

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

UNSTARRED QUESTION NO:4414
ANSWERED ON:30.08.2011
ONLINE TRADING
Lal Shri Kirodi

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

- (a) the details of the commodity exchanges in operation in the country alongwith the manner in which they control the future trading;
- (b) whether the Government proposes to widen the ambit of online trading by including new items in it;
- (c) if so, the details thereof indicating the items currently under online trading and those proposed to be included therein;
- (d) whether essential commodities are also included/proposed to be included in online trading;
- (e) if so, the details thereof and the reasons therefor; and
- (f) the steps taken to check the adverse impact of online trading on availability and price of essential commodities?

Answer

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

(a) : There are five recognized National Level Commodity Exchanges and 16 Regional Commodity Exchanges in the country. The details of these exchanges are given in Annexure-I.

The control of futures trading is done through three tiers of regulation in commodity futures market, viz., The Central Government, the Forward Markets Commission (FMC) and the Recognised Commodity Exchanges/ Associations. The system of regulation of the commodity futures markets contributes to the overall objectives of ensuring an efficient price discovery, protection against price-risk to the stakeholders and promoting confidence in the market. The Central Government broadly determines the policy as to the commodities in which futures/forward trading is to be permitted and the grant of recognition to Exchanges/ Association through whom such trading is to be permitted. The Forward Markets Commission performs the role of prescribing the regulatory measures, approving the Rules and Regulations of the Exchange subject to which the trading is to be conducted, giving permission for commencement of trading in different contracts, monitoring market conditions continuously and taking preemptive or remedial measures against potential or actual market manipulation, excessive speculation or any other type of market abuse. The Recognised Exchanges/ Associations facilitate, supervise and regulate the day to day trading as per the provisions of the Rules and Regulations approved by the FMC and function as Self Regulatory Organizations (SROs).

(b) & (c): As of now, there are no restrictions on permitting futures trading in new commodities except in tur, urad and rice, which are suspended. As per the existing practice, on receiving demand from different sections of the market for launching futures trading in a new commodity, the commodity exchanges make an assessment of the need and demand for the contracts in new commodity, conduct feasibility study and approach the Commission for permission. On detailed examination of the proposal and the feasibility report, the Commission grants approval for the launch of these contracts. The details of the commodities that are presently traded on the futures exchanges are given in Annexure – II

(d) & (e): The essential commodities which are currently traded on the futures exchanges are Wheat, Chana, Barley, Potato, Mustard Seed, Refined Soya Oil, Soyabean, Refined Mustard Oil, Gur, Coconut oil, Crude Palm Oil and Sugar. There is no proposal to enlarge this list of essential commodities.

(f) : The futures trading in commodities on commodity exchanges does not have any adverse impact on the availability and prices. Futures trading only provides a platform for price discovery and price risk management. With a view to ensure that the trading in futures market does not have any impact of distorting the prices in relation to the fundamental factors of demand and supply, the Forward Markets Commission has put in place a robust system of monitoring and surveillance of the market. Stringent regulatory measures are also imposed to avoid monopolistic or oligopolistic conditions in the market. The regulator also ensures that there is no excessive speculation or manipulation of prices or abnormal price volatility, by imposing various regulatory measures. Some of the specific regulatory measures imposed by the FMC are as follows:

a) By imposing limits on speculative open position;

b) Putting in place daily price fluctuation limit bands and circuit filters; and

c) Prescribing compulsory delivery for agricultural contracts.

In addition, the regulator (FMC) has prescribed reporting requirements in the form of daily reports from the Exchanges and intervenes as needed with steps like imposing special margins to check excessive speculation and price volatility.