



SECTION I TRADING RULES OF THE WESTERN COTTON SHIPPERS ASSOCIATION

RULE 1 CONTRACTS

CONTRACTS FINAL:

CLAUSE 1 – A contract for the purchase and/or sale of cotton shall be deemed final at the time when the price, quality, quantity, time and place or places of delivery and all conditions and terms affecting the transaction have been agreed upon between the buyer and the seller. No contract can be rescinded without mutual consent of both parties thereto, and, unless otherwise provided for at the time of sale, merchantable and deliverable cotton shall be understood as guaranteed by the seller. It is suggested that a written contract, signed by buyer and seller follow up the orally agreed upon terms.

CONTRACTS BETWEEN BUYER AND SELLER ONLY:

CLAUSE 2 – Contracts of this Association between buyer and seller are not transferable nor assignable to another party without the express agreement of both parties.

RULE 2 FULFILLMENT OF CONTRACTS

FAILURE TO COMPLETE CONTRACT:

CLAUSE 1 – On purchase contracts containing a specified date of delivery, seller must give the buyer sufficient notice of time and place of contemplated delivery to enable the buyer to take physical delivery of the cotton, distance being considered, and in no event notice of less than 48 hours before contract date of delivery.

In the event of failure to deliver according to contract, the buyer, after having given 24 hours notice, shall have the option of filling such purchase in the open market, and shall charge or credit the seller with the difference between the price paid by him in the open market and the original contract price, plus 100 points penalty.

Likewise, if the buyer, after being notified by the seller of the time and place of delivery, shall fail to receive the cotton tendered him, as per terms of the contract, on or before the delivery date specified in the contract, then the seller shall notify the buyer of his intention to resell the cotton and shall extend the time for taking up the cotton 24 hours after such notice (Sundays and Holidays



excepted). At the expiration of 24 hours, if the cotton has not been taken up, then the seller may exercise his right to resell the cotton in the open market, and shall charge or credit the buyer with the difference between the price received by him in the open market and the original contract price plus 100 points penalty. When this is done the contract shall be considered fulfilled.

CLAUSE 2 – On contracts between grower and buyer that remain incomplete:

- a) After all merchantable cotton produced by the grower and applicable to the contract has been delivered to the buyer, or
- b) After the delivery date as stated in the contract has passed, whichever occurs first, both parties should attempt to negotiate a settlement of the shortfall. If no mutually satisfactory settlement can be agreed upon, a cash settlement will be made in favor of the buyer or seller, as the case may be, on a net weight shortage at the following price differential: The difference between middling color, 3 leaf 1-3/32", 3.5 – 4.9 for short staple contracts, or grade 03, 1-3/8", 3.5 – 4.9 for American Pima contracts, contract price and the quoted price for that respective quality as published by USDA in the spot market or area applicable on the day following discovery of the shortage or following the last bale ginned from the sellers crop. If grower produces no cotton, cash settlement shall be based on the difference between the Middling color, 3 leaf, 1-3/32", 3.5 – 4.9 for short staple contracts, or grade 03, 1-3/8", 3.5 – 4.9 for American Pima contracts, contract price and the quoted price for this quality on the day following discovery of non-production.

[Clause 2b) Revised 4/12/96]

BASIS OF GRADE AND DIFFERENCE TO APPLY:

CLAUSE 3 – All contracts, unless otherwise provided for at the time of sale, shall be understood to have been made upon the basis of middling color, 3 leaf and at agreed differences between basis grade and lower color or leaf, and in case of arbitration, unless such differences are expressly agreed to by both parties to the contract, differences as interpreted by the Arbitration Committee shall govern.

PURCHASES MADE ON ACTUAL SAMPLES:

CLAUSE 4 – When purchases are made on actual samples, the buyer shall have the right to have the bales resampled by the compress, warehouse or yard in which the cotton is stored, and sent directly to him. If upon examination of the resamples, it is determined that they are not equal to the original samples, the buyer shall have the following rights:

- a) To require the seller to replace failing bales with bales equal to the original samples.



