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

§ 155.1 Definitions.

For purposes of this part, the term affiliated person of a futures commission merchant 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 3058-0007 and 3058-0022)

§ 155.3 Trading standards for futures commission merchants.

(a) Each futures commission merchant shall, at a minimum, establish and enforce internal rules, procedures and controls to:

(1) Insure, to the extent possible, that each order received from a customer which is executable at or near the market price is transmitted to the floor of the appropriate contract market before any order in any future or in any commodity option in the same commodity for any proprietary account, any other account in which an affiliated person has an interest, or any account for which an affiliated person may originate orders without the prior specific consent of the account owner, if the affiliated person has gained knowledge of the customer’s order prior to the transmission to the floor of the appropriate contract market of the order for a proprietary account, an account in which the affiliated person has an interest, or an account in which the affiliated person may originate orders without the prior specific consent of the account owner; and

(2) Prevent affiliated persons from placing orders, directly or indirectly, with another futures commission merchant in a manner designed to circumvent the provisions of paragraph (a)(1) of this section.

(b) No futures commission merchant or any of its affiliated persons shall:

(1) Disclose that an order of another person is being held by the futures commission merchant or any of its affiliated persons, unless such disclosure is necessary to the effective execution of such order or is made at the request of an authorized representative of the market of every trade executed on the contract market can be effectively matched and will be accepted by a clearing member for clearance or will be otherwise sufficiently guaranteed.

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

(Secs. 2(a)(1), 4(a)–(d), 4d, 4f, 4g, 4k, 4m, 4n, 8a, 15 and 17, Commodity Exchange Act (7 U.S.C. 2, 4, 6c(a)–(d), 6f, 6g, 6k, 6m, 6n, 12a, 19 and 21; 5 U.S.C. 552 and 552b))