Van May, Chairman
P. O. Box 2827 Lubbock, Texas USA 79408
**Telephone** 806-763-8011 **Fax** 806-762-7444 **email van.may@pcca.com**
**Representing** Staplcotn – Cotton Growers Cooperative – Calcot - PCCA

April 1, 2011

Mr. David Stawick
Secretary of the Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: 76 FR 6095 / 17 CFR Parts 3, 32, 33, and 35 Commodity Options and Agricultural Swaps

Dear Mr. Stawick:

Amcot is the trade association of the four farmer-owned cotton marketing cooperatives which collectively market about half of the United States' cotton crop each year. We appreciate this opportunity to comment on the Commission's proposed regulations for commodity options and agricultural swaps.

The positions that Amcot's members describe in this submission have been developed largely through the experience of the events of late February and early March 2008, which have had a long-lasting and very detrimental effect on cotton markets around the world. In the case of several agricultural commodities, excessive speculation and volatility has rendered the futures market almost unusable for both buyers and sellers of the physical commodity and its end-users because the financial resources required to support both physical and futures positions have become such a burden that they impede interstate commerce.

It is our opinion that section 723 of the Dodd-Frank Act was intended to force the Commission to reexamine whether or not swaps in agricultural commodities should be offered and if so, under what conditions. Consistent with the comments we submitted regarding the Commission's proposed position limits regulations, we believe that a swaps dealer's exemption from speculative position limits should be equal to his net position aggregated against all counter parties who are *bona fide* hedgers. That limited exemption should allow all the true commodity hedging needed by swaps dealers, and any additional trading they may wish to do should be subject to the speculative position limits since it would clearly be speculation.

Under the swaps definition in the proposed rules, commodity options are considered to be swaps. In the cotton business we have some transactions that are not options, but might bear further discussion here to clarify why they should not fall under the swaps definition. I am speaking of what are called "equity trades" in the industry. Cotton is placed in the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) marketing loan by the producer or designated cooperative after which an "equity", or amount of price above the CCC loan amount is offered to the buying trade. Once the amount of the "equity" above the loan is agreed to by the seller and buyer, the buyer is granted an option to redeem the

cotton from the loan. A fair percentage of the annual crop is traded under such an arrangement.

In order for an agricultural producer to retain the eligibility of their cotton to be used as collateral for the CCC marketing loan program, they must maintain ownership (also known as beneficial interest by USDA) of the commodity. The granting of these "options to redeem" has allowed that beneficial interest to remain intact while still allowing the crop to be marketed to the buying trade without impacting its marketing loan collateral eligibility. It is central to the orderly movement of that portion of the crop into the marketing channels. This allows a cooperative or other merchandiser to later determine when to redeem the cotton from the CCC marketing loan on behalf of the producer. Based on discussions with CFTC staff, we are aware that it is not the intention of the Commission to regulate these "option to redeem" transactions. Any attempt to do so would be potentially disruptive to the operation of the USDA program, and we would vigorously oppose such action.

We appreciate the opportunity to offer these views.

Sincerely,

Van May
Chairman