

**Impact of forward and market trading on prices of commodities**

1628. DR. T.N. SEEMA: Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

- (a) whether a committee was set up to study the impact of trading in the forward market on the prices of commodities, if so, the details thereof;
- (b) whether Government has taken any steps based on the said report, if so, the details thereof;
- (c) whether Government proposes to upgrade Forward Markets Commission into an independent regulator, if so, the details thereof; and
- (d) the benefits likely to be accrued therefrom?

THE MINISTER OF STATE OF THE MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION (PROF. K.V. THOMAS): (a) Yes, Sir. The Government had set up an Expert Committee in March 2007 under the Chairmanship of Prof. Abhijit Sen, Member, Planning Commission to examine whether and to what extent future trading has contributed to price rise in agricultural commodities. The terms of reference of the Committee were as follows:

- (i) To study the extent of impact, if any, of futures trading on wholesale and retail prices of agricultural commodities;
- (ii) Depending on (i), to suggest ways to minimize such an impact; and
- (iii) Make such other recommendations as the Committee may consider appropriate regarding increased association of farmers in the futures market/trading so that farmers are able to get the benefit of price discovery through Commodity Exchanges.

According to available information there is no clear evidence that rise in food prices in India has been due to forward trading. The Expert Committee chaired by Shri Abhijit Sen, that analyzed annual trend growth rate in prices of sensitive

commodities (food grains and sugar) in pre-futures and post futures period, concluded that although inflation clearly increased post-futures in some sensitive commodities that have higher weight in consumer price indices, it is not possible to make any general claim that inflation accelerated more in commodities with futures trading.

Other factors particularly demand supply mismatches, degree of dependence on imports and international prices in these commodities etc. also tend to affect commodity prices.

(b) Yes, Sir. The Forward Markets Commission, the regulator for commodity futures markets under the provisions of Forward Contracts (Regulation) Act, 1952 (FMC) has initiated several measures based on the recommendations of the report. The details of the initiatives taken by FMC are given in the Statement (*See* below).

(c) and (d) Yes, Sir. The Government has introduced the Forward (Regulation) Amendment Bill, 2010 in Lok Sabha on 6th December, 2010. The Bill, *inter-alia* provides for strengthening of the regulatory powers of the Forward Markets Commission. The main objectives, salient and benefits likely to accrue from the said Bill are as under:

**1. The Objectives of the Forward Contracts Amendment Bill 2010**

- (i) Strengthening of the regulatory framework including enforcement and penal provisions for the commodity derivatives markets,
- (ii) Functional and Financial Autonomy for the market regulator-the Forward Markets Commission (FMC) to better regulate the commodity derivatives market, and
- (iii) Permitting new products, *viz.*, options in the commodity derivative market which are more suitable for participants like farmers to cover their price-risks.

**2. The Salient features of the Forward Contracts Amendment Bill, 2010**

- (i) to redefine the expression "forward contract" so as to include therein "commodity derivative" and also to define new expressions such as "commodity derivative", "corporatisation", "demutualisation" and "intermediary" which have been used in the Bill.
- (ii) to increase the maximum number of members of the Forward Markets Commission from four, as at present, to nine out of which at least three would be whole-time members besides the Chairman.
- (iii) to confer power upon the Commission to levy fees.
- (iv) to provide for constitution of a fund called the "Forward Markets Commission General Fund" to which all grants, fees and all sums received by the Commission except penalty shall be credited, and apply the funds for meeting its expenses.
- (v) to confer power upon the Central Government to issue directions to the Commission on matters of policy and to supersede it in certain extreme circumstances;
- (vi) to make provisions for corporatisation and demutualisation of recognised associations in accordance with the scheme to be approved by the Commission.
- (vii) to make provision for registration of members and intermediaries.
- (viii) to allow trading in options in goods and commodity derivatives.
- (ix) to make provision for investigation, enforcement and penalty in case of contravention of the provisions of the Act.
- (x) to make provision for transfer of the duties and functions of a clearing house of an exchange to a clearing corporation.
- (xi) to make provisions for exemption from payment of tax on wealth, income and profits or gains of the Commission.

- (xii) to make provision for appeals from the orders of the Forward Markets Commission and Adjudicating Officer to the Securities Appellate Tribunal for the purposes of the Act and from the order of the Securities Appellate Tribunal under the Forward Contracts (Regulation) Act, 1952 to the Supreme Court; and
- (xiii) to make consequential changes in the Securities and Exchange Board of India Act, 1992.

**3. Benefits likely to accrue from the proposed amendments to the Forward Contracts (Regulation) Act, 1952**

The autonomy will strengthen FMC and its capacity to effectively regulate the markets, as the commission will be empowered;

- (1) To recruit and upgrade its manpower to meet the growing challenges of the commodity market.
- (2) The capacity and flexibility to deploy its financial resources to suit the requirement for regulation and creating awareness amongst various section of society including farmers.
- (3) The Amendment bill provides for registration of members and other intermediaries essential to ensure their effective monitoring by the FMC.
- (4) The proposed amendment seeks to introduce option in goods. This will provide farmers with a better risk management tool.
- (5) The powers to impose penalties for various contraventions such as failure to furnish information, return, etc; failure by any person to enter into agreement with clients, failure to redress clients grievances, insider trading, adoption of fraudulent and unfair trade practices, default in case of intermediary and failure to comply with the directives of FMC etc will enable effective regulation of the markets.