- b) To reject the failing bales and the same to be invoiced back on the basis of the market fixed between buyer and seller.
- c) To take in the failing bales at the difference in value, and seller to immediately reimburse the buyer for such difference. The expense of resampling shall be borne by the buyer on bales found equal the original samples and the seller shall reimburse the buyer for the expense of resampling bales found to be in default and rejected.
- d) Deliberate submission of false samples for approval shall be a fraudulent practice and a violation of the Special Rules of the American Cotton Shippers Association which are incorporated by reference in this Clause.

PURCHASES MADE SUBJECT TO LABORATORY SPECIFICATIONS:

CLAUSE 5 – When purchases are made subject to laboratory specifications, the buyer shall have the right to test, or have tested, the cotton delivered by the seller and reject any bales which do not come up to the specifications, subject to the right of the seller to appeal for a check on the laboratory readings to any independent laboratory agreed upon between the two parties. If there is no agreement between the two parties, the Association will designate a laboratory.

WAREHOUSE WEIGHT SHEETS:

CLAUSE 6 – When contracts specify warehouse reweights, either at time of delivery F.O.B. cars, trucks or containers or at time of shipment, it is understood that warehouse reweight sheets must be attached to the invoice. In the event buyer does not furnish shipping instructions to the seller 10 days before the delivery date specified in the contract, then the seller may reweigh the cotton on range, in which case the cost of ranging will be borne by the buyer. If shipping instructions have not been furnished by delivery date, seller may revert to Rule 2, Clause 1.

DEMURRAGE:

CLAUSE 7 – Any demurrage caused by delay or negligence of the seller or buyer shall be for the account of the faulty party.

ALL TRADES GOVERNED BY ASSOCIATION RULES:

CLAUSE 8 – Members of this Association when purchasing cotton from, or selling cotton to, parties who are not members, should stipulate that such purchases or sales shall be governed by the rules of this Association.



RULE 3 BANK EXCHANGE AND PAYMENT

EXCHANGE OR COLLECTION CHARGE:

CLAUSE 1 – Any bank exchange or collection charge at the buyer’s bank shall be for the buyer’s account, and any bank exchange or collection charge at the seller’s bank shall be for the seller’s account.

TIME LIMIT FOR PAYING DRAFTS:

CLAUSE 2 – Buyer should pay for cotton drafts no later than the next business day following notification by his bank. Notification to buyer shall be considered made on the business day the bank acknowledges receipt of documents by their signature to transmittals of the U.S. mail or other carriers. If buyer fails to pay for draft three business days after notification, seller may reclaim his draft, declare the sale void, and debit buyer for any market loss which occurred plus 100 points penalty.

If seller elects not to reclaim his overdue draft, or if buyer does not pay for draft on the next business day after notification by his bank, the buyer must pay seller interest based on prevailing bank prime rate from the day following notification by his bank through the date draft is actually paid.

RULE 4 MERCHANTABLE AND DELIVERABLE COTTON

CLAUSE 1 – Cotton which is merchantable and deliverable under the rules of this Association must conform to the following qualifications, in the absence of anything in the contract to the contrary:

GRADES:

a) For short staple contracts, any color or leaf grades of cotton from Good Ordinary to Good Middling, including Light Spotted, Spotted, Tinged as defined by U.S. Government Standards, the lowest side of the bale to govern. For American Pima contracts, any grade from 06 to 01 as defined by U.S. Government standards. [Rule 4-Clause 1a) Revised – 4/12/96]



WESTERN COTTON SHIPPERS ASSOCIATION

STAPLE:

b) The staple shall be sound and not less than 1-1/32 inch in length for short staple contracts and not less than 1-3/8 inch in length for American Pima contracts, U.S. Government Standards, the shortest side of the bale to govern. [Clause 4-b) Revised 4/12/96]

GOVERNMENT CLASS:

c) Any cotton with remarks codes or extraneous matter of any kind may be rejected unless bought as such.

