

Trading Rules of the Memphis Cotton Exchange

RULE 1

Contracts Defined

Clause 1. A contract for the sale of cotton shall be deemed final when the price, quantity, quality, time and place(s), of delivery and terms of sale have been agreed upon between the Buyer and Seller and no contract can be rescinded without the mutual consent of both parties thereto and unless otherwise provided for at the time of sale, merchantable cotton shall be guaranteed by the Seller.

Clause 2. A bale contract, unless otherwise specified within the contract, shall mean a contract for an agreed upon purchase/sale of 500 pound bales +/- 1% (please refer to Rule 19 for additional information on bale tolerances and penalties.)

Clause 3. An acreage contract, unless otherwise specified within the contract, shall mean that ALL production from the designated acres is under contract.

Unmerchantable Cotton

Clause 4. Unmerchantable cotton shall include, but is not limited to, cotton that is rebaled, scorched, oily, repacked, excessively gin cut, damaged, water packed, seedy, sandy, dusty, and/or containing moisture in excess of 7.5%.

Weights Defined

Clause 5. All weights mentioned in these rules as applying to bales of cotton shall mean net weights.

Territories Defined

Clause 6. Memphis territory cotton is defined as that cotton grown in Arkansas, Mississippi, Missouri, Tennessee, and Louisiana.

Clause 7. Eastern territory cotton is defined as that cotton grown in Alabama, Florida, Georgia, North Carolina, South Carolina, and Virginia.

(Effective with the 2011 crop or August 1, 2011)

RULE 2

Buying From and Selling to Members

Clause 1. These Trading Rules shall apply to all purchases and sales between members of Memphis Cotton Exchange unless otherwise agreed in writing.

Membership Privileges

Clause 2. A membership in the Memphis Cotton Exchange confers the privilege of operating as a member on only one firm, whether individual, partnership, corporation or association.

(Effective with the 2011 crop or August 1, 2011)

RULE 3

(DELETED AS OF AUGUST 1, 1992)

RULE 4

(DELETED AS OF JUNE, 2010)

RULE 5

Cotton traded F.O.B. Cars, Trucks, or Containers

Clause 1. F.O.B. Cars, Trucks or Containers at Warehouse shall mean that Seller is to pay all charges assessed by the Warehouse except patching and special service ordered by the Buyer. Charges for the Seller shall include compression, receiving, storage through the date of invoice, samples, if requested by Buyer, any surcharge, all accrued taxes, stenciling one line 5 letter mark, shipping and/or picking out by tag number and loading into railroad cars, trucks or containers. Cotton shall be invoiced on electronic warehouse receipts and original net weights. When no time of delivery has been specified, immediate delivery is understood.

Time of Billing and Payment

Clause 2. All cotton properly billed by Seller to Buyer by 11:00 am Memphis time must be paid for by bank draft or wire transfer during normal banking hours the same day unless otherwise agreed upon.

Original Weights

Clause 3. Original weights are understood to mean those first appearing on the original warehouse receipts.

Cotton Carried Over

Clause 4. Cotton carried over from one season to another must be identified by crop year at time of sale, failing this, Buyer may reject same.

Origin of Growth

Clause 5. Origin of growth, if outside current warehouse territory, must be so designated at time of sale.

Sales when No Rule Specified

Clause 6. When cotton is bought and no rule is specified, Rule 5 will govern.

(Effective with the 2011 crop or August 1, 2011)

RULE 6

(DELETED AS OF JUNE, 2010)

RULE 7

(DELETED AS OF JUNE, 2010)

RULE 8

Cotton Sold as an Option to Purchase a Non-Recourse Cotton Loan

Clause 1. The definition for a Non-Recourse Cotton Loan by the Commodity Credit Corporation is in the Code of Federal Regulations, Title 7, Volume 10, as specified in 7CFR Part 1427 and can be found on the internet at <http://www.fsa.usda.gov/dafp/psd/7cfr1427.txt>

Clause 2. Seller must execute and deliver to the Buyer, before 11:00 am Central Time the following business day, an invoice and the properly executed electronic documents with the following information:

1. Deliver Receipts via Loan Option (sub-holdership)
2. Electronic Agent Designation (EAD)
3. Crop Year
4. Loan No. (s)
5. State & County Code(s) and Farm No.(s)
6. Documents Received Date
7. Loan Disbursement Date
8. Loan Maturity Date

authorizing the receipt holder to release the warehouse receipts electronically to the Buyer or to its successor in interest upon payment of the loan indebtedness on such cotton and all accrued charges. Seller must warrant that all parties who must sign the necessary loan documents in order to make it transferable to a subsequent Buyer have done so. In the event Seller does not deliver properly executed documents the following business day, before 11:00 am, Central Time, Seller must reimburse Buyer for any proven losses resulting from delayed delivery. In the event both parties agree, properly executed CCC 605's may be substituted for EAD holdership.

