

(The statement referred to follows:)

STATEMENT OF WILLIS C. THEIS, PRESIDENT, BOARD OF TRADE OF KANSAS CITY, MO.

My name is Willis C. Theis, and I appear on behalf of the Board of Trade of Kansas City, Mo., a contract market regulated under the provisions of the Commodity Exchange Act. The Board of Trade of Kansas City, Mo., was officially designated as a contract market under the original Grain Futures Act on May 5, 1923, by Henry C. Wallace, then Secretary of Agriculture.

We have analyzed Section 207 of H.R. 11601, and shall direct our remarks specifically to the effects of Section 207 to commodity futures contract trading.

I. TITLE OF SECTION 207

H.R. 11601, Section 207, is entitled "Regulation of Credit for Commodity Futures Trading."

The title refers to regulation of "credit" and in the body of Section 207, p. 24, line 9, "The Excessive Use of Credit" is referred to, and p. 24, line 13, the "Amount of Credit," which operations do not exist on the trading of any commodity futures contracts on the Kansas City Board of Trade. In Mrs. Leonor K. Sullivan's letter to Mr. J. S. Chartrand under date of August 2, 1967, it is suggested in the second paragraph that there is one section of H.R. 11601 which directly affects the operations in commodity futures contracts and that under the legislation, the Federal Reserve Board would have the same powers to set "margins" in such trading transactions as it does now in establishing "margins" for trading in the stock exchange. We believe that it is the intent of Section 207 to authorize the Federal Reserve Board to set *margins* and not to regulate *credit*.

A general misconception is that "margins," by virtue of being down payments on credit transactions, should be set at levels comparable to those on stock purchases. A commodity futures contract is not a capital asset, however, nor is a future transaction a credit transaction. We respectfully refer the Committee's attention to Appendix "A" document, published by Dr. Roger W. Gray, Food Research Institute, Stanford University, in 1964 entitled "Margin Requirements in Commodity Futures Transactions." The paper deals with the nature of a futures contract, its origin and actions, and outlines the purposes of margins. Further, the document deals at great length on the fact that futures contracts are not credit transactions, and the due consequences of prohibitive margin requirements for commodity trading. There is a supplementary statement attached to Appendix "A" pertaining to stock margin regulations, which clearly shows that margin requirements of the Federal Reserve System governing transactions in the stock market serve entirely different purposes from those of the margins used in the commodity futures market.

II. EXCESSIVE SPECULATION

One of the stated purposes of Section 207 is for preventing excessive speculation in and the excessive use of credit for the creation, carrying, or trading in commodity futures contracts. "Excessive Speculation" is not defined nor has it ever been truly defined as it pertains to trading in commodity futures in large volume of trading (some believe to be excessive speculation) which can cause price changes on occasions. But, light trading (inadequate speculation), the more common condition, has its price effect also. Prices are poorly defended on markets with inadequate speculation where the cost of trading tends to be high. Most futures markets suffer from "inadequate speculation." A renowned economist made a comment recently, where in part he said, "It is all right for policemen to watch for traffic violations—but the answer is not to forbid traffic. The function of the cop is to enable more traffic, not to complain that it tends to excess. To be sure, his position would be *easier* if there were not traffic, or as little as possible."

III. FEDERAL RESERVE SYSTEM SHALL PRESCRIBE REGULATIONS

The regulations which the Federal Reserve System shall prescribe, allude to the setting of margins and their maintenance on any commodity futures contract, and further, the regulations may exempt any transactions the Board may deem unnecessary, and regulations setting differentials amongst commodities, trans-