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04-44
September 23, 2004

Ms. Jean A. Webb
Secretary of the Commission
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: **Amendments to Rules 10.00 and 10.02 – 10.46 –
Submission Pursuant to Section 5c(c)(2) of the Act and Regulation 40.4(b)(6)**

Dear Ms. Webb:

In accordance with Section 5c(c)(2) of the Commodity Exchange Act, as amended, (the “Act”) and Regulation 40.4(b)(6), the Board of Trade of the City of New York, Inc. (“Exchange”) submits amendments to Rules 10.00 and 10.02-10.46, attached as Exhibit A.

A review of the delivery rules for the Cotton No. 2SM futures contract revealed that the mechanical procedures used to effect delivery were obsolete or unnecessary. For example, none of the current rules require that (i) the deliverer transfer to the Clearing Organization the electronic warehouse receipts (“EWRs”) and a copy of the invoice for the cotton being delivered by noon on the business day prior to the delivery date, or (ii) the Clearing Organization debit the receiver’s account and credit the deliverer’s account for the full amount of the invoice on the delivery date [see amended Rule 10.24 and 10.25 (formerly Rules 10.28 and 10.29)]. This described delivery procedure is what has been the practice since the required use of EWRs in 1994 in spite of the procedures detailed in the Rules. The amendments to the Cotton No. 2 Rules codify the existing delivery practices and, therefore, the Exchange deems the amendments to be non-material changes to the terms and conditions of the Cotton No. futures contract.

The Exchange certifies that the amendments comply with the requirements of the Commodity Exchange Act and the rules and regulations promulgated thereunder.

The amendments were approved by the Exchange’s Board of Governors on September 22, 2004. No substantive opposing views were expressed by members or others with respect to

the amendments. It should be noted that the amendments were given careful review by the Cotton trade and, in particular, those having extensive involvement with Exchange deliveries. All unanimously agreed that the amendments make the rules and procedures current by reflecting actual Exchange delivery practices and do not change the terms and conditions of the contract. The amendments will become effective November 1, 2004, more than ten (10) days after the receipt of this Submission by the Commission.

If you have any questions or need further information, please contact me at jfassler@nybot.com or 212-748-4084.

Sincerely,

Jill S. Fassler
Vice President
Associate General Counsel

cc: Riva Adriance
Thomas Leahy
CFTC, Division of Market Oversight
Allen Cooper
CFTC, New York Regional Office

(In the text of the amendment below, additions are underlined and deletions are bracketed and lined out.)

Rule 10.00. Scope of Chapter; Calculation of Times

(a) 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.

(b) In computing any period of time prescribed or allowed in this Chapter or in any procedural resolution adopted by the Board hereunder, (i) all times shall refer to New York time, and (ii) the day of the act or omission from which the designated period of time begins to run shall not be included. The last day of the period so computed shall be included, unless it is not a Business Day, in which event the period runs until the close of business on the next Business Day.

Rule 10.02. Definitions

(a) In this Chapter and in all procedures and resolutions adopted by the Board hereunder, the following terms shall have the meanings indicated, unless the context otherwise requires:

(i) Date of Delivery

The term "Date of Delivery" shall mean the date five (5) Business Days following the date of issue of the Delivery Notice, except as the Rules may otherwise provide.

(ii) Delivery Notice

The term "Delivery Notice" shall mean the notice of intention to deliver one (1) or more lots of cotton in the form prescribed by the Exchange, issued by a Clearing Member to the Clearing Organization.

(iii) EWR

The term "EWR" shall mean the electronic warehouse receipt record created by a warehouse operator with respect to cotton stored in one of its warehouses, which record is reflected in the data base maintained by a Cotton EWR Provider designated as such by the USDA.

(iv) First Delivery Day

The term "First Delivery Day" shall mean the first (1st) Business Day of the expiring month.

(v) First Notice Day

The term "First Notice Day" shall mean the fifth Business Day prior to the First Delivery Day.

(vi) Last Delivery Day

The term "Last Delivery Day" shall mean the seventh (7th) last Business Day of the expiring month.

EXHIBIT A

(vii) Last Notice Day

The term "Last Notice Day" shall mean five (5) Business Days prior to the Last Delivery Day.

