Commodity Futures and Regulation
A Vibrant Market Looking for a Powerful Regulator

K G SAHADEVAN

The Forward Contracts (Regulation) Amendment Bill, 2010 is critical to commodity futures markets and the farm sector in India for three reasons. One, it is risky for an agrarian country to liberalise internal trade in commodities without a powerful regulator in place. Two, lending institutions do not consider commodities as a standard asset class because they lack back-end infrastructure and well-regulated liquid markets. Three, foreign direct investment can be attracted to build infrastructure in the commodities supply chain only if there is a powerful regulator that ensures integrity and investor confidence in the marketplace.

Introduction

Commodity futures markets in India have witnessed significant growth in the last decade. The Government of India lifted the prohibition on futures trading in commodities in April 2003 with the objective of liberalising domestic trading in commodities, as envisaged in the National Agricultural Policy, 2000. This major policy shift, coupled with the government’s decision to allow national online futures exchanges the same year, triggered the growth of trade in commodity futures on an unprecedented scale.

Regulation is critical for the orderly growth of the emerging commodity ecosystem, particularly spot and futures trade in commodities. While spot trade is a state subject, which is regulated by state-level Agriculture Produce Market Committee (APMC) Acts, the organised exchanges that deal with, among other things, futures is under the regulatory control of the Union government. It is widely known that the performance of many APMCs has been abysmal, particularly in liberating farmers from middlemen by providing them with direct market access. As far as benefits to the farming community are concerned, the performance of futures markets has been no better. This is because there is very little direct participation by farmers in futures trading and they lack indirect access to it through aggregators who serve their collective interests (Sahadevan 2007).

This paper seeks to critically examine the existing legislation for regulation of commodity futures markets in India, particularly its architecture, which suffers from a built-in principal-agent dichotomy. It attempts to identify the dangers arising from the non-synchronised motives of the “principal” (the government and the government regulator) and the “agent” (commodity exchanges), which may lead to serious moral hazards for the principal and a degeneration of market integrity and investor confidence, threatening the growth of futures markets and preventing its potential benefits from reaching genuine stakeholders. Finally, it presents a strong case for the proposed Forward Contracts (Regulation) Amendment Bill, 2010 and examines how a powerful regulator as the principal can motivate agents and achieve a prudent balance between the former’s public regulatory obligation and the latter’s commercial aspirations.

Current Status and Emerging Issues

There are now five online national exchanges and 16 regional ones that are permitted to offer futures in 113 commodities, including agriculture, metals, energy and plastics. To increase
their market share and stay ahead of rivals, the national exchanges have been trying to penetrate into semi-urban and rural agricultural areas in many parts of the country by installing trading terminals there. A leading exchange reportedly has more than 2,170 members and 3.46 lakh terminals spread over 1,577 cities and towns. The annual turnover of trade in organised exchanges exceeded the nominal gross domestic product (gdp) figure of the country by March 2010. It rose from Rs 1.29 lakh crore in 2003-04 to Rs 119 lakh crore in 2010-11 and further to Rs 181 lakh core in 2011-12.

**Market Infrastructure Institutions**

Encouraged by the growing market potential, a number of commodity market infrastructure institutions (mii) have come up in the recent past. After the launch of futures trade in national online commodity exchanges in 2003, spot trade in commodities in independent online spot exchanges began in 2008. Although no progress has been made on amending the archaic Forward Contracts (Regulation) Act (fcra), 1952 that regulates futures trade, there has been legislation for strengthening mii. This includes the Warehousing (Development and Regulation) Act (wdra), 2007 and the Warehousing Development and Regulatory Authority (Electronic Warehouse Receipt) Regulation, 2009. Following this, the Warehouse Development and Regulatory Authority came into being in 2010 for warehouse development and regulating warehouses and warehouse receipts (wr). Parallel to the existing network of public-sector warehouses, there are a number of new initiatives in the private sector to promote organised supply chain management and warehousing, which facilitate the delivery of contracts traded in exchanges and provide collateral management services to various stakeholders.

Despite fast-growing markets and mii, concerns have been raised about the extent to which futures has played the role it was intended to. Answering this critical question requires a deeper analysis of certain key issues. Though the focus of this analysis is market regulation, it is worthwhile throwing some light on them as they are as important as regulation.

