



LMR Stakeholder Meeting – Summary Notes

Cattle and Beef Focus Group Meeting

February 21-22, 2017

Day 1 - Tuesday, February 21, 2017

Welcome and Introductions – Eileen Hoffman, FMCS

Introduction – Mike Lynch, AMS

Mike thanked everyone for coming and welcomed input from the group for USDA's report to Congress.

Ground Rules – Doug Corwon, FMCS

FMCS reviewed the ground rules, emphasizing that general agreement on any topic would be recorded. After some discussion, the group agreed to modify the ground rules to allow for more discussion by observers. The group discussed attribution of comments. It was stated that in the meeting summary people may at times be identified. AMS will share a copy of the meeting summary with participants. There will be no attribution in the final report to Congress. Included in the Congressional report will be a list of organizations who participated in the meeting.

Concerns/Issues from Organizations – FMCS

FMCS asked participants to articulate any concerns/issues to include in the discussion. Issues included:

U.S. Cattlemen

- Change language from scheduled to intended in reference to delivery to be made
- Cash sales should be for cattle to deliver in next 14 days, not next 30 days as present
- Report “top-of-the-market” trades separately from current formula purchase category
- Report basis trades daily rather than weekly
- Daily weights of slaughtered cattle reported
- Report cattle scheduled for delivery in 1-14 days and 15-30 days, similar to hogs
- Clarify committed cattle definition to occur when agreement is first made
- Address confidentiality – monitor industry trends to maximize number of trades reported
- Aggregate data omitted due to confidentiality into weekly and regional reports
- Require weekly reporting of concentration by HHI Index
- Confidentiality rules are too tight (i.e., time of trades vs. when information is reported)

TCFA

- Consolidate reports or ensure consistency in reports
- Why is specific information included in certain reports?
- In-time response to changes in industry
- Information availability – if information is not reported, is it still available in DataMart?
- Amount of data lost due to confidentiality rules if changes in LMR occur
- Combine “State Daily Cash Summary” and “State Daily Weighted Average” reports

SMA

- Publish as much data as possible while keeping confidentiality



R-CALF

- Confidentiality concerns – full disclosure and more data
- Wants confidentiality rules lifted – more transparency to create competition in the market
- Industry already knows live cattle buyers and sellers in a public setting such a livestock auction
- Imported cattle not to be included in the domestic cattle reported (rolling average)
 - AMS NOTE: Imported cattle are not reported with domestic
 - AMS NOTE: Imported product is reported separately within voluntary market reporting

NAMI

- Unintended consequences of confidentiality rules – there is potential liability of submitters/users if confidentiality rules lifted
- Evolving boxed beef trade – opportunities to make reports more robust

NFU

- Learn more about concerns in confidentiality rules if changes occur in LMR reporting rules (i.e., 30-day reporting window)
- Are current confidentiality rules the only option available?

NCBA

- Negotiated cash trade – from 0-30 to 0-14 and 15-30 day reporting windows; want three different reports/report sections to show all
- Concerning thinly traded days – what is actually occurring? Is this an outlier trade? If so, it shouldn't be reported on the daily report, but rather in the weekly summary to avoid this outlier being the market for that day
- Improve the flexibility and timeliness of LMR updates to reflect evolving market conditions
- Retain public access to all historical LMR data through the USDA Data Mart
- Add new data points to daily and weekly 5-area weighted average reports
- Increase the number of summary reports formatted for mobile devices
- Improve negotiated cash trade reporting across delivery day categories
- Segregate outlier cattle (non-beef breeds, heiferettes, etc.) from the conventional cattle to create more accurate data ranges

LMIC

- Long-term data integrity – data represents what the industry practices; does it allow for extension research and for reports to reflect industry changes?
- Want more case-ready products reported – price going into plant or price going out of the plant
 - NOTE: Case-ready products have company specifications and private prices
- More cattle – price relative to futures market (forward-contract, basis trades)
- Confidentiality – how data is represented
- Purchase types – how data is reported

LMA

- Gain additional useful information in reports
- Address confidentiality rules to gain more information in reports (i.e., 30-day reporting window)

CME

- More transparency of LMR audit procedures, particularly for estimated weights, yields, and quality grades being reported for negotiated cattle



