action borrowers, and lenders. There is no definition as to the level of margins, and, therefore, we must assume that in view of the proposed purpose of margins to control excessive speculation, the Federal Reserve System would set the margins at prohibitive levels. High margins will drive the public from the marketplace, and the contract markets will not be able to function and serve the public as they have for nearly a century. Mandatory margin requirements have been in effect in the Kansas City market for many years and have been determined and enforced by the Board of Trade. The practice of requiring mandatory margins is now well established, embodied in the permanent rules of our exchange, and enforced by resolutions. As long ago as 1877 the Kansas City Board of Trade had a rule regarding margin requirements, which was changed from time to time as current conditions required. The duty empowered to establish appropriate margins is lodged with the Board of Directors, and, in addition, our Business Conduct Committee supervises the observance of rules and regulations pertaining to margins.

IV. INFLATING CONSUMER PRICES

The purpose of Section 207 of preventing excessive speculation is said to have the effect of not inflating consumer prices. It is our contention that without volume trading, consumer prices would be more inflated when there is light trading. A thin market increases cost to the traders and all sections of the grain industry, and ultimately the increased cost to the consumer and the decreased value to the producer. A truer, more realistic market value is established when the price is determined by competition from many sources other than a few, and this is what we call a volume trading liquid market. With a thin trade or no trade at all, handlers and processors of grain must build into their purchase price additional cost—that is the estimated cost of risk they must assume as to price fluctuation—which the futures market protects.

For example, if a flour mill could not have the use of the commodity futures market as an insurance policy, wherein they could purchase deferred future contracts to establish price for future requirements, and which they could use for the establishment of future sales, it would be necessary for them to build within their purchase and sales prices the "risk factor." The moneys which they could pay for current inventories and futures inventories would have to be reduced to afford them the differential which might well exist from the time of harvest when there was grain available up through the winter and spring months when grains became less plentiful, awaiting the new harvest. This reduced buying price would directly affect and cause a deflated producer value. Likewise, the miller would have to build into his sales price the "risk factor" as to what grains would cost him in the future in relation to what he should be getting for his flour in the future. In this area the consumer would be affected inasmuch as flour and bread prices would necessarily be inflated.

The Board of Trade of Kansas City, Mo., thanks the Committee for the opportunity to appear and to express its views with regard to Section 207 of H.R. 11601, and respectfully requests that said Section be withdrawn and canceled. Thank you.

APPENDIX "A"

MARGIN REQUIREMENTS IN COMMODITY FUTURES TRANSACTIONS

The nature of a futures contract: Its origins and uses

A futures contract obligates its holder to receive or deliver a commodity during some specified future month. It is a contract with the clearing house for a highly standardized description of the commodity, and is therefore highly marketable and very secure. Its marketability derives from the general availability of the commodity and the organized trading in it. Its safety derives from its marketability as well as the financial integrity of the clearing house.

Futures trading arises from the necessity and convenience of making forward purchase and sales commitments in commodities. Efficient coordination of the production, transportation, storage, processing, and consumption of commodities requires forward commitments. Futures contracts are used as temporary substitutes for intended later merchandising contracts. Because they are traded openly on central markets and deal with representative grades of the commodity, they greatly facilitate the pricing of these forward commitments.

Futures markets arise out of the situation in which forward purchase and sales commitments are already being undertaken. A clearing house is established which