

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

UNSTARRED QUESTION NO:799

ANSWERED ON:14.08.2012

FUTURES TRADING

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

- (a) whether there are reports of futures trading in food items contributing to price rise in commodities including wheat;
- (b) if so, the details thereof;
- (c) whether the Government has received suggestions from various quarters regarding ban on futures trading in food items;
- (d) if so, the details thereof along with the reaction of the Government thereto including setting up of an Expert Committee to examine the need to ban futures trading in food items; and
- (e) the steps taken by the Forward Markets Commission (FMC) to regulate and bring about transparency in the commodity futures market?

Answer

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

(a) & (b): Information is being collected.

(c) & (d): The Government has received suggestions that futures trading in food items should be banned on the ground that it contributes to price rise. These have been made by various trade associations such as Pulses and Grain Association, Sugar Merchants Association etc. but have not been substantiated with data. According to available information there is no clear evidence that rise in food prices in India has been due to forward trading. An Expert Committee chaired by Shri Abhijit Sen, Member of the Planning Commission that analyzed annual trend of growth rate in prices of sensitive commodities (food grains and sugar) in pre-futures and post futures period, concluded that although inflation clearly increased post-futures in some sensitive commodities that have higher weight in consumer price indices, it is not possible to make any general claim that inflation accelerated more in commodities with futures trading.

Other factors, particularly demand supply mismatches, degree of dependence on imports and international prices in these commodities etc. also tend to affect commodity prices.

There is no proposal to set up an expert committee to examine the need to ban futures trading in food items.

(e): The futures trading on Commodity Exchange Platforms are closely monitored by the FMC. In order to improve transparency in the commodity futures market, the measures taken by FMC include inter-alia scrutiny of volume to open interest ratios, display of the information pertaining to the life cycle of the contracts on the website of the Exchange on a fortnightly basis, in order to make the market participants aware of the trading practices review of contracts, for better alignment with the physical markets etc. The FMC has also undertaken several measures such as imposition of deterrent penalties for misuse of client code modification facility and for executing trades without uploading unique client codes, compulsory audit of all members once in three years, quarterly settlement of client accounts, SMS and Email alerts to investors/clients by Exchanges, common Know Your Client (KYC) across Exchanges, Jago Grahak Jago campaign for investor education, installation of price ticker boards for price dissemination and disclosure of information regarding percentage of proprietary trade and client trade done on the trading platforms of the Exchanges.