May 15,2020

Christopher Kirkpatrick
Secretary of the Commission
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,

My name is Gerald Marshall. Formerly I was a physical cotton trader at Cargill and currently am a professional small futures and options speculator. My interest in this subject comes from my 42-year career in cotton trading. From 1978 until 2007, I traded physical cotton for Cargill Cotton. I spent most of these years as a cash market trader. I have experience trading over a dozen different origin countries and lived at various times in the US, the UK and Hong Kong. In my last few years at Cargill, I served as the merchandising manager, and was responsible for overseeing the company's futures, options, and OTC positions Since leaving Cargill, I have spent the last twelve years as a private speculator, commercial arbitrator, and cotton/textile industry consultant.

I appreciate the opportunity to comment on the valuable work you are doing in this area and thank you for tackling this monumental task.

The proposed changes to the definition of a bona fide hedge are welcome

I applaud the Commission's work in this regard. Large financial speculators have no business receiving hedge exemptions, particularly in a small and specialized futures market like cotton. Flows of funds in such size as we have seen from time to time (for example, March 2008) can totally overwhelm a small market. Your recognition that a hedge is related only to an interest in the physical cotton is welcome.

The proposed position size limits for ICE cotton are, in my opinion, far larger than required to handle legitimate hedging and speculative order flow

Current limits are 5000 contracts in all months and 300 contracts in the spot month. These limits have proven to be adequate in size to handle the hedging needs of cotton producers, consumers, merchants and cooperatives. The limits were not established based on any larger externalities; they were deliberately set by the industry itself through the cotton committee at ICE and its predecessors at NYCE and NYBOT.

All months combined limit

The Commission's proposed new overall limit of 11,900 contracts is far greater than what is required for an orderly market. It is so large, in fact, that it substantially offsets the benefit of the new, more limited

definition of a hedger as one involved in the production, consumption or distribution of physical cotton. Further, it is based on an analysis of deliverable supply that, in my opinion, is unrealistic given cotton's specific quality and logistical restrictions.

If the Commission ultimately determines it will increase the overall limit, please consider doing so while maintaining the single-month limit at 5000 contracts. Experience with modern trading has shown a propensity by speculators to focus too heavily on the nearest futures contract, leaving later months with limited volume and open interest.

Spot month limit

In particular, the increase in the spot month exemption from the current 300 to a proposed 1800 contracts is utterly unnecessary. Such a large limit will discourage, delay and likely **frustrate** the process of convergence at the time of delivery. Simply put, speculators have no business operating during a notice period. Their presence at best is a distraction and at worst, an invitation to abuse. As one of the principal purposes of a futures market is price discovery, the Commission should maintain this limit at its current size.

The Commission should recognize that a physical contract to buy or sell cotton on-call is as legally binding a contract as one with a fixed price.

For example, a merchant who sells cotton on-call is contractually obligated to source the cotton and ship it in a timely fashion, regardless whether the buyer has fixed the price by then or not. The price fixation is merely a formality to establish the final invoice price; the merchant cannot wait on the buyer to fix if he is to meet these logistical obligations.

The timing of the acquisition of cotton to be shipped also influences this situation. For example, a merchant who buys cotton in January likely will hedge it by selling March futures. If he sells cotton to a buyer for shipment in April, the contract will normally be based the May futures. The merchant has a spread exposure between the two futures months that he must have room within his limits to manage.

Further, from time to time it is difficult or uneconomic to obtain the cotton needed to meet an order in the cash market. In such a case, the merchant needs the right to stand for delivery of cotton through the futures market. It is unrealistic and illogical to deny this right to the merchant simply because his counterparty has chosen to wait before fixing his price. **The need to obtain physical cotton is the same whether the sales contract is fixed-price or on-call.**

The weekly Cotton On-call Report should be continued

Responses to the Commission's questions:

(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?

The report is very useful to smaller cash-market traders and to speculators. The structure of the cotton trading industry is one where there are a host of smaller players, including many textile mills who buy their cotton on-call. Given their small market share, they have little visibility of the overall picture. This report is how they get that view.

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

The weekly report levels the informational playing field by allowing smaller cash-market participants (and speculators) to see this important information. To my knowledge, this report is the only means by which traders can observe changes in the unpriced cotton position. The unfixed position can be quite an important price input from time to time.

(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")?

I believe the Commission should continue to publish this report for reasons given. Discontinuing the report would make the informational divide between large market participants and smaller ones worse. I do not see the benefit to the public or to price discovery of limiting visibility of this significant piece of the puzzle.

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

The Commission should continue to publish this information. I am not qualified to comment whether there is a better way to obtain it than through Form 304.

Thank you for the consideration of my input.

Yours sincerely,

Gerald Marshall
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