margins. He referred to them on page 4 of his statement. I see you have a very detailed appendix on that subject. Could you quickly tell us what are the criteria by which the proper margins are set? Does it have to do with control of excesses of speculation?

Mr. THEIS. No, sir. As far as the criteria for the setting of the margin, I would like to go a bit deeper than what has been said here as to the operation of the Kansas City Board of Trade and a little deeper than what is in the paper.

The minimum margins are set by the board of directors of the Kansas City Board of Trade—for the minimum margins to guarantee that contract. However, we have the Kansas City Grain Clearing Co. who takes the opposite side of these contracts, and all the trades are cleared through them. They have margin requirements for that clearinghouse. Therefore, the members of the Kansas City Board of Trade who are also clearing members are obliged to bring in the margin of either one, whichever is the highest.

As far as the directors of the Kansas City Board of Trade are concerned in the setting of minimum margins for our members, we review them, we review them quite often, we also look at the criteria: Is this level high enough to guarantee the contract—is it also low enough to afford the public and the hedger to come in and make full use of the margin?

We sincerely believe the more forces we have in the marketplace dictating their thoughts as to the price up or down establishes what we consider to be a true market price.

Mr. BINGHAM. Is there any parallel between the downpayment made on a real estate contract at the time of signing of the contract and what you refer to as margins in futures trading?

Mr. GRAY. I think the closer parallel, sir, might be with a deposit of earnest money rather than downpayment. Because the futures margin is not a downpayment. The title to no capital asset has been made when a futures contract is established by a transaction between buyer and seller.

Mr. BINGHAM. That is also true in real estate. The downpayment in a real estate contract is, in effect, earnest money.

Mr. GRAY. Yes. If, in the final analysis, if it were true, sir, that the futures contracts culminated in delivery of the product, then the margin could serve retroactively or retrospectively—it could serve as a downpayment and the balance over and above that margin would be what—would have to be paid in cash to purchase and own the actual commodity. To that extent you could say there is a parallel. But the important point is, the usefulness of markets is for hedging purposes—people who hedge do not ordinarily intend to take delivery. Speculators rarely do. Therefore, some 99 percent, I suppose, in the well-used futures markets are offset before they mature and, therefore, you don't have the commodity changing hands through this instrument, and if you look at that in retrospect you couldn't say that this margin deposit was a downpayment because there was no transaction.

Mr. BINGHAM. Let me ask you this question, Dr. Gray. It seems to me it is a rather key question.

I take it from what you have said before that you would agree that excessive speculative buying in futures can force up the futures