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REPORT TO THE CONGRESS

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Interim Report On The Commodity Exchange Authority And On Commodity Futures Trading

B-146770

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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MAY 3, 1974

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146770

To the President of the Senate and the
Speaker of the House of Representatives

This is our interim report on the Commodity Exchange Authority, Department of Agriculture, and on commodity futures trading.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are continuing our review of the operations of the Commodity Exchange Authority and plan to issue a final report when our work is completed.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Elmer B. Staats
Comptroller General
of the United States

Contents

ABBREVIATIONS

CE act	Commodity Exchange Act
CEA	Commodity Exchange Authority
CPA	Certified public accountant
FCM	Futures commission merchants
GAO	General Accounting Office
SEC	Securities and Exchange Commission

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

INTERIM REPORT ON THE COMMODITY EXCHANGE AUTHORITY AND ON COMMODITY FUTURES TRADING
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D I G E S T

WHY THE REVIEW WAS MADE

In 1973, agricultural commodity prices increased to record highs causing prices paid for food by American consumers to rise drastically.

Because of the key role commodity futures markets play in establishing commodity prices, the Congress has become concerned as to how effective Agriculture's Commodity Exchange Authority (CEA) has been in supervising commodity exchanges and traders.

There also is concern as to whether additional statutory authority is needed to strengthen this supervision.

Trading in commodity futures is the buying and selling of contracts at fixed prices for delivery of commodities at some future time. (See p. 9.)

GAO has undertaken a comprehensive review of CEA operations. This is an interim report containing GAO's preliminary observations based on a survey of CEA and recent legislative developments.

FINDINGS AND CONCLUSIONS

LEGISLATIVE MATTERS

Several major bills affecting futures trading were introduced in 1973 in the Congress. These addressed questions as to

--where regulation of trading in futures belongs in the Federal bureaucracy, and

--the need to expand the Government's authority in order to regulate this trading effectively.

Where does regulation of futures trading belong?

This question arose because of concern in Congress regarding the ability of CEA to effectively regulate futures trading, which has had an unprecedented growth, and the need to instill fuller public confidence in this trading.

The Congress considered four alternatives:

--leave the authority in the Department as presently constituted;

--leave the authority in the Department but with independence from it in budgeting and staffing;

--create a new, independent agency; and,

--make the authority a part of the Securities and Exchange Commission.

Creating an independent agency, separate from the Department, is the more appropriate alternative because:

--it would remove any appearance of a conflict of interest;

--futures markets, vital to the country's economic well-being, should be regulated by a strong, independent agency; and,

--Federal regulation could be extended to all types of futures trading encompassing commodities such as metals (copper and silver) and foreign currencies in which the Department has little or no expertise.

A potential conflict of interest exists if the authority remains in the Department because the Secretary is charged by law to influence and maintain the prices of many of the commodities traded in the futures markets. (See p. 12.)

Should CEA regulate trading in all futures contracts?

Trading in unregulated commodities has increased rapidly. In fiscal year 1973, about 5.8 million contracts (valued at $131 billion) were traded, almost double the number in the previous year. This growth has increased the need for better protection of unregulated commodity customers.

All futures trading should be regulated because individuals and firms who deal in unregulated commodity contracts deserve the same protection provided traders in regulated commodities. This includes:

--segregation of customers' funds, to guard against losses in the event of financial failures of brokerage firms;

--agency ability to investigate customer complaints of trading practices or unusual price fluctuations; and

--suspending or prohibiting individuals from trading who commit serious violations of the act.

Consistency in exchange operations and handling of customer accounts would also be provided. (See p. 16.)

Should trading by floor brokers for their own account be prohibited?

A floor broker is in the unique

position of being able to trade for his own gain or loss on one trade and for a customer's gain or loss on the next. He may at times have a direct conflict of interest because he is in a position to take advantage of the most profitable transactions for himself.

To avoid this, CEA should be authorized to restrict or prohibit trading of floor brokers and Futures Commission Merchants (brokerage firms) for their own account while trading for the accounts of customers.

CEA also should be able to set different trading standards for different contract markets to avoid unwarranted restrictions on trading volume which could result in excessive price fluctuations. (See p. 20.)

Should CEA have authority to obtain injunctions or administer fines?

CEA can punish violators of the Commodity Exchange Act by issuing cease-and desist orders or suspending their trading privileges. But these actions generally are either too severe for the violations or too meaningless to act as a deterrent.

CEA should have authority to seek injunctions and to apply civil money penalties in order to effectively deal with, and deter, violations of the act. (See p. 22.)

Should the CEA have authority to establish margin requirements for futures trading?

This question has been the subject of much discussion stemming primarily from a misunderstanding of the purpose of commodity margin, and the concern that the amount of the margin affects speculation and prices.

Commodity margin is the amount of money which the buyer or seller of a futures contract deposits with its Futures Commission Merchant to guarantee performance on the contract.

Commodity exchanges should continue establishing commodity margin requirements on a day-to-day basis because CEA is not in a position to react as quickly as the exchanges.

CEA, however, should be given authority to establish margin requirements in emergency situations to facilitate orderly trading. CEA should study, in conjunction with the commodity industry, the feasibility of developing a margin formula or margin table as a guide for traders. This would provide CEA criteria by which to measure market operations. (See p. 23.)

Should CEA have authority to designate delivery points?

CEA officials have testified that inadequate delivery points--where commodities may be delivered in settlement of a futures contract--were a major problem and could cause erratic price fluctuations.

CEA should be authorized to require the exchanges to designate additional delivery points if necessary, or to designate the points if exchanges do not do so.

The exchanges, however, should continue to be primarily responsible for establishing delivery points because of their greater expertise. (See p. 26.)

Should registration and fitness checks be expanded?

Only floor brokers and certain employees of Futures Commission Merchants such as officers or partners are required to register with CEA. They are given fitness checks to insure that only reputable people handle customer orders.

Individuals primarily involved in soliciting, accepting, or handling customers' orders, however, do not have to register. Consequently, CEA has no assurance that commodity customers are dealing with reputable brokerage representatives.

The Commodity Exchange Act should be amended to require registration of all people who handle commodity customer accounts and/or funds. (See p. 28.)

ADMINISTRATIVE MATTERS

CEA's task had become more difficult because the size of its staff had remained at about 165 while the volume and value of contracts traded had increased about 73 percent and 189 percent respectively from FY 1970 through FY 1973.

The Department did not request additional staffing until FY 1974 when prompted to do so by Congress. Lack of adequate staff has been a basic management problem. (See p. 31.)

Commodity exchange rule enforcement

CEA needs to be more aggressive in requiring exchanges to enforce

--rules concerning contract terms and trading; and,

--minimum financial requirement rules as approved by the Secretary of Agriculture.

Five years after the Commodity Exchange Act was amended requiring exchange self regulation the exchanges did not have enforcement programs acceptable to CEA. (See p. 32.)

CEA investigations

In 1965, GAO pointed out that CEA's trade practice investigations were inadequate to disclose or discourage abusive trade practices on the exchange floors.

In 1971, the Department's Office of Audit reported essentially the same deficiencies. These deficiencies continue. (See p. 36.)

Market surveillance

CEA has not regularly reviewed the adequacy of speculative trading and position limits, the primary purpose of which is to curb trading of individuals whose trades or positions might cause sudden, unreasonable, or unwarranted price fluctuations. (See p. 38.)

Registration and audit activities

CEA's regional professional staff spends about 25 percent of its time performing routine audits of Futures Commission Merchants to insure that customer funds are properly segregated from FCMs' funds and that FCMs meet minimum financial requirements. This audit function is vital to insure that customers' funds are adequately protected.

If CEA placed the primary responsibility for audits with the exchanges, CEA could function more meaningfully as an overseer and could also be more effective in other ways. (See p. 41.)

RECOMMENDATIONS

The Secretary of Agriculture should direct the Administrator, CEA, to

--give exchanges a time limit for implementing CEA's regulation on self-enforcement of trading rules, list penalties if deadlines are not met, and aggressively monitor the exchanges' enforcement programs. (See p. 34.)

--establish standards for exchanges enforcement of financial requirements and state penalties to be imposed for failure to meet the standards within a specific period. (See p. 35.)

--investigate trade practices to seek out abusive practices on a planned high priority basis. (See p. 37.)

--regularly review adequacy of or need for speculative trading and position limits on regulated commodities. (See p. 38.)

--consolidate guidance documents on price manipulation investigations and make them available to its regional offices. (See p. 40.)

--consider giving exchanges primary responsibility for audits of Futures Commission Merchants. (See p. 41.)

AGENCY COMMENTS

The Administrator, CEA, orally agreed in general with these recommendations and said additional staff had been requested to help alleviate the problems. He pointed out, however, that conducting trade practice investigations as recommended by GAO would require considerable effort. Even with increased staffing, higher priority work might preclude such investigations. (See pp. 34, 37, 39, and 41.)

The CEA Administrator disagreed with GAO's recommendation to consider giving exchanges primary responsibility for audits of Futures Commission Merchants with CEA exercising a strong oversight role. (See p. 43.)

GAO plans to comment further on these matters in its final report.

MATTERS FOR CONSIDERATION BY THE CONGRESS

On April 11 the House of Representatives passed and sent to the Senate H.R. 13113. This provides for a commodity futures trading commission in the Department with independence in staffing and funding.

To remove any appearance of conflict of interest and to instill full public confidence, the Congress should establish an independent agency, separate from the Department, to regulate all futures trading. (See p. 15.)

Also, if the Government is to regulate futures trading effectively, Congress should amend the Commodity Exchange Act to provide authority for:

--regulating all futures trading (see p. 20),

--restricting trading of floor brokers and Futures Commission Merchants for their own account while trading for accounts of customers (see p. 22),

--seeking injunctions and imposing civil money penalties (see p. 23),

--establishing margin requirements in emergency situations only (see p. 26),

--requiring exchanges to designate additional delivery points or designating such points if the exchanges do not (see p. 28), and

--extending registration requirements to all people handling customer accounts and/or funds (see p. 29).

