January 22, 2015

Via Electronic Submission

Chris Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: **Re-Opening of Comment Period Regarding Commission Agricultural Advisory Committee Discussion of Position Limits for Derivatives (RIN 3038-AD99) and Aggregation of Positions (RIN 3038-AD82)**

Dear Mr. Kirkpatrick:

The National Cotton Council of America[1] ("NCC"), Amcot[2], and the American Cotton Shippers Association ("ACSA")[3] (jointly the "Associations") appreciate the opportunity to submit the following comments to the Commodity Futures Trading Commission (the "CFTC" or "Commission") as part of its reopening of the comment period for its proposed rules on position limits for derivatives and aggregation of positions.[4]

The futures markets have always been extremely important to the cotton industry, which consists of end-users utilizing such tools for legitimate commercial risk management practices. Therefore, the Associations appreciate the Commission's recent efforts to recognize the commercial impacts of its proposed rulemakings for the new federal position limits on the cotton industry, as well as in other commodity markets.

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[1] The NCC membership includes producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers and textile manufacturers. Farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion.

[2] Amcot is the trade association of the four farmer-owned marketing cooperatives comprised of Calcot, Carolinas Cotton Growers Cooperative, Plains Cotton Cooperative Association and Staplcotn. Collectively, these associations market cotton globally on behalf of their producer-members.

[3] ACSA is comprised of Merchants, Primary Buyers and Mill Service Agents with members located throughout the cotton belt from coast to coast. ACSA's member firms handle over 80% of the U.S. cotton sold in domestic and foreign markets.

[4] *See Position Limits for Derivatives and Aggregation of Positions*, 79 Fed. Reg. 71973 (Dec. 4, 2014) (proposed rule, reopening of comment period).

In this letter, the Associations would like to focus on the issues surrounding the definition of bona fide hedging in the proposed rule on position limits. We recognize that historically, the over-the-counter derivatives markets had no position limits. However, we assert that the position limits which have existed in the cotton futures market have well-served market participants. We support the CFTC's efforts to establishing position limits for derivatives, both over-the-counter swaps and futures contracts and concur with the Commission's stated intent of curbing excessive speculation as a means of preserving market integrity and fair play..

The Associations believe the Commission's interpretation of the bona fide hedging definition is too restrictive and as a result, true bona fide hedging by commercial enterprises will be limited. Therefore, the proposed rule on position limits would restrict the granting of a true bona fide hedge exemption. The Associations urge flexibility when defining bona fide hedging activities and believe that bona fide hedge exemptions must be granted when needed "as appropriate". Otherwise, some market participants will be unable to hedge legitimate commercial risks to their businesses and we fear that the market will be less likely to function properly.

Further, we are concerned that the buyers and sellers of physical cotton on each end of the chain who want a fixed price for the physical commodity will be harmed if traditional commercial market risk management practices are restricted for those in the middle of the chain. Additionally, the proposed rules ignore existing commercial market practices of allowing a market participant to obtain a hedge exemption in the spot month for unfixed price purchases and sales. Participants in the June 19, 2014 CFTC roundtable cited several commercial examples of the need to treat these positions as bona fide hedging positions. Specifically, if the practice of granting hedge exemptions is restricted and therefore inconsistent with traditional commercial practices, trades which have been historically considered as bona fide hedges will now be deemed speculative and therefore subject to a position limit. Other types of exemptions granted in the past, such as risk management exemptions, have been allowed for trading firms that are not hedging the physical commodity. We are supportive of the elimination of this practice. However, hedge exemptions should be granted to bona fide hedgers for hedging commercial risk.

Conclusion

Thank you for the opportunity to provide comments on the commercial impacts of these rulemakings on the US cotton industry. If you have any questions or concerns, please do not hesitate to contact Reece Langley with NCC at rlangley@cotton.org or (202) 745-7805.

Sincerely,
AMCOT
American Cotton Shippers Association
National Cotton Council