- AMS NOTE: currently updating the audit procedures that are posted online
- AMS NOTE: daily review and verification of the data is not part of the LMR auditing process, but rather part of ensuring data is correct for publication
- Dress yields (live) are not part of LMR – how can this be updated/standardized?
- Annual review process for packer’s yields of boxed beef cuts for the published cut-outs and primal values
- Create 5-Area Daily Direct Slaughter Cattle report for formulated and grid purchases (currently weekly)
- Negotiated trade in the daily 5-Area and National reports should be 0-14 days only. The 15-30 day window either should be broken out or not reported at all. Reporting these separately would increase transparency. Reporting 0-30 day window causes volatility in the futures market
- Maintain daily cattle reporting; cannot have just weekly reporting
- Change requirements so packers must report the day in which their base formula prices were established so that the USDA can report how old (or not old) the formula pricing data is
- Add a “formula base” number to the “National Daily Direct Slaughter Cattle Report” ([LM CT115](#))

AFBF

- Confidentiality is utmost important to maintain
- LMR should be an essential service during a government shutdown; information is critical to participants; should have a self-reporting process to keep the service functioning during a shutdown if it is not deemed essential

Status of the Group – Tom Bolick, USDA

USDA’s Office of the General Counsel (OGC) representative gave a statement to the group. He indicated that people are not being asked to participate as advisors, but to submit advice and input. A Federal Advisory Committee has not been created and consensus is not being sought. He said that the group is not dealing with price fixing and AMS is not liable under the antitrust laws when they seek public comment, but everyone should be mindful of them. He reminded participants that this meeting is a public forum.

Discussion of Topics:

1. Confidentiality

AMS read from the original statute regarding confidentiality ([7 U.S.C. 1636](#)), and reminded participants that there are 18 to 19 companies involved – not just the big 4. AMS discussed protecting confidentiality and the nuances involved.

Questions/Concerns about Confidentiality

The discussion about confidentiality included whether there could be separate guidelines for different commodities, whether some categories should be changed to make confidentiality less of an issue, how changes can be made, and whether any trades are being missed.

As a culmination of the discussion, it was asked if there are ideas for modifying current confidentiality guidelines. ***General Agreement on Confidentiality: No changes at this time with the caveat to remain vigilant about any industry changes that occur.***



2. Purchase Types and Marketing Methods

- a. Basis Trades
- b. Negotiating the 0-14; 15-30; 0-30 day reporting window
- c. Top-of-the-Market Trades

a. Basis Trades – There was some discussion about basis trades and the meaning of the term. AMS presented the National Weekly Direct Slaughter Cattle – Prior Week Slaughter and Contract Purchases report ([LM CT153](#)) for discussion, and asked if there is a better way to report the basis trades. Some would like basis trades on a daily basis. There was discussion about whether the report should be changed or not and about lumping everything together in the report. It was said that this is a useful tool but we need to be careful about how much deeper we want to go and some thought that this is a good report as is.

Some participants thought an overview on changes made would be helpful. AMS noted that some changes require regulatory changes, but some can be done without regulatory changes. AMS indicated that participants could further discuss what changes could be done without regulatory changes.

b. Reports for 0-14, 15-30, and 0-30 day negotiated cattle purchases– It was indicated that three reporting windows would involve a programming change and some additional cost to AMS. Issues that were discussed included a concern about whether there would be enough information for the 15-30 window while still maintaining confidentiality; what would happen if there were a confidentiality issue in one of the three reporting windows; are there other windows that should be considered; where the definitions of these reporting delivery periods come from; why swine does this on a daily basis; and volatility issues.

It was asked how hard it would be to look backwards for a year and determine that volatility has occurred. AMS would have to look at how the report would be designed, and then how to apply confidentiality to the report.

General agreement that more information is needed for negotiated reporting delivery windows. AMS will conduct an analysis for the past year (CY2016) on 0-14 and 15-30 day delivery windows reported separately to determine how frequently the 0-14 and 15-30 day data would meet the confidentiality guideline in order to be published, and the degree of price volatility between the two delivery periods. AMS will share the results with the group after April 1, 2017. Participants will then consider the data with others. A conference call will follow.

c. Top-of-the-Market Trades – Discussion was held on how top-of-the-market trades should be reported and whether it is easier to identify top-of-the-market trades.

Each week there are cattle offered for sale on the feedyards' show lists. While many of these cattle are marketed on a negotiated basis, some are priced based on the top-of-the-trade market for the week as reported on the 5-Area Weekly Weighted Average Direct Slaughter Cattle report ([LM CT150](#)), for example. Packers currently report these top-of-the-market transactions as formula trades because the buyer and seller negotiate the mechanism for pricing, but not the final price. This is similar to cattle purchases priced off of the Kansas weekly weighted average price reported by AMS. If there was agreement by the industry to report such transactions as negotiated, the change would be regulatory, not involving a statute change. Some felt that formulas can be tricky and that people don't want decisions made at this meeting that limit people's ability to buy or sell. It is important to "do no harm."



