

**ELECTRONIC WAREHOUSE RECEIPT FORUM
AMERICAN COTTON SHIPPERS ASSOCIATION
Memphis, Tennessee
Monday, August 29, 1994**

Panel:

MR. DONALD CONLIN
MR. W. NEELY MALLORY
MR. FORREST F. LIPSCOMB
MR. BILL BUTLER
MR. DAVID COLBY
MR. LOUIS BAIONI
MR. ROBERT WEIL, SR.
MR. WINFORD R. McGEHEE
MR. JOSEPH T. WYRICK
MR. STEVE MIKKELSEN
MR. TOM SCOTT
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PROCEEDINGS

MR. McGEHEE: Ladies and gentlemen, I'm Winford McGehee, and if you don't know, I'm president of the American Cotton Shippers Association this year, and I would like to express our appreciation to each and every one of you for being here this morning. The topic of discussion today is obviously the electronic warehouse receipt program and electronic warehouse receipt system, and we have a good panel of people here to try to answer any questions that any of you might have.

There have been several questions put forth. Obviously I'm more familiar with the ones put forth by the merchants so those are the ones that I'm aware of. But anyone else that has questions, we will try to have someone here on the program to answer those questions.

I would like to introduce the panel first, if I might. And some of the names I'm not sure I know everyone, but anyway I will read the names. To my left, immediately to my left, is Joseph Wyrick. He is with the National Cotton Council, and he has developed the background information for this program. Secondly, we have Steve Mikkelsen with the ASCS licensing authority in Washington. Glad to have you here.

Next we have Tom Scott with EWR, Incorporated. That's a new venture. We have Joe Tubb from Plains Cotton Cooperative Association, and David Cox with Intelligent Decisions, Inc.

On my right we have Mr. Robert Weil is here on behalf of the merchants to present the merchant perspective and also to his right Louis Baioni. From the banking industry, we have David Colby with Union Planters, and we have Bill Butler with the National Bank of Commerce.

The insurance industry we have Forrest Lipscomb with Forrest Lipscomb and Company and from the warehouse industry we have Mr. Neely Mallory. And Donald Conlin should be here, but I haven't seen him yet so I don't know whether he's going to be in here today or not.

MR. MAY: It will be about noon.

MR. McGEHEE: It will be about noon. Okay. So with that I would like to go ahead and get the meeting started. I would like to call on Joe, if he would please to his presentation.

MR. WYRICK: Thank you, Winford, and thank you for including me in the discussion sessions today. As this meeting was being set up, Susan Braslow suggested to me that this needed to be a conversation and an opening discussion, and so that's the way I'm going to approach it. I have got some remarks and comments for you but no formal presentation. I think this will be a good start, and I look forward to the discussion that will ensue.

Let me give you a little background and that's what we will concentrate on. First of all, the National Cotton Council as an organization got started in this effort, if you will call it that, of electronic warehouse receipts back in 1984. At that time the initial interest in this topic came from two segments of the industry. I think it's very interesting that the two segments were the producers and the merchants.

And those two segments of the industry approached the Cotton Council in 1984 and asked is there a way that we can set up a bale tracking system. Now, that was where this impetus all began ten years ago, and obviously it's evolved a lot. But the point is that's where it's started and those were the groups that put the seeds in place, the producers and the merchants.

We began in 1984 looking at feasibility. And in 1985 we actually did a study. The National Cotton Council contracted with a company most all of you have heard of, EDS, to do a formal study, a design, to see whether an electronic receipt type of system was technologically feasible.

That study took approximately a year to do, and the results of the study obviously said, yes, this was something doable with the technology that existed in 1985. We actually ran our first electronic warehouse receipt test

program in 1985 in Tunica, Mississippi, involving Federal Compress, Bill Lawson, a fellow named Bill Houston was the producer. First Tennessee Bank was the bank that was involved in that very, very first test back in 1985.

In 1986 we introduced to our industry electronic communications. We developed our first industry communications network that we called the Cotton Telecommunication Network. It was mostly a glorified electronic mail system, but the idea back in 1986, this was still very innovative back then and was introducing the industry to electronic mail.

In 1989 we did something that's probably been some of the greatest influence to this effort that we are in today, electronic warehouse receipts. We ran a very formal pilot project test of an electronic warehouse receipt system. I was involved in this effort, another member of my staff Tammy Martin, who is here today, also was involved, and she did a lot of the hands-on work and is available to answer questions about specifics, if we need to do that. But these were key tests that I want to make sure you're familiar with.

In 1989 the National Cotton Council had an arrangement with Plains Cotton Cooperative, and Joe Tubb is here from Plains today and may have some comments, and with Pan Handle Compress. So we had a test with a cooperative and an independent warehouse both in the West Texas area. For one of the warehouses we had software written specifically for the purpose of doing electronic warehouse receipts.

This test we did in 1989 involved financial, legal and technological testing. We wrote software. We tested system security. We involved banks in the West Texas area to see about loaning money. The test all went very well, much better than our expectations, and there are several people here in the room that were involved in those tests.

We expanded that pilot project in 1990 to include a warehouse in Arkansas, over in Marked Tree, Arkansas, E. Ritter Warehouse. This was the first test with a federally licensed warehouse. So we actually did a lot of pilot project testing, both the financial, legal and technical aspects.

Now, I'm going to keep emphasizing those three points. This is not a computer project we are talking about today. We are talking about a project that involves financial, technical and legal aspects. You have got to keep it in the context of all three to properly understand the implication and how everything is going to work together.

After the successful tests in 1989 and 1990, we worked towards seeing about changing federal laws that needed to be put in place so that an electronic warehouse receipt could become a legal entity, legally viable. In the Farm Bill, the last Farm Bill we changed the law and it allowed federally licensed warehouses to issue electronic receipts under regulations that the USDA would put in place.

Well, at the time we changed it to allow federally licensed warehouses we thought we were changing it for all warehouses. So we had to go back and pass a second law, and that was done in 1992. And now federal law says that any warehouse with a state or federal license can issue an electronic receipt that is equivalent, legally, to a paper receipt. It does not say that a warehouse has to issue an electronic receipt. It gives the warehouse an option to do it.

In addition to changing those federal laws, the next thing that had to be put in place were the regulations. Federal regulations had to be put in place that would allow electronic receipts to be handled by the industry in a very practical way. Those regulations actually were issued in late March of this year and became effective in early May.

I would like to spend just a minute telling you what some of the key issues that were discussed during the development of these federal regulations, these are the things we have been working on most recently. First of all, there was a question in the regulations as to whether ownership of cotton should be included on an electronic receipt. It was decided eventually that ownership was inappropriate. The person who holds a paper receipt may not necessarily be the owner. The person who holds an electronic receipt may not necessarily be the owner.

A second major issue that we spent a lot of time on as the Cotton Council was limitations on who might be the system provider. The system provider is the person or entity which runs the computer that electronic receipts are stored on. Originally there was a proposal that no one involved in the cotton industry could be a system provider. We argued successfully that the people in the cotton industry knew more about the cotton industry than anybody else and they should be allowed to be a system provider if they wanted to be.

User fees were another question that was a major area of debate when we put together regulations. At one time it was actually discussed that a user fee of a dollar per receipt might be put in place for -- by the government for every electronic receipt issued. Well, that since has gone by the wayside, and a user fee now is a provider has to pay \$2,000 a year, which is very, very reasonable. But again this was a major topic of discussion.

Other topics of discussion and areas of concern with the Cotton Council, and some of these we are still talking about, but just to make you aware of some of the things we considered major issues was transition from one provider to another. That is, how you move an electronic receipt from one provider to another and when can you do it.

Record keeping requirements. How do we keep good records so that should something happen a provider will be able to reconstruct what went on in the electronic receipts.

The liability of the provider. What type of liability does a provider have should this system fail.

System access by users of an electronic receipt system. Who can look at the electronic receipt and who can't. That's what that amounts to.

Assignment of task series. Conversion of electronic to paper receipts and vice versa. Provider financial security. System access security and the possible establishment of an industry advisory committee to advise USDA on electronic receipt issues.

Now, these were the major areas we spent time discussing, and a lot of these are taken care of in the regulations. I'm not going to steal Steve Mikkelsen's thunder. He's going to go over the regulations with you in a minute. But I did want to make you aware that these topics were discussed in various forms and were discussed by the Council and various committees and consensus opinions were given to the USDA.

The point we are at now regulations have been released and USDA has released a provider agreement, a contract that everyone who provides electronic warehouse receipts services will have to sign. The contract would be between the provider and USDA and will state ways that the provider can set a system up, will give information about what type of security mechanisms will have to be put in place and other requirements that the provider will have to meet.

Let me finish up my opening remarks here this morning by saying where are we now. Well, we spent a lot of time here recently on a couple of different issues. One is a little bit technical. We have been discussing at length with the CCC, Commodity Credit Corporation, formats for electronic receipts, and the issue of what can be included in an electronic receipt and what may be included in an electronic receipt. There's quite a bit of difference and confusion as to what has to be in an electronic receipt and what can be. They're not the same thing, and again this is technical. I won't get into it unless you want me to. We've spent a lot of time with the Department of Agriculture trying to resolve that.

The other big issue that we are facing is education. I cannot tell you how many questions since I guess the first of June that we have received in the National Cotton Council regarding electronic receipts. There is a tremendous amount of misinformation out there. There are a large number of people out there who don't really understand completely yet how all the things in the regulations and laws are going to work, and we have spent a tremendous amount of effort trying to clear up and clarify some things.

The Council hopes to have an information bulletin, a bit of a report put together about how electronic receipts will work and to get this

out to the industry sometime in the next couple of months. But for now that's the big thing that we are doing is trying to get around, trying to let the word out in sessions like these. Trying to make sure that misinformation is voided but that good solid information about this is put in place.

The Council has a resolution which favors electronic warehouse receipts as an alternative to the industry, and I think that's an important point. I think it's very important for us to remember today that this is an option for people who want to use it. It is not a replacement that is mandatory to anyone.

With that, I would like to finish by mentioning one other thing. I'm the speaker here today representing the National Cotton Council, but there's no way I can do all this work by myself. At least two other folks on the staff have put a lot of time in this. I have already mentioned Tammy Martin who is here today. Also Mr. Bill Killen of our staff spent a lot of time. They both deserve a tremendous amount of credit for the work that's been done today.

With that, Winford, those are my remarks. I look forward to the discussion. If you'll get a chance and have questions, please ask me later or whenever, be happy to talk to you. Thank you.

MR. McGEHEE: Thank you, Joe. Let me just remind everyone that we do have a reporter who is going to be recording the entire meeting, and there will be a transcription of this meeting available, and I don't know how long that will take, but anybody that happens to miss some notes or something, you will be able to get a transcribed copy of the proceedings of this meeting.

Secondly, I would like to say that questions if we might would come at the end of all of the presentations, and at that time I think everyone will have an opportunity to ask a question of each of the program participants that they might have. And with that, I would like to ask Mr. Steve Mikkelsen to please come up.

MR. MIKKELSEN: Good morning. I appreciate the invitation to come here, and we do. I think as Joe says, have a big educational process to go through for everyone that is going to be involved as the years go by changing from a paper world to an electronic world.

As Joe has mentioned, there is -- he kind of hit a few things I'm going to start out with, and I'm going to repeat over again is that the standards were changed with the 1990 Farm Bill. What Congress did was amend the United States Warehouse Act in 1990, and in 1990 they allowed, just like Joe said, federal warehouses to participate in an electronic warehouse receipt system.

Then in 1992 they went back to Congress, got Congress to amend the United States Warehouse Act again to include all warehouses.

Electronic warehouse receipt regulations were published in the Federal Register on March 31st of this year and became effective May 2nd of 1994.

We, too, have quite a history with electronic warehouse receipts starting back in 1989 that Joe has mentioned. We went into an electronic loan program on a pilot basis with the National Cotton Council and Plains Cotton, and then in 1990 we went with Marked Tree in Arkansas for the federal warehouse receipts.

The entire system was based then on these four or five years of pilot studies and all the comments we got from people who participated in the pilot project was that they thought the product offered a lot of advantages over the paper receipt. So at the encouragement of the industry, we started with them subsequently working on a development plan to develop electronic warehouse receipts, and there was one theme I think that functioned throughout the entire development program, and that was, a phrase we kind of coined, it's just like paper.

We tried to develop this system to be as close to paper as possible, so to minimize the disruption during the change from paper to the electronic world, and as all you know now, the negotiable instrument is a

bearer type instrument, and bearer means you can actually hold a physical piece of paper. That term bearer now has kind of transformed itself into the term holder. In the electronic world you would be a holder just as you would be a bearer in the paper world.

So I'm going to go through and discuss a few of the terms here that have specific definitions and meanings to us in the Department of Agriculture now under the regulations.

An electronic warehouse receipt is an instrument filed in the central filing system and contains at least the information required for a warehouse receipt under Section 18 of the United States Warehouse Act and Section 735.16 of the Regulations regarding a bale of cotton and has been identified as to the holder. Okay.

Electronic warehouse receipts must be issued as single bale receipts. Each electronic warehouse receipt shall only designate one entity as holder at a time.

Provider. An entity or individual that maintains electronic warehouse receipts, a central filing system that meets the requirements and regulations of the Act, United States Warehouse Act, and has a provider agreement with ASCS.

Provider agreement. An agreement entered into between ASCS and provider that delineates the provider's responsibility and defines the relationship between the provider and ASCS regarding provider's maintenance and security of electronic warehouse receipts and central filing system and other requirements of the Regulations.

Holder. An individual or entity in possession in fact or by operation of law under receipt and by extension of the cotton represented thereby. Holders of electronic warehouse receipts will be entitled to the same rights and privileges as bearers of the paper warehouse receipt. Only the holder may transfer an electronic warehouse receipt to a new holder.

User. An individual or entity that uses the provider's central filing system but shall not include ASCS in its regulatory capacity.

Issued. Electronic warehouse receipts are considered issued when a licensed warehouseman has transmitted all the necessary information to an approved provider and when such information is entered into the provider's central filing system.

Access. The ability when authorized to read, change and transfer warehouse receipt information maintained in central filing system.

Additional information. Everything that is not required under Section 18 of the United States Warehouse Act or Section 735.16 of the Regulations will be considered additional information.

The statutes are very explicit about what it takes for each field as it were or what information must be contained on a warehouse receipt to make it a receipt under the statute. Once you go beyond those particular things that are required under the Act or the Regulations, then we consider all that information additional information. That's how the statutes are set up.

The first thing that is additional information is holder. That's something we didn't need in the paper world because everybody is a bearer. Now, in the electronic world we need one other item to have the electronic world function like the paper world, and this is the entity called holder. So that's the first piece of additional information that's going to accompany every receipt. That's required.

The rest is not required by the statutes under the United States Warehouse Act or Regulations, but other entities like the Commodity Credit Corporation are interested in a whole slew of other information like your warehouse code number, like various things, maybe farmer's name instead of the state and county codes for each farm, that kind of thing. The paper warehouse receipt number if it was a paper receipt beforehand, was transferred to electronic or going another way back and forth.

Also things like New York Cotton Exchange they require certain information for a person buying a cotton bale. That is additional. That is an additional information category item.

Each warehouse will choose his own provider. The receipts as I

mentioned before are going to be stored on the central filing system for that provider. Once a warehouse elects to use electronic warehouse receipts, all of the receipts issued by that warehouseman will initially be issued as electronic warehouse receipts.

Any storage depositor has the right to ask for a paper receipt at any time. Using electronic warehouse receipts is voluntary. It is not required. As a receipt trades and is negotiated from one party to another, the receipt will never physically move. It's just the data that is stored in the central filing system is only -- can only be stored in one place in that computer, and it's just the information on store at that computer that's transferred from one user to another, one holder to another. So as a receipt is negotiated from one entity to another, many times the only thing that will change is the name of the holder.

Each user would have his own account in the central filing system and will retain his own rights to those accounts. If you're a holder, the only one that can have access to your account is yourself. You can assign your rights as a holder, user, to another party if you wish.

For example, say that you got a receipt that had some bad information on it from a warehouseman, you knew it was an incorrect piece of information. If that information that is incorrect is part of the receipt itself and is not considered to be a part of the additional information that accompanies the receipt, the only person that can change the receipt information is the warehouseman himself that issued the receipt. So you as a holder would have to transfer your electronic receipt back to the initial warehouseman to have him correct the information that was in error. After he is done with it, he would transfer it back to you.

You as holder can change any of the additional information items or add on additional information items I guess is the proper way to say it to a receipt. Say if you wanted to certify the bale of cotton, you could add on information the Cotton Exchange would need for a certified bale of cotton. Say if you knew it was going to enter into a loan, you would add certain information for that particular item or process.

So there's two categories here of information: Those that are part of the legal receipt and those that are part of the additional information part of the receipt. So anything that's part of the legal receipt has to go back to the warehouseman in order to be changed. You have great latitude on changing information on the additional information side of the receipt.

So it's kind of confusing. All holders are users but not all users are holders. For example, you may give, as a holder, you may give a bank permission to read your particular account in the central filing system. By having access to read your account, your bank then would be able to verify how many receipts you had in your possession. Might have a function of driving that per acre or merchant or something of that effect. Therefore, the bank never becomes a holder of the receipt unless they demanded that you turn over your receipts. Depends on your agreements with the bank. But he might just be a user of the system and having access to your account in a central filing system.

So a holder is an entity that has possession of the receipt just like a bearer does today in the paper world. A user is really anybody else that has a function in the central filing system.

Providers do have to jump through some hoops for us according to the Regulation. And I will go through a few of those.

Providers must have a minimum net worth of \$25,000 and maintain two insurance policies, one for errors and omissions and another for fraud and dishonesty. Each one of these policies must have a minimum coverage of two million dollars. That's four million dollars worth of insurance we are requiring you to obtain.

Each provider will pay an application fee the first time they sign up with USDA of \$2,000, and then they will pay an annual fee of another \$2,000 per year. ASCS or United States Department of Agriculture will not charge a fee per warehouse receipt issued or any of you who use the provider system. Our only charge is directly to the provider that \$2,000 a year.

USDA will not limit the number of providers, and we will not limit the fees providers can charge users. Providers will accept receipts from both the United States Warehouse Act licensed warehouses and non-federally licensed warehouses. However, USDA will not regulate or take any responsibility for the non-USWA licensed warehouse.

The cotton stored in the warehouses or the contents of the receipts they issue or the manner in which -- yeah, the manner in which the warehouse receipts are issued, all of those things will be governed by the applicable state law if you're a state licensed warehouse. You can't jump our boundary lines. There are federal statutes and there are state statutes and the states do their thing and we do our thing, and we will be regulating and providing under the United States Warehouse Act as Congress has indicated.

Providers must submit an annual audit level financial statement and an annual electronic data processing audit to us yearly. I think y'all understand what a financial statement would be, but let me explain a little bit about the electronic data processing audit. What we are asking from each provider there is that they give us an evaluation as to their current computer operations, their security for those systems, their disaster recovery capabilities for the central filing system.

We are trying to ensure these systems are safe, backed financially and will carry on the tradition of the United States Warehouse Act that a receipt is just as good as money itself.

Each provider agreement will exist for a period of one year. Each agreement will be automatically renewed annually on April 30th as long as the provider complies with the terms of the agreement and regulations of the Act. This agreement that these providers do sign addresses several issues that are not contained in the Regulations in detail. A lot of those are things about access, fees that we are going -- our control on the fees, their liability to you and to the ASCS, records, security, system termination, transfer receipts and suspension of the provider himself.

Suspension is for those of you who are federally licensed warehousemen and understand the current suspension, that is where we basically tell you to shut the system down, you're not going to function for a while until we get in, look around and see what happened and find out what the problems were that led to any particular event.

ASCS will not regulate access to the provider's central filing system. However, what we do say about access to the system is that the provider cannot discriminate among its users regarding access to the system.

On the fees ASCS will not regulate the fees charged, but the provider must submit to us a schedule of fees showing all his fees to be charged for all services offered. The provider must charge his fees on an equal basis to all of his users of the system.

Security. Provider must ensure on-site security of his computer or computer hardware, software and data. Security shall prevent the destruction, accidentally or intentionally, of facilities and data, along with preventing unauthorized distribution of electronic warehouse receipts.

