

Central Sector Scheme Implemented by Forward Markets Commission during the XI Five Year Plan

During the XI Five Year Plan, Forward Markets Commission (FMC) is implementing the Central Sector Scheme - STRENGTHENING OF FMC which was introduced in 2005-06. The objectives of the plan scheme is to strengthen and enhance the capabilities of FMC, in terms of expertise, resources and operational flexibility to meet the challenges of a rapidly growing commodity futures market and to strengthen the competencies of the market, service providers and intermediaries so as to ensure that the market performs its roles of price discovery and price risk management effectively; and to create awareness and ensure wide dissemination of the benefits of the market

The following are the important components of the Plan scheme:

- (i) Awareness and Development programmes;
- (ii) Capacity building/training/consultancies;
- (iii) Inspection of Books of accounts of Exchanges and their members
- (iv) Connectivity of commodity exchanges with Agricultural Produce Market Committees (APMCs) / Post offices / Rural Bank branches / Cooperatives / Rural Extension Centres / AGMARK NET and other agricultural marketing networks for dissemination of future prices

The ultimate objective of this Central Sector Plan Scheme is to establish a well regulated commodity futures market that provides an efficient platform for price discovery and price risk management with increased and informed participation by all constituents including farmers.

The Financial and Physical Achievements of FMC under the Plan Scheme “Strengthening of FMC” are as follows:

A. Financial Targets & Achievements of FMC during 11th Five Year Plan

(Rs. in lakhs)

Head of Account	2007-08		2008-09		2009-10		2010-11		2011-12	
	RE*	Actual Expenditure	RE	Actual Expenditure	RE	Actual Expenditure	RE	Actual Expenditure	RE	Actual Expenditure (upto Dec., 2011)
Domestic Travel Expenses	37.5	32.6	55	44.73	62	30.21	71	60.69	66.17	47.78
Foreign Travel Expenses	50	49.88	60	58.88	90	72.91	100	72.35	100	85.43
Office Expenses	50	46.07	11	9.74	30	25.61	24	23.86	40	24.02
Office Expenses-Information Technology	70	20.65	40	36.47	29.9	27.23	62	44.92	75	40.59
Professional services	50	25.54	33	27.43	58.1	47.89	150	127.63	145	121.90
Rent, Rates/Taxes	200	-	1	-	1	-	1	-	10	-
Other Administrative Expenses	10	6.35	1	1.49	-	-	1	-	5	-
Advertising & Publicity	22.5	1.72	30	13.12	60	43.69	69	53.06	249.50	133.59
Grants-in-Aid General	438	-	78	62.4	316	315.92	1	-	40.28	-
Grants for creation of Capital assets	-	-	-	-	-	-	252	249.47	93.05	61.30
Other Charges	62.5	56.83	80	70.25	150	148.78	310	278.96	155	75.35
Contribution for membership of International Bodies(IOSCO)etc	5	-	10	7	8	7.07	10	9.51	11	-
IT-Professional	5	2.25	1	-	-	-	2	2	10	5.72
Total	1000	241.89	400	331.51	805	719.31	1053	922.45	1000	595.68

*RE: Revised (Budget) Estimates

B. Physical Achievements of FMC during 11th Five Year Plan

Details	2007-08	2008-09	2009-10	2010-11	2011-12 (up to Dec,2011)
1.Awareness Programmes	114	197	515	829	346
2.Capacity Building Programmes	8	18	66	79	41
3.Interaction with stakeholders / meetings	8	7	8	5	9
4.Price Dissemination Project (placement of Price Ticker Boards)	-	-	180	588	157
5. Audit/ Inspection of the Books of Accounts of the Commodity Exchanges and the Members thereof	100	104	298	320	321

Awareness and Development programmes

The efficient functioning of the commodity futures market warrants active participation of physical market stakeholders. This would enable it to serve as a meaningful and effective platform for price discovery and price risk management and provide significant economic inputs to the physical market players, especially farmers, to support their production and marketing related decision making process.

