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BY ELECTRONIC TRANSMISSION

Submission No. 18-368
June 27, 2018

Mr. Christopher J. Kirkpatrick
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 Cotton Resolution No. 2 (Smith Doxey Classing) - Submission Pursuant to Commodity Futures Trading Commission Regulation 40.4(b)(5)

Non-Material Agricultural Rule Change

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (the “Act”), and Commodity Futures Trading Commission (“Commission”) Regulation 40.4(b)(5) and 40.6(a), ICE Futures U.S., Inc. (“IFUS” or “Exchange”) hereby self-certifies the amendments to Resolution No. 2 to Chapter 10 of the Exchange’s Rules set forth in Exhibit A. The amendments: (1) widen the allowable micronaire range for cotton classed under Smith Doxey (“SD”) registration; and (2) allow for registration of cotton that has been classed through “Review Smith Doxey” procedures. As discussed below, the rule change is non-material as it expands the availability of classification methods for delivering shorts without impacting the quality standards for cotton delivered against the contract or the value of cotton delivered against the contract.

Background on Cotton No. 2 Classing Procedures

The IFUS Cotton No. 2 Rules provide for two different processes by which bales of cotton may be made tenderable against the futures contract, both of which require that the bales be stored in Exchange licensed warehouses and that the relevant bale qualities be determined by the USDA classing service to meet the contract’s deliverable quality specifications. In the original process (known as “Certified” or “Cert” Classing), a sample is taken from the bale at the

licensed warehouse and subsequently classed by USDA; bales that meet the contract’s quality specifications are marked as tenderable by the USDA, and bales that fail to do so are marked as non-tenderable and may not be used in an Exchange delivery.

In 2013 the Exchange added a second process, known as SD registration. In this process a bale can be registered by USDA as tenderable based upon a prior USDA classing that is performed using a sample cut from each bale at the gin at the time the bale is created. At the time, the Exchange’s justification to introduce a new classing system was to “permit more timely and efficient certification of bales, thereby allowing owners of deliverable quality commercial cotton to put such cotton into certified stocks more quickly than under current provisions...[t]he Exchange believes this will ensure a more orderly liquidation in expirations with tight supplies of certified stocks.” (See IFUS Submission 13-20). Since the SD registration process was put in place it has become the predominant method used to make bales tenderable under the contract in each of the past several crop seasons, and there has been no negative feedback received from general market participants or from regular physical delivery participants about the impact of the process on the futures contract.

The amendments to Cotton Resolution No. 2 revise the SD registration provisions in two ways. First, the amendments expand the availability of SD classification by widening the micronaire range for SD registration from 3.7 - 4.7 inclusive, to 3.6 - 4.8 inclusive. Second, the amendments allow for registration of cotton that has been classed through Review Smith Doxey procedures.

Expansion of Micronaire Range

The Exchange took a conservative approach with the implementation of SD registration in 2013. Having no experience with SD Classing and not wanting to compromise the standard of the cotton delivered against the contract, the Exchange narrowed the quality standards for bales submitted through SD registration. The relevant Contract standards and the more restrictive SD quality ranges follow below:

	<u>Contract Range</u>	<u>Smith Doxey Permitted Range</u>
Color	11, 21, 31, 41, 51, 12, 22 and 32	11, 21, 31, 41 and 51
Fiber Length/Staple	33 and higher Staple	34 and higher Staple
Leaf/Trash	1, 2, 3, 4 and 5	1, 2, 3 and 4
Strength	25 gpt and higher	27 gpt and higher
Micronaire	3.5 to 4.9	3.7 to 4.7

Now, with 5 years SD registration experience, both the Exchange and the Cotton Committee feel comfortable expanding the micronaire range from 3.7 - 4.7 inclusive, to 3.6 - 4.8 inclusive. As previously mentioned, SD registration has become the classing procedure of choice by market participants and the Exchange believes it will be beneficial to expand the SD micronaire range so that it more closely aligns with the contract standards for Cert Classing.