- (6) The provision for corporation and demutualization of the Commodity Exchanges will bring about greater transparency and governance at the exchanges.
- (7) The present Act does not provide for an Appellate Authority. The proposed amendments seek to designate Securities Appellate Tribunal (SAT) as the Appellate Tribunal for the purposes of F.C. (R) Act. The amendment Bill provides for an appeal against the order of FMC and Adjudicating Officer before SAT and against the order of SAT before the Supreme Court. This will facilitate redressal of grievances and speedier disposal of disputes relating to the interpretation of the Act and the rules.

***Statement***

*Initiatives taken by the Forward Markets Commission based on the  
Recommendations of the report*

- (i) The Commission has undertaken the exercise of comprehensive review of futures contract design to align the futures market with physical market practices, in order to ensure that the contracts traded on the exchange platforms serve the interests of the stakeholders.
- (ii) The Commission has proposed to the Ministry of Consumer Affairs to permit the entities set up or promoted by the Central/State Government, to act as aggregators for farmers. The Commission also proposes to promote hedging activity by providing exemption to hedgers from payment of margins etc., on the platform of the Exchanges.
- (iii) The Government has constituted an Advisory Committee to advise the Government and FMC regarding commodity futures market. The committee comprises of experts, professionals and representatives of various stakeholders of the commodity futures market. The Advisory Committee provides an institutional mechanism for continuous consultation with all the stakeholders of the futures market.

- (iv) In addition to other regulatory tools to curb excessive speculation, the Commission has directed the exchanges to introduce a system for staggered delivery to make threat of delivery credible in the near month contracts in all agricultural commodities.
- (v) In order to improve the participation of small hedgers, the exchanges have been asked to reduce the lot size of the futures contracts traded on the National Commodity and Derivatives Exchange.
- (vi) In order to improve deliveries on the platforms of the National exchanges and to promote better warehousing, the Commission has directed that the Exchanges should accredit warehouses within 100 kms radius of delivery centres depending on the feasibility and requirements, in respect of all commodities.
- (vii) In order to ensure that the stakeholders have a proper understanding of the functioning of commodity markets, the Commission has undertaken various initiatives such as awareness programmes, capacity building programmes, and other activities for raising awareness about the commodity futures market among the stakeholders. During the 11th Five Year Plan (2007-2012) till March, 2012, 2473 Awareness Programmes have been conducted, out of which 1570 programmes were for farmers only. During the current 12th Five Year Plan (2012-17), during the period April 2012 upto July 2013, a total of 1107 awareness programmes have been conducted.
- (viii) The Ministry of Finance has been requested through the Department of Consumer Affairs to include awareness programmes on the commodity futures market in the on-going financial inclusion and literacy programmes and to also use the Financial Literacy and Credit Counselling Centres (FLCC) in spreading the awareness about the commodity futures market.
- (ix) To disseminate the information of spot and futures prices of various commodities, the Commission is implementing a Price Dissemination Project under which GPRS enabled LED Price Ticker Boards displaying

the information of spot and futures prices of the commodities being traded on the Exchanges Platform on real time basis in the local languages are installed at various locations where the farmer footfall is heavy like Agricultural Produce Market Committee (APMC) Mandis, Krishi Vikas Kendras (KVK) and Regional Rural Banks (RRB) etc. During the 11th Five Year Plan (2007-2012), 1430 price ticker boards were placed at various locations. During the year April 2012-July 2013, a total of 700 price ticker boards have been installed. FMC has also directed the exchanges to disseminate information on futures prices of commodities through SMS to registered clients.

- (x) The Commission has directed the exchanges to make effective use of print and audiovisual media to raise awareness, and to empower clients by sending information through sms and email alerts of the trades conducted on the platform of the exchanges to prevent unauthorised trade in client accounts by members.
- (xi) In order to promote transparency in the Commodity Futures Market, directions were issued to the National Commodity Exchanges to display on daily basis, the percentage of the proprietary trade to total traded value, percentage of client trade to total traded value, the percentage of trade registered through HFT/Algo trading on their web-sites and stocks in the accredited warehouses. The exchanges were also directed to disclose information about the behaviour of the contract during the life cycle of the contracts traded at their exchanges on their respective websites.

### **Rise in prices of food products**

†1629.SHRI RAVI SHANKAR PRASAD: Will the Minister of CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION be pleased to state:

- (a) whether it is a fact that prices of essential commodities, particularly that of food products in the country have continuously risen from January, 2013 to July, 2013;

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† Original notice of the question was received in Hindi