

# NYBOT®

## COTTON NO. 2 FUTURES CONTRACTS RULES

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## **Cotton No. 2 Futures**

### **Rule 10.00. Scope of Chapter**

The Rules in this Chapter govern Transactions in Cotton No. 2 Futures Contracts and Options on Cotton No. 2 Futures Contracts. All Transactions in Cotton No. 2 Futures Contracts and Options thereon shall be subject to the Rules, including the terms and conditions set forth in this Chapter.

### **Rule 10.01. Conflict With The U.S. Cotton Futures Act Subsection (f)**

It is the intent of the Rules that every Cotton No.2 Futures Contract made pursuant to the Rules shall be deemed to contain therein each and every provision and condition mentioned and described in the United States Cotton Futures Act, subsection (f) and each and every such provision or condition, whether expressly and in terms by the Rules incorporated in each such contract or not, is hereby made a part of each such contract as fully and effectually as if therein set out at length; and any provision of the Rules which may in any way conflict with any provision or condition mentioned or described in the United States Cotton Futures Act, subsection (f), is hereby and to the extent of such conflict, repealed and declared to be of no effect.

### **Rule 10.02. Official Standards and Undeliverable Cotton**

(a) The Official Cotton Standards of the United States existing on the date of delivery shall be used as the standards for the grade, staple, quality or value of all cotton delivered on contract for future delivery.

(b) Only such grades and staples of cotton as are permitted under the United States Cotton Futures Act and the regulations of the United States Secretary of Agriculture shall be delivered on, under or in settlement of any contract for future delivery.

(c) All cotton tenderable under Cotton No. 2 Futures Contracts must have been micronaire tested under Department of Agriculture Regulations. Cotton with a micronaire reading of less than 3.5 or more than 4.9 shall not be deliverable on contract.

(d) Deliveries shall be for only rain-grown cotton or for non-rain-grown cotton. Non-Rain-Grown Cotton shall mean cotton grown in California, Nevada, Arizona, New Mexico (except Lea County), El Paso and Pecos Valleys of Texas.

(e) Bales weighing less than four hundred (400) pounds net or more than six hundred fifty (650) pounds net, and bales that have been on fire, shall not be delivered on any contract for future delivery. A deliverable bale range shall be between ninety-two (92) to one hundred eight (108) bales.

(f) Cotton which has been classed of a color and a leaf grade deliverable on contract but which has been further classed with "remarks" shall not be tenderable.

(g) Cotton that has been reginned or on fire shall not knowingly be offered for inspection or delivery on futures contracts.

(h) All Cotton tenderable under a Cotton No. 2 Futures Contract must have been tested for Grams Per Tex under Department of Agriculture Regulations. Cotton with a Gram Per Tex of less than twenty-five (25) shall not be deliverable on contract.

### **Rule 10.03. Contract for Future Delivery**

(a) No Transaction in Cotton No.2 Futures Contracts or Options thereon shall be recognized, acknowledged or enforced by the Exchange, or any Committee or officer thereof, unless both parties thereto shall be Members. All Transactions in Cotton No.2 Futures Contracts and Options thereon shall be submitted for clearance to the Clearing Organization, which, upon acceptance thereof shall become by substitution a party thereto in place of the Clearing Members and thereupon the Clearing Organization

shall become subject to the obligations thereof and entitled to all of the rights thereunder, assuming to the Clearing Member buyer the position of the seller and to the Clearing Member seller the position of the buyer; provided, however, that the Clearing Organization shall have no liability to any Person on any such contract after a notice of delivery thereunder has been issued and stopped.

(b) All contracts for the future delivery of Cotton No. 2 shall be in the following form:

NEW YORK BOARD OF TRADE®

Cotton No. 2 Contract

NEW YORK \_\_\_\_\_ 20\_\_

A. B. of the County and State of New York have this day Sold/Bought and agreed to Deliver to/Receive from C. D. of the same place fifty thousand (50,000) pounds in about one hundred (100) square bales of cotton, growth of the United States, at the price of \_\_\_\_\_ cents per pound for Strict Low Middling one and one-sixteenth inches with additions or deductions for other grades in accordance with the provisions of the United States Cotton Futures Act, subsection (f)(3) and with additions for staple premiums or deductions for staple and micronaire discounts, deliverable from licensed warehouse at a permissible point of delivery as provided in the By-Laws and Rules, between the first and last delivery Day of \_\_\_\_\_ inclusive, the delivery within such time to be at seller's Option in one (1) warehouse, upon notice to buyer, as provided by the By-Laws and Rules of the New York Board of Trade. The cotton dealt with herein or delivered hereunder shall be of, or within, the grades for which standards are established by the Secretary of Agriculture, except cotton prohibited from being delivered on a contract by the United States Cotton Futures Act, subsection (f)(1)(E), and shall be of no other grade or grades, and shall be subject to New York Board of Trade inspection.

Either party may call for a Margin, as the variations of the market for like deliveries may warrant, which Margin shall be kept good.

This contract is made in view of, and in all respects subject to, the regulations made pursuant to the United States Cotton Futures Act and Rules applicable to Cotton No. 2 Contract which are not in conflict with said Act or said regulations.

Subject to the United States Cotton Futures Act, subsection (f).

(c) Verbal contracts (which shall always be presumed to have been made in the foregoing form) shall have the same standing, force, and effect as written ones, if notice in writing of such contracts shall have been given by one of the parties thereto to the other party during the day on which such contract is made, or on the next business day thereafter.

(d) Delivery of cotton on contract may be made at delivery points designated by the Board of Governors. The designated delivery points may be added to or subtracted from at the discretion of the Board of Governors after proper notice has been given to the Membership.

(e) Grades and staples deliverable on contract shall be such as are listed in a notice of delivery form, as prescribed by the Exchange. In the event of a revision of the official cotton standards of the United States by the Secretary of Agriculture whereby a standard for any grade listed in the notice of delivery form is withdrawn, such grade shall become undeliverable on contract as of the effective date of such withdrawal. In the event of a revision of the official cotton standards of the United States by the Secretary of Agriculture whereby a standard is promulgated for a grade which is within the range of deliverable grades listed in said notice of delivery, the form may be amended to provide for the delivery of such grade effective on or after the date fixed by the Secretary of Agriculture as the effective date of such standard.

**Rule 10.04 Contracts Binding Until Settled**

All contracts for the future delivery of cotton shall be binding upon Members, and of full force and effect, until the quantity and qualities of cotton specified in such contracts shall have been delivered, and the price specified in said contracts shall have been paid. No contract shall be entered into with any stipulation or understanding between the parties, at the time of making such contract, that the terms of such contracts as specified in Rule 10.03 are not to be fulfilled, or that the cotton is not to be delivered and received in accordance with said Rule.

#### **Rule 10.05. Unit of Trading**

The unit of trading shall be based on a net weight of 50,000 pounds, a variation therefrom of one percent (1%) being permitted. The term "net-weight" shall mean and be interpreted to mean the weight of a bale less the tare weight (weight of bagging and ties, and patches if any).

#### **Rule 10.06. Months Traded**

Trading may be conducted in the current month and one or more of the next twenty-three (23) months. (Traditionally March, May, July, October and December are traded.) Trading in a new delivery month begins on the first Business Day following last notice day in an expiring month.

#### **Rule 10.07. Quotation Basis**

(a) Cotton No. 2 Futures bids and offers shall be quoted in cents and hundredths of a cent per pound. The minimum price fluctuation is one hundredth of a cent per pound, which is equivalent to \$5.00 per Futures Contract.

(b) No Transactions for future delivery shall be permitted wherein the price shall contain a smaller fraction than one-hundredth of one cent per pound for each pound of cotton represented by the Cotton No. 2 Futures Contract.

(c) Whenever a Cotton No. 2 Futures Contract trades at 95.00 or higher, the minimum price fluctuation for that contract at that level shall always be five (5) points per pound, except that straddle transactions may continue to be effected at one (1) point intervals and limit up and/or limit down Trades may be made at the limit or at five (5) point intervals that do not exceed the limit.

#### **Rule 10.08. Price Limits**

##### *(a) Current Futures Month and Options*

There shall be no price limits in the current futures month on or after first notice day or on Cotton No. 2 Options at all.