First, it is important to ensure a healthy balance between the basket of commodities in which futures trading is permitted and what is relevant to the economy. The choice is crucial to the benefits that the economy derives from futures trading. The current basket comprises three commodity groups – bullion and other metals, agricultural commodities, and energy. The major reason the government allowed a futures market was to develop a market-driven mechanism for hedging the price risk of farmers and improving awareness about the value of their marketable surplus through better price discovery and its dissemination. With these objectives, the Dantwala Committee (1966) and Khusro Committee (1980) recommended steps to revive futures trading in more agricultural commodities. Later, the Kabra Committee (1994) excluded certain commodities of mass consumption but reiterated the usefulness of futures to the farm sector. However, the fast-changing composition of the market and the interest in imported commodities has now tilted futures markets more towards metals and energy.

Agricultural commodities have lost their prominent position in futures markets to bullion and other metals and, lately, to energy. While the share of agricultural commodities in total value of trade declined sharply from 55% in 2005-06 to 23% in 2007-08 and further to 12% in 2010-11, the share of bullion and other metals rose from 36% to 65% and further to 68% in the corresponding years. The share of energy products more than doubled during this period from less than 10% to 20%. The prices of most of these non-agricultural commodities are heavily influenced by their rates in international spot markets and the exchange rate of the rupee.

Second, the composition of the portfolio of agricultural commodities is of crucial relevance to the benefits of futures. Although futures are permitted in as many as 90 agricultural commodities, leading exchanges offer contracts in only 32 of them. Most of these commodities, however, have failed to generate a significant volume of trade. The two leading agricultural commodity exchanges together had less than 13% (including metals and energy) of the total value of trade in the country in the last three years. More importantly, the data (see Appendix) shows that major commodities with larger production, marketable surpluses and nationwide spot markets are not traded all that much in these exchanges. In the case of wheat, maize, potatoes, chillies, cardamom and rubber, the futures multipliers are in fractions, while commodities like mentha oil, guar seed, and guar gum generate much larger trade volumes compared to their total production. For instance, the total volume of futures trade in wheat in 2010-11 was 26.8 lakh tonnes with a multiplier of 0.03, though its production was 859 lakh tonnes. The world market benchmark multiplier is 28. At the same time, the volume of trade in guar seed was more than 200 times its annual production. If a futures multiplier is too high, as the Abhijit Sen Committee (GoI 2008) pointed out, the divergence between spot and futures widens, exposing futures markets to the charge of being driven by speculators.

Third, a more fundamental question is to what extent the markets have helped farmers and other stakeholders in reducing the price risk of agricultural commodities and ensuring better prices. Though there is a growing literature offering empirical evidence on futures markets in India, it mainly covers their behaviour with regard to the efficacy of price discovery and spot price stability. Empirical studies, particularly on agricultural commodity futures, include Naik and Jain (2002), Karande (2006), Sahi (2006), IIMB (2008) and Nath and Lingareddy (2008). These studies do not offer any uniform evidence on market efficiency and price stability. The Abhijit Sen Committee also did not find any evidence of either reduced or increased volatility in spot prices because of futures trading. It observed that futures markets have not succeeded as an effective instrument of risk management in India.

Finally, there are certain structural constraints that limit the access of farmers to futures markets. Unless institutional participation is permitted, futures markets will remain inaccessible to more than 80% of farmers, who are small and marginal with landholdings of less than one hectare. Institutional participants who operate as aggregators could take positions...
in futures markets on behalf of farmers. This model not only offers a profitable business opportunity to many potential players like banks, farmers’ cooperatives, commodity boards, and marketing federations, but also saves farmers from unscrupulous middlemen in the agricultural supply chain. An organised supply chain obviously requires back-end infrastructure for storage, grading, insurance, WRS, and a liquid secondary markets for WRS. All these changes, which would ensure adequate asset-backed institutional credit to the farm sector and its overall development, call for amendments to the legislations governing banks, and the spot and futures markets. The WRDA, 2007 and the setting up of the Warehouse Development and Regulatory Authority in 2010 were the first steps towards this.

**FCRA, 1952 and the Regulatory Structure**

Schedule vi of the Indian Constitution includes forward and futures trading and stock and commodity exchanges involved in such trading in the Union list, bringing them into the regulatory ambit of the central government. The FCRA was passed in 1952 for regulating all types of forward contracts in commodities. Its preamble states that it is to provide for “regulation of certain matters relating to forward contracts, the prohibition of options in goods and for matters connected therewith”.

