

REPORT
OF
THE FORWARD MARKETS
REVIEW COMMITTEE



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CTORATE OF COMMERCIAL PUBLICITY
OF COMMERCE, GOVT. OF INDIA, NEW DELHI



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REPORT
OF
THE FORWARD MARKETS REVIEW
COMMITTEE

MINISTRY OF COMMERCE,
GOVERNMENT OF INDIA, NEW DELHI

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REPORT OF THE FORWARD MARKETS REVIEW COMMITTEE

CHAPTER I

INTRODUCTION

Appointment of the Committee

The Forward Markets Review Committee was appointed on the 16th February, 1966 by Resolution¹ No. 35(2)-Com/(Genl/(FMC)/65 of the Government of India in the Ministry of Commerce, with the following terms of reference:—

- (a) to review the working of the Forward Markets Commission during the last 10 years, to find out the extent to which the Commission has been able to carry out the objectives as embodied in the statement of Objects and Reasons of the Statute,
- (b) to assess the role that the forward markets can play in future in the light of the changed economic conditions in the country,
- (c) to suggest amendments to the existing Act in order to effect improvements,
- (d) to examine and suggest what other functions can be entrusted to the Commission.

1.2. We were asked to submit the Report within six months. As our review progressed it became clear to us that the issues before us were very complex and their detailed examination could not be completed within this time limit. We therefore requested Government to grant us an extension upto the 15th November for submitting the Report. We are grateful to Government for acceding to our request.

Method of enquiry

1.3. The Committee issued two questionnaires², one for the recognised associations and the other for the registered associations. We also invited the views of the State Governments, the concerned quasi-Government bodies, the Chamber of Commerce and other institutions as well as of a large number of individuals having intimate knowledge or experience of the problems before

¹The text of the Resolution is given in Appendix I.

²Copies of the questionnaires are given in Appendix II.

us. We issued press notes in April and again in August, inviting members of the public to forward any useful information or views on the issues before us. The following table gives the number of the written replies received¹:—

TABLE I
Written Replies Received

Source	Number of replies received
(1) Recognised associations	28
(2) Registered associations	28
(3) Other institutions	31
(4) Individuals	38
Total	125

Visits and Meetings

1.4. The Committee held in all ten meetings, the first on the 5th of March and the last on the 29th October. The Committee visited Ahmedabad, Rajkot, Surendranagar, Calcutta, Bombay and Delhi and held discussions with the concerned interests with a view to studying the local problems at first hand. During these visits, the Committee met the Minister for Agriculture of the Gujarat Government, the Chief Ministers of West Bengal and Maharashtra and the Union Ministers for Commerce and for Food and Agriculture. An opportunity was also given to the representatives of the concerned associations at other places to meet the Committee for giving oral evidence².

Scheme of the Report

1.5. We should like to explain the scheme for the chapter sequence in the Report. One of the terms of reference asks us to assess the role that the forward markets can play in future in the light of the changed economic conditions in the country. At the outset we found that the term 'forward markets', which has been used all along in India to describe the institution and the trading device, introduces an avoidable confusion in the discussion of the subject. We therefore felt that it would be helpful to begin the Report with the definitions of various contracts which clearly indicate their significant characteristics (Chapter II). The definitions accepted by us are in consonance with international

¹A detailed list is given in appen 'ix III.

²A list of the associations and persons whom the Committee met is given in Appendix IV.

usage. After, so to say, clearing the decks, we approach the main question of the role of futures trading and futures markets, particularly in the context of the developing economic situation and policy in the country. Here our main conclusion is that they have a positive economic role, but, at the same time, we fully endorse the need for their strict regulation, as is being done in all parts of the world where they are in vogue (Chapter III). Our next task is to review the working of the Forward Markets Commission during the last 10 years. The working of the Commission is governed by the Forward Contracts (Regulation) Act, 1952. The Act and the Rules framed under it have established a chain of authority from the Central Government and the Commission to the recognised/registered associations for the purpose of regulation. In Chapter IV, we examine this scheme of regulation. Several instruments of regulation have been used to ensure healthy trading on the futures market and in the interest of certain economic policies followed by the Government. In Chapter V, we enumerate these instruments, examine their application and give an overall assessment of their efficacy in meeting the purposes they had in view. Our major recommendations for improvement in the scheme of regulation of futures trading, particularly in regard to the status of the regulating authority and the distribution of powers of control between the various agencies charged with the responsibility of regulation, are contained in these two chapters (Chapters IV and V). In Chapter VI, we make a few important suggestions for determining the suitability of commodities for futures trading and for the selection of centres for such trading. We also examine some of the trading practices with a view to improving the structure of the futures contract in Chapter VII. In Chapter VIII, we examine some general questions which have a bearing on the efficient working and regulation of the futures markets. The concluding chapter (Chapter IX) summarises the conclusions and recommendations prefaced by a statement of our overall approach to the problem.

Acknowledgements

1.6. The Committee would like to place on record its appreciation of the highly competent secretarial assistance it received from its Secretary, Shri D. R. Pendse and his two very able assistants Smt. S. M. Rege and Shri V. S. Borwankar, Research Officers in the Commission. We may here add that Shri Pendse and his colleagues, in addition to the routine secretarial assistance, prepared an immense amount of background material and systematically tabulated the replies to our questionnaires and the points made in oral evidence. The entire staff of the Forward Markets Commission extended full co-operation to the Committee's work, occasionally working overtime. We are grateful to

the Commission for placing the services of its staff at our disposal, whenever needed.

1.7. The Committee received very valuable assistance from Shri M. G. Pavaskar, Senior Research Officer in the Forward Markets Research Unit in the Department of Economics of the University of Bombay. Shri Pavaskar prepared several notes on the various issues before the Committee. The notes have proved very useful as background material for the study of the problem and in the preparation of the Report.

1.8. Our thanks are due to the associations for submitting written memoranda setting forth their views on matters before the Committee and to their representatives who met us to discuss specific issues. To all those persons who replied to our questionnaires and took the trouble of meeting us individually, we convey our thanks. We also wish to thank the Minister for Food & Agriculture and the Minister for Commerce, the Chief Ministers of West Bengal and Maharashtra and the Food Minister of Gujarat and officers of the State Governments for sparing the time to meet us and sharing with us their views.

CHAPTER II

TYPES OF CONTRACTS

Need for clear distinction

2.1. For understanding the rationale of the regulation of a futures market, it is necessary, at the very outset, to distinguish such a market from a market in which ready¹ and specific delivery forward transactions take place. In our view, a good deal of confusion about the need and purposes of regulation of what is termed as 'Forward Markets' has arisen, mainly due to the lack of precision in the definitions of the different types of contracts that are in vogue for the sale of commodities. It is therefore essential, for the purpose of this Report, to spell out clearly the distinction between the various types of contracts with respect to their meaning and objectives.

Ready contracts

2.2 It is usual to make a distinction between a 'ready' and a 'forward' contract on the basis of the actual time interval between the entering into a contract for sale and the delivery of goods against it. According to this norm, a ready contract is one where both the delivery and the payment are made either immediately or within a short period after the contract is entered into. Forward contracts, on the other hand, are said to be contracts that contemplate deliveries at a much later date from the date of entering into the contract. If under a contract, the commodity is to be delivered not immediately or instantaneously but within a day or two or a week, the contract should be regarded strictly as a 'forward' contract. In actual practice, however, such a contract is recognised as a ready contract. This is because some delay in effecting delivery is unavoidable especially if the contract involves delivery of goods which are either heavy in weight or large in volume. Under the Forward Contracts (Regulation) Act, 1952, the delivery of goods and the payment of a price have to be made against a *ready* contract within a period not exceeding eleven days after the date of the contract.

N.T.S.D. Contracts

2.3. In the marketing of commodities, it also becomes necessary in many contracts to provide for delivery at a future date, the period varying anywhere upto 3 months or even more. In all

¹Sometimes referred to as 'cash' or 'spot'.

other features like the fixation of quality, quantity and price, these 'forward' contracts resemble the 'ready' contracts. The Forward Contracts (Regulation) Act specifies two types of such forward contracts, viz., the non-transferable specific delivery (n.t.s.d.) contracts and the transferable specific delivery (t.s.d.) contracts. In the case of an n.t.s.d. contracts, as defined at present under the Act, it is essential that the contract should not only provide for the actual delivery of goods at the specified future date, but the delivery should be made and received only by the seller and the buyer whose names are mentioned in the contract. Neither of these parties could transfer their rights or liabilities under the contract to any third person, nor could the buyer transfer, by endorsement or otherwise, any delivery order, railway receipt, bill of lading, warehouse receipt or any other document of title to goods received in delivery of any such n.t.s.d. contract. In other words, the buyer must use the delivery order etc. received from the seller for the purpose of obtaining the actual physical goods. N.t.s.d. contracts are also not intended to be settled by payment of differences.

T.S.D. contracts

2.4. A Transferable Specific Delivery contract has all the features of an n.t.s.d. contract, except that it permits the parties to the contract to transfer their rights or liabilities under the contract or under a document of title to goods received under the contract to any third party. Such a third party, in turn, can transfer his rights or liabilities to some one else. This process of subsequent transfers can continue (unless the total number of such transfers in any commodity is otherwise restricted by the appropriate authorities) till the seller gives delivery in terms of the contract. As a result, the delivery is, in effect, given by the first seller to the last buyer, while the intermediate parties virtually settle their contracts through the payment of price differences.

Futures contracts

2.5. The type of contracts, which all over the world have been subjected to social regulation, is the 'futures' contract which has some special features distinct from both the t.s.d. and the n.t.s.d. contracts. The Forward Contracts (Regulation) Act has left the 'futures' contract undefined. By implication, however, a futures contract may be defined as a forward contract which is not a specific delivery contract. Although a precise definition of the term 'futures contract' has proved a difficult exercise, it can be easily described with the help of some of its principal characteristics. Unlike the common merchandising contracts, in which both the buyer and the seller have a clear intention of

taking and giving delivery of actual goods, the dominant purpose of the futures contract is not to take or give delivery of goods, but to square up the (long or short) transaction and make a settlement on the basis of the change in the price. Though giving or taking delivery is not generally a feature of a futures contract, sellers have the option to give the delivery of goods during the 'delivery month' and the buyers are required to accept such deliveries when offered. All contracts for sale, not previously settled, have to be settled during the delivery month, either by a corresponding buying contract or through the actual delivery of goods. On the due date, all outstanding contracts are settled at the due date rate fixed by the market authorities; and the sellers with unfulfilled sales have to pay a penalty for non-delivery. These provisions are made with a view to preventing the business from developing into wagering contracts, but more importantly to maintain a close link between the prices in the spot and the futures markets.

2.6. Apart from the foregoing important distinctions in the matter of delivery of goods and the manner of performance of the contract, there are other distinguishing features of the futures contract. All such contracts are invariably entered into for a standard variety—known as the basis—though other varieties within a stipulated range are permitted to be delivered with appropriate premia or discounts for their quality difference from the 'basis'. The contract is always entered into under the rules and regulations of an association or exchange organising trading in such contracts. These rules prescribe, *inter alia*, the units of quotation and trading, delivery periods and their duration, delivery centres, the manner of issuing delivery orders, procedure for clearing, survey and arbitration, etc. In short, a futures contract is a highly standardised contract; and what remains to be determined by the parties through negotiation when they enter into such a contract is only the price and the quantity to be bought or sold. On the other hand, in the case of other forward contracts (like the n.t.s.d. and the t.s.d.), although they are often entered into under the rules and regulations of some association, the parties to the contract before entering into any such contract, have also necessarily to negotiate and determine—(i) the specific grade or quality of the commodity to be bought and sold, (ii) the period of delivery, (iii) the place of delivery and (iv) the terms of payment, besides deciding upon the price and the quantity to be covered by the contract.

Distinctive Features

2.7. Now that we have defined the main characteristics of the different types of contracts, the distinction between them may be clearly indicated. A non-transferable specific delivery

contract is not far different from a ready delivery contract in either the manner of entering into it or the mode of its performance, except that the delivery of the goods in the case of the latter is always effected within 11 days after the date of the contract, while in the case of the former it is effected on a stipulated future date which is beyond 11 days from the date of the contract. The transferable specific delivery contract is a hybrid between the ready and the futures contract. It is similar to the ready contract in that both specify the detailed description of the commodity traded, such as its staple class, place of origin, etc. It is also similar to the futures contract in that it is transferred from party to party and therefore is generally settled by way of payment of differences in price so far as the intermediate parties are concerned.

2.8. The distinction between the different types of contracts can also be explained on the basis of the purposes for which the respective contracts are entered into. Thus, the ready and the n.t.s.d. contracts are mainly entered into for genuine buying and selling of physical goods. A futures contract, on the other hand, is primarily devised as a medium of insurance against the risk of price fluctuations. Such contracts are therefore meant to be used not for the buying and the selling of the physical goods, but for hedge and speculative purposes. A t.s.d. contract is no doubt entered into by the original seller for the sale of actual goods; but settlement through price difference, and not delivery of goods, is the dominant mode of fulfilment of this contract.

Present approach to regulation

2.9. Despite the many distinctive characteristics of the different types of contracts the present law relating to the regulation of such contracts seems to focus attention on only one characteristic viz, the time element involved in fulfilling these contracts. Under the Forward Contracts (Regulation) Act, while the contracts for immediate delivery (i.e. the ready contracts) are excluded from the sphere of regulation, the contracts for deferred delivery (i.e. the futures, the t. s. d., and, through an enabling power under the Act, even the n.t.s.d.) are brought under the statutory regulation. In our view, it is not correct to base the system of social regulation of the different types of contract by reference to a relatively minor characteristic (deferred delivery) that has little meaningful distinguishing value.

