



United States Department of Agriculture

Farm and Foreign Agricultural Services  
Risk Management Agency

## MEMORANDUM

TO: All Approved DOPP Brokers  
All RMA Field Offices  
All Other Interested Parties

FROM: Phyllis W. Honor /s/ David L. Miller 11-1-01  
Acting Administrator

SUBJECT: Prohibited Trading Practices in the Dairy Options Pilot Program (DOPP)

### ISSUE:

Risk Management Agency (RMA) is releasing this Memorandum to all approved DOPP brokers and interested parties to alert them to practices that may violate Federal commodity laws, rules of the Commodity Futures Trading Commission (CFTC) and RMA, as well as Federal criminal statutes, including those prohibiting mail fraud, wire fraud, and conspiracy to defraud the government.

### BACKGROUND:

DOPP is an educational program designed to encourage dairy farmers to use put options as price risk management tools. The DOPP premium subsidy is to be used by a dairy producer solely to establish a specific level of milk price protection through the purchase of put options as a hedge. Any other use of this program or the subsidy is improper. For example, the hedge created through the DOPP purchase would be nullified if at the same time the producer sells identical or comparable put options. Furthermore, ordering equal but opposite option trades with the intent to avoid a bona fide market transaction and the associated market risk may violate the Commodity Exchange Act or the Commission's regulations, including the rules prohibiting wash trading, fictitious trading, or attempted wash trading or fictitious trading. Additionally, registered commodity professionals directing or assisting this conduct may violate the CFTC rule requiring the immediate offset of equal but opposite positions.



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**ACTION:**

All introducing brokers who have signed or will sign contracts with RMA to participate in DOPP are reminded that they are subject to all CFTC and National Futures Association (NFA) rules, including those dealing with fraud, wash sales, cross trades, accommodation trades, and other trading irregularities.

Effective immediately, the following specific trading activities are prohibited for dairy producers while they participate in DOPP:

1. Sell milk put options, except to liquidate a previously-purchased DOPP position;
2. Sell “synthetic” milk put options, which are defined as the sale of milk call options combined with the purchase of milk futures contracts; or
3. Execute any other combination of options and futures that would effectively nullify the hedge created by the producer’s purchased DOPP milk put options.

These prohibited activities apply to all trading accounts in which DOPP participants have a financial interest.

Introducing brokers who participate in DOPP are prohibited from:

1. Encouraging the use of the prohibited trading activities stated above;
2. Soliciting transactions that employ these prohibited activities;
3. Accepting orders for such transactions from participating DOPP producers;
4. Arranging for these prohibited trading activities in accounts administered by other introducing brokers, including those who are not approved by DOPP;
5. Participating in any other trading activity that has as its objective the conversion of the DOPP premium subsidy to a direct cash benefit; and
6. Entering into any type of arrangement with a DOPP participant to share in profits resulting from the sale or exercise of positions held in DOPP accounts.

RMA will cooperate fully with the CFTC, the NFA and other State and Federal agencies in the investigation and prosecution of all cases involving suspected wash sales, cross trades, accommodation trades, fraud or other trading irregularities.

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**DISPOSAL DATE:**

This Memorandum is effective during the current round of DOPP and all future offerings.