ICE FUTURES U.S.
55 East 52nd Street
New York, NY 10055

BY ELECTRONIC TRANSMISSION

Submission No. 16-84
July 22, 2016

Mr. Christopher J. Kirkpatrick
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 Rules 10.04 and 10.22 - Discount for Low-Strength Bales Delivered Against the Cotton No. Futures Contract - Submission Pursuant to Section 5c(c)(1) of the Act and Regulations 40.4 and 40.5(a)--EXPEDITED APPROVAL REQUESTED

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC") Regulation 40.4 and 40.5(a), ICE Futures U.S., Inc. ("IFUS" or "Exchange") hereby submit for review and expedited approval, the amendments to Rules 10.04 and 10.22 set forth in Exhibit A, which create a discount for delivery of low strength bales against the Cotton No. 2 futures contract. Cotton No. 2 Futures Rules currently allow for delivery of bales with a strength reading of 25.0 grams per tex or higher, with no provisions for premiums or discounts for delivery based on strength. In order to bring the futures contract terms more in line with commercial market practice, the Exchange is amending Rules 10.04 and 10.22 to create a discount for delivery of low strength bales, that is, those which have a strength reading of 25.0 to 25.9 grams per tex.

The new discount will be based on daily spot market data derived from the same spot markets currently used to determine premiums and discounts for grade and staple differences[1].

[1] The existing premiums and discounts for grade and staple are calculated by the USDA using data collected by them from regional spot markets as provided by USDA regulations; for a given delivery day, the relevant differences are those observed by the USDA on the 6th business day prior to the delivery day. The new strength

The amendments do not change the minimum strength quality allowed to be delivered (which will remain at 25.0 grams per tex). The amendments also provide that the impact of the new discount on a delivery invoice shall be handled in the same manner that the existing premiums and discounts for grade and staple are handled.

The amendments, which were suggested by the American Cotton Shippers Association and which received unanimous support from the Exchange's Cotton Committee, bring the No. 2 futures contract terms more in line with the commercial market practice to discount such bales. For example, the CCC loan program already applies USDA-determined discounts to low strength bales. As such, the failure to incorporate a discount could create an unwanted incentive to deliver low strength bales against the contract.

Furthermore, in considering when the proposed amendments should be implemented, the both the Cotton Committee and the Exchange's Board of Directors determined that the amendments do not materially affect the amount of money to be paid or the quality of the merchandise to be delivered under the Cotton No. 2 futures contract, and therefore, can be made effective to contract months in which there is open interest. In reaching this recommendation, it was noted that over the past five crop years the share of total US production that fell into the relevant strength range has been quite small; USDA Annual Cotton Quality Reports for the past four full seasons (2011/12 to 2014/15) shows the share of production with a strength reading from 25.0 to 25.9 grams per tex at 0.9%, 0.8%, 0.4% and 0.5% respectively. In addition, the Exchange's weekly report detailing the distribution of certified stocks by strength reading; showed, as of June 13, 2016, that only 0.4% of certified bales fell into this low strength range.

While the effect on the value of applying the amendments to existing positions cannot be predicted, since the 2016/17 crop has not yet been harvested and of unknown condition the impact of the new discount applied to low-strength cotton will be *de minimis*, based upon the small volume of such low-strength bales produced over the past four seasons and the season-average commercial market discounts for these bales. The season average USDA-calculated discount for these bales over the same four past full seasons has been approximately 150 points/1.5 cents per pound. For example, at the current futures price of 72 cents per pound, delivery of par quality bales (ie, no quality or age differentials) would generate an invoice value of $36,000 per contract. Using the four-season average share of crop data (rounded up to 1%) and average discount level referenced above, the invoice impact of the proposed discount would

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discount will also be calculated by the USDA using data from the same regional spot markets and following the same schedule.

be $7.50 per contract[2]. As such, any price impact related to the subject amendments would be small in comparison to the size and supply/demand fundamentals of the 2016/2017 crop year, which is the principal driver in determining price levels for futures positions in the October 2016 delivery month and subsequent delivery months.

The amendments to Rules 10.04 and 10.22, which the Exchange shall make effective upon approval by the Commission for the October 2016 delivery month and all delivery months thereafter, comply with the Commodity Exchange Act, as amended, and the regulations thereunder. The amendments do not alter the quality or quantity of cotton deliverable against the Cotton No. 2 contract. Rather, in furtherance of Core Principle 3, the amendments align the contract with current commercial practice. By adding a discount, the amendments reduce the incentive to deliver low strength bales against the Cotton No. 2 contract, which will help keep futures prices aligned with cash market prices. There were no substantive opposing views to the amendments.

The Exchange certifies that concurrent with this filing a copy of this submission was posted on the Exchange's website at (https://www.theice.com/futures-us/regulation#rule-filings). If you have any questions or need further information, please contact me at 212-748-4021 or at jason.fusco@theice.com.

Sincerely,

Jason V. Fusco
Assistant General Counsel
Market Regulation

Enc.
cc: Division of Market Oversight

[2] Calculated as follows: 1% of 50,000 pounds = 500 pounds subject to the discount; 500 pounds X $0.0150 per pound = $7.50.