2.10. The present distinction between the ready and the forward contract is also imperfect in that it does not cover all types of forward contracts. Thus, for instance, until recently in Saurashtra and Madras, a type of forward contract known as the 'Jangad' or the 'Unfixed' contract was very much in vogue in

groundnut.¹ Under these contracts, a farmer used to deliver his produce with a merchant or a crushing mill, but retained his right to choose some future day with reference to which the price of the contract would eventually be fixed. When he exercises the choice, the price would automatically be determined at a specified margin above or below the price ruling in the stipulated futures or spot market. Such contracts were usually entered into by the farmers in anticipation of higher prices; at the same time, they were absolved from the trouble and expense involved in storing the produce. In most cases, they also used to receive a part of the value of the goods immediately on delivery, either by way of loan or a part-payment of the price to be determined in future. These unfixed price contracts, however, could not be strictly regarded as n.t.s.d. contracts, as goods used to be always delivered against them immediately and not at a future date. Nor could such contracts be termed as ready delivery contracts, because under the present law, it is compulsory in case of ready contracts both to effect the delivery and to pay the price within a period of 11 days.

2.11. The emphasis on the time-element for distinguishing the contracts also led to a view that the n.t.s.d. contracts are not much different from other forward contracts. Partly due to widespread illegal trading, but mainly because of the fear of diversion of speculative activity from the futures contracts to n.t.s.d. contracts, on the imposition of severe restrictions on trading in the former, similar regulations were imposed on the n. t. s. d. contracts as well in some commodities. In the process, occasionally even the legitimate business activity has been hampered, affecting adversely both the orderly marketing of many commodities from the primary assembling centres and the subsequent merchandising, processing and manufacturing operations of the different functionaries in the trade. In our view, n.t.s.d. contracts represent a normal routine type of business practice and there is nothing in the nature of this type of contracts which would ordinarily need a special type of Governmental regulation or control. In fact, the bulk of the actual distribution from the assembling stage to the final stage of industrial consumption or exports is done on the basis of these contracts.

Recommendation

2.12. In view of what is stated above, we suggest that for the purpose of regulation, the classification of the different types of contracts should be based not in terms of the timing of delivery

¹With the virtual stoppage of futures trading in groundnut, these contracts have now disappeared.

against such contracts, but by reference to the purpose for which they are entered into and the mechanics of their execution. In other words, the basic principle of the classification of contracts should be whether the contract is used primarily for giving and taking delivery of actual goods, or whether it is usually settled by payment of differences in price and is used basically for purposes like hedging and speculation. Clearly, both the spot and the so-called n.t.s.d. contracts belong to the first type, and the futures as well as the t.s.d. to the second. We recommend that principally the business in the latter types of contracts (i.e. the futures and the t.s.d.) alone should be brought within the purview of the regulatory jurisdiction of the Commission. The ready as well as the n.t.s.d. contracts should be outside its purview.

2.13. As stated earlier, the n.t.s.d. contracts, as defined at present, are direct party-to-party contracts, and neither such contracts nor the documents of title to goods received thereunder are permitted to be transferred. We, however, find that even in the normal marketing arrangements, a limited number of transfers are often unavoidable. Under the prevalent system of marketing of commodities, many of the buyers in the terminal markets make purchases in the up-country markets through their commission agents at such up-country centres. These purchases are generally made on 'pucca adat' (i.e. principal to principal) basis with the commission agents. The latter, in turn, purchase the goods from the local merchants. There is no direct privity of contract between the terminal buyer and the up-country merchant, and the commission agent is responsible to both the parties for the performance of the contract. In all such cases, at the time of delivery of goods, the railway receipt (or any other document of title to goods) pertaining to the contract is sent by the up-country seller in the name of the commission agent who endorses it to the ultimate buyer in the terminal market. Though such contracts are genuine merchandising contracts against which delivery of goods is actually given and taken, under the present law they cannot be termed as n.t.s.d. contracts; and since the documents of title to goods received thereunder are transferred, the performance of such contracts, in fact, results in violation of the law. Moreover, in many n.t.s.d. contracts, it is usual for the seller to send his document of title to the buyer through a bank. For that purpose, he generally draws a bill of exchange on the buyer, and obtains against it an advance from the banker after having endorsed the document of title (like the railway receipt) in the banker's favour as a collateral security. Unless the banker has his office at the place where the bill is to be presented to the buyer for payment or acceptance, he further endorses the documents in

favour of his 'correspondent' bank so that the latter can transfer all the rights in the documents to the buyer, on payment or acceptance of the bill. Thus, in the very nature of business, two or three transfers of n.t.s.d. contracts are inevitable.

2.14. We are aware that the permission to effect even a limited number of transfers under the n.t.s.d. may open the gate for speculation. This risk has to be taken, for, not to allow any transfer would be tantamount to making even a genuine and normal business practice illegal. The present legal provision, which does not permit any transfer, has inevitably led to the adoption of many dubious practices by the trade for the evasion of law and has given a lot of headache to both the Government and the Commission in trying to enforce the law.

2.15. Taking all these factors into account, we recommend that in this type of forward delivery contracts, one transfer in addition to all transfers in favour of or by banks which obviously could not be speculative in nature should be allowed. If this recommendation is accepted, the nomenclature of this contract will have to be suitably changed. It will no longer be a non-transferable contract. We suggest that it may be called Specific Delivery (Forward) Contract (S.D.F. Contract). At the same time, the contract may be defined in such a way that, *inter alia*, it would require either the delivery or the payment of price to be made at a future date so as to cover the 'Jangad' or the 'Unfixed' contracts described earlier. The word 'forward' will distinguish it from the ready delivery contract in which both the delivery and the payment of price must be effected immediately or within a specified limited period. As in the case of the ready delivery contract, the variety contracted in the proposed S.D.F. contract will be specific, though, as suggested earlier, a limited number of transfers would be permissible. The provision to stipulate a specific variety will distinguish this contract from the futures contract which permits transactions on the basis of only a single standard (or, 'basis') variety.

2.16. The contracts entered into under the auspices of a recognised commodity exchange or an association in terms of a basis variety and used for the purposes of hedge and speculation, may be called 'futures contracts'. The use of the word 'forward' in their case should be avoided.

2.17. There is some difficulty in classifying the contract at present known as the Transferable Specific Delivery Contract. This contract is used both for settlement as well as delivery. But under it, since the delivery of goods takes place only once, while settlements between the intermediate parties to the contract are

many, we prefer to classify this type of contract under the 'settlement' and not the 'delivery' type of contracts. We are aware that sales for the delivery of goods at a future date against the t.s.d. contract has been a feature of the jute goods trade for many years and has been carried on an extensive scale. It is understood that the jute mills usually sell under such contracts more than half of their production the balance being sold generally against ready delivery contracts. But in so far as the Dock Receipt or the Mate's Receipt or the Railway Receipt or a Pucca Delivery Order, received by the buyer under such a contract, is freely transferable from party to party until the last buyer exercises his right to obtain the goods, such a contract necessarily attracts large speculative activity. We, therefore do not wish to exclude these contracts, as a rule, from the purview of Government regulation. We further suggest that, as delivery (excepting between the first seller and the last buyer) is not of the essence of these contracts, they may be called Specific Transferable Contracts (S.T. Contracts).

2.18. As we have maintained that it is not a material characteristic of futures trading whether delivery of goods is immediate or distant in time, we recommend that the title of the regulating Act should be the Futures Markets (Control) Act (The F.M.(C) Act) and not the Forward Contracts (Regulation) Act. (The F.C.(R) Act). Similarly, the name of the authority administering the Act should preferably be the Futures Markets Commission instead of the Forward Markets Commission.

2.19. All types of contracts/business which are to be within the purview of regulation of the Futures Markets Commission shall be specified under the F.M.(C) Act; and all such trading should be permitted only under the auspices of associations/exchanges recognised under it. We learn that the Forward Markets Commission has also made a similar proposal. Any *other* business under whatsoever type of contracts which assumes a predominant character of settlement in price difference and in which delivery of actual goods either does not take place or forms a subsidiary element, whether conducted under the auspices of the recognised bodies or outside, may be declared illegal. If, for example, it is established that under the proposed S.D.F. Contracts, (presently known as N.T.S.D. Contracts), more than the stipulated number of transfers have been made, such transactions would be illegal.

2.20. It has been urged upon us that under certain peculiar circumstances, it may be necessary to bring even the n.t.s.d. business within the purview of regulation. Firstly, in times of acute shortages (or excess supplies) large purchases (or sales) may be made even by genuine market functionaries in S.D.F. contracts. The Government may then feel the necessity to control

trading in such contracts with a view to regulating the prices of the commodity concerned, and ensuring a more equitable distribution thereof. Any such regulation, however, is far different from the regulation of futures trading which aims at curbing excessive speculation and preventing manipulations and corners therein. We feel that the regulation of the former kind need not be mixed up with that of the latter; and may be resorted to by the Government whenever necessary and in any manner as the Government may deem fit.

2.21. Secondly, it is alleged that whenever somewhat severe restrictions are imposed on futures trading, such business shifts to the n.t.s.d., and the contract is in reality used for speculation. The present method of tackling this problem is to bring the n.t.s.d. business within the purview of the Commission by applying to it Section 15 of the Act. This has not proved to be the best method of controlling this aberration. The illegal overtone in the business does not just disappear on the application of Section 15. We would therefore suggest that the Government should tackle this problem as it would tackle other forms of major illegalities under the Act, like option trading, preferably by declaring it to be a cognizable offence.

Option Trading

2.22. A type of forward contract which we have not so far covered and which has been explicitly prohibited by the present legislation is the 'option' contract. An option contract is a contract for the right to buy or the right to sell the 'futures' contract at any time upto a certain specified future date at the choice of the buyer of the option and at a price agreed upon when the contract is entered into. An option contract therefore, does not involve the actual purchase or sale of the futures contract until the option is actually exercised by its buyer¹.

2.23. It has been strongly urged before us that option trading should be legalised. The arguments put forth for legalising option trading are five. Firstly, it provides an insurance to the trade by limiting losses due to variations in the prices of futures contract. Secondly, the premia on options indicate the state of the market. Thirdly, it has influence on the future a stabilising prices. Fourthly, it keeps the futures market broad and liquid by increasing the volume of turnover due to the small premia on the option purchase or sale enabling small operators to participate. Lastly, despite the ban on option trading, it is being conducted on a fairly large scale at a number of places in the country,

¹A detailed description of option trading and of the manner in which the business is operated is given in the *Forward Markets Bulletin*, (August, 1959).

and, as such, both from the administrative and practical view points, it is advantageous as well as desirable to legalise option trading. To strengthen the case, mention is made of the fact that the London Stock Exchange has permitted option trading since October, 1958.

2.24. We have carefully considered this suggestion of the trade. We have also taken into consideration the earlier views expressed on the subject by various committees like the Wiles Committee, the Cabinet Committee of the then Government of Bombay, the Expert Committee on the Futures Markets (Regulation) Bill 1950, etc. The argument that option trading provides a hedge to the speculator against fluctuations in the futures market is untenable in as much as the very purpose of and the justification for his entry into the futures market is to assume professionally the risk of price fluctuations. If it is contended that he too would need some protection in case the fluctuations become violent, it would constitute more a condemnation of the futures market than a justification of options. Futures trading is supposed to even out wide fluctuations and if it itself becomes a victim of violent fluctuations, the proper thing to do is to reform and regulate futures trading and not to take the aberration for granted and seek a dubious protection against it. Further, it is claimed that even a genuine trader often prefers to buy an option as a substitute to the hedge or as an action prior to hedging. This may be true, but our contention is that the futures contract gives such a person all the protection he would normally need and there is no need to extend the chain further. The claim that option trading has a stabilising influence on futures prices has no validity. In fact, the option 'eaters' (takers) are known to manipulate prices to maximise their profits or, if the market has gone against them to limit their losses. The contention that option trading provides a cheap means of insurance against excessive price fluctuations with a predetermined and fixed risk may be accepted, but unfortunately this is also its main weakness. The very facility of small stakes allures men with small and insufficient means to gamble through options. Any one who is well acquainted with option traders and is frank enough to tell the truth, will admit that the greater part of trading in options is done by those operators with limited means who hope to reap quick profits by betting on price changes. In all our deliberations, we have not conceded the plea for legalisation of any business on the ground of the prevalence of large-scale illegal trading. The utility of any trade practice has to be considered mainly on its contribution to efficient marketing and not merely on the ground that if not legally permitted, it will be pursued clandestinely. The urges for illegal

trading are numerous and the existence of illegal trading cannot be an adequate basis for the justification of legalising it.

2.25. In the United States, option trading of any kind, so far as the commodity markets are concerned, has been banned under the Commodity Exchange Act. Similarly, option transactions in securities and share are prohibited under Securities Exchange Act. In the U.K., there is no statutory enactment to regulate and control forward trading in either the commodity exchanges or the stock exchanges. As such, the question of permitting or prohibiting option trading is a matter to be dealt with by the commodity exchanges or the stock exchanges themselves. While option trading in the commodity exchanges is not much in vogue, it is carried on in the stock exchanges. The London Stock Exchange, which is the principal Stock Exchange in the U.K., has resumed option trading in stocks and shares since October 1958. The main reason for its resumption was the sharp decline in business turnover in the post-war period. The futures markets in India, if properly organised, would not, in our view, need any such extra stimulus to boost up the volume of business. The argument therefore, that the revival of option trading in the London Stock Exchange should be taken as the basis for a revival of option trading in the commodity exchanges in India, does not appear to be appropriate.

2.26. After careful consideration of all the pros and cons we feel that there is no justification for legalising option trading.

CHAPTER III

THE NEED FOR FUTURES TRADING

3.1. No activity in the economic field is perhaps so little understood as futures trading on organised commodity exchanges. It is desirable that the rationale of this trading activity is spelt out clearly before we examine its role in the present economic set up.

Price Risk and Futures Market:

3.2. An organised futures market is not strictly speaking a link in the chain of the stages of marketing. Many commodities that flow from farms, forests, factories and mines to the processors, manufacturers or consumers scarcely enter the gates of the futures markets. Yet, futures markets exist in several commodities and are often regarded as the *sine qua non* of an efficient marketing system.

