



Meredith Allen, Chairman
P. O. Box 2827 Lubbock, Texas USA 79408
Telephone 806-763-8011 **Fax** 806-762-7444 **email** meredith.allen@staplcotn.com
Representing Staplcotn – Cotton Growers Cooperative – Calcot - PCCA

May 11, 2020

Chairman Heath P. Tarbert
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Position Limits for Derivatives - RIN 3038–AD99

Dear Chairman Tarbert:

Amcot represents four farmer-owned marketing cooperatives that originate and sell about half of the United States' cotton crop and rely heavily on the ICE Cotton No. 2 (CT) contract for risk-management purposes. We appreciate the opportunity to submit these comments on the Commodity Futures Trading Commission's proposed rule on position limits for derivatives.

The Commission's attempts to limit excessive speculation and unwarranted price volatility are welcome. A stable derivatives market reflective of the fundamentals of the underlying commodity is in the best interest of both the production and consumption of our members' fiber. We especially welcome the proposed rule to modify the "temporary substitute test" to require that bona fide hedging transactions or positions in a physical commodity must *always*, and not just *normally*, be connected to the production, sale and use of a physical cash-market commodity. Such a modification should help to prevent excessive speculation in the futures market. However, the effectiveness of this modification is overshadowed by the proposed increases in the federal spot and single/overall month limits. The proposed ICE Cotton No. 2 (CT) limits are not in line with historical limits, are excessive, and, if adopted by the exchange, are likely disruptive to orderly market flows. The methodology used in determining the limits is flawed and lacks consideration of the industry's intricacies including the non-fungible quality as well as warehousing, location, and logistical challenges. Excluding these intricacies from consideration in limits will result in a misalignment between available deliverable stocks and artificial demand. The proposed limits of 1,800 for the spot month and 11,900 single/overall month are far in excess of the existing limits of 300 and 5,000, respectively. The proposed limit increases are disproportionately higher than proposals for other commodities. This supports the notion that methodologies used previously to determine cotton limits were more aligned with industry needs than the broad-based approach adopted for these proposed limits. Should the exchange choose to adopt these limits or those anywhere near these proposed federal limits, especially in the spot month, the Commission will have fostered excessive speculation and unwarranted price volatility. Amcot respectfully requests that the Commission reduce the proposed maximum federal limits to more appropriate levels that are in line with historical limits.

Amcot recognizes that the Commission's broadening of the bona fide hedging definition to include anticipatory hedging practices of merchandising firms may, in some instances, accommodate common commercial hedging practices. However, we urge the Commission to offer clear and concise guidance to the exchanges as to how this type of exemption is to be administered. Failure to do so effectively creates an opportunity for merchandising firms to blur the lines between anticipation and speculation.

Amcot agrees that a greater collaboration between the Commission and the exchanges can result in more efficient and orderly derivative markets. Further, we appreciate and acknowledge that while the Commission may not maintain a close relationship with market participants or possess a deep knowledge of the underlying markets, the Commission's unique position of an independent federal agency established under U.S. Law lends tremendous credibility to the proper functioning of our derivative markets. We urge the CFTC to use this greater collaboration as an opportunity to increase the effectiveness of its regulation of futures and options markets. While no business, including the members of Amcot, desires over-regulation, we submit that sound and timely oversight and regulation by a governmental agency over the exchanges and their market participants are as important today as ever before. In this light, we encourage the Commission to require the exchanges to maintain frequently updated data files of Forms 204 and 304 for purposes of market surveillance and oversight. Our members welcome online submission of this information that would ease the administrative burden on the Commission and/or the exchange.

Amcot's responses to the Commission's specific questions referenced in proposed rule Section II(H) Part 19 regarding "Form 304 Cotton On-Call Reporting", are respectfully submitted as follows:

Question: (46) To what extent, and for what purpose, do market participants and others rely on the information contained in the Commission's weekly cotton on-call report?

Amcot submits that the cotton on-call weekly report provides cash market participants, especially those who have a relatively small market share, additional information about the structure of the market that would otherwise not be available to them. Specifically, the report is the only public information that helps monitor changes in unfixed price positions in the ICE Cotton No. 2 (CT)

Question: (47) Does publication of the cotton on-call report create any informational advantages or disadvantages, and/or otherwise impact competition in any way?

Amcot submits that the report effectively helps level the playing field between smaller participants and large holders of on-call sales and purchase positions. In a concentrated market like cotton, visibility by large participants into the quantity and price level at which user/merchants are willing to fix the price of purchases, or producers are willing to fix the price of sales, can provide a significant information advantage. The report helps mitigate the information advantage of the largest cash market participants by allowing smaller participants more data upon which to set risk expectations and to manage their price risk.

Question: (48) Should the Commission stop publishing the cotton on-call report, but continue to collect, for internal use only, the information required in Part III of Form 304 (Unfixed-Price Cotton “On-Call”)?

Amcot submits that the Commission should continue collecting the information in Part III of Form 304 and must continue publishing the information obtained in Part III of Form 304 cotton on-call report on a weekly basis. To cease publishing the weekly report would exacerbate an information advantage held by the cash market's largest participants, which the report effectively helps mitigate. The cotton on-call report has made a meaningful contribution to the cotton market's transparency, fairness, and efficiency for many decades, and we see no reason to not make this information available to the public. Amcot encourages the Commission to provide more clear and concise guidance to market participants to ensure the information reported is accurate and consistent. As a result, the value of the published on-call report would be enhanced and better meet the reporting objective of increased transparency to all market participants regardless of size.

Question: (49) Alternatively, should the Commission stop publishing the cotton on-call report and also eliminate the Form 304 altogether, including Part III?

Amcot submits that the Commission should continue collecting the information in Part III of Form 304 and should continue to collect all information in Form 304 for purposes of market surveillance and oversight.

We appreciate your consideration of these comments.

Sincerely,

A handwritten signature in cursive script that reads "Meredith B. Allen".

Meredith Allen
Chairman