##### *(b) Futures*

Futures may trade at three cents (.03¢) above or below the previous session's Settlement Price; provided, however, whenever any month settles at 110.00 or higher then all months may trade at four cents (.04¢) above or below the previous session's Settlement Price.

##### *(c) Minimum Tick*

To the extent that the five (5) point minimum tick provision of Rule 10.07 is in effect, then any price limit in excess of 95.00 will require all trading above 95.00 to be done at the limit or at five (5) point intervals that do not exceed the limit.

**Rule 10.09. Last Trading Day**

The Last Trading Day in Cotton No. 2 Futures Contract is the tenth (10<sup>th</sup>) Business Day prior to last delivery date.

**Rule 10.10. Execution of Orders on the Close on Last Trading Day**

Orders received for execution at the close on the Last Trading Day in the current cotton or Options Month respectively shall be executed at prices within the range of those Transactions recorded during the period of not less than the last thirty (30) seconds nor more than the last fifteen (15) minutes before cessation of such trading at the discretion of the President after consultation with the Control Committee. The length of time of the closing trading period referred to in this Rule shall be announced from the rostrum one-half hour before such trading period shall begin.

**Rule 10.11. First and Last Delivery Days**

The first (1<sup>st</sup>) day on which deliveries may be made is the first (1<sup>st</sup>) Business Day of the expiring month and the last delivery day is the seventh (7<sup>th</sup>) last Business Day of that month.

**Rule 10.12. Good Delivery**

A tender shall be considered a good delivery when all requirements of the Rules pertaining thereto shall have been performed by both parties or a settlement made in lieu of performance thereof.

**Rule 10.13. EWR Delivery Bank**

The term delivery bank as used in the Rules shall mean the Clearing Organization, which has been approved by the Exchange for the purpose of clearing certificated cotton.

**Rule 10.14. Designated Delivery Points**

(a) The following are designated as points for delivery of cotton on the Cotton No. 2 Futures Contract as indicated:

- (i) Galveston, Texas—The Galveston Delivery Point includes all areas within a fifteen (15) mile radius from the Galveston city limits.
- (ii) Greenville, S.C.—Greenville S.C. delivery point includes Spartanburg S.C. and all areas within a fifteen (15) mile distance from the Greenville/Spartanburg city limits.
- (iii) Houston, Texas—The Houston Delivery Point includes all areas within a fifteen (15) mile radius from the Houston city limits.
- (iv) Memphis, Tenn.—The Memphis Delivery Point includes all areas within a fifteen (15) mile radius from the Memphis city limits.
- (v) New Orleans, La.

(b) In accordance with the provisions of Rule 10.03(d), the foregoing designated delivery points may be added to or subtracted from at the discretion of the Board of Governors, after proper notice has been given to the Membership. The “points of delivery” shall be defined as the city in which the cotton is stored.

**Rule 10.15. Removal of Inspected Cotton**

All orders for the removal of cotton from the certificated stock, for any purpose, must be submitted to the Exchange, preferably on forms prescribed therefor, before any action thereon may be taken by the warehouse.

## **Rule 10.16. Notices of Delivery**

(a) Every notice of delivery, issued by the seller pursuant to a contract for future delivery under Rule 10.02, shall be in the form prescribed by the Exchange.

With respect to notices issued on the last notice day, if the Government certificates have not been issued, the issuer may state his own classification on the notice; provided he complies with the regulations of the Secretary of Agriculture issued under the United States Cotton Futures Act in regard thereto. Where the issuer uses his own classification as permitted above, he shall add a notation on the notice stating "Delayed Certification".

(b) Every notice of delivery shall be issued and tendered on the fifth (5<sup>th</sup>) Business Day prior to the day of delivery. In determining notice and delivery days the following limitations shall be observed:

(i) No notices of delivery shall be issued and no deliveries shall be made on Saturdays or on holidays ordered by the Board, subject to exception as covered by subparagraph (iii) below.

(ii) Last regular delivery day shall be the seventh (7<sup>th</sup>) last Business Day of the month.

(iii) When a special holiday is declared by the Board, the Board at the same time shall stipulate how notices and deliveries affected thereby shall be handled.

(iv) Every notice shall be tendered in accordance with the Rules and the Clearing Organization Rules.

(v) In order to issue a notice of delivery, a Deliverer must have a completed form CN331 on file at its office; provided, however, that:

(A) A Deliverer who is redelivering the identical cotton which he has or will receive during the same delivery month, pursuant to a notice of delivery, need not have such form with respect to such cotton; and

(B) A person delivering pursuant to delayed certification need not have such form.

(c) It shall be the duty of the Clearing Member to tender notice and make arrangements for the fulfillment of all contracts in the current month which have not been liquidated upon the expiration of trading in the current month.

(d) When notices are received from the Clearing Organization, they may be stopped only for an account previously long, or can be passed only against a current day's sale for such an account.

(e) When notices are received against a current day's purchase, they may be applied only against the account for which such purchase was made.

(f) Such notice, if issued and tendered to a Member as herein provided, shall be accepted by him against any contract to which it properly applies for future delivery of cotton for the delivery month therein named.

(g)(i) Any Member receiving a notice forwarded by the Clearing Organization must accept it regardless of the period of time such notice may have been held by the Clearing Organization. Members having contracts open in the delivery month must keep their offices open for the purpose of receiving such notices or of completing such deliveries.

(ii) Should the office of a party to whom a notice is to be given be closed, it shall be good service to give the notice to the Secretary of the Exchange, who shall endorse thereon the day and time of its receipt and post notice thereof on the bulletin of the Exchange.

(h) Each acceptor of a notice shall continue his or its liability for the fulfillment of the contract under the Rules until the contract has been fulfilled, at which time the liability of intermediate parties shall

cease; provided, however, that the Clearing Organization shall have no liability on any such contract after a notice of delivery thereunder has been issued and stopped.

**Rule 10.17. Notice Price**

The notice price shall be the Settlement Price of the delivery month for the Cotton No. 2 Futures Contract as published by the Exchange on the Business Day previous to the notice day.

**Rule 10.18. Notification of the Holding of a Notice**

Written notification of the holding of a notice showing the Deliverer's contract number, shall be delivered by the acceptor of the notice to the issuer of the notice and to the Exchange before four o'clock P.M. on the date of the notice and shall be accepted by such Member as a legal demand for the cotton. Delivery of the written notification to the issuer and to the Exchange shall be made by hand or facsimile transmission or E-mail. A record of such notification shall be kept by the Exchange on the basis of one hundred (100) bales to a contract and the total number of bales to be delivered shall be posted daily. Failure on the part of a holder of a notice to have such notification timely filed with the issuer as above required shall subject such Member to a penalty of ten dollars (\$10.00) per contract to be paid to the Deliverer of the cotton, the contract nevertheless to remain in full force.

**Rule 10.19. Reporting Receipts and Deliveries of Cotton**

A Member receiving cotton for account of Customers and delivering cotton at the same time for account of other Customers shall file a demand on himself in the manner and form prescribed by Rules 10.16 and 10.18, in order that a proper record may be kept.

**Rule 10.20. Weight**

(a) The official delivery weight of a bale shall be the weight input onto the EWR. The bale shall be sampled before weighing and the official delivery weight shall exclude the weight of the sample. The weight of a contract shall be fifty thousand (50,000) pounds net, a variation therefrom of one percent (1%) being permitted.

(b) The Deliverer shall make a weight allowance, at the average invoice price, of one half pound per bale per month beyond the month of weighing. (The first month to be counted, in computing this allowance, shall be the next month following the month in which the cotton was weighed.)

**Rule 10.21. Bands and Bagging**

(a) Six (6) or eight (8) bands and/or ties depending on the configuration and being of such material as approved for use by The Joint Cotton Industry Bale Packaging Committee shall be considered sufficient for each bale of cotton that is compressed to Gin Universal Density. Any excess shall, at the Option of the Receiver, be removed from the bale or be deducted from the gross weight. If a bale has less than the prescribed number of bands and/or ties, such bands and/or ties are to be put on by the warehouse at the expense of the seller.

(b) The actual tare weight (weight of bagging and ties, and patches, if any), shall be deducted from the gross weight (scale weight) of the bale.