Creation of awareness among the farmers and related bodies and organizations including the ones which could be potential hedgers / aggregators about the economic functions and benefits of the commodity futures market has been one of the major activities of the Commission in the last five years. Apart from emphasizing the utility of the markets, the programmes educate the participants about how to participate in the market, the precautions to be taken in this regard and the use of information generated by the market in their decision making process.

The programmes are designed to meet the specific requirements of each category of participants. For example, the programmes for farmers are delivered in the local language in a simple-to-understand format. The awareness programmes for various categories of stakeholders are being organized on a regular basis by the FMC in collaboration with National Commodity Exchanges, various Educational Institutions and other organizations including training and research institutions, viz., NABARD, NIAM, MANAGE, Agricultural Universities etc. In addition to the programmes conducted jointly with the FMC, the Exchanges also organize various programmes independently. Maximum emphasis is being given to awareness creation among the farmers. The programmes are being conducted at different locations all over the country. These awareness programmes are attended by different categories of market participants ranging from farmers, traders and members of Commodity Exchanges to bankers, teachers, researchers and students of Universities, Government functionaries, warehouse professionals, etc.

The table below gives the details of the awareness programmes organized by the FMC during the 11th Five Year Plan :

Year	No. of Programmes for			
	Farmers	Others	Total (2+3)	Percentage of Farmers' Programs to Total
2007-08	75	39	114	66
2008-09	107	90	197	54
2009-10	423	92	515	82
2010-11	486	343	829	59
2011-12 (upto Dec,2011)	117	229	346	34

The demand for such programmes has been increasing over the years and in response, the number of programmes has also increased. The farmers' response has been especially encouraging.

Capacity Building / Training Programmes and Sensitization of officers involved in policy making for Agricultural Sector

FMC has been organizing training programmes for various market constituents and their officers as part of its capacity building endeavours. The capacity building efforts of the Forward Markets Commission are meant to complement and strengthen the awareness creation activities of the Commission. The capacity building efforts of FMC are expected to fulfill the following objectives:-

- i) Provide in-depth knowledge about the markets and equip the trainers with necessary knowledge about the markets so that they, in turn, can train/ create awareness about the market at the grassroots level.
- ii) Build up a pool of skilled man power to man the market intermediaries and other related institutions, viz., exchanges, broking houses, warehousing agencies etc.
- iii) Sensitize the policy makers about the utility of the futures markets in providing policy inputs and to make use of them for timely and appropriate policy changes.

The training programmes, are organized in association with various institutes, such as NIAM Jaipur, MANAGE Hyderabad, NCDC New Delhi, IRMA Anand, VAMNICOM Pune; NIBM Pune, CAB Pune, IGIDR Mumbai and various IIMs. These

programmes have enabled the functionaries of related organizations with a strong rural presence who are working directly or indirectly with the farmers, to take the message of futures market to the producers, processors and traders at the grassroots level.

Sensitization programmes have been organized by the Commission for senior State Government and Central Government officers at IIM Bangalore and IGIDR Mumbai. The objectives of the programmes were to create awareness among the senior central government and state government officers from the Departments of Civil Supplies, Agriculture, Cooperation, Marketing Federations, etc., about the concept and economic functions of the futures market and the possible role the policy makers and other senior government officers can play to promote and facilitate participation by various stakeholders, especially farmers, in the commodity futures market. The table below gives the details of the Capacity Building Programmes organized by the FMC during the 11th Five Year Plan:

Year	Number of Programmes Organised
2007-08	8
2008-09	18
2009-10	66
2010-11	79
2011-12 (up to Dec.,2011)	41

Inspection of Books of accounts of Exchanges and their members

The Commission has been conducting performance audit / inspection of the books of accounts of the Members of the Exchanges, on a regular basis through the auditors empanelled with the Commission.