3.3. The importance of futures trading arises mainly from the risk-avoidance function which it performs. Risk is inherent in the marketing of all commodities, because it is closely associated with the ownership of goods. Commodity ownership involves three types of risk, viz., (i) damage or destruction of the commodity due to hazards like fire, theft etc.; (ii) quality deterioration in the commodity because of its perishable nature or for want of adequate and scientific storage system; and (iii) loss in value of the commodity following unfavourable changes in prices.

3.4. While the first type of risk is eliminated through the insurance medium, the latter two are not so easily avoidable. The risk of quality deterioration is, however, usually small except in highly perishable commodities, and is, therefore, borne by the commodity owners themselves without much hesitation. But the risk of loss arising out of adverse price fluctuations is not only large but also wide-spread in its effect and so, neither the marketing agencies nor the general insurance companies which indemnify such agencies against fire or marine hazards, are willing to assure such risks. Besides, although it is partly within the powers of the owners of stocks to avoid or reduce through adoption of efficient and secured storage methods the first two risks, the last one is beyond any such control.

3.5. Many ways have been devised by the different market functionaries to avoid the risk of price variations. These include: (a) gathering accurate and reliable information affecting the present and the prospective supply and demand conditions with a view to planning efficiently the stockholding and merchandizing operations; (b) matching stocks by specific delivery 'forward' sales; (c) integrating the functions of different agencies with a view to pooling the risk and thereby reducing its total cost; (d) restricting maximum inventory accumulations, and (e) holding inventories in the form of processed or manufactured commodities instead of in the form of raw material as the prices of the former are less susceptible to wide and erratic fluctuations than those of the latter. These methods aim at either reducing the risk of price variations or shifting it from one market agency to another. In so far as such risk is reduced by these devices, the total marketing cost is undoubtedly reduced; but to the extent it is not actually lessened but merely shifted from one intermediary to another within the actual market channel, the total marketing cost remains almost unaffected with little benefit accruing to either the producers or the ultimate consumers.

3.6. The futures market mechanism was evolved out of the need for transferring the price risks to agencies outside the market channel with a view to reducing the actual marketing cost. For a clear understanding of the process which enables the futures markets to perform this function, we must first acquaint ourselves with the process of marketing of agricultural commodities. As is known, the production of agricultural commodities is seasonal but the consumption directly for the immediate need or for further processing into manufactured goods is continuous all round the year. The commodities therefore need to be stored. Anyone who purchases these commodities at harvest time at a certain price on a commercial scale and stores them to meet the future demand, runs the risk of a probable decline in prices. If he does not wish to speculate in price fluctuations and considers himself as a merchandising man performing the necessary economic function of storage, he would like to immunise himself against the effects of price fluctuations, favourable as well as unfavourable, contenting himself with a reasonable return on his capital and labour. Futures trading, as we shall see, provides him with such a facility.

3.7. The manufacturers and processors have a similar problem. For example, a manufacturer of cloth needs raw cotton throughout the year. He would not, however, like to lock up his capital and godown space by purchasing his entire year's requirements of cotton at the harvest time. And yet, as he cannot go

on changing the price of cloth as often as the prices of raw cotton change *and* would normally be committed to selling the cloth in advance at an agreed price involving an assumption about the raw cotton prices, he too would like to be immune from the effects (adverse or favourable) of the fluctuation in the prices of cotton. Futures trading provides him with the device to obtain such an immunity.

3.8. A similar need for immunity from the risk of price fluctuations exists in foreign trade transactions. Thus, in a number of commodities, export sales are often made 1 to 3 months, or even as many as 3 to 6 months, in advance of the actual shipments. In all such sales, exporters assume considerable risk in respect of both the availability of the commodity and its prospective prices, unless they are in possession of the commodity or purchase it forthwith from the ready market. The latter course is not always feasible, because of difficulties of finance and stock holding. Whenever, therefore, export sales are made, shippers find it necessary to immunise themselves against price risks, and this they do by purchasing an equivalent quantity of futures contracts.

3.9. The process by which the various interests in the marketing of commodities seek to obtain immunity from the risk of price fluctuations is termed 'hedging'. Briefly, a hedge is a countervailing contract transacted in the commodity exchange, through which those who have bought and therefore are long in the ready market (e.g., stockists of raw material) will sell in the futures market and those who have sold and therefore are short in the ready market (e.g., manufacturers, exporters etc.) would buy in the futures market. The basic assumption in this type of business is that the prices in the ready and the futures market move more or less parallel to each other. To the extent they do not, and there are definable reasons why the movements vary—the hedge will not give a perfect immunity from the risk of overall price fluctuations to the hedger.

Non-Insurance Hedging

3.10. A hedge is sometimes—or even often—used for purposes other than offsetting the price risk in merchandising business. Manufacturers of end products frequently use the futures markets for what Holbrook Working calls 'anticipatory' hedging.¹ Such hedges are placed without the hedger having either a corresponding stock of goods or a formal buying or selling commitment in the physical commodity. An anticipatory purchase of hedge contracts ensures the raw material supplies at current prices to the processors and manufacturers and save them

¹H. Working, "New Concepts Concerning Futures Markets and Prices". *The Journal of the American Economic Association*, June, 1962.

the trouble and expense involved in accumulating inventories. Since the prices of the end products do not vary over short periods, there is not much risk in entering into anticipatory hedge purchases of raw materials and the process of manufacture continues uninterrupted without regard to any intermittent upsurge in prices of such raw materials. An anticipatory hedge sale, on the other hand, facilitates the sale of the future finished goods at the current prices (if they are high), and consequently absolve the manufacturer from the subsequent problems of marketing.

3.11. Merchants and processors, who generally match their forward sales with the actual stocks or forward purchases, also hedge their forward sales till such time as they buy the ready goods. In these cases, purchases in the futures markets are preferred to the immediate buying of actual goods because large deals can be effected at the ruling market price at a moment's notice in the futures market, but not in the ready. Such businessmen also prefer to hedge every new purchase in the ready market, as it gives them the freedom to effect subsequently the matching forward sale. These hedges are entered into not so much with a view to avoiding the price risk (although, no doubt, they tend to avoid such a risk also) which is necessarily small, as to simplifying the merchandising operations and facilitating quick business decisions.

3.12. Another form of hedging, frequently resorted to by the dealers and the stockists, is the 'carrying charge hedging'. In this case, a merchant looks at the ready-futures price relationship and decides whether to hold commodity stocks or not. If the relationship is favourable, i.e., it is such as would enable him to earn the carrying charge, he decides to buy the ready goods and hedge them in the futures market. In the converse case, he prefers not to hold stocks. In the words of Working, "whereas the traditional hedging concept represents the hedger as thinking in terms of possible loss from his stock-holding being offset by gain on the futures contracts held as a hedge, the carrying charge hedger thinks rather in terms of change in 'basis', that is, change in the spot-future price relation. And the decision that he makes is not primarily whether to hedge or not, but whether to store or not"¹.

Speculation

3.13. Hedgers are not the only operators on the futures market. As a matter of fact, their operations, since they are a counterpart of actual business requirements in the ready market, are limited and sporadic. Besides, there may be a great

¹op. cit., p. 438.

divergence at a point of time, between the demand (long hedging) and the supply (short hedging). It is the speculator—the professional risk-taker—who fills up the gaps. Without the professional speculator, the futures markets would become narrow and unstable, and would soon dry up. It is this 'speculative' aspect of the futures markets which has given rise to doubts about the legitimacy and usefulness of the futures markets in the economic system, particularly one which has as its objective the establishment of a socialistic pattern.

3.14. It would be beyond the scope of this Report to expound the economic meaning, purpose and utility of speculation as a form of economic activity. But it may be stated that the type of speculation which normally takes place on organised commodity exchanges, if properly regulated, performs a useful function. Apart from anything else, it provides the much needed breadth and liquidity to the futures contract; and we do believe that, except in some special situations, futures trading performs a very useful function by providing hedging facilities which are essential for the orderly and efficient marketing of commodities. Hedging is in fact counter speculation inasmuch as it helps the hedger to avoid the speculative risk inherent in his normal economic activity. As long as the economic system does not operate on the basis of fixed prices (or a very narrow permissible range of prices), there is an element of speculation even in the ready business. Any one, for example—be it a farmer or a marketing co-operative or a trader—who holds stock for future consumption, does take a view, i.e., speculates, on the probable trend in the price movements. The same is true of the manufacturer or an exporter who enters into a forward commitment to supply goods at a future date, when the future supply of his raw material/goods and its price are uncertain. It is only by entering into a hedge contract that he can free himself of the speculative incidence in his business dealings. And in so far as the speculator assists in absorbing any hedge purchase or sale, he undoubtedly plays a useful economic role in the marketing of commodities.

Ideal and Reality:

3.15. It may be contended that ideally the above postulation may be valid, but in reality, things are very different. Even in developed countries where the market mechanism functions with fewer distortions, instances are not unknown when rampant speculation prevailed on the futures market. As recently as in 1958, the United States Congress was constrained to enact a law prohibiting futures trading in onion. This was done on the evidence (though conflicting) that the speculative activity on

the futures market in onions had caused severe and unwarranted fluctuations in its ready price and thus hampered the orderly marketing of onions.¹

3.16. In developing countries, markets are more imperfect, and are infiltrated by a large number of 'luck' speculators and persons with no proper avenues of alternative employment. At some stage, the over affluent economies also reveal similar symptoms. No wonder, the futures markets in India tend to attract some unhealthy and uninformed speculation. But by far the largest proportion of such activity prevails outside the commodity exchanges and no effort to eradicate it has had any noticeable success. In fact, it is our view that not a little of the time and energy of the Forward Markets Commission was spent in the effort to contain such speculation within the four corners of recognised/registered associations and, in the process, even the legitimate normal business (like that in specific delivery contracts) came to be more restricted than it otherwise need have been.

3.17. The point to be considered here is as to whether there is anything like legitimate speculation, that makes a positive contribution to orderly marketing. Our view is that speculation in the futures market which makes hedging—which we consider as counter speculation—possible, does perform an economically useful function. In the absence of such speculation no hedging would be possible and in the absence of hedging, normal marketing would become too risky—in fact speculative—and would, in consequence, adversely affect the interests of the farmers. We further believe that it is possible to regulate the functioning of the futures market in a manner that will keep the speculative activity within bounds of legitimacy and economic utility. Our recommendations in this regard are contained in Chapter V.

Other benefits of futures trading :

3.18. Very often a question is asked : How does the farmer benefit from futures trading? In fact, there is a fairly wide-spread

¹Onion prices reached a high of \$ 2.20 per 50 lb. sack on the 4th February, 1957. On the 6th March, the price of the March futures had crashed to \$.85. But with the futures expiring on the 22nd March, it ruled between \$1.58 to 1.60. The administrator of the Commodity Exchange Authority who investigated the matter, observed that the price movements were mainly the result of a wave of speculative activity and could not be justified by the demand and supply factors.

Working has, however, questioned some of the findings of the CEA and of the Congressional Committee on the issue (H. Working: "Price Effects of Future Trading". Food Research Institute Studies, Vol. I, No. 1 (2960) Stanford University).

belief that the working of the futures markets is inimical to the interests of the farmer. This is not so. As already mentioned, while agricultural production is seasonal, its consumption is continuous and spread over the entire year. If the consumers (primarily the manufacturers) were to restrict their purchases at the harvest time only to their current requirements—which would be a fraction of their total annual demand—there would be a sharp post-harvest fall in prices. The only way to prevent the slump is to hold back the supply which is not currently needed. Any one who does this stocking (the farmer, the trader or the processor) would be assuming the risk of price fluctuations—and therefore speculating. The trader would be willing to buy up the rushing market arrivals at harvest time provided he is able to reduce, if not eliminate, the risk in stock holding. This he can do through hedging on the future markets. In the absence of large purchases at the harvest time by the trader (or even by a non-profit making marketing agency) on the ready market for future consumption, farm prices would slump, adversely affecting the farming interests. Futures trading, by increasing the safety on such forward buying and storage, helps to prevent the post-harvest slump in prices.

3.19. Commodity futures prices, being essentially forecasts of forthcoming events, also serve as a valuable production guide to the manufacturers and the farmers. The merchants too adjust their stock according to the signals emitted by the futures markets. It is in this way that a futures market brings about an effective co-ordination of the current and the future requirements of the community through appropriate adjustment of stocks in the light of the expected supply and demand positions. At the same time, it should be realised that futures price forecasts are always subject to the obvious limitations of human judgement and foresight, and therefore complete reliance on them is not always profitable.

3.20. Further, the continuous quotations in the futures market and the full publicity with which these are released all over the country, ensure a constant close integration of prices between different centres and even between allied commodities. When prices at different centres or of allied commodities are out of parity with one another, arbitrageurs promptly buy in the cheaper market and sell in the dearer one. These operations help in restoring the normal parity.

Need for Futures Trading under Present Conditions:

3.21. Our terms of reference direct us “to assess the role that the forward markets can play in future in the light of the changed economic conditions in the country”.

3.22. We have carefully considered this question. The special circumstances prevailing in India at present may be listed thus : (1) continuing shortage of supplies, often bordering on scarcity; (2) recent developments in the marketing system: growth of co-operative and institutional marketing, state trading, buffer stock building etc.; and (3) controls on prices and marketing: floor and ceiling prices, statutory guaranteed minimum prices, procurement, public distribution through rationing and fair-price shops. In cotton and jute, the Textile Commissioner and the Jute Commissioner often issue directives to the mills regulating their purchases of raw materials.

3.23. It is contended that in a period of chronic shortages and inflationary pressures, commodity prices have an inherent tendency to rise, and rise too steeply. In view of this, the holders of stock would prefer to wait and take advantage of rising prices, rather than hedge and thereby forego the likely profit. Secondly, if, under the prevailing situation, futures trading is permitted, it will merely result in pushing up prices by facilitating speculators to purchase contracts without the investment needed in ready purchases.

