

## **Minutes of the Meeting of the Forward Markets Commission and National Commodity Exchanges with the Members of the East Zone held at Kolkata on 28.5.2011**

A meeting with East Zone-based members of the National Exchanges was convened on 28<sup>th</sup> May 2011 at Kolkata. 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 40 members of the National Exchanges in the East 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. Chairman gave a brief overview of commodity market in last one year. The Commodity market grew 54 % during 2010-11 and the turnover was around ₹ 120 lakh crores. But, the growth in different sectors of market is not uniform. The growth in bullion market is exceptionally high. The agricultural sector grew at a steady rate of 20 % .Chairman expressed hope that commodity market will stabilize and settle down from the traumatic experience of 2007-2009 and the agricultural market will also show better growth in the coming years. On FCRA amendment, Chairman informed that the Bill has been referred to the Parliamentary Standing Committee. The Committee had detailed interactions with the government, the Commission and various stakeholders. The Bill is expected to go to Parliament for passage in November-December session. Globally, the commodity market was very bullish till a few months back particularly in energy and to lesser extent, in cereals and sugar. Since then, the sugar and wheat prices have declined substantially. The global economic recovery is not very strong except in countries like China, India and Brazil. Europe is in serious trouble and liquidity is tight. It is expected that commodity market will remain subdued and less volatile in coming months.

Chairman informed that during previous meeting, a large number of issues were raised by members. The transaction charges uniformity is always an issue with

Kolkata members. Chairman informed that the Commission would not like to prescribe a single rate as the same will not be in the interest of the markets and there should be some incentive for people to do better. At the same time, the gap between big members and the small members should not be too wide. The Exchanges on their own are moving towards more moderate rates and it is expected that competition and growth in market will bring more moderation in transaction charges.

Speaking on the issue of frequent suspensions, Chairman informed that out of 9 commodities suspended from time to time from 2007-2009, only Tur, Urad and rice are under suspension at present. This is not the right time to lift suspension of Tur and Urad. Regarding rice, Chairman informed that rice contracts were never liquid and exchanges should do some research and come out with the kind of rice contract to be launched that can bring in liquidity. He suggested that there can be region/State specific contracts as no single variety of rice represents all India rice market.

Chairman informed the members that during January-February when the prices of onion and some other commodities were rising, there were demands from some critics to suspend some commodities at least symbolically, though none of the commodities whose prices were rising was traded in Futures. There is a group of people who want the suspension of some commodities in spite of all the evidence in the favour of the market. However, we could withstand the pressure of suspending the commodities. There is a growing awareness among political class that the futures market is being blamed unnecessarily. Chairman urged the members to create public opinion against this kind of wrong propaganda. Chairman, further, added that we will continue to regulate the market in conservative and strict fashion and will not allow the market to deviate from the market fundamentals.

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

**1. Options in commodities should be allowed as it is very critical for the growth of already saturated market.**

*The options ban is embedded in the Act itself and so it is linked to the amendment of the FCRA.*

- 2. Members need to have more than one ID (apart from TWS ID, ID for System Trading) and the present system requires that each ID should be in separate user name with PAN and members are forced to take IDs in name of some other persons. The members should be allowed to have multiple IDs in the name of single user.**

*It was informed that multiple IDs are not allowed as there were instances of misuse in the past. Member was asked to send detailed note on this issue suggesting a system where need for multiple IDs requirement can be met without possibility of misuse. (Mr Vivek Bajaj of Kredent Commodities Pvt Ltd)*

- 3. Members expressed concern over late response of exchanges in increasing margins when silver prices were highly volatile. While exchanges are very proactive in raising margins in agro commodities, in case of silver the margin was raised only after COMEX increased the margin. Exchanges should be more proactive in increasing the margins.**

*As no senior officer from MCX was there to offer comments, the Chairman informed that we will look into the margin issue in bullions.*

- 4. Volatility and prices of gold has increased, but the margin has not increased. It was suggested to increase margin on gold. Members suggested that initial margins should be increased and special margins should be invoked for small volatility for better risk management. It is difficult for members to convince the clients about the margin requirement and it was suggested that, like stock market, the exchanges should upload the margins, this will help the members in collecting the margins from the clients.**

*Members were informed that the suggestions will be examined.*

- 5. Once the client details are uploaded, MCX provides the Unique Client Code (UCC) download file as soon as possible. But NCDEX is taking lot of time in providing the download file. For corporate client, NCDEX requires details of Directors and bank details to be uploaded, whereas in MCX it is not required.**

- 6. In case of bullion, there are no warehouses in Kolkata and the sales tax lawyers in Kolkata are not willing to take Ahmedabad Sales Tax files and members face difficulty in filing returns.**

