ACSA

American Cotton Shippers Association P (901) 525-2272
88 Union Avenue, Suite 1204 F (901) 527-8303
Memphis, TN 38103 www.acsa-cotton.org

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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 Perpetual Derivatives

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 the potential risks of allowing perpetual futures contracts in derivatives markets.

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 and 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, and deeply respects 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 this recommendation will further these objectives and preserve the core function of derivatives trading for commercial hedging.

ACSA's Perspective

ACSA accepts that continuous trading is standard practice for many digital asset market participants, and such contract structures may be entirely appropriate for certain digital asset derivatives markets. We take no position on whether perpetual derivatives are well-suited for the needs of digital asset markets. That said, ACSA believes there are substantial risks that perpetual contracts pose to traditional derivatives markets, and we have deep concerns that these contracts may bleed over into our markets should the CFTC not be diligent in containing them to the digital asset ecosystem.

In traditional asset markets, ACSA feels that perpetual contracts do not serve the needs of commercial hedgers and do not promote risk management against physical exposure or promote proper price discovery functions. Our members depend on contract expiries to drive convergence between futures prices and physical markets, and perpetual contracts can never have true convergence. Their existence in traditional markets could potentially undermine traditional contracts' ability to achieve convergence, as they could draw liquidity into markets that are completely divorced from market fundamentals and cause price distortion. We also believe perpetual markets have a higher susceptibility to speculative bubbles, as they encourage additional participation from market participants that have no relation to physical markets.

We share the other concerns raised in the comment letter submitted by the Commodity Markets Council ("CMC"). ACSA hereby adopts and incorporates the comments submitted by the CMC as its own and files this letter in support of the CMC comments.

Conclusion

ACSA has always supported responsible market innovation, and we see significant value in the CFTC's history of promoting this innovation. However, it is important that novel market structures and technologies never interfere with traditional markets that are vital for commercial end-users to protect against market risk. We feel strongly that the CFTC should be cautious in allowing the introduction of perpetual derivatives contracts to our traditional markets and should conduct further study and a formal rulemaking process to solicit industry feedback on all the risks that such contracts might have.

With regards,

William H. Allen
President and CEO