The act provides for a three-tier regulatory structure – (a) the central government with all powers of policymaking and regulation; (b) the Forward Markets Commission, established under Section 3 of the Act, for exercising the functions and discharging the duties that may be assigned to it by the Act; and (c) associations (exchanges), which are bodies of individuals recognised by the central government on the recommendation of the commission, and constituted for the purpose of regulating and controlling the business of sale and purchase of commodity derivatives. For the central government, the department of consumer affairs under the Ministry of Consumer Affairs, Food and Public Distribution (MCA) discharges all the regulatory responsibilities outlined in the Act. The MCA, in turn, has delegated many of its powers to the commission. The commission in its present form is not a statutory body endowed with the full responsibility of market regulation and the powers to do it. It rather operates as a subordinate office under the MCA.

A similar regulatory structure prevailed in the capital market with the Controller of Capital Issues under the department of company affairs regulating stock exchanges till the Securities and Exchange Board of India (SEBI) was set up by a comprehensive Act in 1992. The need for an autonomous regulator for commodity futures markets was not felt till futures trade was allowed in 2003. Concerns over the limited powers of the regulator and its lack of competence to deal with the complexities of markets with modern trading systems and practices have been growing, particularly after electronic trading began in national multi-commodity exchanges. Many expert committee reports have highlighted the need for a more powerful regulator in commodity futures markets. Moreover, public perception about the steady growth of capital markets under the regulatory control of SEBI has strengthened the need to put in place an equally powerful statutory regulator for commodity markets, especially because the scale of its impact is significantly larger than that of the capital market. Misconduct in commodity markets can have economy-wide effects in terms of prices in the spot markets, stock positions, farm investments, and cropping pattern, but a variation in stock prices due to market manipulation directly affects only a group of stakeholders and the market value of their assets.

There are a number of inadequacies in the FCRA, 1952 and most of them have been adequately addressed by the Forward Contract (Regulation) Amendment Bill, 2010. Though the stated objective of the FCRA, 1952 is the regulation of “certain matters” relating to forward contracts, there is neither a definition of a forward contract nor the manner in which it differs from a futures contract. It defines a forward contract as a contract for the delivery of goods that is not a ready-delivery contract. The Act is silent about the distinction between over-the-counter (OTC) and exchange-traded contracts and there is a lack of clarity on the regulation of the former, while the latter is regulated by the commission through registered associations (exchanges). This uneven treatment of exchange-traded and OTC derivatives leads to regulatory arbitrage and market abuse. Since OTC contracts are not permitted, illegal off-market transactions (dabba trading) reportedly flourish in the surroundings of many regional commodity exchanges.

The FCRA, 1952 defines goods as any movable property other than actionable claims, currency and securities. This definition forbids exchanges from introducing innovative and tailor-made futures contracts in intangibles and services such as the commodity price index, weather index, freight index, and so on. More importantly, the commission is an intermediary between the central government and exchanges and its functions outlined in Section 4 of the Act are limited to that of an advisor and supervisor to the government, an observer of the markets, and an agency to collect and publish market data. It is not empowered to frame subordinate legislation for regulating market intermediaries and MIS. As per Sections 5 through 17 and 28 of the Act, the government enjoys all regulatory powers, including granting and withdrawing recognition to exchanges, approving by-laws of exchanges, permitting/prohibiting futures contracts in commodities, and suspending the business of recognised exchanges. The commission is only a consultative and recommendatory body of the government with its powers limited to inspecting accounts and documents of exchanges and their members, receiving annual reports of exchanges, suspending persons from exchanges, prohibiting members of exchanges from entering into any contracts, and granting certificates of registration to exchanges.

The FCRA, 1952 provides for the appointment of four members of the commission, which is headquartered in Mumbai and has a regional office in Kolkata. The office of the commission has a sanctioned strength of 135 (including a chairman and two members), of which 54 professionals are to constitute its core strength. The remaining 81 general staff are to help in its day-to-day administration. The staff strength continues to be at the same level as it was before national online commodity
exchanges came into existence. Moreover, the distribution of manpower is skewed towards general and secretarial activities, not to the core, technical, research and analytical wing. Frontline officers, including economic advisors, directors, deputy and assistant directors, and enforcement officers, are only 54, and surprisingly more than 40% of these important positions are vacant. With increasing complexities in the functioning of the market, the regulator needs to be equipped to deal with more complex regulatory obligations. However, the present structure, composition and staff allocation of the commission raise serious doubts about its capability to handle market regulation.