H.R. 13113 would generally provide the above regulatory authority, except for the authority to establish margin requirements in emergency situations.

CHAPTER 1

INTRODUCTION

The Commodity Exchange Act (CE act), as amended (7 U.S.C. 1), authorizes the Secretary of Agriculture to regulate trading in contracts for future delivery of certain specified agricultural commodities on boards of trade (commodity exchanges) designated as contract markets. (A list of the commodities regulated under the act is shown in app. I.)

In 1973, agricultural commodity cash and futures prices increased to record highs. This, in turn, caused the prices paid by the consumers for food to increase drastically. These increases were precipitated by an unusual number of diverse occurrences, such as unanticipated foreign purchases of U.S. commodities, adverse weather conditions which affected crop production worldwide, and two successive devaluations of the U.S. dollar.

Because of the large increases in commodity prices and the role played by the commodity futures markets in establishing such prices, there has been an increasing awareness and use of these markets by businessmen and the general public. As a result, the number and value of transactions on the nation's commodity exchanges have increased substantially from year to year. Trading activity in regulated and unregulated commodities in 1972--15.5 million contracts (valued at $189 billion)--was more than three times the level 10 years earlier. Fiscal year 1973 trading activity totaled 23.6 million contracts (valued at almost $400 billion)--more than 50 percent higher than the activity in the previous year.

The Congress has expressed concern over the increase in futures prices and in futures trading in general. Several major bills affecting futures trading have been introduced in both the Senate and the House, but, as of April 1974, none had been enacted into law. Hearings involving futures trading were held in 1973 and 1974 by the Permanent Subcommittee on Investigations of the Senate Committee on Government Operations; the Subcommittee on Special Small Business Problems of the House Select Committee on Small Business; and the House Committee on Agriculture. Several Members of Congress have expressed concern over such matters as the Department of Agriculture's effectiveness in supervising commodity exchanges and traders, whether the Department needs additional statutory authority, and the effect of commodity exchanges and trading on food prices.

This interim report contains preliminary observations based on our survey of operations of the Commodity Exchange Authority (CEA) and on recent legislative developments affecting CEA. We are continuing to examine CEA operations and will issue a final report when our review is finished. We previously issued a report on CEA entitled "Need to Strengthen Regulatory Practices and Study Certain Trading Activities Relating to Commodity Futures Markets" (B-146770, July 16, 1965).

In evaluating CEA's current policies, procedures, and practices in carrying out its responsibilities under the law, we are doing work at the CEA headquarters office in Washington, D.C., and its regional offices in New York City, Chicago, and Kansas City. Also, we are interviewing officials of, and obtaining information from, the following commodity exchanges: Chicago Board of Trade; Chicago Mercantile Exchange; New York Mercantile Exchange; New York Cotton Exchange and Associates; and the Board of Trade of Kansas City, Missouri, Inc. To help us in our study we hired three consultants with expertise in the operations of the futures market.

RESPONSIBILITIES UNDER THE COMMODITY EXCHANGE ACT

The major responsibilities of the Secretary of Agriculture in regulating and supervising the commodity exchanges and futures trading are to:

--Prevent commodity manipulation and market corners in both cash and futures markets.

--Curb excessive speculation by large traders, which results in unwarranted changes in price.

--Prevent dissemination of false and misleading crop and market information affecting commodity prices.

--Protect users of the commodity futures markets against cheating, fraud, and other abusive practices.

--Insure the benefits of membership privileges on contract markets to cooperative associations of producers.

--Provide minimum financial standards for brokerage firms and safeguard margin moneys and equities of other traders to prevent misuse of such funds by futures commission merchants.

--Designate contract markets and register brokerage firms and floor brokers.

--Provide information to the public regarding trading operations and contract markets.

--Insure enforcement of contract markets' rules on contract terms and other trading requirements and on minimum financial standards and related reporting requirements approved by the Secretary of Agriculture.

The Secretary of Agriculture established CEA to administer the CE act, and gave CEA all his authority under the act, except for his authority to (1) approve commodity exchanges to trade in futures contracts for regulated commodities, (2) promulgate regulations, and (3) conduct disciplinary proceedings for apparent violations of the CE act or regulations. The Secretary, or his designee, serves as Chairman of the Commodity Exchange Commission, which was established by the CE act and which includes the Secretary of Commerce and the Attorney General, or their designees. The Commission is authorized to establish limits on speculative trading in regulated commodities and to order disciplinary action against commodity exchanges that trade futures contracts in regulated commodities.

DEFINITION AND PURPOSES OF FUTURES TRADING

Futures trading consists of buying and selling contracts for delivery in some future month of certain quantities of specified commodities at fixed prices. The physical commodity itself is not bought and sold on the futures markets, however, these markets play an important role in the marketing of the physical commodities. The primary purpose of the futures market is to help establish prices for commodities and to permit members of the trade to hedge or protect themselves against major losses in the event of adverse price movements for the physical commodities in the cash market.

Hedging

The futures market provides a means whereby producers, merchandisers, and processors can transfer at least some of the risks of adverse price movements of the physical commodity to speculators. This process is known as hedging. The hedger, unlike the speculator, has a financial interest in a commodity. That is, the hedger owns or has a firm commitment to buy a quantity of the physical commodity or has a future need for the commodity. There are two types of hedge used in the futures market, the buying (long) hedge and the selling (short) hedge.

The buying hedge consists of buying futures contracts for quantities of the commodity approximately equal to the quantity of the physical commodity needed to fulfill future processing requirements or other commitments. This hedge may be used by flour millers and cattle feeders or by grain merchants having firm cash sales commitments for future delivery which are in excess of inventories. The buying hedge protects the hedger from any future advances in the price of the commodity on the cash market and allows him to project his materials costs and price his product with the lowest possible profit margins.

The selling hedge consists of selling futures contracts for quantities of the commodity approximately equal to the quantity of the physical commodity owned and/or firmly committed to be purchased. This hedge may be used by farmers or by grain merchants having inventories which are not committed in the cash market. The selling hedge, therefore, provides the hedger with a guaranteed price for his inventory and protects the value of his inventory from any future decline in the price of the commodity on the cash market. A second advantage of the selling hedge is that lending institutions normally will loan a higher percentage of the estimated value of the inventory if it is protected by a selling hedge.

Speculating

The speculators in the futures market do not own or deal in the physical commodities in which they trade. These traders hope to realize a profit by assuming the risks of price fluctuations which the hedgers seek to avoid. The speculator buys futures contracts when he thinks prices are too low and sells futures contracts when he thinks prices are too high. The speculators are considered by the futures trading industry to be an integral part of the futures market because the additional volume of trading generated by the speculators reduces the price disturbances which can result from placement of hedges for any large quantities of a commodity and improves the possibilities of effecting a transaction for a hedge order limited to a specific price.

COMMODITY EXCHANGES

The primary responsibility of a commodity exchange is to insure a competitive market free of attempts at price manipulation. The exchanges are generally responsible for developing and enforcing trading rules; establishing contract terms, including delivery months; supervising traders and trading; establishing margin requirements, brokerage fees, and commissions; establishing price fluctuation limits (the permissible price change during the day); and inspecting all commodities tendered for delivery. The exchange may also establish limits on speculative trading.

The Secretary must designate an exchange as a contract market for a regulated commodity before the exchange can engage in futures trading in that commodity. To be designated a contract market, the exchange must maintain certain records and file reports, as prescribed by the Secretary; prevent dissemination of false, misleading, or inaccurate commodity information; prevent manipulation of prices and the cornering of any commodity; comply with the Secretary's final orders and decisions concerning violations of the CE act; and enforce exchange trading rules and contract terms.

As of October 1973, 18 commodity exchanges had been approved by the Secretary to trade in futures contracts for 1 or more of the 25 regulated commodities. These exchanges had a total of 90 approved contract markets, however, only 10 exchanges and 31 contract markets were actively trading at that time. Appendix I shows the status of exchanges and contract markets as of October 1973.

The CE act specifies that any individual, association, partnership, corporation, or trust (1) soliciting or accepting orders to buy and sell regulated commodity futures and (2) accepting any money, securities, or property or extending credit to margin trades on contracts must register each year with CEA as a futures commission merchant (FCM). FCMs are more commonly referred to as brokerage firms. An FCM charges a commission for filling customers' orders.

Futures contracts are bought and sold on the trading floor of the exchange by a floor broker, who may buy or sell futures contracts for others, for his own account, or for an account which he controls. He may trade on a commission basis for more than one FCM or for other exchange members or may be compensated as an employee or as an official of an FCM. Floor brokers must register each year with CEA. A floor trader may buy or sell contracts only for his own account and is not required to be registered with the CEA.

CHAPTER 2

REGULATION OF FUTURES TRADING: WHERE DOES IT BELONG IN THE FEDERAL BUREAUCRACY?

This question arose because of the Congress' concern regarding the ability of CEA to effectively regulate futures trading, which has had an unprecedented growth, and the need to instill the fullest public confidence in such trading. The Congress has considered four alternatives: (1) leave the authority in the Department as presently constituted, (2) leave the authority in the Department but with independence from the Department in budgeting and staffing, (3) create a new, independent agency, or (4) make the authority a part of the Securities and Exchange Commission (SEC).

The idea of giving the futures trading authority to SEC was rejected by the House Committee on Agriculture and others as having little advantage and many disadvantages. The principal advantage was that SEC has an existing regulatory structure and is supervising some brokerage firms that also trade in the com modity futures markets. The overriding disadvantage was the pronounced difference between CEA and SEC in fundamental orientation and purpose, which would pose different regulatory problems. For example, a futures contract is not a security; hence, the laws applicable to securities would not apply to futures contracts.

