


ICE FUTURES U.S.
55 East 52nd Street
New York, NY 10055

BY ELECTRONIC TRANSMISSION

Submission No. 16-164
December 28, 2016

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Non-Material Agricultural Rule Change: Amendments to various Cotton No. 2 Futures Rules - Submitted pursuant to Regulation 40.4(b)(5) and Regulation 40.6(a)

Dear Mr. Kirkpatrick:

Pursuant to Regulations 40.4(b)(5) ICE Futures U.S., Inc. (“IFUS” or “Exchange”) submits, by written certification, amendments to various Cotton No. 2 Futures Rules, as set forth in Exhibit A and discussed below individually. The Exchange believes that each amendment reflects a non-material change to the terms and conditions of the Cotton No. 2[®] contract, and as such, may be submitted pursuant to Regulation 40.6(a).

The amendments eliminate a dated practice no longer followed in the commercial industry, add clarity to several other Exchange practices and procedures, and delete obsolete provisions that are no longer applicable. The changes arose from a review of the current Cotton No. 2 Rules, which was initiated by the Exchange and conducted with the help of an industry expert who served as an outside consultant. Each amendment was subsequently reviewed and, in certain instances, revised by the Exchange’s Cotton Committee over three separate meetings. The Cotton Committee vote to recommend these amendments was unanimous, as was the vote of the Exchange’s Board of Directors to adopt them.

The Cotton Committee also voted to recommend implementation of the amendments with an effective date as early as is possible following filing with the Commission. The Committee’s recommendation to implement the amendments on contract months with outstanding open interest was taken after reaching a unanimous consensus that the amendments were not material. The Committee found that the amendments do not change the qualities of cotton allowed in delivery or in any way impact the value of the contract.

The Exchange’s Board of Directors also determined that the amendments did not materially change the terms and conditions of the Cotton No. 2 contract and voted unanimously to implement them immediately to contracts with outstanding open interest. To that end, the Exchange intends to make the amendments effective on January 12, 2017 for the March 2017 delivery month.

A description of the amendments with accompanying explanations why the Exchange believes the changes are non-material follows below.

I. AMENDMENTS RELATED TO THE ELIMINATION OF DUPLICATE SAMPLES

Rule 10.28 (Duplicate Samples)

Rule 10.28 currently requires a deliverer of Certification classed cotton to provide duplicate bale samples to the receiver. After extensive consultation with industry participants, the Exchange is eliminating the requirement to deliver duplicate samples for Certification classed cotton and is deleting Rule 10.28 in its entirety. Members of the trade have opined that the use of duplicate samples by receivers of Cotton No. 2 futures deliveries has declined over time, to the point that the costs of creating, storing and transporting the bale samples is greater than the benefit they provide in practice. It is also the Exchange's understanding from communications with industry participants that duplicate bales are not commonly provided or required in commercial practice.

In addition, duplicate samples are not currently required for the majority of Exchange deliveries. The duplicate sample rules do not apply to bales made deliverable against the Cotton No.2 Futures Contract under the Smith Doxey classing provisions adopted several years ago. The industry working group that developed the Smith Doxey classing provisions considered eliminating duplicate samples for all bales at that time, but deferred consideration of this change until experience had been gained with the new provisions. Over the past two calendar years, Smith Doxey bales accounted for approximately 64% and 34% of all bales made deliverable in the year. Furthermore, 68% of the bales delivered against the contract through the end of November 2016 were Smith Doxey classed.

The elimination of the requirement to deliver duplicate samples for Certification classed cotton is a non-material change to the terms and conditions of the contract. The elimination of the requirement will have no effect on the economic value of existing positions as duplicate samples are not common in current commercial use. A receiver's ability to resell Exchange cotton will not be impacted. Furthermore, the receiver in an Exchange delivery has little expectation and no guarantee to receive duplicate samples. They are not currently provided in the majority of Exchange deliveries. As such, the change will not impact the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

Rules 10.02, 10.16, 10.24, 10.19 and Cotton Resolution No. 2.

