course, not speculators. To the contrary, they are protected from disasterous price fluctuations by an abundance of legitimate speculators. Because there are unequal numbers of hedgers seeking commodity price protection at any given time, the speculators are necessary for efficient functioning of the futures markets. Unduly high margin requirements could reduce the number of speculators, thus serving to render futures markets less effective in their functions.

After careful study of Section 207 we strongly recommend that this section be eliminated from the Bill.

Respectfully,

ROBERT C. JACKSON,
Executive Vice President.

NATIONAL COTTON COUNCIL OF AMERICA,
Washington, D.C., August 25, 1967.

Representative LEONOR K. SULLIVAN,
Chairman, Committee on Banking and Currency, Subcommittee on Consumer Affairs, U.S. House of Representatives, Washington, D.C.

DEAR MRS. SULLIVAN: The National Cotton Council, the overall organization of the cotton industry, adopted at its Annual Meeting in February, 1967, a resolution which urges that an environment be maintained that will permit and encourage the efficient function of the cotton futures exchanges.

The efficient marketing and processing of raw cotton requires a marketing system under which the risk of wide price fluctuation does not have to be borne by the merchant or processor. During the past 10 or 12 years, Government cotton programs have all but eliminated the risk of price fluctuation since these programs have set both a ceiling and a floor on the price of cotton within a very, very narrow range. The floor was set by a non-recourse, price support loan offered to farmers. The ceiling was set by the government offering to sell its huge stocks of cotton at a price just slightly above the "floor".

With no immediate risk of any significant price change, there was no opportunity to speculate in cotton futures. In addition there was no need to hedge against a price change. The two purposes of a futures exchange are to offer the opportunity to speculate on a price change and to hedge against one.

During the period when speculation and hedging were no longer possible or needed, the New Orleans Cotton Exchange closed and only very limited trading took place on the New York Cotton Exchange.

But stocks of cotton have been reduced to a point where the surplus will be gone by next August 1. Before the 1968 crop is harvested, it seems almost certain that there will be a shortage of cotton stapling 1$\frac{1}{16}$ inch and longer. As a matter of fact the price of this kind of cotton is reported to have gone up 25 to 35 per cent above the government floor. Accordingly, the government program no longer results in a ceiling on price.

Recently, the New York Cotton Exchange established a new futures contract for trading in cotton stapling 1$\frac{1}{16}$ inch. There has been considerable activity in this contract as merchants and processors sought to minimize the risk of price fluctuation of this type of cotton. This means that it now is very important that cotton futures trading not be saddled with Government regulations that prohibit it from functioning properly. It is for this reason that the National Cotton Council opposes Section 207 of H.R. 11601.

We feel the transfer of authority to set margin requirements from the commodity exchanges to the Federal Reserve Board would discourage the efficient functioning of the cotton futures markets.

The commodity exchanges themselves are in a better position to judge what is an adequate margin than is an outside body. The various commodity exchanges find it to their own interest to set margins at a safe level, high enough to prevent an unduly high volume of spectulative transactions and low enough to encourage legitimate use of the futures market for hedging purposes.

Some compare a commodity futures market with a stock exchange. There is a fundamental conceptional difference between the futures market and the stock markets and futures markets' regulations ought not to be patterned after stock markets' regulations. Futures markets transactions represent price protec-