3.24. While examining these arguments, it is necessary to take an objective view of the nature and magnitude of shortages. It is true that during the Third Plan period, the production and supply of agricultural commodities lagged behind the demand. Last year (October, 1965—September, 1966) which inevitably dominates our thinking and perspective, has been a year which experienced one of the severest droughts in the history of our farming, with the consequence that there was a severe shortfall in production. This has been reflected in the steep rise in the prices of agricultural commodities. The all-India Index of Wholesale Prices of Agricultural Commodities rose from 121.3 in January (mid-marketing season) 1963 to 164.3 in January 1965 and to 175.4 in January 1966. In the month before devaluation (i.e., May 1966), the Index was 186.8 and in July 1966, it was 197.1.

3.25. The question which needs to be asked now is whether we expect a further deterioration in the gap between demand and supply. The Fourth Plan has postulated a substantial increase in the production of all agricultural commodities. Agriculture has been accorded 'top-priority'. Whatever else this means, the allocation of outlay and investment in the public sector programmes for agriculture has been stepped up from Rs. 1,760 crores in the Third Plan to Rs. 3,374 crores in the Fourth.

3.26. We are aware that there is a considerable amount of scepticism amongst the people, lay and learned regarding the probability of reaching the Plan targets. But, for the question before us, it is not necessary to have an implicit faith in the attainment of the Fourth Plan targets. The limited question is whether we envisage a situation of shortages larger than those experienced in the previous year. If the answer, as it would reasonably be, is in the negative, the position that we would be experiencing a continually rising trend of prices would be untenable. If the gap between demand and supply which was experienced in 1965-66 becomes narrower, there is every possibility of prices coming down from the Himalayan height which they scaled during the previous year.

3.27. There is one important omission in the above reasoning. Prices are influenced not only by production but also by money supply. Even if the physical gap between demand and supply is narrowed, its beneficial effect on prices will be greatly reduced if there is deficit financing on a large scale. The Government has repeatedly made an avowal that there would be no resort to further deficit financing. Once again, there are people who believe this and others who do not. A Committee like ours cannot take a view on this, but at the same time, we do not propose to base our recommendation ignoring the programmes and policies of the Government adumbrated in the Plan and elsewhere.

3.28. We, therefore, assume that while shortages would persist during the Fourth Plan, their magnitude may not be larger than that experienced in the last year of the Third Plan, a year of one of the severest droughts. The current prices reflect the full blast of the last year's disastrous fall in agricultural production. It would, therefore, be very pessimistic indeed to expect the prices to rise further from this high peak, and if the plans and policies go reasonably well, there is at least a possibility that they would come down.

3.29. But if, as we concede, shortages would persist, even though in a smaller measure, is there a case for a hedge market? We believe that as long as there are possibilities of fairly wide price fluctuations, as distinct from one way increase, there is a need for hedging and therefore for futures trading. In this con-

nection, we may point out that even during the Third Plan period of almost chronic shortages, there were fairly wide fluctuations in prices as indicated by the table in the footnote below¹. It may be seen that during the preceding five years, out of the 4 commodities selected, for 3, namely, raw jute, hessian and castorseed, the months in which spot prices fell were almost as many as those in which they rose. In groundnut, however, the spot price declined only during one third of the total number of months and rose in the remaining period.

3.30. This is not surprising, for, while the general trend in prices is determined by the overall supply, what matters most for the day to day prices is the supply at a point of time. Since the availability varies from month to month (even week to week), assuming the demand to be fairly even and continuous, prices vary over the season. If during the period of relatively plentiful supplies, the marketing agencies have to clear them without undue recession in prices, they need a facility for hedge sales on the futures market, as, by hypothesis, there are not enough buyers in the spot (ready) market. If we were to depend entirely upon the demand for current consumption—which would be a fraction of the total annual demand—for clearing the post harvest arrivals of the annual crop, prices must tumble down.

¹TABLE
Average Variations* in Spot Prices of Selected Commodities—1961-62 to 1965-66

Year April-March	Raw Jute (Calcutta)		Hessian (Calcutta)		Groundnut (Bombay)		Castorseed (Bombay)	
	Rs. Per 100 Kg.		Rs. per 100 Kg.		Rs. Per 100 Kg.		Rs. per 100 Kg.	
	Fall	Rise	Fall	Rise	Fall	Rise	Fall	Rise
1	2	3	4	5	6	7	8	9
1961-62	13.01	6.03	4.53	7.08	5.29	1.85	2.12	1.39
	(7)	(2)	(8)	(4)	(5)	(7)	(4)	(7)
1962-63	4.91	3.35	4.25	3.57	5.80	2.71	2.14	2.24
	(3)	(6)	(6)	(5)	(5)	(7)	(7)	(4)
1964-65	3.35	10.05	0.73	1.89	13.50	7.78	2.41	2.75
	(8)	(4)	(5)	(7)	(4)	(8)	(3)	(9)
1965-66	3.35	10.04	1.52	2.03	11.75	8.85	2.00	5.07
	(4)	(8)	(3)	(9)	(2)	(10)	(5)	(7)

NOTES—(1) *Variations noted are over-the-month variations; i.e., from the close of each month to the close of succeeding month.

(2) Figures in brackets indicate the number of months when the fall or the rise was noticed. When the sum of all months reported in the bracket do not add to 12 in a year, it is because over the remaining months, there was no change in price.

3.31. It is true that one of the conditions for the establishment of a successful futures market is that the supply of the commodity should be 'large'. But a 'large' supply does not mean that it should exceed or even equal the normal requirements. What is implied in the pre-requisite of a 'large' supply is that the total supply of the commodity selected for futures trading should be so large that no section of the trade can at any time easily control all or a substantial portion of the marketable surplus in it and hold the market to ransom.

3.32. It may be admitted that 'short' hedging has not much scope in a situation of shortages. But under such conditions, the need for hedging is most acutely felt by the exporters and others like processors and manufacturers who are required to sell for forward delivery. It is true that some of them would prefer buying the physical commodity to entering into futures contracts. But there are obvious limitations to such actual purchases. Credit restrictions, high interest rates and limited godown space compel the different market agencies to restrict their total holdings of physical commodities. The balance of their needs, they have to hold in the form of futures contracts.

3.33. One strong plea for not allowing the futures markets to function during a period of shortages is that the speculator who has not enough cash to invest in stocks can buy up large quantities in the futures market. But he cannot do this with impunity, for if he unduly pushes up prices in the process, he may be saddled with delivery of actual goods unless he squares up his transaction, i.e. sells the contract-before the commencement of the delivery period.

3.34. It should also be pointed out that while a long position is possible both in the spot and the futures market, one can be short only in the futures market. A person who has no stocks of actual goods, but who, in the best of his judgement, believes that the ruling prices are too high, has no way of bringing his judgement into play except by a short sale on the futures market. If stocks are tightly held and prices are unduly rigged up, only the bear speculator on the future market can bring about a change in the psychology of expectations.

3.35. At the same time, we do not deny the possibility of a futures market being threatened by manipulators in times of scarcity. But the danger to the market from such anti-social elements is not peculiar to the conditions of shortages; such a danger exists even when futures trading is permitted in commodities with large 'surpluses', through its operation on the 'short' side of the market, affecting the prices in their lower bound. In fact, however, it appears that 'manipulations' in the different

commodity futures markets were exceptionally few during the recent past. We believe that the mere apprehension of such likely manipulations does not justify drastic action in the form of an outright ban on futures trading; for, appropriate measures can always be devised to contain such activities. Our recommendations in this behalf have been stated later in the Report. At this stage, it would suffice to note that the past experience of the working of the futures markets indicates that in times of shortages futures markets through their device of short sales, could act as safety valves for the prevailing speculative tendencies in the economy. In their absence, such tendencies may assume a more serious and threatening form of hoarding of physical commodities, escalating in the process the rising trend in commodity prices.

Futures Trading and Controls:

3.36. One of the essential pre-requisites for successful futures trading in any commodity is that both the supply and the demand in such a commodity should be 'uncontrolled'. Monopolistic control over either the supply or the demand vitiates the efficient working of the system of futures trading as the monopolist can rig up prices at levels which seem the best for maximising his profits. This would distort the mechanism of the futures market altogether and destroy its value as a sensitive price barometer. But as futures trading in this country is mainly confined to either primary agricultural commodities or their products (like vegetable oils), effective monopolistic control by either the producers or the consumers is generally absent. Even in a manufactured commodity like jute goods, where producers are relatively few, effective control by manufacturers is not possible because of the severe competition offered in the international market by other jute goods producing countries as well as by several substitute products. Recently, however, the Government controls on pricing and distribution in many commodities have been increasing both in number and intensity, necessitating some re-examination of the role of futures trading in commodities subjected to such controls. Since these control measures have assumed diverse forms in different commodities and also because it is rather difficult to examine in isolation the impact of each of them on the role of futures trading, it seems best to classify all such measures under the following two broad heads:

- (a) Price and distribution controls which are either complete or almost complete, leaving little freedom to the private trade in both marketing and the day-to-day price determination.

- (b) Measures designed to eliminate abnormal price fluctuations in commodities without interfering with either the long-term trend or the process of the day-to-day price determination.

Complete or near complete price and distribution controls:

3.37. Complete or near-complete price and distribution controls at present exist in all major foodgrains and their products as well as in sugarcane and sugar. In major foodgrains, the scope for free trade is limited partly because of restrictions on movement of such grains from one zone to another or private account and partly because of a large-scale distribution of foodgrains at controlled rates through rationing or fair price shops. Besides, such measures like support prices, procurement prices, and also maximum prices in some States, have considerably reduced the scope for wide fluctuations in foodgrains prices even in the free markets. Likewise, the prices of the bulk of the sugarcane supplied to sugar mills are statutorily fixed. In sugar, besides controlling the wholesale and retail prices, the distribution is also restricted by periodical releases sanctioned by the Government. Therefore, in the absence of a sizeable free trade and price fluctuations there is little incentive for either speculation or hedging in these commodities. Moreover, being prime wage goods, the Government is naturally unwilling to allow the effective prices of these commodities (i.e. prices at which a major part of the marketable surplus in them is sold) to be determined by the forces of supply and demand. In the circumstances, even as a medium of price forecasts for efficient production and marketing guidance, futures markets have hardly any significant part to play. In fact, futures trading is already prohibited in all these commodities; and unless the supply situation in them improves on a lasting basis, the lifting of the ban on such trading could not be recommended.

Measures designed to eliminate abnormal price fluctuations:

3.38. During the last few years, in regard to some commodities, attempts have been made to contain price fluctuations within specified limits. Thus, statutory minimum and maximum prices of cotton are being fixed for over a decade. Barring a few sporadic attempts, however, no serious efforts seem to have been made so far to enforce the statutory upper level in the ready market. The Jute Buffer Stock Association came to be established a few years back, although it functioned only on a very modest scale. A proposal has been mooted to organise a similar buffer stock association for cotton. The State Trading Corporation, some time back, acquired a few thousand bales of Bengal Deshi Cotton with a view to supporting its price at a level 10 per cent below the statutory ceiling. In other cash crops

like oilseeds and spices, little has till now been attempted to either influence the price level or eliminate the excessive price variations. All these attempts, however, do signify the direction of the official thinking on the subject for the future. It appears that sooner or later, the country would embark on some form of buffer stock schemes in different agricultural commodities to smoothen out excessive short-term price fluctuations without interfering with the trend. It is only in the light of such a trend in official thinking that the role of futures trading in agricultural marketing during the next plan decade ought to be discussed.

3.39. Variation in prices is an essential pre-requisite for organising futures trading in any commodity. The stabilising influence of buffer stock operations and other like measures coupled with a prescribed permitted range of price variations above and below a certain 'norm' price, obviously reduces the basic necessity for futures trading. And yet, the institution of the futures market is not necessarily incompatible with any scheme aimed at evening out price fluctuations. So long as prices are not completely controlled at all stages of distribution and are allowed to vary within reasonable limits, price risks are not eliminated but merely reduced, depending upon the permitted range of the limits prescribed. The market functionaries would still need institutional arrangements for avoiding or reducing such risks, however, small the risks may be. The successful functioning of the futures markets in wheat, cotton, soyabean and other commodities in the United States, despite the Government 'loan' programmes and other restrictive measures, prove the validity of this contention. Of course, under such circumstances, the imperativeness of futures trading is considerably reduced and market activity may even dwindle. As against this, by providing a countervailing force against excessive speculation, the Buffer Stock Scheme may impart a healthy climate for futures trading. In fact, "it might be said that in the case of products for which the requisites of effective comprehensive control are not given, the best recipe for greater economic stability is to create conditions of 'management' under which sensitive Exchanges can be made to be, and can afford to be permanently "dull" whilst retaining their functions as liquid media for shifting the then moderate risks, and as reliable barometers of the trend of independent market forces".¹

Co-operative Marketing Societies and Forward Markets:

3.40. A development in the sphere of primary marketing that has no direct bearing on the mechanism of price controls, but which might affect the role of futures trading is the growth

¹Gerda Blau, "Some Aspects of the Theory of Futures Trading", *Review of Economic Studies*, Vol. XX (1944-45).

of co-operative marketing societies. If the marketing societies succeed in controlling the entire or the bulk of the trade in the assembling markets, the need for futures markets in the producing region may as well disappear. But unless such societies establish direct contacts with the manufacturers or the ultimate consumers of the commodity, the futures market could continue to play a useful economic role as hedging and price forecasting medium in the terminal markets. In fact, the development of co-operative marketing societies of producers neither displaces the marketing function of storage nor eliminates the risk of price fluctuations; and therefore, unlike the small individual farmers, such societies themselves may find it useful to hedge the assembled produce in the futures markets to safeguard the interests of their members. In such an event, far from becoming redundant, futures markets may actually tend to grow with indirect but active participation by farmers in them. Many farmers' societies in the United States and Canada often actively trade in the futures markets, and there is no *a priori* reason why co-operative marketing societies managed on efficient business lines cannot do so in India.

CHAPTER IV

THE SCHEME OF REGULATION OF FUTURES MARKETS

4.1. Our terms of reference ask us specifically 'to review the working of the Forward Markets Commission during the last 10 years, to find out the extent to which the Commission has been able to carry out the objectives as embodied in the statement of Objects and Reasons of the Statute'.