(viii) Last Trading Day

The term "Last Trading Day" shall mean the tenth (10th) Business Day prior to the Last Delivery Day.

(ix) Local Delivery

The term "Local Delivery" shall mean a delivery made directly between the Deliverer and Receiver, rather than through the Clearing Organization, on such terms as may be mutually agreed to between the parties. All of the Rules shall continue to be applicable to a contract for cotton which is the subject of a Local Delivery, except to the extent that such rules are altered by mutual agreement of the parties with respect to such Local Delivery.

(x) Notice Day

The term "Notice Day" shall mean the Business Day the Delivery Notice is issued to the Receiver.

Rule 10.0[2]3. 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.

[REMAINDER OF RULE UNCHANGED]

Rule 10.0[3]4. 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 Delivery [~~n~~]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 of _____ 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 [~~f~~]First and [~~f~~]Last [~~d~~]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)~~(d) Grades and staples deliverable on contract shall be such as are listed in a Delivery [n]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 Delivery [n]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 Delivery [n]Notice [of delivery form], the ~~[form]~~ Delivery Notice 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 10.0[4]5. Contracts Binding Until Settled

All contracts for the future delivery of cotton shall be binding upon Clearing 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 10.0[3]4 are not to be fulfilled, or that the cotton is not to be delivered and received in accordance with said Rule.

Rule 10.0[5]6. 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 10.0[6]7. 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 (1st) Business Day following [1]Last [n]Notice [d]Day in an expiring month.

Rule 10.0[7]8. 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.

[REMAINDER OF RULE UNCHANGED]

Rule 10.0[8]9. Price Limits

(a) *Current Futures Month and Options*

[REMAINDER OF RULE UNCHANGED]

[Rule 10.09. Last Trading Day

~~The Last Trading Day in Cotton No. 2 Futures Contract is the tenth (10th) 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]~~ futures 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 minute ~~[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 (1st) day on which deliveries may be made is the first (1st) Business Day of the expiring month and the last delivery day is the seventh (7th) last Business Day of that month.]~~

Rule 10.1[2]1. 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 10.1[4]2. Designated Delivery Points

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

* * *

(b) In accordance with the provisions of Rule 10.0[3]4([d]c), 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 10.1[5]3. 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 10.1[6]4. Delivery Notices [of Delivery]

(a)(i) ~~[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.]~~ On or before 5:00 pm on the Business Day prior to the Notice Day, a Clearing Member with an open short Position wishing to make delivery of cotton under a Cotton No. 2 contract shall present to the Clearing Organization a Delivery Notice.

(ii) With respect to Delivery [n]Notices issued on the ~~[t]Last [n]Notice [d]Day~~, if the Government certificates have not been issued, the issuer may state his own classification on the ~~[n]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 ~~[n]Notice~~ stating "Delayed Certification".

(b) ~~[Every notice of delivery]~~ All Delivery Notices shall be issued and tendered [on the fifth (5th) Business Day prior to the day of delivery] no earlier than the First Notice Day and no later than the Last Notice Day. In determining Delivery [n]Notice dates and the Dates of [d]Delivery [days] the following limitations shall be observed:

(i) No Delivery [n]Notices [of delivery] shall be issued and no deliveries shall be made on any day that is not a Business Day [Saturdays or on holidays ordered by the Board,] subject to exception as covered by subparagraph (ii[i]) below.

~~[(ii) Last regular delivery day shall be the seventh (7th) last Business Day of the month.]~~

(ii[i]) When a special holiday is declared by the Board, the Board at the same time shall stipulate how Delivery [n]Notices and deliveries affected thereby shall be handled.

(i[v]ii) Every Delivery [n]Notice shall be tendered in accordance with the Rules and the Clearing Organization Rules.

