On the recommendation of the Working Party on Commodities (BISD Tenth Supplement, page 98), the CONTRACTING PARTIES at the nineteenth session, invited governments "to examine their regulations and see to what extent they could modify such regulations in order to facilitate the operation of futures markets both in their own and in other countries", and to inform the secretariat of the result of this examination. It was suggested that governments should inform the secretariat by 30 June 1962 of the results of any examination carried out pursuant to this recommendation (L/1714).

The following replies have been received from governments.

Australia

"The Sydney Wool Futures Exchange is at present the only commodity futures market operating in Australia. Apart from coming within the ambit of normal Exchange Control policy, there are no Government regulations affecting the operation of the Futures Exchange.

"Under the existing Exchange Control policy there are not restrictions on the transfer overseas of amounts due to non-residents in respect of transactions on the local exchange. Moreover, foreign exchange is made available readily in respect of all bona fide transactions by Australian residents on overseas futures markets.

"In view of the foregoing no liberalization in present policy would seem to be necessary."

Belgium

"The operation of futures markets as described by the International Chamber of Commerce (L/1318) corresponds to the views of the Belgian Government in this regard.

"Futures markets can play an important part in the stabilization of commodity prices if the obstacles which impede their normal functioning are eliminated. Exchange, price and import regulations are certainly the most important obstacles."
Canada

"Canadian law gives tacit sanction to trading in futures. Futures contracts are legal and binding, and not subject to anti-gambling laws.

"While operation of futures markets in Canada is not restricted by law, such markets are not numerous and only a few commodities are traded in this manner. This situation is the result of factors other than direct Government regulations, for example price support programmes for various agricultural products tend to discourage possible futures transactions and proximity of United States futures markets provides broad opportunities for Canadians.

"Sole restriction enforced in Canada is prohibition of transactions in wheat futures. There is no consideration being given at this time to the removal of this prohibition."

Finland

Reference was made in Finland's reply to the section on Coffee in the note on futures markets submitted by the International Chamber of Commerce (L/1318) which reads:

"Finland and Sweden prohibit trading on the London coffee Terminal Market"

The Finnish reply states:

"The Statement referring to the prohibition of futures on the London coffee Terminal Market is misleading in that it refers to coffee in general whereas the Finnish prohibition concerns only purchases of Brazilian and Colombian coffee brands. As regards Brazilian coffee, the prohibition was introduced to ensure the liquidation of Finland's old bilateral outstanding credits. Therefore only direct imports of Brazilian coffee are allowed against direct payments to Brazil. In the case of Colombia, the prohibition of futures is due to the payments agreement existing between Finland and Colombia.

"Trading in other coffee brands, for instance in Central American and African coffee, is free on the Terminal Market.

"As regards other goods, trading in futures is not restricted on the general condition, however, that the transaction concerns imports into Finland."

Norway

"The operation of futures markets in Norway is of minor importance. It is therefore not considered necessary to undertake an examination of the Norwegian regulations."
Sweden

"The Swedish regulations on futures markets, document L/1567, have not been changed. Some of the information given in point 3 is, however, misleading. The Swedish authorities therefore suggest this point be amended as follows:

'Participation by Swedish residents in futures transactions on markets abroad is subject to the previous authorization by the Swedish Exchange Control authorities. Such authorization is, however, granted in respect of all transactions which are carried out by firms that are normally dealing in the commodities concerned. Only in cases where the transactions are of a purely speculative character a restrictive policy is pursued by the authorities."

United Kingdom

"United Kingdom authorities place no restriction on operations in futures markets in the United Kingdom whether by residents or by non-residents; nor is there any restriction or control on operations by residents in the futures markets of overseas sterling area countries.

"Exchange Control formalities have to be observed by United Kingdom residents in respect of futures transactions in markets situated in non-sterling area countries.

"Firms in the United Kingdom with a genuine trading interest in a commodity are permitted full and free access to any futures markets in the world dealing in that commodity.

"In the case of certain commodities (cocoa, coffee, copper, cotton, grain, lead, rubber, sugar, tin, wool and zinc), access to markets in non-sterling area countries is available to, or channelled through, firms who are members of responsible and representative market bodies which have made special arrangements with the Bank of England. In other commodities specific permissions are given to applicant firms by the Bank of England.

"The arrangements in the previous paragraph are essentially designed to prevent residents from operating in non-sterling area markets for purely speculative purposes. They need to be preserved in the interests of consistency with the United Kingdom's general and current exchange control practice of precluding speculative transactions of a capital nature, which involve risk to official foreign exchange reserves.

"Since there are no obstacles in United Kingdom futures markets whether by residents or non-residents, and since the purpose of the regulations governing operations in non-sterling area markets is to ensure full access to
United Kingdom residents with genuine trading interests in the commodity concerned, the United Kingdom authorities do not consider that any modifications in their present practice are needed in order to facilitate the operation of futures markets."

United States

"There is futures trading within the United States in grains, fats and oils, eggs, poultry, potatoes, cotton, wool, sugar, coffee, cocoa, black pepper, hides, rubber, copper, lead and zinc. It is generally recognized that a properly functioning futures market, which permits processors of materials to protect themselves by hedging, and enables speculators to perform their risk-bearing function, can be an important aid to price-formation and have an important bearing on the soundness of the general market situation of basic commodities. It is also recognized that excessive speculation or dishonest or unethical trade practices can lead to sudden and unreasonable fluctuations in futures prices which make effective hedging impossible and which induce greater instability than might otherwise occur. To prevent abuses, regulations affecting futures trading are applied by the commodity exchanges themselves and, in the case of some agricultural products, by the Federal Government as well, under the Commodity Exchange Act. This Act was evolved after a period of complaints against futures trading and occasional efforts to prohibit it by law. The regulations provided under the Act are directed to improvement of the markets as price-registering mechanisms, by preventing such practices as price manipulation, defrauding customers, and the dissemination of false crop or market information.

"The tax on silver transactions and the law prohibiting futures trading in onions, cited in the ICC note, constitute other efforts that have been made to eliminate abuses of futures trading.

"Steps have recently been taken looking towards the repeal of the tax on profits from trading in silver. This regulatory tax was found to be necessary to prevent excessive speculation after enactment of the Silver Purchase Act of 1934. Since the President has now asked the Congress to repeal that Act and related legislation which involved the United States Treasury in the purchase and sale of silver, he has asked that the tax on transfers of silver be suspended at the same time, to permit establishment of a futures market in silver.

"The other measures of the United States Government cited in the ICC note, such as its price supports for cotton, grain and peanuts and its lead-zinc import quotas, derive from efforts to meet certain fundamental domestic problems. More weight must be given by the Administration to other aspects of these measures than to their effects upon futures trading, even where it seems probable that futures trading would be stimulated by the termination of those measures. In some cases it appears that the measures in question are not the only or necessarily most important factors influencing the existence or scale of futures trading."
"In the meantime, it is useful to have had the possible significance of these measures for futures trading brought to the attention of United States officials. The United States Government is suggesting to the United States Council of the ICC that it may wish to join in a further, more searching review of the exact effects upon futures trading of United States measures which allegedly impede such trading and in determining whether there are any present, practical possibilities for modifications of these measures which would be beneficial to futures trading."