GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1972
ANSWERED ON:31.07.2015
Merging of FMC and SEBI
Nath Shri Chand;Raj Dr. Udit

Will the Minister of FINANCE be pleased to state:

(a) whether the Government constituted a committee relating to financial market regulatory space, if so, the details thereof and the recommendations made by the said committee;

(b) whether the Government propose to merge Forward Market Commission (FMC) into SEBI in line with recommendation of the aforesaid committee;

(c) if so, the details thereof and the reasons therefor;

(d) the steps taken by the Government to safeguard the interest of staff in such merger;

(e) whether the Forward Market Commission has made any assessment regarding volatility in agri-based business derivative trading; and

(f) if so, the details thereof and the steps taken by FMC to reduce the volatility in the agri-business derivative trading?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)
(a): Government constituted a Financial Sector Legislative Reforms Commission (FSLRC) in March 2011 for providing inputs to financial sector regulatory architecture. The FSLRC submitted its Report to the Government on March 22, 2013.

The FSLRC has provided inputs to the legislative framework of the financial sector regulatory architecture on the basis of a non-sectoral, principle-based approach and has recommended restructuring existing regulatory agencies and creating new agencies wherever needed. The Commission has inter alia proposed the following seven agency financial regulatory architecture:-

i. The existing Reserve Bank of India (RBI) will formulate and implement monetary policy, and enforce consumer protection and micro-prudential provisions of the draft Code in the fields of banking and payment systems.

ii. The existing Securities and Exchange Board of India (SEBI), Forward Markets Commission (FMC), Insurance Regulatory and Development Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA) will be merged into a new unified agency. It will enforce consumer protection and micro-prudential provisions of the draft Code across the financial sector, other than in banking and payment systems.

iii. The existing Securities Appellate Tribunal (SAT) will be subsumed into the Financial Sector Appellate Tribunal (FSAT). It will hear appeals against all financial regulatory agencies.

iv. A Resolution Corporation (RC) which will perform the function of deposit insurance and resolution of failing financial firms.

v. A new Financial Redressal Agency (FRA) will address consumer complaints across the entire financial system.

vi. A new Public Debt Management Agency (PDMA) for managing Central Government debt.

vii. The existing Financial Stability and Development Council will be made statutory with responsibilities also for systemic risk oversight

(b), (c) and (d): The Finance Minister in his Budget Speech for 2015-16 had proposed the merger of the Forwards Markets Commission (FMC) with Securities and Exchange Board of India (SEBI) to strengthen regulation of commodity forward markets. The Finance Act 2015 by repealing the Forward Contracts (Regulation) Act, 1952 and amending Securities Contracts (Regulation) Act, 1956 provides for the merger of the FMC with SEBI.

Section 132 of the Finance Act 2015 provides that every employee holding any office (excluding members of the Commission) under the FMC immediately before the date on which the Forward Contracts (Regulation) Act, 1952 is repealed, will hold office in the Central Government or SEBI, as the Central Government may notify in the Official Gazette, for the same tenure and on the same terms and conditions of service as such employee would have held such office if the FMC had not been dissolved.

(e) and (f): The Forward Markets Commission (FMC) has not made any assessment regarding volatility in agri-based business. FMC, however, has put in place a robust system of monitoring and surveillance of the commodity derivatives market. It ensures that there is no excessive speculation or manipulation of prices or abnormal price volatility, by imposing various regulatory measures which inter–alia include limits on speculative open position, daily price fluctuation limit bands and circuit filters, compulsory delivery for agricultural futures contracts, and margins. Besides these regulatory measures FMC has taken several initiatives to contain abnormal price volatility such as not permitting lean season contracts when supplies are restricted and introduction of a staggered delivery system to provide a longer delivery window to sellers.

*****