Clause 3. Buyer must pay Seller original, net warehouse receipt weight multiplied by the agreed upon price, less applicable weight penalties as described in Rule 19, during normal banking hours, the same day as properly executed and delivered documents are submitted as set forth in Clause 2.

Clause 4. The Seller and/or Producer must agree not to redeem such cotton from the loan or to execute another CCC Form 605/EAD in favor of any other person for redemption of such cotton during the life of the option to purchase.

Clause 5. In the event there is no written contract covering a transaction governed by this rule, the following three clauses are understood to be terms of an agreement entered into under this Rule.

- a. Notwithstanding any other provision of this option to purchase or any other contract, title and control of the cotton and beneficial interest in the cotton as specified in 7 CFR 1427.5 shall remain with the producer until the Buyer exercises this option to purchase the cotton. This option to purchase shall expire notwithstanding any action for inaction by either the producer or the Buyer at the earlier of:

- (1) The maturity of any Commodity Credit Corporation (CCC) loan that is secured by such cotton.

(2) The date CCC claims title to such cotton; or

(3) Such other date as provided in this option.

- b. Buyer, or its successor in interest to an option to purchase, agrees that in the event that the cotton is not redeemed from the loan it shall reimburse the Seller for related loan program charges not otherwise covered by this agreement. Buyer or its successor may exercise such right to redeem without further notice to Seller. The Seller covenants and agrees to advise Buyer promptly in the event that the CCC notifies the Seller that the loan maturity date has been accelerated.
- c. The parties acknowledge that Marketing Loan Gains are limited under the provisions of the 2008 Farm Bill Adjusted Gross Income Limitation provision which could make the Seller ineligible for Marketing Loan Gains and that the price to be paid by Buyer does not take into consideration such limitation. In the event the Seller's payment limitation causes Buyer to pay the USDA/CCC in excess of the Adjusted World Price ("AWP") to obtain redemption, then Seller will promptly reimburse Buyer for Buyer's redemption cost in excess of AWP. It is intended that Buyer's redemption price shall not exceed AWP, and that any redemption cost in excess of AWP shall be for Seller's account.

Clause 6. All other rules and customs of the Memphis Cotton Exchange shall apply. In the event there is conflict between any other Memphis Cotton Exchange rules, Rule 8 shall govern option to purchase a non-recourse cotton loan.

(Effective with the 2011 crop, as of August 1, 2011)

RULE 9

Transferable Orders

Clause 1. No order for the delivery of cotton is transferable without the knowledge and mutual consent of all parties.

(Effective with the 2011 crop or August 1, 2011)

RULE 10

(DELETED AS OF JUNE, 2020)

RULE 11

Failure to Deliver-Penalty

Clause 1. The penalty for failure on the part of the Seller to deliver cotton as contracted shall be *one dollar* (\$1) per bale per day, beginning on the first business day after the end of the delivery period. If the cotton is not delivered after five business days, the Buyer may declare the Seller in breach. If the Buyer declares the Seller in breach, Buyer may declare the contract null and void, in which case Seller will owe Buyer market differences.

Failure to Pay

Clause 2. The penalty for failure on the part of the Buyer to pay for cotton as contracted shall be one dollar per bale per day beginning on the second business day after electronic warehouse receipts are delivered to Buyer, plus storage, insurance and interest accumulated against the Seller during delay. If Seller has not been paid after five business day, Seller may declare Buyer to be in breach of contract. If the Seller declares the Buyer in breach, Seller may declare the contract null and void, in which case, Buyer will owe Seller market differences plus accrued storage, insurance and interest.

