The limits are not entirely consistent, from market to market, with the recorded experience of price change, however, so that margins should be different multiples of daily trading limits in different commodities. Perhaps preferably, both the trading limits and the margins should be based upon an actual (say, ten-year) record of price changes. Sugar futures prices, which have been volatile in recent years, require both higher limits and higher margins, relative to the contract value, then for wheat or corn, which have experienced relative price stability. Under the conditions of recent years, margins of 10¢ per bushel for wheat and 8¢ for corn (the daily limits) are more than ample for hedging transactions, and probably adequate for speculative transactions. But margins of 50¢ per hundred pounds of sugar (also the daily limit) are clearly inadequate: probably four times this level would be desirable for speculative transactions. The trading limits in some commodities impose a slight tendency toward continuity in daily price change, as they suppress the daily change on some occasions, postponing it to the following day. In those markets which have been studied under unrestricted conditions, however, continuity of price change is not a problem.

The incidental accomplishment of margin level adjustments—that of encouraging or discouraging public participation in the trading—does not deserve much attention in the establishment of margin levels. Speculation is inadequate on many futures markets, but lower margin reuirements do not offer a desirable means of increasing speculation. Little speculation is responsive to such a consideration; whereas that which would be attracted by lower margins would not be of the most desirable sort. But by the same token, occasional increases in margin levels to deter speculation are easier to justify because they deter the least desirable sort of speculation.

While basic guideposts can be established from the record of price behavior, it is important to retain some flexibility in order to meet unusual circumstances that can be recognized by exchange governors. And while margin levels should be on the safe side, it is important that they be no higher. It is not only wasteful to idle funds upon margins that serve no purpose, but it is crucial not to discourage the use of the markets. There is ample evidence in economic studies that the markets which are used most provide the best estimates of price, and provide an extra margin of safety in the ease with which transactions can be made, which minimizes the role of margins.

*Margin requirements for different classes of traders*

Members of the clearing house own stock in the clearing house, which provides extra assurance of their financial integrity. In general, margin requirements for clearing members can safety be very low. It might be useful to require a minimum level of ownership of clearing house stock, and also to require a minimum capital ratio or other evidence of soundness.

Members and non-members of the exchanges, who are not clearing members, must clear transactions through clearing members. They are required to deposit at least the clearing house minimum margin requirements with clearing members. Most clearing members police these deposits very well, but there has been little policing of them by the exchanges, probably because the margins deposited by clearing members are deemed adequate to protect the exchange. It would be desirable if margin enforcement and policing could be improved, particularly as an alternative to higher margin levels.

Speculative contracts should be margined at higher levels than hedging contracts, because of the greater risk involved. In general, margin requirements equalling the maximum price change expected over any two-day interval would be sufficient for speculative contracts. In certain extreme instances, where the daily limit price move in one direction might occur on more than two successive days, even higher speculative margins would be justified. Margins on bona fide hedging positions should be no more than half those on speculative positions, and in some instances could safely be still lower. Anticipatory hedging, as defined in Sec. 4(3) (C) of the Commodity Exchange Act, should be subject to speculative margin requirements, as the same risk considerations apply.

In sum, since the only purpose of margins is to protect the clearing house, they can safely be established by the clearing house at quite low levels. For hedging transactions in which the risk of flat price change does not apply, margins can be lower than for speculative transactions. For clearing members who are subject to other safety factors as well, margins can be lower than for non-clearing members.