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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: Request for Comment on FTX Request for Amended DCO Registration Order

Dear Mr. Kirkpatrick:

The American Cotton Shippers Association ("ACSA" or "we") appreciates the opportunity to submit this letter in response to the Commodity Futures Trading Commission's ("CFTC" or "Commission") request for comment on LedgerX, LLC d.b.a. FTX U.S. Derivatives ("FTX") Request for Amended Derivatives Clearing Organization ("DCO") Registration Order.

ACSA is a trade association primarily made up of cotton merchants founded in 1924. Collectively, our members handle the vast majority of U.S. cotton production and foreign growths traded globally. Our services consist of merchandising, delivery logistics, and risk management. By nature, our members are commercial hedgers. ACSA members' primary function in the futures market is to manage price risk for producers and consumers of cotton, and it is imperative to us that the CFTC protects the functionality of futures transactions in all market regulatory decisions.

ACSA supports responsible market structure innovation and the use of technology to improve market functioning. However, we have reservations about specific aspects of FTX's proposal and feel they should be addressed before approval by the Commission. ACSA does not have a position concerning digital asset trading markets. However, for purposes of these comments, we believe the FTX proposal raises broader questions on futures market structure and could be precedent-setting if allowed.

ACSA's concerns are related to the following points:

- The FTX proposal includes the elimination of intermediaries or Futures Commission Merchants (FCMs) in the futures market, which would be a significant departure from the traditional futures model. Though FCMs can potentially increase margin requirements for customers based on market volatility, we fear that a market structure change that would eliminate the role they play would require our members to maintain significantly higher margin at clearinghouses to mitigate the risk of auto-liquidations. This will most likely increase the cost of hedging, particularly in volatile periods like we see today.
- The elimination of intermediaries in futures markets would remove a layer of risk management that is beneficial to the functioning of the futures market.
- FTX's proposed model will lead to more frequent account liquidations. While this model may work well for spot digital asset markets where the majority of market participants are retail traders, we are concerned about frequent liquidations in traditional markets with significant institutional interest and the contagion impact this could have across traditional markets. We have concerns that this model could lead to increased volatility or market distortion, and we have significant questions regarding whether this model would impact the primary functions of price discovery and convergence. We believe that the Commission should be confident that price discovery and convergence would not be impacted before considering approving any such a proposal.
- FTX has a concerning policy regarding the use of segregated funds. FTX is proposing to allow itself to use customer funds for FTX operations and replace the funds at some point in the future. If true, this would appear to violate CFTC rules on customer segregated funds.
- According to their policies, FTX can tear up trades at any point, including before any waterfall money has been used to cover a shortfall. If true, this is a significant departure from our understanding of how this process works on traditional futures exchanges, where exchange-mandated tear up trades are allowed only after the waterfall is exhausted and assessments have been made. Taken to extreme, this could result in canceled trades, which may be commercial hedges, at no fault of the hedger. This could create market exposure on physical commodity positions. The threat of doing this will not inspire confidence in the market, and we fail to see how either of these provisions are improvements to the existing market structure.

While ACSA continues to support responsible market innovation and the use of novel technology, we believe that innovation cannot supercede the primary functions of futures markets for price discovery and hedging. As noted above, we have concerns regarding some of the specifics of the proposal and feel as though it requires certain modifications before being approved by the Commission. At a minimum, we believe the Commission should ensure that all industry concerns are addressed prior to consideration for approval.

U.S. futures markets are the envy of the world, and it is vital for this to remain the case. Some of the changes embodied in the proposal may ultimately be beneficial modernizations to futures markets, but we must have real confidence in all aspects of the proposal prior to widespread adoption. We appreciate the Commission's consideration of our views on this critical issue.

Sincerely,

/s/ William Allen

William H. "Buddy" Allen
American Cotton Shippers Association
President and CEO