

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

UNSTARRED QUESTION NO:4123
ANSWERED ON:18.12.2012
INVESTMENT IN FUTURES TRADING
Das Shri Ram Sundar;Karwariya Shri Kapil Muni

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

- (a) whether the Government proposes to allow domestic and foreign institutionalised investment in commodity futures trading,
- (b) if so, the details thereof,
- (c) whether the Government proposes to amend the relevant laws in this regard;
- (d) if so, the details thereof; and
- (e) the benefits likely to accrue to the common man therefrom?

Answer

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

(a) & (b) : At present under the Forward Contracts (Regulation) Act, 1952, there is no restriction on participation by local and foreign institutional investors in commodity futures trading. However, the Department of Industrial Policy and Promotion has laid down the policy on foreign direct investment (FDI) and foreign institutional investment (FII) in commodity exchanges. Foreign investment is permitted under a composite (FDI & FII) cap of 49%, under the Government approval route-i.e. through the Foreign Investment Promotion Board (FIPB). Within this overall limit of 49%, investment by Registered FII, under the Portfolio Investment Scheme (PIS) is limited to 23% and investment under the FDI Scheme is limited to 26%. As regards participation by institutions such as banks, insurance companies, pension funds, etc. is concerned, there is no restrictive provision on their participation in the Forward Contracts (Regulation) Act, 1952. All such entities however need to be permitted by their respective regulators under relevant laws.

(c) & (d): The Government proposes to amend the Forward Contract (Regulation) Act, 1952 to inter-alia provide for registration of foreign intermediaries/participants in commodity derivatives market. The proposed amendment also provides for suspension and cancellation of registration by the Regulator, FMC.

(e): The functions of futures market are price discovery and price risk management. The participation of Banks and Mutual Funds and Foreign Institutional Investors would bring the necessary breadth and depth to enable the corporate entities to hedge their price risk in Indian commodity markets. These entities may also bring in larger participation from professionals, which would improve the quality of these markets. Banks themselves will be able to hedge their price risks arising out of their exposure to commodity traders and processors as a lender. Their active participation may also promote greater credit flow to farmers.