Clause 3. If Buyer and Seller are unable to agree on a proper closeout of the contract under Clause 1 and 2 above, then either or both may refer the matter to the Arbitration Committee where the matter will be adjudicated under the procedures set forth in Rule 43.

Time of Billing

Clause 4. All cotton properly billed by Seller to Buyer by 11:00 am, Memphis time, must be paid for by bank draft or wire transfer during banking hours the same day unless otherwise agreed upon.

(Effective with the 2011 crop or August 1, 2011)

RULE 12

Sense of Above Rules

Clause 1. It is not contemplated in prescribing these penalties that either Buyer or Seller shall intentionally be the cause of delays in carrying out the delivery within the time prescribed and a continued or repeated violation will be the cause of the party, or parties, violating this rule, to be brought before the Board of Directors of the Memphis Cotton Exchange.

RULE 13

(DELETED AS OF JUNE, 2010)

RULE 14

Re-Ginned and Re-Handled Cotton

Clause 1. Re-ginned and Stripper harvested cotton must be so designated when offered for sale.

(Effective with the 2011 crop or August 1, 2011)

RULE 15

(DELETED AS OF JUNE, 2010)

RULE 16

(DELETED AS OF JUNE 2010)

RULE 17

Bale Packaging

Clause 1. Cotton shall be packaged in bales covered with bagging and ties that meet the specifications established by the Joint Cotton Industry Bale Packaging Committee for a "Grade A Bale."

Seller shall pay all charges assessed by the Warehouse necessary to deliver a bale in Grade "A" condition, which charges shall include, where appropriate, cleaning, patching, re-bagging and ties.

Size of Bale

Clause 2. A merchantable bale for size is understood to comply with the specification of the Joint Cotton Industry Bale Packaging Committee gin UD bale.

Conditioning Cotton

Clause 3. All cotton shall be understood to be in good order but if not, it shall be ordered repaired within twenty-four hours from the time of delivery and if not done within that time, the necessary repairs may be made by the Buyer at the expense of the Seller. No claims for repairs shall be allowed after the removal of cotton from its place of storage when stored in a licensed warehouse.

(Effective with the 2011 crop or August 1, 2011)

RULE 18

Compressed Cotton – Density

Clause 1. When cotton is purchased and no mention as to compression is made at time of sale, Gin UD shall be considered the density. Should Seller deliver anything other than Gin UD the Buyer has the privilege of rejecting the cotton. IN the event cotton is so rejected, market difference is to be adjusted between Buyer and Seller provided a claim is made within five (5) days from invoice date.

(Effective with the 2011 crop or August 1, 2011)

RULE 19

Weight Penalties

Clause 1. For purposes of forward contracting, the term "bale" will refer to a bale of 500 pounds, with a tolerance of +/- 1%. Any loss incurred by buyer as a result of average bale weights outside this tolerance may be claimed back or withheld from payment for cotton delivered on the contract.

(Effective with the 2011 crop or August 1, 2011)

Clause 2. In the delivery of cotton under these rules, bales weighing less than 464 pounds net must be penalized as follows:

- (a) For each bale weighing less than 464 pounds but not under 430 pounds-\$3.00
- (b) For each bale weighing less than 430 pounds but not under 400 pounds-\$6.00
- (c) Bales weighing less than 400 pounds may be rejected, but if accepted, must be penalized \$20.00 per bale.
- (d) The following exception to the penalties out-lined above is made: Where any invoice averages 485 pounds or more, there will be no penalty but bales weighing less than 400 pounds may be rejected.
- (e) Bales weighing more than 600 pounds net may be rejected.

(Effective with the 2003 crop, after August 1, 2003)

RULE 20

(DELETED AS OF JUNE, 2010)

RULE 21

Delivery

Clause 1. When sale is made for delivery and/or shipment at a specified time or during a certain month or month, cotton may be delivered and/or shipped at any time Seller may elect during the time specified but delivery and/or shipment must be made and/or bill of lading delivered within the time specified.

Delay Caused by Acts of God, etc.