Ancillary amendments to Rule 10.16 and Cotton Resolution No. 2 delete references to duplicate samples and an amendment to Rule 10.02 moves the definition of a "Claim" from Rule 10.28 to Rule 10.02. IFUS Rule 10.29 is also being deleted in its entirety. The rule contains provisions related to duplicate samples [it also references redundant deadlines for filing claims which are more appropriately stated in Rules 10.34 and 10.40; with the sole remaining provision in 10.29 being moved into Rule 10.24(b)].

II. AMENDMENTS INSTITUTING DEADLINES FOR CERTAIN CLAIMS

Rule 10.34 (Penalty on Age of Cotton) and Rule 10.36 (Payment of Invoicing Errors)

Rule 10.34 sets forth the age penalties for cotton delivered against the Cotton No. 2 Futures Contract and Rule 10.36 sets forth the methodology for calculating interest and the timeline for payment of cotton delivered against the contract. Amendments to these two rules establish a limitations period to guard against the spoliation of evidence available at or near the time of delivery and to eliminate stale claims. A 15 business day deadline to make claims for damages is being incorporated into both rules.

The institution of the deadlines to assert claims are non-material changes to the terms and conditions of the contract. The changes are purely procedural and not substantive in any way. Parties will have notice of the new procedural requirements and obligations well in advance of the March 2017 delivery for which the changes are being implemented. As such, the amendments will have no effect on the economic value of existing positions and will not impact the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

III. CLARIFYING AMENDMENTS RELATED TO DELIVERY WEIGHT

Rule 10.18 (Weight)

In order to clarify the use of the term “net weight” throughout Chapter 10, the amendment to Rule 10.18 creates a new defined term “Net Weight” from the existing methodology used to calculate delivery weight that is set forth in the Rule.

Rules 10.06 (Unit of Trading) and 10.17(Weighing)

Rules 10.06 and 10.17 pertaining to units of trading and weighing (respectively) are being amended to add explicit references to the newly defined term “Net Weight”. In addition, redundant text consistent with the definition of Net Weight in Rule 10.18 is being deleted from Rule 10.06.

Rule 10.22 (Invoicing Grade and Staple Differences)

Rule 10.22 is being amended to more clearly state the Exchange’s current process for calculating the invoice impact of grade and staple differences. This calculation is performed using the sum of the Net Weights of a bale, less the sum of all applicable weight allowances in accordance with Rule 10.18. This process was also confirmed as the current actual industry practice through a survey of regular delivery participants.

Rule 10.34 (Penalty on Age of Cotton)

An additional amendment to Rule 10.34 clarifies the Exchange’s current process for calculating the impact of age penalty on an invoice. Amendment expressly provides that the bale weight to be used in calculating the impact of the age penalty on an invoice is the Net Weight of the bale before taking into account any weight allowances, in accordance with Rules 10.18 and 10.33. This treatment was also confirmed as standard practice through a survey of regular delivery participants.

The above amendments related to delivery weight are non-material changes to the terms and conditions of the contract. The changes to Rule 10.06, 10.17, 10.18, 10.22 and 10.34 are not substantive. The amendments more clearly define the current procedures by defining a term that describes the existing methodology and incorporating references to such term in relevant provisions of the rules. In addition, the amendments also articulate the current procedures used by the Exchange for invoicing age penalty and calculating grade and staple difference. The amendments do not alter current practice and will have no effect at all on the economic value of existing positions, or impact on the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

IV. AMENDMENTS TO INVOICING RULES

Rule 10.24 (Time of Delivery of Invoice and Documents)

Amendments to Rule 10.24, which covers invoicing, deletes the requirement that invoice information be provided in written form and replaces it with a general requirement that invoice information be provided in a format acceptable to the Clearing Organization. This procedural amendment is being made in order to facilitate the use of email and other electronic communication methods.

Rule 10.24(b) is being amended to add text stating what is required to be included in the tag list. This information was previously listed in Rule 10.29. As explained above, this amendment is being made because Rule 10.29 is being deleted in its entirety. An amendment to Rule 10.24(d)(i) adds express language making the penalty for the late submission of documents payable to the Clearing Organization, which is the current practice.