Providers must have a comprehensive disaster recovery plan, and each provider must create daily a set of disaster recovery records. Both records must be kept in a fire proof chamber and one set must be kept off site.

July 15 of 1994, this year, we sent out 24 provider application packets from our Kansas City commodity office. The entities requesting the application packets ranged from large computer software companies to individual warehousemen. As of today, we have not received one application back. Indications are from what we hear from you guys is that there won't be any electronic warehouse receipts this year. It will probably be 1995.

Warehouse examinations. For you folks that are federally licensed warehousemen or work with federally licensed warehousemen at this time they will basically be performed in the same manner as they are for paper. Maybe some day when we come up with the money and issue laptop computers to our warehouse examiners, we can change that procedure some. But I don't see anything in the foreseeable future.

Commodity Credit Corporation. Commodity Credit Corporation is going to be a user of the system just like most of you folks are. CCC is now in the process of developing its own user agreement to work with each provider. In that agreement they are specifying all of the additional terms and conditions that they're interested in as a user above and beyond what the Warehouse Act and Regulations call for. That is the same thing that each of you folks would need to do who wants to be a user/provider. You will need to enter into an agreement with a provider and specify those terms and conditions you're interested in above and beyond what the Regulations and the Warehouse Act specify.

Commodity Credit Corporation, their number one item listed on their user agreement is that the provider must be licensed or approved by the ASCS, have an ASCS approved provider agreement.

During the week of August 8th, Commodity Credit Corporation distributed their draft user agreement to various interested parties in the cotton industry for their comments back to CCC about many of the things that or some of the things Joe talked about as to which fields should be required and not required, what place they're in, how the transmission format will work, a whole bunch of other different issues that affects the loan program.

That's basically where we are with the Department of Agriculture, and we are hoping that we get that provider application back as soon as possible because we are looking forward to getting our first provider and gaining a little experience in the electronic world. Hope that we can work with all of you, and it's a successful system. Thank you.

MR. McGEHEE: Thank you, Steve. We will now hear from our first potential provider, Tom Scott, with EWR, Incorporated.

MR. SCOTT: I was going to need the assistance of --

MR. McGEHEE: There's a mike right there.

MR. SCOTT: I will need a volunteer to help me with my folds. Okay. First of all, if everybody can hear, I might just stand here. It's easier for me. All right. I will use the microphone. I am Tom Scott. I'm with the National Bank of Commerce. I was introduced as EWR. EWR I think, am I correct, John, was just formed last week.

MR. McQUISTON: Yes. The charter was issued last week.

MR. SCOTT: Let me take you back a little bit and tell you how we got to this point with EWR. The National Bank of Commerce has been following this project for a number of years, I mean from the inception. I think it was in the late eighties, early nineties, that we started looking at this. Our goal was to find -- was to -- we thought of this as a profit opportunity to be honest about it. We thought that we could be a provider and provide this service to the industry and make a dollar. But as we begin to look at it, we began to evaluate the risk and the reward, and we kept seeing more and more challenges which equated to more and more risk, and we didn't see the reward.

One of the things that the cotton industry was not going to pay, was my judgment, a lot of money to somebody to provide this service. At one time we heard the price was going to range from 50 cents, 75 cents in that range for a receipt, and the industry just wasn't going to pay that because the market will not bear that kind of price and you really need a good price in order to make a profit to offset the risk and the costs that were involved in this thing.

So it became our conclusion that we needed to be a utility. So --

MR. GILLEN: Tom, can you take the microphone and walk up here?

MR. SCOTT: That's a good idea. So really what we were talking about was forming EWR. The objective to provide all cotton producing --

MR. McGEHEE: Speak into the microphone.

MR. SCOTT: Y'all are going to get me straight yet. I appreciate it. The objective was to provide to all cotton producing regions a comprehensive, reliable and efficient system for electronic warehouse receipt processing at a minimal cost to the participants.

Well, that was the objective and on I think it was the early part of May we got a group of people in Memphis together to talk about how we were going to do this. And we came to the conclusion -- we formed a group and we -- we formed EWR steering committee. Here's some of the key players and some of the initial investors in EWR, and so we came up with a cross section.

Now our interest, let me make this important point is to create a company where everybody can participate. When I mention utility, we really want the whole industry to participate in this, but we needed to get started so we had to pull together some people that were willing to put up the initial capital.

Now, our plan is after we are registered in all the states and overcome the legal burdens is to offer participation in investing in this company to everybody in the industry. You can see that Dunavant, Louis Baioni, Dunavant Enterprises. Woods Eastland, Staplcoth. Jack Hamilton who is here from Hollybrook. Sam Hollis with Federal Compress. Sam Leake from Tensas Warehouse. Gene LeGrand from Royster. Neely Mallory from Memphis Compress. Heiko Meyer, Conti Cotton. Gary Taylor from Hohenberg. Fred Underwood from Trinity Company in West Texas. Willis Willey, Union Services, and Bill Zarfoss from Allenberg.

Now, it looks like that it's a concentration of Mid-South players, but we have someone from North Carolina and from West Texas. Again, we needed to put together a core group so that we could form our corporation, get the initial funding, pay the lawyers to register this thing in all the cotton producing states so that we can offer this participation industry-wide.

Once this corporation was formed, we -- this is how we plan on -- you can't have everybody on the board of directors, but we were going to form certain select committees so we can secure the participation of everybody in the industry. We plan on having a board of directors or management committee. Those could be one in the same. We, of course, would have to have an audit committee to comply with regulations. We are going to put together a security committee that will represent warehouses, banks, merchants. You know, the key ingredient to this thing is that everybody has got to have confidence in the system, particularly the people that lend money against it.

The banks are going to look at this very closely. I heard one merchant said that he was very skeptical about this whole idea because his total capital of his company was in his warehouse receipts, and he was just a little reluctant to let them go.

So we are going to have to prove to the industry that we have a very safe and secure system. We are probably going to have to go way beyond what the regulations require us to do. Because we not only comply with what the government wants us to do, but we have to convince the industry that this is a safe and efficient way to do business.

Also we are going to put together a technology committee. You will hear about Joe Tubb's system from Plains. They have an excellent system, but we also will have one. The most common questions that I have been asked is that we do things different in different parts of the region. You talk to someone in North Carolina, they say, look, we don't work like the Mid-South. The same thing I hear from West Texas.

Our plan is to go to each producer region, solicit input and hopefully gain participation. And when I say participation, I really mean -- everybody thinks, well, that's just -- that's you're trying to raise money. Of

course, we are going to raise money. But we are already over the hurdle as far as money. We've got enough money to get started. We want people to participate. The reason for asking for investors is to solicit participation. We need participation to serve on these committees. We need people to help us define our system.

The only system working today is Plains Cotton Co-op system. It's an excellent system. But we are going to have to go to each region and meet with the people in those regions so that this system will serve everyone.

How do we plan on funding this corporation? We are going to fund it correctly, right side up. Okay. Now, this is -- the funding of this corporation has changed a little bit, but the concept has not changed. The concept is to -- really two things in the concept.

We are going to raise approximately one to two million dollars worth of capital, but basic concept is that we plan on giving back investors at least 80 to 90 percent of their money with a small return. Now, the lawyers tell us we can do that one of three ways. We can either raise one cent of stock, nine cents of debt or it can be preferred stock or it can be called common stock, and we are still working on which way is the easiest and the most efficient and cheapest way to get this registered.

But when you stop and think about it, the goal is going to be to return 80 to 90 percent of investors' money to over a three to five-year period with a small return.

The participants in this venture are not in it to make money. The goal of this thing is not to make a profit. The goal is to reduce the cost per bale and reduce the cost of management, but you have to have money to get started. Somebody has got to pay the initial start-up capital and hire the programmers and fund the management of this thing.

Generally when I talk about this, I generally stop along the way for a lot of questions, and I can see some people that want to ask questions now, but the questions will be at the end.

You know, what is this system going to do. What is the provider going to do for them. Well, we've got initial system designed and programming. That's going to take about six months, depends on the number of people that you put on. We are going to have to interface the system to all users, warehouses, the government, the classing offices, ginners, merchants, banks, all these people are going to use this system, and that's going to produce a real challenge.

When you think that all these people have computers out there today and this system is going to need to interface with all those computers and do it efficiently, because if we can get the cost down to a range that we are thinking about, I think we will be able to make winners of everybody that uses this system. But you don't want to have to re-key your data twice. You know, data processing type things like that. We need for it to be efficient.

As you heard the previous speaker, providers will spend a lot of time working with the USDA, especially during the initial phases of this thing because we are a pioneer. It's going to take a long time to work out all the kinks and start-up. But that's any time you start a venture.

Ongoing programming support, off-site computer backup. To give you one of the things that might come out of an audit, if you haven't been audited by the government, I visited one in particular with Plains that they participated in the writing of the regulations, and I could be corrected about this, but there's a sentence in the regulation that says this computer system will not fail. Well, I have been in data processing for over 20 years, and I have never seen a system that wouldn't fail. They all fail for hardware reasons, power reasons or software reasons. So how do you provide a system that never fails. And the answer that I was told you will have to have three computers. You will post that transaction twice at one location and once at another location.

Again back to my initial remarks, how do you make a profit if you have to have, you know, three different computer systems. I don't know if that's going to be how this thing eventually works out or not, but it wasn't the type of risk that National Bank of Commerce was willing to take to get into

this thing because every time you're audited, there will be new requirements.

The system is going to have to operate twenty to twenty-four hours a day, seven days a week. That means you're going to have to have one to two people on site twenty-four hours a day, seven days a week.

Telephone support. The plans that we have now is to always have someone available on the telephone to answer questions. I expect in the initial year there's going to be an awful lot of questions. We do not plan on having to go on each and everyone's site. That will require staff and expenses that this project doesn't entail. But you're going to have to have a very user friendly system, and you're also going to have to have telephone support because there are going to be questions. There are going to be problems.

Educational classes. It was our plan that once the thing was put together that we would go to each region, because we would say -- again, I'm going to say this over and over, we expect this to be an industry-wide system -- is that we go to West Texas, we go to Louisiana, North Carolina, Alabama, across the region and hold classes so that the warehouse and the ginners can send all their staff to all those classes. We will also hold classes in Memphis for the initial conversion and also probably every year ongoing so that we will have a way if someone hires someone new, that they will have a way to educate this person and show them how to use this system.

Well, you know, it's obviously we are going to have to have user friendly documentation. Legal contracts. We will do some pioneer legal work. And I really -- I've got John McQuiston. I'm not going to get too far into that, but we are doing some pioneering legal work and there are a lot of unknown questions. This is one of the unknowns that really prevented NBC from going into risk on this stuff.

On-site support. Now, in a lot of the presentations I made I have been asked to project cost, and I spent a lot of time working on this cost. But one thing I did not include in any of my costs is having to put someone on an airplane or an automobile and go spend two or three days at a particular warehouse to help provide them on-site education, provide on-site conversion. You know, initially if you stop and think about that, that would be -- that would take a lot of money to do that. But if we ended up having to do that, maybe we will build that into the individual's cost that requested the on-site support.

You know, I have sort of covered this in some of my remarks, but -- and I will just quickly go over that. But some of the challenges that we are facing provide, of course, you're going to have to interface with all of the entities I have listed up there. NBC is going to provide custodial services for banks for the warehouse receipts. Data processing, financial, customer service, some of those things I have already gone over. The question always comes up, how much is this thing going to cost. Now, here are some projected costs based on volume. One thing when we got into this thing was that we were going to provide and we really didn't want to skimp on any costs, we wanted if it required us to have someone on site 24 hours a day answering the phone, if it required three people, if it requires three computers, we were going to do what was necessary to cover the initial overhead.

So how do you get that to be a reasonable cost. You get a large number of bales to participate in the system and you spread the cost across the industry, and you can get a cost down to a level of where everybody can win. And as you can see, right now we already have someone -- we are already in the six million bale range with our initial subscription and we can't go forward with any more subscriptions until we overcome the legal hurdles. That should be done in the next 60 to 90 days, and then we will be able to solicit participation and investors industry-wide.

All right. Now, although I was introduced as representing EWR, it's NBC that pays my salary so I will get one plug in for NBC. NBC will act as custodian to or subdepository for other banks who may not subscribe to the system. If you take a small -- NBC is not competing with other banks as far as looking for customers to loan money for cotton. If you're a small bank in Arkansas or northern Mississippi or Alabama, NBC is not going to look to loan money to those farmers. We don't loan money outside of our initial --

outside of what we call our area.

What NBC will do, if you have a bank that makes a hundred cotton loans a year or fifty cotton loans a year, there is going to be a problem, he might not want to buy a computer, tie into the system and learn how to manage collateral. He's used to taking those receipts today and putting them in his vault. And he says, look, I don't want to go through all of this just to loan money for these hundred cotton loans. It's a very common practice within the banking industry for someone else to manage collateral for another bank, and so what the bank will certainly have an option to manage its own collateral through its own terminal and own access to the system, but if not, NBC will provide that service for them.

Of course, NBC like any bank will provide deposit services, and it will also -- and what that is so that they can transfer. You know, as money exchange hands and cotton exchanges, you need a financial intermediary at times to facilitate that transaction. And we are also considered acting as a loan servicing agency for the Commodity Credit Corporation if that would facilitate the use of this system. There's not a lot of money or any money to be made in being a loan servicing agent, but if that's another service that we can provide that would make it more attractive to use the system, that is a service we might offer.

Okay. I think that's about all the remarks I have as far as telling you about EWR. I would stress, just a couple things, that EWR was not formed for anyone to make a profit. And I hope I have given you enough reasons why. It really -- we think it needs to function as a utility, and we are hoping to solicit participation from the industry, not only financial participation, but that's not important. We are over our financial hurdle, but the participation and use of the system, also expertise from the industry. We need everyone that wants to make this thing work to participate in it, to participate in the management and direction of this company. That's all I have. Thank you.

MR. McGEHEE: Thank you. Tom, I'm sorry for the incorrect introduction. Next we'll hear from Joe Tubb with Plains Cotton Cooperative.

MR. TUBB: Can I get somebody to turn on the overhead or slide and see if I can run this thing. Here we go. I'm Joe Tubb from Plains Cotton Cooperative Association, and I would like to talk about the security aspects for our pilot system that we run at PCCA. We have been running for about five years, and I will try to be brief and concise and many of you probably know Van May our current CEO and C. L. Boggs before him.

You understand what I say when I mean I grew up in the corporate environment where it is conducive to your longevity to be brief and to the point. And we will keep that in mind.

Objectives or if you look at an overview of PCCA electronic titling system we're running today. Let me talk a little bit about why we got into electronic titling. Talk about collateral protection as it relates to the banks and lending. Physical system security, software security and enhancements that we would like to do in the coming year.

The basic concept behind PCCA electronic titling system is emulating the flow of paper documents with electronic transmission and electronic records. If you look at the flow of paper warehouse receipts, and I'm sure there are people in this room that can give you lessons in this, start with a warehouse receipt -- actually a gin sends the bale to the warehouse, the warehouse then issues the receipt, the receipt goes to the gin, the gin then sends that information to PCCA that the cotton was traded. The gin also sends a sample to the USDA classing office which sends that information to us so it's put in our electronic tracking system.

If a producer wishes to put or get an advance from the Commodity Credit Corporation loan, they will ask us for an advance. We will assume title to that cotton and send it to the collateral bank in your lower left-hand corner. The collateral bank will hold that collateral for the Commodity Credit Corporation during the life of the CCC loan. At some

point the cotton will be sold to the buyer. It will probably be sold in an equity form or buyer option. The buyer will redeem that. They will come back through PCCA and title is transferred to the merchant and then it is sent to the buyer. The buyer then transfers it to another buyer, and then their banks are involved.

What are some of the problems that we have in documenting title that we have found. One is safe storage. You know, the receipts take some room, they're flammable. They could burn up, they could get wet, they can get bent, folded and mutilated because they are cards. Trading requires physical exchange between the buyer and the seller. Time is money. When you have to ship a bunch of receipts Federal Express over night, it costs you a little bit with Federal Express, it costs you a lot more in interest trying to get that in place. Lost, damaged, stolen, duplicate warehouse receipts, you have to issue a bond, have to issue a letter of credit. Bearer document, even wrongful holder can sell goods. It's a title document. It's a bearer document.

Someone walks into a warehouse and says, ship that cotton and it's a valid warehouse receipt, it's a done deal because it is a bearer document. They can be physically modified, changed, forged or illegal documents generated. Time cost, obsolescence.

This is an example of what I just talked about. This is an irrevocable letter of credit from a bank in Oklahoma for a merchant who lost 1364 receipts. In order for them to be able to ship that cotton they had to turn in a perpetual letter of credit for \$485,512.43. Because they lost the warehouse receipt, they had to put up the letter of credit. That was made October 23 of 1990. That letter of credit is still available today even though they have shipped that cotton in case someone comes in with the valid receipts. They have got to ante up for it. So we still have that going today.

Why did we get involved in electronic? We go back to 1989 and talk about some things that happened on Telecot. We had some merchants make a large sale to China. We had a lot of cotton available for our electronic printing system during that time. About 800,000 bales on the system available for sale. During a seven-hour period February 21, 1989, we sold 385,599 bales. About 110 million dollars worth.

Now, this was primarily equity trades. On an equity trade on Telecot, the bale stays -- the physical cotton stays with the servicing agent bank. That all works pretty well because that night we invoiced the buyer, we paid the producer and came up on time at seven o'clock the next morning because we didn't have to work the physical cotton, it was just paper changing hands. The next week due to all those large trades, the adjustable price went up seven and a half a bale, so we received a redemption request for 721,277 bales on the loan to get from that servicing agent bank out of an inventory at the servicing agent bank of three million receipts.

Well, you know, that's quite a few. They send redemption instruments to us, a finder card. We are going to take the finder card, go down to the bank and match them against the physical receipts, bring them back to PCCA's office. We pay CCC when we started that process and asked for those redemption requests, we are going to invoice the buyer and we get a draft and the physical documents.

Three million warehouse receipts is a bunch. Okay. How much is three million warehouse receipts? Well, if you took them and stack them end on end, it would be six football fields worth of warehouse receipts. What we wanted to do is we wanted to go in and out of those three million or six football fields full of warehouse receipts and redeem 150 yards worth of warehouse receipts.

Funny thing about Commodity Credit Corporation, when you want to redeem cotton, they want their money. Friday morning we sent the bank a hundred and forty-five million dollars for a wire transfer to Commodity Credit Corporation. The buyer is kind of funny, too, the merchants they won't pay you for that until you can give them the title document.

So we worked all weekend long, twenty-four hours a day in shifts trying to get 721,000 receipts back from the bank out of three million. Twenty-four hours a day all Friday, Saturday and Sunday, and by Monday we

were able to present in draft 700,000 of those warehouse receipts, the other 21,000 took us about two and a half weeks to get them all. We had a -- or the servicing agent bank had a drawer over there with 70,000 in it. That meant you couldn't run it through a machine. You had to pick those out by hand. It wasn't a fun weekend, folks. And it was 145 million dollars.

We figured out that the interest expense for that weekend because we couldn't present that title document to those folks on Friday cost PCCA \$50,000 a day in interest. And that is when we got interested in electronic title. That was in February and March of 1989. We started a pilot project in fall of 1989 with North Plant Cotton Compress and handled about 163,000 bales electronically through the loan and with several merchants.

By comparison on electronic title -- once again, all we are doing is emulating the track and flow of the physical document. The information is transmitted to PCCA for receiving from the provider data base, from the warehouse. We also get the information transmitted from USDA as to class, match those up, the title data base is held at PCCA.

All people that we hold that title for electronically today we have a signed contractual agreement with. We have a signed agreement that allows us to hold that in trust with the warehouse, with the merchants, with producers and with Commodity Credit Corporation.

The biggest problem we had in the fall of 1989 was not the actual trading system. It wasn't the electronic title system. It was getting all those documents signed by those producers again, and we sprung that on them once we got it out of the lawyers' hands about two weeks before the season started, and that's the biggest problem that we had first year was getting them all signed and allowing us to hold them electronically.

As stipulated with the Commodity Credit or ASCS rules, if at any time you want a warehouse receipt, a physical warehouse receipt, if you're the holder of cotton, we have had that in our system since day one.

