

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

STARRED QUESTION NO:306

ANSWERED ON:19.03.2013

FUTURES MARKET

Rajendran Shri C.;Thomas Shri P. T.

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

- (a) the details of the mechanism in place to ensure transparency in operations and check restrictive trade practices in futures market;
- (b) whether there are any reports of alleged cartelisation and manipulation in the 132 futures market particularly in agricultural commodities including pepper,
- (c) if so, the details thereof and the reaction of the Government thereto along with the action/stand taken by the Government/Forward Markets Commission thereon,
- (d) the steps taken to check such cases of cartelisation and manipulation in the futures market and make it more responsive and beneficial to the farmers; and
- (e) whether the Government has taken or proposes to take any steps to ensure that the consumers are not adversely affected by the fluctuations/manipulations in the futures market and if so, the details thereof?

**Answer**

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

(a) to (e): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO REPLY TO PARTS (a) TO (e) OF LOK SABHA STARRED QUESTION NO. 306 FOR 19.3.2013 REGARDING FUTURES MARKET.

(a) : The futures trading on National Commodity Exchanges, which have been set up as demutualised, online trading exchanges, is closely monitored by the Forward Market Commission (FMC), the Commodity Regulator. In order to improve transparency in the commodity futures market, several initiatives have been taken by FMC. The Exchanges have been directed to take steps to improve hedging, to display the information on their website on a fortnightly basis pertaining to the life cycle of the contracts, imposition of deterrent penalties for misuse of client code modification facility/executing trades without uploading unique client codes, open position limits for members and clients, clubbing of open positions of entities acting in concert, compulsory audit of all members once in three years, quarterly settlement of client accounts, SMS and Email alerts to investors/clients by Exchanges, common KYC across Exchanges, installation of price ticker boards for price dissemination and disclosure of information regarding percentage of proprietary trade, client trade and Algo trade done on the trading platforms of the Exchanges. FMC has also prescribed stringent penalties for abusive trade practices.

(b) & (c) : FMC has not received any specific report on cartelization and manipulation in commodity futures market. However, a few complaints alleging cartelization including poor quality of pepper at NCDEX accredited warehouses in Kochi had been received in November 2012. The FMC directed the exchange to investigate the matter and the latter found that certain clients were acting in concert in pepper contracts and based on the clubbing guidelines issued by FMC, clubbed their positions. The Exchange also issued letters seeking explanation from the members through whom the aforesaid clients were holding positions and had received deliveries in Pepper contracts. The FMC has also directed the exchanges not to launch any pepper contracts without the prior approval of FMC as the quality specifications for the deliverable quality of pepper are under review.

(d) : To make the guidelines for clubbing of open position of parties acting in concert more effective, the FMC issued revised guidelines on 10.1.2012 providing greater flexibility to the Exchanges. The Exchanges have since taken effective action and clubbed the open positions of many entities found to be acting in concert on the exchanges platform.

The price dissemination project implemented by the FMC, disseminates the prices discovered on the five national exchanges platforms on a real time basis and makes it available to all stake holders in the agricultural supply chain, especially farmers, to enable them to take rational and informed decisions about sowing and marketing. Under this project, 1847 price ticker boards have been installed. FMC also organizes awareness programmes for various stakeholders including farmers. As on 31.1.2013, a total of 3195 awareness programmes have been conducted, out of which 1990 programmes were for the farmers.

(e) : FMC uses several regulatory tools in order to ensure that the futures markets are not subjected to over-speculation and to ensure

achievement of the intended purpose of price risk management and price discovery. FMC keeps a close watch on the price trends of all the commodities traded on the commodity futures exchanges and takes measures such as imposition of special margins, additional margins, increasing initial margin, pre-expiry margin and change in position limits etc. to intervene in the market as required. Recently, FMC has taken a number of measures to check excessive speculation that impacts price volatility like introduction of staggered delivery system, disallowing contracts in the lean season, reduction of Final Expiry Date (FED) of some commodities, scrutiny of volume to open interest ratio, doubling of initial margin of seven commodities etc. FMC has also undertaken the exercise of comprehensive review of futures contract design to align the futures market with physical market practices. all these measures are expected to protect the interest of the stakeholders including consumers.