marketing of products by discouraging speculators from performing their functions as insurers of the risk of a change in price. And, if higher margins were applied to hedgers as well as speculators it would be more expensive for the farmer and others who deal in commodities to protect the value of their crops and products.

The history of trading on the New York Cotton Exchange does not bear out the contention that prices rise when speculation increases. Cotton prices have risen when the speculative interest has been low. And when margins have been increased by the Board of Managers of the Exchange prices have still gone higher.

The manner in which a futures market operates requires special knowledge. If the Federal Reserve Board were to increase margins when commodity prices increase, in the mistaken belief that increased margins would reduce prices, the economic function performed by futures exchanges for the benefit of growers and processors and therefore for the benefit of the ultimate consumer will have been destroyed.

We should not overlook the fact that if excessively high margins are imposed to discourage the use of futures exchanges in this country the business of hedging may well be transferred to futures markets which exist or can be established in foreign countries. The leadership the United States currently enjoys in world commodity trade would be threatened.

I think the record will show, that in general the exchanges have done a good job in the establishment and enforcement of margins. The Board of Managers and their administrative committees are ideally equipped to determine minimum margins and keep them adjusted to current trading conditions.

STATEMENT OF LLEWELLYN WATTS, JR., CHAIRMAN OF THE BOARD OF THE NEW YORK MERCANTILE EXCHANGE

In response to the invitation of Hon. Leonor K. Sullivan, Chairman of the Subcommittee on Consumer Affairs, I am submitting herewith our views on Section 207 of H.R. 11601 which purports to confer on the Federal Reserve Board the power to fix margins on commodity futures exchanges.

A bill introduced in the last Congress at the request of the Commodity Exchange Authority, H.R. 11788, representing a comprehensive amendment of the Commodity Exchange Act, contained a provision giving power to the Secretary of Agriculture to prescribe minimum margins on futures exchanges. That bill was the subject of extensive hearings in April 1966, before the Subcommittee on Domestic Marketing and Consumer Relations of the House Committee on Agriculture at which representatives of commodity exchanges, growers, processors, cooperatives and others appeared and explained to the Committee why it would not be in the public interest to have governmental control over margins on futures contracts.

As a result of that hearing the Department of Agriculture sought further light on this subject by ordering an economic report by an independent firm of economists. The results of that report are not known. However, the Department of Agriculture has sponsored a new bill, H.R. 11930, to amend the Commodity Exchange Act which was introduced in the House on July 31, 1967 by Congressman Poage and this bill no longer contains a provision for the control of margins on futures exchanges.

The attempt to invest the Federal Reserve Board with control over margins on commodity markets shows even less understanding of the subject than that exhibited by the Department of Agriculture in advocating governmental margin control last year. H.R. 11601 is based upon a misconception of the operations of a commodity futures market and a misunderstanding of the function of margins on commodity exchanges.

Taken literally, Section 207 of the bill does not accomplish its stated purpose. In its public statement of July 20, 1967 announcing the introduction of the bill, the Subcommittee said:

"Another section of the bill gives to the Federal Reserve System the same powers to set margin requirements in connection with trading in commodity futures contracts that it now holds in setting margins for credit transactions on the stock exchanges."