How do we handle the servicing agent bank? We have a terminal down at American State Bank who is our servicing agent bank today. When we put cotton in the loan, we send the tape to the bank indicating loan entry. Also we send one down for loan redemption. They hold the title. They hold an inventory on the servicing agent bank system. We have a stock check where we check what's on inventory at the bank with what we show to be in loan at our system every week, run what we call a stock check. We ran that on physical warehouse receipts, too, but it wasn't fun doing that, because you didn't get a very accurate count. It works a lot better.

The bank also has a terminal tied in to our provider system. It allows them to look at cotton that they own an interest in, that they are the lien holder on. We also have it set up with other banks that are -- that have the collateral for a merchant.

You can't see that very well, but what that is, that is an on-line collateral report from the bank, and it shows you -- let's see if I can focus that. Is that better? Okay. If you go across the top this is an inventory summary document. Cotton held in trust for American State Bank for PCCA, Jack Kenry, our cotton buyer. And it shows the beginning balance of everything, ETS bales that are being converted from physical ETS to electronic bales, total pay, total non-pay. They're all paid for, thank goodness. We had 501 bales in the long distance in February, of course, we redeemed most of it just before the price went back up. 5,912 bales. We have it broken down by crop year what has happened the previous day.

This is inventory position as of 7:00 a.m. that morning. You got -- and you notice there are no numbers across there. It was taken on a Saturday. But anyway you start with what the previous day's inventory was. How many bales were purchased the previous day electronically and you add to that position. How many bales converted from physical cotton to electronic title, how many backup shipment, how many have been punched, how many have been shipped, how many have been converted and shipped, and then you come back with the ending total.

Also we have several printouts these folks can get. They can view the ETS inventory. They can view the additions for that day, the actual

detailed bales additions. They can review the deletions. They can print those. Obviously with 505,000 bales you don't want to print the inventory very often. But they have the ability to do that.

This shows you a breakdown of those bales by warehouse one. That's all the various warehouses. Note, there's 560,000 bales out in Sweet Water, Oklahoma, in a compress and gives the running total of all warehouses. This is something that one of our banks asked for and we gave it to them and it sounded like a good idea. Helps them manage their position.

One of the things that the banks have available to them, particularly Commodity Credit Corporation, is that with electronic title we are able to show the physical location of the physical bale. We require that before we put that cotton in CCC loan. So the bank, unbeknownst to us -- auditors have done this before -- unbeknownst to us, go to the servicing agent bank and pull up these screens, print off the physical location of the bales that are in our ETS system that they have an interest in.

You will see across the top there about halfway down you got current location, shed, row and section, the day it was put there, the previous location, shed, row and section, and then the previous, previous location. So we track that and the auditors tell us they love that. It gives them more audit ability, finding out where the cotton is, better audit trail than what they had with the physical receipt.

How does a bank handle this collateral when you have shipments. Well, you consider how a bank works collateral today with shipments, the merchant buys the cotton, gives the receipts to the bank, they put it in their vault and hold for collateral. When a merchant wants to ship that cotton, they bring a shipping order or some kind of ship document to the bank. The bank pulls the receipts, gives them to them, the merchant pays them when they get their money. We have the same setup in our system where the merchant issues shipping orders to PCCA through our electronic title system. We check several things on the front end. We check one to see are they the owner of the this cotton, are they the holder of this receipt. Has the bale already been shipped. Is the cotton in the Commodity Credit Corporation loan. Is the bale title being held electronically. Have they already asked for it to be shipped. Is it a duplicate on the shipment. If it passes all those tests, we then send the shipping order on to the warehouse, provided that the merchant does not have collateral holding the bank in lieu.

Now, if they have someone holding their collateral at the bank, it then says, pending. What that means is we are not going to send it to the warehouse for shipment until that merchant calls up his bank, the bank has a terminal, he can see the same screen that this person can. He can say, all right, I want to ship so-and-so shipping order number. The banker looks at it and says, okay, I will let you ship it. There is a function on the screen that only the bank can do, no one else can do, and it's in effect the same as giving those physical receipts to the merchant so that he can ship that cotton.

Here's a detail screen of what we saw at the other screen. It just shows you the detail bales of when the information was transmitted to the title system. Bales, non-payment. If they haven't paid us for it, we are not going to let it ship.

We have had this system happen many times. Matter of fact, when we set up a farmer at Crawford Compress, his very first shipment happened like this. Cotton was set up. They bought the cotton with Telecot that day. We downloaded the information to their computer system that night. The next morning, they message that. They already have it in their system, they massaged it, created the shipping order, transmitted that shipping order to us. It passed all those tests but one, they hadn't paid us for it yet. When they sent the wire transfer and we received the wire transfer about two o'clock that afternoon, we let the shipment go and the truck was loaded at 4:30 that evening. So bought it one day, massaged it and shipped it the next.

It's an extreme, but it won't happen all the time, but it does. There are some advantages to merchants.

Now we show basically an overview of how we handle electronic title on our system. I tried to zero in on the security aspects, how you can handle it from a banking standpoint, didn't get into the producer side at all on purpose, and I will be able to answer questions for that after we get through today, and I have no problem with that. I just didn't really want to take the time.

Physical security. Let's talk a little bit about that. What do we do to ensure the reliability and security of our data. Number one, we have a hardened computer site with limited access. That means it's got a combination lock on the door. Nobody can get in. You got two ways in. The other way is an out only.

Security personnel during non-business hours. Everybody has to sign in and sign out. They're checked against the master list.

Halon fire detection system, that's just an inert gas. If we have a fire in the computer room, it dumps a gas. Most of these things are very common at all processing sites so far.

A dedicated line network. We have no dial environment as it exists today. Some day that will change. But today we have at least line tie-in to all points and all interested parties in our network. It's a little bit more involved, but we think, one, we need the availability and, two, it's a little bit more secure than running a dial. When we get into dial, I'm sure we will, we will do a call back receipt where the person will call us, give us a password, they will hang up, we will call them back. If they're not where they're supposed to be, they don't go in.

Uninterrupted power supply. I will get that out in a minute. We just signed a contract about the end of the month where we will have a UPS, so that if we -- if the lines go down at the end of the street, we don't go down for 45 minutes.

Electronic title record security. We are running what they call a top secret security package from Computer Associates. It is Department of Defense rated. In other words, they can use DOD information systems. It's one of two main security packages used for IBM mainframes in the world that are prevalent. It has a detail security audit log.

Any time a person makes a change in our system, and it works the same as our Telecot system, we log the date, the time, the operator ID, the program they did it from and the terminal they did it from. So we have a pretty good audit trail of what is going on in our system. We also know when people try to get in that shouldn't get in. More than likely what it is they have forgotten their password. And we have to issue them another one.

We have a full-time security administrator. Everything is passed through a security committee which consists of people in administration and people in data processing when we issue new security or change security. We have security policies. We have a standards and policies manual and it's two manuals about four inches thick apiece. And we enforce and we follow those rules. If you're going to run a consistent information system and keep that thing up and keep it secured, you need to have standards and procedures. We think we do a pretty good shop with ours.

Data interruption. Information is sent down our lines today is what we call systems network architecture, and that's an IBM term for the protocol that we use. Now the average person wouldn't want to read that transmission going down the line. It doesn't look like English. That's one protection we have that is pretty common in S and A.

On our FM radio transmission side where we use -- we transmit that information over the air, we have an additional level in the fact that master radio imprints the data above the S and A protocol. And the remote radio on the other end decreases it back to S and A before it's sent to the PC. So we have that level of security.

Off-site backups. We have a bank vault downtown underground that we take last night's backups, take them down and put them in that bank vault. Every day.

Information system standards and procedures. I mentioned a little bit about that. We have a detail log on all changes to our electronic title data.

base. If it changes the status of our ETS system, we log it. And what we have here is a couple of bales that show the change. For instance, you can barely read it I'm sure, but starting down here on receipt 208474, 9900, received it electronically on 10-5-93 at 1:74 in the morning. That bale was issued a log deficiency stamp on 10-11-93 at 11:00. 17 seconds. It was bought there one second later. It was accounts pending one second after that.

Now, it was bought by a producer that did not or merchant that did not have an ETS agreement with us. So we punched the receipt automatically. Give it to that merchant. Now that merchant took that and sold it obviously to this merchant because they took that title document, the bearer document back to us and converted it to electronic title on 10-19-93 at eight o'clock and then they shipped that this year. So we have an audit trail of everything that happened on the status of the holder and how it was put in loan or whatever on the spot. Auditors like this file. They like to see what is going on.

Enhancements we are going to make for the system. We are negotiating for a hot site in Seattle, Washington. So if this thing goes down, we can take our tapes, run up there and load on the system and let it rip. The actual computer system is the easy part. Communication line is a little bit more hairy. We think we will be able to do that and have it back up within 24 hours or less.

Our biggest down time this past year was not the computer system. We had 26 minutes of software failure from hours of seven in the morning to seven in the evening for the entire crop year. Our biggest down time was phone lines. Any time you run over a phone line you're going to have a problem. We had 582 minutes of down time due to phone lines. We are putting in on the merchants side backups with radio in case the phone line goes down. It's probably not going to work as well as we'd like to the first time, but it's a shot. We are going to try to get the system up.

EDP audit. We've always had an audit. We've had several auditors from Commodity Credit Corporation and the ASCS. One of the projects is to go through a full EDP audit and we'll do that this year.

What does this mean? Well, we've got a pilot program that's become a commercial reality. The legislation passed that made this in 10 of 1992 as Steve and Joe have mentioned. The USDA provider agreement is ready. The CCC provider agreement is working.

We really appreciate ASCS and Commodity Credit Corporation giving us a chance to talk about these things before it became in effect. They sent this out to interested parties in details to the provider agreements to give them a chance to have feedback and we really appreciate that. It's a refreshing way to do business.

The results of that so far since 1969 -- or excuse me, 1989. It only seems like since 1969. We have handled eight and a half million bales electronically. We have issued no bonds. We have issued no letters of credit. We've had numerous audits conducted by the USDA and all conclude that electronic title as collateral security is as good or better than physical title as collateral security.

We think it's a better way of doing business and it's worked well for us. Ladies and gentlemen, I thank you for your time.

MR. McGEHEE: Thank you, Joe. Ladies and gentlemen, it's twelve o'clock. David, if you don't mind, do you know how long you might be?

MR. COX: Fifteen minutes or so.

MR. McGEHEE: Why don't we go ahead and let David Cox make his comments and then we'll break for lunch and probably give the local crowd a little more time to get out and then we can come back about 1:30.

MR. COX: Thank you, Winford. It's pleasure for me to be here today. It's real pleasant for me to look around the room and see some old friends. I'm

also glad to be here because it seems to me that this particular meeting is probably a little bit over due.

I spoke a number times with Steve and other people from USDA saying that I was a little unhappy with the fact that if we tried to rush an EWR system in for the 1994 crop, we wouldn't really have time given the timing of the development of the regulations from USDA.

Most of my comments today I am going to direct toward our security of EWR system that IDI has developed, and how I see that security interfacing with the cotton industry. I'm going to look at ten different aspects of security which I have broken into four different major groups.

First thing is that an EWR system had better only create valid EWR. In other words, we want to ensure that fraudulent or incorrect EWR's are not in the system, and that the system maintain only one receipt, either electronic or paper, for each bale of cotton. And that's somewhat complicated because of the necessary provision to convert EWR's from paper receipts.

Second little group of concerns obviously we need to control the transfer of EWR's from owner to owner as cotton is traded on down through the industry, and we need to track the -- who the valid lien holders on each bale is and make sure that we obtain proper release of liens as cotton is traded. And another concern that I see in this area is that the lien holders themselves or those that hold the cotton as collateral need to be assured that they can obtain correct reports on the status of the bales that they hold as collateral.

Another area is the security of the computer system itself, the physical and logical security that EWR provider system itself provides. The maintenance of the proper history on each bale, that is, who bought and when and backup of data files and the document service, and then last but perhaps not least two items fraud on the part of internally within a provider system and fraud, potential fraud, on the part of someone outside the system breaking into it.

Perhaps I should give a little bit of background about IDI. I know that they ran out, but there are some out there. I brought along a little handout with some information that we have -- that IDI has been providing to people who may have an interest in this, primarily the cotton warehouse industry. IDI has become fairly well known. We are certainly the largest provider of computer services to the cotton industry as such, and I believe that we can honestly say that at one level or another -- we have grower, gin, country buyer, warehouse and merchant system. At one level or another over half of the U.S. crop is now being processed on an IDI computer system.

My own experience before I got gray hair I realized that we are back into the school years, this really began my fifth decade in the computer industry and I'm well into my third decade working within the cotton industry.

I'm going to at the end have a few comments about what I see as possible industry concerns because I'm a very enthusiastic supporter of the EWR concept. I frankly don't see too great a challenge from the computer processing as such. I see a much greater challenge in terms of getting the proper industry infrastructure to allow a system to work well, and I'm most enthusiastic though about the benefits that this is going to provide the entire industry. And those of you who are in the banking industry, I frankly think that this is going to be a tremendous benefit to you once we have systems properly implemented.

This gets down a little to each security area itself. That is, a person who creates only valid EWR's and maintains only one receipt per bale with EWR and converts it to bale receipts and vice versa. Obviously duplicated receipts are a very serious problem. We envision -- we have about 65 warehouse clients. We are adding more every day or every week, and I'm not sure how many of those that we are going to be a provider for ultimately, but we envision that quite a few of our warehouse clients will use us as a provider of EWR services, and with those people we are in pretty good shape.

We have developed a system that is very secure in terms of the

means of interfacing the warehouse computer system which generates the -- or authorizes the generation of EWR's and is obviously eminently involved if they're converted back into electronic warehouse receipts. And, Joe, that's just a little bit different when we are talking about working across an industry where the provider doesn't operate the warehouse itself. But I can assure you that for those people we have, since we control their warehouse software as well, we have a high degree of security.

I think there's a little less security when we deal with people who are using their own warehouse system, because there's a possibility of that system itself failing. But I believe that we will certainly detect from a continuing audit point of view anything that actually occurs in the EWR computer system at IDI.

Control is the next area. Control and transfer of electronic warehouse receipts, tracking valid lien holders and making sure that we obtain the proper release before allowing a transfer of holder and correct reporting of collateral to lien holders. I think that for these three things, and they are a group, we really need some industry cooperation that I haven't seen emerge, perhaps, Joe Wyrick, will emerge from today's meeting.

In my handout I included at the back a couple of pages of comments that we had sent to Steve or his associates at ASCS earlier this year, and one of the things that as we were developing a system we felt the need for was for the industry somehow to have someone maintain a registry of industry participants who would be accessing EWR systems, and that there would be an initial level of user ID control. Steve Mikkelsen I think indicated, well, the name is the important thing. Obviously that's true, but computers work a little bit better with some control.

I would hope either the Council or the American Cotton Shippers Association would look into maintaining such a register. It would help I think the entire industry do a little bit better job of controlling who is getting in the system. Not that we would not be able to prevent an unauthorized person entering the system. I assure you we can prevent that, but we need a -- we need some standardization of ID's in order to prevent an excess number of missed starts or people coming into the system that they might not ordinarily go into.

The design of the computer system itself obviously, that is, the EWR provider's computer system is very important here, and I would say that the people that I know who are contemplating providing EWR provider services certainly have the skill and the experience necessary to do a good job of this. I don't believe that those of you who have not worked to a great degree in the computer system you may have some idea that, true, it's easy for people to break into computer systems, and that in fact just is not so. There are obviously levels of that, but a properly designed system is fairly resistant to that type of occurrence. Allen I see is shaking his head, so maybe we has a different view on that.

Just as I think the industry should develop some register and standardization of user ID though, I think some thought needs to be given by the entire cotton industry about establishing certain communication standards and protocol to make sure that we are all operating at least at a minimal level. And again I have no idea as to who should do that, but I do think it deserves attention by the cotton industry.

I have been -- well, let me go on to the next thing. History file on each bale, who did what and when, backup of data files, documenting and servicing, physical lodging of security of the EWR provider system. I was very pleased working with ASCS this year. I think that they have been realistic in their approach to writing some standards which set the minimum requirements but do not tie your hands in ways that would be counterproductive in terms of allowing ingenuity of different providers coming up with ways that we can protect our systems. In other words, I think they have laid a good foundation, and IDI, I assure you, has been using our resources and experience to develop a system which will be very, very secure.

I don't want to give away any proprietary information here, but I will tell you that we have designed a system which has four logical and

physically separated computer systems working together. First one is the actual EWR data base, a separate series of computers that is maintaining the actual files which holds the information required by ASCS. A second system is a system dedicated to receiving communications from outside, both warehouses and updating EWR's and people that are trading with the cotton. A third system is established for transmitting back to these users the information that is being provided for transmission to them, and the fourth system is how to get paid, the billing system.

These four systems are physically and logically separated, and quite obviously someone who dials in, they're only going to get to first base, if you will. That is, they will only communicate with that system which we have designed has a collector of information flowing into our overall system. And if we detect anything wrong, obviously the person isn't going to be able to go past this first level.

Improper contacts, as required by ASCS, will be tracked and stopped at that level. The system design that we have covers obviously history files, all activity current to the system with both computer and paper audit trails. In other words, we will maintain electronic and a paper record of all activities occurring within the system.

Backup, computer backups, are standard, maintain those on site and off site. Our hardware system design I don't want to say it's a fail-safe system, but we are using a system that will maintain in real-time basis duplicated files. In other words, everything that occurs will be recorded on two different computer systems and two different data storage devices. And these things are designed so that if the primary system should fail for any reason, the backup system comes on-line automatically.

Fraud on the part of the provider and fraud on the part of the others coming into the system. We have examined -- obviously this is a primary concern of David Cox. We have examined the conditions that might cause this, and right up front I think one of the most important things for people who design, control, maintain, operate a system despite the cotton industry deciding that people do warehouse and trade cotton can be providers, I'm very glad that IDI has continued a policy which we have had all along of having no financial interest with the cotton industry other than as a provider of computer services.

I have been offered an opportunity to buy everything from cotton farms to cotton warehouses. I haven't been offered a cotton company yet, guys, so I don't know what that says, but we have always taken the position that IDI is best served if we want to continue our role as a provider of computer services to the entire cotton industry to remain a virgin in terms of actual cotton industry activities. In other words, I have no financial interest, the company has no financial interest and will not have any financial interest in any activity relating to the trade of cotton. This prevents this delusion, the potential delusion of a provider or those who have financial interest in EWR's. Obviously it's incumbent upon anyone who is becoming a provider to make sure that they have secure, physical facilities, and IDI is certainly doing that.

I'm kind of happy that IDI is located in Raleigh, North Carolina. That means we spend a lot of time flying back and forth across the country, but the physical separation of our headquarters and our primary staff employees from the bulk of the cotton industry probably is a benefit from this point of view.

We can have a problem if the industry doesn't step up itself and begin to take some responsibility providing a minimum level of communication and, i.e., protocol. Again, I discussed this with Steve and others at ASCS, and I think they quite properly said, well, that's not a government problem, that's a problem for the industry, but I haven't seen the industry take any steps in that direction yet, and perhaps we will.

IDI intends to make money providing EWR services, and one of the ways that we will do this is providing services very much along the line that PCCA is, providing services to those who hold cotton collateral, that is, the banks and financial institutions. We can offer a tremendous array of services that will be able to better allow financial interest and better identify

the value and establish the collateral that you hold, and I believe those are things that we will probably receive a fee for services for.

And the provision of those option services beyond what the Act or the final rule says issued by ASCS I think are an important part of the system. In other words, I think those who want additional security are going to be provided the opportunity to purchase services which will enhance their security. That is not really a security of what the provider system is doing but security of the exact status of the collateral that you hold.

I would like to turn now to a few comments about general concerns and observations that we have at IDI regarding the cotton industry as a whole as EWR's change us. First of all, I was very pleased to see earlier this year the National Cotton Council come up with a provision for current identification, that is, the gin code and the original gin bale being a permanent bale ID. Steve tells me that that is not a proper part of the EWR data base, but I take it to understand that that still does not prevent us from having additional data base that we would maintain, and we intend to do that. In other words, I believe that the industry at least should seek to add to the regulations about EWR's the addition of permanent bale ID's.