~~[(iv) 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 holding short open Positions to tender the required Delivery [n]Notice(s) 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 Delivery [n]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 Delivery [n]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 Clearing Member receiving a Delivery [n]Notice forwarded by the Clearing Organization must accept it regardless of the period of time such [n]Notice may have been held by the Clearing Organization. Clearing Members having contracts open in the delivery month must keep their offices open for the purpose of receiving [such] Delivery [n]Notices or of completing such deliveries.~~

~~(ii) Should the office of a party to whom a Delivery [n]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)e] Each Clearing Member that accepts[or of] a Delivery [n]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 10.1[7]5. 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 10.1[8]6. Receiver's Notification [of the Holding of a Notice] and Demand Letter to Issuer

On or before 4:00 pm on the Notice Day, the Clearing Member receiving a Delivery Notice must furnish the notices specified below:

(a) to the Clearing Organization, in a form prescribed by the Clearing Organization, notice of the Clearing Member's intentions with respect to the handling of the EWRs that will be delivered pursuant to the Delivery Notice. Such notification shall specify whether the Clearing Member (1) will accept delivery of the EWRs from the Clearing Organization, (2) will be redelivering cotton during the delivery period and desires the Clearing Organization to hold the EWRs for that purpose or (3) will accept the EWRs directly from the Deliverer in a Local Delivery; and

(b) to the Clearing Member that issued the Delivery Notice, a Demand Letter including the deliverer's contract number, the Date of Delivery, the point of delivery, the number of bales in each contract, the notice price, where the documents are to be delivered and where duplicate samples are to be delivered.[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]

The written notifications specified in this Rule [to the issuer and to the Exchange] shall be made by hand delivery, 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] the Clearing Member receiving a Delivery [n]Notice to have [such] a Demand Letter [notification] timely filed with the Clearing Member that issued[er]the Delivery Notice, as above required, shall subject such Clearing 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 10.1[9]7. Reporting Receipts and Deliveries of Cotton

A Clearing Member receiving cotton for account of Customers and delivering cotton at the same time for account of other Customers shall file a demand on [him] itself in the manner and form prescribed by Rule[s] 10.14 and] 10.1[8]6, in order that a proper record may be kept.

Rule 10.[20]18. 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.[24]19. 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 10.2[2]0. Compression

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

Rule 10.2[3]1. 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 10.2[4]2. Invoicing and Grade and Staple Differences

(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) Premiums and discounts will be the USDA premiums and discounts adjusted in accordance with paragraphs (d) and (e) below for the specified Notice Day.

(c) 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 paragraphs (d) and (e) of this Rule.

(d)(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 (6th) 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.

(e)(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 (6th) Business Day prior to the Date 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 (6th) Business Day prior to the Date of Delivery for this micronaire range in the spot markets designated by the Secretary of Agriculture referred to in subparagraph (d)(i) above. If no such differences are available, the deduction under this provision shall be zero (0).

([b]f) The penalties as provided in Rule 10.3[7]3 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 (6th) 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 (6th) 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 (6th) 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 10.2[7]3. Location of the Cotton on Invoice

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

Rule 10.2[8]4. Time of Delivery of Invoice and Documents

(a) ~~[The Deliverer shall transfer title (EWR) to the Clearing Organization 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.]~~ On or before 12:00 pm on the Business Day prior to the Date of Delivery, the Deliverer shall:

(i) transfer ownership of the EWRs to the Clearing Organization; and

(ii) provide the Clearing Organization with a written summary of the invoice charges for each Receiver.

(b) On or before 2:00 pm on the Date of Delivery or 2:30 pm if it is the Last Delivery Day, the Deliverer shall provide each Receiver with two (2) copies of the invoice and two (2) copies of the tag list.

~~[(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 (a) 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)c] Delivery of the invoice and documents set forth in this Rule shall be made in accordance with the Demand Letter described in Rule 10.16(b) [New York unless otherwise mutually agreed upon].~~

~~[(f)d(i) The delivery of invoice and/or documents required by paragraphs (a) through [(e)c] of this Rule, AFTER [2:00 P.M. on day of delivery (2:30 P.M. on last delivery day)] the times specified in paragraphs (a) through (c) 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]~~ Clearing Members.

(ii) Failure to deliver documents required by paragraphs (a) ~~[through (e)]~~ and (b) 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 10.4~~[4]0~~.

~~[(g)e]~~ Delivery of the documents required by paragraphs (a) ~~[through (e)]~~ and (b) of this Rule, and payment in accordance with Rule 10.25 of the invoice charges, shall be considered a liquidation of the futures contract against which such documents and payment ~~[they]~~ are tendered and made, respectively.