4.2. The statement of Objects and Reasons¹ gives the historical background of regulation, but does not define its objectives comprehensively. The preamble to the Act merely describes it as 'An Act to provide for the regulation of certain matters relating to forward contracts, the prohibition of options in goods and for matters connected therewith'.

4.3. The Forward Markets Commission was constituted as an instrument for administering the provisions of the Act and its scope for action was determined and limited under the Act. From time to time it received instructions from the Government, which it had to carry out. It would not be appropriate to assess the functioning of the Commission without at the same time examining the soundness or otherwise of the advice and direction given by the Government to the Commission and the policy which the Government desired it to follow. The Committee has therefore taken the above reference to mean that it should examine the working of the forward markets during the last 10 years in order to see whether the scheme of regulation under the Act and the various instruments of control as used jointly by the Government and the Commission have contributed to the healthy functioning of the futures market.

4.4. There are at present three authorities which control futures trading: the recognised/registered association; the Forward Markets Commission and the Government of India in the Ministry of Commerce. The role of these authorities may be usefully examined in turn.

The recognised associations

4.5. The recognised associations have played a pivotal role in the scheme of regulation as envisaged under the Act. Whenever the Central Government decides that forward trading in a

¹This is reproduced in Annexure I to this Chapter.

particular commodity needs to be regulated in a particular area, it applies section 15 of the Act to that Commodity in respect of that area, and as a result, such forward trading can be conducted only between, through or with members of such associations as are 'recognised' under the Act. Thus, on the one hand 'recognition' is acknowledged as a privilege because all futures trading outside the auspices of the recognised associations becomes illegal. On the other hand, the working of the associations is very closely regulated by the Government and the Commission. Their constitution and bye-laws have to be approved by the Commission prior to the grant of recognition. Even after recognition, no further amendments can be made without the approval of the Central Government but the Government itself can amend the bye-laws without reference to the association. Four persons are nominated by the Government to act as directors with full voting powers on the governing bodies of the association. The Government can keep the market closed, suspend members, supersede the governing body and finally even withdraw the recognition granted to them. In practice, however, these powers, except those of the approval of the amendments to the articles and the bye-laws and the nomination of directors, have rarely been exercised.

4.6. The Commission has more extensive powers for the regulation of forward trading and of the associations. These powers are derived from the constitution and the bye-laws of the recognised associations themselves. Even a cursory glance at the articles and the bye-laws of any representative recognised association would reveal that the extent of such powers is indeed formidable and pervades all possible aspects of the working of the associations. For example, recognised associations cannot, without the approval of the Commission, conduct any business apart from forward trading, declare dividends; give charities from their own funds; alter security deposits, annual subscription and admission fees payable by their members, change the number or names of panels in which their members are classified, co-opt directors or elect a Chairman to the Board, or even appoint a Secretary and remove him. The Bye-laws usually provide that without the approval of the Commission, the associations cannot commence trading in any new delivery; alter ordinary margins; exercise any of the emergency powers such as imposition of special margins, ceilings, floors, suspension of trading beyond a certain period etc., alter tenderable varieties or any other terms of hedge contracts or decide certain matters regarding the brokers or their associations. As a step further, the Commission is empowered under the Articles and Bye-laws of the associations to take several steps directly on its

own without reference to them. For example, in the case of some associations, the Commission can remove an elected President; appoint a paid President and fix his remuneration; alter the ordinary margins or make use of practically all the emergency powers. These powers were not provided for in the original articles and bye-laws but subsequent experience of the working of some of the associations and of the malpractices discovered, made it necessary to acquire them. It may, however, be noted that these powers are not acquired in the case of all the associations and that most of them have not been used.

The registered associations

4.7. The institution of registered associations, was not a part of the original scheme of the Act but was incorporated into it by the introduction of Sections 14A, 14B and 14C, in 1960. Prior to it, any association could organise forward trading in a commodity if it was neither prohibited under Section 17, nor regulated under Section 15; in other words, if trading in such commodities was 'free'. The effect of the relevant amendment in 1960 was that associations interested in conducting trading in 'free' commodities were obliged to obtain a certificate of registration from the Commission.

4.8. We have looked into the actual working of these registered associations and feel that the creation of this class of registered associations has not met the purpose for which it was created and has made the administration of the Act unnecessarily cumbersome. The statement of Objects and Reasons and the Notes on Clauses attached to the Amendment Bill in 1960¹, indicate that the Commission was greatly perturbed over the growing menace of illegal futures trading. This concept of registration of associations was introduced "to enable the Commission to have a census of all associations that are now (ie. in 1960) trading in transferable specific delivery contracts in free commodities as well as non-transferable specific delivery contracts in regulated or prohibited commodities, and to ascertain the extent to which such associations misuse the non-transferable specific delivery contracts for speculative purposes". Actually, the amendments also authorised the Commission to refuse registration to an association, thereby prohibiting it from conducting trading in any type of forward contracts, either futures or n.s.t.d. Further, in respect of an association granted registration, the Commission was authorised to call for periodical returns, information and explanations, hold an enquiry into its affairs, inspect its records and the records of its members and

¹These are reproduced in Annexure II to this Chapter.

even suspend any member or prohibit him from trading under the auspices of the association. It was hoped that these powers would enable the Commission to prevent the abuses in the trading in free commodities and, if the misuse continued, to ban futures trading in them. The Commission believed that the best way to tackle the illegal trading activities in these associations was to bring them and their business within its purview and apply to them the regulatory measures.

4.9. When the Commission found that the registered associations were in reality conducting (illegally) futures trading in the prohibited commodities in the guise of commodities which were free, trading in such free commodity was prohibited. It was, however, soon discovered that the associations had switched over to trading in the name of some third commodity in which trading was still free. Thus a sort of a game of hide and seek went on. The Commission also tried using the various provisions in the certificate of registration to impose restrictions on the activities of these associations; e.g., under the certificate, the concerned associations were permitted to conduct trading only in those commodities which were specified in the certificate itself and the Commission refused to add to the commodities listed in the certificates of individual associations. The Commission also directed these associations that they should seek its permission before starting trading in any commodity. Both these steps were challenged by some associations and the Allahabad High Court recently gave a decision that (a) the condition in the certificate of registration, prohibiting the association from conducting forward trading in any commodity other than that specified in the certificate of registration except with the previous approval of the Commission, is in excess of the powers of the Commission; and (b) irrespective of the validity of the condition in the certificate requiring the association to comply with such directions as may be given from time to time by the Commission, there is no power in the Commission to prohibit the associations from trading in non-transferable specific delivery contracts in any commodity without the prior approval of the Commission. We understand that an appeal against this judgment has been preferred by the Central Government. The court decision has however emboldened some registered associations and there is room for suspicion that illegal trading in numerous ways goes on unrestricted under the auspices of many of the associations even to-day.

4.10. We have carefully considered these and other problems thrown up by the registered associations and we feel that the whole category of 'free' commodities and, along with it, that

of registered associations should be abolished in the interest of genuine futures trading. We understand that the Commission also had earlier come to a similar conclusion. In fact, there are at present as many as 90 registered associations, out of which only 4 are trading in 2 free commodities.

The Government

4.11. Under the scheme of the Act, the regulation and control over futures trading and over the recognised associations organising such trading is primarily the responsibility of the Central Government. It has a large array of powers in its armoury, which, among other things, include the authority to grant recognition to an association (Section 6); withdraw the recognition (Section 7); appoint not more than four directors on the governing body of the association (Section 6); direct the association to make or amend rules or make rules (Section 10); approve the amendments to its rules and bye-laws (Section 11); make and amend bye-laws *suo motu* (Section 12); supersede the governing body of the association (Section 13); notify the commodities for which and areas in which regulated forward trading is permitted (Section 15); prohibit forward trading (Section 17); fix rates for closing out the outstanding contracts after application of Sections 15 and 17 (Section 16); exempt the t.s.d. contracts from regulation (Section 18); bring under regulation the n.t.s.d. contracts or ban trading in them (Section 18) and exempt any forward contract from the operation of any or all provisions of the Act (Section 27).

The Commission

4.12. The functions of the Forward Markets Commission are, inter alia, to advise the Central Government on matters arising out of the administration of the Act; to keep forward markets under observation; to collect and publish relevant information; to make recommendations generally with a view to improving the organization and working of forward markets and to undertake inspection of accounts and other documents.

4.13. By a subsequent amendment to the Act in 1960, the Commission was authorised to "keep the forward markets under observation and to take such action in relation to them as it may consider necessary in exercise of the powers assigned to it by or under the Act". But the only substantive powers given to the Commission by the amending Act were to suspend members of the recognized associations and prohibit such members from trading (Section 12B) and to attend to matters pertaining to the newly created category of registered associations (Sections 14A and 14B).

4.14. Subsequent amendments to the Act and the Rules, however, enjoin the Central Government to exercise certain powers *on the advice of the Commission*. Further the Central Government has delegated several of its powers to some officers of the Commission.¹ This has considerably extended the range of the Commission's authority. Yet the powers retained by the Central Government and not delegated are still many and quite crucial to the effective regulation of futures trading.² For example, the Government has still retained the powers to grant and withdraw recognition to an association and to ban futures trading in any commodity.

4.15. A third source from which the Commission derives its powers is the constitution and the bye-laws of the Associations themselves, as described in some details earlier in this chapter. We feel that it would be more appropriate to acquire these powers directly under the Act or Rules made thereunder.

4.16. It is obvious from the above that the Government has retained most of the essential powers of control with itself and the Commission has to content itself with delegated powers and authority derived from the bye-laws of the Association. This, according to us, is a highly unsatisfactory position. There is no point in establishing a high power Commission to administer the Act and retain all essential powers of control with the Government, many of which need an intimate and continuing contact with the working of the forward markets. In the nature of things, it is impossible for the Government—and, in reality, for a few officers in the Ministry—to maintain such a contact. We believe that the working of supervising and regulating futures trading is onerous and complex, involving a high degree of technical knowledge. It is best to entrust this task to a specialised body with a technically qualified staff. Such a body in our view should be independent and autonomous. The Government will of course have the ultimate authority to lay down the general policy and issue the necessary directives for that purpose, but there should be no day to day intervention in its working. Lastly, it is essential that the Commission should derive all its authority directly from the Act. In the next Chapter, we make specific recommendations on this matter.

¹Notifications S.O. 1162 dated the 4th May, 1960 and S.O. No. 928 dated the 12th March, 1964. The list of delegated powers with their appropriate sections is given in Annexure III to this Chapter.

²A list of powers retained is given in Annexure IV to this Chapter.

ANNEXURE I

THE FORWARD CONTRACTS (REGULATION) BILL,
1952

STATEMENT OF OBJECTS AND REASONS

Forward trading, which normally plays a useful part in tempering price fluctuations, tends in certain situations to exaggerate such fluctuations to the detriment of the interests of producers as well as consumers. During the war and immediately thereafter, the Central Government issued orders under Rule 81 of the Defence of India Rules, prohibiting forward trading in commodities, such as foodgrains, oilseeds, oilcakes, vegetable oils, raw cotton, spices, sugar and bullion. After the Defence of India Act lapsed, orders in respect of foodgrains, edible oilseeds and oils, raw cotton and spices were kept in force under the Essential Supplies (Temporary Powers) Act, 1946, and similar orders about cottonseed and sugar were also issued later under this Act. It was only in the case of raw cotton that a general exemption was granted with respect to forward trading conducted under the auspices of the East India Cotton Association, Bombay.

Among the States, Bombay is the only one which has adopted a comprehensive scheme for the regulation of forward trading under the Bombay Forward Contracts Control Act. That Act has been brought into force mainly to control forward trading in cotton, bullion and oilseeds.

Under the Constitution, the subject of "stock exchanges and futures markets" is included in the Union list. Consequently, the State Legislatures are no longer competent to enact any fresh legislation with regard to forward markets, and unless Central Legislation on this subject is enacted, the resulting lacuna may prevent desirable action being taken, when needed. When the Central Act comes into force, the existing State Acts will cease to operate to the extent to which they are inconsistent with the Central Act.

In February, 1950, a draft Bill on this subject was circulated to the State Governments, the Reserve Bank of India, Chambers of Commerce and various other interests concerned. In July, 1950, the draft Bill was referred to an Expert Committee under the Chairmanship of Shri A. D. Shroff, and was revised in the light of the Committee's recommendations. The Government of India also accepted in principle the Committee's recommendations in regard to the practical operation of this measure,

though their application to individual cases would have to be decided in the light of experience and the circumstances of each case.

A Bill was introduced in the Provisional Parliament on 19th December, 1950, and was referred by it to a Select Committee on 24th April, 1951. The Select Committee's Report, which was submitted on 20th August, 1951, could not be considered by the Provisional Parliament before it was prorogued and the Bill lapsed. This Bill as now introduced is largely in the form recommended by the Select Committee, but certain alterations have been made therein as a result of further consideration.

The Bill provides for the regulation of forward trading and the prohibition of options in goods. Transactions on Stock Exchanges have been excluded, since the problem of regulating Stock Exchanges have some special features of its own and can best be treated separately. It is proposed to prohibit options altogether, since they are considered to be an undesirable form of speculation.

The regulatory provisions of this Act will be extended by notification to different classes of goods and to different areas as and when necessary. The main principle underlying these provisions is that forward contracts should be allowed to be entered into only in accordance with the rules and bye-laws of a recognised association. The rules and bye-laws will be subject to the approval of the Central Government, who will also have the power to make such rules and bye-laws. Provision has been made for the appointment by the Central Government of one person as its own representative and not more than three persons to represent interests not directly represented through the membership of the association, as members of the governing body of a recognised association. The Central Government will also have the powers to order an inquiry into the affairs of a recognised association or those of any of its members, and to direct the Forward Markets Commission to inspect the accounts and other documents of the Association. In emergencies, the Central Government may have to suspend the business of a recognised association, and in certain extreme cases, to supersede the governing body of a recognised association for a period not exceeding six months, or even to withdraw recognition. It has been provided that the provisions of this Act will apply to non-transferable specific delivery contracts only in certain areas to be notified by the Central Government.

