

prices would likely be inflated if margins were raised for the purpose of curtailing speculation, that margin control is not a form of credit control and that credit is not extended nor maintained on commodities futures contracts; hence there can be no need for the Board of Governors to regulate the amount of such credit.

Mrs. SULLIVAN. Thank you, Dr. Gray; your statement will be printed in full.

(The full statement of Mr. Gray follows:)

STATEMENT OF ROGER W. GRAY FOR GRAIN AND FEED DEALERS NATIONAL ASSOCIATION

I am Roger Gray, a professor at Stanford University, where for the past thirteen years my research and teaching have been concentrated in the area of commodity markets and prices. I have consulted with several commodity exchanges and member firms on commodity marketing problems, and testified before Congress on previous occasions on legislative proposals affecting commodity markets. Today I am appearing in behalf of the Grain and Feed Dealers National Association, a nationwide association of individual marketing and processing firms, most of which rely heavily upon commodity futures markets for hedging and price determination.

Section 207 of H.R. 11601 is evidently based upon a very widespread misconception. It reads in part that "the Board of Governors of the Federal Reserve System shall prescribe regulations governing the amount of credit that may be extended on any (futures) contract". The plain fact of the matter is that credit is *not* extended or maintained on futures contracts. This being the case, one might simply say that Section 207 is innocuous or meaningless, and let it go at that. I prefer to elaborate, however, because I think that I know what is intended in this section, I think that the misconception which it reflects needs to be cleared up, and I share with the sponsor of this section a concern that futures markets be properly understood and regulated.

I believe that it is commonly accepted that this section *intends* to say that *margin* levels in commodity futures should be prescribed by the Board of Governors. I think further that it assumes that "margins" in commodity markets resembles "margins" in the securities markets, where in fact credit *is* extended and where the "margin" level governs the amount of such credit. This assumption is mistaken, however, notwithstanding the fact that it is commonly held. Let me then first explain why *futures margin* regulation is *not credit* regulation, then proceed to consider other aspects of futures margin regulation which are suggested in the other wording of Section 207.

When the Assistant Secretary of Agriculture, Mr. George Mehren, testified before the Domestic Marketing and Consumer Relations subcommittee of the House Agriculture Committee on April 4, 1966, he said, "There is a difference between the purpose of margins in the security and commodity markets." I agree emphatically with this statement; I should like to spell out briefly what the difference is. The purpose of what we call margin in the security markets is clearly stated in the Securities and Exchange Act of 1934 under the heading "Margin Requirements": "For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Federal Reserve Board shall prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently registered on a national securities exchange". Clearly, margin in this context refers to the required level of down payment on credit purchases of securities. In other words, the purchase of securities on margin is a *credit transaction*, entailing transfer of the right to use and enjoy capital assets—common stocks—and also entailing the lending of funds. In contrast, the purchase or sale of a futures contract on margin is *not* a credit transaction. A futures contract entitles its owner to exercise a later option to receive or deliver commodities. *If* this option is later exercised, which it rarely is, *then* the right to use and enjoy the capital asset—the commodity involved—is conveyed in a transaction requiring full immediate cash payment. The *only* capital asset involved is the commodity itself, which can only be owned and used after delivery occurs, at which time ownership is otherwise financed through otherwise established credit facilities, chiefly the banking system. Since no title is conveyed prior to delivery