(c) In the event of a disagreement as to the quantity of bagging on any bale of cotton submitted for inspection, the Exchange or its designated agent may require such bale to be stripped.

**Rule 10.22. Compression**

Gin universal density bales shall be the only bales permitted for delivery.

**Rule 10.23. Labor, Storage and Other Charges**



(a)(i) Labor into storage, weighing, sampling compression and load out F.O.B. to cars and/or trucks shall be paid by the Deliverer prior to delivery.

(ii) Storage by bale per month incurred up to and including delivery day shall be paid or proper allowance thereof made in the Deliverer's invoice.

(b) When cotton is stored on a daily basis, the Deliverer shall allow the Receiver any accrued storage charges at the per diem rate. When cotton is stored on a monthly basis, the monthly charge shall be calculated at the per diem rate and the Deliverer shall allow the Receiver any accrued storage charges at such per diem rate.

(c) Storage charges at all delivery points shall be paid annually, or twice a year if requested by the warehouse.

(d) The payment of storage and the extending of the warehouse receipt as provided for in Rule 7.48 shall be input onto on each EWR by the warehouseman or his duly appointed agent.

#### **Rule 10.24. Invoicing**

(a) In the case of cotton being tendered against the Cotton No. 2 Contract, it shall be invoiced by calculating in bale units the average value on or off color grade of strict low middling white (41), leaf grade 4, staple length 1-1/16, micronaire 3.5 to 4.7 and adding or deducting such average premium or discount to or from the notice price and figuring the net weight of the total quantity being invoiced (deliverable weight less weight allowance) by the price ascertained in the manner outlined.

(b) The penalties as provided in Rule 10.37 will be arrived at by applying to these weight penalties, respectively, the grade and staple differences applicable on the day of tender.

#### **Rule 10.25. Contract Delivery Differences**

Grade, staple, and micronaire differences for deliveries on the Cotton No. 2 Contract shall be based on commercial differences determined in accordance with the United States Cotton Futures Act and the regulations thereunder, as from time to time amended, as provided in Rule 10.26(a) and (b).

#### **Rule 10.26. Invoice Price and Grade and Staple Differences**

(a)(i) The notice price shall be the invoice price for Strict Low Middling one and one-sixteenth of an inch staple, Micronaire 3.5 to 4.7. Additions and deductions for other deliverable grades shall be made at the average of the differences quoted on the sixth (6<sup>th</sup>) Business Day prior to the day of delivery for corresponding grades in the spot markets designated by the Secretary of Agriculture for the purpose of quoting grade differences in accordance with the United States Cotton Futures Act and the regulations issued thereunder.

(ii) If delivery is made pursuant to delayed certification class, all premiums, discounts and weight allowances shall be based on the last regular delivery day not the date of physical delivery of the documents.

(b)(i) An addition shall also be made for each bale having a staple of one and three thirty-seconds of an inch or longer, which shall be equal to the full average premium for like staple over one and one-sixteenth of an inch staple quoted on the sixth (6<sup>th</sup>) Business Day prior to the day of delivery except in delayed certification in such of the spot markets above referred to as do quote staple differences. A deduction shall also be made for each bale having a staple of one and one thirty-second of an inch, which shall be equal to two hundred percent (200%) of the full average discount for like staple under one and one-sixteenth of an inch quoted as aforesaid.

(ii) A deduction shall also be made for each bale having a micronaire reading of 4.8 to 4.9, which shall be equal to the average of the differences quoted on the sixth (6<sup>th</sup>) Business Day prior to the day

of delivery for this micronaire range in the spot markets designated by the Secretary of Agriculture referred to in subparagraph (a)(i) above. If no such differences are available, the deduction under this provision shall be zero (0).

**Rule 10.27. Location of the Cotton on Invoice**

The name of the warehouse system and the number of bales in each plant of the system shall be shown on the invoice.

**Rule 10.28. Time of Delivery of Invoice and Documents**

(a) The Deliverer shall transfer title (EWR) before twelve o'clock PM (12:00 PM New York time) on the day before the scheduled delivery day.

(b) The Deliverer shall transfer ownership of EWRs, together with the appropriate Electronic Classing Memorandum, before two o'clock P.M. (2:00 P.M. New York time) on the day of delivery, except that on the last delivery day of the month, said tender shall be made before two thirty o'clock P.M. (2:30 P.M. New York time). The Deliverer is required to meet all deadlines for transfer of ownership of cotton pursuant to this Rule.

(c) The Deliverer shall transfer ownership of EWRs, together with the appropriate Electronic Classing Memorandum, before two o'clock P.M. (2:00 PM New York time) on the day of delivery, except that on the last delivery day of the month, said tender shall be made before two thirty o'clock P.M. (2:30 P.M. New York time). The Deliverer is required to meet all deadlines for transfer of ownership of cotton pursuant to this Rule.

(d) If there is a freight bill certificate, such certificate, issued in the name of the Receiver, shall be delivered by the Deliverer to the Receiver not later than fifteen (15) days from the day of delivery. Unless the freight bill certificate is delivered simultaneously with the documents set forth in paragraph (b) above, the Deliverer shall indicate on the invoice that the freight bill certificate will follow delivery. If the freight bill certificate is not delivered to the Receiver within the time specified in this paragraph, or if the required notation does not appear on the invoice, the delivery, if otherwise in accordance with the Rules, shall be a good delivery but the acceptance of the freight bill certificate shall be at the Option of the Receiver.

(e) Delivery of the invoice and documents set forth in this Rule shall be made in New York unless otherwise mutually agreed upon.

(f)(i) The delivery of invoice and/or documents required by paragraphs (a) through (e) of this Rule, AFTER 2:00 P.M. on day of delivery (2:30 P.M. on last delivery day) but BEFORE 4:30 P.M. shall constitute LATE delivery and be subject to penalty of one hundred dollars (\$100) per contract, the contract nevertheless to remain in full force. In the event that permission is granted for late delivery of documents said permission shall be in writing and agreed to by both parties.

(ii) Failure to deliver documents required by paragraphs (a) through (e) of this Rule without written permission by four-thirty o'clock P.M. shall constitute a default. The basis of settlement of such default is provided for in Rule 10.44.

(g) Delivery of the documents required by paragraphs (a) through (e) of this Rule shall be considered a liquidation of the futures contract against which they are tendered.

**Rule 10.29. Payment by Receiver**

When the documents mentioned in paragraphs (a) through (e) of Rule 10.18 have been delivered in accordance with the requirements of said paragraphs, the Receiver shall pay the Deliverer the amount of the invoice not later than two thirty o'clock p.m. on the last day of delivery or not later than two o'clock p.m. on any other day of delivery. Such payment shall be made in New York funds. In the event that delivery takes place on a New York State bank holiday, payment is required the next Business Day.

### **Rule 10.30. Delayed Certification**

(a) When the Deliverer delivers by “delayed certification” because he is unable to tender to the Receiver certificates of grade, staple and micronaire and strength determination classed by the Board of Cotton Examiners, on the delivery date set forth in the notice of delivery (the “stated delivery date”) as provided in Rule 10.18(b), the procedure for delivery set forth in Rule 10.18 shall be revised as follows:

(i) Prior to the stated delivery date, the Deliverer shall deliver to the Exchange a confirmation, in a form prescribed by the Exchange, for the cotton to be delivered, stating lot numbers representing cotton weighed and sampled in an approved warehouse. A copy of the confirmations shall also be provided to the Receiver in accordance with subparagraph (a)(iii) of this Rule. The confirmations obtained by the Deliverer from the warehouse are not transferable and may only be used by the Deliverer making delivery under this Rule.

(ii) On the stated delivery date, the Deliverer shall deliver to the Receiver only the aforesaid confirmations. The Receiver shall make no payment for the cotton at that time.

(iii) Certification of grade, staple, micronaire and strength reading shall be issued to the Deliverer by the Board of Cotton Examiners promptly after classification at which time the Board shall transmit to the warehouse the Board's classification.

(iv) Notification shall be made to the Warehouses when the classing of cotton is completed. The Warehouses are required to promptly input EWRs from the information received from the USDA.

