

Panel OKs market for movie bets; studios want ban

April 17 2010, By RYAN NAKASHIMA , AP Business Writer

(AP) -- U.S. regulators on Friday approved the creation of a futures market for trading in forecast box-office receipts, but major Hollywood studios immediately trumpeted a bill that would ban it.

The U.S. Commodity Futures Trading Commission approved the creation of the Trend Exchange, a forum that would allow [movie industry](#) participants and speculators to trade on predicted movie revenues.

The exchange still requires the commission's approval of specific contracts, which would essentially act as presales of ticket revenue. A decision on the contracts is due June 7.

Hollywood is trying to short-circuit that decision, and on Friday called the exchange "an online [gaming platform](#) that could be easily manipulated."

Also Friday, the lobbying arm for the major studios said U.S. Sen. Blanche Lincoln, D-Ark., had included language in a major financial reform bill that would ban futures trading based on movie receipts.

The bill would also prevent a bailout of Wall Street firms who engage in risky derivatives trading and is set to be debated in a committee next week.

The ban was backed by the [Motion Picture Association of America](#), the

National Association of Theatre Owners, the Directors Guild of America and the Independent Film & Television Alliance.

Veriana Ventures, which proposed the Trend Exchange, said it would press on despite the industry opposition, arguing that smaller studios could benefit because potential film financiers might invest more in movies if they had a mechanism to offset risk.

"How can an exchange that helps create liquidity be criticized when it really helps bring new dollars to an already struggling economic situation?" Veriana CEO Rob Swagger said on a conference call with reporters.

Veriana stands to benefit by charging fees for trades and for managing the exchange.

The commodity futures commission is also reviewing a proposal to create a second market called Cantor Exchange. That one would have lower investment requirements than Trend Exchange, making it more likely for movie fans and other amateurs to participate.

A ruling on the Cantor proposal, backed by Cantor Fitzgerald LP, is expected next week.

The two online trading forums would be similar to futures markets common for commodities such as corn and pork bellies. Although goods are rarely exchanged directly through such markets, they let sellers reduce risks by locking in prices ahead of time. Buyers are hoping to benefit from a rise in prices, or in the case of [movies](#), that receipts are better than expected.

Backers of the box-office exchanges say those markets would help Hollywood manage risk in a notoriously hit-or-miss business.

Investors would be able to hedge against potential flops by preselling a share of future box office receipts. The exchanges could even guard against likely hits, such as the upcoming "Harry Potter" and "Twilight" sequels, falling short of projections. If a movie doesn't do as well as expected, investors would at least be guaranteed revenue from those presales, known as futures contracts.

One member of the futures commission, Bart Chilton, said he "reluctantly" approved the Trend Exchange because it fulfilled the requirements of the law, and a deadline for approval had arrived. However, he said he still had "significant concerns" about whether such markets could effectively help offset risk and avoid manipulation.

"At this point in time, I have not heard any arguments to persuade me that 'movie futures' generally can overcome some fundamental design flaws," Chilton said in a statement.

Commissioners Scott O'Malia and Jill Sommers said in a joint statement they had "serious concerns" about box-office futures and "support a very thorough review."

A House subcommittee on farm commodities and risk management has scheduled a hearing for Thursday on the movie futures contracts.

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