While that is undoubtedly the intent of the bill it fails to carry out that intention and its failue is a result of a lack of knowledge of the character of margins on commodity exchanges. Nowhere in the bill is the word "margin" used; it deals with "credit." The draftsmen have confused margins with credit arangements because the word "margin" is used on stock exchanges to represent the difference between the price of a security and the amount of credit extended to purchase or hold the security and have assumed that the same meaning is ascribed to the word "margin" on a commodity exchnge. Thus the bill gives the Federal Reserve Board power to "prescribe regulations governing the amount of credit that may be extended or maintained on any [futures] contract."

Since no credit is extended on futures contracts as far as commodity exchanges are concerned, the proposed regulations would have no effect. But if the bill should become law and if it should be interpreted, as its draftsmen do, to permit regulations governing margins on commodity exchanges, we are concerned that the same misunderstanding as to the margins utilized on futures exchanges would prevail to the end that commodity futures markets might lose their economic usefulness.

The operation of a commodity futures market is technical and intricate. But one does not have to be a n expert in its intricacies to understand the difference between margins on stock purchases and margins on futures exchanges. The former regulates the amount of credit that may be extended on the purchase of a security; the latter has nothing to do with credit on purchases and is merely a fund to guarantee the customer's obligation to his clearing member when there is a variation in price.

When a person buys a security on a stock exchange the transaction is closed within a few days and he must pay for the stock and receive it. He may borrow from his broker or other lender a portion of the purchase price and must put up the balance in cash. What he puts up in cash is called margin in stock transactions. When the margin is 10% he may borrow 90%; when the margin is 70%, as now, he may borrow 30%. Thus when the Federal Reserve Board increases margins it decreases the credit permitted on stock purchases.

The economic theory behind governmental control over margins on stock exchanges is that when credit is easy, more stock is purchased, and when there is more buying, there is a tendency for prices to increase. Thus margin controls for stock purchases is believed to have the effect of preventing excessive prices for stocks. It is also believed that such controls are necessary to prevent stock market collapses such as occurred in 1929 when margins were very low and stock prices reach very high levels.

We have no quarrel with these economic theories. It is our purpose to show that they have nothing to do with commodity futures trading. A stock market is a place where people buy stock with convenience. It is undoubtedly wholesome for the economy generally and for the purchasers in particular for the government to prevent them from over-extending their credit. A commodity futures market is not set up as a place where people buy commodities. It is an intricate device for reducing the risks of price changes by affording growers, producers, processors and merchants an opportunity to hedge those risks.

When a person enters into a contract to purchase a commodity on a futures exchange (which is a contract for delivery at a fixed time in the future), he does not incur an obligation to pay for that commodity within a few days as in the case of a stock purchase. If he retains his contract until the delivery date, which he rarely does, he pays the full purchase price in cash. The margins contemplated by the bill have nothing to do with those transactions which culminate in delivery and are the exception. In the usual transaction and almost always in the case of a speculator, against whom the bill is aimed, the person who contracts to buy will actually not purchase the commodity but will instead discharge his obligation to purchase by an offsetting contract to sell an equivalent amount of the commodity.

The margin which a purchaser of a contract on a commodity exchange is required to put up by exchange rules is not a down payment on the purchase price, as in the case of stock. It has a different function. It is to protect the clearing member of the exchange, against loss resulting from the customer's transaction. What is that loss? It is the variation in price during the period between the date the customer entered into the contract to purchase and the date he cancelled his contract by an offsetting sale. If there is a price change