(v) Under this Rule, the Deliverer shall have seven (7) Business Days to complete delivery in accordance with the following chart:

#### *Days*

- |       |  |
|-------|--|
| 1-2   | Notification by Warehouses that EWRs are available.  |
| 3-4   | Deliverer must notify Receiver by express communication, (i.e., fax, express mail, federal express, etc.) that deliverer intends to deliver cotton within three (3) business days under delayed certification. |
| 5-6-7 | Deliverer must notify Receiver by express communication twenty-four (24) hours prior to actual delivery of the dollar amount of cotton involved in this delivery.  |

Delivery of cotton must take place.

(vi) On the delayed delivery date, the Deliverer shall tender an invoice to the Receiver before one o'clock p.m. and shall tender to the Receiver certificates of grade, staple, micronaire and strength determination issued by the Board of Cotton Examiners together with a list of the bale numbers and the corresponding EWRs before two thirty o'clock p.m.; the Receiver shall deliver to the Deliverer the confirmations issued by the warehouse and shall make payment for the cotton to the Deliverer.

(b) All of the foregoing shall be in compliance with the Regulation for Cotton Classification of the United States Department of Agriculture.

### **Rule 10.31. Review**

All cotton tenderable under Cotton No. 2 Futures Contract must have been reviewed pursuant to the Regulations of the Secretary of Agriculture under the United States Cotton Futures Act.

### **Rule 10.32. Samples**

(a) All matters with respect to samples shall be governed by this Rule together with such other Rules as are from time to time adopted by the Board. All Deliverers and Receivers must follow the procedures set forth in the Deliverer's and Receiver's Guide of the New York Board of Trade. Duplicate samples of each bale tendered shall be held or shipped according to the Receiver's instruction demand letter. If the Receiver does not know his Customer's intent regarding the samples, he shall instruct the Deliverer to hold the samples.

(b) Any delivery outside the delivery point shall be at the Receiver's expense. Each sample shall be placed in a bundle or sack with about fifty (50) samples to the bundle or sack with no more than two (2) bundles or sacks per contract.

(c) Each sample must consist of two (2) portions, one (1) drawn from each side of the bale. Each portion should be as near six (6) inches wide and twelve (12) inches long as possible. Each portion must weigh at least three (3) ounces. Samples should not be drawn from old sample holes.

(d) An official Warehouse Bale Tag Coupon issued by the warehouse shall be located inside each sample. The tag list must be in one (1) of the bundles or sacks.

(e) Samples shall be delivered in contract units with the contract number clearly marked on each bundle. The contract number set forth on the "sample bundle" or any other document relating to a Cotton Contract delivery shall not be altered or changed where said cotton in its entirety is being redelivered during the contract month.

(f) The Receiver of samples must provide to the Deliverer a written receipt evidencing the time, date, place and number of bundles/or sacks received. In the event that the Deliverer of mis-marked samples can provide a written receipt to the Exchange that demonstrates the mis-marked samples were delivered within the time provided in the Rules and a notice of correction of the mis-marking was also delivered timely, then no penalty shall apply.

(g) Any duplicate sample weighing less than four (4) ounces shall be considered inadequate; payment by the Deliverer for each inadequate sample shall be the same as for each missing sample.

(h) Samples, if requested, must be sent to the Receiver by the second (2<sup>nd</sup>) Business Day after the day of delivery. If samples are sent on the third (3<sup>rd</sup>) Business Day, they shall be considered late. If they are sent past the third (3<sup>rd</sup>) Business Day, they shall be considered missing. The Receiver pursuant to this Rule shall have no obligation to return late samples to the Deliverer.

(i) If the Ultimate Receiver fails to acknowledge ownership of the duplicate samples and fails to accept financial responsibility for the charges at the warehouse at the point of storage, the warehouseman in the possession of the duplicate samples shall not be responsible for the samples beyond the fifteenth (15<sup>th</sup>) Business Day of the month following the delivery month.

(j) "Claims" shall be defined as a written document submitted to the opposite Clearing Member and a copy to the Cotton Warehouse and Delivery Committee containing the delivery date, contract numbers, the amount of money claimed, i.e., penalties, etc., the Rule violation and a detailed explanation for the Claim.

The schedule of penalties for Claims pursuant to this Rule shall be as follows:

(i) A penalty of fifty dollars (\$50.00) shall apply for each bundle or sack in excess of two (2) per contract.

(ii) Any samples delivered in said bundles or sacks not shown on the tag list shall be subject to an eight dollar (\$8.00) penalty per bale.

(iii) The penalty for changing or altering the contract number on any document during the delivery period shall be eight dollars (\$8.00) for each sample relating to said contract.

(iv) Each bundle or sack with a mark not listed in the delivery documents (mis-marked) shall be subject to a four dollar (\$4.00) penalty per sample.

(v) Late Delivery of Samples: (Samples must be sent to the Receiver by the second (2<sup>nd</sup>) Business Day after the day of delivery.)

(1) If samples are sent on the third (3<sup>rd</sup>) Business Day, they shall be considered late and a four dollar (\$4.00) penalty per bale shall apply.

(2) If samples are sent later than the third (3<sup>rd</sup>) Business Day, they shall be considered missing and an eight dollar (\$8.00) penalty per bale shall apply.

(3) If a penalty of eight dollars (\$8.00) is granted pursuant to subparagraph (j)(v)(2) of this Rule, the Receiver may not claim penalties under the provisions of subparagraphs (j)(ii), (iii) or (iv) of this Rule.

### **Rule 10.33. Deliverer's and Receiver's Guide**

(a) The list of bale numbers (tag list) required under Rule 10.28 shall be produced in legible form, at least in triplicate, showing the name of the warehouse, location, contract number, bale numbers, deliverable weights, as well as grades and staples of cotton tendered. The original and at least one (1) copy of this list shall be presented to the Receiver with the original invoice, and other documents on the day of delivery. A third (3<sup>rd</sup>) copy of the tag list shall accompany the samples delivered under Rule 10.32.

(b) For the purpose of this Rule, it is permissible to list the cotton tendered in groups according to grades and staples, in which case the grade and staple need only be listed once as a heading for each group.

(c) If a third (3<sup>rd</sup>) copy of the tag list does not accompany the samples delivered under Rule 10.30 and claim for such non-delivery has been filed within fifteen (15) Business Days from the day of delivery of the cotton, the Deliverer shall pay the Receiver twenty-five dollars (\$25.00) per contract for the missing tag list.

(d) All Claims under the Rules shall be made within fifteen (15) Business Days to the respective parties. In the case of an ultimate Receiver (as defined in the Deliverer's and Receiver's Guide) the fifteen (15) Business Day period to file only "sample" related Claims begins on the Ultimate Receiver's delivery day. All ultimate Receiver's sample Claims are filed directly with the primary Deliverer.

(e) Before four o'clock p.m. on the date of the Notice of tender, a Receiver shall have the obligation to issue a Sample Instruction Letter to the Primary Deliverer's Clearing Member, listed on the Notice of Tender, which includes precise instructions regarding the disposition of the duplicate samples. A Receiver shall instruct the Primary Deliverer's Clearing Member to deliver the samples to the point of storage, freight prepaid, or to a location other than the point of storage, freight collect. It shall also be permissible for the parties involved to negotiate mutually agreeable arrangements with regard to the duplicate samples, as long as the arrangements are agreed to in writing on or before the day of delivery. If the samples have been moved to the point of storage it shall be the obligation of the Primary Deliverer's Clearing Member to inform the warehouseman at the point of storage of the change in ownership of the samples. The Receiver shall be obligated to pay the warehouseman any sample storage charges that accrue at the point of storage once transfer to ownership of the samples has been advised and he shall acknowledge this obligation on the Sample Instruction Letter. The Receiver shall be responsible for verifying that all of the samples have been delivered and that the samples delivered conform to the specifications required by the New York Board of Trade. If a Receiver fails to issue a Sample Instruction Letter on or before the day of delivery, the Primary Deliverer's Clearing Member shall be relieved of all responsibility with regard to the duplicate samples after fifteen (15) business days following the date of delivery. An Interim Receiver shall have all of the rights and obligations of the Primary Deliverer with regard to the duplicate samples, including the obligation to inform a subsequent Stopper or Receiver, via the Notice of Tender, of the exact location of the samples and the name of the Primary Deliverer's Clearing Member. It shall be the responsibility of the Ultimate Receiver to make financial arrangements for the payment of any and all charges that accrue against the duplicate samples commencing with the date of transfer of ownership of the samples. If the Ultimate Receiver fails to accept financial responsibility for the charges at the warehouse at the point of storage, the warehouseman in possession of the duplicate samples shall not be responsible for the samples beyond the fifteenth (15th) business day of the month following the delivery month.