The most pressing reason for seeking a paradigm shift in commodity futures regulation is the agency problem that originates from the current regulatory architecture. It is difficult to fully weed out the agency problem and its threat to market integrity and client confidence as long as marketplaces are sponsored and run by private corporate bodies with commercial aspirations. It is, however, possible to minimise the threat sponsored and run by private corporate bodies with commercial aspirations. It is, however, possible to minimise the threat to market integrity by modifying agents’ behaviour in the markets. This would be possible only if there is a powerful regulatory agency that can bring in checks and balances to serve the public interest in a marketplace apparently dominated by the private interests of agents.

**Principal-Agent Dichotomy and Moral Hazards**

The principal-agent problem has to do with the difficulties that arise from incomplete and asymmetric information when a principal delegates work to an agent. The relationship between the government regulator and exchanges now is akin to a principal-agent relationship. As policymakers, the government and the commission (which is in a way an agent of the government) are in the position of a principal, and exchanges, which are private entities with commercial interests, are agents. The market regulatory powers of exchanges derive from their status of being self-regulatory organisations (SROs). As SROs, exchanges enjoy legislative, executive and enforcement powers. They make rules that govern trading, margins, clearing, settlement, and delivery of contracts executed on their platform.

The agency problem arises when (a) the desires or goals of the principal and agent are in conflict, and (b) it is difficult or expensive for the principal to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately (Eisenhardt 1989). In spite of various incentives and penal provisions in the Act and the by-laws of exchanges to synchronise the interests of the principal and the agent, the innate commercial interest of the latter often poses a threat to the market and the principal. In the present situation, moral hazards occur to the government and the commission as they have incomplete information on markets. As market monitoring, surveillance and risk control are primarily the responsibilities of exchanges, which are on-site market regulators, information about happenings in the market may not reach the government and the commission in real time. With this information asymmetry, the commission needs to have a proactive strategy to keep itself updated about the behaviour of market participants so that quick remedial actions can be taken against indiscipline before it dents investor confidence and market integrity. Therefore, the challenge before the regulator is ensuring a continuous flow of information between itself and the market and making certain that exchanges discharge their responsibilities as SROs by safeguarding the integrity of all dealings and protecting the confidence of investors.

Exchanges are accountable for violations of norms and guidelines by its members (brokers), who are governed by the by-laws approved by the commission. Members have to file annual compliance reports in their respective exchange to ensure that they comply with all provisions of the by-laws, rules and regulations of the exchange as well as the directives and circulars of the commission. In spite of these provisions, the conduct of exchanges has raised concerns about their failure to maintain a balance between private commercial aspirations and public regulatory obligations. For example, a national exchange amended the settlement rules of live contracts in chana and urad, which could have potentially favoured one party or the other in the market. There are instances in which exchanges have failed to adhere to quality specifications at the time of delivery. The commission has reported that exchanges carry out a large volume of trade without payment of margin money. The practice of proprietary trade is not only in violation of rules and by-laws, but also puts exchanges under systemic risk as the margin payable is avoided by netting of the positions at the members’ end as all trade is done in a single account (only proprietary account).

The exchanges, which are predominantly driven by profit motives, tend to resort to certain practices that inflate their individual trading volumes to help them maintain their standing in the market. They turn a blind eye to market abuse by prominent members who contribute substantial business. The commission examined the penalties imposed by the national exchanges on their members for various irregularities and in March 2010 notified a uniform penalty structure to discourage market malpractices. To deal with erring members, the exchanges are directed, in addition to imposing financial penalties, to initiate disciplinary proceedings that may culminate in suspension of their membership. There are cases where the commission has restrained a national exchange from deliberately attempting to increase its market share by charging disproportionately low transaction charges. The commission treats this as an anti-competitive and unfair trade practice as variations in transaction charges across exchanges can lead to regulatory arbitrage.