The above amendments to Rule 10.24 are non-material changes to the terms and conditions of the contract. The amendments are not substantive. They change a procedural requirement concerning the form of invoice, incorporate requirements currently set forth in another rule as part of a rule reorganization and expressly state a current practice to better inform market participants. As such, these amendments will not change the economic value of existing positions, or impact the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

V. AMENDMENTS DELETING OBSOLETE PROVISIONS

Rule 10.34 (Penalty on Age of Cotton)

Additional amendments to Rule 10.34 delete obsolete provisions distinguishing between cotton certified before and after October 15, 2002. These provisions necessary to implement the age penalty at the time it became effective. As there is no longer any cotton that was certified prior to 2002 available for delivery, such provisions are now meaningless and are being deleted.

Rule 10.10 (Execution of Orders on the Close on Last Trading Day)

Rule 10.06 pertains to the execution of orders via open outcry during the close on the last trading day for an expiring delivery month. Open outcry trading is no longer supported by the Exchange. Accordingly, the provision has become obsolete and is being deleted.

Amendments to Cotton Resolution No. 1 - Warehouse Requirements for the Storage of Exchange Cotton

Amendments to Resolution No. 1 delete provisions requiring a licensed warehouse operator offering storage rates lower than those published by the Exchange to notify the Exchange of such lower rates and make them available to any other owner of Certificated cotton in the same Store. The Exchange believes that this requirement stems from a time when maximum storage rates were determined by the Exchange itself as opposed to the current practice of such rates being set by warehouse operators. Furthermore, no other Exchange futures contract has such a requirement

The above amendments deleting obsolete rule provisions are non-material changes to the terms and conditions of the contract. These provisions are no longer in operation and, as such, will have no effect at all and certainly will not change the economic value of existing positions, or impact the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

VI. OTHER AMENDMENTS

Amendments to Rules 10.22 (Invoicing and Grade and Staple Differences)

It is commonly known in the cotton industry that the term “Grade” as used in the Exchange’s rules refers to both Color and Leaf Grade. In order to provide more clarity, the amendment to Rule 10.22 adds language expressly stating that “Grade” includes both Color and Leaf Grade.

Rule 10.36 (Payment of Invoicing Errors)

An additional amendment to Rule 10.36 also adds a clarifying statement with regard to interest owed in connection with damages for invoicing errors. The amendment provides that any interest that may be owed as damages under the current rule is payable to the party to whom the invoicing error amount is owed. This is the current practice followed by the Exchange.

Amendments to Cotton Resolution No. 2 - Use of Smith Doxey Classing Data to Register Bales as Tenderable

Amendments to resolution No. 2 provide that the later of the date of registration and the date of weighing by a licensed warehouse operator shall be used to determine any applicable weight allowances. The amendment conforms the weight allowance provisions of the Resolution with the provisions of Rule 10.18(b), thereby, providing for consistent use of the most recent weight date in calculating any weight allowances applicable under 10.18(b).

The above amendments simply clarify existing practices under the Cotton No. 2 rule, where such practices are vague or not clearly defined. The amendments are not material changes to the terms and conditions of the contract as they codify existing practices and, as such, will have no effect at all and certainly will not change the economic value of existing positions, or impact the decision of a reasonable trader to either buy or sell the contract or to make or take delivery through the Exchange.

The Exchange certifies that the amendments, which will become effective on January 12, 2017, for the March 2017 delivery month, comply with the Commodity Exchange Act, as amended, and the regulations thereunder. Specifically, the amendments comply with designated contract market core principle 2 (Compliance with Rules), 3 (Contracts not Subject to Manipulation) and 7 (Availability of information). The amendments eliminate a dated practice no longer followed in the commercial industry. This aligns the contract with the industry practice, making it less subject to manipulation. Consistent with the objectives of core principles 2 and 7, to provide better information about the rules to market participants, the amendments also clarify several practices and procedures related to certification and delivery of cotton against the Cotton No. 2 futures contract. Finally, the amendments delete obsolete provisions that are no longer applicable. The Exchange is not aware of any substantive opposing views to the amendments.

The Exchange further certifies that concurrent with this filing a copy of this submission was posted on the Exchange's website 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,



Jason V. Fusco
Assistant General Counsel
Market Regulation

Enc.

EXHIBIT A

[in the text additions are underscored and deletions overstruck]

Exhibit A

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

ICE Futures U.S.[®], Inc.