AREA AND VARIETY OF GROWTH:

d) The area and variety of growth shall be specified in the contract.

1) In the trading of spot recaps, the crop year shall be deemed to be current crop, unless otherwise noted by the seller. [Clause 4-d-1) Revised 4/3/98]

CONDITION:

e) On all transactions the cotton shall be free from country damage. When cotton is purchased on samples or contract, seller shall reimburse buyer for the invoice price on the weight of the damaged pickings, said weight or pickings to be arrived at by taking the difference in weight between the compress weight and the compress reweight after conditioning; or as otherwise may be agreed between the buyer and seller; it being required that both weights be ascertained on the same day. When cotton arrives at the compress in damaged condition, the heads shall be opened and the cotton allowed to stand not less than forty-eight hours, or until it is reasonably dry before conditioning. The seller shall be notified when cotton requires conditioning and is required to pay the conditioning charges.

The buyer is required to file notice of country damage claims against the seller within ten days after the arrival of the cotton at the compress. Actual claim for country damage must be filed as soon thereafter as possible, and within thirty days after the filing of the notice of claim.

REJECTION OF UNMERCHANTABLE COTTON:

f) The buyer shall have the right to reject and refuse to receive, unless bought as such, and so stated in contracts between buyer and seller, reginned cotton, gin motes, rebaled, plated fraudulently or false-packed, cotton of perished staple, badly gin cut, scorched, smoky, damaged, water-packed, seedy, sandy, dusty or oily cotton, bales not in proper condition for immediate shipment, bales from a pink bollworm infested or quarantined area, unless already conforming to government requirements, and also mixpacked bales when the lowest cotton therein is under Good Ordinary in value or less than 1-1/32 inch in staple. The seller shall be held liable for all losses, penalties, and



costs of whatever character subsequently accruing against the buyer, if the seller fails to show in his contract that the cotton was sold as such.

PROSECUTION OF FRAUD:

g) Whenever cotton is discovered by any member of the Association to be fraudulently packed or where substitutions shall have been made by changing marks, tags, and/or weights, it shall be his duty to report the same promptly to the Board of Directors, whose duty it shall then be to take measures to discover the guilty parties and to assist in prosecuting the same to conviction.

WAREHOUSE LIENS:

h) The Seller shall convey clean warehouse receipts containing no language printed thereon asserting a lien for unpaid charges or expenses for cotton previously deposited and shipped by the Seller. Should such language be printed on the receipt, Buyer has option to require at Seller's expense that cotton be moved to warehouse location issuing receipts on which language asserting lien is not printed, and that such receipts be issued for said cotton.

RULE 5
PACKAGE AND TARE

PACKAGE:

CLAUSE 1 – Cotton must be wrapped in bagging and ties approved by the bale Packaging Committee of the National Cotton Council.

CLAUSE 2 – All cotton shall be packaged according to the National Cotton Council Joint Cotton Industry Bale Packaging Committees Guide for Cotton Bale Standards. This shall be effective on all cotton ginned after August 31, 1983.

CLAUSE 3 – The seller warrants that any cotton stored outside, including that stored outside on the authorization of the Commodity Credit Corporation, is in a clean and merchantable condition free of all country or external damage as determined by the ACSA Uniform Rules for the Trade of United States Cotton in International Commerce, which defines Country Damage in Section 8.201 as follows:

“Country damage or weather damage is the damage or deterioration of the fiber caused by the absorption of excessive moisture from the exterior which may result from the exposure of the bale to the weather or from storing it on damp ground or floors.”



“Weather damage is easily distinguishable by the discoloration of the fibers and their weakened character. If the damage is excessive, the fibers become heavily stained and moldy and matted together stiffly like starched felt. In some cases they may even lose the appearance of fibers altogether. Damaged bales, to be merchantable, must be reconditioned by having damaged fibers entirely picked off.”

