SOUTHERN COTTON ASSOCIATION

May 14, 2020

Via Electronic Submission

Christopher Kirkpatrick
Secretary of the Commission
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Position Limits for Derivatives (RIN 3038-AD99)

Dear Mr. Kirkpatrick:

The Southern Cotton Association ("SCA") appreciates the opportunity to submit this comment letter in response to the Commodity Futures Trading Commission's ("CFTC" or "Commission") proposed rulemaking entitled "Positions Limits for Derivatives" (the "Proposal").

SCA supports the Commission's efforts to issue a final position limits rule for several reasons. First, a final rule, provided some revisions are adopted, will provide certainty to our member firms and all market participants. Second, the Commission's revisions to the bona fide hedging exemptions align more with how the cotton market operates and how our members conduct their business. Finally, although we broadly support the Proposal, we believe the Commission should consider several revisions, which are discussed further below, related to unfixed-price sales, deliverable supply estimates, and non-spot month limits.

I. Introduction

SCA was organized in 1916 by a group of cotton shippers from the Mississippi Delta and the Memphis area for the purpose of establishing a permanent arbitration board in New England, upon which the shippers of cotton would have their own representative. The successful outcome of this endeavor blazed the trail for shipper representation on arbitration boards in this country and abroad. In 1926, the territory of the SCA was enlarged to include the entire states of Tennessee, Mississippi, and Louisiana. In 1990, SCA merged with the Arkansas-Missouri Cotton Trade Association, headquartered in

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Pine Bluff, Arkansas, and the territory of the SCA was enlarged to also include the states of Arkansas and Missouri.

The Proposal

SCA writes in support of the comment letter submitted by the American Cotton Shippers Association ("ASCA"). We support ACSA's comments and other trade organizations to the extent those comments are consistent with those herein.

a. Risk Management Exemptions

We support the Commission's revisions to the "Temporary Substitute Test" and the elimination of risk management exemptions for banks because outsized positions in physical commodity-focused indexes can have significant, adverse effects on futures market price dynamics.

b. Enumerated Hedges

Although we support and appreciate the Commission's efforts to expand the list of enumerated hedges, we are concerned that the Proposal would not provide the exchanges the authority to grant hedge exemptions through the enumerated process that will allow merchants to properly manage calendar spread price risk and supply price risk associated with unfixed-price sales contracts. We recognize that there are multiple ways the Commission could address these risks associated with unfixed-price sales contracts, and we support the three methods outlined in ACSA's letter: (1) Utilize Anticipatory Merchandising; (2) Modify the Definition for Hedges of Offsetting Unfixed-Price Cash Commodity Sales and Purchases; and (3) Create a New Enumerated Hedge Category.

c. Deliverable Supply

We disagree with the Commission's acceptance of the deliverable supply estimates for the U.S. Cotton No. 2 ("CT") contract. Deliverable supply estimates should be considered in terms of a product's quality and its legitimate, logistical availability for delivery. The estimates included in the Proposal do not reflect the cotton industry's historical ability to deliver the physical commodity.

d. Federal Limits

ACSA objects to the proposed federal spot-month limit increase from 300 to 1,800 CT contracts and urges the Commission to maintain the current federal spot-month limit at 300 CT contracts. Moreover, ACSA disagrees with the Proposal's increase of the non-spot limits for the nine legacy agriculture products. However, if the Commission decides to increase the non-spot limits for these products, the Commission should adopt lower single-month limits to prevent speculative activity from concentrating in a single contract month, which would likely jeopardize convergence.

e. Exchange-Set Position Limits

The appropriate level of volume and liquidity is necessary for the CT contract to play its vital role in the global cotton ecosystem. These factors should be taken into consideration before a revised exchange-set limit is established for the CT contract.

f. Form 304

We support the elimination of Form 204 and the proposed changes to Form 304; however, the Commission should go further with its plan regarding Form 304 and either: (1) eliminate Form 304 completely; or (2) if it has compelling reasons to continue collecting Form 304 data, stop publishing the data for public dissemination.

II. Conclusion

Thank you for the opportunity to provide comments on the Proposal. If you have any questions or concerns, please do not hesitate to contact me. (tommy.hayden@LDC.com)

Sincerely,

H. Thomas Hayden, Jr.
President
Southern Cotton Association