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Via Electronic Submission

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

Re: Request For Comment on Trading and Clearing Derivatives on a 24/7 Basis

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 trading and clearing derivatives on a 24/7 basis.

Background on ACSA

ACSA is a leading trade association, headquartered in Memphis, Tennessee, that provides a united voice for the cotton merchandising trade of the United States. ACSA's member firms handle over 70% of the U.S. cotton sold in domestic and foreign markets and over 60% of the traded foreign cotton growths in the world. ACSA takes an active role in promoting the increased use of cotton in the U.S. and throughout the world, establishing national and international standards for trade with other cotton trade organizations, collaborating with producer organizations throughout the cotton belt in formulating farm programs, and cooperating with government agencies in the administration of such programs. ACSA advocates for our members' core service functions of merchandising, risk management, and the provision of logistical services.

ACSA members provide benefits and services to cotton producers, cooperatives, mills, manufacturers, and supply chain participants. Traditionally, producers desire to market their entire crop, consisting of a wide variety of qualities, at one time, at the highest price possible, receiving payment in full. Conversely, mills and manufacturers desire to purchase at the lowest possible price, as they consume throughout the year, in very specific quality specifications, paying as they go. Neither party traditionally manages the delivery logistics. The merchant's role is to harmonize the needs of the producers and consumers and assume their price risk and other risks. Merchants effectively bridge the gap between timing mismatches of supply and demand fundamentals in the global marketplace. ACSA members are commercial hedgers, who use the futures market to both manage risks through hedging and fulfill their obligations to procure and deliver physical commodities throughout the year. There is no tool more fundamental, prerequisite, or essential for our industry to adequately harmonize the needs of producers and consumers of physical commodities than derivatives contracts.

ACSA has enjoyed a long partnership with the Commission, its Congressional committees of jurisdiction, and the Intercontinental Exchange ("ICE"), where cotton is traded under the Commission's surveillance. We deeply respect the importance of the cotton contract's governance, which has proven to be the global gold standard for price discovery and risk management both in the U.S. and around the world. Protection of sound market structure that affords the availability and affordability of tools for commercial hedgers to manage risks on behalf of their customers is imperative, and we believe the Commission should be mindful of the impact on traditional markets when considering structural policy changes.

ACSA's Perspective

ACSA has convened and deliberated on this topic since the consideration of expanded trading hours, and specifically since 24/7 trading, has gained momentum. We strongly believe any proposal to expand cotton trading hours would have a detrimental impact on markets, as doing so would compromise liquidity, complicate margin management, and require human resources from market participants to manage risks in active markets. While this issue has primarily been discussed in the context of digital assets or equities markets, we feel they have the potential to bleed into agricultural derivatives markets with potentially serious negative implications.

We share concerns raised by the Commodity Markets Council ("CMC") that any such changes would negatively impact agriculture derivatives markets by allowing trading in illiquid markets, potentially having a serious impact on derivatives markets' price discovery mechanisms. We also have significant concerns about the potential necessary functions of a 24/7 market, such as auto-liquidation. Lack of access to banking overnight, over weekends, and during bank holidays would likely lead the derivatives clearinghouse no choice but to allow for auto-liquidation in a 24/7 market to protect the market. Agricultural commercial end-users would be forced to post significant margin reserves in advance of non-traditional trading hours to mitigate the possibility of hedges being auto liquidated. This is by definition an inefficient use of capital, which still could result in auto-liquidation if the price movement was large enough.

ACSA would like to associate ourselves with other comments made by the CMC related to market liquidity, price discovery, and related issues and encourage the Commission to vet any proposal with the industry fully before adopting precedent-setting market structure changes.

Conclusion

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

With regards,

William H. Allen
President and CEO