In order to assist the Central Government in the administration of the Act, it is considered desirable that a commission, to be called "The Forward Markets Commission" should be established. Provision has already been made for the establishment of an Advisory Committee to advise the Central Government on any matter concerning the operation of the Act.

T. T. KRISHNAMACHARI

NEW DELHI;

The 25th July, 1952.

ANNEXURE II

THE FORWARD CONTRACTS (REGULATION) AMENDMENT BILL, 1960

(A) STATEMENT OF OBJECTS AND REASONS

Experience gained in the administration of the Forward Contracts (Regulation) Act, 1952 during the last 6 years has revealed that the present provisions of the Act are not adequate to deal with excessive speculation and other malpractices now prevalent in some of the forward markets. Persons indulging in illegal forward trading cannot be prosecuted for want of adequate documentary evidence. Further, persons found guilty of violation of the provisions of the Act often get away with a light punishment. Trading outside official hours in associations recognised for forward trading cannot be stopped under the existing provisions of the Act. The object of the Bill is to remove these and other difficulties which have been experienced in the working of the Act and to enable the Central Government and the Forward Markets Commission to exercise a stricter control over forward trading activities. Opportunity is being taken to extend the provisions of the Act to the State of Jammu and Kashmir.

2. The notes on clauses explain the important provisions of the Bill.

NITYANAND KANUNGO

NEW DELHI;

The 6th September, 1960.

(B) EXTRACT FROM NOTES ON CLAUSES

*Clause 14**—All associations are required to get themselves registered with the Forward Markets Commission. The registration of associations will enable the Commission to have a census of all associations that are now trading in transferable specific delivery contracts in free commodities as well as non-transferable specific delivery contracts in regulated or prohibited commodities, and to ascertain the extent to which such associations misuse the non-transferable specific delivery contracts for speculative purposes.

*This refers to Sections 14A, 14B and 14C of the Present Act.

 ANNEXURE III

 POWERS UNDER THE F.C.(R) ACT DELEGATED BY THE
 CENTRAL GOVERNMENT

The following list enumerates the powers of the Central Government under the Forward Contracts (Regulation) Act, 1952 which are exercisable also by the following officers, *viz.*, (i) Secretary, Forward Markets Commission, Bombay, (ii) Deputy Director, Forward Markets Commission, Bombay. Powers which are exercisable, in addition, by the Director, Forward Markets Commission, Bombay are marked by an asterisk(*)—

Section 6(2)(a)—Power to direct associations that there shall be no limitation on the number of members or that there shall be such limitation on the number of members as may be specified.

Section 6(3)—Power to approve amendments to rules of recognised associations.

**Section 8(1)*—Power to prescribe periodical returns to be furnished by every recognised association and every member thereof relating to its affairs or the affairs of its members or his affairs as the case may be.

**Section 8(2)(a)*—Power to call upon a recognised association to furnish explanation relating to its affairs or the affairs of any of its members.

**Section 8(2)(b)*—Power to appoint persons to make an enquiry into the affairs of an association or any of its members.

Section 10—Power to direct rules to be made or amended or to make rules.

Section 11—Power to approve bye-laws of recognised associations.

Section 12—Power to make or amend bye-laws of recognised associations.

Section 14—Power to suspend business of recognised associations.

**Section 14C read with Section 8(1)*—Power to prescribe periodical returns to be furnished by every registered Association and every member thereof relating to its affairs or the affairs of its members or his affairs, as the case may be.

Source :—Notification issued by the Government of India Ministry of Commerce and Industry No. S. O. 1162 dated the 4th May, 1960, No. S. O. 795 dated the 5th April, 1961, No. S.O. 1363. dated the 13th June, 1961 and No. S.O. 928 dated the 12th March 1964.

ANNEXURE IV

POWERS OF THE CENTRAL GOVERNMENT UNDER THE ACT WHICH HAVE NOT BEEN DELEGATED

- (1) *Section 6(1)*—Power to grant recognition to an association.
- (2) *Section 6(2)(a)*—Power to appoint Directors on the Board of recognised associations.
- (3) *Section 7*—Power to withdraw recognition.
- (4) *Section 9A(2)*—Power to approve rules or amendments to rules of recognised associations regarding panel-wise election of Directors, etc.
- (5) *Section 13(1)*—Power to supersede governing body of a recognised association.
- (6) *Section 15(1)*—Power to regulate forward trading in certain commodities in certain areas.
- (7) *Section 16(a)*—Power to fix rates for closing out outstanding contracts after the application of Section 15.
- (8) *Section 17(1)*—Power to prohibit forward trading in certain commodities in certain areas.
- (9) *Section 17(3)*—Power to fix rates for closing out outstanding contracts on application of Section 17.

- (10) *Section 18(2)*—Power to exempt transferable specific delivery contracts in certain commodities and in certain areas from the operation of any of the provisions of Chapters III or IV.
- (11) *Section 18(3)*—Power to regulate or ban the non-transferable specific delivery contracts in certain commodities in certain areas.
- (12) *Section 25*—Power to appoint an Advisory Committee.
- (13) *Section 26*—Power to delegate powers of the Central Government to any officer or authority.
- (14) *Section 27*—Power to exempt any forward contract from the operation of any or all provisions of the Act.
- (15) *Section 28*—Power to make rules for various matters mentioned in the Act.

CHAPTER V

THE INSTRUMENTS OF REGULATION OF FUTURES MARKETS

Application of the Act to various commodities

5.1. The Forward Contracts (Regulation) Act, 1952 was placed on the Statute Book on the 26th December, 1952. On the 2nd September 1953, when the Forward Markets Commission was established, forward trading was banned in 33 commodities under the Essential Supplies (Temporary Powers) Act, 1946. Since that Act was to lapse on the 26th January, 1955, the prohibition of forward trading in most of these commodities was continued by the issue of necessary notifications, on the 25th January, 1955, under the Forward Contracts (Regulation) Act, 1952. In course of time, the regulatory provisions of the Forward Contracts (Regulation) Act, 1952 were applied to a number of other commodities. At present, forward trading in 13 commodities is regulated under Section 15 and forward trading in 71 commodities is banned under Section 17¹. Trading in the non-transferable specific delivery contracts is regulated in 12 commodities and is banned in 43 commodities by invoking powers under Section 18(3) of the Act¹.

Recognition of Associations

5.2. The recognition granted to the East India Cotton Association Ltd., Bombay and the Bombay Oil Seeds Exchange under the Bombay Forward Contracts Control Act, 1947 was automatically continued under the Forward Contracts (Regulation), Act, 1952. Subsequently, recognition was granted to a number of associations and at present there are 32 recognised associations². The State-wise and commodity-wise distribution of the recognised associations is indicated in the following tables. It may be noted that in several cases the same association is recognised for a number of commodities. Hence the totals of the two tables do not agree.

¹A detailed list is given in Appendix VII.

²A list is given in Appendix V.

TABLE I
State-wise distribution of recognised associations

Region (State)						No. of recognised associations
1. Maharashtra	..	..	..	..	..	10
2. Gujarat	..	..	..	..	..	5
3. West Bengal	..	..	..	..	..	3
4. Punjab	..	..	..	..	..	3
5. Kerala	..	..	..	..	..	3
6. Madhya Pradesh	..	..	..	..	..	2
7. Uttar Pradesh	..	..	..	..	..	2
8. Andhra Pradesh	..	..	..	..	..	2
9. Madras	..	..	..	..	..	1
10. Delhi	..	..	..	..	..	1
Total						32

TABLE II
Commodity-wise distribution of recognised associations

Commodity							No. of recognised associations
1. Cotton	..	..	..	..	..	..	2
2. Kapas	..	..	..	..	..	..	3
3. Staple Fibre Yarn	..	..	..	..	..	..	1
4. Raw Jute	..	..	..	..	..	..	1
5. Jute Goods	..	..	..	..	..	..	1
6. Groundnut	..	..	..	..	..	..	6
7. Linseed	..	..	..	..	..	..	4
8. Cotton seed	..	..	..	..	..	..	10
9. Castorseed	..	..	..	..	..	..	2
10. Groundnut oil	..	..	..	..	..	..	11
11. Coconut oil	..	..	..	..	..	..	2
12. Pepper	..	..	..	..	..	..	3
13. Turmeric	..	..	..	..	..	..	1
Total						..	47

Registered Associations

5.3. When the Forward Contracts (Regulation) Act, 1952 was amended in December, 1960, it became mandatory for all the associations, concerned with the regulation and control of

business relating to forward contracts, to obtain a certificate of registration from the Commission. At present, 90 associations are registered by the Commission for conducting forward trading in 37 commodities¹. The state-wise distribution of the registered associations is indicated in the table on the following page:

TABLE III
State-wise distribution of registered associations

	Region					No. of registered association
1. Uttar Pradesh	22
2. Punjab	19
3. Maharashtra	14
4. Gujarat	12
5. Madhya Pradesh	7
6. Rajasthan	6
7. West Bengal	5
8. Delhi	4
9. Madras	1
				Total	..	90

5.4. The scope for forward trading under the auspices of the registered associations was drastically reduced as a result of the extension of the ban on trading in several free commodities, and the extension of regulation to non-transferable specific delivery contracts in many commodities. At present, only six registered associations are entitled to conduct forward trading in eight commodities, and twenty-two associations are entitled to conduct trading in non-transferable specific delivery contracts in thirteen commodities. Actually, however, as at the end of September, 1966, only four registered associations were trading in two free commodities, *viz.*, Kardiseed and Tamarindseed and two associations were conducting trading in the n.t.s.d. contracts in four commodities, *viz.*, groundnut oilcake, cotton, castorseed and linseed.

Instruments of Control

5.5. Several direct and indirect instruments to regulate and control the futures markets have been employed in India in the course of the last ten years or so. Both the Forward Contract

¹ A list is given in Appendix VI.

(Regulation) Act as well as the Bye-laws of the different recognized associations empower the Government, the Commission or the Board of Directors of the associations themselves to employ suitable instruments according to the needs of particular situations.

5.6. The principal instruments of control used at various times have been as follows:—

- (i) Ordinary margins.
- (ii) Special or automatic clearings.
- (iii) Special margins.
- (iv) Withholding of outward payment of profits.
- (v) Limits on open position.
- (vi) Suspension of trading for a specified period.
- (vii) Prohibition of fresh trading.
- (viii) Skipping over trading in some delivery months.
- (ix) Limits on price fluctuations.
- (x) Maximum and minimum prices.
- (xi) Changes in the tenderable varieties.
- (xii) Closure of contracts.
- (xiii) Prohibition of futures trading.

These are described in turn in the following paragraphs.

Ordinary margins

5.7. 'Ordinary margins' are deposits to be paid by the members of the concerned associations on their outstanding or 'open' contracts, i.e., those that have been neither settled by entering into contracts of an opposite nature nor fulfilled by giving or taking delivery. The margins are payable at a specified rate for every unit of 'open' business. They are collected from the members as a safeguard against a possible default on their part to pay their dues to others in case of an adverse change in the price of the contract. The periodical clearing of the contracts under the bye-laws of the Association, no doubt, acts as a safeguard for this purpose. The risk of default arising from price fluctuations between two clearings, however, remains uncovered, and the ordinary margins are levied to cover this short-term risk. Hence the rates of margin are generally related to the normal price fluctuations between two clearings. Generally members are also required to pay a certain amount as security deposit at the time of their enrolment themselves with the association. Related to this 'security deposit' is a 'free limit' or an 'exemption limit' for the

payment of ordinary margins. The rates of margin on the outstanding contracts above the 'free limit' are increased progressively which serves to restrain overtrading and holding of excessive positions by members.

Special or automatic clearings

5.8. Special or automatic clearings are provided for in the bye-laws of the recognised associations to cover the risk involved in abrupt and sharp price fluctuations. The bye-laws may provide, *e.g.*, that apart from the periodical (generally weekly) clearing, a special clearing will take place whenever the closing price on any day varies from the previous clearing rate by more than a specified amount or a specified percentage. Alternatively, the bye-laws give power to the Board of Directors and/or the Commission to order a special clearing whenever they consider it necessary in the interest of the trade. Such automatic or special clearings also reduce the risks of defaults by parties against whom prices have moved. The mere provision for such automatic clearings, which requires the parties concerned to pay the differences immediately, may itself discourage the operators from increasing their commitments further and may thus act as a check to large scale defaults in the market.

Special margins

5.9. 'Special margins' are enforced when the futures prices are found to be moving sharply in only one direction, and it is suspected that the movement is not entirely justified by economic factors. In order to dissuade the buyers from increasing their purchase in times of a sharp price-rise or the sellers from increasing their sales in times of a severe price fall, the Commission or the Board of the concerned association calls upon the buyers or the sellers as the case may be, to pay these special additional deposits. They are related to a certain level of prices, commonly known as the 'marginal line', the movement beyond which is sought to be restrained by the levy of additional financial burdens on outstanding business. The intention behind such an imposition of special margin is to influence market conditions through financial pressure on a particular section of operators. It is expected to encourage operators to liquidate their unduly large holdings or atleast to refrain from entering into further commitments. Special margins thus exert an influence on prices by discouraging excessive purchases or sales. But they are not meant to directly hold prices within any prescribed bracket.

5.10. Special margins are levied either at a flat rate or at graded rates. In the case of the flat rate system, the margin rate remains the same, once the price crosses the prescribed marginal line; while in the case of the graded rate system, special margins

are paid at progressively increasing rates as the price crosses the successive marginal lines. The flat rate system is apt to be less deterrent in its operation than the other system as it fails to take account of the financial ability of the big operators. Moreover if the operators are in a position to anticipate correctly the future trend of prices, the incidence of special margins at a flat rate is unlikely to deter them from accumulating further positions, since the chances of making wind-fall profits are then bright.

5.11. Special margins can also be made more severe by relating the rates of margin to both the level of prices as well as to the quantum of total open position held by an operator.