Clause 2. The Seller is not to be held responsible for delay caused by acts of God, fire, war, riot, strikes, embargo, congestion at warehouse, car shortage, or quarantine, which effect the cotton contracted for by him for filling his sale. **In the case of bale contracts, such events excuse delay but do not excuse delivery.**

Affidavits - Cancellations – Comparisons

Clause 3. In all cases where delivery and/or shipments are delayed beyond the time specified and the Seller claims the delay is due to causes mentioned in Clause 2, the Seller shall furnish affidavit showing positive reasons for delay not later than the expiration of the delivery and/or shipment date. If such affidavit is not furnished within two days, or if delivery is not made within the time specified, the Buyer may cancel the contract for the portion in default or may buy in the open market cotton of equal quality for immediate delivery. In either event the market difference to be adjusted between the Buyer and the Seller with 1/2c per pound penalty against the Seller. If the Buyer buys in the open market, the Seller may, upon request, have a comparison made by the Arbitration Committee of the qualities used in the original contract and for the cotton purchased for replacement.

Arbitration Committee

Clause 4. In the event the Buyer elects to cancel the part of the contract in default, the terms of sale and details of matter in controversy shall be submitted to the Arbitration Committee, which shall determine the basis of settlement on date of cancellation.

RULE 22

(DELETED AS OF JUNE, 2010)

RULE 23

(DELETED AS OF JUNE, 2010)

RULE 24

(DELETED AS OF JUNE, 2010)

RULE 25

(DELETED AS OF JUNE, 2010)

RULE 26

Deliveries Defined

Clause 1. Immediate delivery shall be understood to mean within three days, Saturdays, Sundays and holidays excepted. Prompt delivery shall be within ten days. When no time of delivery has been specified, immediate delivery is understood.

(Effective with the 2011 crop or August 1, 2011)

RULE 27

“On Call” Transactions

Clause 1. When cotton is traded “on call” based on futures, unless otherwise specified at time of sale or extended by mutual agreement, the price shall be fixed not later than the last market day preceding the first notice day of the month on which the contract price is based. Failing this, the party not having the call may fix the price at his discretion on the close of the market on said day immediately confirming said details to the other party.

Spotting Board

Clause 2. When cotton is traded “on call” where the price is to be fixed without the purchase or sale of futures for the account of either Buyer or Seller, the price used for basis of fixation shall be mutually agreed upon by both parties of said transaction.

Method of Fixation

Clause 3. Unless otherwise agreed at time of sale, one of two methods shall be used when fixing the price of cotton traded “on call”.

- (a) execution to be made on ICE futures market upon the instructions of the principal having the call.
- (b) Spotting ICE futures.

When call purchases or sales are to be fixed during the time the market is open, in the absence of any mention of the purchase or sale of a futures Contract as a basis of fixation, the method of spotting the board, as covered by Rule 27, Clause 2, shall be understood to govern, however, orders for fixation received subsequent to the advance or decline of the daily limit allowed in the basis month can only be executed by mutual agreement between Buyer and Seller.

Transfer of Call Month

Clause 4. If the call privilege is transferred from one futures month to another, the party having the call shall pay the necessary expense of transfer, which expense shall consist of the usual commission charged.

Invoicing at Provisional Price

Clause 5. If the price has not been fixed by the time of invoicing, the cotton shall, unless otherwise agreed at time of sale, be invoiced at a provisional price based on the previous days close or a mutually agreed upon price. Thereafter, either party shall have the right to call for margin to meet any advances or declines in the market from the base price of the provisional invoice.

Demands for margin shall be met immediately in funds designated by the party calling for margin, otherwise the party calling for margin may fix the price at his discretion, provided, however, that notice of

his intention to fix must be given the other party to the contract. In the absence of specified agreement as to amount of margin, one-hundred percent (100%0 of the daily ICE futures trading limits shall be understood, synthetics to apply.

Original Margin

Clause 6. Original margin, if any, to guarantee the faithful performance of a contract shall be specified in the contract.

(Effective with the 2011 crop or August 1, 2011)

RULE 28

(DELETED AS OF MAY 22, 2002)

RULE 29

(DELETED AS OF JUNE, 2010)

RULE 30

Cancellations

Clause 1. In case of cancellation of a contract or any part thereof, the Seller shall not be paid his regular commission unless mutually agreed upon by all parties.

(Effective with the 2011 crop or August 1, 2011)

RULE 31

Exceptions

Clause 1. Any exceptions to these rules can be made by mutual agreement at time of trade.