One of the principal views discussed was to leave the authority in the Department but with independence from the Department in budgeting and staffing. This concept was incorporated in H. R. 11955 (93d Cong. 1st sess.) on which extensive hearings were held in January 1974. On the basis of these hearings, a new bill, H.R. 13113, was introduced in February 1974. On April 11, 1974, the House passed H. R. 13113, and forwarded it to the Senate for consideration. This bill would create a new five-member regulatory commission within the Department to be called the Commodity Futures Trading Commission. The Secretary of Agriculture or his designee would be a permanent member of the commission, and all authority under the CE act and all existing CEA employees would be transferred to the new commission. Commission budgets would be prepared independently and forwarded to the Secretary of Agriculture solely for transmittal with the Department's budget request, but would not be subject to the Secretary's approval.

These provisions apparently are intended to allow the commission to be independent in budgeting and staffing but still have the Department's technical and administrative experience and support. The structure of this proposed futures trading authority appears to be an improvement over that of CEA because the authority would no longer be subject to the Department's staffing and funding restrictions.

The Department and six of the exchanges testified in favor of leaving CEA, without independent budgeting and staffing, in the Department, primarily because the Department has much experience in supervising the futures markets and because most futures trading is in agricultural commodities.

Certain Members of Congress and persons knowledgeable in the futures market favor the independent agency concept. Four major legislative proposals concerning futures trading authority called for an independent agency. Our view is that an independent agency would be a more appropriate solution. Our principal reasons for advocating an independent agency rather than leaving the authority in the Department follows:

1. In the past, the Congress has established independent commissions, such as SEC, the Interstate Commerce Commission, and the Federal Communications Commission, to perform primarily regulatory functions. At present, the Congress is considering legislation to separate the regulatory function from the research and development activities of the Atomic Energy Commission, primarily to minimize potential conflicts of interest.

   Also, the National Transportation Safety Board, which was established as an independent agency within the Department of Transportation, has apparently experienced some problems in its efforts to function independently. The Congressional Record of September 11, 1973, stated that the administration had tried to intervene in the Board's affairs and to exert undue pressure on it.

   In 1971 and 1972, the Board itself asked for new legislation to make it completely independent of the Department of Transportation. The Board pointed out that its status within the Department has been misunderstood by the media, the public, and other Government agencies who assumed that the Board was not independent but a subordinate part of the Department even though the law (49 U.S.C. 1654) clearly stated that "In the exercise of its functions, powers, and duties, the Board shall be independent of the Secretary and the other offices and officers of the Department." Bills have been introduced in the House and Senate calling for a completely independent National Agency for

Transportation Safety to replace the National Transportation Safety Board.

A potential conflict of interest would exist if the proposed commission were in the Department of Agriculture with the Secretary, or his designee, as a permanent member, because the Secretary is charged by law to influence and maintain the prices of many of the commodities traded in the futures markets. Also, the Department needs the cooperation of many commercial firms to perform some of its assigned tasks, such as disseminating market news and promoting exports. These same firms use futures markets and are subject to CEA regulation. Removing any appearance of conflict of interest is necessary to instill the fullest public confidence.

2. Extending Federal regulation to all futures trading would encompass many commodities other than agricultural, such as metals (copper and silver) and foreign currencies. It is also expected that noncommodities, such as ocean freight, residential mortgages, and others soon will be traded in the futures markets. Because the Department has little or no expertise regarding many of these items and because of the anticipated increase in futures trading in nonagricultural areas, it is at least questionable whether the proposed commission should be in the Department.

3. One of the principal arguments advanced by the proponents of Departmental control is that the Department's long and valuable experience in supervising the futures markets would be retained. We do not believe this is a valid argument because present CEA employees would be transferred to the new commission. This experience could remain intact no matter where the trading authority was placed in the Federal structure. Moreover, the law could specifically provide that the Department and any other Government agency which has information which might affect the orderly trading of futures contracts immediately report such information to the commission.

Because the futures markets play a vital role in the economic well-being of our country and to instill the fullest public confidence, the markets should be regulated by a strong and prestigious agency. In June 1973, a CEA management study team reported that CEA was having difficulty retaining its personnel and that the present grade and salary structure might be adversely affecting the recruitment and retention of qualified staff.

The top positions in CEA's grade structure are among the lowest of the Department's agencies and as much as three grades lower than the top positions of many of the independent regulatory agencies. For example, SEC's top position is three levels higher than CEA's.

An independent agency with a higher grade structure should be created to regulate futures trading and to facilitate the hiring and keeping of the high quality employees necessary to build a good reputation and instill public confidence in futures trading.

MATTERS FOR CONSIDERATION BY THE CONGRESS

To remove any appearance of conflict of interest and to instill the fullest public confidence, the Congress should establish an independent agency, separate from the Department, to regulate all futures trading.

CHAPTER 3

SOME QUESTIONS ON THE NEED TO STRENGTHEN REGULATION OF COMMODITY EXCHANGES AND FUTURES TRADING

Several major bills to strengthen the regulation of commodity exchanges and futures trading have been introduced in the Congress. All of the bills are addressed to several major questions primarily concerning the need to expand the Federal Government's authority to effectively regulate futures trading. Our observations on some of these questions follow.

SHOULD CEA REGULATE TRADING IN ALL FUTURES CONTRACTS?

In recent years, activity in the nonregulated futures markets has been increasing rapidly, just as it has been in the regulated markets. One of the best indicators is the number of contracts traded. (See table on following page.)

The estimated dollar value of the 5.8 million contracts for nonregulated commodities traded in fiscal year 1973 was $131 billion, compared with $268 billion for regulated commodities during the same period.

Both exchange and CEA officials have estimated that the futures markets will continue to increase in value and volume in the coming years. Exchange and other knowledgeable officials said that new contract markets were planned to be established soon in such areas as ocean freight rates, mortgages, and possibly petroleum products.

Views of agency, exchanges and other officials and our evaluation

For the past 2 years CEA has proposed that the CE act be amended to bring all futures trading under Government regulation. The two largest exchanges--the Chicago Board of Trade and the Chicago Mercantile Exchange, both of which deal in regulated and unregulated commodities--strongly favor the Government's regulating all futures trading. Two reasons are that it would increase public confidence by providing better protection to individual traders in unregulated commodities and would provide consistency in exchange operations and handling of customer accounts.

Futures Contracts Traded

Commodity group	FY 1973	FY 1972
	(000 omitted)	
Total regulated commodities	17,821	12,577
Nonregulated agricultural and forest commodities:		
Broilers, iced	141	29
Cocoa	394	217
Coffee	133	(a)
Fishmeal	10	(a)
Lumber	125	69
Plywood	275	160
Pepper	-	2
Sugar	1,093	693
Tomato paste	-	(a)
Total	2,171	1,170
All other nonregulated commodities:		
Copper	440	221
Diamonds	3	1
Foreign currencies	306	57
Mercury	-	(a)
Palladium	1	(a)
Platinum	153	139
Propane gas	4	1
Silver	2,562	1,378
Silver coins	169	37
Tin	-	(a)
Total	3,638	1,834
Total nonregulated commodities	5,809	3,004
Total	23,630	15,581

[a] Less than 500 contracts traded.

The National Grain and Feed Association, which, nationwide, represents every aspect of the grain and feed industry (elevators, exporters, feed manufacturers, millers, and processors), supports Federal regulation of all futures trading. Association spokesmen stated in congressional testimony that the grain markets have flourished under Federal regulation and that unregulated markets have nothing to fear and everything to gain from such regulation. They cited two cases which they said underline their reason for favoring Federal regulation.

One case in 1972 concerned the extensive fraudulent practices by sellers of commodity options, which are rights to buy and/or sell futures contracts at prevailing prices within a specified time. Such options were traded only in unregulated commodities because they are prohibited for regulated commodities by the CE act. According to the spokesmen, this prohibition has been fully supported by the grain industry.

The second case referred to price behavior in futures contracts expiring in 1973. In July 1973 the corn future expired with explosive price action. In March 1973 the coffee future in New York, after a precipitous price rise, declined the limit for 7 successive market days. The grain association representatives said they did not want to make an interpretation or allegation in either case but merely wanted to point out that CEA had the authority to make, and was making, an investigation of the corn price behavior but had no authority to investigate the coffee price behavior.

The only significant opposition to regulation of all futures trading was voiced in congressional testimony by the exchanges which trade in "world commodities" (commodities deliverable under futures contracts which are produced primarily in foreign countries). These commodities include coffee, cocoa, sugar, silver, and copper.

The principal arguments posed by these exchanges were that (1) because world commodities are produced almost entirely abroad, it is unnecessary and inappropriate for the Government to regulate them, and (2) the exchanges' self-regulatory programs have been tested over many years and have proved successful without additional governmental regulation. The exchanges expressed the view that Federal regulations would impair the orderly workings of the U.S. exchanges and would entail substantial costs for compliance; as a consequence, foreign exchanges would become more attractive to traders and cause many of them to divert their business from U.S. exchanges to foreign exchanges.

We believe that Federal regulation of trading in world commodities is necessary and appropriate if such commodities are traded on U.S. exchanges. Processors and other users of the futures markets in these commodities are entitled to the same protection as those who use futures markets in regulated commodities. We believe any loss of business caused by Federal regulation might be offset by new traders who would enter these world markets because of the increased public confidence brought about by Federal regulation.

Regulated commodity customers protected better

Customers trading in regulated commodities are better protected than those in nonregulated commodities. The CE act requires that regulated commodity customers' funds be segregated (a separate bank account must be maintained for customer funds) from the FCMs' funds. Nonregulated-commodity customer funds, however, may be commingled with the FCMs' funds. Thus, if an FCM fails financially, the nonregulated commodity customer is more likely to sustain a loss. For example, one FCM which petitioned for bankruptcy in 1970 had claims of about $740,000 filed against it. The attorney for the FCM said that about 90 percent of these claims had been filed by nonregulated commodity customers. Only 10 percent of the $740,000 had been paid as of December 1973.

