

Commodity Futures Trading Commission

§ 155.2

agreement with Bank B. The repurchase agreement involves two separate contracts: A fixed-price sale from Elevator A to Bank B at today's spot price; and an open-priced purchase agreement that will allow Elevator A to repurchase the wheat from Bank B at the prevailing spot price three months from now. Because Bank B obtains title to the wheat under the fixed-price purchase agreement, it is exposed to price risk should the price of wheat drop. It therefore decides to sell the quantity equivalent of 500,000 bushels of CBOT Wheat Referenced Contracts.

Analysis: Bank B's hedging transaction meets the general requirements for bona fide hedging transactions (§§151.5(a)(1)(i)-(iii)) and the specific provisions for owning the cash commodity (§151.5(a)(2)(i)). The sale of Referenced Contracts by Bank B is a substitute for a transaction to be taken at a later time in the physical marketing channel either to Elevator A or to another commercial party. The transaction is economically appropriate to the reduction of risk in the conduct and management of the commercial enterprise of Bank B because the notional quantity of Referenced Contracts sold by Bank B is not larger than the quantity of cash wheat purchased by Bank B. Finally, the purchase of CBOT Wheat Referenced Contracts reduces the risk associated with owning cash wheat.

10. INVENTORY

a. *Fact Pattern:* Copper Wire Fabricator A is concerned about possible reductions in the price of copper. Currently it is November and it owns inventory of 100,000 pounds of copper and 50,000 pounds of finished copper wire. Currently, deferred futures prices are lower than the nearby futures price. Copper Wire Fabricator A expects to sell 150,000 pounds of finished copper wire in February. To reduce its price risk, Copper Wire Fabricator A sells 150,000 pounds of February COMEX Copper Referenced Contracts.

Analysis: The Copper Wire Fabricator A's hedging transaction meets the general requirements for bona fide hedging transactions (§§151.5(a)(1)(i)-(iii)) and the provisions for owning a commodity (§151.5(a)(2)(i)(A)). The sale of Referenced Contracts represents a substitute for transactions to be taken at a later time. The transactions are economically appropriate to the reduction of risk in the conduct and management of the commercial enterprise because the price of copper could drop further. The transactions in Referenced Contracts arise from a possible reduction in the value of the inventory that it owns.

PART 155—TRADING STANDARDS

Sec.

155.1 Definitions.

155.2 Trading standards for floor brokers.

155.3 Trading standards for futures commission merchants.

155.4 Trading standards for introducing brokers.

155.5-155.6 [Reserved]

155.10 Exemptions.

AUTHORITY: 7 U.S.C. 6b, 6c, 6g, 6j and 12a, unless otherwise noted.

§ 155.1 Definitions.

For purposes of this part, the term *affiliated person* of a futures commission merchant or of an introducing broker means any general partner, officer, director, owner of more than ten percent of the equity interest, associated person or employee of the futures commission merchant or of the introducing broker, and any relative or spouse of any of the foregoing persons, or any relative of such spouse, who shares the same home as any of the foregoing persons.

(Approved by the Office of Management and Budget under control numbers 3038-0007 and 3038-0022)

[46 FR 63036, Dec. 30, 1981, and 48 FR 35304, Aug. 3, 1983]

§ 155.2 Trading standards for floor brokers.

Each contract market shall adopt rules which shall, at a minimum, with respect to each member of the contract market acting as a floor broker:

(a) Prohibit such member from purchasing any commodity for future delivery, purchasing any call option, or selling any put option, for his own account or for any account in which he has an interest, while holding an order of another person for the (1) purchase of any future, (2) purchase of any call option, or (3) sale of any put option, in the same commodity which is executable at the market price or at the price at which such purchase or sale can be made for the member's own account or any account in which he has an interest.

(b) Prohibit such member from selling any commodity for future delivery, selling any call option, or purchasing any put option, for his own account or for any account in which he has an interest, while holding an order of another person for the (1) sale of any future, (2) sale of any call option, or (3)