

## COMMODITY FUTURES--CONTRACT SPECIFICATIONS REGARDING DELIVERIES

### 1. Place of Delivery

The contract always specifies the place (or places) of delivery. This is an essential feature of organized exchanges for dealing in commodity futures.

In most cases but one place of delivery is specified, the place in which the futures exchange is located. There are a few exceptions, however, to this rule. The only exceptions so far as American markets are concerned are (a) all deliveries on Winnipeg contracts (grain) must be at Fort William--Port Arthur; (b) deliveries of copper on New York contracts may be either at New York City or (with a differential) from plant or refinery in five designated states: New York, New Jersey, Indiana, Illinois, Pennsylvania; (c) all deliveries on Chicago cotton contracts must be at Galveston or Houston; and (d) deliveries on New York cotton contracts may be made either at New York City or (with a differential) at designated Southern points--Norfolk, Charleston, Galveston, Houston, New Orleans; a cotton contract must be delivered in its entirety, however, at one of the delivery points and in not more than one warehouse.

Commodities covered with reference to place of delivery:

Grains (wheat, corn, oats, rye, barley), cotton, provisions (ribs, bellies, lard), rubber, coffee, sugar, cocoa, silk, cottonseed oil, cottonseed, cottonseed meal, copper, tin, burlap.

### 2. Deliverable Grades

The futures contract always specifies a grade (or description)

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or a number of grades which are deliverable on contract; this is an essential feature of organized exchanges for dealing in commodity futures.

The specifications regarding deliverable grades are evidently framed, in general, with a view (a) to requiring that deliveries consist of merchantable stock, and (b) to rendering eligible for delivery at least a substantial part of available supplies. In line with this general principle, however, there is much variation in practice. All of the markets of which the rules have been consulted appear to give the seller considerable latitude in choosing the grade or grades that he will deliver; none of them limits his choice to a single grade. Certain limitations for which information is available, all of which relate to newer and smaller markets than cotton or grain, are as follows:

Silk: On any one contract (10 bales) the seller's delivery "must be made up exclusively of one grade"--but he may choose this grade from about 10 deliverable grades.

Coffee: Two or three contracts; on one of these (Santos) the seller may deliver grades Nos. 2, 3, 4, 5, 6, but the average of his deliveries may not be above No. 3 or below No. 5.

Sugar: The contract is for 50 tons and the contract grade is Cuba centrifugal 96 degrees average polarization. The sellers' option regarding deliveries embraces sugars from about 10 countries and a range of 93 to 98 degrees polarization, but no lot of 50 tons may consist of sugar from more than one country of origin.

Cocoa: The contract is for 30,000 pounds of cocoa beans and the contract grade is "standard." On each contract, however, the delivery may not consist of more than 5 chops (trademarks), except that it may consist of 6 chops in case some small difference in weight needs to be made up. The number of chops from which he may choose is very large.

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Burlap: The seller may choose from a considerable number of constructions and a considerable number of Calcutta mills, but delivery on any one contract (25 bales--50,000 yards) must consist exclusively of one of the constructions specified and be the out turn of but one mill.

Note on cotton. - A report of the Federal Trade Commission entitled "The Cotton Trade," issued in two parts in 1924 (Senate Document No. 100, 68th Congress, 1st Session) devotes a chapter (Part I, Ch. 7, pp. 160-190) to a consideration of the desirability of revising the grades deliverable on contract. Its conclusions are as follows:

"A careful study of the various proposals which have been made for changes in the grades of cotton deliverable on future contracts leads to the conclusion that the only change relating to grades that promises an improvement in the present system of cotton future trading is the contiguous-grade contract.

Contiguous-grade deliveries constitute more merchantable lots of cotton than do present deliveries. They conform substantially to the manner in which spot cotton is handled by merchants in their sales to mills. The adoption of such a requirement should, by increasing the merchantability of the contract delivery, exercise a favorable influence on the spot-future spread. ....

The contiguous-grade contract should be adopted as part of the southern warehouse delivery system, as an offset to the additional option of the seller as to the place of delivery and in order that the dealer taking delivery will receive a merchantable lot of cotton though at a point which may not be most satisfactory to him."

Commodities covered with reference to deliverable grades:

Grains, cotton, rubber, coffee, sugar, cocoa, silk, cottonseed oil, cottonseed, cottonseed meal, copper, tin, burlap.

The Grain Futures Administration of the U. S. Department of Agriculture has compiled a little book giving detailed information with regard to grades of grain deliverable on contract. A copy of this book is attached.

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