There are still questions in my mind, it's been touched on by others this morning and perhaps we will get into discussions this afternoon, about the role of agents of holders. That is, clearly the regulations are quite specific and properly so about the right that the holder of the receipt is the only person who can access it. But I see the need in a number of cases for agents of the holder to access receipts. Obviously, in the case of growers who typically would not be doing that, yet they would be holding the cotton. That's mentioned in the handout. I have just a couple of pages of comments to ASCS. That's mentioned in Item A of that.

Item D on that list of ASCS comments from IDI there is a question of industry standardization of ID codes.

The second paragraph C of that letter brings up this total concept of a wide range of provider services to the financial community. I think that needs to be discussed and reviewed some more. And the second paragraph D does bring up the question of possible need for standardization of communication standards really coming from the industry.

There's some non-lettered comments, that is, non-lettered paragraph comments in there, and I think perhaps the most important of all is the one that I'm interested in making so far today and, that is, I think the cotton industry needs, very much needs, to develop some incentives for the full adoption of electronic warehouse receipts by the cotton industry. I don't really relish the idea that we have an industry that would go on for years and years and years with some people using EWR's and some people using paper warehouse receipts. The transition is somewhat messy, somewhat expensive, and if we put some incentives in place, perhaps we will get a rapid transition to a hundred percent electronic warehouse receipt industry.

Other subjects that I didn't include in the handout that I think should have some discussion about is, ASCS may not like it, but I have a feeling that the national data base that is operated here in Memphis is a dying -- is a thing whose time has gone. I cannot imagine a properly functioning EWR system not including, if the industry needs it, not including the -- a class information as part of the associated record against it, not part of the EWR itself, but an added -- an addendum to the record and that would pretty much end the use of the national data base AMS is providing, and I put forth for your consideration in a way that I think most of the trade would like. Right now we are on an honor system that you are not supposed to go in and look at what the original class of a bale was unless you own the bale. But I don't really think there's anyway that that is being released, and quite obviously the holder would be -- the holder of the bale of the EWR would be the only one who would have the right to access that class information.

Somewhat different from the idea of industry standardization of user codes and communication protocol, I think it's a valid thing to bring up at this moment -- in fact, I think the industry would probably benefit from some additional standardization of communication file formats. IDI has participated

with a number of you in the meeting in Corpus Christi I guess in March of this year that has begun to establish something of a standard format for the interchange of data, but we've got about a hundred different layouts right now in various IDI programs and accommodated various different computer systems in the industry. I'm bringing this up totally on an altruistic basis.

I think one of the great advantages that IDI has is that we have an extremely powerful capability to read and write computer files in any format, but in the final analysis if we have some additional efforts of standardizing data file layouts for the cotton industry, I believe the computerization of the industry will be enhanced, and I think that would help IDI.

Finally, there conceivably are some problems that Joe -- no one has mentioned the fact that Plains has a patent which I believe is essentially a patent on the electronic warehouse receipts, and I do understand that -- Joe Wyrick, I haven't received your letter back to me. It came in after I had left. It arrived in the office this morning.

I do understand that the Council is going to sublicense people who become EWR providers, but I have also been talking with Daryl Lindsey at PCCA and he has made it very clear that PCCA believes that they have a patent that covers the rights to the use of electronic marketing in conjunction with electronic warehouse receipts. In other words, they're basically saying, well, the Council is going to sublicense you for the EWR provider services, and we really don't claim any rights to electronic marketing as such, but if you put the two things together, we do claim patent protection.

So I see this essentially as an industry problem if there are -- if we are going to obtain sublicenses from PCCA for combining electronic marketing with electronic warehouse receipts, it's just going to add to the cost of you folks doing business. But I think it is something that the industry should explore at an early date because quite frankly I can't imagine why you would have an electronic warehouse receipts that would not have some lure or another of electronic marketing of cotton.

Winford, I hope I didn't hold our lunch up too much, but those are my comments. Thank you very much.

MR. McGEHEE: Thank you, Dave. It's 12:30, ladies and gentlemen. So if we could now break for lunch and hopefully have everyone back in here if possible around 1:30. That may be a little short, but let's try it. I know some people are going to try to get out of here this afternoon. When we come back we will start out by hearing the merchant's perspective and we will begin with Mr. Weil.

(Lunch recess.)

MR. McGEHEE: Ladies and gentlemen, if you can come on in and get your seats. We are already 15 minutes late. We hope y'all had an opportunity to get some lunch. Well, I hope everyone had an opportunity to get some lunch. It was a little slow and that's why we are a little later getting started. We would like to make things go as smoothly as possible, and if we could, I know this morning we had some of the presentations that ran over their, not allotted time, but their estimated time, and we do have a lot of people here yet to give presentations. So if we can just bear that in mind and try to limit our comments to about 15 minutes. Mr. Weil.

MR. WEIL, SR.: We have a quorum?

MR. McGEHEE: I don't believe we do.

MR. WEIL, SR.: These remarks are made from the standpoint of those in the cotton trade who have their own personal capital invested in their business. To those, the safety of the cotton it owns in a warehouse is as vital as the safety of the cash it has in the bank, and so deserves the equivalent safeguards.

The cotton business is essentially a cash business. The New York

Cotton Exchange operates on strict margin requirements. Reimbursement terms, whether cotton exchanges hands in country markets or in sales abroad, are based on cash transfer against a title document.

The proposition of electronic warehouse receipts presents us with a choice between what is economical and efficient, and what is safe and secure. It is a choice we have in many business situations, be it with airlines or with banks or many others.

Because of our personal capital involvement, safety and security are of paramount importance. For a lending bank, the safety of the collateral is equally important, except unlike the merchant, in the event of the cotton's disappearance, the bank still has recourse on the borrower.

These parts are important, because it is noteworthy that those who seem to be promoting electronic warehouse receipt may be attaching less weight to safety than to efficiency. Neither the USDA nor a cooperative has personal capital at stake. Merchants who own their own warehouses or merchants who do not collateralize loans may afford to be a little less safety conscious.

The integrity of the cotton warehouse receipt as we know it is well established. It has been developed over a long period of time. The body of law supporting the warehouse receipt as a title document, particularly as a negotiable instrument made out to bearer, is well established. Besides being evidence of title, it defines certain responsibilities between the warehouse and the holder of the receipt, such as delivery and payment of charges. It defines certain warranties or guarantees, such as storage under shelter, that the cotton is insured against fire, that the warehouse is bonded, that the warehouse must deliver the bale in a clean and merchantable condition and so on. It has character in this way of a contract.

Because the receipt is a bearer instrument and fully negotiable, it is readily available as collateral for a loan merely by its delivery in escrow without any notation of transfer. At the same time, any lien on the bale may be recorded on the receipt, in which case it loses its bearer status.

In all events, the commerce of that bale is purely a private matter between buyers and sellers, owners and their creditors, and final owners and the warehouse. The relationships in each of these cases is of course based on the integrity of the warehouse receipt itself.

Because the receipt is a bearer instrument, the warehouse may never know the identity of the holder until the last holder presents the receipt for delivery of the bale. Thus, the essential element of confidentiality is reserved to the owner of the bale.

The receipt is important in the relationship between the bank and the owner of who pledges it as collateral. It is the hinge of the banker/cotton borrower relationship.

The efficacy of the electronic warehouse receipt must meet the test whether it satisfies the particular attributes of the documentary warehouse receipt and its integrity as a title document.

With these principles in mind, the following questions are raised. Can an electronic receipt be made a bearer instrument because the holder is not the same as a bearer by any means. Will it have the same integrity, the same negotiability and the same legal support and immediate transferability as the present documentary warehouse receipt?

Can an electronic receipt be made to include the same warranties, guarantees and responsibilities as present documentary warehouse receipts require the warehouse and the holder of the receipt?

Can the electronic warehouse receipt be pledged and held in escrow with the lending bank as collateral?

Can the electronic warehouse receipt be recorded as to any lien on the bale that it represents?

Can the electronic warehouse receipt be subject to the same confidentiality as the present documentary warehouse receipt?

Will anyone other than the owner of the bale at any time have access to information on the warehouse receipt?

If there is an access code for the owner of the receipt to enter the

provider's inventory, how will that code be kept confidential at all times? What safeguards are there to guarantee that others cannot use the same access code to gain information on that inventory?

When a transfer is made from one owner to another, is the account number of either then known to the other?

When a transfer is made between two parties, does the provider advise the warehouse of that transfer?

What positive guarantee is there against error, loss of record, computer fraud, computer virus, or other malfunction of the provider system which can result in loss of bales to the owner?

What are the resources of the provider in the event of loss of other liability? Is the provider bonded? If so, for how much. And this by the way the requirements of the ASCS are woefully inadequate in this respect.

Bank deposits are guaranteed by the FDIC. What government guarantees, if any, are available for losses to provider accounts?

What insurance does the provider have against loss? Again, requirements of the ASCS are woefully inadequate.

If an owner of a bale has a legal claim against a warehouse, the first evidence he must produce is proof of ownership and the contractual obligation applicable to that bale, as noted on the documentary warehouse receipt. In the event of a claim against a warehouse, what evidence will then be provided by the electronic warehouse receipt?

Several seasons ago, certain warehouses included language on their receipts permitting the warehouse to withhold shipment on any bale held by an owner who had amounts due the warehouse on other bales. The clause was protested by merchants, but only after the language had been discovered on the receipt. What would happen with an electronic receipt were the warehouse inclined to effect such a provision then?

Does provider guarantee the free and immediate delivery of collateral in effecting a transfer? Why do the warehouse and the ASCS office need to be involved when they're not involved in the transfer of a documentary warehouse receipt between parties?

How does the provider accomplish what the documentary warehouse receipt accomplishes where liens are concerned? How is the lien protected?

What part does the provider play should there be a dispute between owner and lender, or between two parties engaged in a transaction transferring title between them?

What is the risk of delays or bottlenecks in the provider system? Is it possible during periods of high activity that orders will have to be given priority in processing? At present, the owner has immediate access to his documentary receipts. Will the owner always have the same immediate access to an electronic receipt? On the other hand, the provider may be so efficient that a sudden release of thousands of bales for shipment could create a critical bottleneck at the warehouse.

Will there be frequent inventory checks readily available to reconcile owner's records with provider's records or between provider's records and warehouse records like we do now with our receipts?

How promptly will a buyer know that a receipt is transferred into his account before releasing payment to the seller? At present, the exchange of receipt and payment are simultaneous. How about the same where satisfaction of liens are involved?

Of course, there are many other questions that come to mind, but I think this is a pretty fair example of the kind of things that we look at when we say this is what we have, how can we improve this, will this do it and will this give us the same.

It has been mentioned that the electronic warehouse receipt system should be as adequate as the Deposit Trust Company system which is used in holding and transferring securities, stocks and bonds.

First, it should be observed that bales of cotton, unlike shares of stock, are not fungible, which is a fundamental distinction, as each separate bale must be a separate record. Nor are the shares of bearer title, but are made out to a certain nominee or nominees.

The transfer agent, not the DTC, issues the stock, and in this respect the transfer agent is comparable to a warehouse. Moreover, any owner of a share of stock may obtain a paper certificate on demand and at no cost.

The transfer agent issues the shares to the DTC which holds the documentary shares in bonds in its house inventory, which is checked daily against its records. Its vault and security system is like that of a bank.

Errors may occur in the DTC system, but are held to a minimum by daily audits and daily reconciliations with each of its 1200 participating accounts and transfer agents. There are banks of accountants and operators constantly monitoring, detecting errors and making reconciliations. No such machinery is contemplated by the ASCS guidelines.

The DTC, established originally under the aegis of the New York Stock Exchange, is owned by its participants, who are banks, security houses and other financial institutions, whose collective net worth stands behind its responsibility. By comparison, neither the worth required by a provider provided by the ASCS nor that of any provider so far begins to cover its potential liability.

Is the provider system required to operate on the same safeguards and guarantees one expects from a DTC?

It is patently evident that there simply is no comparison between the provider system contemplated by the ASCS and the DTC system.

In conclusion, for these reasons, before embarking on the electronic warehouse receipt ourselves, we must have full assurance that none of the safety or the integrity of the title we now have in the documentary warehouse receipt will be sacrificed. We must be satisfied at least that the questions posed herein are met with adequate assurances that the electronic warehouse receipt systems guarantees the same features of safety, accountability, access, confidentiality and legal backing as the documentary warehouse receipt.

From what we have heard so far I would suggest that if we are to step into this system, that the ASCS needs to go back to the drawing board as to its regulations and its procedures and its requirements and starters.

Failing these assurances, then we must have assurance at least that the documentary warehouse receipt now in use will continue to be available at no cost, as at present. Moreover, while I cannot object to others who would subscribe to electronic warehouse receipts, we must insist that their doing so will not prejudice in any way those who prefer to adhere to the present documentary system.

Whatever might be said about the bearer receipt, a few remarks were made earlier this morning, it hasn't been a bad system. Our firm has used it for 116 years. It could be improved, and maybe the electronic warehouse receipt system can be an improvement. But before we cross that river, before we get into that land, at a minimum the things I think I have covered in my report must be satisfied. Thanks for your attention.

MR. McGEHEE: Thank you, Mr. Weil. I'm sure that at the end of this presentation some of the questions you have asked can be answered. Next I would like to ask Louis Baioni if he would give his perspective.

MR. BAIONI: Thank you, Winford. First of all, I agree wholeheartedly with the questions that were raised by Mr. Weil. I think we do need to resolve those issues. Some of them I think have already been resolved from what we have heard today and my understanding.

However, having said that, Dunavant has used the electronic system that Plains Cotton Cooperative has offered over the past four or five years, and we have probably processed in excess of 1.2 million bales without one glitch. There was one year in particular where we handled some 600,000 bales through them and had it not been on an electronic basis, there's no way in the world we could have turned the cotton around as quickly as we were able to do so.

Again, we are a hundred percent in favor of the electronic system,

because the present system is antiquated. More and more things that have been done manually is now done electronically. The machines that we need to process the paper receipts are wearing out, and the engineers qualified to work on the equipment have died.

Handling warehouse receipts electronically is much faster, and in my opinion it reduces the error factor. And I feel once we get enough subscribers on the system it will be substantially less to handle a warehouse receipt.

There's nothing new about the transfer of ownership of documents electronically versus the handling of the physical documents, and obviously Dunavant and all the other merchants will insist that the system is run by a competent provider who are acceptable to the lender, and to the extent possible the software must be fail proof. With adequate backup, we think this can be done. The system must also provide an audit trail.

I think an electronic warehouse receipt does maintain its integrity no different than a paper receipt. I would say as one of the major users that if possible we do limit the number of providers, because of the complexity when a merchant will have to deal with many of the providers in processing its product.

That's about it on the subject. Again, we totally support it. The system does work, and I think we are at an age we need to switch over to another way but at the same time a safe way.

MR. McGEHEE: Thank you, Louis. Now, we will hear from the banking industry. If I could, I would like to call on Mr. David Colby with Union Planters.

MR. COLBY: Thank you, Winford. What I'm going to say is on behalf of Union Planters National Bank which is celebrating it's 125th anniversary this year. I think it's the next few days, September 6th and 7th. Union Planters Bank has been continuous. We have been involved in the cotton financing over the life of the bank.

The system that we have now in place works. We are very comfortable with it. This is the first in-depth exposure I have had to electronic receipts. There's a lot to be absorbed, to be digested, to talk about. In borrowing, as you know, from banks security interests are created, and those security interests are perfected by possession of collateral documents, and we have a long history of handling the documents and we are very comfortable with it and we know how that works.

With the advent of electronic receipts, it's new to us. We have been asked whether the bank will accept it or not. At this point, I can honestly tell you we don't know. We don't see it as a finished product at this time. We really don't know how to evaluate it.

We in financing cotton like to use the term to have dominion and control, that is, possession of the documents that represents the collateral security that is customarily used in the merchandising of cotton, but in the event there is a default we have quick access to the collateral for liquidation purposes for retirement of the debt.

These are the unknowns of electronic warehouse receipts. We are not at the stage, I don't think, that we can take whatever the product is, the finished product, and take it to the counsel and say, give us a legal opinion how this is used in the bank. How do we perfect a security interest, what are the pitfalls. And if it is acceptable, then tell us what we must do to protect our security interest.

The basic transaction that transpires in financing cotton is when the purchase is made and the seller at present drafts on the buyer and drafts the presenter, the buyer makes the examination of the contents, assures itself that is what they bought and effects payment by paying the draft and simultaneously receiving the warehouse receipts. In financing we call that a purchase money security interest and title is perfected at that time.

What I have not heard in these discussions is what happens when the original buyer and seller that agree on a transaction, what transpires,

When does money change hands? In our financing money changes hands when they give us the documents. There is an element of trust involved with the electronic warehouse receipts, but I haven't heard how that is to take place and how a bank or any lender can perfect their interest during this, for lack of a better term, this transition time where ownership is not transferred but money is going between two points. That is something that we need to get comfortable with.

If electronic receipts are adopted and the bank has a security interest and a lien interest in the documents, then the bank would have to have some way to log on to that computer system where the bank has the control, dominion and control, once again of those electronic receipts, where the merchant would have access so they can do whatever it is that they do and want the cotton to be shipped and the bank would authorize release by pushing a button authorizing that release. Simultaneously the bank must maintain records so a hard copy has to be printed out at the bank so we see the paper trail. It's a legal requirement. Lending money, having records to be audited later on. So it's a paper trail that must continue to take place with the electronic warehouse receipts.

Again, this is my first watch, large scale exposure to this. I have a lot of unanswered questions. We have some customers that will be anxious to use electronic warehouse receipts; others that will use discretion and wait and see how it develops.

We have heard that vendors will provide services at a fee. Obviously there is some expense involved if the bank is to get into electronic warehouse receipts, it would be the purchase of equipment or systems or whatever it takes to be connected, if you will, to the electronic warehouse network.

Believe it or not most of the transactions handled in the bank today are done manually so it will not eliminate personnel on our side because it's not our personnel that's handling the collateral. So the cost reduction won't be a benefit to the bank. It will be a cost reduction on the part of the merchants.

Simultaneously if there is an expense in having new hardware and equipment and whatever it takes to be fully operational with the electronic advent, these costs will also be costs of doing business with the trade. Thank you.

MR. McGEHEE: Thank you, Dave. If we could now, we would like to ask Bill Butler with National Bank of Commerce to make some comments.

MR. BUTLER: Winford, thank you very much for inviting me. I have enjoyed it so far. For years we have been comfortable in accepting individual negotiable warehouse receipts representing one bale of cotton as collateral for very substantial loans, in the millions of dollars, that we make to cotton merchants. The integrity of the warehouse industry has been and continues to be very, very high.

However, when you really think about it, what do you have? What do you have? You have a piece of paper issued by someone you more than likely do not know whose warehouse may be hundreds of miles from where you are who promises to deliver that bale of cotton to you after you have paid all of his charges. You say it's a USDA licensed and bonded warehouse. That's all well and good, but a USDA license which is granted to a warehouse that conforms to government regulations and procedures is just that.

Government checks and audits are all well and good, too, and I do not mean to infer that the USDA does anything less than an outstanding job, but being licensed by the USDA is not going to guarantee the holder of a receipt that the bale is going to be there when you come to get it. It has. I can think of hardly any situations where it has not.

Additionally, a warehouse's bond, generally speaking, barely begins to cover the value of bales in a full warehouse. For example, one warehouseman I know has a capacity of about a hundred thousand bales. On

today's market that is a value of approximately 34 million dollars. His bond is \$250,000. This I believe is fairly typical.

So what I'm attempting to say is that as a banker I am very comfortable lending against individual negotiable warehouse receipts as collateral. But we should keep in mind what I just mentioned, and from time to time do our own due diligence regarding confirmation of the existence of actual cotton represented by the receipt or receipts that we hold.

Regarding electronic warehouse receipts. Are banks willing to accept electronic receipts in lieu of paper receipts? My answer, similar to Dave's, maybe a little bit more, I don't want to use the word optimistic, because I don't want to classify Dave's talk as not optimistic, but my answer is that from what I presently know I am reasonably optimistic in this regard provided that the individual merchant meets our credit criteria with a granting of a line of credit, and that we are comfortable in our business decision regarding subscribing to the provider system. From a security standpoint and legally, it seems to me we must be comfortable that we lose nothing that we presently have.

