



## **Operational Guidance on Negotiated versus Formula Purchases**

**Issue:** Determining whether a transaction should be considered a negotiated or formula purchase.

**Livestock, Poultry and Grain Market News (LPGMN) Position:** Most purchases of mature cattle (cows and bulls), are transactions of mixed class lots with corresponding prices for each class and type break out. Mature cattle are purchased differently in that the price for each class and type is negotiated prior to the transaction and the only application is how many will fit into each category. Few purchases are based on some type of grid or formula basis. LPGMN has found that plants, located in regions where there are no large feedlots, purchase mostly from dealers that put together loads of a variety of kinds. So for example, this means a given load may include cows, bulls, hard bone steers, and Prime Yield Grade 4 heifers, means there can be no single “base price” and grid for the load. These transaction lots should be reported for each separate category purchased. Mature cattle that are sold on a scheduled price list by the packer are considered a negotiated transaction.

In the major feeding areas a single base price is arrived at and it is normally based off of a fed cattle market and can sometimes be after the deal is made. A grid of premiums and discounts is applied after slaughter based on grading factors applied to the whole lot rather than on an individual basis. The key difference is that a cash price will not change and a formula price can change. Any purchase of cattle in which the price or price list is known or knowable at the time the deal is struck is considered a negotiated purchase.

### **LPGMN Guidance:**

Negotiated Transactions:

The final price or category list of prices are known and negotiated at the time of the transaction. In some cases there may only be a price list for grades with an understanding that weights falling outside the acceptable ranges will be at different price levels. All of these prices, however, are applied on an individual basis and are understood or knowable prior to slaughter. The only unknown is how many cattle will be at each category or price if there is more than one. This is common for mature cattle and uncommon for fed cattle. Mature cattle and even fed cattle purchased with or in like manner are to be reported as negotiated unless clearly falling within the definition of formula below.

So a packer who purchases livestock at a price or with a list of prices with the only unknown being the number of head that will fall into each classification code is purchasing livestock on a negotiated basis. This will apply to plants slaughtering mature cattle or a mixture of mature and fed cattle even when adjustments for weight or other factors are made after slaughter as long as these adjustments are applied on an individual basis and are known or knowable as part of the trade.

Formula Transactions:

The base price may or may not be known at the time the transaction is made. If the base price is known, the final net price is subject to change as premiums and discounts are applied to the lot after slaughter. These adjustments are made to the lot as a whole rather than on an individual basis as in negotiated cash trading.

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Approved by \_\_\_\_\_

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