In its annual reports, the commission has disclosed cases in which it inspected and audited the books of accounts of members of exchanges, particularly of national multi-commodity exchanges, and suspended them from trading when irregularities were found. In 2010-11, it inspected the books of accounts of a national exchange and a regional exchange in addition to conducting surprise checks on two regional exchanges. In the same period, it carried out a similar exercise against four
members of exchanges. In 2009-10, surprise checks were carried out on two regional exchanges and the books of accounts of nine members were inspected. At the micro level, exchanges verify their members’ compliance with by-laws and rules by auditing books of accounts. Such audits have revealed major deficiencies/deviations with regard to many mandatory requirements, including opening of trade accounts before initiating trade, margin deposits, required net worth, and fulfilling know-your-customer (kyc) norms (Nair 2011: 126).

Amendment Bill and Way Forward

The MCA has made attempts in the past to amend the FCRA, 1952. The Forward Contracts (Regulation) Amendment Bill, 1998 lapsed after it was not passed by the Lok Sabha before it was dissolved in 2003. After the liberalisation of commodity futures markets at the beginning of 2003, the need for a comprehensive amendment to the Act came up with the establishment of three national online exchanges and a host of complex trading systems and practices, which showed the existing regulatory capacity was insufficient to cater to the need of exponentially growing markets. The total value of commodity futures traded rose from Rs 1.29 lakh crore in 2003-04 to Rs 21.34 lakh crore in 2005-06. The annual turnover figure touched an all-time high of Rs 119.49 lakh crore in 2010-11 against Rs 77.65 lakh crore the preceding year. The MCA came up with the Forward Contracts (Regulation) Amendment Bill, 2006, but this too failed to sail through before the dissolution of the Lok Sabha. This was replaced by the Forward Contracts (Regulation) Amendment Bill, 2010, which is now pending with Parliament.

The bill proposes to, among other things, empower the commission and transform it to a powerful independent regulator like SEBI. This is critical to commodity futures markets in general and the farm sector in particular for many reasons. It is risky for a country with a dominant farm sector to liberalise internal trade in commodities without a powerful regulator in place. Inadequately developed spot markets and spurious price discovery in excessively speculative futures markets can distort the market prices of commodities and jeopardise investments in agriculture. A major obstacle to growth of agriculture is inadequate formal institutional credit, particularly to the rural farm sector. Lending institutions in India do not consider commodities as a standard asset class because of the lack of back-end infrastructure and well-regulated liquid markets. More importantly, the proposed opening up of multi-brand retail can attract foreign direct investment (FDI) to build infrastructure in the commodities supply chain, especially in storage and collateral management, only if there is a powerful regulator that ensures integrity and investor confidence in the marketplace.

It is difficult to modify the behaviour of agents in the market if the government regulator is not empowered to frame subordinate legislation to exercise regulatory control over them and all MIs. In the absence of such regulatory supervision, their conduct in the market will not conform to what is expected from ethical MIs. Currently, all rules relating to trading, margins, clearing, settlement, and delivery of contracts and even penalties are laid down in the by-laws of exchanges. The exchanges seem to leverage these legislative powers to fulfil their commercial aspirations, leading to a serious agency problem. This is a major handicap for the commission when compared to SEBI, its capital market counterpart, which has independent powers to regulate all market intermediaries.

The FCRA, 1952 does not have any specific provisions for ensuring market integrity and investor confidence, and the uniform penalty imposed by the commission has not proved to be an effective deterrent. As stated in the parliamentary standing committee’s report on the Forward Contracts (Amendment) Bill, 2010, “The powerful traders who indulge in malpractices have no fear of the authority conferred on the Commission under the FCRA, 1952 nor are they bothered about the fine that can be imposed on them”. The commission has reported that during 2010-11 it assigned the books of accounts of three national exchanges, 16 regional exchanges and 280 members of national exchanges for audit. It is worth noting that in the US, the replacement of the Commodity Exchange Act, 1936 by the Commodity Futures Modernisation Act (CFMA), 2000 made the Commodity Futures Trading Commission (CFTC) more powerful than before, while strengthening self-regulation by exchanges to reduce systemic risk. To ensure fair play in the market, the CFMA prescribes seven criteria to be adhered to by exchanges for getting their recognition from CFTC. In addition, to promote transparency and integrity in the market, the CFMA lays down 17 core principles that exchanges have to comply with on a continuing basis.