(Effective with the 2011 crop or August 1, 2011)

RULE 32

Expiration of Limits and Offers

Clause 1. Unless stipulated otherwise, all bids and offers will expire at 5:00 pm, Central Time, daily, and all sales and acceptances of offers must be reported either by facsimile, telephone, or electronic notification by this hour.

(Effective with the 2011 crop or August 1, 2011)

RULE 33

Arbitration Committee

Clause 1. The Arbitration Committee shall have power to rule on all matters of disputes arising from the sale and delivery of cotton.

RULE 34

Method of Handling Arbitrations

Clause 1. It shall be the duty of all parties in a matter of dispute relating to the sale and delivery of cotton to report the case to the Arbitration Committee within one year after the matter in controversy arises; otherwise they will be barred by limitation. The party against whom the complaint is made shall file his answer within seven (7) business days after notice has been given in writing, and failing to do so, the Arbitration Committee shall proceed with the case, based on the information available.

Special Committee for Arbitrating

Clause 2. In any case relating to the classification and delivery of cotton where it is shown that an immediate decision is desirable, the President or Acting President of the Exchange may, in the absence of the regular standing Arbitration and/or Appeals Committees, appoint a special committee of three members with full power to waive all bond and formalities and render an immediate decision.

RULE 35

Unpaid Charges

All charges for services rendered by any Committee or Department of this Exchange, except Arbitration related fees, shall become due and payable on the first day of the month succeeding that in which the service was rendered.

All charges remaining unpaid for thirty days after becoming due shall be a violation of this Rule. The Secretary shall then advise members of such violation, informing them that if such charges are not paid within fifteen days of said letter of notification, public notice of the violation shall be posted by the Exchange.

Where past due charges have been placed against a membership on which a claim is also filed, the holder of the claim shall be notified of such past due charges.

(Effective with the 2011 crop or August 1, 2011)

RULE 36

Ex-Warehouse

Clause 1. The term "Ex-Warehouse" usually applies to cotton stored in mills or mill points. When such is the case, Seller shall deliver the cotton to Buyer on electronic warehouse receipts or equivalent with all charges, including compression, storage and loading out charges to date of invoice, paid by Seller. Seller shall deduct the light weight penalties as provided in Rule 19. Any deviation from the above terms must be agreed upon by Buyer and Seller at time of sale and confirmed in writing.

RULE 37

(DELETED AS OF JUNE, 2010)

RULE 38

(DELETED AS OF MAY 22, 2002)

RULE 39

(DELETED AS OF JUNE, 2010)

RULE 40

(DELETED AS OF OCTOBER 1, 2005)

RULE 41

(DELETED AS OF JUNE, 2010)

RULE 42

(DELETED AS OF MAY 22, 2002)

RULE 43

Arbitrations Between Non-Members and Non-Members, and Between Members and Non-Members

Clause 1. All disputes arising out of, under, or in connection with any Contract(s) between non-members and non-members, or between members and non-members, which specify “Memphis Cotton Exchange Rules to govern” or words to that effect or incorporate Member Cotton Exchange Rules as a term of the contract, shall be resolved by final, binding arbitration conducted in member, Tennessee by a panel of three (3) arbitrators (“the Rule 43 Arbitration Committee”) selected by mutual agreement. In the event the parties cannot agree on the identity of all of the arbitrators, all or any of the arbitrators will be selected by the Dispute Resolution Officer of the Memphis Cotton Exchange. The decision of the Rule 43 Arbitration Committee shall be in writing and signed by the arbitrators or a majority thereof, and shall be final, and judgment upon the arbitrators’ award may be entered in any court having jurisdiction thereof.

Clause 2. Arbitrations under this Rule 43 shall be commenced by written demand describing the complaint in reasonable detail, mailed or delivered to the opposing party or parties, with a copy to the Dispute Resolution Officer of the Memphis Cotton Exchange. Such demand shall be made within one (1) year after the cause of action arose. The other party shall respond in writing in reasonable detail within seven (7) business days, or such longer or shorter period as may be established by the Chairman of the Rule 43 Arbitration Committee. The Memphis Cotton Exchange may charge any party an administrative fee.