Further, the time limits of Rule 4(e) on the filing of claims for country or external damage resulting from CCC authorized outside storage shall not apply, and the buyer may proceed against the seller for damages incurred by a subsequent buyer or for all related expenses for reconditioning, compression, reclassification, repackaging, and related transportation expenses. [Revised 11/06/03]

RULE 6 WEIGHTS

AVERAGE WEIGHT:

CLAUSE 1 – Effective with the 1978/79 and subsequent cotton crops, contracts for forward delivery shall be based on a net weight of 500 pounds per bale with an allowance of 300 pounds net weight over, to 300 pounds net weight under the contract weight.

In delivery of cotton on forward contracts, if the weight of the number of bales contracted for falls within the limits of maximum and minimum delivery, that number of bales shall be delivered. If the weight of the total number of bales contracted for is below the minimum delivery weight, seller shall deliver the required number of additional bales to bring the weight up to the minimum weight delivery. If the weight of the total number of bales contracted for exceeds the limit for maximum weight delivery, seller shall reduce delivery by the number of bales necessary to bring the weight down to the limit for the maximum weight delivery.

LIGHT WEIGHT AND OVER WEIGHT BALES:

CLAUSE 2 – Bales weighing less than 325 pounds or more than 625 pounds, net weight, may be rejected as undeliverable.

GIN YARD WEIGHTS:

CLAUSE 3 – When gin yard net weights are specified in a contract, and unless otherwise agreed, seller guarantees that actual gin receipt net weights are used in the invoice. Seller does not guarantee the accuracy of said weights. Since evolving trade practice and automation have resulted in some gins not issuing physical gin receipts, buyer shall have the right to inspect gin records showing original weights as determined by gins licensed weighmaster.



CAUTION: To avoid misunderstandings contracts should be specific as to limits of individual bale weights acceptable to buyer. Since many costs are fixed on a per-bale basis irrespective of bale weight, language appropriate to preclude abuses is advised. When contracts are for the purchase and sale of loan equities it is suggested that contracts are clear as to whether payments of equities are to be on a per-bale basis or on a weight basis.

EXPENSE OF REWEIGHTS:

CLAUSE 4 – If either buyer or seller requests reweights, unless otherwise agreed, the cost of such reweighing shall be for the account of the requesting party.

RULE 7
DELIVERY AND SHIPMENT

PROMPT DELIVERY:

CLAUSE 1 – When no time for delivery or shipment shall have been specified at the time of sale, “prompt” delivery or shipment shall be understood, and “prompt” shall mean within ten days from date of contract, Sundays and Holidays not excepted.

IMMEDIATE DELIVERY:

CLAUSE 2 – The terms “immediate delivery” or “immediate shipment” shall mean delivery or shipment within three days from date of contract, Sundays and Holidays excepted.

DELIVERED AT ONE WAREHOUSE:

CLAUSE 3 – When cotton is bought for future delivery in lots of 100 bales, it is understood that each lot of 100 bales will be located and delivered at not more than one warehouse.

LANDED:

CLAUSE 4 – “Landed”, as used in the rule, shall mean that the cotton must be delivered, free of freight and other expenses, at the destination designated at time of sale by the buyer. The term “other expenses” as used herein shall not include any demurrage on containers, trucks or cars as a result of buyers delaying or refusing delivery of the cotton.