A company that was making a presentation earlier, EWR, is being formed by the warehouse and merchant sectors of the cotton business, and it's proposed that a subsidiary of our bank will run the electronic warehouse receipt system for the provider EWR. The integrity of the provider, whoever the provider is, must be unquestioned. And as a lender, it seems to me this is a step in the right direction by the right group of people to establish one. I don't want to also say that the other presenters are not equally worthy, but I'm sure they are. But let me add that it makes sense to me that no matter who, there should be, as a lender, and for all of us only one provider, and I think that that makes sense.

Questions do remain, however. Among them would be what sort of safeguards will a lender have from the provider that will if not actually ensure control of that bale provide the same degree of comfort that a lender now has with the paper warehouse receipt system. Regardless of the cost can a lender who becomes a subscriber to the provider system convert electronic receipts to paper receipts at their option.

The bank's relationship with the electronic warehouse receipt provider may be different from others of the electronic receipts in that our arrangement will involve three parties: ourselves, the provider and our customer who we are financing. What sort of documentation will we be working with? Who will be responsible for drafting this documentation?

As bankers, I think we all need plenty of lead time before things move in this regard. I hope that by these brief remarks I have added something to this dialogue, and I appreciate the opportunity to speak on behalf of my bank. Thank you.

MR. McGEHEE: Thank you, Bill. Next on the agenda is Forrest Lipscomb. We'll hear about the insurance perspective to electronic warehouse receipts.

MR. LIPSCOMB: Thank you, Winford. My remarks will be very general and short because I can -- no one can speak for the entire insurance industry. Everybody has to speak for themselves, and we generally do. The Marine Policy, the Marine Cotton Policy covers merely the physical loss or damage to the bale of cotton. It does not cover the warehouse receipt at all.

The underwriters that we represent, and I have talked with them, are going to rely on the merchant to prove ownership of that bale of cotton that has been damaged or destroyed, and for the first year or so, they're going to ask for a paper receipt until they are assured that the system will work. They're not opposed to the system, but they just want to make sure that proof of ownership can be established.

Then the insurance industry will certainly attempt to work with all its clients whether they're providers, merchants, warehousemen, what have you, in coming up with the solutions. But as always, we are dealing with problems toward the end of the term so we can't anticipate the problems that the insurance industry will be asked to solve.

I anticipate there will be a lot of questions later so that's why I'm keeping my remarks short. Thank you, Winford.

MR. McGEHEE: Thank you, Forrest. Next is Neely, Neely Mallory. We'll hear about the warehouse industry perspective on the electronic warehouse receipt.

MR. MALLORY: Thank you, Winford. It's a pleasure to be here today. Our company has an extensive computer operation not only tracking bales of cotton but tracking freight all around the world. I hate to tell you I'm about as literate at the computer as I am Japanese, so I'm a little bit uneasy up here talking about electronic warehouse receipts.

On the other hand as Bobby Weil has pointed out, what we are talking about is money and that falls into perspective of my duties at my company, so from that point of view I feel very comfortable being here.

It has been stated two or three times, the paper warehouse receipt has served us well over the years. If we are going to have another instrument take its place, then it must meet the test and answer every question that Bobby Weil has raised and others have raised here today. I think all of us will admit that it's a costly system today compared to alternative ways of handling title transfer or moving papers around.

As Louis Baioni pointed out, the equipment that handles the receipts that we use today is just simply wearing out. Nobody makes it. It's hard to get it repaired, and at some point in time there's not going to be enough of them to go around.

There's been some talk about having your capital invested in these warehouse receipts, and I want you to know that my family's capital is invested in warehouse receipts. We are going to stand behind every one of them that is issued. So warehousemen have got just as much at stake in the electronic warehouse receipt as does any merchant or bank.

I will tell you flat out, I would not do business with a provider that only met the minimum standards required by the Department of Agriculture, and in fact that's how I originally got involved in the electronic warehouse receipt with efforts through the National Cotton Council. Some of those initial meetings I was shocked to hear that every person at the table that represented the cotton industry wanted far stringer requirements of providers than seemed to be coming out of the mouths of the Department of Agriculture.

No sense repeating numbers, but, Louis, you will recall some of those meetings that our minimum bonding requirements and minimum net worths were well in excess of anything that the government was talking about. And that's why I got involved in Electronic Warehouse Receipt, Inc., that Tom Scott talked about earlier today, because I want to have some input to the company that provided electronic warehouse receipts and that Memphis Compress was going to use.

Might just make this comment obviously there are going to be some changes in the transferability if electronic warehouse receipts come into being. In some cases that may have some draw backs, and in other cases it may be an asset to bankers and merchants and warehouses alike. I just -- I couldn't help but jot down a few notes as I heard some people talk.

This paper receipt that you're talking about, it's not really as transferable as y'all say it is. Think for a minute. Neal, how long ago was it that the American Cotton Shippers printed a catalogue of millions of bales of cotton that had an adverse claim against them, and they were sent to every warehouse in the country and told not to ship those bales of cotton without concurrence of those issued in those catalogues. There are also bank liens against bales of cotton that I'm sure as pointed out by Mr. Weil's remarks, once the bank's name is on that, it's no longer a freely transferable document.

I will tell you this, if you're unknown to us, if you want Memphis Compress to hand us a warehouse receipt, we are not going to ship it unless we know you have got a right and a reason to own that bale of cotton.

And finally, it may be against the law, but if you owe us a lot of

money, and you hand us some other warehouse receipts, you're going to have a hard time getting that cotton out of our warehouse. It may take a court to get it, but you're going to have a hard time to get it. You're going to have a hard time to get it.

Again, my remarks are going to tend to be intertwined with ERW -- EWR because my wants for my company are hopefully going to have a print on what this company does. And first of all, we set this up not for profit. We are trying to furnish a utility to the cotton industry. We hope you use it, hope you use it well. We are going to have all the safeguards and security that the finest computer minds in the United States can put into the system.

And if somebody wants to trade coffee on our system or hay bales or something like that, we may offer those services at a profit if some of those should materialize down the line. But this company is being formed strictly as a utility to the cotton industry.

I'm going to be comfortable, I think, with the quality of the people that will be writing the software for our company. They're coming from the bank. They're coming from a very good bank. Dave also comes from a very good bank. There are a lot of good banks. These people want integrity and security to be in everything they do, and I expect anything -- that any of the software that our company uses will meet any of the requirements of the banks in the country.

That's basically all I've got to say, and I think we have got to answer every question that has been raised here today. I think we can. And if we can, I think it's a real opportunity for the cotton industry. Thank you.

MR. McGEHEE: Thank you, Neely. Now, if we can have Mr. Donald Conlin from the New York Cotton Exchange talk about the electronic warehouse receipt and the implication on certificated cotton.

MR. CONLIN: Thank you, Winford. It is a pleasure to be here this afternoon, and I have this very brief opportunity, and it's going to be very brief.

First of all, the Exchange is interested in efficiency, and it develops with the industry, and if the need for electronic warehouse, EWR, is the way to go, then certainly the Exchange will go along with that. We do have some areas of question.

Certainly first of all, we would want to make sure that any such new system did not impinge on the use of our marketplace to the extent that some people might be precluded from taking or making delivery.

Secondly, we believe certainly that the hard copy receipt, at least for the time being, is essential. We have many clearing members, some of whom are locals, people who do cash-and-carry business on the floor. They would not be able to handle an electronic warehouse receipt, so that would have to be addressed. How could they handle it.

Third, the transferability of the warehouse receipt is very important. We have a four-day period. If a hard copy is to be generated, it has to be generated very, very rapidly and at no charge. We would have a very difficult time I think having two kinds of warehouse receipts in any one delivery period. If you have an electronic receipt initially put out and somebody received that and needed a hard copy, that would possibly be difficult because you have to in that very short period of time create the hard copy.

Some of these warehouse receipts may go through as many as eight or nine hands during a delivery period. How would you handle that with an electronic receipt? So if you need to have a system of electronic warehouse receipts in conjunction with hard copy, I think we initially would have to go along and say that until it became standard that everything is electronic, that for delivery purposes until somebody can show something different, we would probably have to have hard copy receipts for that purpose. If and when it became a general practice within the industry that this would not be necessary, certainly we will do that.

I disagree with Neely in one sense that the receipts that are traded on the New York Cotton Exchange that are delivered are free and clear. They are a separate and new receipt and they are bearer receipts. A little different from the standard warehouse receipt which is industry used.

So just to say the last thing, before this happens, and I don't think a lot of lot thought has been given on the effect on certified stock, I think that certainly some consideration within the industry has to be given to certified stock in terms of creating electronic warehouse receipts, and we of course will have a committee which will be -- we already have a committee, but we will reappoint that committee tomorrow, we have a meeting here, and that committee will be happy to work with whoever are the leaders of this system. We do have some concerns on how it is going to work within our very structured delivery system. Thank you.

MR. McGEHEE: Thank you, Don. That completes the presentation of the panel, and as previously mentioned, we are having this meeting recorded for transcription later, so I know there is a lot of questions that people have that they would like to ask, but I would also like to ask you when you want to ask a question, please step to the microphone, identify yourself and your interest and then the person to whom you're addressing the question. And let's keep it, if we can, to one question and one answer at a time so that we are not all trying to talk at once, and I think we can conclude the meeting much faster in that manner.

MR. LOEB: The question I would like to ask the ASCS --

MR. McGEHEE: Please identify, Mr. Loeb.

MR. LOEB: I'm James Loeb. In the Federal Register of March 31st, you write as noted previously in the system which allowed various built-in conflict of interest must give users an alternative opportunity, which opportunity is the issuance of a paper receipt, in addition to electronic receipt. If that opportunity is different or additional cost, then you have not given that opportunity. Cotton is handled at very small margins of profit, and most of my customers find 20 points excessive.

You also state it has been determined that holders should not be allowed to unilaterally move a warehouse receipt from one provider to another in order to maintain the integrity of the system. Where is the alternative opportunity? It's fine for the government to set up a new system of economics called a provider. That's great. You set up a new industry. You get up this morning and say, we don't want to set fees. What is going to set fees? Competition. There is no competition. Let us explore that.

A bale of cotton is put in a warehouse. It's put there by the producer and the warehouse makes its charges. And if you read warehouse tariffs, you find all the charges on the outbound -- if you observe this. What does this tell us? It tells us that because once cotton -- once cotton is placed in compress because it cannot readily and efficiently be moved, competition does not exist in our handling charges, and indeed in the central belt it doesn't exist on storage charges. Central belt tariffs for storage are three dollars a bale in small places. In western Texas it's a dollar fifty, a dollar seventy-five. In southwest, the government doesn't regulate warehouse tariffs, perhaps they should. Maybe the Justice Department should.

But the fact remains that the only way that you are going to bring competition into the provider system is allow the new holder of electronic receipts to move his warehouse wherever he will. Now this can be handled electronically in the system, indeed can be handled electronically, by the remaining warehouse.

What can be done when you've done this. First, you provide the competition. Second, as has been observed here, each merchant might only have a single provider instead of a dozen providers with which he had a deal. Third, let's take the case of a provider whom we don't like. We don't like his reputation. He has been -- or we have some of those. We don't like his

service, the service is lousy, we want to pick up our marbles and go home. Our bank says they're the provider, they will loan us money, otherwise they don't. We have a right and we got a bale of cotton to move the provider where we will.

ASCS has written these regulations, in my opinion, and I believe in yours, because it says so in a number of cases where the ASCS and CCC is treated one way and other holders treat it another. Obviously you have not written this with us business people in mind. We only pay taxes.

You need to go back and read this, and my question is, won't you please go back and look at what you have written. You have no competitiveness in this. You do not give us the same alternative opportunities as we should have. You have not said that we can have a paper receipt at no additional cost.

At the same time I want to commend you for the work you've done on modernizing something that has gone on, I don't know, 150 years, that's fine. I think that's great. I was sort of uneasy on whether Mr. Butler is behind the system in which he cannot totally endorse it, but maybe he will get there. I don't mind. I go this way.

I like the fact that we can keep a paper receipt if that's what we want to, but if you want us, please, to move ahead with a new system, then you've got to protect us and give us the right to exercise choice in the matters of price, in the matters of performance, in the matters of security, and the ASCS has not done this and neither has the Cotton Council and neither has the American Cotton Shippers Association.

This has gone on for ten years. Nobody has stepped up to bat because they were throwing the ball on the sidelines, and this was subject -- the picture was there and nobody saw it. But it's time we got down to cases. It's time this industry put the problems that are here on the table. What Bobby Weil says is absolutely fundamental. I suspect we can achieve it. I know more Japanese than computerese; Neely knows less.

But seriously, we have got to put competition in this new industry called providers, and we have got to have the ability to move to another provider if that's what we want and that's what our bank wants us to do. Otherwise we're going to be on paper receipts for another 50 years.

MR. McGEHEE: Mr. Loeb, what was your question?

MR. LOEB: My question is, why can't the government and the ASCS understand the merchant of consignment.

MR. McGEHEE: Mr. Mikkelsen, would you like to address the first part of Mr. Lobe's dissertation?

MR. MIKKELSEN: It would take an hour or two and I would not get to the first five questions. In general, I think as we go along we will find problems. We will find what causes it, change it and correct them. Regulations are not written in stone. The statute is -- Congress is just about in stone, but it's still changeable, too. You lobby Congress and you can also lobby us to change anything you want to in the regulations.

We will do as we did the first time around. We will put out a proposed rule to the regulation changes. Anybody in the industry can comment on them. We get them all in. We tabulate them, how it is, up and down and we change. So that's the answer the best I can give you, and hopefully we will continue to work at it until we get it right.

MR. WYRICK: Jimmy, where did you go? This isn't a complete answer to your question about competition, but I do want you to know as I mentioned in the opening remarks the original regulations from USDA said nobody in the cotton industry can be a system provider. Well, we felt like that not only -- that wasn't the best thing to do on a lot of fronts, and one was the very thing you say, competition.

Now, this doesn't get to the issue directly that you're asking is

how do we go from whatever provider you want to go into. That specific question gets into the integrity of the electronic receipt itself, and I refer that one back to Steve.

But the point being the regulations have been changed somewhat from what was originally proposed to try and give a little more competition, to make it a little more cost competitive. And just as Steve has indicated, we will have to make some more changes as it goes through. But at least an effort has been made to try to get there, and there may still be a way to go.

MR. McGEHEE: Neely.

MR. MALLORY: Let me see if I can elaborate a little bit. You have to charge everybody the same price. Okay. The fact that you're an investor in our company or you use David Cox's company, you got to charge everybody the same price for the service that's rendered. I can assure you what you are worried about is the low cost, low cost provider, and if you have got the merchant industry that owns a substantial part in our company and David is going to have to be competitive and so is the --

MR. COX: I will be more than competitive.

MR. MALLORY: Pardon?

MR. COX: I will be more than competitive.

MR. MALLORY: That's wonderful. Then we may have a short life. And then, Jimmy, you're back in the same boat again if you only have one. But I mean, the whole prospect of what we are trying to do is put this warehouse receipt on the market at the lowest possible cost, and the profits of the company are limited by its charging.

MR. LOEB: Neely, that is your intent with your company in 1994. But I know a fellow in South Carolina that would love to go to that warehouse that you are asking to pay a little -- to pay you a little bit to go on your system and say, look, sport, you don't have to pay Neely, just I will pay you and then we know what happens because Memphis is well versed in rebates. Now we will go -- if I buy a bale and we can't move it and not pay for that rebate, then that rebate gets charged to us. Now, we know what happens. We have been through it up here for the last decade. I think when we start with a new industry called providers, we should be sensitive to make sure we have competition.

MR. OSBORNE: Winford, Dan Osborne from Lake Providence, Louisiana, and I'm kind of on the low end on the pecking order here. The only person, Jack Hammond producer, lower than a country cotton merchant. What I want to -- what I want to how is this stuff going to work? How am I going to transfer cotton from Jack to me and from me to you?

MR. McGEHEE: Who are you directing your question to you?

MR. OSBORNE: I don't know. That's my whole problem. The whole bunch. Now, I got a producer out here Jethro Nunn who makes ten bales of cotton a year. He don't have a computer. He don't even have a TV. What is he going to do?

MR. McGEHEE: Joe, can you address that?

MR. WYRICK: Well, I don't know what to do about the fellow who doesn't have a TV.

MR. SCOTT: Rebate him one.

MR. WYRICK: You just rebate him and buy one. The reason your question is a little bit difficult to answer is you have heard three different people this morning tell you that they have got systems that they're going to put in place, and each system is going to differ a little bit so all I can do is kind of give you a generic overview, and then each of these three gentlemen can come up and tell you theirs is going to work differently.

Basically the quick and dirty lesson is that the provider is going to have a central computer, and on this central computer is going to be stored all the information from your paper warehouse receipt. All -- everything. All the little fine print you can't read with a magnifying glass --

MR. OSBORNE: I know that, but that fellow doesn't. I say, I know that, but Jethro doesn't.

MR. WYRICK: Yes, and we can't send him a video training tape because he doesn't have a TV. You're going to have to explain this to him. Once this is on the computer -- let's not worry about how you -- where Jethro comes up with his computer yet. Okay. Let's assume somebody gave him one. It's on this central computer and whoever has access to that record, that electronic receipt record, there will be one person in town, the holder. He's the only one. Nobody else is going to be able to look at it.

The holder will go to a computer; he doesn't even have to own one. He can go to his friend's house and do it on his computer. Will call into the central computer and will give the central computer instructions as to what to do with this record, this warehouse receipt record. It may be to transfer that record to a new holder. As soon as he does this, the new holder is the only one that can see that receipt information. Now, you don't have to own a computer to do this. You got to have access to a computer.

MR. GILLEN: Joe, doesn't the warehouse who issues the receipt or the gin on that have to agree that they're going to participate in such a system? Aren't you jumping ahead of yourself?

MR. WYRICK: The warehouse as Steve Mikkelsen said, and I'm operating under the assumption that your question is that you've got electronic receipts what you do with them.

MR. OSBORNE: That's right.

MR. WYRICK: So I think that's what he was asking. As Steve already said, the warehouse has said they're going to have a provider and electronic receipts. The warehouse has to, it's under regulations, has to initially issue every receipt electronically. That's in the regulation. That's not a -- whether you like it or not, that's the way it is. You got to have access to a computer, and you will give instructions to the central computer as to who to make the new holder of this receipt. That's basically the way the system will work.

Now, each of these three gentlemen's systems are going to be different in a lot of different respects, and one of them is going to tell you you have to push a different button on his, but you're going to have to get to a machine, a computer, and give the instruction to the central computer to make somebody else the holder of that receipt.

The holder on the electronic system is like the bearer of the paper. Only one person can bear it at a time.

Now, you've got a fellow who doesn't have a TV, much less a computer, I mean, you've got to be -- think of what your options are here. First of all, the buyer and the seller in any transaction are going to have to use common sense like the cotton industry has demonstrated for many years. That if the fellow knows he doesn't have the capability or doesn't want to use electronic receipts and he's buying cotton, he needs to tell the seller I will buy your cotton but give me paper. Let the seller take care of that. So that's one alternative to the fellow who doesn't have a computer.

Another is folks who have computers could possibly provide

computer services to those who don't. It could do this for them. They could access the system and make it a part of the -- part of the work they do.

One proposal that Jack Hammond made and you mentioned Jack is the only person in the room, you know, lower, Jack had proposed that ASCS for the county office might actually operate the computer for on behalf of producers who don't have their own for purposes of putting cotton in a CCC loan. So there's another creative example of a way a man who doesn't have a machine can still be able to use electronic receipts.

Now, I don't know if I have answered your question or told you more than you want.

MR. OSBORNE: Not hardly.

MR. WYRICK: There's no simple answer to your question. What you're asking is how these different -- these systems are going to work, and the answer is it depends. I think I would emphasize this: If you have got a way that you need to work for you and your business, now is the time to tell the men who are designing the system how you need it to work for your business, because they're in the design stage.

