National Cotton Council OF AMERICA

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May 15, 2020

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 National Cotton Council (NCC) appreciates the opportunity to comment on the proposed rule regarding position limits for derivatives. A stable derivatives market without excessive speculation and volatility is essential for cotton industry members. The NCC broadly supports the Commission's efforts to finalize Position Limits for Derivatives, as this rulemaking will increase certainty for cotton market participants but requests the consideration of several revisions. The following comments serve to reiterate the areas of agreement among our various members.

The NCC is the central organization of the United States cotton industry. Membership includes producers, ginners, cottonseed processors and merchandizers, merchants, cooperatives, warehousers and textile manufacturers. A majority of the industry is concentrated in 17 cotton-producing states stretching from California to Virginia. U.S. cotton producers cultivate between 10 and 14 million acres of cotton with production averaging 12 to 20 million 480-lb bales annually. The downstream manufacturers of cotton apparel and home furnishings are in virtually every state. Farms and businesses directly involved in the production, distribution and processing of cotton employ more than 125,000 workers and produce direct business revenue of more than $21 billion.

The NCC supports the modification to the "temporary substitute test." Removing the word *normally* adds the requirement that the production, sale or use of a physical commodity must *always* be connected to a bona fide hedging transaction or position in the physical commodity. This is a critical improvement to the current definition.

However, the NCC does not agree with the proposed limits for the ICE No. 2 cotton contract. The proposed increase in the spot-month limit from 300 to 1,800 contracts is wholly inappropriate and could lead to unwanted volatility. Furthermore, we disagree with the proposed combination of the single-month limit with the all-months limit. The Commission is strongly urged to reevaluate the proposed limits and maintain limits that are more in line with historical levels.

The NCC also disagrees with the approach regarding deliverable supply estimates for the ICE No. 2 cotton contract. The estimates should be revised to recognize the cotton industry's historical ability to deliver the physical commodity.

The NCC commends the Commission for efforts to expand the list of enumerated hedges. To better align with typical marketing practices, the Commission is encouraged to enumerate unfixed-price sales as a bona fide hedge. Given the obligatory nature of the contract, recognition as bona fide hedges will allow industry participants to better manage the risks associated with this type of sale.

In closing, NCC appreciates the work of the Commission in developing the proposed rule and the opportunity to provide comments. While these comments are not exhaustive in terms of the scope of the rule, the issues raised in our comments are critically important and reflect a consensus across the U.S. cotton industry. Thank you again for the chance to offer these comments.

Sincerely,

Gary M. Adams

Gary M. Adams
President & CEO
National Cotton Council