Clause 3. By accepting appointment as members of the Rule 43 Arbitration Committee the arbitrators commit themselves to decide the dispute(s) impartially. Any party desiring to challenge an arbitrator for evident partiality must do so in writing prior to the hearing, and state the basis for such challenge. Since the intent of the Rule is to provide for arbitration by persons familiar with the cotton industry, it shall not be grounds for disqualification of the Dispute Resolution Officer or of the arbitrators that they have conducted some business in the past, or may in the future, with any parties to the dispute. The arbitrators may decide multiple disputes involving the same parties or issues and it shall not be grounds for disqualification of the arbitrators that they have heard and ruled in other cases.

Clause 4. The Dispute Resolution Officer shall select a Chairman of the Rule 43 Arbitration Committee, and the Chairman may establish such hearing procedures and schedules as are deemed appropriate. The Rule 43 Arbitration Committee may select a different chairman by majority vote. Upon

the request of any party to the arbitration made in writing with notice to the other party; the Chairman of the Rule 43 Arbitration Committee shall issue subpoenas as provided in the Federal Arbitration Act and/or the Tennessee Uniform Arbitration Act. The requesting party shall be responsible for preparation, service and enforcement of any such subpoenas. The parties shall have no ex parte communications with the arbitrators concerning the dispute. All ex parte communications will be with the Dispute Resolution Officer.

Clause 5. Tennessee law specifies that any party to an arbitration proceeding shall have the right to be represented by an attorney. The parties shall notify the arbitrators and each other in writing as soon as possible (but in no event later than three (3) business days prior to the hearing) if they will be represented by counsel. The Chairman of the Rule 43 Arbitration Committee may exclude any attorney from the hearing if he or she disrupts the hearing or causes inordinate delay. In such cases, the party shall select other counsel and proceed without delay. Whether the parties have, legal counsel or not, if, in the judgment of the Rule 43 Arbitration Committee it is desirable for the Rule 43 Arbitration Committee to employ legal counsel to assist it, it may do so and tax such cost to the parties.

Clause 6. The arbitrators may, in their discretion, require that they be compensated. The Dispute Resolution Officer shall notify the parties of the expected fees and expenses of the arbitrators and the arbitrators' counsel, if any. If the arbitrators and the parties are unable to agree on such fees and expenses, the Dispute Resolution Officer will set them. The fees and expenses of the arbitrators and their counsel shall be paid equally by the parties and an estimated amount sufficient to cover them will be deposited with the Dispute Resolution Officer prior to the hearing. The arbitrators may, in their decision, provide for payment via the Memphis Cotton Exchange by the losing party and may provide for payment and/or reimbursement by one party to the other for all or any part of fees and expenses and legal fees incurred by the parties and/or the Rule 43 Arbitration Committee.

Clause 7. In any case where a party refuses to arbitrate the Dispute Resolution Officer will select the Rule 43 Arbitration Committee. A party which refuses to pay its share of the fees and expenses shall forfeit its right to appear and be heard. In either of such cases the Dispute Resolution Officer shall give written notice to the refusing party of the time and date of the commencement of the hearing, and the hearing shall be conducted to conclusion even if the other party continues to refuse to arbitrate and/or pay its share of the fees and expenses.

Clause 8. By agreement of the Parties, or by ruling of the Dispute Resolution Officer in cases involving value of less than \$25,000.00 in 1995.U.S Dollars, a single arbitrator may be appointed and in such cases the single arbitrator will have the same powers and responsibilities as the three-member committee. If the office of the Dispute Resolution Officer is vacant, or that officer is unable or unwilling to serve as provided herein, the President of the Memphis Cotton Exchange shall appoint a substitute to perform the Dispute Resolution Officer's functions under this Rule 43.

Clause 9. This Rule shall apply to contracts entered into after the thirtieth (30th) day, following adoption of this Rule 43, by the Board of Directors of the Memphis Cotton Exchange. Except as provided below, this Rule shall not govern an arbitration between one member of the Memphis Cotton Exchange and another member; such arbitrations and only those arbitrations shall be conducted by the standing arbitration committee pursuant to Rules 33 and 34 and By-Law Articles IV, V and XV. This Rule shall apply to disputes between members only if the disputing members agree in writing of the Standing Arbitration Committee under Rules 33 and 34 declines to hear the case.

Clause 10. Upon requests of the parties the Dispute Resolution Officer may arrange for voluntary, non-binding mediation prior to any arbitration decisions being rendered. In such cases the parties shall divide the mediator's fee equally.