

Futures Contracts Committee
Adopted at the 96th Annual Convention
April 28, 2020

The Committee recommends the adoption of the following policy resolutions:

1. MERGER OF THE CFTC WITH THE SEC:

Urge that the U.S. Congress continue the CFTC as an independent regulatory agency with full authority over all forms of futures and options trading and that the CFTC not be merged with the SEC or other regulatory agency or federal department.

2. USER FEE ON FUTURES AND OPTIONS TRANSACTIONS

Support a small but meaningful transaction fee be established to discourage high frequency trading abuse and enhance CFTC regulation.

3. POSITION LIMITS RULEMAKING

Urge the CFTC and Congress to address commercial end user issues when finalizing the rule on position limits. Continue to work with ICE, other exchanges and other trade associations to highlight the issues with the proposed rule and the severe impact its adoption would have on commercial end users.

ACSA has the following issues with the proposed rule on position limits:

Bona Fide Hedging – the CFTC has limited the definition of bona fide hedging in the proposed rule and has set forth a specific, narrow list of enumerated hedging positions that will be recognized as bona fide hedging positions. Within the CFTC’s proposed position limits rule, the Commission has chosen to focus solely on the absolute price risk of a transaction with a counterparty, and is not considering the multitude of risks in the commercial operations of enterprises. For example, because of the narrow definition of bona fide hedging, the CFTC has advised ICE that it will not allow ICE to grant spot month hedge exemptions for on-call contracts.

Anticipatory Hedging - the proposed definition of bona fide hedging enumerates only 2 anticipatory hedges that would qualify as a bona fide hedge: unfilled anticipated requirements and unsold anticipated production. The CFTC imposes a 12 month restriction in the hedging of unfilled anticipated requirements and unfilled anticipated production, which conflicts with the hedging programs of many entities. The fact that the futures market is listed for 36 months reflects the need to expand the time restriction beyond 12 months. Additionally, the proposed rule eliminates anticipatory merchandising, even though anticipatory merchandising was specifically included in the Commodity Exchange Act, as amended by Dodd-Frank.

Gross vs. Net Hedging – the proposed rule suggests that to qualify for the economically appropriate test, a commercial enterprise must consider all of its exposures when doing a risk reducing transaction and thus the commercial enterprise cannot take into account exposures on a

legal entity, division, trading desk, or even on an asset basis. Rather, all exposures must be consolidated and then analyzed as to whether or not the transaction reduces the risk to the entire enterprise. This new interpretation by the CFTC substitutes a governmentally imposed “one-size-fits-all” risk management paradigm for a company conducting its own prudent risk management in light of its own unique facts and circumstances.

Focus staff and leadership efforts on incorporation or adoption of the following objectives which serve as the executive summary of ACSA’s public comments in response to the CFTC Proposed Rulemaking on Position Limits for Derivatives.

- Risk Management Exemptions – ACSA supports the revisions to the “Temporary Substitute Test” and the elimination of risk management exemptions for banks because outsized position in physical commodity-focused indexes can have significant, adverse effects on futures market price dynamics.
- Enumerated Hedges – Overall, ACSA supports the expanded list of enumerated hedges; however, a final rule should explicitly define the scope of anticipated merchandising so that ACSA members have clarity to effectively and efficiently manage risk associated with physical unpriced purchase or sale commitments.
- Deliverable Supply – We disagree with the Commission’s acceptance of the deliverable supply estimates for the U.S. Cotton No. 2 (“CT”) contract. Deliverable supply estimates should be considered in terms of a product’s quality and its legitimate, logistical availability for delivery. The estimates included in the Proposal do not reflect the cotton industry’s historical ability to deliver the physical commodity.
- Federal Limits – ACSA objects to the proposed federal spot-month limit increase from 300. Moreover, ACSA disagrees with the Proposal’s elimination of the single-month limit; the Commission should maintain its single-month limit for the out months, particularly for smaller markets like cotton because, when paired with the proposed all-month limit increase, the removal of a single-month limit could lead to concentrated speculative activity in the front month, thus jeopardizing convergence.
- Exchange-Set Position Limits – The appropriate level of volume and liquidity is necessary for the CT contract to play its vital role in the global cotton ecosystem. These factors should be taken into considered before a revised exchange-set limit is set on the CT contract.
- Form 304 – ACSA supports the elimination of form 204 and the proposed changes to Form 304; however, the Commission should go further with its plan regarding form 304 and either: (1) eliminate Form 304 completely; or (2) if it has a compelling reasons to continue collecting Form 304 data, stop publishing the data for public dissemination.

4. HEDGE EXEMPTIONS

Currently, ICE Futures US grants hedge exemptions under the supervision of the CFTC. ACSA urges the CFTC and Congress to allow the continuation of this practice.