Customers trading in regulated commodities can ask CEA to investigate complaints but customers in nonregulated commodities have no such recourse. At each of the three CEA regional offices several nonregulated-commodity customers complained to CEA but CEA could do nothing about their complaints. For example, a customer trading in sugar contracts alleged that his broker had initiated trades without proper authorization. He first complained directly to his broker but received no response. Then, in turn, he wrote the Chicago Mercantile Exchange (with a courtesy copy of the letter to the brokerage house involved), the New York Coffee and Sugar Exchange, the Better Business Bureau of Chicago, and the Chicago Tribune which referred the problem to SEC and CEA. Both exchanges, CEA, and SEC denied jurisdiction in the case. The complainant, therefore, had exhausted all possible sources of assistance, except legal action, without gaining any satisfaction.

A trader in regulated commodities who seriously violates the CE act or who has a history of fraudulent action may be suspended from trading in regulated commodities. However, such individuals can continue to trade in nonregulated commodities. Thus, the public is not protected from dealing with traders of questionable character. For example, certain traders in regulated commodities on one exchange were prohibited from trading on all regulated contract markets for 2 years because they failed to meet minimum financial requirements prescribed by CEA and made false reports to CEA regarding such financial requirements. These individuals became large traders in nonregulated commodities in another city. As of March 1974, they were still trading in that city and have been severely criticized by traders and State investigatory agencies because of questionable trading practices.

On the basis of the foregoing discussion, we believe that the advantages of Federal regulation of all futures trading far outweigh the disadvantages. Several bills have been introduced in both houses of Congress to extend Federal regulation to all futures trading. We believe that the CE act should be amended to provide for such regulation. House bill 13113, 93d Congress, 1st session, would provide for regulation of all futures trading.

SHOULD TRADING BY FLOOR BROKERS AND FCMs FOR THEIR OWN ACCOUNT BE PROHIBITED?

The trading of floor brokers and FCMs for their own account while trading for customers' accounts should be strictly regulated to avoid any possible conflicts of interest. Any member of a commodity exchange is entitled to trade futures contracts on the floor of the exchange for himself, a customer, or any other member of the exchange. He may be referred to as a floor broker, floor trader, scalper (one who trades in and out of the market on small price fluctuations), or position trader, depending on the type of trades he is making. We use the term "floor broker" to indicate any person who is buying and selling futures contracts on the exchange floor.

Although the floor broker's activities are subject to exchange and CEA rules, he is nevertheless in the unique position of being able to trade for his own gain or loss on one trade and for another person's gain or loss on the next trade. Thus, he may at times be directly competing with his own personal objectives.

In 1965, we reported to the Congress (see p. 8) that members of a commodity exchange who trade for their own accounts enjoy special privileges and advantages over the trading public. They are able to react instantly to market situations and to take prompt advantage by executing their own trades. In addition, the fees charged the broker for executing his trades are much less than the fees charged to the general public; thus, he can profit from smaller price changes.

There are very few floor brokers who do not trade for themselves. The exchanges, brokers, and FCMs contend that prohibiting brokers or FCMs from trading for their own account would materially reduce the market's liquidity to the extent that the market's normal functions would be adversely affected. (A market is considered sufficiently liquid when the number and volume of trades and traders is adequate to enable brokers to fill orders without significant price fluctuations.) They also contend that reduced liquidity would seriously affect the operations of smaller exchanges.

House bill 13113 would authorize establishing regulations to restrict or prohibit the trading of floor brokers and FCMs for their own accounts while trading for their customers' accounts. The bill provides that such regulations avoid undue restrictions on market liquidity and permit different trading standards to be set for different contract markets. For example, traders in large, active markets could be required by regulation to decide whether to trade only for their own accounts or for customers' accounts while traders in smaller, less active markets could be permitted to trade for both their own and customers' accounts. Also, a regulation similar to SEC's could be adopted. SEC does not permit a member of a national securities exchange to initiate, while on the exchange floor, any transaction in any security trading on the exchange for any account over which he has discretion or in which he has an interest.

We believe that, if such regulations were established and properly implemented, they would provide the necessary conditions to safeguard the customers' interest and provide sufficient liquidity for the smaller exchanges. The Department also favors the regulation of trading of floor brokers and FCMs for their own account.

Some knowledgeable officials stated that rules governing floor brokers trading for their own accounts were already being adequately enforced because of (1) the exchanges' own enforcement procedures and (2) the self-policing nature of floor trading whereby brokers realize that their livelihoods depend on honest dealings with each other.

However, as discussed in the following chapter on p. 32, some exchanges have not established continuous programs to enforce their trading rules; CEA's enforcement of those self-regulation programs that do exist has not been aggressive; and CEA's program to investigate trading practices has not been adequate to deter abusive practices.

We believe the CE act should be amended to give CEA authority to (1) restrict the trading of floor brokers and FCMs for their own accounts while trading for customers' accounts, and (2) establish the terms and conditions for such trading on the different markets.

SHOULD CEA HAVE AUTHORITY TO OBTAIN INJUNCTIONS AND/OR ADMINISTER FINES?

To do its job effectively, CEA must be able to identify and deter violations of the CE act. Although CEA can punish violators in several ways, we believe the penalties are generally either too severe for the violations or too meaningless to act as a deterrent. Additional enforcement authority is needed.

Injunctive authority

CEA takes the position that the Congress has never specifically authorized injunctions and that, without specific legislative authority, CEA will not seek injunctions from the courts. In 1969, 1970, and 1973, the Administrator, CEA, recommended to the Department that the CE act be amended to authorize the Secretary to obtain district court injunctions through the Department of Justice. He said this would enable CEA to move rapidly and effectively to protect the public against cheating, fraud, and mishandling of funds. For example, CEA could obtain an injunction prohibiting a brokerage firm that was insolvent or that failed to meet minimum financial requirements from accepting orders and funds from new customers until it met the requirement. Without injunctive authority CEA could either issue a cease and desist order, which might not prevent the firm from accepting new customers, or suspend the firm from trading which might put it out of business. House bill 13113, 93d Congress, 1st session, would provide for injunctive authority.

Civil penalties

Although injunctive authority would give CEA a way to stop or prevent violations or limit their impact, an intermediate action is also needed. Penalties available to CEA range from suspension or revocation of trading privileges--tantamount to putting some firms out of business--to cease-and-desist orders which, in effect, may have little impact. If, however, a cease-and-desist order were accompanied by an appropriate fine, the penalty might have a deterrent effect. Likewise, when suspension of trading privileges for a period of time would not have any substantial effect, an accompanying fine might. For example, if a broker was found to have committed trading practice violations and was suspended for a short time, he might merely arrange to take his vacation to coincide with his suspension. Thus, the suspension would have little effect, but it could have a significant effect if accompanied by a fine. House bill 13113 would provide for money penalties up to $100,000.

In 1973 the CEA Administrator recommended to the Department that the CE act be amended to authorize civil money penalties for violations.

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In testimony at congressional hearings in late 1973 and early 1974 some of the witnesses opposed injunctive authority if CEA would use it on the basis of CEA's ability to foresee or predict market action or price change--such as preventing a trader from maintaining or increasing his share of the outstanding contracts because CEA believes that such actions might have an undue effect on price. Some had no objection to injunctive authority if it was to be applied to identifiable violations of the statute or regulations. Most parties did not object to amending the CE act to provide for civil penalties (fines) in administrative proceedings, provided that these fines were limited by statute.

Being able to impose civil money penalties and to obtain injunctions would allow CEA greater flexibility in enforcing the rules and regulations. We believe the CE act should be amended to give CEA such authority.

SHOULD CEA HAVE AUTHORITY TO ESTABLISH MARGIN REQUIREMENTS FOR FUTURES TRADING?

The need for CEA or another Federal agency to have authority to establish commodity margin requirements has been the subject of much controversy and misunderstanding, primarily because commodity margins have been compared with security margins, when, in fact, they are not comparable. Commodity margin is the amount of money which the buyer or seller of a futures contract deposits with its FCM to guarantee performance on the contract. The margin is required to protect the FCM against losses incurred by a customer due to adverse price movements. It is not a partial payment on the futures contract. The FCM has to make settlement each day for profits or losses incurred by its customers. The margin money, plus or minus any gains or losses on the customer's trades, is returned to the customer when his account is closed. In a normal market, commodity margins are generally less than 10 percent of the value of the contracts bought.

Security margin is directly related to the amount of credit a broker is permitted to extend to customers for buying securities. This amount of credit is regulated by the Board of Governors of the Federal Reserve System and is 50 percent or more of the value of the securities bought. A securities transaction using margin establishes a debtor-creditor relationship for the amount of the loan, and the customers' cash downpayment is equated to the customer's equity in the security.

Purpose of regulation

Those who advocated Government regulation of commodity margins did so in the belief that raising margins would help control speculation in the futures market and thus keep commodity prices from rising as drastically as they did in 1973. However, as shown in Department studies and in expert testimony, higher margins could interfere with the hedging function of the futures market and could increase the cost of merchandising and processing inventories.

In 1967 a report on margins speculation and prices in grain futures markets was prepared by a private research firm under contract with the Department's Economic Research Service. The study concluded that, given the present state of market data collection and analysis, CEA would find it difficult to determine whether, when, and how to apply margin controls to limit price volatility and that CEA could have numerous and important administrative problems if it were to administer margin controls.

In 1973 the commodity futures markets experienced an unprecedented volume of trading at record prices. For example, the futures price for soybeans to be delivered in July 1973 increased from $4.20 a bushel in January 1973 to $12.90 a bushel in June 1973. The futures price for wheat to be delivered in December 1973 ranged from $1.97 1/2 a bushel in March 1973 to $5.78 a bushel in December 1973. These increases were precipitated by an unusual number of occurrences, such as unanticipated foreign purchases of U.S. commodities, adverse weather conditions which affected crop production worldwide, and two successive devaluations of the U.S. dollar--all of which happened about the same time.