SHIPSIDE U.D./CONTAINER FREIGHT STATION:

CLAUSE 5 – The rules for transactions made under the terms “Shipside U.D./Container Freight Station” are as follows:



- a) The seller shall deliver the cotton to the dock and/or Container Freight Station free of all charges. Terminal Receiving Charges (wharfage and handling), forwarding, and any resampling and/or reweighing to be for the account of the buyer.
- b) Delivery:
 - 1. Cotton sold Shipside U.D. terms. Since specific shipment dates might be involved, the buyer must give the seller shipping instructions 30 days prior to actual delivery of the cotton shipside. Any delay subjecting the cotton to demurrage, storage, or extra handling shall be borne by the buyer. Any demurrage at the port caused by delay or negligence on the part of the seller shall be for seller's account.
 - 2. If cotton is sold F.O.B. Container Freight Station, seller has option of delivering cotton any time during the specified delivery period.
- c) Standard marking furnished by the buyer must be performed by the seller. The cost of any special or excessive marking, other than a standard mark and brand, shall be borne by the buyer.
- d) If ranging is required by the buyer because of change of shipping instructions, such charges shall be borne by the buyer.
- e) The cotton shall be delivered in merchantable condition and shall be compressed and covered in accordance with the Maritime Commission rules.
- f) Delivery must be made in approximate 100 bale lots at one location.
- g) Seller has option of delivering cotton to the port of his choice. If buyer desires cotton at a different port location, any additional charges to be for the account of the buyer.
- h) Insurance coverage to be responsibility of title owner of said cotton.
- i) Stuffing charges on container shipments are for the account of the buyer.

F.O.B. PORT WAREHOUSE, U.D. FREE, ALL PRIOR CHARGES PAID:

CLAUSE 6 – The seller shall deliver cotton at a licensed Port Warehouse which is also designated a Container Freight Station, (CFS) at any U.S. West Coast Port served by all major ocean carriers. Transfer of ownership shall be effected through the submission of Negotiable Block Receipts to buyer with invoice documents. Should other title documents, such as individual bale receipts be

used in title transfer, any tariff variation from the published Block Receipt tariff shall be borne by the seller. Port Warehouses eligible as delivery points hereunder shall be equipped to handle cotton for shipment either via railcar, truck, bulk carrier or container. Port Warehouses unable to perform such services shall be ineligible for delivery of cotton hereunder, unless specifically mentioned to the contrary in the contract between the parties.

a) Weights Deliverable Option 1 – Cotton to be delivered in approximate 100 bale lots at one warehouse within the weight tolerance described in Rule 6, Clause 1 of these Rules.

b) Weights Deliverable Option 2 – Cotton to be delivered in approximate 100 bale lots, the total not to exceed the running bales mentioned in the contract, irrespective of weight of the total number of bales contracted for. (Running Bale Contract). Weight deliverable, whether original gin weights, Port receiving weights or Port outbound weights must be specifically mentioned in the contract.

1) Option 1 – Seller under these terms shall deliver the cotton free of all prior charges, compressed to density appropriate for shipment both to U.S. and foreign destinations. Seller shall not be concerned with the marking, outhandling, delivery to vessels, railcars or trucks and containers. Any charges in connection with such further movement of the cotton are for account of the buyer. (Identical to F.O.B. Compress — interior-terms).

2) Option 2 – Seller under these terms shall deliver the cotton free of all prior charges, compressed to density appropriate for shipment both to U.S. and foreign destinations. Buyers and Sellers should agree who pays for marking of the bales at time of the contract.

Delivery at One Warehouse: Unless otherwise stated, delivery for the contract installment due buyer shall be made at one Port Warehouse location. Additional deliveries for subsequent installments under the contract may be made at a Port Warehouse at a different port.

F.O.B. VESSEL (Scheduled Vessels):

CLAUSE 7 – The rules for transactions made under the term “F.O.B. Vessel (Scheduled vessels)” are as follows:

a) The seller shall deliver the cotton to the dock and subsequently on board the vessel free of all charges to the buyer.

b) Standard marking furnished by the buyer must be performed by the seller. The cost of any special or excessive marking, other than a standard mark and brand, shall be borne by the buyer.