5. RESTRICTIONS ON SPECULATIVE ACTIVITY OF INDEX FUNDS WITH HEDGE EXEMPTIONS

Require that an index fund with a hedge exemption restrict its position in a commodity to the dollar allocation or the percentage of funds allocated to that commodity as defined in the fund's prospectus and recorded with the CFTC. Further, any variation should be subject to speculative position limits, and that such funds should report their cash positions on a weekly basis.

6. SEPARATE REPORTING CATEGORIES FOR NON-TRADITIONAL HEDGERS

Require that all non-traditional hedge accounts, those not involved in the commercial enterprise of physically trading bales of cotton, be reported as a separate individual category.

7. HEDGE MARGIN LEVELS

That only those involved in the commercial enterprise of physically trading commodities shall be eligible for hedge margin levels.

8. CERTIFICATION CLASSIFICATION

ACSA supports the continued implementation developed by the ICE Futures US Cotton Committee and approved by the Exchange Board, under which bales that meet the quality and age parameters set by the Exchange can be registered as tenderable against the Cotton No. 2 contract based upon the Smith Doxey classing results of the bale and without requiring certified classing of the bale.

9. TAXATION OF COMMODITY FUTURES TRANSACTIONS

That the Congress maintain the IRS Code Section 1256-tax treatment of commodity futures transactions.

10. MARGIN FUTURES TO FUTURES & OPTIONS TO OPTIONS SETTLEMENTS

Require that the ICE and its clearing members adhere to the practice of margining futures to futures settlements and options to option settlements.

11. STUDY IMPACT BEFORE INCREASING SPECULATIVE POSITION LIMITS

Urge the CFTC and ICE to study the impact on price discovery and volatility, prior to any additional increases above current levels in speculative position limits in the single months or all months. In finalizing the position limits rule, urge the CFTC to consider the impact on liquidity across all trading months with the goal of incentivizing liquidity out the curve.

12. ICE NO. 2 CONTRACT

We urge the ICE to consider the following:

- That increased margin requirements not be retroactive.
- In accordance with ICE rules, we support halting options trading when the lead futures month is trading at a synthetic price that is equal to two times the daily price limit currently in effect for the lead month; and should the futures trade off the daily limit, then options trading shall be reopened.
- That Speculative Position Limits not be increased above the levels currently in effect unless approved by the Cotton Contract Specifications Committee.
- That ACSA oppose an increase in the speculative limits for the spot month pending study and review.
- That no additional delivery points be established.
- That it not increase the number of deliverable grades.
- Except for registration on Smith Doxey class, the practice of sampling for certification at interior warehouses not be permitted.
- Recommend that strict standards for bale conditions be maintained and enforced.
- That it maintain the delivery of certificated stocks via electronic warehouse receipts.
- Recommend that all certificated stocks show the state or area of growth.
- Recommend that any changes in the rules, terms, procedures, or trading practices not be instituted without prior approval of the cotton committee.
- We support ICE's implementation of a discount for certificated bales with GPT 25.0-25.9 as determined by AMS quoted differences.
- Close ICE Markets (1) one minute before and open (5) minutes after USDA Supply and Demand and Production reports are released.
- Evaluate base grade and premium and discounts.

13. CUSTOMER PROTECTION:

ACSA urges the CFTC to maintain the policy as amended by the final rule titled "Residual Interest Deadline for Futures Commission Merchants" published on March 24, 2015 in the *Federal Register*. ACSA believes this final policy has the appropriate time interval for customer margin receipt by an FCM and balances the need for customer protection without leading to prefunding of margin accounts. We further believe this policy is less likely to result in concentration of FCM or lead to smaller FCM with less capital not being able to survive.

14. AUTOMATED TRADING

Urge the Commission to limit the applicability of Regulation Automated Trader to true automated traders and not hedgers.

15. SWEET SPOT CERTIFICATION CUT-OFF DATE

ACSA urges USDA to consider extending the 180 day Sweet Spot/Smith Doxey cut-off date to 210 days.

16. BASE GRADE

ACSA recommends to the NCC’s Quality Task Force to consider the changing of the base grade on the No. 2 contract to a higher-grade base of 31-3-36.

17. ON-CALL COTTON REPORT

Urge the CFTC to discontinue the weekly on call reporting requirement. Should the CFTC continue to find value in receiving the information provided in these reports for surveillance or other regulatory purposes, we urge the CFTC to discontinue publication of the weekly reports.

18. ASSYMETRIC “SPEED BUMPS”

ACSA opposes exchanges introducing mechanisms that allow market makers any amount of additional time to modify or cancel quotes prior to an aggressing order interacting with those quotes.

Respectfully submitted:
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