

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

UNSTARRED QUESTION NO:82
ANSWERED ON:13.03.2012
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 amend the existing Forward Contracts (Regulation) Act, 1952 to allow options in trading;
- (b) if so, the details thereof; and
- (c) the present status of the proposed amendment?

Answer

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

(a) & (b): Yes Madam. The Government has introduced the Forward Contracts Regulations (Amendments) Bill, 2010 in the Lok Sabha on 6.12.2010 to amend the Forward Contracts (Regulation) Act, 1952, which inter alia, seeks to provide options trading in commodities. An options contract provides an option to a producer/stockiest/importer to sell or not to sell his commodity if the subsequent price movement is upwards. In other words, if the prices move down, he can exercise his option and sell his goods to the options underwriter (counter party who has transferred the risk to himself) at the agreed price but retains the right not to sell by foregoing the option premium if price movement is favorable to him. In that situation, he can sell his goods in the open market at higher price. Thus, the options contract will help a farmer to protect his down side without foregoing the benefit of the potential upside where as in futures contract, the farmer has to sell the goods at the agreed price. Thus, options contract is a superior instrument for price risk management as far as the farmer is concerned.

(c): The Parliamentary Standing Committee on Food, Consumer Affairs and Public Distribution after examination has submitted its Fifteenth Report on The Forward Contracts (Regulation) Amendment Bill, 2010 on 22.12.2011. The same is under examination in the Department.