GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5121
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ONLINE TRADING OF AGRICULTURAL COMMODITIES
Chaudhary Shri C.R.

Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to impose control on online trading of agricultural commodities in the country;

(b) if so, the details thereof along with the commodity exchanges functioning in the country including Rajasthan and the manner in which these exchanges control future trading;

(c) whether essential commodities of daily use are also included in online trading or are proposed to be included;

(d) if so, the details thereof along with the reasons therefor; and

(e) the preventive steps being taken by the Government to curb the adverse effects of online trading on the availability and cost of essential goods?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JAYANT SINHA)

(a) & (b): The Forward Markets Commission regulates futures trading in commodities notified under the provisions of the Forward Contracts (Regulation) Act, 1952 (FCRA). Futures trading in agricultural and non-agricultural commodities is conducted on online trading platforms of the national exchanges. There are six recognized national level commodity exchanges and six regional commodity exchanges. The national commodity exchanges have online trading platforms. As of now 113 commodities are permitted to be traded on the commodity exchanges. The details of these exchanges are enclosed at Annexure-I.

2. There are three tiers of regulation for forward trading in commodity futures market, viz., The Central Government, the Forward Markets Commission (FMC) and the recognised commodity exchanges/ associations. The system of regulation of the commodity futures markets contributes to the overall objectives of ensuring an efficient price discovery, protection against price-risk to the stakeholders and promoting confidence in the market. The Central Government determines the policy as to the commodities in which futures/forward trading is to be permitted and the grant of recognition to exchanges/ Association through whom such trading is to be permitted. The Forward Markets Commission performs the role of prescribing the regulatory measures, approving the Bye-laws, and Regulations of the Exchange subject to which the trading is to be conducted, giving permission for commencement of trading in different contracts, monitoring market conditions continuously and taking pre-emptive or remedial measures against potential or actual market manipulation, excessive speculation or any other type of market abuse. The recognised exchanges / associations facilitate, supervise and regulate the day to day trading as per the provisions of the Bye-laws, Rules and Regulations and function as Self - Regulatory Organizations (SROs).

(c) & (d): 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.

(e): Futures trading only provides a platform for price discovery and price risk management. The futures prices are discovered through a transparent mechanism based on anticipated demand and supply. 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. The regulator also ensures that there is no excessive speculation or manipulation of prices or abnormal price volatility, by imposing various regulatory measures. Some of the regulatory measures taken by FMC are as follows:

a) 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.

b) 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.

c) 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.

d) 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, introduction of a staggered delivery system to provide a longer delivery window to sellers, lower margins for early deposits of commodities etc. The FMC has also approved trading in delivery-based forward contracts on the Exchange platform. This has facilitated participation of physical market players and much better price discovery in futures market through reducing the cost of intermediation and enhancing efficiency in the supply chain. The FMC permitted evening trade in 10 agricultural commodities contracts which have international dimensions. This has helped the physical market players to hedge their price risks better in the evening hours as price movement in the international markets have strong co-relation with the domestic market prices.