As Jimmy Loeb just pointed out, we are setting up a new part of the industry, providers, and where else do you get an opportunity to set up a whole new sector of the industry. Well, we got have that opportunity now, and this is the opportunity for folks like yourself and others in the room to let these gentlemen know exactly the provisions that you need for your special circumstances so they can make their computers work the way that you need for your business purpose, and I think that is probably the most important thing that you need to let these gentlemen know how it's got to work for you so they can design it that way.

MR. McGEHEE: Joe, let me ask you this: If a small producer, like Dan is talking about, has ten bales or whatever, he can request a paper receipt at the time the cotton is ginned, can he not?

MR. WYRICK: Yes.

MR. McGEHEE: And once he sells that, then it can be converted to an electronic receipt.

MR. WYRICK: Absolutely. The receipt can be converted back and forth between paper and electronic as frequently as it needs to be during its course of existence. If a small producer like you're talking about, he can tell -- he can send instructions to the warehouse that he wants the paper receipt. What will happen in that case is, the warehouse will issue an electronic receipt. It will immediately void it, print him a paper receipt and send it to the gin, and he will have only paper receipts. So, you know, that's the --

MR. OSBORNE: They can be converted.

MR. WYRICK: Yes, back and forth multiple times.

MR. WEIL, II: Robert Weil, II, from Montgomery, Alabama. Dan, you don't have to worry about selling electronic receipts, Weil Brothers will buy it anyway.

MR. OSBORNE: It's cheaper.

MR. WEIL, II: Notwithstanding the questions my father raised -- and I feel sorry for everyone who is going to try to answer those, because with over 40 years of experience answering his questions, you just don't know, he will ask more questions. You all need to answer them.

One of the things that he did raise that I think is important to bring up to the people that are considering the company providers, in our

discussions in Montgomery and research on this, we found that what you want to do closely parallels the function of a clearinghouse. And we think of two clearinghouses that I think most of us in the room know about, one is the clearinghouse with regard to the New York Cotton Exchange, the Commodity Clearinghouse which Don well knows and Depository Trust Corporation which Dad eluded to in his presentation.

In both cases the users of the clearinghouse back up the clearinghouse in the event of any losses. And we are having some difficulty trying to figure out exactly how that is going to transfer itself over to what y'all are doing because y'all are privately owned and whether you say for profit or not for profit, anyway the financial liability of the clearinghouse is so much greater than the worth of whatever you're trying to do that you may want to consider having some sort of backup.

In the event of the Commodity Clearinghouse, and Don can correct me if I'm wrong, there is not so much net worth there as the ability of a clearinghouse to call upon all the members of the clearinghouse to come up with funds in the event of default by one of the members.

In the event of Depository Trust Corporation -- and I should point out here that is no means -- there are a number of other companies that provide the same services for securities but they by far and away are the largest.

In the event of Depository Trust Corporation, they have built up what they call a participants' fund of nearly two hundred million dollars, plus there's an additional 450 million dollars culpable funds that they can get, 650, 670 million dollars I think that they can call upon to fund any mistakes that are made or whatever, whether they are fraud or otherwise. And I would suggest that y'all think in terms of something like that.

The other interesting thing about the DTC is that there is no financial incentive to ownership. They charge certain fees for whatever services they provide. The fees are computed at the beginning of the year to net them an income that will be prorated to whatever expenses they have. At the end of the year, the DTC then takes all revenues in excess of expenses and refunds them back to the users based on a formula that has imputed in it -- I think 80 percent is based on usage, the other 20 percent is based on the value of whatever securities the user have in it.

I would suggest that you three and any others that might want to consider getting into a provider arrangement consider the form DTC has established. It works very well in the securities industry, and I should also point out that in our discussions with DTC they mentioned to us that if a cotton warehouse receipt could be defined as a security, they would be very interested in becoming a provider as well. There is no question.

MR. McGEHEE: Would you like to address that, Tom?

MR. SCOTT: Well, I guess you raised -- you really raised two points, one was the liability and the other one was the fees. I agree with you on the fees, and that's sort of what the concept of this group is. Any excess will be plowed back in to reduce fees, so that everyone that is participating in the system can enjoy that excess on a prorated basis.

With regard to the liability, if you look at the list of people that are coming together to form this corporation, they have quite a bit at stake. They really have a lot of skin in this game. You can't -- so, therefore, whatever they decide, and this is why as a participant/owner of the company, they are almost similar to DTC, but whatever liability, whatever pool, however they want stock liability, that group will decide. The industry will decide. It's not being imposed upon anybody.

MR. WEIL, II: On that matter if there is a -- if there is a case where there is a loss of ten million dollars which is in excess of the value of EWR, Inc., or Plains -- well, Plains has got more resources than EWR starting out. Let's take the three and Dunavant that are stepping up and are on the steering committee, are those four companies, plus all the warehouses that are

involved, going to promise that they are going to back up any losses incurred by EWR, is this going to be unlimited liability on their part?

MR. SCOTT: I would think so. They're going to decide what the limits of liability are going to be. You know, they have -- Dunavant has a lot of -- so does Allenberg. They're going to have to get together collectively and decide and resolve this issue. This hasn't been answered. I'm sure the other gentlemen might be -- maybe Joe does. But we don't have a pat answer. It's a solid question but, you know, to say, this is how we are going to do it, this is how we will fund two hundred million dollars, that's not there.

MR. WEIL, II: Don, in the event of the Commodity Clearinghouse, there's no limit of liability?

MR. CONLIN: In the clearinghouse there's a guaranteed funds depending on how much business they're going to have.

MR. WEIL, II: Right.

MR. CONLIN: And you're allowed to have so many contracts, long and short. In the event of a failure of the clearinghouse, if that guarantee fund, which is the first monies up is used up, then each clearing member by percentiles of their activity in the association has to pony up the additional funds, and that can go to the entire net worth of them I guess. We haven't had a failure. But in fact, the clearing association is the net worth of -- the entire net worth of the clearing members of the thing which would include the entire net worth of Merrill Lynch, Shearson, Bache, Cargill, whoever.

MR. WEIL, II: I believe that in the literature that I've read the Depository Trust Corporation is the same. The entire net worth of DTC runs to the net worth of all the members who own DTC and the users.

MR. CONLIN: The assessments, Bobby, are made on a pro rata basis. So if it was a failure, the larger user of the clearinghouse would be hit.

MR. WEIL, II: But the point being that in the event of a large liability, larger--

MR. CONLIN: Billions of dollars.

MR. WEIL, II: There is some recourse beyond a certain corporate limit.

MR. CONLIN: Billions of dollars.

MR. COX: Let me respond to that. First of all, one of the advantages I have of principal owner, only owner -- IDI is owned by its employees, I am the principal source of capital, and it's not ten million dollars, but it's a reasonable portion of that. So I'm obviously going to be more than careful about what we do in terms of selling our system.

That said, I think that the comment that Don has made and others are making in terms of a need for a funding of some type of reimbursement for those things that go bump in the night probably make sense. I have been talking to a number of insurance people about liability coverage, and generally speaking the more bales that go through the system, the higher the premium is going to be.

And my view of this is that -- really I'm kind of at odds with myself. I would like EWR's to be as inexpensive and as easy to use as possible. On the other hand, I don't think we want to skimp on proper financial security and coverage in the event of things that will happen. In other words, these aren't things that occur because of a faulty design or fraudulent act on some person, but facts that will happen that will cause someone to have some type of a loss.

I really haven't heard -- and, Joe, I think you would say that you just don't lose bales in the computer, but there are things that can happen that will cause someone to suffer loss. They can't deliver it right now and the market goes down and they secure losses. I certainly think, and this is on the opinion of what I said this morning, I certainly think that the cotton industry needs to get its head together. And if we want more than ASCS without them -- I see that, Steve, as just the foundation that the industry should say, this is what we want. We want providers to collect a fee on every bale that they handle. We want providers to have higher coverage. It's going to cost you money, but I would vote on coming up with something that is going to make people sleep at night, Dave Cox included.

MR. McGEHEE: Neal, just one moment, I think Louis had something he wanted to say.

MR. BAIONI: Bobby and some of the others, Dunavant, and I'm sure it's the same with the other gentlemen, is not for profit. The motivation was that again we felt that the industry needed a new way to do things because of the reasons I gave you. I don't think this company is comparable to several brokerage houses that trades stocks, commodities, et cetera. So for that reason I don't think it's fair to think that people who are willing to put up the money should then take a personal liability over and above its investment. Again being in our opinion it's benefit to the industry.

MR. GILLEN: Neal Gillen, the American Cotton Shippers Association. First of all, a comment or observation. I think we have become a little confused here today when we talk about responsibility. Keep in mind that the electronic warehouse receipt system does not replace the responsibility of the bailor. He is still responsible to you for the bale of cotton.

EWR is just a custodial service. A provider is providing a custodial service. The basic essential bailor responsibility of the warehouseman still is maintained, and so that is something that is not being done away with. So I think people should keep that in mind.

Regarding that observation, Neely, as a warehouseman what evidence of ownership will Bobby Weil have in the event of a fire or a loss or some possible pilferage of the system?

MR. MALLORY: We probably ought to let one of these computer experts answer that. My Japanese --

MR. GILLEN: Well, you're on the committee, and I know this is a responsibility you want to know because they're going to be coming back to you.

MR. MALLORY: I don't need that. I can talk loud enough I hope. What I have heard every provider say here today is that they're going to have an adequate backup system that has yesterday's tapes off the premises, and they're going to have two computers or three computers, two of which are at different locations. They're going to be operating -- you're going to have yesterday in a fire proof safe. You're going to have an off-site computer that has the same information in it that the one that is on site, and I think that's reasonable security. And that is probably equal to what National Bank is required to do with their records that they have in their building. You're going to have the same security.

MR. GILLEN: Bobby might just have something in his electronic mail system which indicates that he owns this bale.

MR. MALLORY: I didn't understand.

MR. GILLEN: What does a merchant get from the system to evince the fact that he has ownership in the bale?

MR. MALLORY: What -- if the bailor or --

MR. GILLEN: What evidence does he have to make a claim against a warehouseman? What evinces his ownership? That's what Bill and that's what Dave were wondering about before.

MR. MIKKELSEN: It's the same thing as today. Part of my speech, I mentioned just like paper. This system is not going to operate any differently than in the paper world that you're already handling today. The person, as a bank, will be designated as holder if he chooses to be.

MR. GILLEN: But what does he get to designate that? That's my question.

MR. MIKKELSEN: What does he get?

MR. GILLEN: We understand the concept. What does he have in his office? What does he have for control purposes that I own this? What does he get?

MR. MIKKELSEN: He has an electronic record in his name.

MR. GILLEN: Okay.

MR. MIKKELSEN: And the electronic record is duplicated in most of these systems maybe twice, maybe three times.

MR. GILLEN: My next question is, how much does -- if his banker requires a paper record, how much does that cost, and if it is going to be a receipt? And that's my question to --

MR. MIKKELSEN: That's --

MR. GILLEN: You can't answer that question.

MR. MIKKELSEN: I can't answer that question. You have the right as a bank or anybody else to ask for paper or the electronic system.

MR. GILLEN: How much will that cost?

MR. MIKKELSEN: And what it's going to cost, I don't know.

MR. GILLEN: For cost you listed nine cents to twenty-four cents. Based upon the volume you handle, what do you calculate for paper receipts?

MR. SCOTT: I haven't calculated the paper cost. I disagree with the comments here that it should be for nothing because there's going to be a cost associated with producing that, and that it would be produced at some cost, and it's not going to be a punitive cost. That certainly wouldn't serve the industry.

You have to go back and look at our motivation. Our motivation is a service.

MR. GILLEN: What is the cost? I know the motivation.

MR. SCOTT: I haven't come up with the cost.

MR. WYRICK: The provider is not going to know the cost. The provider cannot provide a paper receipt. All the provider can do is store the electronic receipt. The warehouseman will provide the paper receipt.

MR. GILLEN: Joe, I understand that. There are warehouses in David's consortium. I think your role has ended in this. They are going to be making

a market and the people here want to know what the market is. Now, David, you deal with warehouses, maybe you can answer the question.

MR. COX: If I understand, maybe I can. What we envision, for instance, is let's say that we have a Cotton Company A and Bank B. At the end of each day we will send a transmission which will be an electronic form of paper which will be printed out, both by the cotton company and by the lender in effect giving the status of that account, that is, we would tell you as the cotton company, the bales that you hold value EWR in different locations at the end of that day, and we would tell if you authorize us to or lender asks we would tell the lender similar information.

There would be a negligible charge for this because we are going to be maintaining this information on a continuing basis. It will be available -- in other words, as this information flows in and these EWR's bought and sold, we will be keeping track of the balance of your account.

Now, obviously if we send to Cotton Company A that you have 13,000 bales in your account and your computer says you have 12,000 bales, you're going to call us back and we're going to start working backwards and see what is wrong. In other words, I just did that as part of the checks and balances that are necessary for systems such as this to perform.

There will be a charge. IDI believes that the creation of the EWR on behalf of the warehouse will cost somewhere between 10 and 15 cents, less than the cost of the paper receipt today. There will be costs of these further services on a daily basis but, gentlemen and ladies, that is a substitution I believe of the lower cost of providing this information and requests you have today trying to keep all this work down. Did this answer your question?

MR. GILLEN: I think it clears up a lot. Can we hold you to it, your answer?

MR. COX: Full faith and net worth of Dave Cox is on the line, so, yeah, hold me to it.

MR. McGEHEE: Joe.

MR. TUBB: Yeah, I can direct that as to how it works at Plains Cotton system today. If a merchant purchases cotton, it shows up, there is a written account of it that night showing that he has at least a current interest in that bale until he sends us money. When we receive the wire transfer provided the next day, it's updated with that. We can run periodic stock checks between what the merchant shows he has in his inventory electronically by us. PCCA has inventory provider data base. Obviously we are going to talk or they're going to talk to us.

And at any time the holder can ask for a physical warehouse receipt to be punched at no cost.

SPECTATOR: At no cost?

SPECTATOR: Where is that cost to be?

MR. TUBB: I said currently we have no cost to converting or punching a physical warehouse receipt.

MR. LOEB: You charge ten cents.

MR. TUBB: No. Yeah, now, we charge a conversion fee going back to electronic of 25 cents from physical. That's the only charge that we have currently on electronic costs.

SPECTATOR: I think he's referring to final charges for his use, his system.

MR. TUBB: Are you talking about final charges? We have that. You can

get a finder card, a physical receipt or electronic receipt, too.

MR. McGEHEE: Let me ask Neely's question in another way and also this will deal with Mr. Weil's question number 14. If an owner of a bale has a legal claim against a warehouse for fire or loss of a bale, loss of this bale in some manner, could he ask the warehouseman to convert that to a paper receipt for evidence of his insurance? So the answer, Neal, to your question would be he would obtain a paper receipt, convert it from electronic warehouse receipt to present as a legal document for claim.

SPECTATOR: At what cost?

MR. McGEHEE: Well, the cost, there again, who knows what the cost is.

SPECTATOR: The warehouse.

MR. COX: Is the panel allowed to ask a question?

MR. McGEHEE: Of course.

MR. COX: In that instance, Steve, if we had someone that lost a thousand bales in a warehouse fire, it doesn't seem to me that we -- that the industry would require that someone produce a thousand hollow cards and say these are the receipts. It seems to me that in the end if the EWR provider certifies to an insurance company or whatever that this list of bales was -- had valid EWR's outstanding at a given date that we can get away from -- I feel that the industry is kind of leaning back over to bury itself in punch cards again, and we really shouldn't go in that direction.

MR. MIKKELSEN: All your provisions presently apply to fire loss of bales will not change under an electronic warehouse receipt system. If your insurance company wants to have those paper negotiable documents as evidence, they can ask for them and you can supply them. If they will take a certification from a provider or someone else that has satisfied them or even electronic tape of that record of where those receipted bales that you had, you know, anything like that is possible.

So the whole system is not penalizing anybody for something that is already happening in the world today. What we are trying to do is forward the system on to bigger and better things hopefully in the long term.

MR. LOEB: As far as if we couldn't get our money from the paper receipt and ASCS tells you we are entitled to paper receipt, all we got to do is request paper and we can give it to Forrest. But the question I want us to keep in our mind is the first item on every warehouse bearer is receiving issuing a warehouse receipt, weigh and sample. Now as the industry we need to make it clear that either an electronic receipt or a paper receipt or both need to be governed by that receiving charge, and if they have issued an electronic receipt and the buyer wants a paper receipt, he gets it, period. And the cost involved in this thing is important because that cost can be anything and we need to keep, please, that in mind.

MR. WEIL, SR.: I'm looking at a reproduction of a paper warehouse receipt enlarged. And among other things on this receipt it says insured against loss for full market value. Now, under the present circumstances if something happens to that bale if it gets damaged because it wasn't under cover or if it caught on fire, I have this document to go against that warehouse. Says we can't take responsibility for the damage. We have this document we can go to the court with and say, you marked it and you said you had the bales under shelter and it wasn't under shelter. So we have a basis for a claim.

Now, how do you do this with the electronic warehouse receipt? That's -- when you talk about a claim against the warehouse or the provider,

how does the provider give you that material with which he can go back? What has happened to it, how do you do it?

MR. MIKKELSEN: Everything that is required for a legal receipt -- this is Congress' function. They describe to us what it takes to make a legal receipt. It's called Section 18 of the United States Warehouse Act. They're the only entity who changes that. They make it legal law of the land. There -- because they make it the legal law of the land, the courts have to adhere to it. That's Congress' function.

Everything that is on that paper receipt today will be on the electronic receipt and able to be replicated in any fashion you want. You want to put it out in paper, somebody can put it out in paper for you. If you want it on a tape, they can put it out on a tape, too. I imagine they can give it to you in a disc. Whatever you want, I'm sure these guys will satisfy your needs, but we haven't lost a thing.

All the legal rights you had to receipts before, Congress did not change. They are still required today in the electronic world, just like they are in the paper world. All the legal requirements, all the little language that's on the receipt is on the electronic receipt. There's nothing different.

MR. WEIL, SR.: I might quickly add that what Congress requires and what people put on warehouse receipts may be quite different. Just like someone was saying today that they thought the provider should provide a lot more than what you require. And there may be things on this receipt that Congress doesn't even know about.

Now, the question is if I buy a bale in a warehouse, I don't know what is written on that receipt if I just have an electronic thing. It doesn't come to me and check.

MR. MIKKELSEN: You can request from your provider -- there is no restriction. If you wanted to just order from your provider your warehouse receipt numbers on a daily tape or sent to you over a transmission line, that's what the provider will do. If you want the whole receipt, every comma, letter, you can get that, the whole shebang.

MR. WEIL, SR.: I'm talking about --

MR. MIKKELSEN: Then you -- let me mention one more thing here. You said there are more things on the receipt than Congress requires. I talked about in my speech the category of what we call additional information. Every receipt has this. Some people call it supplementary information. But there's nothing that changes as we go from the electronic world to a paper world, it's all the same.

MR. WEIL, SR.: Well, it's not the same to me because if I get -- if I buy a hundred bales in the warehouse and I get electronic notification, I don't see this language and I don't feel like I have to ask for those hundred bales of paper every time I buy a bale. So what I'm asking here is how does your system provide that we will know, because I can think of a way you can do it. I know a way you can do it if you really want to. But I don't think your system does it without having to go out and get it.

MR. MIKKELSEN: It's the same way with paper receipts. How many of you read every receipt that passes through your hands? You know, if somebody really wanted to alter that receipt, I'm sure as heck you might get stuck. The electronic system is the same. The warehouse receipt format is approved by us, ASCS, just like it is today for federal warehouses. That language is approved.

It's the same for that warehouse and receipt number 1 through receipt, you know, one million, unless somebody wants to start playing games. There's always a few people that love to play games, but nothing has changed.

MR. MALLORY: Neal, I wish you could corroborate this that the terms and conditions of storage are in the warehouseman's tariff, and that tariff that is in effect at the time has got nothing to do with the terms and conditions necessarily printed on the face of the warehouse receipt. This gentleman right here who published a tariff that said future cotton will not be put under storage even though your warehouse receipt says it is, he is still in compliance with his terms of storage if it is published in his tariff. So I would assume a smart electronic warehouse receipt company would have reasonable forms for every warehouse that it acted as a provider for.

MR. WEIL, SR.: You mean if you put out a warehouse receipt -- (inaudible).