- c) If ranging is required by the buyer because of change of shipping instructions, such charges shall be borne by the buyer.
- d) The cotton shall be delivered in merchantable condition and shall be compressed and covered in accordance with the Maritime Commission Rules.
- e) The buyer must give the seller shipping instructions 30 days prior to actual delivery of the cotton shipside. Any delay subjecting the cotton to demurrage, storage, or extra handling shall be borne by the buyer.
- f) Any demurrage at the port caused by delay or negligence on the part of the seller shall be for seller's account.
- g) Insurance coverage to be responsibility of title owner of said cotton.
- h) Whenever seller elects to supply cotton on CY terms, i.e. cotton stuffed into containers by sellers origin warehouse or agent, which causes ocean bills of lading to be marked "Shippers Load, Stow & Count" or similar language qualifying or limiting ocean carriers liability as to contents of containers or condition of contents, it shall be sellers obligation to honor claims arising from shortages discovered at destination. Any claims for such shortages must be supported by sworn statements from recognized international controllers, which shall be the sellers right to nominate, and must be submitted to sellers as promptly as possible, but not later than time limit described in Section II, Rule 1, Clause 2 of these Rules.
- i) Whenever cotton is shipped via container, the American Cotton Shippers Association "Container Trade Rules for U.S. Cotton shipped from U.S. Ports" as amended through 11/26/84 and any amendments or reissues thereof shall govern.
- j) Terminal Receiving Charges (TRC) and/or wharfage & handling shall be for account of the seller unless otherwise stipulated in the contract. Since such charges vary widely by ocean carrier and ultimate destination of the cotton, contracts should be specific as to sellers maximum liability for these charges.
- k) When shipping instructions are received for cotton to be loaded beyond the month of shipment as per contract and carrying charges are due seller, such shipments shall be applied to the oldest portion of the past due contract. The governing factor shall be the date of issuance of the

instructions. Carrying charges shall be calculated through the on-board date as stated in the Bill of Lading of each individual shipment.

F.O.B. VESSEL (Unscheduled and/or Chartered Vessels):

CLAUSE 8 – The rules for transactions made under the term “F.O.B. Vessel (Unscheduled and/or chartered vessels)”, are as follows:

- a) The seller shall deliver the cotton to the dock and subsequently on board the vessel. Seller is responsible for normal charges applicable to scheduled vessels. Any additional charges that normally arise from loading unscheduled and/or chartered vessels to be for account of the buyer.
- b) Standard marking furnished by the buyer must be performed by the seller. The cost of any special or excessive marking, other than a standard mark and brand shall be borne by the buyer.
- c) If ranging is required by the buyer because of change of shipping instructions, such charges shall be borne by the buyer.
- d) The cotton shall be delivered in merchantable condition and shall be compressed and covered in accordance with the Maritime Commission rules.
- e) The buyer must give the seller shipping instructions 30 days prior to actual delivery of the cotton shipside. Any delay subjecting the cotton to demurrage, storage, or extra handling shall be borne by the buyer.
- f) Any demurrage at the port caused by delay or negligence on the part of the seller shall be for seller's account.
- g) Insurance coverage to be responsibility of title owner of said cotton.
- h) When shipping instructions are received for cotton to be loaded beyond the month of shipment as per contract and carrying charges are due seller, such shipments shall be applied to the oldest portion of the past due contract. The governing factor shall be the date of issuance of the instructions. Carrying charges shall be calculated through the on-board date as stated in the Bill of Lading of each individual shipment



RULE 8 **F.O.B. TERMS**

PHYSICAL DELIVERY OF COTTON:

CLAUSE 1 – The term “F.O.B. Gin Yard” shall mean transfer of ownership at the gin yard. Cotton to be invoiced on original gin weights. Seller shall allow buyer accrued storage through date of presentation of draft or document to buyer’s bank plus any charges assessed by the gin; such as, but not limited to, universal or gin standard density, automatic sampling, and invoicing charge. In-lieu tax, if any, is for the buyer’s account.

CLAUSE 2 – The term “F.O.B. Ex-Gin Yard” shall mean transfer of ownership at a local compress. Seller shall allow buyer accrued storage through date of presentation of draft to buyer’s bank. Shipping charges such as loading, inbound hauling and in-lieu tax are to be added to the buyer’s invoice.