(f) All matters with respect to duplicate samples shall be governed by Rule 10.32 together with such Rules as are from time to time adopted by the Board of Governors. For clarification purposes, the following definitions shall apply to this Rule:

1. Primary Deliverer. The original issuer of the Notice of Tender during the delivery period and the initial Owner of the duplicate samples.

2. Retenderer. A Stopper of a Notice of Tender who retenders the contract during the same delivery period in which he stopped the notice. The Retenderer does not take possession of the duplicate samples.

3. Receiver. There shall be two categories of Receivers and they shall be defined as follows:

A. Interim Receiver. A Stopper of a Notice of Tender who retenders the contract during the same delivery period in which he stopped the notice. The Interim Receiver takes possession and assumes ownership of the duplicate samples.

B. Ultimate Receiver. A Stopper of a Notice of Tender who does not retender the contract during the same delivery period in which he stopped the notice. The Ultimate Receiver takes possession and assumes ownership of the duplicate samples.

4. Owner. A Primary Deliverer or Receiver who holds ownership and control of the duplicate samples of bales that have been tendered or retendered on contract.

(g) The Primary Deliverer shall have the Option of returning the duplicate samples of the bales tendered to the point of storage of the cotton or of holding the samples at a location other than the point of storage. The Primary Deliverer must inform the initial Stopper, via the Notice of Tender, of the exact location of the duplicate samples, the Primary Deliverer's Clearing Member and the name of the Owner of the duplicate samples. If a Stopper of a Notice of Tender decides to retender the contract without taking possession of the sample, this Retender shall be obligated to issue, before four o'clock p.m. on the Business Day following the date of the Notice of Tender, a Sample Instruction Letter instructing the Primary Deliverer's Clearing Member to "HOLD" the duplicate samples. A Retenderer shall not be held responsible for missing or late samples provided he has issued proper and timely "HOLD" instructions to the Primary Deliverer's Clearing Member and provided he has informed the subsequent Retender or Receiver, via his Notice of Tender, of the exact location and name of the Primary Deliverer's Clearing Member. The Retenderer shall be obligated to pay the Primary Deliverer's Clearing Member the applicable "HOLD" fee which is published and set by either the Owner or the Primary Clearing Member and which is also posted at the New York Board of Trade, and he shall acknowledge this obligation on the Sample Instruction Letter. (Hold fees are adjusted and set annually by each Owner and are effective from August 1st through 31st of each year.) The Primary Deliverer, the initial Owner, is obligated to maintain the duplicate samples at the location stated in his Notice of Tender until such time as the initial Owner has been instructed, via a Sample Instruction Letter, to transfer the duplicate samples to a Receiver.

(h) If the Receiver has been advised, via the Notice of Tender, that the samples are being held at the point of storage, the Owner shall have fulfilled all of his obligations with regard to the transportation of samples. If the Receiver wishes to have the samples moved to a location other than the point of storage, he shall issue precise instructions to the Primary Deliverer's Clearing Member, via a Sample Instruction Letter. The Primary Deliverer's Clearing Member will then instruct the warehouseman holding the samples to make the samples available to the carrier nominated by the Receiver.

(i) If the Receiver has been advised, via the Notice of Tender, that the samples are being held at a location other than the point of storage, the Owner shall have the following obligations:

(i) If the Receiver issues instructions, via a Sample Instruction Letter, for samples to be delivered to the point of storage, the Owner shall have the obligation to ship the samples, freight prepaid, to the

point of storage. The samples should be shipped to the point of storage on or before the second business day following the date of delivery.

(ii) If the Receiver issues instructions, via A Sample Instruction Letter, for the samples to be delivered to a location other than the point of storage, the Owner shall have the obligation to ship the samples, freight collect, to the alternate location. The Receiver shall be obligated to issue precise instructions to the Primary Deliverer's Clearing Member regarding the shipment of the samples, including providing the Primary Deliverer's Clearing Member with the name of the carrier. The samples should be shipped to the alternate location on or before the second business day following the date of delivery.

#### **Rule 10.34. Handling of Certificated Cotton**

If any certificated cotton is handled without the supervision of the Exchange, it shall lose its status as certificated cotton. No certificated cotton shall be reweighed or resampled without inputting the results on the EWR. If cotton is reweighed, the new weight and date thereof shall be input onto the EWR. If cotton is resampled, one (1) pound shall be deducted from the weight of the bale and input onto the EWR accordingly.

#### **Rule 10.35. Cotton Subject to Quarantine**

(a) Cotton originating in Pink Boll Worm Territory which is precluded from shipment into designated areas by quarantine regulations shall, when delivered on contract for future delivery, be valued at one cent (.01¢) a pound under the value of cotton of like grade and staple. It shall be incumbent upon the Deliverer to notify the Receiver when the cotton delivered includes such cotton originating in Pink Boll Worm Territory, and to make due notations with allowance of one cent (.01¢) per pound, as above required, on invoice; provided, that when such cotton has been fumigated or compressed and is free to move without restriction in all channels of trade (due proof of which shall be furnished to the Receiver on demand) the penalty herein provided shall not apply.

(b) Cotton that has been subjected to a quarantine by the United States or by any State thereof shall not be submitted for inspection for delivery on Futures Contract unless it shall have been properly fumigated in accordance with the United States or State regulations or has been given standard compression.

#### **Rule 10.36. Question of Delivery**

(a) Any question affecting the handling or delivery of cotton on a futures contract, which is not specifically covered by these Rules, may be referred to the Cotton Warehouse and Delivery Committee.

#### **Rule 10.37. Penalty on Certificates After Third Month**

(a) Cotton remaining under certification for:

- (i) a period exceeding three (3) months shall carry a penalty of three (3) pounds per bale per month,
- (ii) a period exceeding ten (10) months shall carry a penalty of four (4) pounds per bale per month,
- (iii) a period exceeding sixteen (16) months shall carry a penalty of five (5) pounds per bale per month, and
- (iv) a period exceeding twenty-two (22) months shall carry a penalty of six (6) pounds per bale per month.

(b) The first (1<sup>st</sup>) month to be counted, in computing this allowance, shall be the fourth (4<sup>th</sup>), eleventh (11<sup>th</sup>), seventeenth (17<sup>th</sup>), and twenty-third (23<sup>rd</sup>) months, respectively, following the month in which the cotton was certificated.

#### **Rule 10.38. Penalty on Age of Cotton**

(a) For purposes of this Rule, a marketing season is deemed to begin on August 1 of one (1) year and to end on July 31 of the subsequent year. The Year of Growth corresponding to a marketing season is referred to by the earlier of the two (2) years.

(b) Cotton that is delivery up to and including December 31 of the calendar year following the cotton's Year of Growth shall carry no penalty under this Rule.

(c) Cotton that is delivered during the calendar year which is two (2) years later than its Year of Growth shall carry a penalty of two (2) cents per pound.

(d) Cotton that is delivered during a calendar year which is more than two (2) years later than its Year of Growth shall carry an additional penalty of two (2) cents per pound for every such calendar year after the second (2<sup>nd</sup>) year following the cotton's Year of Growth.