MR. MALLORY: My storage charge today when I issue a warehouse receipt is a dollar printed on the face of that warehouse receipt and I change my storage charge next month to two dollars, what is written on that face of the warehouse receipt is not in effect.

MR. WEIL, SR.: How about the company --

MR. MALLORY: I assume I can change the conditions of storage and I'm getting into the practice of law, but basically the controlling document is the tariff that's approved by the Department of Agriculture.

MR. McGEHEE: Jane.

MS. STINNETT: I have a couple of questions for providers.

MR. McGEHEE: Identify yourself, if you would, please.

MS. STINNETT: Oh, I'm sorry, I'm Jane Anne Stinnett. I'm president of the Texas Cotton Association. Do the providers intend or have plans and thoughts to expand the system to a marketing system? Of course, I know Plains has a marketing system, but a marketing system in conjunction with the electronic receipt?

MR. COX: IDI currently has five systems that we offer the cotton industry, a grower system which allows a grower to inventory and maintain records of his cotton, and if he wishes -- the gentleman from Louisiana is not with us right now -- but if he wishes he can actually use that to market the cotton. A gin system which handles all aspects of record keeping regarding the ginning of bales, including recapping, marketing, whatever. A country buyer system which allows whatever you want to call him, country buyer, twister, to buy cotton and resell cotton. A merchant system or shipper system which allows a cotton company to inventory and maintain all records and obligations of the merchandising company.

We see as we become EWR providers would be a sixth cotton system -- excuse me, we also have a warehouse system which is obviously going to be somewhat integral to the EWR provider system. As we offer a provider system, obviously that provider system in conjunction with many of the other of our current offerings will allow the cotton industry to fully computerize the trade in the cotton.

Does that answer your question?

MS. STINNETT: Well, will it be a system that the provider is operating?

MR. COX: Well, no.

MS. STINNETT: It will just be made available to users?

MR. COX: Yes, very clearly. As a matter of fact, a minute ago I felt I should make mention of this. We need to make sure that everyone

understands that the provider is really the value services in a sense that it's an agent for a warehouse. The provider doesn't create any receipts. Once the warehouse creates the receipt, we will maintain that receipt. And then as that receipt is traded, we will maintain a track of who traded it to whom, and we will take care of the bookkeeping to make sure that if there is a lien outstanding on the bale, if so, that the lien holder is satisfied before transfer of ownership occurs in our system.

Clearly, the individual elements within the cotton industry will maintain their own various computer systems in order to accomplish this.

MS. STINNETT: I guess the point I'm getting to is does this lead to a marketing system by the providers where they go in and market cotton on their system? Of course, a user could probably do that.

MR. COX: IDI as a matter of policy we neither are owned by anyone in the cotton industry nor do we own anyone in the cotton industry, and for myself I think that is a proper status of IDI as a company.

So as a matter of policy, we are not going to get into the business of, gee, you know, now she wants me to be a cotton company, not just offer it for sale. No, we will not do that. But we will provide you in Texas or any place else in the nation the computer systems necessary for you to computerize the trading of cotton.

MR. ZARFOSS: Bill Zarfoss, Allenberg Cotton Company. Just on behalf of EWR, the fact is the EWR system -- EWR, Inc., system was conceived to strictly act as a service to the industry for handling electronic warehouse receipts. There was never any intent for that system to become profitable in any fashion nor was there ever any intent for it to be expanded into any type of marketing system. It was purely a clearinghouse system for electronic warehouse receipts.

MR. BRYANT: I'm Jim Bryant, I'm a merchant from Lake Providence, Louisiana. I think your EWR system is refreshing to me so I don't know whether to stand or clap. But anyway I would like to direct this question toward David. I live in -- I'm from a small town, small bank, I do my business locally and went to see our banker and he said -- I was trying to explain to him something about the electronic receipts. He said, well, keep me informed. And I know y'all are his corresponding bank. I was just wondering if y'all are going to educate these small town bankers on electronic receipts, buying electronic receipts? That's one question.

Another question I had was on producers. Not all producers are members of Louisiana Cotton Warehouse Association, Louisiana Producers Association or not all merchants are members of the American Cotton Shippers Association. And I just wonder if the ASCS office -- I guess I will direct that toward Mr. Mikkelsen over there. If they're going to educate the producers about the electronic warehouse receipt system, the ones that don't belong to anything and we will -- I'm going to everything. But there is a lot of areas in this country that producers do not attend anything. That's all I have.

MR. COLBY: Jim, that is a great question. Right now there's an insufficient number of bankers that want to finance cotton because they don't understand it. As we develop our knowledge and go higher on the learning curve, we are always looking for banks to stay in the business, to get additional banks to lend money to this trade which is growing wildly. So, yes, whether they are corresponding or not, we will share our knowledge.

Even today we have customers come in from other places in the country to see how we do it at Union Planters. We have an open door now and we will continue to have it.

MR. BRYANT: Thank you.

MR. WYRICK: With respect to the ASCS comment about, you know,

ASCS maybe doing the work for the producer. I don't want you to misunderstand. That's a suggestion that has been considered at Council sessions. That's one of many suggestions that's been underway. There is no -- it hasn't been taken any further than that other than just discussion.

That is one avenue that the National Cotton Council felt might be an appropriate way to educate producers and others as to how electronic receipts work. From a Council standpoint we intend to put together an information bulletin on this issue and as we do others and do a mass mailing. We intend to try and go across the Delta and try to do some informational sessions, and whether that gets to everybody or not, I don't know.

We don't intend to restrict any of that to Council members by any means. It's industry type of information at that point.

Those are the best avenues at this point. As I said in my remarks earlier this morning, we have gotten so many questions at the Council office since the first of June on this topic. We recognize this is a big area that we are going to have to address, and we do intend to address it.

Sometime later this year or early next year as it gets closer to time where folks will actually be jumping in and doing it, don't want to try to educate them when they're in the middle of harvesting their crop. As you know, that doesn't do a lot of good. They need to be elsewhere. But as soon as appropriate, we feel like a combination of personal business and meetings and some written material will do a lot of the job.

MR. MIKKELSEN: As far as educating producers, ourselves we have tried to send information to the associations and hoping that those associations will help us in the cause of turning on producers to electronic warehouse receipts. But probably the reality is that it will be the ginners and the ASCS county offices, and the ginner will have to ask the producer if you want a paper warehouse receipt, if you want electronic, and at the same time is it going to loan or not and then have to explain what his functions are going to loan electronic versus loan paper, and it will be up to him to do so one way or the other.

But the providers are all going to be hooked to the Commodity Credit Corporation in Kansas City. So after the producer indicates that he does want this cotton going to loan, he can relay that information to the warehouse, the warehouse can send it to the provider, the provider will send it on to the Kansas City computer system, come right back down to the commodity office. So it's going to be a fairly fluid system, and if it gets sent right down to the county office that this particular producer is looking for a loan, they check their files at the county office level, give it an okay and, bam, it's in loan and it comes back to Kansas City to be kept in the loan system until redemption.

MR. LOEB: I've got one more question I would like to ask. Can I ask it from here? If the producer puts that cotton in loan and it goes to Kansas City, when you redeem that cotton out of loan, does it come back to you through a provider, or does it come back from Kansas City through your ASCS office?

MR. MIKKELSEN: At this point this particular year it's going to go back to the ASCS county office. Now, there has been some discussion about moving that to a centralized system, but nothing has been done in that fashion so it will be at the county ASCS level.

MS. HACKNEY: Susan Hackney from Mask Cotton Company, and I have a question for PCCA and for the banks. If you -- you stated that if you -- if we bought cotton from you, that as soon as you're paid, those receipts or that electronic receipts are going to be sent to our provider or to the banks. At what point is a bank going to pay you if you're not going to transfer title until after you're paid? You know, are you going to -- are you going to pay him, PCCA, or anybody else before he transfers the title? No, you're not. So how will we ever get our receipts?

MR. TUBB: The way it works today -- let's take a physical receipt transaction. Physical receipt transaction we send the receipts down to our correspondent bank. That bank issues a draft against Plains Cotton. Plains Cotton Company wires that draft. At that point and that point only does our correspondent bank give you those receipts. They're giving you those receipts after you have issued that draft to pay them, the physical receipts.

MS. HACKNEY: No, you send the draft to my bank, you send a draft to NBC.

MR. TUBB: Through our correspondent bank.

MS. HACKNEY: Right, right. Then NBC they have those receipts in their hands, and when they have those receipts --

MR. TUBB: No.

MS. HACKNEY: Yes. Yes, sir. I have been doing this for 25 years. That's absolutely right. At no point will my lender send you money before they have title or some sort of title to those receipts or at least have the physical receipts in their hands. Bill, I mean, I know this has been going on for 25 years.

MR. BUTLER: I sort of look for maybe the provider to be sort of the score keeper or the great computer up in the sky that sort of takes care of all of this stuff between us. And if I am lending money to XYZ Cotton Company and I have a line of credit, then I have got to -- I have got my computer, my customer XYZ Cotton Company has got their computer and we are all hooked into the provider, and let's say you're selling cotton to XYZ Cotton Company and we are going to make a loan to them and pay you. Is that your question?

MS. HACKNEY: Actually it's the other way around. I want to buy the cotton. He owns it. When are you going to pay him or when does the money coming out of my account to pay PCCA for the cotton and what about my title to the document? Mr. Cox just sat over there and said that if there is a lien against it, they're going to hold it up.

I mean, you know, this thing is -- I don't think it's been really thought out very well as far as the provider. At what point is the seller going to receive their money and at what point is the bank going to receive title documents to the cotton? And then if I am shipping out cotton, you know, how am I going to convince PCCA that I have a 90 bale shipment when all they have is 89 bales in the warehouse, how am I going to convince them those two bales are mine? I mean, there are a lot of questions --

MR. BUTLER: Joe is going to answer your question.

MR. WYRICK: We did this in one of our pilot projects in 1989 and 1990. We had this situation arise in West Texas and Bill doesn't remember so it wasn't like one of the stellar points in his life, but he was involved in it at the time.

Basically what we did in the pilot project was set up an electronic bank draft. The seller sent the electronic receipts as a -- with a bank draft to the bank and the bank was the holder with a contingency. The bank can either accept it, and as soon as they accepted it, the money transferred, or they reject it, and as soon as they reject it, the receipts went back to the original holder.

Now, that mechanism caused the money and the receipts in that pilot to be transferred simultaneously, literally. That was a pilot project. You know, that wasn't designed to take care of every situation in the world. But it did work in that particular buying and selling situation in West Texas, and that's one way you could do what you're talking about.

All we did was take the bank draft as used in the paper world and just applied it to the computer world, and the bank was in the same position of receiving a receipt, these were electronic, and either releasing the money or not or sending the receipts back. So that's one way you can do what you're talking about.

MS. HACKNEY: Well, is the bank going to be receptive to that?

MR. WYRICK: NBC did it in the pilot project. Now, I don't know whether they would do it again or not. He doesn't remember it.

MR. TUBB: When a wire transfer is sent to a corresponding agent bank or our correspondent bank now, we are notified of the transfer so it has worked very well. We have traded eight and a half million bales with it.

MS. HACKNEY: But you said that, and I am sure that is right. But I still would like to know how if I turn over to Producers Warehouse a shipment for 90 bales, and they come back and they say, I can only ship 89 but I have got to ship 90 bales, all right, I have the -- right now I have two warehouse receipts that there is no bales in that warehouse, right now I do, and I have spent four months and I have yet to be paid for those two bales. They say go to PCCA. So I go back to PCCA and I bill PCCA. But I have got two receipts that I still haven't gotten paid for. What is going to happen if I don't have two receipts, I have an electronic receipt that I -- you know, maybe three or four people might have their name on that electronic receipt.

MR. TUBB: I think it comes back to the stock checks we talked about earlier, keeping the buyer and the provider data base the same, number one. Number two, we have an extensive audit trail. You've got recourse if there is a problem and you can prove it. You know, send them their audits.

MR. MIKKELSEN: Same --

MS. HACKNEY: Now, I know it is happening right now.

MR. TUBB: It's like anything else you do business you got to be -- you got to have trust with the people you're doing business with or you don't do it.

MS. HACKNEY: All right. On this electronic receipt, you're saying that there is -- the data that is -- or all the history that is involved in the one warehouse receipt. Will that be made available to me as we buy the cotton, all the history?

MR. TUBB: No, no, that's for crop determination and procedures and auditors.

MS. HACKNEY: I will just turn them over to him. Right now I have a receipt to turn over to him.

MR. TUBB: Because there's information in there about past transactions that is really none of your business. Take, for instance, a physical warehouse receipt when it traded hands, you don't have the entire history of what happened to that particular warehouse receipt.

MS. HACKNEY: All right. What if somebody posts bond for a bale that they say right now the warehouse receipt is lost, all right, what if you bought cotton and the receipt is not -- or the electronic receipt is not in your collateral, but you know that it is yours, how are we going to trace it back to prove that bale is ours?

MR. TUBB: Pass that by me again. I'm sorry.

MS. HACKNEY: If I buy, you know, 50 bales and I put 50 bales in my inventory but then my provider is missing one bale, how do I backtrack and find what bale is mine?

MR. TUBB: Well, you need a stock check provider that will tell you. We show that you don't have title to this bale and you do.

MS. HACKNEY: How do I prove it's mine?

MR. TUBB: How do you prove it's yours? We can go through the electronic record and go through the audit. Very similar to what you do today with the physical receipt. You have to look through an audit file to find out who that physical receipt belongs to.

MS. HACKNEY: Okay. Just one other question to the warehouses. If indeed there's a bale missing, and I am going to make a claim on that bale and the insurance company says, I have to have a receipt, are you going to issue me a receipt against a bale that is not in your warehouse?

MR. MALLORY: Well, I guess there's two or three ways we can do that. We can obviously give you a paper warehouse receipt. Separate way to do it is to order us to ship it and we are going to tell you we can't find it and you file a claim.

MS. HACKNEY: At that point you will issue a paper receipt?

MR. MALLORY: If you want a paper receipt, I will give you one.

MR. ZARFOSS: It will be electronic record out of that file that says that bale is still active and current, and so as long as that bale is still active and current in the system, we will be more than happy to issue a paper receipt for it, and he will then cancel the electronic receipt.

MR. MALLORY: And then off the provider system.

MR. COX: Let me make two quick comments. First of all, I got to get a good thing about EWR. Under that situation where you had 50 bales and only had 49 bales right now. Under the EWR system you're going to have 50 EWR's. If you bought 50 bales and the provider system said there were 50 EWR's there, you're not going to lose one. You can lose a paper one. But you can't lose in that sense an electronic one.

Now, we have no control as provider as to whether or not Mr. Warehouseman has a bale to give you. That's the problem of the warehouse. If you walk up now with a paper receipt and he doesn't have a bale matching it, you've got to settle up on your note, he has a problem, right, Neely?

Secondly, you mentioned they probably held those bales up. It's really not very complicated when you buy or sell bales we're going to set up a list of cotton and we are going to clear the liens on that before we tell whoever the buyer and their financial institution that they have been transferred. In other words, we're simply going to make up a list and we are going to get sign-offs before the transfer occurs. And if anything goes wrong with the sign-off, the transfer will not occur. And that will be done sale by sale.

MR. McGEHEE: It's approaching four o'clock, and we can do what if all day long. So let's try to make our questions substantive and also fundamental, and maybe we can get through some of these questions. David.

MR. HURLBUT: Yeah, David Hurlbut with Hohenberg Brothers. I really didn't have a question. I wanted to answer one of her questions. Basically I think we need to remember that this is a system that is going to handle many

people and many areas, and the question on banks, for example, one bank in town does it differently than the others in town. You can receipt it and get it in your office and do something with it.

If that bank so chooses to do it under this provider system, that's fine. But if they put a lock in there that says, I can't see it, I can't see it, like the other banks in town. Out in Texas they do it differently again. In California they do it differently again.

The point is providers are going to have to have some flexibility of saying, okay, if I'm going to deal with Dunavant, I do it this, here's what happens. If Allenberg decided they want to go through a bank here's what happens, and if I want to go through NBC, it's this choice. If I want to go through First Tennessee, it's this choice.

We have some choices in this, and the choices we make today, some of our producers are sending money direct -- excuse me, are sending receipts direct to us. Why? Because they have problems with banks, problems with timing, problems with economics. They take a risk.

Okay. They're going to do the same thing under this. They're going to look at what they got. What does the provider do, and you're going to make a decision based on economics, legalities, on ethics, on everything and choose how to handle this. Through what system and through what group and through what banks and through what producers and on down the line, you're going to make the decision. And if you don't like it, you go back to the paper receipt. That's all I've got to say.

MR. McGEHEE: Neal, these other people have been in line, let's let them comment first, please.

MS. NOBLE: I am Betty Noble and I'm from a small town bank. Where is my guy? I'm from Alabama and I only have two cotton merchants and I'm a servicing agent. How do you protect interest in EWR's? We file UCC's in the state of Alabama, counties in Georgia, counties in Arkansas, how do you perfect?

MR. MIKKELSEN: It is no different. We didn't -- there is no law that -- any lien laws for any state. So perfection of electronic warehouse receipts are the same as you would a paper as far as we are concerned.

MS. NOBLE: How about state, how about county?

MR. MIKKELSEN: You have to check the state lien laws about that. That's something I couldn't address. Go ahead.

MR. McQUISTON: I'm going to try to answer that question. I'm John McQuiston. I'm doing some of the legal work for EWR, Inc. With respect to the question about state law, the Federal Act that was passed in 1992 provides that if there is an electronic warehouse receipt system and it is authorized by the USDA and they have their own controls, hopefully they're good ones, and they authorize a system to determine who the holder is, and whatever the system says, it says National Bank of Commerce is the holder, then that supersedes both federal and state law.

The statute actually says any person designated as a holder of an electronic warehouse receipt authorized under this law shall for purposes of perfecting a security interest of the person under federal or state law shall be considered to be in possession of a warehouse receipt.

Now, as Dave Colby pointed out earlier, the way a bank perfects its lien on a cotton warehouse receipt is it takes physical possession of it or it has its correspondent bank do that. So if the code is put in the system and the warehouse receipt is transferred from XYZ Cotton Company to its bank, the bank is now the holder of the receipt and it has a perfected lien.

It's really a very simple system, and it overrides state law.

MS. NOBLE: I have one. Do you have to refile? Do you have to-

MR. McQUISTON: No, there is -- this is possessive system and under the Uniform Commercial Code possession of a warehouse receipt -- there is exceptions, and I don't want to get into it about farmers and so on -- but you do not have to file today to have a valid security interest in a warehouse receipt that you hand to Bill Butler.

MR. EUBANKS: I'm Les Eubanks and I'm with First National Bank in Lubbock, and I just, first of all, like to make a statement to Mr. Cox, I would like for you to call me up sometime and ask me what -- if I would be willing to loan you some money, and if you do, you want to know what the interest rate is, I probably would tell you, don't worry about it, it's negligible.

My question, and I would like to address it to each one of the providers here today, does your system -- do you envision your system allowing for back to back type transfers. In other words, we finance a mill FOB, country buyers out there, you envision your system allowing for Phil Buffalo to buy that cotton electronically and then in turn selling to Weil Brothers or Dunavant?

MR. COX: By the way, negligible is less than ten dollars. In terms of an efficient system, we believe that we will -- as cotton is being traded, that is, as a group of receipts are being traded, that we will identify them as a group and hold them in electronic memory. And if we know that there is going to be a subsequent transfer, obviously we would like to know that. And if there is, it makes it a little easier, but, you know, these computers -- I used to sell computers that took a whole Peabody hotel floor to hold, and computers today that would be the size of this podium have more power than those.

We really have an enormous amount of computer speed and power available to us. The reason I like to be able to group things together is we would like do a lot of double checking, recheck and check and check and check, and obviously if you know that one group of cotton being traded several times in succession as a group, we would want to tie on that this was traded here, traded here, traded there to make our -- sure, we do combinations.

MR. McGEHEE: Tom, would you like to add anything to that?

MR. SCOTT: No. I mean, the system will naturally have to do that. And I just might add that an adequate trail will be provided so that whatever sequence of events we will be easily able to track it.

MR. EUBANKS: So you're saying that it is not able to track it?