CLAUSE 3 – The term “F.O.B. Compress” shall mean transfer of ownership at a local compress or other compress agreed upon. Seller shall allow buyer minimum accrued storage through date of presentation of draft of documents to buyer’s bank. No other charges follow the cotton. Compress receiving weights are to apply, unless otherwise specified.

CLAUSE 4 – The terms “F.O.B. Cars, F.O.B Trucks or F.O.B. Containers” shall mean transfer of ownership with the sellers presentation of Outbound Bills of Lading or other bona fide documents evidencing loading of the cotton to the buyer. Buyer and seller should agree in the contract what documents other than outbound Bills of Lading are acceptable for transfer of title. All prior charges, including loading to the respective conveyance are for account of the seller. All charges beyond the loading of the cotton such as drayage, destination freight, demurrage, etc. are for the account of the buyer. Under these terms it is buyers responsibility to make arrangements in a timely manner as dictated by the contract to cause railcars, trucks, containers or other conveyances to be placed for loading at sellers designated point of delivery. Any delay caused by buyer following sellers notice to place equipment timely as per contract shall be subject to payment by buyer of actual carrying charges incurred by seller as a result of such delay.

Unless otherwise stated in the contract, weights deliverable hereunder shall be in accordance with Rule 6, Clause 1 of these Rules.

Caution: Contracts should clearly state any special quantity terms applicable, such as “Running Bales,” “Net Landed Weights,” etc. that modify this rule.

DEFINITION OF TERMS

“U.D. Free” and “U.D. Free-All Charges Paid”:

CLAUSE 5 – Clause 1, 2 and 3 of this Rule presume density of bales to be flat with charges for compression and other applicable charges to follow the cotton. When contracts specify “U.D. Free”, no compression charges shall follow. However, seller must allow buyer the cost of compression for any flat bales delivered in a lot at the rate published by the warehouse where cotton is stored, or, in the case of cotton still on the gin yard at a rate mutually agreed upon between buyer and seller prior to invoicing of the cotton.

When contracts specify “U.D. Free-All Charges Paid” buyer shall receive cotton free of compression charges, automatic sampling charges, invoice charges, inbound freight, gin loading charges and any other charges incurred prior to delivery of the cotton at its designated contract point.

CLAUSE 6 – Whenever cotton is sold under any terms stated in Rule 8, it shall be incumbent upon seller to submit invoice documents to buyer which are in sufficient detail as to storage deductions, compression credits, etc., to enable buyer to verify accuracy of invoice details promptly. Failing sufficient detail, buyer shall notify seller to provide the necessary information. If buyer does not receive sufficient information to complete the verification process on the day requested in time to effect payment through normal channels, buyer shall not be responsible for delayed payment. Buyer may, at his discretion, charge seller for additional storage which has accrued on the cotton as a result of sellers incomplete documentation.

COMMENT (Not part of this clause): It should be noted that the foregoing clause is intended to protect buyers from having to pay for incomplete documents, when their immediate negotiability is impossible as a result. Buyers should not use minor technicalities to avoid immediate payment.

SAMPLES:

CLAUSE 7 – Unless specifically excluded in the contract, whenever cotton is sold under Clauses 1, 2, 3 or 5 of this Rule, buyer shall be entitled to samples from seller, gin or compress as may be applicable. The cost of the sample itself shall be for account of the seller; however, the cost of pulling the samples and any freight or delivery charges assessed by gins or warehouses for such samples shall be for account of the buyer.



RULE 9 DESCRIPTION

AVERAGE RECEIPTS:

CLAUSE 1 – The term “average receipts” shall be understood to mean “gin run” and unculled.