COTTON NO. 2[®] RULES

FUTURES

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) Claim

The term “Claim” shall mean the assertion of a default in delivery or the delivery of nonconforming cotton.

(ii) 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; provided, however, that if the Date of Delivery is a bank holiday, the Date of Delivery shall mean the next Business Day that is not a bank holiday.

(iii) 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.

(iv) EWR

The term “EWR” shall mean the electronic warehouse receipt record created by a warehouse operator with respect to cotton stored in one (1) of its warehouses, which record is reflected in the data base maintained by a Cotton EWR Provider designated as such by the USDA.

(v) First Delivery Day

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

(vi) First Notice Day

The term “First Notice Day” shall mean the fifth (5th) Business Day prior to the First Delivery Day.

(vii) Last Delivery Day

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

(viii) Last Notice Day

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

(ix) Last Trading Day

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

(x) 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 Local Delivery.

(xi) Notice Day

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

Rule 10.06. Unit of Trading

The unit of trading shall be based on a ~~N[et]~~ W[eight], as defined in Rule 10.18, of fifty thousand (50,000) pounds, a variation therefrom of one percent (1%) more or less 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 10.10 ~~Reserved.~~ 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 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 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 10.16. Receiver’s Notification 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, and where the documents are to be delivered~~[and where duplicate samples are to be delivered]~~.

The written notifications specified in this Rule shall be made by hand delivery, or facsimile transmission or E-mail. Failure on the part of the Clearing Member receiving a Delivery Notice to have a Demand Letter timely filed with the Clearing Member that issued 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 10.17B. Weighing

(a) All cotton submitted for inspection shall be tagged with a triplicate numbered tag and weighed by a duly licensed state or federal weigher or their designee.

(b) Loose cotton taken from the bales in process of inspection shall not be weighed with the bale; such loose cotton, as well as the trimmings accumulated in the preparation of the samples, shall be the property of the owner ordering the inspection. Upon completion of the sampling and weighing, the weight of such loose cotton shall be ascertained by the weigher, and be noted by him in his report.

(c) The licensed warehouse operator shall input onto the electronic warehouse receipt (“EWR”), the official weight ascertained by the weigher, i.e., the gross weight (scale weight), actual tare weight (weight of bagging and ties, and patches, if any), and the ~~N[et]~~ W[ei]ght. (See Rules 10.18 and 10.19).

(d) Whenever cotton is reweighed, the new weight and the date of the weighing shall be entered onto the EWR.

Rule 10.18. Weight

(a) The official delivery weight of a bale shall be the Net W[ei]ght 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%) more or less 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 (1st) month to be counted, in computing this allowance, shall be the next month following the month in which the cotton was weighed.)

Rule 10.22. Invoicing and Grade and Staple Differences

(a) In the case of cotton being tendered against the Cotton No. 2 Futures Contract, ~~[it]~~ the net grade and staple differences (i.e., premiums and discounts) for a lot 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 inch (34), micronaire 3.5 to 4.7, Grams Per Tex of twenty-five (25.0) or higher 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 (calculated as the sum of the Net Weights of the bales in the lot ~~[deliverable weight]~~ less the sum of the weight allowance applicable to the bales as provided in Rule 10.18) 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) Color Grade, leaf grade, staple and micronaire differences for deliveries on the Cotton No. 2 Futures 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 all cotton with a color grade of Strict Low Middling White (41), leaf grade 4, staple length of 1-1/16 inch (34), Micronaire 3.5 to 4.7, and Grams Per Tex of twenty-five (25.0) or higher. 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 Date 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, 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. An addition shall also be made for each bale having a staple of one and four 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).

(f) The penalties as provided in Rule 10.33 will be arrived at by applying to these weight penalties, respectively, the grade and staple differences applicable on the day of tender.

Rule 10.24. Time of Delivery of Invoice and Documents

(a) 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 in a format acceptable to the Clearing Organization.

(b) On the Business Day prior to the Date of Delivery before 2:00 pm 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, which must show the name of the warehouse, location, contract number, bale numbers, deliverable weights, as well as micronaire reading, strength in grams per tex, color and leaf grades and staples of cotton tendered, and for any bales registered as deliverable under the Smith Doxey provisions of Resolution No. 2 the staple length in dig terms; for purposes 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. If this information is provided via email only one copy shall be provided.

