

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

UNSTARRED QUESTION NO:5405
ANSWERED ON:06.09.2011
FORWARD CONTRACTS ACT
Pal Shri Jagdambika

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

(a) whether the Government proposes to change/amend the existing Forward Contracts (Regulation) Act, 1952 to allow options in trading; and

(b) if so, the details thereof and the benefits likely to accrue to the farmers therefrom?

Answer

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

(a): Yes, Madam.

(b): The Forward Contracts (Regulation) Amendment Bill, 2010 has been introduced in the Lok Sabha on 6.12.2010 which is currently being examined by the Parliamentary Standing Committee for the Department of Consumer Affairs. The proposed amendment inter-alia seeks to introduce `Options` in goods. This will provide farmers with a risk management tool which is more suitable for farmers who are not into trading on a daily basis. In `Options`, farmers are not required to monitor the futures prices on a day-to-day basis, nor do they have to keep paying or receiving daily margin differences to / from exchanges, till the contract is settled. If the price falls below the `strike` price (the price at which farmer wants to sell his goods), he will merely lose the premium amount paid by the farmer at the time of entering into the option agreement, but if the price rises above the strike price, farmer will be able to derive the benefit of higher price. Thus his loss is limited to the premium amount, but the profit can be unlimited, depending on increase in price