ICE FUTURES U.S.

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New York, NY 10055

BY ELECTRONIC TRANSMISSION

Submission No. 17-117
August 01, 2017

Mr. Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Amendments to Cotton No. 2® Rule 10.22(e)(i) – Premiums and Discounts
Submission Pursuant to Section 5c(c)(1) of the Act and Regulation 40.5

Dear Mr. Kirkpatrick:

Pursuant to Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.4(a), ICE Futures U.S., Inc. ("IFUS" or "Exchange") submits for approval by the Commission under the procedures set forth in CFTC Regulation 40.5, the amendments to the terms and conditions of the Cotton No. 2 Futures Contract in attached Exhibit A. The amendments provide an additional premium for deliveries of 37 and higher staple cotton against the Cotton No. 2 Futures Contract.

The "staple" corresponds to the length of cotton fiber, measured in 32nds of one inch. For example, a 35 staple is 1 and 3/32nds of one inch and a 36 staple is 1 and 4/32nds of one inch. In commercial practice, longer fibers/higher Staple typically carry a premium vs. shorter fibers/lower Staple. The amount of this commercial premium for higher Staple bales (and the commercial discounts for lower Staple bales) varies over time, as end user requirements and the relative supply of each particular quality can vary during and across marketing years. Data on the current commercial premiums and discounts for each quality is collected daily and published by the USDA. These USDA premiums and discounts are quoted using the same par description as the No. 2 futures contract, and for a particular quality description are quoted in terms of "points on/off par value" with each point equal to one one-hundredth of a cent per pound.

Exchange Rule 10.22 provides for the use of specified USDA premiums and discounts for deliveries against the Cotton No. 2 Futures Contract. Deliveries of 37 and higher staple, which had historically represented a small percentage of the overall supply, are currently invoiced using the USDA premium for 36 and higher staple difference, receiving no additional premium against the No. 2 Contract.

According to USDA data, the share of US production with a Staple of 37 or higher was 29.6%, 37.4% and 46% over the past three crop years. As cotton with a staple of 37 or higher now represents a significant percentage of the supply, the Exchange is amending Rule 10.22(e)(i) to cause the delivery terms for the Cotton No. 2 contract to more closely match commercial market terms. The amendments will provide an additional premium for deliveries of 37 and higher staple. Please note, the amendments <u>do not</u> affect the range of qualities that can be delivered against the No. 2 contract as cotton that is 37 and higher staple may currently be delivered against the contract.

The Exchange also submits corresponding amendments to Cotton Resolution No. 2, which incorporate the additional premium for deliveries of 37 and higher staple for cotton classed using the Smith Doxey Classing procedures.

The Cotton Committee determined that the proposed 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 they can be made effective to contract months in which there is open interest. By unanimous vote, the Committee recommended that the amendments be made effective for the earliest contract month. In reaching this recommendation, the Committee noted that over the past three crop years the difference between the USDA premiums for 36 and 37 Staple cotton (all other qualities at par) was *de minimis.* The season-average difference between 36 and 37 staple for each crop year follows below:

2014/15 - 14 points, equal to $0.0014 per pound
2015/16 - 26 points, equal to $0.0026 per pound
2016/17 - 28 points, equal to $0.0028 per pound

While the Exchange agrees with the Cotton Committee, we are proposing to make the amendments effective upon approval by the Commission or forty-five days from the date of submission for the December 2018 delivery month. The Exchange believes that deferring implementation of the amendments to the December 2018 contract will provide adequate advance notice of the change to all market participants and will allow any participant affected by the change to take any market action they deem appropriate prior to implementation. Furthermore, as of July 28, 2017, there was a total of 216,063 lots of open interest across call Cotton No. 2 futures contract months; open interest in the December 2018 and later expiries totals 8,044 lots, or approximately 3.72 % of the total open interest.

The Exchange certifies that the rule amendment complies with the requirements of the Commodity Exchange Act and the rules and regulations promulgated thereunder. The Exchange has reviewed the designated contract market core principles as set forth in the Commodity Exchange Act and has determined that the amendments to Rule 10.22 and Resolution No. 2 are compliant. Specifically, the amendments comply with core principle 3 (Contracts not Readily Subject to manipulation) as the amendments cause the delivery terms for the Cotton No. 2 contract to more closely match commercial market terms.

The Exchange further certifies that, concurrent with this filing, a copy of this submission was posted on the Exchange's website, which may be accessed at (https://www.theice.com/notices/RegulatoryFilings.shtml).

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

EXHIBIT A

(In the text below, additions are underscored and deletions are lined through.)

Rule 10.22. Invoicing and Grade and Staple Differences

(a) In the case of cotton being tendered against the Cotton No. 2 Futures Contract, the net grade and staple differences (i.e., premiums and discounts) for a lot 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 (25.0) or higher and adding or deducting such average premium or discount to or from the notice price and figuring the weight of the total quantity being invoiced (calculated as the sum of the Net Weights of the bales in the lot less the sum of the weight allowance applicable to the bales as provided in Rule 10.18) 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) Color Grade, leaf 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 (6th) 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 (6th) 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 be made for each bale having a staple of one and four thirty-seconds, 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 (6th) 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~~] five 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 (6th) 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.

* * *

(Balance of the Rule unchanged.)

No. 2 - Use of Original Smith Doxey Classing Data to Register Bales As Tenderable

In addition to the inspection and sampling procedures as provided in Exchange Rules 10.27A and 10.27B, cotton stored in an Exchange Licensed Store may be submitted to USDA for registration as tenderable against the Cotton No. 2® Futures Contract at any time between the Original Smith Doxey classing date of the bale and the close of business on the one hundred and eightieth (180th) calendar day after the classing date of the bale, subject to the quality limitations and administrative procedures below. In the event of any inconsistency between this Resolution and any other provision of the Rules, this Resolution shall prevail.

* * *

Invoicing:

For purposes of calculating invoices under Rule 10.22 for bales entered into certificated stocks based upon Original Smith Doxey classing data only, the staple length of the bale shall be determined based upon the USDA calculation of the length of the fiber expressed in dig terms, as shown below:

Dig Measurement From:	Invoiced as Staple:
1.03 to 1.05	33 (1 and 1/32nd of an inch)
1.06 to 1.08	34 (1 and 2/32nds of an inch)
1.09 to 1.11	35 (1 and 3/32nds of an inch)
1.12 to 1.14	36 (1 and 4/32nds of an inch)
1.15 and higher	[~~36~~] 37 (1 and [4] 5/32nds of an inch)

In the interest of clarity, for all other certified cotton the Staple used for invoicing shall be the staple as shown in the EWR record for the bale based upon USDA certified classing of the bale.