Other than all the above reasons for strengthening market regulation, the government and policymakers have to heed the lessons of the global financial crisis that began in 2008. Years without accountability and transparency in markets for a wide range of assets culminated in a massive failure of businesses, a drop in housing prices and a wipeout of the savings of wealthy as well as low-income households. The message was loud and clear – markets require strong regulation to strengthen responsibility and accountability and to give investors confidence that there is a system in place that works for and protects them. In the US, this led to the passage of a comprehensive piece of legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (The Dodd-Frank Act) in 2010. In addition to bringing transparency and accountability to the derivatives markets, a strong consumer financial protection watchdog, reforming the Federal Reserve, and ending “too big to fail” bailouts, the Dodd-Frank Act envisages the establishment of a Financial Stability Oversight Council to address systemic risks. Similar reforms are being initiated in the UK in the form of the Financial Services Bill, which proposes to replace the existing umbrella regulator by two separate agencies, the Prudential Regulatory Authority and the Financial Conduct Authority.

No such regulatory superstructure is being created in India, though a number of subordinate laws have been passed by the relevant market regulators for micro regulations. The Financial Sector Legislative Reform Commission constituted in 2011...
is in the process of reviewing the architecture of the legislative and regulatory system governing the financial sector, including commodity futures markets in India. It is also mandated to examine the need for restatement of the law and immediate repeal of any outdated legislation, and to examine the issue of consumer protection in financial markets. It is therefore important that the Forward Contracts (Regulation) Amendment Bill, 2010 is passed so that the commission becomes an autonomous statutory regulator with powers to frame subordinate legislation for better control over the exchanges and mists. It is also important that all stakeholders in the government are convinced about the economic benefits of futures markets. Policy certainty is important for the growth of markets. We do not have to wait for a disastrous market crisis to pass this legislation and ensure the government’s commitment to the development of futures markets. Prevention is always better than cure.

Conclusions

The following points emerge from this analysis. The existing legislation for better control over the exchanges and regulatory system governing the financial sector, including derivatives, is in the process of reviewing the architecture of the legislative and has to only actively intervene at the time of approval of exchanges and other mists and their by-laws and contract specifications. If the contracts are well formulated, and the delivery modalities provide an effective line of defence against manipulation, the regulator has to only act as an off-site watchdog (Sahadevan 2002).

NOTES

1 Though the Forward Markets Commission (FMC) has notified 113 commodities under Section 15 of the FCRA, 1952, exchanges have not offered futures in all of them. For example, the Multi Commodity Exchange of India, which had 82% of the total value of trade during 2010-11, trades only in 52 commodities.


4 The FMC initially granted recognition to four exchanges as national exchanges – National Multi Commodity Exchange of India (NMCE), Ahmedabad; Multi Commodity Exchange of India (MCX), Mumbai; National Commodity and Derivatives Exchange (NCDEX), Mumbai; and National Agriculture and Commodities Exchange (NAECX), Mumbai – in 2003. While the first three commenced trading with the launch of gold and silver futures in October, November and December, respectively, the same year NBOT continued with soybean/oil futures and was later derecognised by the FMC in 2007. Two more exchanges came in, Indian Commodity Exchange, New Delhi, which commenced in 2009, and an existing regional exchange in Ahmedabad with a change in ownership and rechristened ACE Derivatives and Commodity Exchange, Mumbai, in 2010.

5 Two exchanges, NCDEX Spot Exchange (NS-POT), promoted by NCDEX, and National Spot Exchange, promoted by MCX, offer spot trade in a variety of commodities.

6 They include National Collateral Management Services promoted by NCDEX and National Bulk Handling Corporation promoted by MCX.

7 This is the ratio of futures trade volume to total production of any commodity. Internationally, the benchmark trade multiplier varies from 15 upward for agricultural commodities though it depends on their respective spot markets. A larger ratio indicates, inter alia, a higher intensity of speculation.

8 A review of these studies is available in the Report of the Expert Committee to Study the Impact of Futures Trading on Agricultural Commodity Prices (Abhijit Sen Committee report, Gol 2008).

9 After independence, futures trade flourished in many commodities until it was banned in the mid-1960s, except for pepper and turmeric. Later, trading was permitted selectively in potatoes, castor seeds and gur in the 1980s, and in hessian and edible oils and oilseeds in the 1990s, followed by sugar futures in 2000 before the ban was lifted in 2003.