(e) The following procedures shall apply when imposing a Year of Growth penalty as stated in this Rule:

(i) For all bales that are certificated as of October 15, 2002 and that have a Year of Growth earlier than 2002 in the EWR record, the Year of Growth shown in the EWR record shall be the final determinant of the Year of Growth of the bale, with no right of appeal;

(ii) Each time any such bale referenced in subparagraph (e)(i) is recertificated after October 15, 2002, the Year of Growth shown in the new EWR record shall be identical to the Year of Growth shown in the EWR record existing on October 15, 2002;

(iii) For all bales that were certificated at any time prior to October 15, 2002 and have been decertificated and that become recertificated after that date and that have a Year of Growth earlier than 2002 in the EWR record, the Year of Growth shown in the EWR record shall be the final determinant of the Year of Growth of the bale, with no right of appeal;

(iv) Each time any such bale referenced in subparagraph (e)(iii) is recertificated after October 15, 2002, the Year of Growth shown in the new EWR record shall be identical to the Year of Growth shown in the most recent EWR record existing prior to October 15, 2002;

(v) For all bales that become certificated for the first time after October 15, 2002, the EWR record for each such bale must contain PBI/Gin code-gin tag numbers, in addition to the accurate Year of Growth. This requirement also applies to all certificated bales that show a Year of Growth of 2002 in the EWR record, regardless of the date on which the bale was first certificated;

(vi) For all bales that become certificated for the first time after October 15, 2002, the final determinant of the Year of Growth shall be the year of growth as reflected in the information contained in the United States Department of Agriculture-Agricultural Marketing Service (USDA-AMS) data base; and

(vii) For all bales that become certificated for the first time after October 15, 2002, any claim for damages because of an error with respect to the Year of Growth contained on the EWR shall be limited to the difference between the amount of the penalty under this Rule and the penalty that should have been applied under this Rule.

#### **Rule 10.39. Payment of All Non-Disputed Claims**

(a) All non-disputed Claims penalty or invoice must be paid within ten (10) Business Days upon receipt of written notification. If the nondisputed Claim remains unpaid, for each Business Day following such ten (10) Business Day period, the payor will be assessed a late payment fine of fifty dollars (\$50) per Business Day per contract until such Claim is paid; provided, however, the fine for each individual unpaid contract within such Claim shall not exceed five hundred dollars (\$500) per contract. Any non-disputed



Claim which is not paid within twenty (20) Business Days upon receipt of written notification shall be referred to the Compliance Staff for disciplinary investigation and proceeding.

(b) Late payment fines are assessed by, and payable to, the New York Board of Trade.

#### **Rule 10.40. Payment of Invoicing Errors**

Invoicing errors must be paid within five (5) Business Days upon receipt of written notification. After five (5) Business Days, interest at prime plus three percent (3%) shall be assessed. All disputes regarding invoicing errors will be ruled on by the Vice President, Commodity Operations or his designee and said decision shall be deemed final.

#### **Rule 10.41. Levels of Authority for Adjudication of Claims**

(a) The following levels per contract will be established for ruling on all disputed Claims:

(i) Level One: Claims up to four hundred fifty dollars (\$450.00) per contract will be ruled on by the Vice President, Commodity Operations or his designee and approved by the President and/or Chairman of the Cotton Warehouse and Delivery Committee and may not be appealed to any committee or Board of Governors.

(ii) Level Two: Claims of four hundred fifty-one dollars (\$451.00) to one thousand nine hundred fifty dollars (\$1,950.00) per contract will be ruled on by a Panel of the Cotton Warehouse and Delivery Committee and shall not be appealable to any Committee or Board of Governors.

(iii) Level Three: Claims in excess of one thousand nine hundred fifty dollars (\$1,950.00) per contract will be ruled on by a Panel of the Cotton Warehouse and Delivery Committee and will be appealable to the Board of Governors.

(b) Notwithstanding the above, any Claim by any one (1) Customer during a delivery period in excess of fifty thousand dollars (\$50,000) would be appealable to the Board of Governors.

#### **Rule 10.42. Time Period for Payment of Disputed Claims**

(a) Five (5) Business Days after receipt of written notification of final disputed Claim determination, interest at prime shall be assessed. Payment shall be made within twenty (20) Business Days. On the twentieth (20th) Business Day, payment must be wired by 3:00 p.m. (New York Time) or an Official Teller's check or similar instrument issued by a bank or such other financial institution acceptable to the Exchange must be delivered by hand by 4:30 p.m. to the Claimant. If payment is not made in twenty (20) Business Days, the Claim payment due becomes doubled. Interest at prime plus three percent (3%) shall apply to the original Claim. The Claimant will receive the original Claim money plus interest. The Exchange will receive the penalty money from the doubled Claim. If payment is not received as outlined above, the matter shall be referred to the Compliance Staff for disciplinary proceedings.

(b) Final disputed Claim determination shall mean a decision by the Vice President, Commodity Operations or his designee, and approved by the President and/or the Chairman of the Cotton Warehouse and Delivery Committee, in the case of Level One, or a Panel of the Cotton Warehouse and Delivery Committee if Level Two or by the Board of Governors if Level Three or Claims by any one (1) Customer in excess of fifty thousand dollars (\$50,000).

#### **Rule 10.43. Penalties for Frivolous Claims**

Any Claims submitted to the Exchange which are determined by the Board of Governors to be frivolous in nature shall subject the Claimant to a penalty payable to the Exchange of one thousand dollars (\$1,000.00) per contract.

#### **Rule 10.44. Defaults in Delivery**

(a) A Member shall be in default who shall fail to issue a notice, by last notice day and/or fails to make delivery and pay against said notice as required in the Rules, in fulfillment of any sale contracts outstanding in his name after trading in the current month has ceased; or when the Deliverer fails to tender to the buyer, before three o'clock p. m. (New York time) on the specified day of delivery, EWRs, with the appropriate classing memorandum representing the minimum net weight of 49,500 pounds of cotton.

(b) A Member shall be in default who, upon receipt of a tender of cotton in completion of an outstanding contract in conformity with the Rules, shall fail to pay in full the amount of the Deliverer's invoice in accordance with Rule 10.29.

(c) Defaults shall be reported to the Cotton Warehouse and Delivery Committee by the Member who has failed to receive satisfaction of the contract. An intentional default shall be deemed to be a violation of the Rules of the Exchange.

(d) A Member who

(i) tenders EWRs for cotton which does not conform to the cotton set forth in the notice of delivery with respect to grade, staple or type (rain grown or nonrain grown), hereinafter referred to as "non-conforming cotton," or

(ii) tenders EWRs for cotton warehoused at a delivery point other than the delivery point set forth in the notice of delivery (provided, however, that all such cotton tendered under a contract is stored in one warehouse), hereinafter referred to as "non-conforming delivery point," or

(iii) tenders EWRs for a greater or lesser number of bales than the number set forth in the notice of delivery, hereinafter referred to as "bale variance," which tender, in any such case, otherwise meets the requirements for a good delivery pursuant to the Rules, shall pay the following amounts to the buyer:

(A) A penalty of five dollars (\$5.00) per bale for nonconforming cotton, a penalty of five hundred dollars (\$500) per contract shall apply for each non-conforming delivery point; and a charge of five dollars (\$5.00) per bale for the number of bales delivered with respect to which there is a bale variance.

(B) The amount of proven loss incurred by the buyer by reason of any such non-conforming cotton, nonconforming delivery point or bale variance, as determined by the Cotton Warehouse and Delivery Committee.

(e) The provisions in paragraph (d) relating to non-conforming cotton shall not apply with respect to grade, staple or type (rain grown or non-rain grown) to a Member who issued a notice of delivery on delayed certification in accordance with the Rules; provided the grade, staple and type set forth in said notice is in accordance with his best information and belief.

(f) The foregoing provisions relating to bale variance shall not apply to a Member who issues a notice of delivery on delayed certification in accordance with the Rules, provided the number of bales actually delivered is within 10% of the number of bales set forth in the notice of delivery. In the event the number of bales actually delivered deviates by more than 10% from the number set forth in the notice of delivery, the foregoing provisions shall apply to the said number of bales in excess of a 10% deviation.

(i) Upon the receipt by a buyer of EWRs for nonconforming cotton or with a non-conforming delivery point, or with a bale variance, he shall, within fifteen (15) days after such receipt, notify the Cotton Warehouse and Delivery Committee of such discrepancy. If a Claim is made for loss, such notice shall set forth the amount of loss, if any, which the buyer claims by reason of such discrepancy and shall be accompanied by evidence in support of his Claim. The Cotton Warehouse and Delivery Committee shall promptly mail a copy of such notices to the seller. The seller shall file with the Committee, with a copy to the Claimant, a statement of his defenses to

said claim and evidence in support thereof within thirty (30) days from the date of the mailing of notice of the Claim by the Cotton Warehouse and Delivery Committee. The Committee shall promptly consider said Claim and defenses and render its decision thereon, a copy of which shall be mailed to each Member affected.

