

**GOVERNMENT OF INDIA  
CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION  
LOK SABHA**

UNSTARRED QUESTION NO:2027

ANSWERED ON:08.03.2011

BAN ON FORWARD TRADING

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**Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:**

- (a) the benefits accruing from forward trading,
- (b) whether the Government has received suggestions/requests to discontinue forward trading to check prices;
- (c) if so, the details thereof and the reaction of the Government thereto;
- (d) whether the Government proposes to make any changes in the forward trading system to check speculation and manipulation,
- (e) if so, the details thereof; and
- (f) the cases of Violation of Forward Contracts (Regulation) Act, 1952 reported during each of the last three years alongwith the action taken in each case?

**Answer**

MINISTER OF THE STATE (INDEPENDENT CHARGE) IN THE MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K. V. THOMAS)

(a): In a free market economy, futures trading performs two important economic functions, viz., price discovery and price risk management. Some benefits of forward trading in operational terms based on these twin functions are listed as below:

(i) It allows democratization of decision making in a market by allowing participation of stakeholders from all segments of the market from the producers to the consumers and a host of intermediaries by looking at prices of alternatives and/or by simultaneous participation in the market for those commodities as well.

(ii) It is useful for the farmers as they could see the likely prices at a future date in the current season coinciding with the respective harvest times of the crops and can decide upon their crop- mix for a particular season compared with their past decision making process based on last received prices (which may not hold true for futures).

(iii) Exporters can quote realistic prices for potential exports referencing the futures market prices and thereby secure export contracts in the competitive global markets. It also enables the consumers including processors of the commodity get an idea of the price at which the commodity would be at a future point of time and can decide on their consumption / manufacturing pattern.

(iv) It leads to price stabilization in traded commodities as the amplitude of price variation is reduced.

(v) It helps in creating integrated price structure throughout the country, thereby facilitating price risk management in the lengthy and complex production and manufacturing activities;

(vi) The commodity futures trading helps in refining and strengthening the database, especially for the agricultural sector, which would bring in reliable estimates and forecasts to help strengthen the process of planning and policy making.

(vii) The online trading on the exchanges also helps in constant monitoring of the dynamic external environment including global environment, emanating price signals from the market, and disseminating the same to the participants in the commodity market ecosystem on a real-time basis. The futures trading platform also acts as an alternative platform for the farmers to reach the markets rather than following the age-old, multi-layered marketing channels.

(viii) In particular, readily available price references can benefit farmers who are otherwise disconnected from the market and vulnerable to receiving sub-optimal prices from the better-informed and better organized intermediaries. Information disseminated by the exchanges can therefore reduce information asymmetry vis-a-vis the intermediaries thereby empowering commodity-sector participants including farmers to take better decisions in the light of a more accurate understanding of market conditions and price trends and improve their bargaining power to realize a better price.

(b): Yes Madam, The Government has received a number of requests from time to time to discontinue forward trading to check prices.

(c): During the year 2010, the Government received complaints from sugar traders and sugar associations (Bombay Sugar Merchants Association Ltd) to ban forward trading in sugar and from tyre manufacturers (Automotive Tyre Manufacturers Association) for banning futures trading in rubber. These requests were duly considered on the basis of information submitted by the representatives and detailed analysis of the market fundamentals of supply-demand and trading and price data of the commodities and it was found that there was no correlation between price rise and futures trading. As a matter of fact, the complaint against futures trading in sugar was received when prices had fallen by 25 to 30%. Often it was observed that such complaints are made by trade associations who perceived the transparent price discovery happening on a neutral third party platform like a commodity exchange as detrimental to their ability to set the prices.

Even otherwise also, 2 studies by the Abhijit Sen committee (2008) and Reserve Bank of India (2010) have found no causal relationship between futures trading and inflation in essential commodities. Inflation is the result of rising demand vis-a-vis structural and seasonal supply constraints.

(d) & (e): Government proposes to strengthen regulation of commodity forward market for which Forward Contracts Regulations (Amendments) Bill, 2010 has been introduced in the Lok Sabha. The Bill inter alia, provides for (i) `broadening the scope of forward contract; (ii) strengthening the Forward Markets Commission by making it autonomous; (iii) to enable the Commission to levy fees; (iv) provide for stringent penalties; (v) make provisions for registration and regulations of intermediaries; (vi) make provisions for investigation and enforcement; and (vii) provide for appellate mechanism.

(f): A total of 27 cases were reported for violation of Forward Contracts (Regulation) Act, 1952 (illegal trading) during last years and the action taken is as indicated below.

Year 2008-09 - 09

Year 2009-10 - 03

Year 2010-11 - 15

#### Action Taken

15 complaints were referred to the concerned state police authorities under Rule 13 of the Forward Contracts (Regulation) Rules, 1954 for taking action under Section 22A of the Forward Contracts (Regulation) Act, 1952.

# FMC has recommended prosecution in 03 cases under Section 20 and 21 of the FCRA, 1952 out of six cases referred to the FMC by the Police. Scrutiny of documents in respect of the other 3 cases is in progress.

# In 4 cases, the members were suspended by the FMC under Section 12B of the FCRA, 1952 and in another case, the concerned 2 clients were debarred from trading. One member and two clients out of them have challenged the action before the High Court and the matter is sub-judice. Out of the 4 suspended members, one member has finally been expelled from the Exchanges