10 The reports of the Inter-ministerial Task Force on Convergence of Securities and Commodity Derivative Markets 2003, the Parliamentary Standing Committee on the Forward Contracts (Regulation) Amendment Bill 2006, the Parliamentary Standing Committee on the Forward Contracts (Regulation) Amendment Bill 2010 in (2011 and 2012) and internal studies of the commission.

11 The ready-delivery contract as defined by the Act is one which provides for the delivery of goods and payment of a price either immediately or within a period not exceeding 11 days after the date of the contract. All such contracts where the delivery of goods and/or payment for goods is not completed within 11 days from the date of the contract are treated as forward contracts.

12 These contracts are not routed through the formal trading channels of registered exchanges. In spite of extensive counterparty risk involved in these illegal markets, traders find it convenient as they do not have to comply with margin, collateral deposits and physical delivery requirements. It is estimated that the size of illegal market in commodities is twice the size of the formal exchange-traded contract markets.

13 The Securities Contract (Regulation) Act (SCRA), 1956 has already been amended to take care of derivatives trading in securities. The term “securities” has now been redefined to include derivatives. The derivatives, in turn, have been defined to include a contract which derives its value from the index or price of underlying securities.

14 Commodity exchanges are self-regulatory organisations recognised by the government on the recommendation of the FMC.


18 As per FCRA, 1952 the recognised exchanges/associations provide the framework of rules and regulations for conduct of trading, indicate the place where the trading can be conducted, report, record, execute and settle contracts, and provide a forum for exchange of documents and payments.

19 For example, the government on the recommendation of the commission can cancel the recognition of exchanges, and earlier, the exchanges were made to sign a memorandum of understanding (MoU) with the commission. The commission prescribes certain regulatory measures, including limit on open position and daily price fluctuation, additional and special margins, skipping trading, closing the markets and closing out the contracts to deal with certain emergency situations.

20 Clients reportedly route their trade through the proprietary accounts of brokers to escape from depositing margin money with the exchanges.


26 Safeguarding Futures, FMC, Mumbai, 2005.


28 Commodities in which open positions are
These criteria laid down in section 110 (b) of the FCRA, 1952, the by-laws prepared by the respective exchanges are approved by the commission, which has powers to modify the rules of trade and penalty structure contained in the by-laws.

As per the FCRA, 1952, the by-laws prepared by the respective exchanges are approved by the commission, which has powers to modify the rules of trade and penalty structure contained in the by-laws.

These criteria laid down in section 110 (b) of the CFMA are prevention of market manipulation, fair and equitable trading, trade execution facility, financial integrity of transactions, disciplinary procedures, public access and ability to obtain information.

Section 110 (d) of the CFMA lists 17 principles such as compliance with rules, contracts not ready subject to manipulation, monitoring of trading, position limitations or accountability, emergency authority, availability of general information, daily publication of trading information, execution of transactions, trade information, financial integrity of contracts, protection of market participants, dispute resolution, governance fitness standards, conflicts of interest, composition of boards of mutually owned contract markets, record keeping, and antitrust considerations.

REFERENCES


Appendix: Futures Trade Multiples of Various Agricultural Commodities

<table>
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<tr>
<th>Commodity</th>
<th>Production Trade Volume</th>
<th>Futures Multiplier</th>
<th>Production Trade Volume</th>
<th>Futures Multiplier</th>
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<td>Chana/gram</td>
<td>74.8</td>
<td>530.4</td>
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<td>808.0</td>
<td>31.77</td>
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<td>Guar gum</td>
<td>5.93</td>
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<td>1.17</td>
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<td>3.68</td>
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<td>0.28</td>
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<td>Pepper (1000 MT)</td>
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<td>Rubber (MT)</td>
<td>8.31</td>
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Women and Work

Edited by

PADMINI SWAMINATHAN

The notion of ‘work and employment’ for women is complex. In India, fewer women participate in employment compared to men. While economic factors determine men’s participation in employment, women’s participation depends on diverse reasons and is often rooted in a complex interplay of economic, cultural, social and personal factors.

The introduction talks of the oppression faced by wage-earning women due to patriarchal norms and capitalist relations of production, while demonstrating how policies and programmes based on national income accounts and labour force surveys seriously disadvantage women.

This volume analyses the concept of ‘work’, the economic contribution of women, and the consequences of gendering of work, while focusing on women engaged in varied work in different parts of India, living and working in dismal conditions, and earning paltry incomes.

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