Subsequently, because of concern over fluctuating commodity prices, hearings were held to determine what to do to strengthen the regulation of the futures markets. One tool considered was to provide the Government with statutory authority to set margin requirements and thus provide the means to limit speculative activity.

Testimony indicated that the exchanges could react more quickly and appropriately than CEA to the daily price changes that were occurring. The testimony emphasized that the purpose of margins was to safeguard FCMs and guarantee contract performance but not influence the level of participation in the market. The testimony pointed out that speculators were needed to provide the liquidity necessary for an efficient futures market.

Hedging on the futures markets gives the grower, shipper, merchant, and manufacturer the opportunity to reduce their marketing costs. Because an imbalance exists between hedgers wishing to buy or sell futures contracts, speculators are needed to take the opposite position and assume the risk of price movements. If speculators are discouraged from trading because margins are raised, commercial firms' ability to use the futures markets could be limited. This could cause financing problems for those firms because banks are less likely to grant credit if inventories are not hedged.

The exchanges, therefore, should continue to determine their margin needs on a day-to-day basis because the Government does not have the capability or expertise to establish and monitor margins without spending a large amount of manpower and funds. However, certain alternatives should be pursued in an effort to quiet the uncertainty surrounding commodity margins.

Alternative proposals

One alternative would be to identify those factors which the exchanges consider and evaluate in establishing and adjusting their margin requirements. Testimony by National Grain and Feed Association representatives before the House Committee on Agriculture in October 1973 pointed out that a careful study would reveal safe margin levels to be a function of current price trading conditions. They suggested that exchanges develop margin formulas or tables specifying the margin level according to price level, price volatility, trading volume, and whatever additional influences were deemed significant. Such tables would be submitted to CEA for approval. Association representatives stated that such a formula or table for each commodity would put all traders on notice of any automatic margin changes which would go into effect under given circumstances and would preclude any complaints about discriminatory margin changes. The CEA Administrator agreed that margin tables have definite merit and said the matter should be studied. Conversely, however, the President, Chicago Board of Trade, did not believe margin tables were practicable because he could not see how the table could adequately recognize the many factors considered in changing margins.

A second alternative would be to give the Government authority to establish margin requirements in emergency situations, such as war and export embargoes. Certain safeguards would be established to prevent the Government from being involved with the normal margin requirements for day-to-day operations and to identify more specifically what constitutes emergency situations.

We believe that the commodity exchanges should continue to establish commodity margin requirements on a day-to-day basis because CEA is not in a position to react as quickly as the exchanges and does not have the capability or expertise to establish and monitor margin requirements without spending a large amount of manpower and funds. We believe, however, that the CE act should be amended to give CEA authority to establish margin requirements in emergency situations to facilitate orderly trading in or liquidation of any futures market. We believe also that CEA should study, in conjunction with the commodity industry, the feasibility of developing a margin formula or margin table which would be a guide to margin requirements for traders and which would provide CEA with criteria by which to measure market operations.

SHOULD CEA HAVE AUTHORITY TO DESIGNATE DELIVERY POINTS?

The number of locations where a commodity may be delivered to fulfill a futures contract must be adequate to prevent unusual market situations. Price distortion, manipulation, and control, which are detrimental to the public interest and the national economy, are made easier, and in some cases encouraged, when a futures contract calls for delivery at a point or points which are no longer centers for trading in the cash commodity deliverable on that contract.

During recent years the production of certain commodities, such as soybeans and corn, has increased significantly as has the volume of futures trading. Despite these increases the number of delivery points for certain commodities on futures contracts has not changed. The number of approved delivery points can vary significantly depending on the commodity. For example, as of September 1973, corn and soybeans had only 1 delivery point while eggs had 175.

In August 1973 two associate professors at Iowa State University submitted a proposal to CEA and the Chicago Board of Trade that additional delivery points for corn and soybean contracts be established to facilitate deliveries. At the time, Chicago was the only approved delivery point for corn and soybeans. The proposal cited a recent example of where delivery problems affected the cash-futures price relationship and caused an expiring corn futures contract to close at $1.13 1/4 per bushel above the closing Chicago cash price, where normally the two should have been about the same. Several Iowa grain elevator operators verified that it had been difficult if not impossible to deliver corn and soybeans on futures contracts at that time because of full warehouses in Chicago, heavy Chicago export movement, and congestion in the railroad system. It was not until February 1974 that Toledo, Ohio, and St. Louis, Missouri, were designated by the Chicago Board of Trade as additional delivery points for corn and soybeans. As of March 1974, this designation was awaiting CEA approval.

Another example of exchanges' delay in establishing needed delivery points involved wheat on the Chicago Board of Trade. A CEA central region official told us that an apparent price manipulation in the May 1971 wheat futures contract, on which CEA issued a complaint in June 1972, was aided by a Chicago-only delivery point. As of April 1, 1974, administrative action on the case was still pending. In a much earlier case, a price manipulation in the May 1963 wheat futures contract was made possible because Chicago was the only delivery point. The principal problem resulting from having only one delivery point is that it makes control of the deliverable supply easier and makes it difficult, if not impossible, for sellers to deliver on their contracts. The CEA official stated that only after about 2 years of negotiations between CEA and the Chicago Board of Trade did the board add a second delivery point for wheat in 1972.

In August 1972, a CEA official testified before the Subcommittee on Domestic Marketing and Consumer Relations, House Committee on Agriculture, that too few delivery points or improper delivery points, together with restricted storage or holding capacity, could result in market congestion or arbitrary supply conditions which, in turn, could create erratic price fluctuations. More recently, in October 1973, the CEA Administrator testified before the House Committee on Agriculture that the failure of some exchanges to provide adequate delivery provisions was a major problem in the commodity futures industry.

The commodity exchanges have full responsibility for designating delivery points, subject to the approval of the Secretary of Agriculture. Extensive research is involved in determining delivery points, such as determining whether an area has adequate facilities, accessibility, transportation outlets, proper financing and insurance, and other essential characteristics. Because exchanges have greater expertise and flexibility than CEA in doing such research, we believe they should continue to be primarily responsible for designating delivery points. Because of the importance of sufficient delivery points, however, we believe the CE act should be amended to authorize CEA, after a need is determined, to require the exchanges to designate additional delivery points or to designate the points if the exchanges do not do so. House bill 13113 would provide for such authority.

SHOULD REGISTRATION AND FITNESS CHECKS BE EXPANDED TO INCLUDE ALL PEOPLE WHO HANDLE CUSTOMERS' FUNDS OR ACCOUNTS?

The CE act requires only floor brokers and certain employees of FCMs, such as officers or partners, to register with CEA. Registrants are given fitness checks to insure that only reputable people handle customer orders. However, commodity futures representatives, the individuals primarily involved in soliciting, accepting, or handling customers' orders, do not have to register. Consequently, CEA has no assurance that commodity customers are dealing with brokerage representatives of good character.

The Chicago Board of Trade and the Chicago Mercantile Exchange require employees of member FCMs to register with them before they solicit or handle customer orders. Officials of the exchanges told us that each of their exchanges had over 20,000 registered commodity representatives. Also, both exchanges subject applicants to fitness checks which normally include reviews of court and credit records. In contrast, CEA fitness checks may include reviews of investigative records maintained by the Department, SEC, and the Federal Bureau of Investigation, which are not available to private investigative organizations.

Other exchanges have only limited requirements or none at all. For example, the Mid-America Commodity Exchange requires registration only for clearing members' representatives and does not subject them to fitness checks. The Minneapolis Grain Exchange, the New York Mercantile Exchange, and the New York Cotton Exchange have no registration requirements for commodity futures representatives. Thus, it is evident that a person of undesirable character could be employed as a futures representative by a member of an exchange that does not require registration and/or fitness checks.

The CEA Administrator and representatives of the two largest exchanges testified in October 1973 before the House Committee on Agriculture that they favored having CEA expand its registration and fitness check program to include all individuals handling commodity customers' accounts. The CEA Administrator also said:

"There is a need to keep all unfit persons from handling customers' accounts and this can best be done through a registration and fitness program. It has been the CEA's experience that dishonest individuals go from one brokerage firm to another. Often they are hired without the brokerage firm having any knowledge of their unsavory background. If the CEA is to give real protection to traders in the markets, it should have this authority."

In addition, CEA, by letter dated August 16, 1973, recommended to the Department that, in its 1974 legislative program for the Congress, it include a proposal that brokerage firm employees handling customers' accounts be required to register with CEA and that the Secretary of Agriculture be given the authority to deny, suspend, or revoke such registrations.

We believe that, to insure that commodity customers deal with reputable people, the CE act should be amended to extend the registration requirements to all people who handle customer accounts. House bill 13113 would provide for such extension of the registration requirements.

On March 22, 1974, the CEA Administrator pointed out a possible problem in making future fitness checks. He told us that the Department of Justice had proposed legislation which would deny access to criminal justice information to noncriminal justice agencies. He said that if this legislation, known as the "Criminal Justice Information Systems Act of 1974," is passed, it would seriously impair the effectiveness of CEA's fitness program.

MATTERS FOR CONSIDERATION BY THE CONGRESS

If the Government is to effectively regulate futures trading, the Congress should amend the Commodity Exchange Act to provide authority to

--regulate all futures trading,

--restrict trading of floor brokers and FCMs for their own account while trading for customers' accounts,

--seek injunctions and impose civil money penalties,

--establish margin requirements in emergency situations only,

--require exchanges to designate additional delivery points or to designate such points if the exchanges do not do so, and

--extend registration requirements to all people handling customer accounts and/or funds.

CHAPTER 4

PRELIMINARY OBSERVATIONS ON CEA OPERATIONS

CEA's responsibilities include (1) commodity exchange rule enforcement and CEA investigations, (2) market surveillance and economic analyses, and (3) registration and audit activities. Our preliminary observations and specific suggestions on these CEA operations are included in this chapter.

