

NOTICE

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Summary of content

Cotton daily price limit rule changes pending CFTC approval.

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Changes To Cotton No. 2 Futures Daily Price Limit Rule – Pending CFTC Approval

The ICE Futures U.S., Inc. Board of Directors has approved amendments to Cotton Rule 10.09, making significant changes to the Daily Price Limit for the Cotton No. 2 futures contract. The Exchange intends to implement the amendments upon approval by the Commodity Futures Trading Commission, and will announce the implementation date when it is known.

The amended Rule provides for an Initial Limit Amount that increases as the absolute price level of the determining futures delivery month increases, as follows:

Futures Contract Price Range	Initial Limit Amount
up to 80.00 cts/lb.	3.00 cts/lb.
80.01 up to 110.00	4.00 cts/lb.
110.01 up to 140.00	5.00 cts/lb.
140.01 up to 170.00	6.00 cts/lb.
170.01 and higher	7.00 cts/lb.

The amended Rule provides that for purposes of determining the Initial Limit Amount for the next Business Day the Exchange shall use the Settlement Price of the higher-priced future delivery month that is either: (1) the Front Month, if such month has the highest open interest of all listed months; or (2) the Front Month and the futures contract month with the highest open interest.

For example, as of the close of business on Thursday January 27, 2011, the March 2011 futures contract was both the Front Month and the contract month with the highest open interest, and it settled at a price of 169.39 cts/lb. Under the amended Rule, the daily price limit for all delivery months on the following Business Day would be 6.00 cts/lb.

In addition, the amended Rule provides for a single expansion of the Initial Limit Amount by an additional 1.00 ct/lb. on the trading day following any day on which two or more of the first five listed months (or the sole remaining futures contract in a crop year) close at limit bid or offer based upon the Initial Limit Amount then in effect. This expansion does not apply when the Initial Limit Amount is 7.00 cts/lb., as the maximum price limit under the amended Rule is 7.00 cts/lb.

For example, assume that the July futures contract is the month being used to determine the Initial Limit Amount for all months,

and that the July Settlement Price yesterday was 115.00 cts/lb, so that today's daily limit was 5.00 cts/lb. If in this example, the July contract settled at limit up today – or 120.00 cts/lb. – then the daily price limit in effect tomorrow would be 6.00 cts/ lb. (the 5.00 Initial Limit Amount plus the 1.00 ct/lb. expansion). As long as the July Settlement Price remains within the 110.01 to 140.00 range, 6.00 cts/lb. is the maximum daily limit that could be in effect.

For purposes of the amended Rule, a crop year is defined as the period beginning with the October futures delivery month of any calendar year and ending with the July futures delivery month of the next calendar year. Also for purposes of the amended Rule, the October futures delivery month cannot be the Front Month; this means that once as of the First Notice Day for the July futures delivery month, the Front Month shall be the subsequent December futures delivery month.

No change is being made to Exchange Rule 10.53, which provides for a halt in trading of Cotton No. 2 options upon a determination by the Exchange that the Lead Month futures contract is trading at a synthetic price that is equal to two times the daily price limit then in effect for that futures contract month.

A copy of the amended Rule follows. Current Rules can be found on the web at:

https://www.theice.com/publicdocs/rulebooks/futures_us/10_Cotton.pdf.

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(In the text of the amendments below, additions are underlined and deletions are bracketed and lined out.)

Rule 10.09. Price Limits

(a) Futures

(i) There shall be no price limits in the current futures month on or after First Notice Day.

(ii) For the purposes of this Rule, a crop year shall mean the period beginning with the October futures delivery month of any calendar year and ending with the July futures delivery month of the following calendar year.

(iii) ~~There shall be no trading in futures at a price more than three cents (3¢) per pound (or 300 points) above or below the previous day's Settlement Price.~~

~~first five (5) listed futures delivery months that are subject to daily price limits or the remaining futures delivery month in a crop year close at limit bid or limit offer, the daily price limits for all futures delivery months shall increase to four cents (4¢) per pound (or 400 points) on the next Business Day.~~

~~(v) Should two (2) or more futures delivery months within the first five (5) listed futures delivery months that are subject to daily price limits or the remaining futures delivery month in a crop year close at limit bid or limit offer while daily price limits are four cents (4¢) per pound, daily price limits for all futures delivery months shall increase to five cents (5¢) per pound (or 500 points) on the next Business Day.~~

~~(vi) If price limits are five cents (5¢) per pound and no futures delivery month closes at limit bid or limit offer, daily price limits for all futures delivery months shall revert back to four cents (4¢) per pound on the next Business Day. If price limits are four cents (4¢) per pound and no futures delivery month closes at limit bid or limit offer, daily price limits for all futures delivery months shall revert back to three cents (3¢) per pound on the next Business Day.~~

~~(vii) Should either of the two (2) futures delivery months with the highest open interest settle at eighty four cents (84¢) or higher on any Business Day, then on the next Business Day the daily price limit then provided for all futures delivery months in accordance with subparagraphs (ii) through (v) of this Rule shall be expanded by an additional one cent (1¢) per pound (or 100 points).] For the purposes of this Rule, the Front Month is the first listed futures delivery month that has not reached its First Notice Day, provided, however, that the October delivery month cannot be the Front Month. Also for purposes of this Rule, the Limit Reference Month that is to be used to determine the Initial Limit Amount on any day shall be the higher-priced futures delivery month that is either: (a) the Front Month, if such futures delivery month has the highest open interest, or (b) the Front Month and the futures delivery month with the highest open interest.~~

~~(iv) Subject to subparagraph (a)(v) of this Rule concerning the expansion of the price limit, there shall be no trading in a futures delivery month at a price more than the Initial Limit Amount above or below the previous day's Settlement Price. The Initial Limit Amount in effect for all such futures delivery months on any Business Day shall be determined based upon the prior day's Settlement Price of the Limit Reference Month futures delivery month as follows:~~

~~Limit Reference Month Settlement Price Level: Initial Limit Amount:~~

~~Up to 80.00 cents per pound 3.00 cents per pound (300 points)~~

~~80.01 up to 110.00 cents per pound 4.00 cents per pound (400 points)~~

~~110.01 up to 140.00 cents per pound 5.00 cents per pound (500 points)~~

140.01 up to 170.00 cents per pound 6.00 cents per
pound (600 points)

170.01 cents per pound and above 7.00 cents per
pound (700 points)

(v) Notwithstanding the above, the daily price limit shall be subject to expansion by an additional 1.00 cent per pound (100 points) above the Initial Limit Amount on the Business Day following any day on which two (2) or more of the first five (5) futures delivery months that are subject to daily price limits or the remaining futures delivery months in a crop year close at limit bid or limit offer based upon the Initial Limit Amount then in effect. This expansion shall not apply when the Initial Limit Amount is 7.00 cents per pound; this means that the maximum daily price limit will be 7.00 cents per pound.