Comments of Dunavant Enterprises, Inc.

William B. Dunavant, Jr., Chairman

To

Commodity Futures Trading Commission

Roundtable on Agricultural Markets

April 22, 2008

PREMISE:

Events in the trading of Cotton Futures and Options contracts on the commodity exchange operated by ICE Futures US ("ICE") in February and March 2008 resulted in a dysfunctional cotton market in the United States, which is continuing. This dysfunction flows from a loss of the ability of physical commodity traders to hedge agricultural products, which brings material harm across the entire US agricultural sector of the US.

Dunavant Background.

I presently serve as Chairman of the Board of Dunavant Enterprises, Inc. We are a privately owned firm engaged primarily in the trading of all world growths of cotton, located in Memphis, Tennessee. Dunavant Enterprises or its predecessor companies have been engaged in cotton trading cotton for over 75 years. I have been an active trader personally since 1952, and continue to be actively engaged in this business. Dunavant was involved in the first major sale of US cotton to China in 1972, when President Nixon implemented foreign policy changes to improve relations with The Peoples Republic of China. Dunavant was one of the first merchants in the United States to offer a forward contracting option to cotton growers. I have served on the Boards of the New York Cotton Exchange and New York Board of Trade, each of which is predecessor to the current ICE. The ICE is the exchange offering Cotton Futures and Cotton Options Contracts presently used by participants in the US agricultural industry for conventional hedging of physical cotton positions. Dunavant is a shareholder of the ICE, but no member of our firm currently sits on its Board. I presently serve on ICE's Cotton Committee and Warehousing and Delivery Committee.

Role of Merchant. Cotton merchants fill **two critical needs** for the US Cotton industry:

1. By entry into forward contracts to purchase cotton from growers, **merchants remove price risk to the grower**, allowing him to "lock in" an acceptable sales price for his crop. Without the merchant as buyer, each agricultural producer would bear the uncertainty of volatile price swings in the commodity, at a time when the fixed costs of crop inputs are more and more expensive at the farm level.

2. Cotton merchants purchase US cotton directly from cotton producers, and **perform the vital role of moving the raw product from the production areas into world markets**. As the US has developed into an agricultural exporter--currently a bright spot in the balance of trade equation-- merchants have developed the network of sales agents, foreign offices, and most importantly, the logistical capability to move cotton from the US interior to textile mills over the world. Without merchants in the supply chain, the agricultural producers are left with a crop on their hands, and no ability to get it to market.

Role of Futures Exchanges, CFTC

a. **Exchanges.** For the Agriculture sector, the primary purpose of exchanges is price discovery and offsetting price risk through the hedging mechanism. Obviously, exchanges have also evolved into investment vehicles for non-agricultural interests hoping to "cash in" on perceived profit opportunities in commodities without the risk or capital investment associated with physical trading. The ICE, as a for-profit exchange, is in a conflicted position of trying to achieve objectives that can run counter to each other. As a for-profit entity, its fiduciary duty to shareholders is to maximize value. Under current trading rules, this is best achieved through increased trading volume, regardless of the impact on individual traders or even sectors within the trading community. Even assuming that the ICE were to act in the best interests of "the industry," or its customers, those terms would need to be redefined and conflicts reconciled.

b. **CFTC.** ***Through effective oversight, the CFTC enables the futures markets to serve the important function of providing a means for price discovery and offsetting price risk.*** (CFTC Website: "About the CFTC"). This statement from the CFTC's website recognizes that the market's function is to provide a means for price discovery and risk management for those businesses involved in agricultural production and marketing, and that the CFTC's role is to help achieve this function.

March 3-6 Events.

Over the last weeks of February, 2008 the price of cotton futures on ICE had climbed steadily from around $.70 to approximately $.80. On March 4th, 2008, Cotton Futures and Cotton Options traded in an intraday price range between $.8495 and $1.09. On the same date, the low on the Dow-Jones Industrial Average was 12,032. The same volatility on the Dow would have been the equivalent of moving between 12,032 and 15, 438—a 3,406 point range.

This extreme volatility, combined with application of the ICE rules of margining then in effect, had the following results:

(i) the cotton futures market **failed in the functions** of both price discovery and offsetting price risk,

(ii) the cotton trade experienced a liquidity squeeze, forcing management of cash, and lifting of prudent hedges of physical cotton positions,

(iii) agricultural lenders tightened credit, further restricting trading in Ag products, and

(iv) forward purchasing of US cotton was frozen, and remains so.