One of the basic problems underlying CEA's management deficiencies is the lack of adequate staff. CEA's task has become more difficult because the size of its staff has remained about the same while the volume and value of futures trading has increased tremendously in recent years, as shown in the following table.

Fiscal year	Number of employees (end of year)	CEA appropriation (millions)	Number of contracts traded (millions)	Value of contracts traded (billions)
1969	152	$ 1.9	8.6	$ 67.5
1970	165	2.5	10.3	92.9
1971	166	2.7	11.8	114.4
1972	160	2.8	12.6	148.0
1973	165	2.9	17.8	268.3

In commenting on this matter in March 1974, the CEA Administrator agreed that additional staff was needed and said that staff had been requested for fiscal year 1975 to help alleviate their problems.

The Department's fiscal 1974 appropriation request did not ask for any additional staff or funds. The House Committee on Appropriations' report on the Agriculture-Environmental and Consumer Protection Appropriation bill for fiscal year 1974 states that the Department was requested to furnish information on additional personnel and funds needed to increase surveillance and enforcement because of the increased volume of trading on the commodity exchanges.

The Department reported that 13 positions costing an additional $234,000 would be needed; however, the Committee believed this estimate too conservative and provided 20 positions and an additional $351,000. The Department has estimated that CEA would have 188 employees at the end of fiscal year 1974 and has requested an additional 29 positions for fiscal year 1975. Comments on CEA's grade structure are on page 14.

COMMODITY EXCHANGE RULE ENFORCEMENT AND CEA INVESTIGATIONS

CEA supervises exchanges' programs for enforcing rules and investigates floor trading practices to (1) insure a free and open market and (2) give the public maximum protection in its contacts with the exchanges and their members.

CEA should aggressively monitor the exchanges enforcement programs

CEA has experienced long delays in getting exchanges to establish the necessary self-enforcement programs and to correct certain deficiencies. CEA needs to be more agressive in requiring exchanges to enforce their (1) rules concerning contract terms and trading and (2) minimum financial requirement rules as approved by the Secretary of Agriculture.

A 1968 amendment to the CE act required that applicants for registration as FCMs demonstrate reasonable capital resources. An applicant met the requirement if he was a member of an exchange whose financial standards had been approved by the Secretary of Agriculture. Other applicants had to meet requirements established by the Secretary of Agriculture. The amendment also required each exchange to enforce its rules on (1) contract terms and other trading requirements and (2) minimum financial requirements for members who were FCMs.

Enforcing exchange trading rules

A 1971 audit report by the Department's Office of Audit (formerly the Office of Inspector General) repeatedly stressed the need for CEA to require exchanges to enforce their rules more vigorously. Further, a CEA study team concluded in 1971 that the exchanges were not adequately policing floor trading practices and recommended that CEA require each exchange to establish a program for that purpose. The CEA study team recommended also that CEA periodically review the exchanges' self-policing programs to insure their adequacy. The CEA

Administrator agreed to advise each exchange that it was required to have an affirmative self-policing program adequate to deter violations of its trading rules; however, CEA apparently took no action at that time.

Since 1971 CEA has formally reviewed the rule enforcement activities of 6 of the 10 active regulated exchanges--4 in New York City and 2 in Chicago. These reviews were often made over extended periods of time--ranging from 6 to over 15 months--because employees periodically were diverted to higher priority work. This practice disrupted the continuity of the review work and in some cases necessitated more work to update data and information. CEA advised the exchanges of the deficiencies observed in their programs but was not aggressive in insuring that corrective action was taken.

CEA's reviews showed various deficiencies in the exchanges' enforcement programs.

--Exchanges did not have programs for continually enforcing rules.

--Self-initiated investigations of customer complaints turned up only minor infractions, if any, but investigations made as a result of CEA referrals of customer complaints disclosed a high percentage of infractions.

--Corrective actions for infractions were delayed in many cases.

On July 11, 1973, CEA proposed a regulation under the CE act requiring each exchange to have a program for enforcing its own trading rules. That regulation was adopted and became effective December 1, 1973, more than 2 years after the study team had recognized the need for such action and 5 years after the CE act was amended requiring exchange self-regulation.

The December 1973 regulation requires each exchange to:

--Monitor market activity for indications of possible congestion or other market situations conducive to possible price distortion.

--Monitor trading practices on the floor of the exchange.

--Investigate all customer complaints concerning the handling of accounts or orders.

--Investigate all other alleged or apparent violations of its by-laws, rules, regulations, and resolutions.

--Establish a procedure for taking prompt, effective, disciplinary action for violations.

In commenting on the need to promptly implement this regulation, the CEA Administrator informed us on March 22, 1974, that CEA is providing exchanges with guidance on what is required of them. CEA regional directors met with exchange officials and explained the requirements of the regulation and confirmed these discussions in writing to the exchanges. The Administrator told us that CEA's enforcement guideline contemplates that guidance will be given to each individual exchange on the basis of CEA's review of the exchange's program. The guideline provides that each regional office bring to the exchange's attention such procedures considered necessary to bring the exchange enforcement program up to a satisfactory level.

We believe the regulation and guidance being provided to the exchanges is a step in the right direction and will provide CEA a standard for appraising the exchanges' performance. However, we noted that only one CEA regional office had specified a time limit for implementing the regulation. In view of the long delays experienced by CEA in getting the exchanges to establish self-enforcement programs, we believe CEA should (1) give each exchange a specific time limit for implementing the regulation and state what penalties will be imposed if such time limits are not met and (2) aggressively monitor the exchanges' programs to insure compliance.

Enforcing exchanges' minimum financial requirement rules

The Chicago Board of Trade and the Chicago Mercantile Exchange are the only two exchanges which have requested and obtained the Secretary of Agriculture's approval of the financial requirements established for their FCMs. The two exchanges became responsible for enforcing their respective requirements in March 1969. Since then, CEA has often expressed concern about the two exchanges' inadequate enforcement programs.

CEA reviewed the two exchanges' programs for enforcing minimum financial requirements and discussed the areas needing improvement with exchange officials. In August 1971 and January 1972 CEA advised the Chicago Board of Trade that it needed to increase its audit staff and the number of onsite audits of FCMs to verify compliance with exchange requirements. CEA discussions with the Chicago Mercantile Exchange in December 1971 indicated these same improvements were needed in its program.

In May 1972 CEA was informed that the Chicago Board of Trade's audit staff would be increased so that 50 percent of the 130 member FCMs could be audited each year. This program was to begin by the end of October 1972; however, a CEA review found that the Chicago Board of Trade made only four field audits of FCMs between January 1, 1972, and June 30, 1973.

In addition, on June 18, 1973, the Commodity Exchange Commission, on CEA's recommendation, issued a complaint against the Chicago Board of Trade for failing to enforce its minimum financial requirement rules for one of its FCMs. The complaint resulted because the Chicago Board of Trade allegedly failed and refused to enforce its minimum financial requirements for that FCM even though the board (1) had determined on numerous occasions that the FCM failed to meet such requirements and (2) had been notified by CEA that the board was not complying with the CE act. A CEA official told us that, as of April 5, 1974, this case was still under review by the Commodity Exchange Commission and that final action was imminent.

In August 1973 the Director, Registration and Audit Division, CEA, reported that both exchanges had to improve their programs to bring them to an acceptable performance level. He pointed out that the Chicago Mercantile Exchange had shown an improvement over prior years; however, the number of field audits could still be increased. Between January 1 and September 5, 1973, the Chicago Mercantile Exchange audited 28 of 94 FCMs.

On the other hand, the Director, Registration and Audits Division, CEA, reported that the Chicago Board of Trade's field audit efforts were meager, and that the board's audit efforts seldom went beyond a desk review of financial statements received from member firms and information received from other exchanges and other outside sources.

We believe CEA should act more forcefully to insure that the Chicago Board of Trade and the Chicago Mercantile Exchange programs are improved to an acceptable level. CEA should establish guidelines indicating acceptable performance standards for the exchanges' surveillance and investigative functions and should clearly state what penalties will be imposed for failure to meet the standards within a specified period. We believe that CEA's lack of aggressiveness is clearly demonstrated by the fact that, 5 years after the act requiring such programs was enacted, the exchanges still do not have acceptable self-enforcement programs.

Continued deficiencies in CEA's trade practice investigation programs

In a report to the Congress in 1965 (see p. 8), we pointed out that CEA's trade practice investigations were inadequate to disclose or discourage abusive trade practices on the exchange floors and that these investigations were not conducted on a planned basis to insure periodic review of each futures market. In 1971, the Department's Office of Audit reported essentially the same deficiencies. On the basis of our review of all trade practice investigations initiated by CEA in fiscal year 1973, we believe the deficiencies continue.

At the time of our earlier review, CEA's trade practice investigations generally involved detailed examinations and analyses of all trades of futures contracts made for a particular commodity or commodities at a contract market during a specified period. Because of the time consuming nature of the work, which was done manually, and the lack of manpower, CEA, following our review, tried to make such analyses, at least partially, through the use of computer programs but failed because it could not design the programs to appropriately identify suspect trades.

To use its limited manpower more effectively, CEA adopted a new program in 1971 for conducting trade practice investigations. The new program called for investigations of suspect situations or of individuals or firms trading in one or more commodities. A CEA study team recommended that CEA use the exchanges' trade registers (a listing of all trades made) to identify suspect situations and that CEA assign the program an adequate priority in relationship to the other work of the agency.

The Administrator of CEA adopted the study team's recommendations in August 1971 and indicated that the following actions would be taken when time permitted.

--The regulations under the CE act would be amended to require additional information in exchange trade registers.

--As soon as current computer programs were operational, the central region would study the feasibility of developing a program to identify apparent noncompetitive trades.

--A guideline for trade practice investigations would be prepared.

These actions, however, had not been taken at the time of our survey in November 1973.