(g) Violation of the Rules respecting deliveries on contract, including but not limited to the following, shall be grounds for disciplinary proceedings:

(i) the issuance by a Member of a notice of delivery for cotton with respect to which he does not have EWRs, unless the Member issues the notice pursuant to one of the provisos of Rule 10.16(b)(v);

(ii) the delivery of non-conforming cotton, unless the notice of delivery was issued on Deliverer's classification;

(iii) the delivery of cotton with a non-conforming delivery point;

(iv) the delivery of cotton with a bale variance, unless the notice of delivery was on Deliverer's classification and the number of bales actually delivered is within 10% of the number of bales set forth in the notice of delivery.

## **PENALTY**

(g)(i) Where the weight of cotton delivered under a contract is less than 49,500 pounds, the Deliverer shall be subject to the payment of a penalty, when claimed by the Receiver, of three cents (.03¢) per pound on the deficiency in weight and an additional penalty of four hundred ninety-five dollars (\$495), being one cent (.01¢) per pound on the total minimum weight, or for any deficiency in the payment of the full amount of the invoice, plus any proven loss incurred by reason of any of said defaults as determined by the Cotton Warehouse and Delivery Committee. Where default results from the failure to issue a notice of delivery as provided in Rule 10.16, the loss found to have been sustained by the holders of such defaulted contracts shall be allocated among the defaulting Members in proportion to the number of contracts in default.

(ii) If the one cent (.01¢) per pound penalty is waived by a Member entitled to same on any default resulting from failure to issue a notice of delivery, the sum representing the amount waived shall be credited against the penalty due from all defaulting Members in proportion to the number of contracts in default.

(iii) Upon the occurrence of a default, each Member aggrieved thereby shall within fifteen (15) days after such default notify the Cotton Warehouse and Delivery Committee in writing of the amount of loss which he claims by reason of such default and shall submit to the Committee in writing at the same time evidence in support of his Claim. Each defaulting Member shall file with the Committee in writing his defense to said Claims and evidence in support thereof within thirty (30) days from the occurrence of said default. Each defaulting Member shall file with the Committee in writing his defense of said default. The Committee shall promptly consider said Claims and defenses and render its decision thereon, a copy of which shall be mailed to each Member affected. Each defaulting Member and each Member affected by a default shall have the right to examine the Claims, defenses, and evidence in support thereof, at the office of the Vice President, Commodity Operations at any time.

## **SETTLEMENT**

(h) The basis of settlement for deliveries in default under the Cotton No. 2 Contract shall be the value of basis Strict Low Middling Cotton 1-1/16 inch staple in deliverable form in the delivery market on the day that default is made known; provided, that where default arises from failure to issue notice of intention to deliver, the basis of a settlement shall be an average of the value of the basis Strict Low Middling Cotton 1-1/16 inch staple in deliverable form in all delivery markets, as

determined by the Cotton Warehouse and Delivery Committee. Where the default is made known after business hours or during a Business Day on which the Exchange is not open for Transactions in futures contracts, the basis of settlement shall be the value of basis Strict Low Middling Cotton 1-1/16 inch staple in deliverable form on the first day thereafter on which the Exchange is open for such Transactions. A copy of the determination of the Cotton Warehouse and Delivery Committee under this Rule shall be mailed to each Member affected.

(i)(i) An appeal may be taken to the Board of Governors by any Members affected by a decision or determination of the Cotton Warehouse and Delivery Committee under this Rule, by mailing to the Secretary of the Exchange, within seven (7) days from the mailing of a copy of said decision or determination, a notice that he desires to appeal therefrom. The Secretary of the Exchange shall thereupon give notice to each affected Member to submit his argument on said appeal to the Board of Governors within fifteen (15) days from the mailing of the Secretary's notice and said arguments shall be submitted in writing within the time so prescribed. The Board of Governors shall, after due consideration, render its decision on the appeal, which decision shall be final.

(ii) Settlements of amounts payable under this Rule shall be collected and distributed by the Clearing Organization. In the event that the decision or determination of the Cotton Warehouse and Delivery Committee is not appealed from, the Clearing Organization shall, after the time to appeal has expired, collect and distribute the amount determined to be payable by the Cotton Warehouse and Delivery Committee without further action of the Board of Governors.

#### **Rule 10.45. Clearing Member Reports to Clearing Organization**

(a) All Members, who are members of the Clearing Organization, shall report to the Clearing Organization, not later than 9:00 A.M. of each Business Day, the number of purchases and sales executed on the prior Business Day and the number of Cotton No. 2 Futures Contracts which are open on the Member's books for each delivery month at the close of business on such prior Business Day, except that for the Business Day prior to the last notice day of any delivery month, said Members shall report the number of purchases and sales in the delivery month executed that day and the number of Cotton No. 2 Futures Contracts which are open on the Member's books for such delivery month at the close of business on such day no later than 5:00 P.M. that same day.

(b) When the account of any Customer (other than an account carried on an omnibus basis) has a long and short Position in the same delivery month, only the net Position of the Customer in that delivery month will be reported to the Clearing Organization, as open interest.

(c) In the case where a long and short Position in the same delivery month is carried by a non-clearing member of the Exchange for a Customer, it shall be the responsibility of the Carrying Member to advise the Clearing Member that the long and short Position is for the account of the same Customer. In that event, the Clearing Member will not report that Position to the Clearing Organization, as open interest.

(d) One purpose of this Rule is to enable the Exchange to publish each Business Day the open position in Cotton No. 2 Futures Contracts for each month.

(e) All Members carrying contracts for the account of others must act with diligence in reporting and correcting errors in their Positions as reported to the Clearing Organization, by Clearing Members or to Clearing Members by Carrying Members.

(f) Clearing Members making corrections in their Positions with the Clearing Organization subsequent to the publishing of the daily open positions by the Exchange shall promptly file with the Exchange a statement of the details of such correction, the manner in which the error occurred and, if a Carrying Member be the cause of the error, his name should be supplied.

(g) Positions reported pursuant to this Rule will be used as a basis for issuance and assignment of Delivery Notices by the Clearing Organization.

**Rule 10.46. Force Majeure**

The term “Force Majeure” shall mean any circumstance (including, but not limited to a strike, lockout, national emergency, governmental action, computer malfunction causing loss of EWRs or data, or act of God) which is beyond the control of a Clearing Member making or taking delivery of a contract in the manner provided for in the Rules.

## **COTTON NO. 2 OPTIONS**

### **Rule 10.50. Unit of Trading**

The unit of trading shall be the Option to buy, in the case of a Call, or the Option to sell, in the case of a Put, one (1) Cotton No. 2 Futures Contract.

### **Rule 10.51. Trading Months for Options on Cotton No. 2 Futures Contracts**

Trading in Options on Cotton No. 2 Futures Contracts shall be conducted in months which correspond to the following delivery months for the Underlying Futures Contract: December, March, May, July and October. The ten nearest contract months in that cycle shall be traded at all times.

### **Rule 10.52. Premium Quotations**

Premiums shall be quoted in cents and hundredths of a cent per pound. The minimum fluctuation in Premiums shall be \$0.0001 per pound, provided, however, that an Option Trade may be executed at a price of one ten-thousandth of a cent per pound (5¢ per contract) if the Trade will result in the liquidation of positions for both parties to the Trade (“cabinet trades”).

### **Rule 10.53. Absence of Price Fluctuation Limitations**

Transactions in Options on Cotton No.2 Futures Contracts shall not be subject to price fluctuation limitations.

### **Rule 10.54. Last Trading Day**

(a) The Last Trading Day shall be the last Friday which precedes the first notice day for the Underlying Futures Contract by at least five (5) Business Days; provided, however, that in the event the Exchange is closed on any such Friday:

(i) because such Friday is a designated Exchange Holiday which has been so designated for more than one (1) week prior thereto, the Last Trading Day shall be the trading day preceding such Friday; and

(ii) for any other reason, the Last Trading Day shall mean the first (1<sup>st</sup>) trading day after such Friday.