Rule 10.2~~[9]5~~. Delivery and 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.]~~ (a) Except in the case of a delivery made by Delayed Certification, delivery of Cotton No.2 may be made on the First and Last Delivery Day and any Business Day in between the First and Last Delivery Day. Except in the case of a Local Delivery, all such deliveries shall be made by the transfer of EWRs through Clearing Members that have executed provider agreements with a Cotton EWR provider.

(b) Except in the case of a Local Delivery or a delivery made by Delayed Certification, on the Date of Delivery at 9:00 a.m., the Clearing Organization shall debit the account designated by the Receiver for delivery purposes and credit the account designated by the Deliverer for such purposes for the full amount of the invoice charges detailed in the invoice summary provided to the Clearing Organization pursuant to subparagraph (a)(ii) of Rule 10.24. In accordance with the Receiver's notification provided to the Clearing Organization as required by Rule 10.15, the Clearing Organization will either (i) transfer ownership of the EWRs to the Receiver, or (ii) hold the EWRs so that the Receiver may redeliver the EWRs during the delivery period.

Rule 10.~~[30]26~~. 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 Date of ~~[d]~~Delivery ~~[date]~~ set forth in the Delivery ~~[n]~~Notice ~~[of delivery]~~ (the "stated delivery date") as provided in Rule 10.1~~[6]4~~(b), the procedure for delivery set forth in Rule 10.1~~[6]4~~ shall be revised as follows and delivery shall take place on a later date (the "delayed delivery date") 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 ~~[W]~~warehouses when the classing of cotton is completed. The ~~[W]~~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 (including the day on which the warehouse issues notification that EWRs are available) to complete delivery in accordance with the following chart:

Days

- 1-2 Notification by [W]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 and the Clearing Organization 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 or before 12:00 p.m. on the Business Day prior to the delayed delivery date, the Deliverer shall :

(1) transfer ownership of the EWRs to the Clearing Organization; and

(2) provide the Clearing Organization with a written summary of the invoice charges for each Receiver.

(vii) On or before on the delayed delivery date, the Deliverer shall provide each Receiver with two (2) copies of the invoice, [and]two (2) copies of the tag list, and [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.

(c) On the delayed delivery date, at 9:00 a.m., the Clearing Organization shall debit the account designated by the Receiver for delivery purposes and credit the account designated by the Deliverer for such purposes for the full amount of the invoice charges detailed in the invoice summary provided to the Clearing Organization pursuant to subparagraph (a)(vi) of this Rule, and transfer ownership of the EWRs to the Receiver.

Rule 10.[34]27. Review

All cotton tenderable under the 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 10.28 [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.

[REMAINDER OF RULE UNCHANGED]

Rule 10.[33]29. Deliverer's and Receiver's Guide

(a) The list of bale numbers (tag list) required under Rule 10.2[8]4 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 (3rd) copy of the tag list shall accompany the samples delivered under Rule 10.[32]28.

(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 (3rd) copy of the tag list does not accompany the samples delivered under Rule 10.28[30] and claim for such non-delivery has been filed within fifteen (15) Business Days from the [day] Date of [d]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 Delivery 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 Delivery 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~~] Exchange. If a Receiver fails to issue a Sample Instruction Letter on or before the [~~day of delivery~~] Date of Delivery, the Primary Deliverer's Clearing Member shall be relieved of all responsibility with regard to the duplicate samples after fifteen (15) [b]Business [d]Days following the [d]Date of [d]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 Delivery 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) [b]Business [d]Day of the month following the delivery month.

(f) All matters with respect to duplicate samples shall be governed by Rule 10.[32]28 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 Delivery Notice [of Tender] during the delivery period and the initial Owner of the duplicate samples.

2. Retenderer. A Stopper of a Delivery Notice [~~of Tender~~] who retenders the contract during the same delivery period in which he stopped the [~~n~~]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 Delivery Notice [~~of Tender~~] who retenders the contract during the same delivery period in which he stopped the [~~n~~]Notice. The Interim Receiver takes possession and assumes ownership of the duplicate samples.

B. Ultimate Receiver. A Stopper of a Delivery Notice [~~of Tender~~] who does not retender the contract during the same delivery period in which he stopped the [~~n~~]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 Delivery 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 Delivery 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 Delivery 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 of Receiver, via his Delivery 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 July 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 Delivery 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 (2nd) [~~b~~]Business [~~d~~]Day following the [~~d~~]Date of [~~d~~]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 (2nd) [b]Business [d]Day following the [d]Date of [d]Delivery.

