–2.4.

I certify that the following action will not have a significant impact on a substantial number of small entities.