(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).

(d)(i) The delivery of invoice and/or documents required by paragraphs (a) through (c) of this Rule, AFTER 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 to be paid to the Clearing Organization, 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 Clearing Members.

(ii) Failure to deliver documents required by paragraphs (a) and (b) of this Rule without written permission by 4:30 P.M. shall constitute a default. The basis of settlement of such default is provided for in Rule 10.40.

(e) Delivery of the documents required by paragraphs (a) 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 are tendered and made, respectively.

Rule 10.28. ~~Reserved~~ Duplicate Samples

~~(a) All matters with respect to duplicate 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 Exchange. 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 duplicate samples, he shall instruct the Deliverer to hold such samples.~~

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

~~(c) The duplicate samples shall be the property of the holder of the EWR.~~

~~(d) Each duplicate 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 a minimum of two (2) ounces each. Samples should not be drawn from old sample holes.~~

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

~~(f) Duplicate 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 No. 2 Futures Contract delivery shall not be altered or changed where said cotton in its entirety is being redelivered during the contract month.~~

~~(g) The Receiver of duplicate 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.~~

~~(h) The weight of each duplicate sample shall be not less than four (4) ounces. 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.~~

~~(i) Samples, if requested, must be sent to the Receiver by the second (2nd) Business Day after the Date of Delivery. If samples are sent on the third (3rd) Business Day, they shall be considered late. If they are sent past the third (3rd) Business Day, they shall be considered missing. The Receiver pursuant to this Rule shall have no obligation to return late samples to the Deliverer.~~

~~(j) 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 (15th) Business Day of the month following the delivery month.~~

~~(k) "Claims" shall be defined as a written document submitted to the opposite Clearing Member and a copy to the Cotton Delivery Committee containing the Date of Delivery, 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 or less than 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 (2nd) Business Day after the Date of Delivery.)~~

~~(1) If samples are sent on the third (3rd) 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 (3rd) 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 (1)(v)(2) of this Rule, the Receiver may not claim penalties under the provisions of subparagraphs (1)(ii), (iii) or (iv) of this Rule.]~~

Rule 10.29 Reserved [-Deliverer's and Receiver's Guide

~~(a) The list of bale numbers (tag list) required under Rule 10.24 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 t] This list shall be presented to the Receiver with the original invoice, and other documents on the Date of Delivery. A third (3rd) copy of the tag list shall accompany the samples delivered under Rule 10.28]~~

~~(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 and claim for such non-delivery has been filed within fifteen (15) Business Days from the Date of Delivery of the cotton, the Deliverer shall pay the Receiver twenty five dollars (\$25.00) per contract for the missing tag list.]~~

~~[(d) Unless provided otherwise in a particular Rule, [A]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 4:00 p.m. on the date of the Delivery Notice, a Receiver shall have the obligation to issue a Sample Instruction Letter to the Primary Deliverer's Clearing Member, listed on the Delivery Notice, 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 Date 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 Exchange. If a Receiver fails to issue a Sample Instruction Letter on or before the Date 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 Delivery Notice, 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 10.28 together with such Rules as are from time to time adopted by the Board. For clarification purposes, the following definitions shall apply to this Rule:~~

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

~~2. Retenderer. A Stopper of a Delivery Notice 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 (2) categories of Receivers and they shall be defined as follows:~~

~~A. Interim Receiver. A Stopper of a Delivery Notice 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 Delivery Notice 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 Delivery Notice, 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 decides to retender the contract without taking possession of the sample, this Retenderer shall be obligated to issue, before 4:00 p.m. on the date of the Delivery Notice, 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 Delivery Notice, 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 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 Delivery Notice, 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 Delivery Notice, 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) 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 (2nd) Business Day following the Date of Delivery.]~~

Amended by the Board April 15, 2009; effective April 24, 2009.

Rule 10.34. 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 delivered 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 (2nd) year following the cotton's Year of Growth.

(e) Notwithstanding paragraphs (a) through (d) of this Rule, Cotton delivered by "delayed certification" in accordance with Rule 10.26 shall be subject to the Year of Growth penalty for the calendar year of the delivery month for which the "delayed certification" is being made.