Rule 10.34[30]. 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 10.31 [5]. 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 gin universal density [standard compression].

Rule 10.32[6]. 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 10.33[7]. Penalty on Certificates After Third Month

(a) Cotton remaining under certification for:

[REMAINDER OF RULE UNCHANGED]

Rule 10.34[8]. 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.

[REMAINDER OF RULE UNCHANGED]

Rule 10.35[9]. 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 10.36[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 10.37 [44]. 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~~] Cotton Committee.

(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~~] Cotton Committee.

Rule 10.38[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~~] Cotton Committee if Level Three or Claims by any one (1) Customer in excess of fifty thousand dollars (\$50,000).

Rule 10.39[43]. Penalties for Frivolous Claims

Any Claims submitted to the Exchange which are determined by the [~~Board of Governors~~] Cotton Committee 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]40. Defaults in Delivery

(a) A Clearing Member shall be in default who shall fail to issue a Delivery [n]Notice by [1]Last [n]Notice [d]Day and/or fails to make delivery [~~and pay~~] against said [n]Notice as required in the Rules, in fulfillment of any sale contracts outstanding in [his] its name after trading in the current month has ceased; or when the Deliverer fails to tender to the [buyer] Clearing Organization, before [~~three o'clock~~] 4:30 p. m. (in

the case of a Late Delivery authorized under Rule 10.24(d)(i) or 12:00 p.m. (in all other cases) [~~New York time~~] on the [~~specified~~] Business [~~d~~]Day prior to the Date of [~~d~~]Delivery, EWRs, with the appropriate classing memorandum representing the minimum net weight of 49,500 pounds of cotton.

(b) A Clearing 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 10.2[9]5.

(c) Defaults shall be reported to the Cotton Warehouse and Delivery Committee by the Clearing Member that [~~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 Clearing Member who

(i) tenders EWRs for cotton which does not conform to the cotton set forth in the Delivery [~~n~~]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 Delivery [~~n~~]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 Delivery [~~n~~]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 Clearing Member who issued a Delivery [~~n~~]Notice [~~of delivery~~] on delayed certification in accordance with the Rules; provided the grade, staple and type set forth in said [~~n~~]Notice is in accordance with his best information and belief.

(f) The foregoing provisions relating to bale variance shall not apply to a Clearing Member who issues a Delivery [~~n~~] 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 Delivery [~~n~~]Notice [~~of delivery~~]. In the event the number of bales actually delivered deviates by more than 10% from the number set forth in the Delivery [~~n~~]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 Clearing Member [~~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 Clearing Member [~~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 Clearing Member from which the EWRs were transferred.[~~seller.~~] Said Clearing Member [~~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 Clearing 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 Clearing Member of a notice of delivery for cotton with respect to which he does not have EWRs, unless the Clearing Member issues the Delivery [n]Notice pursuant to one of the provisos of Rule 10.1[6]4 (b)(iv);

(ii) the delivery of non-conforming cotton, unless the Delivery [n]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 Delivery [n]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 Delivery [n]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 Delivery [n]Notice [of delivery] as provided in Rule 10.1[6]3, 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 Delivery [n]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 a Delivery [n]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 Clearing Member affected.

(i)(i) An appeal may be taken to the Cotton Committee [~~Board of Governors~~] by any Clearing 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~~] such Clearing Member desires to appeal therefrom. The Secretary of the Exchange shall thereupon give notice to each affected Clearing Member to submit his argument on said appeal to the Cotton Committee [~~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. No member of the Cotton Warehouse and Delivery Committee who participated in the consideration of a Claim before that committee shall participate in the Cotton Committee's review on appeal of the decision issued with respect to such Claim. The [~~Board of Governors~~] Cotton Committee 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~~] Cotton Committee.

Rule 10.4[5]1. Clearing Member Reports to Clearing Organization

(a) All Clearing Members 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 contracts which are open on the Clearing 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 first Notice Day of any delivery month, and on each Business Day during the notice period, Clearing Members shall report the number of purchases and sales in the delivery month executed that day and the number of cotton contracts which are open on the Clearing 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.

[REMAINDER OF RULE UNCHANGED]

Rule 10.4[6]2. 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.