AMS could show the formula base prices, but right now AMS publishes only the net price information for formula trades. Industry has not been interested in seeing the formula base price in the past because each plant's base prices are different, so the base prices may not be that meaningful. However, if there is interest in seeing this information, AMS could publish it.

There was no agreement on top-of-the-market trades to put forward a proposal on this topic at this time. People agreed to set it aside, consider it further, and possibly revisit it again at a later date.

3. Regional Reporting and Report Timing – AMS reported that they publish National reports, 5-area regional reports, and regional reports within the 5-area region. Packers submit data to AMS twice per day, and AMS issues reports three times per day. AMS ensures that reports are as comprehensive as possible, but sometimes the daily reports are a bit thin. There was discussion about whether the 5 regional reports are still needed, or should some of them be combined – such as Texas/Oklahoma and Kansas, or Colorado and western Nebraska. Could there possibly just be a national and a 5-area report?

Stakeholders noted that there are important differences between the areas, and the current reports are all valuable. Plus, stakeholders did not want to lose the historical data continuity by changing the regions. AMS indicated that the regional reports are accessed often, and that the costs of maintaining a report is nominal. AMS indicated they could keep the same data in fewer reports, possibly.

It was concluded that at this time there is value in keeping the regional reports.

4. Continuity of Reporting – The topic discussed was in the event of a government shutdown, what should happen with regard to Livestock Mandatory Reporting. Stakeholders shared that many in the supply chain do not want to sell or deliver product without AMS Market News information. Market News reporting should not be disrupted as it is an essential part of the food supply chain. There was support from the group for request that LMR be deemed an essential service and ensure funding is available.

It was agreed to go forward with a proposal to request that mandatory reporting be deemed an essential service and to ensure that funding is available during a government shutdown. Further, the stakeholders recommended that NAMI put together a first draft of this proposal to be included in AMS' report to Congress.

5. Discussion of Quality and Conditions – It was asked if a four-step detail can be included into the conditions (poor, fair, good, etc.). One response was that it would be very subjective between suppliers. It was mentioned that if there are heiferettes included in a report that can explain a price difference, or age can explain the price difference as well. People do talk to each other about these things and the average price usually takes care of any issues/outliers. AMS noted that all of this information is tracked in the system.



6. Discussion of a scheduled cattle requirement similar to the 14-day scheduled swine report – In response to a stakeholder request for greater depth in reporting packer delivery information, AMS presented an overview of the 14-day scheduled delivery requirement for swine reporting. Every morning, swine packers report the number of hogs scheduled to be delivered each day for the next 14 calendar days. This tool is used by the industry to project estimated slaughter numbers and packers' needs for hogs.

Some stakeholders were not in favor of this type of report because of the smaller population and the sensitive nature of this kind of data. Currently, cattle volumes are reported, but no timeframe for delivery is given. If a delivery period were required to be submitted by packers, and this information was reported by AMS, there was concern that packers would look at this information and use it as market intelligence. Another said there is a risk in using/reporting this information. It was asked if there could be a pilot project on this. There were concerns expressed by some participants. Some said it was scary to consider this because the information could be used against individuals. Some felt that to maintain the integrity of the marketplace, you have to have equal knowledge and participation of the parties. Some said if this information is publically available everyone will know everyone's inventory. Someone pointed out that, on the other hand, swine and sheep do this and there hasn't been manipulation to their industries. Others said that cattle and beef is an entirely different industry.

There was further discussion on this topic the following day.

Another item that was brought up: Would be helpful to have dressed weights and live weights reported on a daily basis? *It was agreed to discuss this the next day.*

The meeting adjourned for the day at 4:00 p.m.

Day 2 - Wednesday, February 22, 2017

Revised Ground Rules – Doug Corwon, FMCS, reviewed the revised ground rules.

Welcome – Mike Lynch, AMS, welcomed all to the second day of discussion.

Discussion of Topics (continued):

6. Cattle Committed (continued) – AMS responded to cattle committed issue discussed the previous day. AMS said that the definition of cattle *as committed* to the plant is when the plant knows the cattle are coming. AMS referred to the end portion of the National Daily Slaughter Cattle – Committed and Delivered Cattle report ([LM CT106](#)) for a list of cattle committed on a particular day which included the state of origin, whether cattle are dressed, and the number of cattle shipped out of state for slaughter. AMS indicated that the date of delivery is not part of this committed report.