These results, all of which are to the detriment of US agriculture, are likely to continue unless some actions are taken to restore confidence that trading on the ICE will achieve the objectives of price discovery and offset of price risk for the agricultural community and its credit support systems without risking a repetition of the events of early March.

Forward Purchase Contracting.

Our company has done no material forward contracting for purchase of US cotton since March 4th. To the best of my knowledge, all major cotton merchandising firms in the United States are in the same posture. Merchants have traditionally hedged the price risk of holding inventory, or of forward contracting, on Exchanges such as the ICE and its predecessors. Because of the events of early March, conventional and otherwise entirely prudent hedging of forward crop purchases now presents an unacceptable risk of loss, and would threaten the very viability of a firm in the current futures trading environment, and under current margining rules of the ICE. As a result, with little or no appetite for taking on such risk, this situation translates into little or no willingness or ability to enter into forward contracts with producers.

Ice Futures/Options Price Disconnect from Physicals Trading

US cotton producers often prefer to sell under a forward contract in which the price is to be determined at a later date. The pricing will be set, using the cotton futures price for an agreed futures delivery month, as the benchmark. The agreed price will be expressed as a number of cents , expressed in points (the "basis") over or above the benchmark futures month. The price remains open until some date in the future. The traditional "basis" for forward purchasing for US cotton from growers is 350 points (±) "off" New York/ICE Futures, and has been so for many years. On March 4-6, our company was conducting no contracting, and only isolated trading was occurring anywhere in the US cotton market. TheSeam is an electronic platform for trading in physical cotton, operating in principle somewhat similarly to the ICE for cotton futures trading platform. The schedule shown below for Grower-to-Business trading on TheSeam illustrates that these isolated trades occurred at prices ranging from **2,208 points ($.2208) off to 2546 points ($.2546)** off ICE Futures.

The Seam Trading Data from March 4-March 6

Trade Date	Bales	Average Price	Nearby Futures	Difference
3/4/2008	924	0.6340	0.8886	0.2546
3/5/2008	169	0.6401	0.9274	0.2873
3/6/2008	1,660	0.6374	0.8582	0.2208

7. Recommendations:

a. Dunavant endorses the recommendations submitted to the Commission at the roundtable by the American Cotton Shippers Association, particularly:

(i) We recommend that an index fund with a hedge exemption should restrict its position in a commodity to the dollar allocation or the percentage of funds allocated to that commodity. Further, any variation should be subject to speculative position limits, and that such funds should report their cash positions on a weekly basis.

(ii) It is our recommendation that all cotton swaps transactions be reported to the Commission. Further, that all non-traditional hedge accounts, those not involved in the commercial enterprise of physically trading bales of cotton, be reported as a separate individual category.

(iii) We urge the Commission to use it emergency authority to, inter alia, require that the ICE and its clearing members adhere to the practice of margining futures to futures settlements and options to option settlements and that only those involved in the physical handling of the agricultural commodity (cotton) be eligible for hedge margin levels.

b. We also recommend the elimination of "Block Trading" on the ICE. Block Trading consists of trades in minimum lots of 500 contracts (50,000 bales of cotton). Block Trades are executed between counterparties outside the "visible" electronic platform of the ICE, and only become visible as reported daily trades late in the trading day, or even after trading hours. This results in the absence of price discovery, as this trade is a component of the "close" but is not seen by interested parties until most or all of the day's trading has been concluded. Block Trading therefore inhibits the exchange's function of price discovery. Additionally, very few hedgers of physical cotton (e.g., cotton growers) would have the need or ability to trade in 50,000 bale lots, so this feature of the ICE is of use only to large traders, including those with hedge exemptions.

SUMMARY:

Simply stated, the futures and options market is broken for the US agricultural sector. The ripple effect of a broken futures market has been to disrupt traditional commercial transactions and financing structures across all lines of agriculture. Under the Commodity Exchange Act, the CFTC's reason for being is to assure public confidence in the integrity of the market; prevention

of market disruptions has always been a key element to doing so. While the liquidity provided by speculators has always been a necessary and desirable component of the commodity exchanges, a comfortable balance has been maintained by imposition of workable limits on speculative participation in commodities futures exchanges. Increased utilization of the hedge exemption by parties not involved in traditional physical trading of commodities has upset this balance, transforming the ICE to more of an "investment opportunity" platform than the traditional risk management tool for the agricultural community. The regulatory authority of the Commission should be exercised to restore the balance necessary to enable the exchange to function in the national interest, as intended under the Commodity Exchange Act.

Respectfully submitted,

Dunavant Enterprises, Inc.

WBDunavant , Jr.

William B. Dunavant, Jr.,

Chairman of the Board