Though FMC/ Exchanges have been conducting inspection of members on regular basis a need was felt to ensure that such inspections are comprehensive and cover all aspects of regulatory regime in place. Therefore, the Forward Markets Commission (FMC) has come out with the Guidance Manual for Audit of Members of Commodity Futures Exchanges. The Guidance Manual broadly covers various aspects related to trading in Commodity Future Markets including regulatory aspects and provides broad guidelines for conducting such inspections. The Guidance Manual would not only

improve the quality of audit inspection of the members of the Commodity Exchanges and improve compliance of the regulatory regime, but would also be helpful to the professionals as well as to the members of the Exchanges.

Price Dissemination Project

The Commodity Futures Exchanges perform the critical economic functions of price discovery and price risk management. The signals of futures prices emanating from the exchange platform indicate the traded value of the underlying commodity, i.e., the prices at which willing buyers and willing sellers are prepared to trade. The prices discovered on the Exchange are driven by commercial considerations of supply and demand and on the willingness to buy and sell price risk. It takes into account all public and non-public ‘price impacting information’ for determining the equilibrium price in the market. Commodity futures prices, thus, serve as a mechanism for price discovery either for the present price or for determining expected future prices and therefore act as a good “predictor” of what prices will be at the future points of time.

The Price Dissemination Project captures the prices discovered on the five National Exchange platforms – MCX, NCDEX, NMCE, ICEX and ACE on a real time basis and make it available to all stake holders in the agricultural supply chain, especially farmers to enable them to take rational and informed decisions about crops they want to sow and post production marketing strategies and thereby increase their farm income. In addition, the project also makes available physical market prices reported by the AGMARKNET. The prices - both physical market and futures market prices – are relayed to APMCs in far flung corners of the country and displayed on price ticker boards placed at the APMCs. This way, the farmers and other physical market participants are able to access current spot prices of agricultural commodities sold not only in their APMC but also in surrounding APMCs. In addition, they have access to futures prices of agricultural commodities which gives them a fair idea of future movement of prices in the agricultural commodities of relevance to them. The benefits – both direct and indirect – that accrue to the agriculture sector from the implementation of the price dissemination project are as follows:

- Access to the physical market prices of agricultural commodities prevailing in the designated and surrounding mandis.
- Access to futures prices of agricultural commodities discovered through a transparent price discovery process in the Commodity Exchanges. (for eg., A farmer can plan his crop and sales by looking at prices prevailing in the futures market)
- Integration of rural, urban and global agricultural markets.
- Increased awareness about quality standards of various agricultural crops and the value addition, it fetches vis-à-vis ungraded commodities.
- Facilitating increased investment in market-related infrastructure (e.g., standardization/quality testing/warehousing etc.)
- Access to a National Reference Price of agricultural commodities.

The Price Dissemination Project was rolled out in 2008-09. At the end of December 2011, 925 price ticker boards were placed in 26 States/UTs of the country. State/UT wise installation of Price Ticker Board is given in Table C.

**C. STATE/UT WISE INSTALLATION OF PRICE TICKER BOARDS DURING
THE 11th FIVE YEAR PLAN (till 31.12.2011)**

Sl. No.	Name of the State/ UT	No. of Ticker Boards Installed
1	Punjab	39
2	Uttar Pradesh	33
3	Jharkhand	21
4	Himachal Pradesh	14
5	Haryana	84
6	Bihar	2
7	Madhya Pradesh	99
8	Rajasthan	68
9	Chattisgarh	38
10	Maharashtra	160
11	Orissa	9
12	J&K	1
13	Uttarakhand	9
14	West Bengal	10
15	Gujarat	58
16	Karnataka	155
17	Tamil Nadu	32
18	Kerala	33
19	Delhi	2
20	Pondicherry	2
21	Chandigarh	1
	North East	
22	Assam	23
23	Tripura	13
24	Manipur	10
25	Arunachal Pradesh	4
26	Nagaland	5
	Total	925