The question was asked, When do formula cattle get committed? The answer was, once the packer knows the cattle are committed to them. This is a daily report and a running total is reported for the week. On that packer reporting form (LPS-114, Live Cattle Daily Report (Committed and Delivered Cattle), attached at end of this document), there is a field for delivery, but the only options are 1-7 or 8-14 days. So, if cattle are committed beyond that, there is currently no field on the form for that. It was reported there is no way for AMS to tie the committed and the delivered record together at this point as it would require a change in the regulations.



The question was asked, Should the LPS-114, 19d field (Delivery field as described above) be modified to include cattle intended for delivery for four weekly date reporting periods? What would be the pros and cons if, on a Monday, the packer reported intended cattle for delivery that week, and then provided a weekly schedule after that?

There was much discussion of this issue. Some participants felt that having this information would lead to greater efficiency, others felt the information would be misleading and could be misinterpreted. Some thought it would lead to greater volatility. Some felt the proposed change would be minor. Others thought it would be major and that it could cause great harm.

A break was called to allow for caucusing and to consider this proposal further. After the break, participants were asked for responses. Responses:

- Market decisions could be made based on the information of competitors.
- This could have unintended consequences. This will add volatility.
- It is proprietary packer information – we are all measured against each other.
- Harm could be done to the cattle feeding industry.
- This would be a regulatory change, not a statute change.
- Do you really want this information on the “buy” side and not on the “sell” side?
- In 2001, there was a glitch in data and there were lawsuits. It is not a question of “if” there is a lawsuit, it is a question of “when.”
- As far as its use as a database, because of its limitations, I currently don’t use it. If it were changed, I think it would be used.
- From an academic standpoint, more information is usually better.
- Two organizations mentioned they do not have a clear policy on this.
- This change would amend the definition of “committed.”
- Cattle are scheduled to be delivered – 7-day period – by statute. So might need to change the statute language.
- If the definition of “cattle committed” needs to be amended, it would need to be changed in the statute.
- We don’t seek volatility in this market and this might create too much volatility.

There was no agreement to move forward with the proposal at this time. It was agreed to take the proposal/question back to groups to discuss. Question being asked: Should the LPS-114 form, 19d field (attached at the end of this document) be modified to include cattle intended for delivery for four weekly date reporting periods? This issue will be covered initially on a conference call after April 1, and the group will reconvene in person late July/early August. If there are proposed modifications to this proposal, these could be discussed as well. If groups come up with variations to propose, email them to AMS who will disperse to the group. Other variations suggested to propose to the groups:

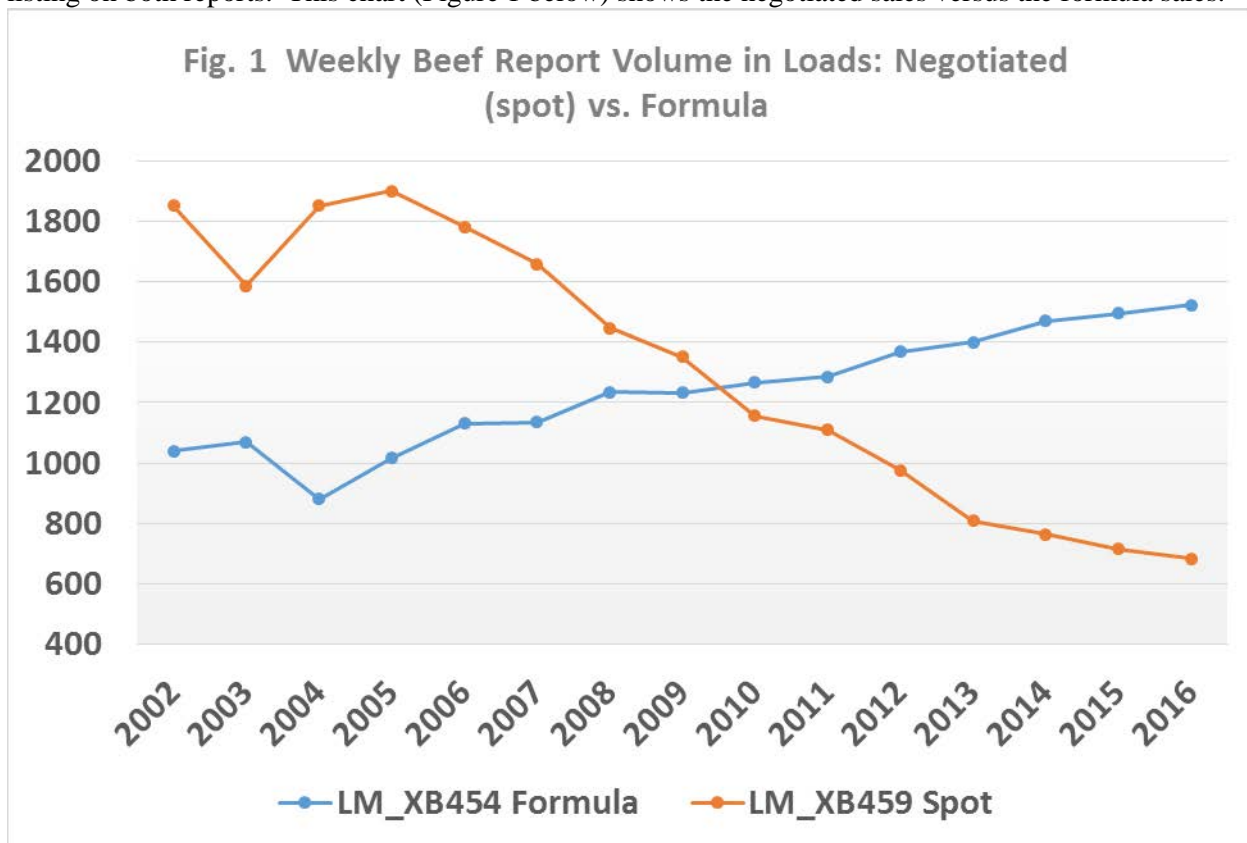
- *Two time periods - 0 to 14; 15 to 30 - as opposed to four?*
- *Other time periods?*

7. Timeline for Report to Congress – Participants were interested in the timeline for the report to Congress. AMS said that the report is due March 2018. Goal is to have a draft report by August to allow for internal departmental clearance process.



8. Cow and Bull Reports – A question was raised regarding the utility of some of these reports. In almost every cow grade category, there is a broad price range reported in the Daily Cow and Bull Bid report (LM CT138). How useful is this? Later in the day, actual prices paid are reported. These reports accurately reflect the market. It was suggested that two reports per day on this might not be needed. The last daily report is a more useful. AMS reported how this practice of two reports per day came about. AMS does a bid report in the morning and an actual sales report in the afternoon. An internal tool allows AMS to check plant by plant how the bids are coming in. This has eliminated some of the high and low bids. There is a mandatory reporting of bids at 10 a.m. each morning.

9. Boxed Beef – AMS shared a graph comparing data in two different reports: 1) the National Weekly Boxed Beef Cuts – Formulated Sales report (LM XB454), and 2) National Weekly Boxed Beef Cutout and Boxed Beef Cuts – Negotiated Sales report (LM XB459) and . The volume is the same product listing on both reports. This chart (Figure 1 below) shows the negotiated sales versus the formula sales.



With regard to the slope of the graph, in 2012-2013, the negotiated sales rate is declining; however, it's not dropping quite as fast the last two years. The volume of formula sales, on the other hand, have been increasing as market participants prefer to go from negotiation to formula based pricing. Also, there are more products and variations than there used to be leading to more differentiation and segregation on the product side. This has not affected confidentiality.

It was asked if less reporting would help. The daily report has become a tool for some. Some would like more frequency of deals in the data.



AMS completed an update of the yields (individual yields are confidential) this past year. AMS collects average product yield data from packers on a voluntary basis because it is not a mandatory requirement. AMS has had a great cooperation from packers to voluntarily provide this information.

The question was asked, if industry wanted just an afternoon report, would the data be more robust and would it save staff time for AMS? The answer was that there would be no significant savings of time as 2/3 of the daily data is submitted in the morning. If AMS didn't publish the morning report, the data would still be submitted twice per day and AMS would still spend time analyzing the data.

On export sales, are they negotiated? They can be; however, export sales are included in the National Comprehensive Boxed Beef Cutout – All Fed Steer/Heifer Sales report ([LM XB463](#)). Most of the international products have special specifications and requirements which would keep them out of the daily negotiated report. Plus, most exports are sold as frozen products, which would also exclude them from the negotiated report.

Are beef imports treated the same? Beef imports are not covered under LMR.