Furthermore, USDA staff has expressed no objection to expanding the micronaire registration range as proposed, noting that micronaire is one of the most reproducible quality parameters and also one that remains stable over the life of the bale. Furthermore, the Exchange believes that the amendment is a non-material rule change to the Cotton No. 2 Futures Contract because it does not impact any of the economic characteristics of the contract, i.e. the deliverable grade. The micronaire range for certification through SD Registration (3.6 to 4.8) is still within the range for delivery through Cert Registration (3.5 to 4.9). As such, the standard for cotton deliverable against the contract is not being changed.

Review Smith Doxey Classing Procedures

The current text of Cotton Resolution No. 2 expressly allows for registration using only “Original” Smith Doxey classing results. The USDA reads this language as prohibiting the registration of a bale if the bale has subsequently undergone a second USDA Smith Doxey classing, which is known as “Review Smith Doxey” Classing. Review classing is typically used when the “Original” Smith Doxey Classing results for one or more bales are not seen as consistent with the classing results of other bales from the same gin run. It is essentially a re-check of the bales using the same procedures as Original Smith Doxey Classing.

The amendments to Cotton Resolution No. 2 will provide clarity in the aforementioned Cotton Resolution No. 2 by expressly allowing bales to be registered through Review Smith Doxey classing. Given that the same procedures are used, the Exchange sees no reason not to permit Review Smith Doxey Classing. In addition, USDA staff has indicated that they do not see any negative consequences by permitting the use of Review SD classing, which is typically used for a very small number of bales each season¹, for registration of bales.

The Exchange believes this amendment is a non-material change to the Cotton No. 2 rules as it makes clear that all bales classed using Smith Doxey procedures – whether “Original” or “Review” – are subject to the same treatment. As such, there is no substantive change to the standards or certification process for cotton certified as deliverable against the futures contract. Furthermore, the Exchange points out that the adoption of SD registration in 2013 was certified as a non-material amendment to the terms and conditions of the Cotton No. 2 contract (See ICE Futures U.S. Submission No. 13-20). Like the adoption of SD registration itself, Review Smith Doxey Classing adds an additional efficient method for certification which help to ensure timely certification of cotton and more orderly liquidations in expirations with tight supplies of certified stocks.

Product Committee

The Exchange notes that the Cotton Committee vote to recommend adoption of each of the above amendments was unanimous, and included a determination that each amendment would not have any impact on the value of the contract or an Exchange delivery invoice, and therefore should be implemented upon completion of any required systems work by the Exchange and the USDA.

¹ The USDA processed approximately 1,775 Review Smith Doxey Classing results in 2016/2017.

Certifications

The Exchange is not aware of any opposing views and certifies that the amendments to Cotton Resolution No. 2, which will become effective on October 1, 2018, comply with the requirements of the Act and the rules and regulations promulgated thereunder. In particular, the amendments comply with core principle 3 (Contracts not Readily Subject to Manipulation). As stated above, the amendments do not change the quality standards or value of cotton delivered against the contract. The amendments provide less restrictive means for classing through Smith Doxey procedures. The Exchange further certifies that concurrent with this filing a copy of this submission was posted on the Exchange's website, which may be accessed at (<https://www.theice.com/futures-us/regulation#Rule-Filings>).

If you have any questions or need further information, please contact me at 212-748-4021 or at jason.fusco@theice.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason V. Fusco". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jason V. Fusco
Assistant General Counsel
Market Regulation

Enc.

cc: Division of Market Oversight

EXHIBIT A

(In the text below, additions are underscored and deletions are lined through.)

No. 2 - Use of [~~Original~~] Smith Doxey Classing² Data to Register Bales As Tenderable

In addition to the inspection and sampling procedures as provided in Exchange Rules 10.27A and 10.27B, cotton stored in an Exchange Licensed Store may be submitted to USDA for registration as tenderable against the Cotton No. 2[®] Futures Contract at any time between the [~~Original~~] Smith Doxey classing date of the bale and the close of business on the one hundred and eightieth (180th) calendar day after the classing date of the bale, subject to the quality limitations and administrative procedures below. In the event of any inconsistency between this Resolution and any other provision of the Rules, this Resolution shall prevail.