*Member was asked to send the exact problem. (Mr. Samrendra Bhattacharya, CD Commodities)*

- 7. Additional Base Capital (ABBC) should be allowed to be deposited after 10 am, which is the normal time for pay-in/pay-out. This will allow members to collect money from the client.**

*The member was informed that this is not feasible and it will create more problems.*

- 8. It was suggested to open more delivery centers for bullions.**

- 9. One member explained that in international commodities like silver if overnight silver falls 8% in global market, next day morning Indian market opens at 4 % below the previous day closing price, because circuit limit does not allow a fall of more than 4 %. So, clients end up buying at 4% higher than price what it ought to be. The member suggested that the market should open at the price at which it is trading at outside market.**

*MD of ICEX suggested that there should be 10 to 15 minutes pre opening session and price decided in that session should be the opening price of the market, which will be truly reflective opening price.*

- 10. One member raised the issue of price difference in silver traded internationally and in India. He informed that the price at which silver traded in India is higher compared to price at which silver trades internationally, though it follows international price.**

*It was explained that while converting from international price to domestic price, customs duty and freight element has to be added, and so price will be higher than the international price.*

- 11. One member suggested that for better risk management, the working hours should be reduced and intraday trading margin should be less and margins on overnight positions should be more.**

- 12. One member asked about the maximum limit upto which prices can go up, if internationally price rises by 13 % will the price be allowed to increase at par with international price?**

*It was explained that for price increase beyond 9 %, Exchanges have to take permission from FMC. Such cases will be rare, but in the interest of members and clients, FMC will give permission.*

- 13. One member informed that algo trading is limited to big members and he expressed concern that this will lead to a situation where a few big members will monopolise the market.**

*Members were asked to send details regarding the algo trading. (Amit Agarwal, Shivmangal Commodities)*

- 14. The exchange audits are completed in one or two days, whereas the auditors doing audit on behalf of FMC are taking lot of time to complete the audit and they are insisting for soft copies of all the records. Are members required to maintain the soft copies of all the back office files received from the exchanges?**

*The Chairman agreed with the members that the audit should be participatory in nature and conducted at members office. The auditors should be conversant with the commodity market functioning. The Chairman assured that the Commission will take corrective steps.*

- 15. Some members requested for launching mini contracts in copper and crude.**

- 16. One member raised the issue of the new Exchanges attracting liquidity.**

*ACE and ICEX responded that competition brings efficiency in the market and that their Exchanges are making efforts to develop the market and over period of time, they will gain liquidity.*

- 17. Members enquired about the regulation of spot market. It was informed by some members that spot exchanges are allowing trading today in contracts opening on 35<sup>th</sup> day and MTM is also being collected.**

*The Chairman informed that the spot exchanges are electronic mandis who have been given limited permission by central Government under section 27 of FCRA to square off positions on the same day. The contract is squared off*

*or settled on the same day. They cannot charge MTM nor have overnight permissions. If they are doing so, then they are violating the permission given to them. This will be looked into. As far as regulation of spot exchanges is concerned, FMC has limited role as they have been given permission under section 27, for delivery related matters they are under control of respective State Governments.*

**18. One member raised the issue of Pro ID's being issued to non – branch offices. Those members misuse the facility by providing Pro ID's to sub brokers.**

**19. TOC should be uniform or else arbitrage firms lose traders to big members and find the environment not competitive.**

**20. Most of the members suggested that there should be no trading on Saturday. There were various suggestion regarding timing of trading, some members suggested that trading time should be reduced, whereas some members suggested that trading should be for 20 hours/24 hours/following Japanese trading time. Members also suggested that we should either follow Indian holidays or international holidays.**

**21. Members enquired about stamp duty and its applicability. It was also suggested that a summarised circular giving details as to which states are levying stamp duty and which are not should be issued by FMC and placed on the website.**

*Chairman informed that the Commission is in talks with Maharashtra Government in this regard and Maharashtra Government has agreed to re-examine the issue. Chairman also clarified that stamp duty is applicable as per the location of transactions irrespective of registered office location. He informed members that the information regarding stamp duty will be put up on the FMC website.*

**22. Member (RA) informed members that the website of FMC is being updated and invited suggestion from the members regarding what additional information they would like to be put up on the FMC website.**

The meeting concluded with the summing up of the proceedings by Shri Ramesh Abhishek, Member, FMC. He thanked the members for their useful suggestions, comments and feedback and assured them that the Commission will be looking into these matters. He requested the members to send their suggestion later on also as it is a continuous process of improving the regulatory regime.