Our review of the 16 trade practice investigations initiated by CEA during fiscal year 1973 showed that 10 of them had not been completed at the time of our survey, primarily because of repeated delays due to higher priority work. For example, in the CEA central region, only 2 of 10 investigations had been completed. Also, some of the six completed cases were significantly delayed for the same reason. In the eastern region two investigations that were scheduled for completion in 1 and 2 months were actually completed in 7 and 11 months, respectively. CEA's western region made no trade practice investigations in fiscal year 1973 because, according to regional office officials, the region's limited manpower was heavily involved in investigating an alleged price manipulation.

In March 1973 a CEA headquarters audit report on the eastern regional office's compliance program concluded that the trade practice investigation program had not been given proper priority. The audit report also stated that the estimated completion dates of investigations had been pushed back many times and that no exchange trade registers had been examined so far during the fiscal year.

Besides being assigned low priority, some of the cases classified as trade practice investigations under the selective program were of very narrow scope, involving a single trade or trades on which a complaint had been received or which had been referred by other CEA regional office branches. In the central region, only two investigations, one of which was requested by CEA headquarters, involved relatively broad reviews of the trading in a specific commodity and analysis of exchange trade registers.

CEA has acknowledged that trade practice investigations are the best means it has for detecting noncompetitive trading on futures exchanges. For such investigations to be successful deterrents, however, they should be designed to seek out such practices and not rely primarily on complaints or referrals from individuals or other CEA branches. Also, these investigations should be conducted on a planned basis and given high priority if they are to be effective.

In commenting on this matter in March 1974, the Administrator, CEA, said he agreed with our conclusions but reiterated that staffing would continue to be a problem in the future. He said that conducting trade practice investigations designed as we suggested would require considerable effort and that, even with increased staffing, higher priority work might preclude such investigations, at least to some extent.

We told the Administrator that we are continuing our review in this area and that we planned to comment further in our final report on the type and timeliness of trade practice investigations.

MARKET SURVEILLANCE AND ECONOMIC ANALYSES

The purpose of market surveillance is to enforce speculative limit requirements and to detect and prevent market disruption such as manipulative practices. Market surveillance involves analysis of data obtained from daily and weekly reports of trades filed by traders in the commodity futures markets. CEA processed 632,000 of these reports during fiscal year 1973. Economic analyses are designed to show that manipulation has occurred and include analyses of price relationships, supply, demand, transportation, and other factors affecting the marketing of commodities.

Our preliminary observations regarding these activities follow; however, we have not completed our review of this area.

Need for periodic reviews of adequacy of speculative limits

CEA should regularly review the adequacy of or need for speculative trading and position limits on regulated commodities. The primary purpose of such limits is to curb the trading of individuals whose trades or positions might unduly affect price. Without adequate limits, sudden, unreasonable, or unwarranted price fluctuations are more likely to occur.

Speculative limits cover both the number of contracts that may be bought and sold daily (trading limit) and the number of contracts that may be owned or controlled by one person (position limits). At present, regulated commodities either (1) have speculative trading and position limits which were established by the Commodity Exchange Commission, (2) have limits established by one of the exchanges, or (3) have no limits.

CEA believes that limits on speculative trading and positions are one means of giving economic forces the fullest possible opportunity for maintaining free and competitive markets.

Over the past 10 years, the volume of trading in futures contracts for regulated commodities has increased significantly and the annual trading volume has fluctuated widely among individual commodities. Despite this situation, CEA has not regularly reviewed the adequacy of speculative limits or the need to establish such limits for commodities without them.

For example, the current speculative trading and position limit on cotton--unchanged since 1947--is 300 contracts. The adequacy of this limit has not been reviewed since 1947, although the volume of trading in cotton futures and the number of open contracts has fluctuated widely during the past 11 years. For example, in fiscal year 1962, the annual average open interest (number of contracts outstanding) amounted to about 4,100 contracts and the volume of trading was about 35,000 contracts. In fiscal year 1972, the annual average open interest was more than 16,000 contracts and the volume of trading was about 411,000 contracts. The statistics for fiscal year 1972 were greater than those for the preceding 3 fiscal years combined.

Frozen concentrated orange juice is an example of a commodity for which no speculative limits have been set. A study completed by CEA's eastern region in March 1972 recommended that the Commodity Exchange Commission set trading and position limits for orange juice to diminish or prevent excessive speculation. In December 1971, a CEA headquarters official told us that no action had been taken on the recommendation and that the study had been returned to the region for updating.

In June 1973, a CEA management study team recommended that CEA (1) consider establishing speculative limits for all regulated commodities and (2) periodically review the validity of existing speculative limits. On March 22, 1974, the Administrator, CEA, informed us that resources to implement the study team recommendations were requested in CEA's 1974-75 budget request.

The Director of CEA's Trading Division acknowledged to us that CEA had not regularly reviewed speculative trading and position limits and that there was no future schedule for making these analyses regularly. He said that CEA would not be able to take action in this area until the staff was increased. We are examining this matter further as part of our review.

Need for consolidating guidance documents on identifying and investigating price manipulations

CEA's formal guideline on market surveillance identifies the factors and information important to an analyst in detecting price manipulations. Most of the guidance on how to interpret and structure this information for investigative purposes, however, is scattered in memoranda, outlines, and instruction papers prepared by CEA officials during the past several years, and not all of these documents have been made available to CEA's three regional offices. As a result, CEA has no assurance that its regional personnel are using all pertinent data in assessing possible price manipulations.

A memorandum on the inadequacies of a regional report on a price manipulation case stated the need for planning analysis work and for better use of investigative and analytical skills. The memorandum suggested questions that should be answered in a properly structured analysis-investigation of a possible price manipulation. Our contacts with officials at the three regional offices disclosed that this memorandum had been made available only to central and eastern region economists and investigators.

Furthermore, only the central and eastern regions had four other informal guidance documents which were used as references for assessing possible price manipulations. The documents covered the following areas.

--The need to know the commodity.

--Information needed on production, supply, movement of supply, market demand, functions of a market, a futures contract and its provisions, delivery problems, price and price relationships, and tricks of the trade.

--Types of futures market manipulations and their characteristics.

--Factors required for there to be a manipulative situation and their characteristics.

--General outline of an approach to investigating a possible manipulation.

In addition, the central region had developed two more outline approaches for investigating price manipulations.

The only guidance document on price manipulation available to the western regional office was the formal CEA guideline. Because most of the guidance on how to structure an investigation is contained in the informal documents, personnel in the western region may not be in the best position to properly assess manipulative situations.

A central region official stated that the informal guidance documents had been a valuable aid in investigating price manipulations. These documents are based on experience gained from investigating price manipulations and considerable time has been spent in developing them.

We believe that all guidance documents on price manipulation should be consolidated and made available to all CEA regional offices.

In commenting on this matter in March 1974, the CEA Administrator said that he agreed with our suggestion and that consolidated guidelines were being prepared for dissemination to all regional offices.

REGISTRATION AND AUDIT ACTIVITIES

CEA is responsible for registering all FCMs and floor brokers each year. As a part of registration, CEA investigates the general character of each floor broker and FCM and FCMs' principals and branch managers. CEA completed 2, 904 of these investigations in fiscal year 1973 and registered or reregistered 250 FCMs and 1, 357 floor brokers. (The need to expand the registration and character investigations to include all individuals who handle customers' funds or accounts is discussed on p. 28.)

The CE act requires FCMs to meet minimum financial requirements at all times and to separately account for customers' funds invested in regulated commodities and specifies that these funds not be commingled with other funds. CEA attempts to audit all FCMs each year to insure compliance with the segregrated fund provisions. CEA's regular financial requirements audits are limited to those FCMs that are not members of the Chicago Board of Trade or the Chicago Mercantile Exchange--the two largest exchanges--because these exchanges are approved by the Secretary of Agriculture to enforce their financial requirements. CEA made a total of 253 audits during fiscal year 1973. Our observations on CEA's audit activities follow.

Need to consider giving exchanges primary responsibility for audits

CEA's regional professional staff spends about 25 percent of its time making routine audits of FCMs to insure that customer funds are properly segregated and that FCMs meet minimum financial requirements. CEA should consider giving exchanges primary responsibility for such audits. CEA could then function more meaningfully as an overseer, much as it does in appraising exchanges' enforcement of their own rules and regulations. By limiting itself to such a role, CEA could concentrate more effort on known or suspected noncompliance cases and increase its effort in other enforcement areas.

The practicability of the exchanges' assuming more responsibility for audits of FCMs is enhanced by the fact that the two largest exchanges, whose memberships comprise about 75 percent of all FCMs, are already responsible for insuring that these member FCMs meet minimum financial requirements.

To assist them in their enforcement duties, the two largest exchanges require their members to submit periodic financial statements, including annual financial statements certified by an independent certified public accountant (CPA) or financial statements submitted to and in accordance with the requirements of the New York, Midwest, or American Stock Exchanges. The financial statements submitted by CPAs include a comparison of segregation requirements with segregated funds on deposit. Segregated fund audits made by CEA are apparently more detailed. FCMs who are not members of either of the two largest exchanges are required to semiannually submit financial statements to CEA that also include a comparison of segregation requirements with segregated funds on deposit.

Because most FCMs already use CPAs in the financial requirement and segregated fund audit areas, it appears practicable to extend the CPAs' services to satisfy CEA audit requirements.

Our suggestion to use CPA work more extensively is similar to one made in a September 1971 report on CEA operations by the Department's Office of Audit. The report recommended that CEA, in auditing FCMs, rely as much as possible on reports from CPAs or reports required by SEC. The report also stated that CEA should require the exchanges to enforce the CE act and its regulations relating to minimum financial rquirements and segregation of customer funds. It further stated that, even though CEA's regulatory philosophy was self-regulation by exchanges, CEA, by auditing each FCM's segregation funds, had assumed full responsibility for determining FCMs' compliance with the segregation provisions of the CE act and CEA regulations. The report expressed the opinion that protecting customer funds was a primary responsibility of the exchanges and that CEA should place emphasis on insuring that contract markets can enforce the act's minimum financial requirements and funds segregation provisions.

