

Minutes of the Meeting of the Forward Markets Commission and National Commodity Exchanges with the Members of the North Zone held at New Delhi on 20.5.2011

A meeting with North Zone-based members of the National Exchanges was convened on 20th May 2011 at New Delhi. The meeting was presided over by Shri B.C.Khatua Chairman, FMC. Shri Ramesh Abhishek, Member, FMC, and Shri D.S. Kolamkar, Member, FMC, chaired the technical sessions. The National Exchanges were represented by their MD/CEOs. The meeting was also attended by senior officers of the FMC and the National Exchanges. Around 110 members of the National Exchanges in the North Zone attended the meeting.

The meeting commenced with the inaugural address by Shri B.C. Khatua, Chairman, FMC. At the outset, Chairman emphasized that the interaction with members has lot of significance for the Commission as it provides feedback about the market. He expressed his happiness that attendance was much larger than the previous meetings and hoped that there will be quality deliberations. Chairman informed that during previous meeting, a large number of suggestions had been made. Some of the suggestions like uniform DDR pattern of taking last three days' price have already been implemented. Chairman spoke about significant developments in both domestic and international fora during the last 15 months. Chairman mentioned about Dodd Frank enactment which is the most comprehensive piece of legislation ever enacted in the USA to streamline and make financial markets operate more transparently, efficiently and in pro- investors friendly manner. Chairman emphasized that the regulation of the US and other markets have lot of significance for India as well, as in many commodities bench mark prices are discovered in the west particularly USA. However, the future lies with China, India, South Africa and Brazil which abound in production or consumption or both of many commodities. The West is, therefore, keen to come to India. Chairman opined that they should not bring their own methods and they should be allowed entry to limited extent and in limited manner. Chairman also spoke about reforms in warehousing and hoped that Warehousing Development Regulatory Authority is

focused on trying to streamline the physical market infirmities and a truly negotiable Warehouse Receipt System will be operating in the country. Chairman informed that the Price Ticker Board program is progressing well and there are positive feedbacks from the field where they are installed. He emphasized that rural people should not jump into futures market but they should be empowered with information so that they are not dependent on the APMC alone. Chairman mentioned the proactive role played by national exchanges and urged members to highlight the positive developments in the markets which will create a sense of goodwill among people about the market. On suggestions regarding number of national exchanges, Chairman informed that government has put a cap on the number of National Exchanges. However, the regional exchanges should be allowed to upgrade.

Chairman emphasized the need for making arbitration process more fruitful, faster and affordable for average investors. Considering the early stage of the market and large number of small investors, the arbitration by arbitrator should be the last resort and exchanges and members should rise above their financial interests to have quick grievance redressal system to ensure that small clients/investors and disputes involving small amounts should not go to arbitration. On FCRA amendment, Chairman expressed his hope that the bill pending in Parliament would be cleared in the monsoon session. On the demand of Saturdays being off, Chairman informed that much headway has not been made in this area as there are genuine differences of opinion between exchanges and members.

The inaugural address was followed by the technical sessions. The following issues were raised by the members during the technical sessions:

1. Trading timing of agricultural commodities should be increased to 8pm as most of the *mandis* are operational till that time. This would also discourage dabba trading.
2. Exchanges should send trade confirmations/MTM obligation to clients directly as they have the necessary information about the clients through UCC uploads.
3. Members expressed concern over huge illegal trading taking place outside the exchange platforms (dabba trading). Chairman informed that the Commission is

taking action wherever complaints are received. The Commission is also taking steps to create adequate education and enforcement awareness among Police. He urged Members also to educate their clients. Once the FMC is strengthened after FCRA amendment, the Commission will be in a position to take strong action against the dabba traders.

4. Exchanges should allow spread contracts to be traded instead of trading both the legs separately. This could be allowed in a few commodities and not allowed for far months.
5. ATS facility should be given to all the members and the cost can be included in the annual subscription charges as the cost of ATS is very high and only large brokers are cornering the volumes.
6. There should be cap on the number of members each exchange can have. Entry barriers should be tougher with high networth requirements and membership fee should not be reduced, so that competition is healthy and there are a lesser number of defaults.
7. Inter-exchange delivery similar to the securities market should be made possible. Warehouse rent increases once the commodity is in the post-FED period but no notice is issued to the clients. Besides, quantity and quality delivered by the warehouse are not in tandem with the contract specifications. Exchanges should intervene to ensure delivery of commodities as per contract specifications, and DPs should inform the clients directly through SMSes about the status of delivery.
8. Transaction charges should be uniform across exchanges and should be flat.
 - 8.1 Exchanges should abolish annual subscription charges and increase transaction charges.
 - 8.2 There should be uniformity in member client agreement across exchanges and a single form for all exchanges.
9. Inspection teams should be from the exchanges because confidentiality of data is a critical issue. Besides, the auditors are not well versed with the business practices of commodity futures markets.
 - 9.1 The exchanges should not charge audit fee from the members.

10. The penalty structure is excessive particularly for small traders. Members requested for rationalization of penalty structure.
11. Members requested for permitting PMS (Portfolio Management System), the parameters of the portfolio may be restricted.
12. Mini contracts may be allowed in agri commodities.
13. Market making should be allowed for one or two years, in new and illiquid contracts, as followed as a practice globally.
14. The interest accrued on security deposit of Rs.50 lakh should be credited to the members.
15. There should be more margins in case of metals and bullions.
16. A common KYC form may be prescribed for all the Exchanges
17. Tick size may be reduced in liquid contracts. Large tick sizes are helping dabba trading in these commodities.
18. Often members who has huge turnover surrender/ transfer their membership. Such cases need to be scrutinized to see if any irregularity such as non-payment of stamp duty has been committed.

The meeting concluded with the summing up of the proceedings and vote of thanks to all the participants by Shri Ramesh Abhishek, Member, FMC.

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