put up your $500, you would purchase a contract for 100 bales, and then when the December 1968 contract becomes the current month you would, if you were still holding the contract, take delivery of the 100 bales of cotton and pay the full purchase price within 24 hours. The $500 that you put down is merely put up as a margin to protect the clearinghouse which handles the contract.

Mr. STEPHENS. I will get a specific price per bale?

Mr. RHODES. Let me explain that should the market go against you and the $500 has been used up, they would call on you to put up additional margin.

Mr. STEPHENS. If the price should rise?

Mr. RHODES. That's right.

Mr. STEPHENS. Suppose the time came within the period of time for me to buy the balance of it—for me to buy it.

Mr. WILLIAMS. Mr. Stephens, could I make one point? You would be required to put up the additional price if the cotton dropped.

Mr. RHODES. If the price went against him.

Mr. WILLIAMS. Yes. Some comment was made that margin was required if the price went up.

Mr. STEPHENS. Yes. What I am trying to get across in my mind is this: Suppose I do not buy any cotton? Suppose I just buy a $500 futures contract, and then when the time comes, do I forfeit that if I do not buy the balance of the contract within a specific time? What happens to that $500 if I do not want any cotton at all?

Mr. RHODES. You do not put it up until you want to purchase the contract. If you want to purchase a contract, a hundred bales of cotton, that is when your broker will call on you to put up the $500. You put it up at that time and the normal situation is, you buy back the other side of the contract before it matures. If you purchase December 1968 cotton, 99 times out of 100, those are the statistics at least, the purchaser will sell a December 1968 contract before it matures. Then one contract wipes out the other, and you get your $500 back, assuming the price has not changed. The $500 margin is there to guarantee the clearinghouse which handles the contract in the event that the market goes against you. It goes to protect the clearinghouse which handles the contract in the event that the market goes against you, regardless of whether you are a seller or purchaser.

Mr. STEPHENS. I am not sure I know what happened to my $500.

I appreciate your being before the committee, and from your experience as you outlined, you ought to know every way in which cotton men can go broke.

Mr. RHODES. I would like to make one very short statement if I may. I don't desire to summarize my statement, but I do want to point out that we should not overlook the fact that if excessively high margins are imposed to discourage the use of futures exchanges in this country, that the business of hedging may well be transferred to futures markets in other countries which have established markets or which very well can establish markets. By doing that we could very well lose the leadership which we now enjoy in this type of business.

Just this morning I received a letter from the Indian Forward Market Commission asking me to write an article for their publication explaining our No. 2 contract which they understand is getting started