MR. SCOTT: Yes. The answer would be yes it will provide an adequate audit trail.

MR. McGEHEE: Neal.

MR. GILLEN: Looking in the back of the room, I see several bank representatives. I wonder if some of the major banks who are not on the program and are here would opine on this issue and their positions.

MR. McGEHEE: We would welcome any of them that would comment if they would like.

MS. HYLAND: I'm Barbara Hyland with Rabobank Nederland, before Rabo, Bank of New York. We do finance the cotton industry very actively, but also sugar, cocoa, various others, and in a number of these industries, those familiar with the metal industry, a lot of those receipts are done by electronic transfer. It's telexed confirmations and different warehouse entities holding the bales for us.

There have been questions in perfecting the security interest overseas, never domestically, but as far as claiming title, taking our inventory

and moving it, it has never been an issue.

I think banks are used to computer systems. Pieces of paper, again we use the Fed fund system. We have electronic letters of credit now. We know how to use the systems. We are very comfortable with them. I think it is an education process because of the amount of receipts that you have here versus a lot of metal or grain, but from what I have heard I think it sounds like a way the cotton industry has to go. I think a number of the questions that Mr. Weil raised also need to be addressed.

MR. McGEHEE: Any other bankers that would like to comment?

MR. WEST: Yeah, Dick West from ABN AmRo Bank in New York. I have pretty much the same observations as Barbara. Probably the main thing I would like to add here, principally what Mr. Weil said, both Senior and the Second, that I think one key thing is the role of these providers is really a clearinghouse similar to DTC, and as such, all the major banks in New York and throughout the area and right here in Memphis as well are going to be looking at the credit worthiness of these providers because they are coming in between.

I think we had a question earlier of how you resolve the typical sale of cash and stock that usually goes to Union Planters or National Bank of Commerce directly, obviously that would have to go through the clearinghouse. To work effectively it means if it works like DTC, the funds most likely and ultimately get transferred to the clearinghouse which simultaneously releases the collateral to the bank or the counter party and then pays the money to the parties selling. So you have this independent third party controlling it which is protecting both interests.

But to do that they are not only going to be controlling all the warehouse receipts, they will ultimately control significant amounts of cash. So I think the key thing is the financial size and strength of these counter parties, providers is very important.

I think another secondary issue that is very important that right now with the New York banks we don't obviously have the capacity to hold cotton warehouse receipts. So we rely on banks like Union Planters, National Bank of Commerce, and they assign to us collateral. Now, right now we are dealing with one bank for each client that is assigning collateral to us. Now, for what I hear here and a very negligible charge is, and that if we have the USDA mentioned earlier up to 24 providers, if we get 24 providers, which I would question if many of the banks would accept these people financially.

If you go the other way, if you have only one or two or three providers, you're talking about a substantial volume of cotton traded that I can say for ABN AmRo unless these people have significant net worth or backing, and I don't know if insurance alone is worthwhile, because our experience with insurance is whenever there is a big claim, it doesn't get paid, and it has nothing to do with whether it's triple A insurance company or single A. It's the size of the claim. The larger it is, the less you get paid and proceed through the courts in the years.

So I think those are really the two key issues, providers. I think one provider in my own personal opinion is something like DTC, it works because there is one provider. Yes, somebody mentioned about secondary people, your competitors, but they really aren't competitors. They're providers of special services. I mean, there could be at least one provider to a client.

I would look, if I'm financing Dunavant, for example, and he's selling to a local merchant, he might have to go out and release, for us, collateral to be released for one sale and go out to ten different providers to get it released. It strikes me that would be more paperwork than what we have now in many ways. So I think multi-providers if it's not a very limited number, and if not one, could be maybe more problems for the industry.

MR. McGEHEE: Thank you. There are a number of questions that Mr. Weil asked in his presentation, and quite honestly I don't know where we would get the answers today. But perhaps some of them are legal questions,

perhaps some of them are bankers questions. But one, for example, can an electronic warehouse receipt be made a bearer instrument? Now, who is qualified to answer that question? Provider? Or banker? Or the government man?

MR. MIKKELSEN: The system was -- electronic warehouse receipt system is set up as a bearer system. That designation holder is the bearer. They're one in the same. The dilemma coming to some of us who are people that understand other types of receipts are used in other commodity groups are that a lot of times there are order receipts, not bearer receipts. That presents a whole different problem. Holder is bearer is holder, legally under the statute.

MR. WEIL, SR.: Is the holder the designated buyer?

MR. MIKKELSEN: Designated buyer?

MR. WEIL, SR.: How do you know he's --

MR. MIKKELSEN: Yeah.

MR. WEIL, SR.: Designated buyer.

MR. MIKKELSEN: He's the holder, bearer, just like whoever holds the physical piece of paper.

MR. WEIL, SR.: According to the records does that receipt belong to a single cotton buyer? Is it in that -- is it owned by that cotton buyer either by name or by account number?

MR. MIKKELSEN: It's by name holder is entity.

MR. WEIL, SR.: If it's by name, it is not a bearer receipt. Bearer is bearer. John McQuiston, am I right?

MR. McQUISTON: I think the problem here is semantic because you're using the terminology that we have all used for years and years. The bearer terminology is really not particularly meaningful now. What bearer terminology meant was if I have an instrument, whether it's a negotiable warehouse receipt or a golden ingot, and I represent it to the bank, I can get credit for it if I present it to you for payment. What that means I'm looking to see whether I have got good title or not. It belongs to the bearer.

This system, the electronic receipt system, attempts to replicate that legally with the federal umbrella of law that says we are going to transfer instead of an actual paper document or an ingot of gold, we are going to transfer an electronic symbol. We are going to only have one person have it at a time.

If it gets transferred from Weil Brothers to Allenberg and then they sell it to somebody else or it's in the meantime financed with some bank it gets transferred just like the receipt, transferred from Allenberg to Weil Brothers, Weil Brothers transfers it to the bank. You look at a computer and it says who the holder is at any given time. So the result that's produced is the same as the bearer instrument. But the terminology is no longer appropriate.

MR. WEIL, SR.: I think, John, do you know what I mean when I mentioned the difference between a bearer bond and a bond made out to --

MR. McQUISTON: Absolutely.

MR. WEIL, SR.: It seems to me that the minute you have a name on something, you need that person's endorsement to transfer it. Bearer, the

bearer I think it means you can just take the document or warehouse receipt and hand it to somebody and transfer it and that's it. Whether it is paid for or not, that's it.

Now, I think that that's an important distinction. That's why I raised it. I don't think it is the same thing. I think --

MR. McQUISTON: I didn't say it was the same thing.

MR. WEIL, SR.: If it's in someone's account, then they have to endorse it just like you endorse a stock certificate. It goes from one person to another.

MR. McQUISTON: Well, I think to focus on the transfer process, Bobby, if we are -- if you want to transfer a particular document that requires endorsement like a check, and that's you have to write on the check and so on, maybe attach some other document to it. To transfer a bearer warehouse receipt, as you point out, all you have to do is physically hand it to someone. There still has to be a person who makes the decision to physically hand that receipt to the bank or to a customer and that transfer, instead of being done physically by Federal Express or by a messenger that runs down the street, is going to be done with an electronic symbol. And so that's the difference that we are talking about basically is the difference in terminology and concept. The legal result is the same.

MR. MIKKELSEN: The regulation statute reads: Holder is an individual or entity in possession in fact or operation or by operation of law of a receipt and by extension of the cotton represented thereby. Holders of electronic warehouse receipts will be entitled to the same rights and privileges as the holder of a warehouse receipt. Only the holder may transfer an electronic warehouse receipt to a new holder. So that perfection he's talking about that's through Federal Express is now going to be done electronically and only the holder can transfer it to a subsequent holder.

MR. BUTLER: The individual negotiable warehouse receipt has both the name of the first owner on it and bearer so there's no writing on the back by the first owner. If he sells it to me, he doesn't have to endorse the warehouse receipt.

MR. MALLORY: That's not required under this system.

MR. WEIL, II: Steve, I appreciate what you say about that, the problem is you got a lot of banks here, and most of the terms, I don't know what percentage of the cotton handled, but most firms in the cotton business borrow against collateral established by the bearer receipt, and if you change the nature of that receipt, you change the terms under which we as merchants can borrow, and that is our second concern.

Our first concern is safety and security of the system itself because we are putting our name in first and the bank is putting theirs in. But once we get past the safety and security aspects, whether or not these providers -- something goes wrong with them, we'll be made whole.

The second aspect is if Chase Manhattan Bank or Union Planters or whichever bank, AmRo Bank wants to lend us money, can they do it and perfect an interest in that cotton? I don't think that's been answered yet that. That is --

MR. MALLORY: They can. That's been answered. They can.

MR. McGEHEE: That's question number three on your father's list.

MR. WEIL, II: They can or can't?

MR. MIKKELSEN: Perfection is by possession.

MR. WEIL, II: Pardon?

MR. MIKKELSEN: Perfection is by possession.

MR. WEIL, II: Under the electronic warehouse receipt system who possesses the cotton? Does the bank possess it or does the merchant possess it? Who is the holder?

MR. MIKKELSEN: Either one of you can be designated, depends I would imagine on the agreements between the two of you. I'm sure there are probably some merchants that hold the receipts for the bank and there are some banks that hold the receipts for the merchant. So in either case.

MR. WEIL, II: Dave, is that the way it goes?

MR. COLBY: That's why we have to continue to counsel on this. Once this product comes to market, we will evaluate it and we will be happy to, and I probably can't answer.

MR. McQUISTON: Again, the holder is the person that is a licensed provider, not just any provider, not just anybody in the computer but somebody who has been authorized by the Department of Agriculture to work this system, says it can only be one holder at a time. And if the electronic provider, electronic warehouse receipt system provider authorized by the USDA says you're the holder, then you are the holder under federal law. And if it says that your bank is the holder, that system says that, then the bank is the holder, and that supersedes state and federal law.

And the whole point of that is so that you can finance with electronic warehouse receipts. Certainly the bank will have to be educated, but they will eventually understand this concept and will begin to finance based on turning on a computer and saying that Weil Brothers is the holder of 50,000 warehouse receipts that they just bought from somebody. And you can finance it that way. I don't really think there is going to be a problem.

I think right now what we have is an educational problem, and we have to educate some bankers that are out there. And whether National Bank of Commerce sees their big business opportunity is they're going to be an infinite number of small banks all over the South who will be calling them and saying, we are not comfortable with this system, we don't have a computer, you tell us if we've got collateral in Weil Brothers account and we can lend against it and they say they will, and there will be a fee for that.

But it all goes back to the fact that Congress has said that an authorized provider of this service will be the final word on who actually has -- who actually is a holder, and the holder is everybody and that's the ultimate -- that's the guy that owns it, he has the perfected lien or he's the owner.

MR. WEIL, SR.: John, I wish my other lawyer was here. You are a great lawyer, you never ask a question you don't always know the answer to. And our firm, long before I was born, Weil Brothers had a big case over in Georgia, and the essence of the case was was the warehouse receipt negotiable or non-negotiable. And Weil Brothers lost the case, and my father decided it would never happen to him again. And that is why he sent my older brother to law school and that's why he's a lawyer. I wish he were here today because I think he would give a different answer.

MR. McGEHEE: Two more of Mr. Weil's questions that I would like to address to the providers, number five and number six on his list, and they shouldn't require lengthy answers. Will the electronic warehouse receipt be subject to the same confidentiality as to the present documentary warehouse receipt? And number two, will anyone other than the owner of the bale at any time have access to information on the warehouse receipt?

MR. COX: My understanding is that ASCS will require us to maintain confidentiality, and I certainly would want that. Other than the regs say that the ASCS has the right to access the data at any time. So the only two individuals that can access the data is the holder or a duly authorized agent of Steve here.

MR. GILLEN: And someone who the holder authorizes to access.

MR. COX: Again, I see a lot of questions -- these questions about who can handle. I'm not entirely comfortable that we have fully as an industry -- in other words, I know what the regs say, but I think, Neal, the industry needs to kind of fill in between the lines as to who these agents are.

And that's why I'm very serious, folks, I think unless we come up with a little more infrastructure in terms of who is who and the relationship between people, that this is something that you have to define, not Dave Cox, not Joe, not Tom, that the cotton industry has to define, what these entities are and what their relationships are. And then you tell us, in addition to Steve telling us, how you want us to do that.

You two guys with me on that? But I'm very strong on that, and I think we are way too far along without having gone through those steps.

MR. McGEHEE: Well, there are several other questions Mr. Weil has on this. Number 18, what part does the provider play should there be a dispute between the owner and the lender or between two parties engaged in a transaction transferring title between them? Tom, would you like --

MR. SCOTT: Well, I don't know if I can completely answer that question, but I know that an adequate, complete audit trail will be made of every transaction that goes against that particular bale. So I mean, who will resolve the dispute is unknown, but at least we will have all the information, probably more information than you have today, about the history of that bale so it can be resolved.

MR. McGEHEE: Number 21, how promptly will a buyer know when a receipt is transferred into his account before releasing payment to the seller?

MR. SCOTT: With a computer system that is not designed, I can say just real fast, but it should be quick and Joe can tell you how quick it is done today, but I don't see -- I think you're going to have to allow for the peaks in the system. You know, the cotton season is going to be slow at one time and very busy at another time, and the computer system is going to have to allow for that.

MR. McGEHEE: How about the same where satisfaction of liens are involved?

MR. SCOTT: I'm sorry?

MR. McGEHEE: How about the same question where satisfaction of liens are involved, how quickly will that information be --

MR. COX: Same answer.

MR. SCOTT: Same answer.

MR. McGEHEE: Does anyone else have any questions they would like to address to the panel?

MR. WEIL, SR.: Let me give you a scenario and -- because this is something you're going to like to think about. The provider system is another layer in our relationships in moving cotton. And because it has that opportunity, it also has an opportunity for slippage. And I'm very --

declarations were made today about how fail-safe it's been, but all of us know that there have been slipups and bad slipups, not only by errors, but also by wrong things done with computers. Several of them recently were in the financial pages in big headlines. Computer fraud.

Let me give you a little scenario, and I'm not saying that this is the thing that's going to happen tomorrow. These are things that you have to think about before you go ahead. And this is the extreme.

Let's say that there is a cotton company that is in trouble, and they need a couple million dollars to tie them over, and let's say that that cotton company also happens to know that another cotton company is not going to be shipping cotton out of a certain warehouse for a couple, several weeks. And suppose they can find someone in the computer service that can be bought, and now we are talking about wrongdoings. So they go to the fellow in there and they say, we will pay you so much but we want you to transfer so much out of their account into our account. And because they're a cotton firm, when they present that cotton for shipment -- and there's nobody in the world knows that this company is in trouble, not even their banks know it yet.

And so that order is sent to the warehouse to be shipped and it is shipped out. So they get their two million dollars and they're shipping it somewhere off, and by the time that that happens and the people who are the rightful owners of the cotton go to do something with it, it's gone. They have been robbed. This is a conspiracy between a wrongdoer and someone, an insider.

This happens from time to time in the best of financial institutions. They get robbed. So the first thing to think of is how do you prevent this from happening. A. And B, if it happens, who is responsible? Whom do you look to? The fellow who did the wrongdoing is a -- we'll say is an employee of the provider, and you look to the provider for reimbursement. In that scenario it happened and it has happened.

But it makes you think, number one, how can you prevent it. You can't prevent it a thousand percent or none of these things would ever happen, and if it happens, who has the substance to make you whole again. I will leave you with that not to scare anybody, but to test what we are thinking about.

Now, having said this, I think an electronic warehouse receipt system can work. I'm not so dog gone sure it will work the way it's been outlined today, even though it has some successes and it's been tried. But when I think about industry-wide, I wonder. I think maybe there may be some more simplified ways of doing it. Plains has done it, and here it has been done in pilot projects, but the thing that I wonder is there are other avenues that we might work out that would avoid some of the problems and answer some of the questions that I have raised.

And I hope that in the months to come that we here in the industry, ASCS, National Cotton Council, the ones that are already in the provider business, banks, insurance companies, everyone, let's take another look and let's see if we can't figure out a better way or an easier way that will do the same thing and do it with less risk and which will answer some of the questions that I have raised.

I came here trying to learn, and the first thing you do when you try to learn is ask questions. And I have learned a lot today. I have been satisfied on some of these questions. But a lot of them I haven't been satisfied by, and I think that if I have a problem with it, I think all of us have a problem with it to some degree who have money in their business. And the degree is how much do you care. And having said that, I will leave it with you, and I appreciate your indulgence in listening. I thank you.

MR. McGEHEE: Thank you, Mr. Weil. Louis, did you have something you wanted to say?

MR. BAIONI: Mr. Weil, you asked the same question I asked, and I was told by Tom that the system will allow for when a merchant orders cotton to

be shipped that to make certain that it was that merchant who ordered the cotton to be shipped that there is a redial mechanism where the provider will dial back the shipper and say, now, is this your shipping order or did you mean to ship these bales, something to that effect. That's number one.

Number two, it's very difficult to protect yourself against fraud. We've got that same problem now. Someone could walk off with our warehouse receipts or you can have collusion with our data processing people. But the one thing that I was glad to hear though was the fact that they will have a redial system.

Number two, is that for once now by having all of your collateral on a computer, which is held by someone else, it allows you very simply every day really to reconcile your bales. You can reconcile first by total every morning. That's the first thing you can do. Do I agree with the provider. If you don't agree, then you can somehow or another be able to dump the data the provider has on to your system and find out what bales are out there.

Now, right now the only way we can verify our inventory with the bank is to send someone over there to count it. So I really think there are a lot of good pieces out there, but you are exactly right, there are a lot of questions yet to be answered. Thank you.

MR. McGEHEE: Thank you, Louis. Would anyone else like to make any comments? We are winding down. I think the one consensus that has come out of this meeting today is that there is a lot to be learned. I think there is a tremendous amount of study still to be done by the providers, by the bankers and especially by the merchants. And if there is one thing that's come out of this meeting today, I think that's the main thing.

We obviously don't have confidence in the regulations the way they are written now, and I would suggest that there be comments sent in. Let ASCS know exactly what your thoughts and ideas and recommendations are for changing and bringing the regulations in line with what you think they should be for your sake of the industry.

With that I will invite anyone else that has a comment or question. Walker.

MR. CLARKE: Walker Clarke from Columbia, South Carolina. Just the same question I think you are bringing up. We have learned quite a bit today from every segment of the industry that is involved from small merchants to large. What is the driving committee now that we need to address questions to, and are we going to get a summarization of the questions that were asked here today so that we can study them, look at them, give them to our bankers, insurance people and so forth? Where do we direct --

MR. McGEHEE: Walker, you will get a transcript of the meeting today. I'm sure that most of what has been said here will be on there. Some comments that she obviously didn't get because people were not at the microphone or something of that nature. But I think our main assistant will be -- the banks is the one that needs to take this, and if there needs to be some refining done, I think that's where it has to come from.

MR. CLARKE: So if any of us have questions, data systems.

MR. McGEHEE: That's what I think. John Ford is chairman of that committee and he's here today. Any other comments? I would like to thank everyone for being here. It's a better turnout than I had anticipated when I set this meeting up. I think it's been a tremendous educational experience for everyone. I would like to thank all of the members of the panel for taking their time. I know it's been an imposition, but I certainly appreciate everyone for coming.

(Meeting concluded at 4:30 p.m.)

COURT REPORTER'S CERTIFICATE STATE OF TENNESSEE
COUNTY OF SHELBY:

I, SHERYL G. WEATHERFORD, Reporter
and Notary Public, Shelby County, Tennessee,
CERTIFY:

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1. The foregoing proceedings were
taken before me at the time and place stated
in the foregoing styled cause with the
appearances as noted;

2. Being a Court Reporter, I then
reported the proceedings in Stenotype to the
best of my skill and ability, and the
foregoing pages contain a full, true and
correct transcript of my said Stenotype notes
then and there taken;

3. I am not in the employ of and am
not related to any of the parties or their
counsel, and I have no interest in the matter
involved.

WITNESS MY SIGNATURE, this, the _____ day of _____, 1994.

SHERYL G. WEATHERFORD
Registered Professional
Reporter, Notary
Public for the State of
Tennessee at Large *** My commission
expires:
June 23, 1997