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**American
Cotton
Shippers
Association**

April 4, 2005

Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

COMMENT

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2005 APR -4 PM 4:30
OFC. OF THE SECRETARIAT

Re: Revision of Federal Speculative
Position Limits¹
17 CFR Part 150, RIN 3038-AC24

Dear Ms. Webb:

The American Cotton Shippers Association (ACSA) submits these comments in opposition to the Commission's proposed increases in the Federal Speculative Position Limits in the New York Board of Trade's (NYBOT) No. 2 Cotton Contract.

Interest of ACSA

ACSA was founded in 1924 and is composed of primary buyers, mill service agents, merchants, shippers, and exporters of raw cotton, who are members of four federated associations located in sixteen states throughout the cotton belt:

- Atlantic Cotton Association (AL, FL, GA, NC, SC, & VA)
- Southern Cotton Association (AR, LA, MS, MO, & TN)
- Texas Cotton Association (OK & TX)
- Western Cotton Shippers Association (AZ, CA, & NM)

ACSA's member firms handle over 80% of the U.S. cotton sold in domestic and export markets. The 2004-05 record crop of 23 million bales will be utilized in part by our domestic mills, who will consume 6.3 million bales, while 13.2 million bales will be shipped to foreign mills. Because of their involvement in the purchase, storage, sale, and shipment of cotton, ACSA members, along with their producer and mill customers, are significant users of the NYBOT No. 2 Futures Contract to hedge their spot and forward sales and purchases. Therefore, they are vitally interested in maintaining an orderly futures market environment and their interest is manifest in expressing opposition to the Commission's proposal since it would significantly impact their business operations and those of their producer, domestic mill, and export customers.

RECORDS SECTION

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¹ Federal Register, Vol. 70, No. 49, at page 12621, March 15, 2005.

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The CFTC Proposal

The Commission proposes to increase speculative position limits for all regulated agricultural commodity futures contracts in the single-month and all-months-combined positions for the Chicago Board of Trade's (CBOT) futures contracts for corn, soybeans, wheat, oats, soybean oil and soybean meal, the Kansas City Board of Trade's (KCBT) hard winter wheat futures contracts, the Minneapolis Grain Exchange's (MGE) hard red spring wheat futures contracts, and the NYBOT's No. 2 Cotton contract.

The Commission is proposing significant increases in lieu of the exchanges' 2004 proposal to repeal the Commission's authority to establish these limits and transfer it to the individual exchanges. In essence, the Commission's proposal adopts an alternative proposed by the CBOT to base the limits on the maximum levels that would be permitted if the agency were to apply the open-interest formula in regulation 150.5 to set the all-months-combined totals, and to adjust the single month limits to reflect the existing ratio of single-month to all-months-combined levels.

The Commission extends its reach beyond regulation 150.5, as a "strict application" of the open-interest formula would have resulted in somewhat lower speculative position limits than those being proposed. The Commission, assuming it possesses more knowledge, experience, and wisdom than those who utilize the market for legitimate business purposes, concludes there "is merit in the argument that maintaining the existing ratios between single-month and all-months-combined speculative limit levels is of benefit to the marketplace."

Adverse Impact On Hedging

The Commission's proposal to increase the NYBOT No. 2 Cotton Contract single-month limit from 2,500 to 3,500 contracts and the all-months-combined from 3,500 to 5,000 is contrary to the 2004 NYBOT proposal to maintain the current spot and single-month limits at 300 and 2,500 contracts and to increase the all-months-combined to 4,000. To sanction increases above the levels deemed appropriate by NYBOT's Cotton Contract Specifications Committee is an unwarranted and unwelcome assertion of federal authority in the marketplace.

The Commission's proposal, particularly in the single-month, is likely to drive a substantial, if not all, of the open interest into that month, wrecking havoc with the contract and hedger. Simply put, the change will invite a disproportionate amount of activity into one month resulting in large price swings and market disequilibria making it difficult for hedgers to make prudent market decisions. In our view, the excessive speculation that Congress articulated in Section 4a(a)² of the Commodity Exchange Act

² "Excessive speculation in any commodity under contracts of sale of such commodity for future delivery made on or subject to the rules of contract markets or derivatives transaction execution facilities causing sudden or unreasonable fluctuations or unwarranted changes in the price of such commodity, is an undue and unnecessary burden on interstate commerce in such commodity."

is a likely result of the Commission's proposal. Rather than enabling such activity, the Commission should follow its statutory obligation to preclude any "undue and unnecessary burden on interstate commerce."

While the Commission notes, "that Exchanges may determine to establish ... speculative position limits at levels less than the Federal level," the cotton industry is concerned that the large speculative interests will exercise their dominant position in the futures industry to dilute the interest of the hedging community to its detriment.

Therefore, we urge the Commission to withdraw its proposal and that in lieu thereof it approve the pending NYBOT submission to retain the spot and single-months at their current levels and to increase the all-months-combined limit to 4,000 contracts.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Neal P. Gillen", with a long, sweeping horizontal line extending to the right.

Neal P. Gillen,
Executive Vice President &
General Counsel