RULE 10 DAMAGED COTTON

When cotton is bought with port or interior compress weights to govern, it is understood that damaged cotton shall be reconditioned at the expense of the seller, provided however, that the seller shall be notified of such damage and be given the opportunity of having the cotton inspected before and during reconditioning. When bought subject to interior compress weights it shall, if possible, be reconditioned at the interior compress; but if the cotton is not reconditioned in the interior, it shall be reconditioned at destination or concentration point under the supervision of a public weigher. When bought subject to port weights, it shall be reconditioned at the port likewise under the supervision of a public weigher. The expense of reconditioning shall be borne by the seller. The seller shall be entitled to the damaged cotton so removed. Final settlement shall be made on the basis of reweights after reconditioning. In case the cotton is found to be damaged, the buyer may deduct from the invoice an approximate amount to cover pending final settlement based on reweights after reconditioning. It is expressly understood that nothing in this rule shall be construed to abrogate the seller’s right to recover damages from the compress or warehouse facilities who fail to remove damage from cotton before shipment or who compress cotton while wet or damaged, unless specifically authorized in writing by seller.

RULE 11 ON CALL PURCHASES/SALES

When cotton is bought or sold on call based on futures, Buyers or Sellers Call must be stipulated in the contract, and the following rules shall apply:

a) The price must be fixed on or before delivery and/or shipment of the cotton, but in any case not later than the day preceding the first notice day of the month on which the contract is based, and if this day should fall on Saturday, Sunday, or a Holiday, the price shall be fixed on the preceding trading day unless by mutual agreement the fixation is postponed beyond this date. If the fixation has not been postponed by mutual agreement the party not holding the call option shall have the right to fix the price on the close of the market on the day preceding the first day of the month on which the contract is based, or shall have the option of transferring the call to the following active

trading month at the difference prevailing at the close of the market on the day prior to first notice day. The call option holder shall be notified immediately by the other party of the transaction details. The party holding the call option to be charged with futures commission, and the basis to be adjusted up or down as the case may be based on the call option transfer.

- b) If by mutual agreement the price has not been fixed at the time of delivery or shipment, the cotton shall be invoiced provisionally and the party not holding the call option shall retain as original margin a minimum of \$10.00 per bale.
- c) If the call is transferred to a later month by mutual consent or at the option of the party not holding the call option, as provided under Section (a), either party shall have the right to call for margins at the time of transfer, and also afterward at any time they desire to meet advances or declines from the price at which the cotton was transferred, provided always that a minimum margin of \$10.00 per bale shall be maintained. Both parties shall remit margins immediately by bank wire transfer. The minimum cost of transfer shall be the non-member rate of commission as specified by the Futures Exchange on which the contract is based.
- d) If the original margin or subsequent margins become impaired by an advance or a decline in the market, either party shall have the right to demand from the other party such funds as necessary to reinstate the minimum margin of \$10.00 per bale. Margins shall be remitted immediately. Should margin funds not be remitted promptly and with further market change to the level where margin is exhausted, the party not holding the call option then, without any further notice shall have the option at any time thereafter to fix the price at the market, as though the holder of the call option had ordered the price fixed, and final settlement of the contract be effected immediately by bank wire transfer.
- e) Either party shall have the right to demand of the other party the return of any accumulated margin in excess of the original margin.
- f) It is specifically agreed by both parties that any margin funds may be applied to the payment of any indebtedness of one party to another, provided that no such margin funds may be so applied during the life of the on call cotton contract or until price fixing has been completed and contract closed.
- g) Whenever fixation is requested by the holder of the on call option of the party not holding the on call option, neither party shall be required to accept or supply actual futures contracts to satisfy



the fixation. Both parties to the on call contract shall be free to do their own futures unless the contract specifically states otherwise.

h) For purposes of satisfying the requirements for submission of margin via bank wire transfer, funds shall be available to the requestor at his designated bank within one business day following the day of the request. Parties are urged to confer with each other if delays in the receipt of funds are evident since technically such delay could result in cotton being fixed as per subparagraph d) of this rule.