GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:412
ANSWERED ON:04.05.2012
PERFORMANCE OF DERIVATIVE CONTRACTS
Shekhar Shri Neeraj;Singh Shri Yashvir

Will the Minister of FINANCE be pleased to state:

(a) the existing framework for regulating derivative transactions in the country;

(b) whether the Securities and Exchange Board of India (SEBI) is contemplating to issue new guidelines to improve performance of derivative contracts and if so, the details thereof;

(c) whether the performance of derivative trade has not been found satisfactory during the last three years and if so, the details thereof and the reasons therefor; and

(d) the details of steps Government propose to take to streamline the irregularities going on in derivative trade in the country?

Answer

MINISTER OF THE MINISTRY OF FINANCE (SHRI PRANAB MUKHERJEE)

(a) to (d): A statement is placed on the table of the House.

Statement referred to in reply to Parts (a) to (d) of the Lok Sabha Question No. 412 by Shri Neeraj Shekhar & Shri Yashvir Singh regarding Performance Of Derivative Contracts due for answer on 04.05.2011

(a) The framework for regulating derivative transactions is provided in the various Acts of Government of India such as Securities Contracts (Regulation) Act, 1956, Reserve Bank of India Act, 1934, Forward Contracts (Regulation) Act 1952 and related Rules, Regulations, Guidelines, Circulars etc. Exchange traded equity derivatives market is regulated by Securities and Exchange Board of India (SEBI) while the Forward Markets Commission (FMC) regulates the exchange traded commodity derivatives market in India. Reserve Bank of India (RBI) as well as SEBI jointly regulate the exchange traded foreign currency and interest rate futures. The foreign currency, interest rate and credit derivatives traded in the over the counter (OTC) market is under the jurisdiction of RBI and is permitted as long as at least one of the parties in the transaction is regulated by RBI.

(b) With a view to revive and deepen the IRF market, SEBI, vide its Circular dated December 30, 2011 issued new guidelines for Futures on 2-year and 5-year Government securities. In addition, RBI has constituted a separate working group in December 2011 for "Enhancing Liquidity in G-Sec and Interest Rate Derivatives Market". Further, SEBI, vide its circular dated June 02, 2011, had also issued guidelines for introducing liquidity enhancement schemes for illiquid securities in equity derivatives segment.

(c) Global derivative industry is dominated by equity, interest rate, currency and commodity derivative contracts. In some of the segments, India's performance has been more than satisfactory. National Stock Exchange of India Ltd (NSE) occupies 5th position in terms of notional turnover and 2nd position in terms of total volume among derivatives exchanges, globally. In 2011, the total volume of U.S. dollar/Indian rupee futures traded on Indian exchanges was equivalent to almost a fifth of the Asia-Pacific region's total volume for the year. Further the growth rate of commodity and equity derivatives volumes in India is one of the highest in the world. However, exchange traded Interest Rate Futures (IRF) market has not picked up in India mainly because of illiquid underlying Government Securities market.

(d) In the last decade or so, India has been able to establish a strong regulatory architecture. The regulatory contours, including those for the derivative markets is a dynamic one and are constantly reviewed. Regulators, from time to time, have been issuing necessary guidelines and circulars to regulate and develop the derivatives market in India. Regulators have prescribed comprehensive risk management measures for the market comprising of margin system, capital adequacy, exposure and turnover limits, on-line position monitoring and automatic disablement, etc.