Once a bale has been registered as tenderable based upon its [~~Original~~] Smith Doxey classing data pursuant to this Resolution, it shall be considered to be certified cotton for purposes of deliveries under the Rules.

Limitations:

In order to be eligible for registration as tenderable based upon [~~Original~~] Smith Doxey classing data, a bale must be stored in an Exchange licensed warehouse, and must meet the quality and weight requirements of Rule 10.03, the packaging bands and bagging requirements of Rule 10.19 and the compression requirements of Rule 10.20.

In addition, the USDA [~~Original~~] Smith Doxey classing data for the bale must meet the following standards for each of the respective qualities below:

Color – White Grades, USDA codes 11, 21, 31, 41 and 51
Leaf – USDA codes 4, 3, 2 and 1
Micronaire – 3.6[7] to 4.8[7], inclusive
Strength – 27 grams per tex and higher
Fiber Length – 1.03 dig and longer

No bale may be submitted for registration as tenderable based upon [~~Original~~] Smith Doxey classing data on and after the 181st calendar day after the date of [~~Original~~] Smith Doxey classing by the USDA, and a bale may only be submitted for such registration once.

Procedures:

In order to seek registration of a bale as tenderable based upon [~~Original~~] Smith Doxey classing, the warehouse operator must first submit to the Exchange a request for a lot number, and subsequently submit to the USDA a request for registration of the bale, in a form prescribed by the Exchange and the USDA,

² For the purposes of this Resolution, “Smith Doxey Classing” shall include both Original and Review Smith Doxey Classing pursuant to USDA regulations and procedures, and for any bale that has undergone both Original and Review Smith Doxey classing any reference to the Smith Doxey classing results shall mean the Review Smith Doxey classing results and any reference to the Smith Doxey classing date shall mean the date of the Review Smith Doxey classing.

stating the number of bales included in the request for registration, the Exchange lot number and the gin code/gin tag number of each such bale and such other information as may be required by the Exchange and/or the USDA.

Upon confirmation by the USDA that a bale for which registration as tenderable based upon ~~[Original]~~ Smith Doxey classing has been made meets the quality standards above for such registration, the EWR record for the bale shall be marked as tenderable as of the date of such registration, and the bale shall be included in certificated stock.

Weighing:

The official delivery weight for bales that qualify for certificated classification based upon ~~[Original]~~ Smith Doxey classing data shall be the most recent weight determined by the licensed warehouse operator as input into the EWR record. Such bales shall be subject to weight allowances provided for in Rule 10.18(b) and the weight penalties provided for in Rule 10.33. Weight penalties provided for in Rule 10.33 will accrue using the certification registration date (inclusive), and weight allowances provided for in Rule 10.18(b) will accrue using the certification registration date or the date of weighing by the licensed warehouse operator, whichever is more recent.

Delayed Certification:

Bales entered into certificated stocks based upon ~~[Original]~~ Smith Doxey classing data may not be used to issue Delivery Notices under the delayed certification provisions of Rules 10.14 and 10.26.

Invoicing:

For purposes of calculating invoices under Rule 10.22 for bales entered into certificated stocks based upon ~~[Original]~~ Smith Doxey classing data only, the staple length of the bale shall be determined based upon the USDA calculation of the length of the fiber expressed in dig terms, as shown below:

Dig Measurement From:	Invoiced as Staple:
1.03 to 1.05	33 (1 and 1/32nd of an inch)
1.06 to 1.08	34 (1 and 2/32nds of an inch)
1.09 to 1.11	35 (1 and 3/32nds of an inch)
1.12 to 1.14	36 (1 and 4/32nds of an inch)
1.15 and higher	36 (1 and 4/32nds of an inch)

In the interest of clarity, for all other certified cotton the Staple used for invoicing shall be the staple as shown in the EWR record for the bale based upon USDA certified classing of the bale.