If you took out the range and just did an average on the report, would that make it more efficient? It could speed it up a little bit, but when AMS edits the report they will still need to focus on the top and the bottom of the price ranges in-house.

Would it be good to add product specifications that aren't included? To get product specifications on an "apples to apples" basis is difficult. The comprehensive report tells you one thing and the spot report tells you something else.

Is there a list of items that aren't reported? Can you get an exceptions report on these? These items have been tracked internally and AMS is considering including some of these items in the weekly report.

How long does it take for AMS to add an item into a report? It takes several months of research and consideration.

What does AMS recommend for including in the reporting? 5 pound chubs is one example. It would be good to get it into the report. This may never be reported as a stand-alone item due to confidentiality, but might combine it with the 10 pound chubs. It is good that the industry gives AMS the list of product codes. Response: If you put the 5 pounder in with the 10 pounder, there is a price difference. Have to consider this issue and want to be consistent.

10. Should packer yield data be a mandatory requirement? Some felt that it should not be mandatory, but it should be updated regularly. The cutout should be as reflective of current production and accurate as possible.

AMS mentioned this was a topic of discussion during the negotiated rulemaking meetings for wholesale pork reporting. It was determined then that product yield information may be beyond the scope of the price and volume information. However, AMS would like to update the yield data on a more regular basis to mute the impact of implement yield changes. Last year, AMS asked all the packers to provide their yields. AMS asked industry stakeholders how often yield updates should be done. Answers:

- Maybe providing yield standard is beyond what AMS should be doing. This maybe should remain optional or voluntary.



- An annual basis might be acceptable. There might be jumps in the data with these updates. If there were a public schedule of updating, the market would know when this would happen.
- Annual review was suggested.

General Agreement: Packers should continue voluntarily providing product yield data on an annual basis.

Review of Items:

Considered the items suggested the first day to make sure that all questions/concerns were covered in the discussion. Ideas expressed in this segment of the discussion:

- As the market evolves, reporting must evolve.
- DataMart includes all the historical data of reports that were already published.
- There was a discussion of state lines versus regional lines. Someone suggested that it is detrimental to historical work when you change boundaries – there isn't as good a basis for comparison. The thought was expressed that maintaining a report basis (such as by state) for historical purposes is interesting, but is it worthwhile?
- It was stated that segregating outlier cattle from daily reports is really difficult.
- There was a brief discussion on requiring weekly reporting of concentration by HHI index. The Herfindahl-Hirschman index (HHI) is a commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers, which can range from close to zero to 10,000. The U.S. Department of Justice uses the HHI for evaluating potential merger issues.

AMS responded that this appears to be beyond the scope of the LMR Act, and they are not equipped to do this. Further, AMS does not share information with other government agencies unless directed by the Secretary of Agriculture, Attorney General, or court of law for investigation purposes.

- There was some discussion of the average live and carcass weight data reported. AMS has considered looking at the LMR data they receive and seeing how it compares to actual slaughter data collected by USDA's Food Safety Inspection Service (FSIS). AMS uses the actual weight information provided by FSIS and USDA's National Agricultural Statistics Service (NASS) to create the weekly estimated red meat production report.
- It was suggested that cash sales should be for cattle to be delivered in the next 14 days, not 30. It was agreed that the AMS study will look at both of the reporting windows, as a starting point for discussion.

Other Items:

- Someone expressed concern about the plethora of reports – Are there ways to change the presentation or formatting to combine reports without losing information? AMS has actually initiated a programming enhancement to combine regional weighted average reports and regional summary reports to eliminate a few redundant reports.
- It was asked if there is any merit in combining the state reports into one long PDF report. There would be a text report for each one and the PDF report would be more of a chart showing all the states. Someone suggested that the PDF summaries with links to original reports are really useful while the text ones are more challenging to view on a mobile device.



United States Department of Agriculture

- One stakeholder commented that it is a lot less disruptive to the futures market if reports were released after trading hours. However, it was also noted that the futures markets need data throughout the day to run.
- It was suggested that when and if there is a government shutdown, the stakeholders might want to include the value that the agency brings to the industry. This should be included in future discussion, and also how to word language in a proposal to indicate that Market News is an “essential service.” It was suggested that NAMI do a first draft of the proposal to make Market News an essential service (had been discussed on Day 1).

Closing – Appreciation was expressed for the opportunity to have dialogue. Great appreciation expressed for AMS and their staff. Thank you was expressed to everyone for their participation.

Adjournment – The meeting adjourned in mid-afternoon.