### **Rule 10.55. Obligations of Option Purchasers**

(a) The Purchaser which purchases a Cotton No. 2 Option on the floor of the Exchange shall cause such Option to be submitted by a Clearing Member to the Clearing Organization for clearance in accordance with the Rules of the Clearing Organization.

(b) The Purchaser which clears a Cotton No. 2 Option shall pay in full the Premium to the Clearing Organization in accordance with the Rules of the Clearing Organization.

(c) The Purchaser of a Cotton No. 2 Option shall, upon exercising such Option in accordance with the Rules, enter into an Underlying Futures Contract to buy (in the case of a Call) or to sell (in the case of a Put) Cotton for delivery in the regular or serial Option Month's Underlying Futures Contract, at the Striking Price specified in such Option; provided, however, that any such contract entered into upon exercise shall be entered into for the account of the Person having purchased the Cotton No. 2 Option.

### **Rule 10.56. Obligations of Option Grantors**

(a) The Grantor which grants a Cotton No. 2 Option on the floor of the Exchange shall cause such Option to be submitted by a Clearing Member to the Clearing Organization for clearance in accordance with the Rules of the Clearing Organization.

(b) The Grantor which clears a Cotton No. 2 Option shall make such Margin deposits as the Clearing Organization may require.

(c) The Grantor of a Cotton No. 2 Option shall, upon being assigned an Exercise Notice in accordance with the Rules of the Clearing Organization, enter into an Underlying Futures Contract to sell (in the case of a Call) or to buy (in the case of a Put) Cotton for delivery in the regular or serial Option Month's Underlying Futures Contract, at the Striking Price specified in such Option; provided, however, that any such contract entered into upon assignment of an Exercise Notice shall be entered into for the account of the Person having granted the Cotton No. 2 Option.

#### **Rule 10.57. Effect of Clearance**

Upon acceptance of a Cotton No. 2 Option by the Clearing Organization, the Clearing Organization shall be substituted as, and assume the position of, the Purchaser to the Clearing Member which is the Grantor and the position of the Grantor to the Clearing Member which is the Purchaser; and thereupon the Clearing Organization shall have all the rights and obligations with respect to such Option as the parties for which it is substituted.

#### **Rule 10.58. Expiration of Cotton Options**

An Option on Cotton No. 2 Futures Contract shall expire at 5:00 p.m. on the Last Trading Day; provided, however, that any such Option which is one (1) point in-the-money and remains unexercised after that time shall be automatically exercised by the Clearing Organization, unless the Clearing Member gives the Clearing Organization instructions otherwise.

#### **Rule 10.59. Strike Prices**

(a) Options on Cotton No. 2 Futures Contracts shall trade with Strike Prices in one cent (.01¢) per pound intervals.

(b) At the time Options for any month are first listed for trading, they shall be listed at the following eleven (11) Strike Prices:

(1) the previous day's Settlement Price for Cotton No. 2 Futures Contracts in the corresponding delivery month rounded off to the nearest one cent (.01¢) per pound interval; for purposes of this Rule, prices from \_\_\_\_\_ .51 on up shall be the next highest one cent (.01¢) interval and prices from \_\_\_\_\_ .50 on down shall be the next lowest one cent (.01¢) interval; this one cent (.01¢) interval is the at-the-money Strike Price;

(2) the five (5) Strike Prices which are higher than the at-the-money Strike Price; and

(3) the five (5) Strike Prices which are lower than the at-the-money Strike Price.

(c) Thereafter, on any Business Day, whenever the Strike Prices of the Options listed for any Option Month do not include the five (5) consecutive intervals above and below the at-the-money Strike Price, as well as the at-the-money Strike Price itself, one (1) or more new Options for such Option Month shall be listed for trading on the following trading day so that the class of Options shall include Strike Prices at-the-money and Strike Prices set at the five (5) consecutive intervals next above and next below the at-the-money Strike Price. Any Strike Price provided for in this paragraph (c) may be referred to from time to time as a "Required Strike Price".

(d) A Cotton Option having a particular Strike Price may be delisted if, for ten (10) consecutive trading days or more, no Transaction is executed and there is then no open Position in such Option;

provided, however, that no Option shall be so delisted to the extent that it has a Strike Price which is then a Required Strike Price.

(e) Any Option which has been so delisted shall thereafter be relisted at any time to the extent any such Option would have a Strike Price at a then Required Strike Price.

(f) In addition to the Strike Prices authorized above, the President of the Exchange may direct that additional Strike Prices be added. Such directed Strike Prices (“DSPs”) may be added provided that they may be only listed in whole one cent (.01¢) intervals or multiples thereof. Such DSPs shall be effective upon adoption.

**Rule 10.60. Notice of Exercise**

(a) An Option may be exercised by the buyer on any Business Day that such Option is traded.

(b) An Exercise Notice of any Option shall be in the form prescribed by the Clearing Organization and in accordance with Clearing Organization Rules for Puts and Calls. The Clearing Member who is representing the buyer shall present an Exercise Notice to the Clearing Organization by 5:00 p.m. on the day of exercise.

(c) The Clearing Organization, based on Exercise Notices received from Clearing Members, shall allocate such exercised Options among Clearing Members having short Positions in such Options on a pro rata basis, make necessary entries on its books to convert the exercised Option into the Underlying Futures Contract and so notify the affected Clearing Member.

**Rule 10.61. Cotton Options Contract Form**

(a) All Options shall be in the following form:

OPTION ON COTTON NO. 2 FUTURES CONTRACT

New York, NY \_\_\_\_\_ 20 \_\_\_\_\_  
\_\_\_\_\_ (A.B.) has this day sold to \_\_\_\_\_ (C.D.)  
and agreed to honor on timely Exercise Notice a (Call) (Put) Cotton No. 2 Futures Option exercisable in accordance with the Rules of the Exchange to (purchase)(sell) one contract of 50,000 lbs. (+/-1%)1 & 1/16 SLM delivery in \_\_\_\_\_ (the Option Contract Month) at the price of \$ \_\_\_\_\_ per pound (the Strike Price).

Upon the issuance of an Exercise Notice, the Purchaser and Grantor of this Cotton Option shall become the buyer and seller, respectively, if the Cotton Option is a Call Option, or the seller and buyer respectively, if the Cotton Option is a Put Option, of a New York Board of Trade Cotton No. 2 Futures Contract on the terms stated above.

The Option Contract is, and any Cotton No. 2 Futures Contract resulting from the exercise shall be, made in view of, and in all respects, subject to the Rules of the New York Board of Trade. Additionally, any Cotton No. 2 Futures Contract resulting therefrom shall be subject to the terms of the United States Cotton Futures Act.

For and in consideration of a Premium which the Option Purchaser pays to the Options Grantor, the undersigned accepts this contract with all its obligations and conditions.

(b) Verbal Cotton Option Contracts (which shall always be presumed to have been made in the foregoing form) shall have the same standing, force, and effect as written ones if notice in writing of such contracts shall have been given by one of the parties thereto to the other party during the day on which such contract is made or on the next Business Day thereafter.

**Rule 10.62. Clearing Member Reports to Clearing Organization**



(a) All Members, who are members of the Clearing Organization, shall report to the Clearing Organization, not later than 7:00 P.M. on each Business Day, the total number of open long Options and the total number of open short Options, in each Option series, carried by the Clearing Member as of the close of business on the Business Day.

(b) When the account of any Customer (other than an account carried on an omnibus basis) has a long and short Position in the same Option Series, only the net Position of the Customer in that Option series will be reported to the Clearing Organization, as open interest.

(c) In the case where a long and short Position in the same Option series is carried by a non-clearing member of the Exchange for a Customer, it shall be the responsibility of the Carrying Member to advise the Clearing Member that the long and short Position is for the account of the same Customer. In that event, the Clearing Member will not report that Position to the Clearing Organization, as open interest.

(d) All Members carrying contracts for the account of others must act with diligence in reporting and correcting errors in their Positions as reported to the Clearing Organization, by Clearing Members or to Clearing Members by Carrying Members.

(e) Clearing Members making corrections in their Positions with the Clearing Organization subsequent to the publishing of the daily open positions by the Exchange shall promptly file with the Exchange a statement of the details of such correction, the manner in which the error occurred and, if a Carrying Member be the cause of the error, his name should be supplied.