GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1383
ANSWERED ON:13.12.2013
ONLINE TRADING
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has any proposal to control online trading in commodities and if so. the details thereof;

(b) the details of the commodity exchanges in operation in the country along with the manner in which they control the future trading;

(c) whether essential commodities are also included/proposed to be included in online trading and if so, the details thereof and the reasons therefor; and

(d) the steps being taken by the Government to check the adverse impact of online trading on availability and price of essential commodities?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI NAMO NARAIN MEENA)

(a) and (b): The Forward Markets Commission(FMC) regulates futures trading in commodities notified under the provisions of the Forward Contracts (Regulation) Act, 1952 (FCRA). Futures` trading in commodities is conducted on online trading platforms of the National Exchanges. There are six recognized National Level Commodity Exchanges and 11 Regional Commodity Exchanges in the country. As of now, 113 commodities are permitted to be traded on the Commodity Exchanges. The details of these exchanges are enclosed at Annexure-I.

c): Some of the essential commodities like edible oilseeds and oil, petroleum and petroleum products, raw jute and jute textiles, etc. are notified under section 15 of the FCRA, 1952. The list of commodities notified under section 15 of the FCRA, 1952 for futures trading is enclosed at Annexure-II. There is no proposal to include additional commodities for futures trading at present.

d): Futures trading only provides a platform for price discovery and price risk management. With a view to ensuring that the trading in futures market does not have any impact of distorting the prices in relation to the fundamental factors of demand and supply, the Forward Markets Commission has put in place a robust system of monitoring and surveillance of the market. Some of the regulatory measures taken by FMC are as follows:

i). Limits on speculative open position: Limits on speculative open positions are imposed by the regulator in such a manner that no single individual/ entities (clients) or group of individuals/entities, acting in concert, would be able to corner the market or influence the price discovery process. As a measure of abundant precaution, limits on speculative open interest are also imposed on the aggregate position of the members and of clients.

ii). Daily price fluctuation limit bands and circuit filters - Daily Price fluctuation limits and circuit filters are imposed to moderate the market sentiments moving the prices beyond the levels warranted by the market fundamentals.

iii).Compulsory delivery for agricultural contracts - Compulsory delivery is prescribed for most agricultural contracts, so as to encourage participation of physical market players to hedge their price-risk. This keeps in check the potential of distortion in prices likely to be caused by other participants in futures market.

iv). Margins: In addition to initial margins, special margin/additional margins are collected on outstanding purchases or sales to curb excessive speculative activity through financial restraints. The special margins / additional margins are imposed on buyers and/or sellers depending on the direction of price movement;

In addition to the above, the FMC has taken several initiatives to contain abnormal price volatility such as not permitting lean season contracts when supplies are restricted, closure of markets on Saturdays for non agricultural contracts etc.