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Submission No. 11-5
January 31, 2011

Mr. David Stawick
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 Rule 10.09 -
Submission Pursuant to Section 5c(c)(2) of the Act and Regulation 40.4(a)

Dear Mr. Stawick:

Pursuant to Section 5c(c)(2) of the Commodity Exchange Act, as amended, and Commission Regulation 40.4(a), ICE Futures U.S., Inc. ("Exchange") submits for Commission approval amendments to Rule 10.09, attached as Exhibit A. The Exchange is requesting that the Commission approve the amendments as soon as possible so that the price discovery function of the Cotton No. 2® futures contract may be able to operate as it should with fewer interruptions.

Current Cotton No. 2 Limit Provisions

The current Rule provides for an initial daily limit of three cents (3¢) at prices up to eight-four cents (84¢) per pound, and four cents (4¢) at prices above eight-four cents (84¢). The Rule includes provisions for two (2) one cent (1¢) expansions to each of these initial limit levels, with each expansion triggered by the requisite number of futures delivery months settling at the then-current limit.

Proposed Amendments

The proposed amendments will provide daily price limits as follows:

At prices up to 80¢ per pound, a 3¢ daily limit;
At prices from 80.01¢ up to 110.00¢, a 4¢ daily limit;
At prices from 110.01¢ up to 140.00¢, a 5¢ daily limit;
At prices from 140.01¢ up to 170.00¢, a 6¢ daily limit; and

At prices above 170.00¢, a 7¢ daily limit.

In addition, a further 1¢ per pound expansion of the 3, 4, 5 and 6¢ limits will be added on a business day following a limit settlement; this expansion would not apply to the 7¢ daily limit, so that the maximum daily limit will always be 7¢.

Background and Rationale

It is believed that the proposed amendments are both necessary and appropriate based upon a review of Cotton No. 2 price movements over the past several months. While the current limits were hit on average less than one (1) day per month over the first nine (9) months of 2010, they were hit (on an intra-day or closing basis) on forty-one (41) out of sixty-four (64) days during the last three (3) months of the year; the first and/or second delivery month settled at limit on twenty-seven (27) of these sixty-four (64) days. The frequency with which the current limits are interrupting the core price discovery function of the market provides a strong indication of the need to revise the limit regime to allow the Cotton No. 2 futures contract to serve its proper price discovery function. The Exchange has heard from many market participants – brokers, retail traders, investment funds and index fund managers - that their inability to enter and exit positions during these frequent interruptions has led them to decrease their trading of the contract.

In addition, the current price limit regime was adopted at a time when Cotton No. 2 futures prices generally traded in a range between fifty (50¢) and ninety (90¢) cents per pound, and the all-time high price was one dollar seventeen cents ($1.17) per pound. Over the last three (3) months of 2010, the futures price of the lead delivery month rose from ninety-five cents (95¢) to just under one dollar sixty cents ($1.60) cents per pound, and, since the start of 2011, the lead month has risen to one dollar seventy cents ($1.70) per pound. The current four cent (4¢) initial daily trading limit represents 4.8% of the value of a contract at the eighty-four cent (84¢) per pound price level where the four cent (4¢) limit is triggered; however, that four cent (4¢) limit is only 2.5% of the value at one dollar sixty cents ($1.60). This significant and sustained increase in the absolute price level also provides a strong indication that the current limit regime needs to be revised to take the new price environment into account. (As a point of comparison, the initial daily price limits for the Chicago Board of Trade Corn, Soybean and Wheat futures contracts are 4.6%, 5.0% and 7.1% of the current price of the contracts.)

Finally, in an effort to assess the potential impact of the proposed changes to the limit Rule, Exchange staff analyzed daily price moves in Cotton No. 2 over the past several years to get some sense of how often the Cotton No. 2 futures contract can be expected to hit any new limit that is put in place. This review encompassed all of 2008 and 2009; it included data for the first nine (9) months of 2010 because the Exchange didn't want to overly bias the analysis with the volatility in Q4 2010. The analysis showed that out of seven hundred one (701) days observed, there were three hundred sixty-five (365) days (or 52%) in which the futures price moved more than 2% away from the prior day's settlement price; one hundred ninety-two (192) days (or 27%) had a directional move of greater than 3%; and eighty-seven (87) days (or 12%) had a directional move of greater than 4%. This data is particularly instructive because at the current price level of approximately one dollar seventy-five cents ($1.75) per pound, 2%, 3% and 4% moves correspond fairly closely with the current four cent (4¢) initial limit and the five (5¢) and six (6¢) cent expanded limits.

The analysis implies that at the current price level with a limit of four cents (4¢) – the current initial limit – the limit would be hit about once every two (2) days in normal times; a limit of five cents (5¢) would be hit about one (1) out of every three (3) or four (4) days; and a limit of six cents (6¢) would be hit about one (1) out of every eight (8) days. But the Cotton No. 2 market is not in normal times. Data and experience proves that commodities are more volatile at historically elevated price levels and particularly when supply is scarce as is currently the case for both domestic and global cotton stocks. This is a fundamental and expected behavior. With the increased volatility the Exchange is experiencing, the Cotton No 2 futures contract is hitting limits more frequently than once every two (2) days (nearly every day) just as it could be expected to hit a six cent (6¢) limit with greater frequency than one (1) in eight (8) days and, more likely, it would be a weekly or multiple-times-a-week occurrence.