In our opinion, any exchange which CEA has approved to deal in regulated commodities should be capable of insuring that its member FCMs comply with the CE act and CEA regulations or other rules approved by the Secretary of Agriculture regarding segregation of funds and minimum financial requirements. We recognize that the segregation audit function is vital to insure that customers' funds are adequately protected and that it should not in any way be downgraded in importance. We believe, however, that, with proper guidance, exchanges and CEA could rely on CPAs' work.

We are not advocating that the CEA relinquish all responsibility for this audit function. On the contrary, CEA should exercise a strong oversight role. It should continue to audit FCMs when known or suspected noncompliance is evident and to test the reliability of the CPAs' audits.

In commenting on our suggestion in March 1974, the CEA Administrator said that he disagreed with our views. He again pointed out, as he did in a reply to the Office of Audit's September 1971 report, that CEA experience has shown that CPAs' reports cannot be relied on and that outside auditors have difficulty with CEA's segregation concepts and do not seem to concern themselves with the ramifications brought about by commingling funds. He also said that it is unrealistic to expect the smaller exchanges to bear the staffing expense necessary to assume this audit responsibility.

Although we recognize that this transfer of audit responsibility would not be a simple task because of the importance of insuring that the exchanges and the CPAs understand the importance of the segregation and financial requirement audits and know how to make such audits effectively, we still see no overriding reason why CPAs cannot do effective audits of FCMs. It seems unreasonable to believe that professionally trained auditors cannot be motivated to submit accurate reports on segregated funds and minimum financial requirements.

All approved exchanges, even the smaller ones, should be capable of insuring that their member FCMs comply with the CE act. Moreover, in its efforts to get exchanges to enforce their trading rules CEA said that an exchange's lack of resources is not adequate justification for failure to enforce the rules. We believe the same reasoning should be applied to exchanges enforcement of segregated fund and minimum financial requirements. It is not reasonable to expect the Government to continue to bear these costs which should be considered a necessary cost of the exchanges' doing business.

On April 2, 1974, officials of the two largest exchanges agreed with our suggestion and expressed their willingness to accept this additional audit responsibility. They said that much of the required work was already being done by their own audit staffs and by CPAs. They said also that a proposal was being considered to establish an independent audit group to do the required audits of all FCMs. The audit group's cost would be shared by all the exchanges. We believe that adopting such a proposal would ease the financial burden of smaller exchanges and eliminate much of the duplicative audit work at FCMs.

Because of the importance of this audit function in protecting customers, we are continuing our inquiries into this matter and plan to comment on it further in our final report.

RECOMMENDATIONS TO THE SECRETARY OF AGRICULTURE

The Secretary of Agriculture should direct the Administrator, CEA, to

--give exchanges a time limit for implementing CEA's regulation on self-enforcement of trading rules and state what penalties will be imposed if the deadlines are not met, and aggressively monitor the exchanges' enforcement programs.

--establish standards for exchanges' enforcement of financial requirements and state what penalties will be imposed for failure to meet such standards within a specified period.

--make trade practice investigations that (1) seek out abusive practices, (2) are conducted on a planned basis, and (3) are given high priority.

--regularly review the adequacy of or need for speculative trading and position limits on regulated commodities.

--consolidate all guidance documents on price manipulation investigations and make them available to its regional offices.

--consider giving exchanges primary responsibility for audits of FCMs.

AGENCY COMMENTS

We obtained oral comments from the Administrator, CEA, to expedite issuance of the report to the Congress. His comments are included in the appropriate sections of this chapter. He generally agreed with our recommendations and stated that additional staff had been requested to help alleviate the problems. He pointed out, however, that conducting trade practice investi gations as we suggest would require considerable effort and that, even with increased staffing, higher priority work might preclude such investigations. (See pp. 31, 34, 37, 39, and 41.)

The CEA Administrator disagreed with our recommendation to consider giving exchanges primary responsibility for audits of FCMs, with CEA exercising a strong oversight role. (See p. 43.)

We are continuing our review of these matters and plan to comment on them further in our final report.

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COMMODITY FUTURES MARKETS
OCTOBER 1973

Exchange	Regulated commodities (note a) Actively traded	Regulated commodities (note a) Not actively traded	Nonregulated commodities
New York Mercantile Exchange	Potatoes Boneless beef Butter	Rice Shell eggs	Aluminum, apples, nickel, palladium, platinum, plywood, U.S. silver coins
New York Cotton Exchange	Cotton	-	
Citrus Associates of New York Cotton Exchange, Inc.	Frozen concentrated orange juice	-	-
Wool Associates of the New York Cotton Exchange, Inc.	Wool	Wool tops	-
Chicago Board of Trade	Corn Soybeans Soybean meal Soybean oil Wheat Oats	Rye Barley Flaxseed Grain sorghums Cotton Cottonseed oil Lard Choice steers	Iced broilers, plywood, silver

COMMODITY FUTURES MARKETS
OCTOBER 1973

Exchange	Regulated commodities (note a)		Nonregulated commodities
	Actively traded	Not actively traded	
Chicago Mercantile Exchange	Frozen pork bellies Live beef cattle Feeder cattle Live hogs Fresh shell eggs Frozen eggs Potatoes Grain sorghums	Butter Frozen boneless beef Frozen skinned hams	Lumber
The Board of Trade of Kansas City, Missouri, Inc.	Wheat Corn	Soybeans Oats Rye Barley Flaxseed Millfeed Live feeder cattle Grain sorghums	
Mid-America Commodity Exchange, Chicago	Corn Soybeans Wheat Live hogs Oats	Rye Barley Flaxseed Grain sorghums	Silver, U.S. Coins

COMMODITY FUTURES MARKETS
OCTOBER 1973

Exchange	Regulated commodities (note a): Actively traded	Regulated commodities (note a): Not actively traded	Nonregulated commodities
Minneapolis Grain Exchange	Wheat	Corn Oats Rye Barley Flaxseed Grain sorghums Soybeans Frozen pork bellies	
Pacific Commodities Exchange, Inc., San Francisco	Coconut oil Western shell eggs Western live cattle	-	-
Commodity Exchange, Inc., New York	-	Hides	Copper, mercury, silver
Memphis Board of Trade Clearing Association	-	Soybeans Soybean meal Cottonseed meal	-
New Orleans Cotton Exchange	-	Cotton Cottonseed oil	-

COMMODITY FUTURES MARKETS
OCTOBER 1973

	Regulated commodities (note a)		
Exchange	Actively traded	Not actively traded	Nonregulated commodities
Milwaukee Grain Exchange	-	Barley Corn Flaxseed Grain sorghums Oats Rye Wheat	-
Merchants' Exchange of St. Louis	-	Wheat Corn Oats Rye Barley Flaxseed Grain sorghums Millfeed	-
Northern California Grain Exchange, Sacramento	-	Wheat Barley	-
Portland Grain Exchange	-	Wheat	-
Seattle Grain Exchange	-	Wheat	-

COMMODITY FUTURES MARKETS
OCTOBER 1973

Exchange	Regulated commodities (note a) Actively traded	Regulated commodities (note a) Not actively traded	Nonregulated commodities
LPG Associates of the New York Cotton Exchange, Inc.	-	-	Propane gas
Tomato Products Associates of the New York Cotton Exchange, Inc.	-	-	Tomato paste
New York Cocoa Exchange, Inc.	-	-	Cocoa
New York Coffee and Sugar Exchange	-	-	Coffee, sugar - domestic (#10), sugar (#11)
West Coast Commodity Exchange, Los Angeles	-	-	Cocoa, copper, silver, sugar, "put and call" options
International Commercial Exchange, Inc. New York	-	-	Currency, fishmeal
International Monetary Market, Chicago	-	-	Currency

[a] The Commodity Exchange Act (section 2) defines regulated commodities as barley; butter; corn; cotton; cottonseed, cottonseed meal; eggs; fats and oils (including lard, tallow, cottonseed oil, peanut oil, soybean oil, and all other fats and oils); flaxseed; frozen concentrated orange juice; grain sorghums; Irish potatoes; livestock; livestock products; millfeeds; oats; onions; peanuts; rice; rye; soybeans; soybean meal; wheat; wool; and wool tops. Futures trading in onions was prohibited by law in 1958 (72 Stat. 1013).

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE AND MEMBERS OF THE COMMODITY EXCHANGE COMMISSION RESPONSIBLE FOR ACTIVITIES DISCUSSED IN THIS REPORT

	Term of Office From	Term of Office To
DEPARTMENT OF AGRICULTURE		
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
Orville L. Freeman	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY, MARKETING AND CONSUMER SERVICES:		
Richard L. Feltner	Apr. 1974	Present
Clayton K. Yuetter	Jan. 1973	Mar. 1974
Richard E. Lyng	Mar. 1969	Jan. 1973
COMMODITY EXCHANGE AUTHORITY		
ADMINISTRATOR:		
Alex C. Caldwell	Jan. 1960	Present
COMMODITY EXCHANGE COMMISSION		
SECRETARY OF AGRICULTURE, CHAIRMAN:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
Orville L. Freeman	Jan. 1961	Jan. 1969

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE AND MEMBERS OF THE COMMODITY EXCHANGE COMMISSION RESPONSIBLE FOR ACTIVITIES DISCUSSED IN THIS REPORT

	Term of office	
	From	To
SECRETARY OF COMMERCE:		
Frederick B. Dent	Feb. 1973	Present
Peter G. Peterson	Feb. 1972	Feb. 1973
Maurice H. Stans	Jan. 1969	Feb. 1972
ATTORNEY GENERAL:		
William B. Saxbe	Jan. 1974	Present
Robert H. Bork (acting)	Oct. 1973	Jan. 1974
Elliot L. Richardson	May 1973	Oct. 1973
Richard G. Kleindienst	Jun. 1972	May 1973
Richard G. Kleindienst (acting)	Mar. 1972	Jun. 1972
John N. Mitchell	Jan. 1969	Feb. 1972