(f) 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 (c)(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;]~~

~~([v]i) 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]~~

~~([v]ii) [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, and such claims must be made within fifteen Business Days of the delivery day; and~~

~~(iii) in calculating the dollar amount of the penalty on a bale, the calculation shall utilize the Net Weight of the bale before any weight deductions as per Rules 10.18 and 10.33.~~

Rule 10.36. Payment of Invoicing Errors

Invoicing errors must be paid within five (5) Business Days upon receipt of written notification of such invoicing error, and any claims of an invoicing error must be made within fifteen (15) business days of the delivery date. After five (5) Business Days, interest at prime plus three percent (3%) shall be assessed on the amount owed, such interest to be paid to the party to whom the invoicing error amount is owed . All disputes regarding invoicing errors will be ruled on by the Commodity Operations Department and said decision shall be deemed final.

COTTON RESOLUTION

No. 1. Warehouse Requirements for the Storage of Exchange Cotton

RESOLVED, THAT the following are the minimum acceptable standards and procedures to be followed by Exchange licensed cotton warehouses in connection with the storage of Exchange Cotton.

(I) Location and Physical Structure of Warehouse

- (1) The physical property of the warehouse shall be subject to examination by the Exchange.
- (2) The physical property of the warehouse must be properly safeguarded and patrolled.
- (3) Any cotton subject to weather exposure must be placed on skids and entirely covered with tarpaulins.
- (4) The warehouse shall be equipped to handle cotton submitted for certification without unreasonable delay. Cotton shall be handled in the order in which its instructions are received.

(II) Duties of Warehouse Operators

(1) The warehouse operator shall not handle certificated cotton at the request of the owner without the surrender of the EWR.

(III) Transfer of Cotton

(1) Cotton may not be transferred from one licensed warehouse to another licensed warehouse without notification to, and approval by, the Exchange. Such notification shall be furnished to the Exchange at least ten (10) days prior to the transfer. When transferred, the EWR pertaining to the original warehouse shall be cancelled, and a new EWR issued for the new warehouse.

(2) If the warehouse operator ceases to operate the Licensed Store because of either a voluntary or Exchange mandated cancellation, the warehouse operator shall transfer the certificated cotton and shall be liable for the expenses of such transfer. Said transfer shall take place no later than sixty (60) days after the effective date of the cancellation.

(A) Notice of the transfer stating the warehouse to which the cotton is to be transferred shall be given to the owner and the Exchange. The owner has five (5) Business Days after receipt of the notice to notify the warehouse operator and the Exchange that his cotton should be transferred to a warehouse other than the one (1) selected by the warehouse operator, and the warehouse operator shall be liable only for those expenses that would have been incurred if the cotton had been transferred to the warehouse selected by the warehouse operator.

(3) The warehouse operator shall cover the cotton with insurance, at his expense, while the cotton is in transit and at the new location until such time as a new EWR is issued showing the new location.

(IV) Tariffs

(1) At the time the warehouse operator applies for a license and renewal, it shall submit to the Exchange its tariff listing in detail the maximum rates applying to the handling and storage of certificated cotton during the term of the license. Upon approval of the license or renewal application by the Exchange, the tariff shall be posted at the Licensed Store in accordance with USDA requirements and published by the Exchange.

~~(2) [Storage rates on certificated cotton, which are lower than those published by the Exchange, may be granted by the warehouse operator to the owner of the certificated cotton, provided, however, that (A) the reduction is not contingent on the quantity of cotton stored for such owner by the warehouse operator, (B) the reduction is published by the Exchange and (C) the reduction is granted to any other owner of certificated cotton in the same Licensed Store on the same terms.]~~

~~(3) Storage rates may not be increased during the term of the license except as provided for by the USDA.~~

[Remainder of the Rule unchanged]

No. 2 - Use of Original Smith Doxey Classing 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 – 3.7 to 4.7, 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, 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 [allowances and P] 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.

~~[Duplicate Samples:~~

~~The duplicate sample provisions of Rules 10.28 and 10.29 shall not apply to cotton entered into certificated stocks based upon Original Smith Doxey classing data, and duplicate samples shall not be required for such bales.]~~

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.