5.12. It is often alleged that special margins deprive small traders of genuine trading facilities by making trading costlier. In order to provide relief to genuine small traders, provision is made to exempt them from the payment of special margins provided they hold open positions within prescribed limits. This exemption is, however, withdrawn at higher marginal lines especially when there is an apprehension that the same is likely to be misused by big operators by spreading their business over a number of operators entitled to the free limit. So also, some genuine hedgers are exempted from payment of special margins; e.g., purchases in the futures contracts acquired by way of hedge against export commitments or the sales in the futures contracts acquired by way of hedge against the actual stocks of the commodity are exempted from the payment of special margins provided that such exemption claims are supported by documentary evidence. It is not possible to exempt other claims of hedge purchases or sales, as it is difficult to verify the genuineness of such claims.

5.13. Imposition of special margins is at times likely to result in the diversion of speculative activity to other types of delivery contracts in the same commodity or to other commodity markets. It therefore becomes necessary to extend the special margins to these contracts or commodities as well, if the supply and demand situation in these other commodities is also vulnerable to such speculative pressures.

5.14. The efficacy and the deterrent character of special margins are to a certain extent neutralised when the operators collect the settlement differences from the clearing houses week after week. Thus, if the price continues to move in the same direction despite the special margins, the operators (either longs or shorts) would be in a position to utilise the money so collected by way of differences for the payment of special margins. As a result, the effective incidence of special margins would often be lower than that indicated by the actual rate.

Withholding outward payment

5.15. Another instrument of regulation is the withholding of outward payments. This is generally used not independently but to supplement the special margin system. It was mentioned above that the effect of special margin is often partly neutralised when operators collect the periodical clearing differences from the clearing house. These differences are necessarily received by only those operators who are called upon to pay special margins. The severity of the special margins can therefore be enhanced by withholding outward payment of profits.

Limits on open position

5.16. A limit on open position is at times prescribed and operators in the futures market are not permitted to hold or control an open position in excess of the prescribed limit. This is done generally before the commencement of trading in the new crop contracts. If the circumstances so require, such limits are prescribed even during the currency of the contract and the operators are given a specified time limit within which they should reduce their open position to the prescribed limits. While special margins indirectly discourage operators from holding large open positions through the imposition of a deterrent monetary levy, the limit on open position directly prevents them from holding positions beyond prescribed quantities. However, there is a possibility that the operators may evade such restrictions by holding open positions in different or even fictitious names.

Suspension of trading

5.17. When an emergency arises in the market, it takes some time to judge its character, ascertain its causes, comprehend its implications and devise appropriate measures to remedy the situation. It is obviously undesirable to allow trading to continue during an emergency, as it is likely to aggravate the situation. Presidents, the Governing Bodies and the Commission are therefore authorized under the relevant bye-laws to suspend trading for a limited period on this account. The Act also empowers the Central Government to suspend trading at recognised associations without a limitation of time. Such a suspension of trading for a short period gives the regulating authority sufficient time to devise corrective measures. It often assists in the restoration of normalcy through enforcing a pause in the market activity. This is because at times the market is apt to operate in some kind of a frenzy and when such suspension of trading calls a halt for some time, the operators get an opportunity to reconsider their views in regard to the future trend of prices and the wisdom of the course of action pursued by them.

Prohibition of fresh trading

5.18. If serious difficulties are anticipated in a futures contract delivery, members are prohibited from entering into fresh commitments with each other though they are permitted to offset their outstanding contracts.

Skipping trading in some delivery

5.19. Whenever there are serious doubts about the smooth and orderly running of a futures contract delivery, trading in that delivery is not permitted. This is as good as a virtual closure of futures market, albeit for a short period.

Limits on price fluctuations

5.20. A limit on price fluctuations is imposed either on the price rise or on the price fall or on both, either on a daily or on a weekly basis. As a result, no person can buy or sell in the futures market at a price higher or lower (as the case may be) than the closing price of the previous day or of the last day of the previous week (as the case may be) by the amount of the limit fixed. The limit is generally fixed on the basis of the normal or average price fluctuations in the market. If, however, the limit on price fluctuation is unduly small, it may, result in frequent suspensions of trading and may cause great inconvenience to the genuine market functionaries.

Maximum/Minimum prices

5.21. With a view to restricting the movement of prices within specified levels, the Commission has very often enforced either a maximum price or a minimum price or both. These are both useful primarily when there are corresponding ceiling and floor prices in the ready market. If no such limits are operative in the spot market, their unilateral imposition in the futures markets would result in a virtual denial of hedging facilities to the trading community whenever ready prices are beyond those limits. The level of the maximum or the minimum price has to be carefully determined, because if the maximum price is too high, it is not of much help for the purpose of price control and if it is too low, it brings about suspension of futures trading without any resulting beneficial impact on the ready prices.

5.22. The fixation of the maximum and minimum prices is often regarded by the operators as a green light for pushing the prices safely to such levels with the result that prices move up or

down to reach these levels much more rapidly than they otherwise would. Such maximum and minimum prices also bring about an element of rigidity in the regulation of market; e.g., once a maximum price is fixed, it provides an assurance to the seller that his loss would be limited to the difference between the ruling price in the market and the maximum price. An increase in the maximum price at a subsequent date therefore becomes difficult even if supply and demand conditions warrant such an increase. Similarly, lowering of the maximum price at a later date also becomes difficult, as the maximum price once fixed assures the purchaser that he will be permitted to earn his profit upto the difference between the ruling market price and the maximum price.

Changes in the tenderable varieties

5.23. The varieties tenderable against the hedge contract are generally laid down in the bye-laws. As the delivery period approaches, sometimes conditions of corner are apt to develop either because a shortage of supply of these varieties becomes manifest or because of manipulative tendencies. To counteract such developments, the regulatory authority may add some non-tenderable varieties to the list of those already tenderable, and thus increase the total tenderable supply against the contract. As a result, the chances of an effective corner are reduced. Similarly, a deletion of some of the varieties already made tenderable can be used to counteract a possible bear raid.

5.24. The use of this measure calls for a high order of judgment. For example, when new varieties are added, the effect on counteracting the bull squeeze would depend considerably on whether the new varieties are themselves in plentiful or short supply and whether these varieties are likely to be unwanted or in demand. Secondly, the rate, off and on, at which the new varieties are made tenderable, is itself significant. If the rates correctly reflect the actual spot prices, the desired effect of the change can be expected to materialise. On the other hand, if the rates fixed are lower than the actual spot rates sellers will not be interested in delivering these new varieties and the object of eliminating the corner will not be achieved. If, however, the prices fixed are artificially high, it will have an additional effect on pressurising the bulls to relax their hold.

Closure of contracts

5.25. In certain circumstances, none of the instruments of control might prove adequate to restore orderly and healthy trading conditions and it might become necessary to take the extreme

step of stopping forward trading altogether and closing out the contracts outstanding in the market at the time. Such a course of action may become necessary on account of war, a particularly bad harvest or some other unforeseen development.

5.26. The closing out of outstanding contracts raises the issue of the rate at which they should be closed. If the movements of prices upto the time of closing out is not considered to be artificial or abnormal and the closing out is resorted to only on account of apprehensions about the future, the rate at which the outstanding contracts are closed out is generally the ruling rate in the market at the time of the closure. If, however, the movement of prices upto the time of closing out is considered to have been itself artificial or abnormal, a rate which would be more in accordance with normal price movements would be the one based on the average of the past rates ruling over a specified period.

Prohibition of futures trading

5.27. When prices of a particular commodity seem to be going up continuously without any immediate prospect of relief, prohibition of futures trading altogether (by application of Section 17 of the Act) may also be resorted to as an instrument of controlling the rising trend of ready prices. Thus, when futures trading was prohibited in gur and in mustardseed in 1963, and temporarily in groundnut oil in 1964, one of the reasons adduced was that there was a sharp rise in the prices of these commodities immediately prior to the ban.

Efficacy of Measures

5.28. We have examined the use of all these instruments of control with a view to finding out their efficacy in achieving the purpose which they were expected to fulfil. Broadly, there are three purposes which a scheme of regulation of futures trading aims at. These are:

- (i) to prevent or curb unhealthy speculation and manipulative tendencies;
- (ii) to avoid the risk of defaults; and
- (iii) to influence forward prices and consequently ready prices.

5.29. It is, however, difficult to isolate one purpose from the other, without a detailed enquiry into the antecedents of each action. We have not attempted to do this, nor do we think it necessary for our purpose. But a review of the action taken

from time to time suggests that by and large it served only the limited purpose of reducing the volume of trading and open position in the forward markets. It did not check the rise in ready prices, if that was the intention. We understand that the restraints were avowedly imposed with a view to preventing speculators from entering the forward market in a large way and making purchases on a scale that would push up the futures prices. No one could, however, be certain whether the operators/traders would or would not have behaved in the manner apprehended. No operator can just go on purchasing, for unless the stocks are concerned, he has to either square up the business through equivalent sales before the delivery period or be prepared to accept large deliveries with the requisite cash. Further, the bulls (longs) could have been asked directly to reduce their open position on pain of more stringent action. It should also be noted that restraints were sometimes imposed when futures prices were distinctly lower than ready prices. In any case, the fact that the ready prices continued to rise in spite of the restrictions suggests that such actions when confined to futures markets only have not much utility for restraining the rise in ready prices. Often, the only visible impact of the restraints was to distort the relation between the ready and the futures prices, rendering the futures markets unsuitable for hedging. They could then be used only for speculation. It can, no doubt, be argued that but for the restraints imposed, both futures and spot prices would have risen even more steeply. There is no easy way of proving or disproving this. All that can be said is that even when futures trading was completely banned, the spot market did not display any steadier price behaviour.

5.30. The one general recommendation we should like to make is that the regulatory measures should not generally be used for artificially restraining prices on the futures market. When we say artificially, what we have particularly in view is their relationship with prices in the spot market. In other words, the price policy should be equally applicable both to the spot and futures prices. To attempt to keep down prices in the futures market irrespective of their behaviour in the spot markets, is to destroy the utility of the futures markets. If the hedging utility of the futures markets is destroyed, they would serve the interests only of the speculators. Such use of the regulatory measures only exposes the regulating authority to the charge of unreasonable and unwarranted action.

5.31. The past few years have witnessed severe shortages and a sharp rise in prices in many of the commodities in which the question of permitting futures trading had to be considered. No one could be certain that under such conditions the futures

markets would not be exploited for purely speculative purposes. At the same time, declining to permit futures trading would have meant the deprivation of hedging facilities to a group of hedgers, viz., exporters, stockists and manufacturers, who have necessarily to resort to the futures market. Under such circumstances, it is possible to argue that the best thing to do was to allow futures trading with stringent regulatory measures, rather than to adopt either of the two extremes of banning it altogether and permitting it to function with relatively greater freedom. A further consideration for permitting hedge trading with severe restrictions even when there was a strong probability that the trading would not go on smoothly, was to obviate widespread unemployment of the jobbers and brokers. We are informed that quite often the associations themselves preferred to conduct futures trading under severe restrictions rather than face an outright closure.

5.32. While we do not favour the imposition of stringent regulations on futures trading in the belief that trading caters primarily to the interest of speculators, if conditions are such that the functioning of the futures market would adversely affect the economy or would not serve any tangible economic purpose, it would be preferable to ban futures trading rather than to permit it to exist in a moribund state. The problem, however, is not so simple. If critical conditions exist before the opening of the contract, the course of action proposed by us would be easy to follow. If, however, such conditions develop after trading has commenced, closing of the market might create as many difficulties as its continuation with severe restrictions and would attract the charge of unfair treatment. We see no escape from this dilemma and would leave the matter to be decided in the light of the overall situation and the approach recommended by us. Regulatory measures should not generally be carried to such an extent that the markets palpably cease to serve any economic purpose. Instead, first a calculated risk may be taken in allowing them to function with reasonable controls, but when the harm to the economy becomes apparent, they may be banned altogether.

5.33. In brief, we suggest: (a) that regulatory measures should be applied sparingly, taking a certain amount of calculated risk; (b) that it is better to ban futures trading than to permit it in a crippled form, divorced from the conditions in the spot market and (c) that in applying regulatory measures, a sharp distinction should be made between the need to curb unhealthy and unlawful trading practices and the fulfilment of an economic policy like restraining price rise.

5.34. From what is stated above, the inference should not be drawn that we are advocating unrestricted futures trading. We do recognise the dangers of unbridled speculation and unreservedly accept the need for controlling speculative activity. We have alluded to the fact that quite often, commodity exchanges have been used for heavy and unwarranted speculation and in what follows we recommend legislative and administrative measures for their regulation and control. All that we seek to emphasise is that futures markets will fail to perform their legitimate function of providing an insurance against price fluctuations and thereby reducing the cost of marketing, if the powers of regulation are used to maintain futures prices at a level wholly out of line with prices in the spot market.

5.35. In keeping with the above view, we recommend that while all the existing instruments of regulation of futures trading should be retained in the armoury of the regulating authorities, it is most important to strike a balance between the unquestionable necessity of checking unhealthy speculation on the futures market and an undue interference in their working. We think that this can best be done firstly by entrusting the exercise of the regulatory functions to an independent and autonomous statutory Commission and secondly by the Commission restricting itself to the use of some key powers. Its actions will command more respect and would be more effective if it intervenes sparingly but decisively only when the situation palpably demands such an intervention. For the rest, it should give enough scope to the recognised associations to impose self-discipline. Their failure to do so should be allowed to become obvious for all to see before action is taken by the Commission. All the care should be taken before giving recognition to an association, but once it is given it should be trusted to act with a sense of responsibility. We would go to the extent of suggesting that if this view is not acceptable to the Government it would be better for every one concerned not to recognise futures trading at all and spare all the trouble and expense of constituting a Commission to supervise it.

