price is paid only when a buyer takes delivery. The full sales price is realized only when the seller makes delivery. Thus, trading in commodity futures is essentially different from the purchase or sale of securities where the entire purchase price is payable ordinarily within four days of the execution of the trade and where the broker furnishes a part of that purchase price, thus extending credit to the customer. Such credit is never extended by the broker who handles the actual delivery at maturity of the futures contract. At that point the customer, who is a buyer, must place the broker in funds for the full amount of the purchase price. It is obviously a misconception of the functioning of the commodity futures markets to relate the margin deposits which are required under the Rules of the Exchanges with the use of credit.

2. The futures markets perform an economic function which can only be served properly if these markets have sufficient breadth and liquidity to enable hedgers to buy or sell their requirements without causing price distortions. It is unnecessary to elaborate upon this function beyond saying that excessive margin requirements imposed by any Governmental agency will inevitably restrict the amount of trading and thus impair the economic functions which the markets perform. This result does not serve to lower the price to the consumer; on the contrary, it invariably results in sharper price fluctuations because of the inability of the producer, dealer and consumer of the commodities traded to hedge their respective requirements and positions and thus reduce their inventory risks.

3. The proposal to give the Federal Reserve Board authority to deal with this problem is inappropriate in any case. It would place the Federal Reserve in a position of conflict with the CEA and would impose upon the Board responsibilities for policing these markets which it has neither the personnel nor the expertise to discharge adequately.

In conclusion, we respectfully submit that there is no need for the proposed legislation and no justification for it in the light of conditions now prevailing in our commodity futures markets. We do not believe that it is in the interest of the users of these markets or the public that Section 207 of the proposed Bill should be enacted.

Statement of F. Marion Rhodes, President, New York Cotton Exchange

The New York Cotton Exchange files this statement in opposition to Section 207 of H.R. 11601 which confers on the Federal Reserve Board the power to set margins on commodity futures contracts.

We submit that the proposed legislation is based upon misunderstanding of the economic function of a futures market and a misconception of the purpose of margins in a futures transactions.

The wording of the bill clearly shows that it is based on the assumption that excessive speculation on commodity markets has the effect of inflating consumer prices and that by increasing margins speculation will be discouraged. A statement of the Chairman of the Subcommitte in announcing the introduction of H.R. 11601 likens the credit extended on stock exchange transactions to the margins required in commodity futures transactions.

It is our purpose to explain to the Committee that the function of margins on a futures exchange is entirely different from its function on a stock exchange and that if speculators are discouraged from trading on a commodity exchange by the raising of margins the effect will not be to lower prices to consumers but rather to disrupt the operations of the market and destroy the ability of hedgers to utilize the future market. This will increase the costs of production and marketing of agricultural products and will have an adverse effect on prices to consumers.

In order to develop our argument I would like to outline briefly the operations of a commodity futures exchange. It is recognized by economists and by the Department of Agriculture that a futures exchange performs a valuable economic function in the public interest. Risks in business must be paid for. They are generally passed on to the consumer. To the extent that they can be eliminated or reduced, the consumer benefits. It is the function of a commodity futures market to eliminate or reduce the risk of price flunctuations in the process by which a commodity moves from grower to consumer. This is done by hedging on the exchange. The hedging facilities afforded by a futures market reduce the cost