Exhibit A

(In the text below, additions are underscored.)

Rule 10.04. Contract for Future Delivery

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(b) All contracts for the future delivery of Cotton No. 2 shall be in the following form:

ICE FUTURES U.S.®, INC.

Cotton No. 2® Contract

NEW YORK______________________ 20____

A. B. of the County and State of _________ have this day Sold/Bought and agreed to Deliver to/Receive from C. D. of the same place fifty thousand (50,000) pounds in about one hundred (100) square bales of cotton, growth of the United States, at the price of ___________________ cents per pound for Strict Low Middling one and one-sixteenth inches with additions or deductions for other grades in accordance with the provisions of the United States Cotton Futures Act, subsection (f)(3) and with additions for staple premiums or deductions for staple and <u>for strength and</u> micronaire discounts, deliverable from licensed warehouse at a permissible point of delivery as provided in the By-Laws and Rules, between the First and Last Delivery Day of ___________________ inclusive, the delivery within such time to be at seller's option in one (1) warehouse, upon notice to buyer, as provided by the By-Laws and Rules of ICE Futures U.S. Inc. (the "Exchange"). The cotton dealt with herein or delivered hereunder shall be of, or within, the grades for which standards are established by the Secretary of Agriculture, except cotton prohibited from being delivered on a contract by the United States Cotton Futures Act, subsection (f)(1)(E), and shall be of no other grade or grades, and shall be subject to Exchange inspection.

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(Balance of the Rule unchanged.)

Rule 10.22. Invoicing and Grade<u>, Strength</u> and Staple Differences

(a) In the case of cotton being tendered against the Cotton No. 2 Futures Contract, it shall be invoiced by calculating in bale units the average value on or off color grade of strict low middling white (41), leaf grade 4, staple length 1-1/16 inch (34), micronaire 3.5 to 4.7, Grams Per Tex of twenty-[~~five~~]<u>six</u> (2[~~5~~]<u>6</u>.0) or higher and adding or deducting such average premium or discount to or from the notice price and figuring the net weight of the total quantity being invoiced (deliverable weight less weight allowance) by the price ascertained in the manner outlined.

(b) Premiums and discounts will be the USDA premiums and discounts adjusted in accordance with paragraphs (d) and (e) below for the specified Notice Day.

(c) Grade, staple and micronaire differences for deliveries on the Cotton No. 2 Futures Contract shall be based on commercial differences determined in accordance with the United States Cotton Futures Act and the regulations thereunder, as from time to time amended, as provided in paragraphs (d) and (e) of this Rule.

(d)(i) The notice price shall be the invoice price for all cotton with a color grade of Strict Low Middling White (41), leaf grade 4, staple length of 1-1/16 inch (34), Micronaire 3.5 to 4.7, and Grams Per Tex of twenty-five (25.0) or higher. Additions and deductions for other deliverable grades shall be made at the average of the differences quoted on the sixth (6^{th}) Business Day prior to the Date of Delivery for corresponding grades in the spot markets designated by the Secretary of Agriculture for the purpose of quoting grade differences in accordance with the United States Cotton Futures Act and the regulations issued thereunder.

(ii) If delivery is made pursuant to delayed certification class, all premiums, discounts and weight allowances shall be based on the last regular delivery day not the date of physical delivery of the documents.

(e)(i) An addition shall also be made for each bale having a staple of one and three thirty-seconds of an inch, which shall be equal to the full average premium for like staple over one and one-sixteenth of an inch staple quoted on the sixth (6^{th}) Business Day prior to the Date of Delivery, (except in delayed certification) in such of the spot markets above referred to as do quote staple differences. An addition shall also be made for each bale having a staple of one and four thirty-seconds of an inch or longer, which shall be equal to the full average premium for like staple over one and one-sixteenth of an inch staple quoted on the sixth (6^{th}) Business Day prior to the Date of Delivery, (except in delayed certification) in such of the spot markets above referred to as do quote staple differences. A deduction shall also be made for each bale having a staple of one and one thirty-second of an inch, which shall be equal to two hundred percent (200%) of the full average discount for like staple under one and one-sixteenth of an inch quoted as aforesaid.

(ii) A deduction shall also be made for each bale having a micronaire reading of 4.8 to 4.9, which shall be equal to the average of the differences quoted on the sixth (6^{th}) Business Day prior to the Date of Delivery for this micronaire range in the spot markets designated by the Secretary of Agriculture referred to in subparagraph (d)(i) above. If no such differences are available, the deduction under this provision shall be zero (0).

(iii) A deduction shall also be made for each bale having a strength reading of from 25.0 to 25.9 grams per tex (inclusive), which shall be equal to the average of the differences quoted on the sixth (6^{th}) Business Day prior to the Date of Delivery for this strength range in the spot markets designated by the Secretary of Agriculture referred to in subparagraph (d)(i) above. If no such differences are available, the deduction under this provision shall be zero (0).

(f) The penalties as provided in Rule 10.33 will be arrived at by applying to these weight penalties, respectively, the grade and staple differences applicable on the day of tender.