Therefore, the analysis demonstrates that the current limit regime is not sufficient at the current absolute price levels. Further, the analysis suggests that the proposed initial daily price limits will provide for fewer interruptions to the core price discovery function of the Cotton No. 2 futures contract, improving the efficiency of the contract for all participants while still providing for an appropriate limit to the maximum daily price movement.

The Exchange's Cotton Committee, experts in the cotton industry and comprised of a broad cross section of participants in the cotton market, including producers (growers), merchants and brokers, has considered the proposed amendments. There was unanimous agreement that some widening of the current limits was necessary and appropriate, and all but one member supported the amendments. The one member who was opposed to the proposed amendments opined that the limits were not adequate and that further widening should be provided.

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 adopted by the Exchange's Board of Directors at its meeting on January 31, 2011. The amendments will go into effect after Commission approval.

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

Sincerely,

Jill S. Fassler
Vice President
Associate General Counsel

cc: Division of Market Oversight
New York Regional Office

EXHIBIT A

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

Rule 10.09. Price Limits

(a) Futures

(i) There shall be no price limits in the current futures month on or after First Notice Day.

(ii) For the purposes of this Rule, a crop year shall mean the period beginning with the October futures delivery month of any calendar year and ending with the July futures delivery month of the following calendar year.

(iii) [~~There shall be no trading in futures at a price more than three cents (3¢) per pound (or 300 points) above or below the previous day's Settlement Price.~~

~~(iv) Should two (2) or more futures delivery months within the first five (5) listed futures delivery months that are subject to daily price limits or the remaining futures delivery month in a crop year close at limit bid or limit offer, the daily price limits for all futures delivery months shall increase to four cents (4¢) per pound (or 400 points) on the next Business Day.~~

~~(v) Should two (2) or more futures delivery months within the first five (5) listed futures delivery months that are subject to daily price limits or the remaining futures delivery month in a crop year close at limit bid or limit offer while daily price limits are four cents (4¢) per pound, daily price limits for all futures delivery months shall increase to five cents (5¢) per pound (or 500 points) on the next Business Day.~~

~~(vi) If price limits are five cents (5¢) per pound and no futures delivery month closes at limit bid or limit offer, daily price limits for all futures delivery months shall revert back to four cents (4¢) per pound on the next Business Day. If price limits are four cents (4¢) per pound and no futures delivery month closes at limit bid or limit offer, daily price limits for all futures delivery months shall revert back to three cents (3¢) per pound on the next Business Day.~~

~~(vii) Should either of the two (2) futures delivery months with the highest open interest settle at eighty-four cents (84¢) or higher on any Business Day, then on the next Business Day the daily price limit then provided for all futures delivery months in accordance with subparagraphs (ii) through (v) of this Rule shall be expanded by an additional one cent (1¢) per pound (or 100 points).~~] <u>For the purposes of this Rule, the Front Month is the first listed futures delivery month that has not reached its First Notice Day, provided, however, that the October delivery month cannot be the Front Month. Also for purposes of this Rule, the Limit Reference Month that is to be used to determine the Initial Limit Amount on any day shall be the higher-priced futures delivery month that is either: (a) the Front Month, if such futures delivery month has the highest open interest, or (b) the Front Month and the futures delivery month with the highest open interest.</u>

<u>(iv) Subject to subparagraph (a)(v) of this Rule concerning the expansion of the price limit, there shall be no trading in a futures delivery month at a price more than the Initial Limit Amount above or below the previous day's Settlement Price. The Initial Limit Amount in effect for all such futures delivery months on any Business Day shall be determined based upon the prior day's Settlement Price of the Limit Reference Month futures delivery month as follows:</u>

<u>Limit Reference Month Settlement Price Level:</u>	<u>Initial Limit Amount:</u>
<u>Up to 80.00 cents per pound</u>	<u>3.00 cents per pound (300 points)</u>
<u>80.01 up to 110.00 cents per pound</u>	<u>4.00 cents per pound (400 points)</u>

110.01 up to 140.00 cents per pound	5.00 cents per pound (500 points)
140.01 up to 170.00 cents per pound	6.00 cents per pound (600 points)
170.01 cents per pound and above	7.00 cents per pound (700 points)

(v) Notwithstanding the above, the daily price limit shall be subject to expansion by an additional 1.00 cent per pound (100 points) above the Initial Limit Amount on the Business Day following any day on which two (2) or more of the first five (5) futures delivery months that are subject to daily price limits or the remaining futures delivery months in a crop year close at limit bid or limit offer based upon the Initial Limit Amount then in effect. This expansion shall not apply when the Initial Limit Amount is 7.00 cents per pound; this means that the maximum daily price limit will be 7.00 cents per pound.