Allocation of powers

5.36. The allocations of functions and powers between the Futures Market Commission and the associations in our scheme of regulations is indicated below in a tabular form. Certain powers would be exercised by the recognised association without the need of obtaining approval of the Commission (category A). Another category would be of powers which can be exercised by them only with the approval of the Commission (category B)

The third category would be of powers which would be exercised by the Commission suo moto (category C). The last category would be powers which would be exercised by the Commission only during an emergency (category D). This last category contains some of the drastic powers which the Commission can exercise only after it has made out a case that a special situation has emerged which makes their exercise necessary. We do not think it is necessary to define 'emergency' precisely, because all that we wish to ensure is that these powers are not exercised in a routine manner and that before exercising them the Commission places on record the circumstances which compelled it to exercise them. The Commission will be the sole judge to decide whether an emergency exists or not. When any action is taken under emergency conditions, a press note should invariably be issued explaining the background and the necessity of action. This would be a sufficient safeguard against arbitrary action:

ALLOCATION OF POWERS

Regulatory Powers	Category
1. Amendments to the articles of association	B
2. Amendments to bye-laws—	
(a) Bye-laws relating to the terms of futures contracts	B
(b) Other bye-laws	A
3. Opening futures contract deliveries	A
4. Delaying the opening of futures contracts deliveries	C
5. Imposition of ordinary margins	A
6. Special or automatic clearings	A and D
7. Imposition of special margins	B and C
8. Withholding outward payment of profits	B and D
9. Limit on open position	A and C
10. Suspension of trading for a specified period	A and C
11. Prohibition of fresh trading	A and D
12. Skipping over trading in particular deliveries	B and D
13. Limits on price fluctuations	A
14. Imposition of maximum/minimum prices	B and D
15. Changes in the tenderable varieties or other terms of the contract during its currency	B and D
16. Closing out outstanding futures contract	B and D

CHAPTER VI

CHOICE OF COMMODITIES AND SELECTION OF CENTRES

Choice of Commodities

6.1. A list of commodities in which futures trading was permitted under the auspices of recognised or registered associations at one time or another is given in Annexure I to this chapter. An assessment of the desirability of organising futures trading in these commodities would entail a detailed examination of the economics of each of these commodities and their production and marketing. We do not propose to undertake any such extensive exercise, nor do we think it is necessary for our purpose. We have, however, generally examined this issue and wish to offer a few suggestions for the guidance of the Government.

6.2. It is our view that the number of commodities in which futures trading is to be permitted, should be judiciously determined. Merely the fact that there is a considerable amount of production and trade in an area is not a sufficient justification for permitting futures trading in that commodity. It is conceivable that in a commodity some stocks have to be occasionally held and consequently there is a risk of price fluctuations. Such a risk is inherent in all business and it is a normal function of the trade to carry this risk for which it earns profit.

6.3. During the recent years, about 38 commodities have been accepted as eligible for futures trading. The number of commodities to which Section 17 of the Act is applied extends to 71 and futures trading in them is therefore banned. In the evidence led before us, representatives of several associations pleaded for recognition to trade in *any* commodity which the Government or the Commission chose to recommend. Obviously what they desired almost pathetically was some means of livelihood: the commodity did not matter. This clearly indicates that the insistent demand from several centres to throw open futures trading is not necessarily derived from the alleged need for an insurance against the risk of price fluctuations, but from the urge to make a living from speculation. For generations, several families have no other occupation except that of speculation in one thing or another. Contrary to the popular image, not all these persons are greedy, unscrupulous money-makers. Quite

often, it is they who are the victims of the big thugs in the business. Many are people of small means eking out a livelihood from a business which till recently was not considered either dishonourable or anti-social. We have no doubt that their business in some of the small town futures markets is much less dishonourable or antisocial than that of the trader who does not touch the futures market, but hoards essential commodities (often legally) on the strength of his financial resources or bank credit.

6.4. The angriest protests against the functioning of the Forward Markets Commission came from small town associations and traders who had lost their livelihood because of the bans on futures trading or the severe restrictive controls. We see no easy solution to the dilemma of curbing speculation without depriving many small men of their livelihood. The problem falls in a wider field of social and economic policy on which we have no desire to tread.

6.5. As a Committee appointed to make recommendations on futures trading, we reiterate our views that the commodities and areas in which futures trading need be permitted should be highly selective. The theory on the subject lays down a few essential characteristics which make a commodity eligible for futures trading. Briefly, these are as follows:

- (i) *Homogeneity*—The commodity should be homogeneous in character; i.e., each unit of it must be easily inter-changeable with every other unit. Homogeneity is assured when a commodity is capable of being graded and standardised though each unit of a commodity may not be exactly alike. Homogeneity (and also standardisation) facilitates sales and purchases of commodities by description and dispenses with either physical inspection or sale by sampling.
- (ii) *Large Supply and Demand*—With a view to providing a free and competitive market, the commodity must enjoy a wide demand and a large supply. No doubt, such supply and demand may show a broad variation from year to year; but this minimum requirement is satisfied if the supply as well as the demand is large enough in the absolute sense to ensure the functioning of the exchange as a continuous and orderly market.
- (iii) *Uncontrolled Supply*—The flow of the commodity to the market should be substantially free and unhindered by artificial restraints, whether governmental or otherwise. It is obvious that if the supply of a commodity is under effective control of an individual, a

group or the Government, the market would cease to perform efficiently its price making function.

- (iv) *Uncertain demand and supply*—If the supply of and demand for a commodity are both certain, prices are capable of being determined without the intervention of any organised market machinery.
- (v) *Price Variability*—The twin purposes of futures trading being hedging against and speculation on price fluctuations, it follows that futures markets can only be organised for commodities which show a large degree of price variability. Large, frequent and unexpected price changes stimulate insurance hedging as well as both 'operational' and 'anticipatory' hedging.
- (vi) *Non-perishability*—Since the futures contract calls for delivery many months after the contract is entered into, the commodity must be capable of being stored at all times and for considerable periods to meet the requirement of the market in times of scarcity. These days, in most of the western countries, a number of commodities have achieved the character of non-perishability because of the improved cold storage facilities. As a result, in the U.S.A., even eggs, butter and potatoes have become eligible for futures trading. In India, however, for want of widespread scientific storage system, trading in 'futures' must be confined, for a long time to come, to mainly farm crops and their products.

6.6. The Forward Markets Commission in their 'Report on Application of the Forward Contracts (Regulation) Act, 1952 to Cotton' have mentioned two additional requirements for the successful working of a futures market in any commodity. First, the market should include an adequate number of operators who are prepared to purchase or sell in response to small variations of prices, thereby providing an element of stability. To put it differently, it should be clearly established that there was a sound tradition of futures trading in the commodity. Secondly, there should be adequate facilities for storage so as to enable stocks to be held until delivery could be effected at a satisfactory price.

6.7. The characteristics mentioned above are certainly essential, but we should like to emphasise that futures trading need not necessarily be allowed in all the commodities which satisfy these conditions. In fact, we may point out that notwithstanding the adaptability of some of the commodities for futures trading, it is still not always feasible to develop successful futures

markets in them. The criteria determining the feasibility of futures trading in any commodity are two, viz., "(a) The correlation between the spot prices of large number of varieties on the one hand, and the futures prices on the other hand, should be large enough to make hedging worthwhile.....(b). The volume of trading in futures contracts should be large enough to make transaction costs distinctly smaller than in the cash market." Further, as a general principle we should suggest that before a commodity is approved for futures trading, it should be clearly established that the absence of the facility of hedging is likely to adversely and severely affect orderly marketing of that commodity. In more technical terms, there should be a sizeable hedgeable risk in marketing. We recognise that this is not a very precise and easily determinable criterion, but plead our inability to lay down a more precise criterion.

6.8. We also recommend that the commodities in which futures trading is to be permitted should be listed in a Schedule to be annexed to the Futures Markets (Control) Act. The associations would, however, continue to be recognised for specific commodities from within the Schedule. The Government may retain under the Act, the right to add to or subtract from the list of commodities in the Schedule. We refrain from giving a list of such commodities as it would involve a detailed study of each commodity and its marketing pattern. In view of the apprehension of continuing shortage of food grains and the variety of controls to which trade in food-grains is and would continue to be subjected, we do not recommend their inclusion in the Schedule.

6.9. Futures trading in commodities other than those listed in the Schedule referred to above may be declared illegal. In other words, under the terminology of the Act, there would be nothing like 'free' commodities. This will obviate the not-inconsiderable trouble the Forward Markets Commission had to face chasing the associations which organised futures trading in all manner of commodities like silver coins, arhar chuni, berseem or chara etc. and banning it. Incidentally, this will also do away with the dual categories of recognised and registered associations which prevail to-day. There will be only one type of associations viz. the 'recognised' association, which will be permitted to organise futures trading in the permitted commodities.

¹H.S. Houthakker, 'The Scope and Limits of Futures Trading' in, 'The Allocation of Economic Resources' by Moses Abramovitz et al (P. 157) (Stanford University Press, 1959). The term 'transaction costs' referred to in this citation includes not only brokerage, but also the costs resulting from adverse price effect consequent upon placing the 'order', and all other sacrifices involved for concluding the transaction.

Selection of Centres

6.10. The statement in Annexure II to this Chapter gives the commodity and region-wise distribution of recognised futures markets. Out of the 61 recognised futures markets, as many as 23 are in Gujarat, its Saurashtra region accounting for 16. The commodity group for which the largest number of futures markets are recognised, is oilseeds and their products (28), followed by the group cotton, cottonseed and kapas (21)¹. The recognition and the prevalence of futures markets in a region does not appear to have a significant correlation with the production of the commodity in that area. As against 2 markets for cotton and 3 for kapas, there are as many as 16 markets for cottonseed, 8 of them in Gujarat—6 in Saurashtra alone. Fourteen markets are recognised for groundnut oil, once again 7 in Gujarat (6 in Saurashtra). Groundnut comes next with 8 recognised markets, with 5 in Gujarat—all in Saurashtra. Surat and Broach Districts are renowned centres of cotton crop. But there is not a single recognised market in these districts, nor has there been any demand for it. Similarly in the whole of Maharashtra excluding Bombay city—another important cotton growing State, there are no recognised markets for cotton and kapas, and only 2 for cotton seed. Andhra and Madras are good producers of cotton and groundnut, but between them they have only 4 recognised markets and none in cotton, kapas and groundnut. During our visit to Saurashtra, we were confronted with much pent up demand for recognition of still more centres for trading in groundnut and kapas. The region round Delhi also displayed more or less a similar fondness for futures trading.

6.11. As in the case of the choice of commodities, the choice of centres where futures trading should be allowed to be organised, should be governed by well-defined criteria. The basic feature which distinguishes a futures market from the spot market is the liquidity of the contract under the former. This is sought to be achieved by divorcing it from any specific variety. The contract is in terms of what may be called a norm (the basis variety) and a wide range of varieties is tenderable if the need arises. This helps to develop a large volume of business, greatly improving thereby the quality of its price determining function. Simultaneously, it makes a squeeze and cornering not only difficult, but dangerous. This is very important because even the possibility of a squeeze or a corner will vitiate the price-making forces. The

¹The classification is by organised markets and not by the number of associations conducting them. Where the same association conducts trading in a number of commodities it is reckoned as so many different markets.

argument in favour of a large number of centres to cater to the local requirements of variety etc. rests on a misconception of the nature of the futures market. It is precisely to obtain an escape from the (local) constraints of specific varieties etc. that the futures market is organised through a system of trading in a 'basis' variety. The risk of price fluctuations in spot trading which needs to be insured in the futures market is not the ordinary marketing risk in buying and selling of relatively small quantities for short duration, but the risk of holding large stocks for long duration.

6.12. As in the case of commodities, the Committee was besieged by traders from many small towns to recognise their markets for futures trading. There was acrimonious rivalry between neighbouring towns in pressing their respective claims. We are conscious that in a sense this is a human problem. Several of the witnesses in some regions bore visible signs of strained economic conditions. They were desperately dependent on the existence of a futures market in their town. While they endeavoured to plead economic justification for the revival of futures trading in their town, we could see that the real ground was livelihood. We however do not think that it would be proper to seek a solution to this very human problem by liberalising sanction to futures trading, which, for this class of people, is nothing but pure speculation.

6.13. Futures trading of our conception and which, we hold, has a positive economic contribution to make to orderly marketing, is not a small town business. If, in spite of this, there is a clamour for the establishment of futures markets in every town in an area, the effort should be to wean away the people from what is no more than a dubious opportunity to earn a living, rather than yield to the clamour.

6.14. India is a large country and a single all-India centre for futures trading in a commodity may not serve genuine needs of futures trading. But the other extreme of multiple centres in each region as supported by the Commission in its "Report on Recognition of Associations in respect of Forward Contracts in Cotton" in 1955 is clearly inadvisable.

6.15. In our view, generally there need not be more than one futures market for a commodity in a region. We are aware that there would be those inevitable rival claims of cities or towns for recognition, which, when they enter the irrational plane, are not easy to settle. At that level the problem becomes political.

6.16. It would follow from what is said above for the region that there should be only one recognised association for futures trading in one commodity in a single city or town.

ANNEXURE I

COMMODITIES IN WHICH FUTURES TRADING WAS CONDUCTED BY RECOGNISED OR REGISTERED ASSOCIATIONS SINCE 1960.

1. Anisced.
2. Arhar Chuni.
3. Castorseed.
4. Coconut Oil.
5. Corianderseed.
6. Cotton.
7. Cotton Pods.
8. Cottonseed.
9. Cottonseed Oilcake.
10. Gold.
11. Groundnut.
12. Groundnut Extraction.
13. Groundnut Oil.
14. Groundnut Oilcake.
15. Gur.
16. Hydrosulphite of Soda.
17. Jute.
18. Jute Goods.
19. Kapas.
20. Kardisced.
21. Kardisced Oilcake.
22. Linseed.
23. Linsced Oilcake.
24. Methi.
25. Moong Chuni.
26. Mustard Oilcake
27. Nigerseed Oilcake.
28. Pepper.
29. Rapeseed and Mustardseed.
30. Sesamum Oilcake.
31. Silver.

32. Staple Fibre Yarn.
 33. Tamarindseed.
 34. Tapioca Chips.
 35. Tapioca Flour.
 36. Taramira Oilcake.
 37. Tin.
 38. Turmeric.

ANNEXURE II

COMMODITY-WISE AND STATE-WISE DISTRIBUTION
OF RECOGNISED 'FUTURES' MARKETS*

Commodity/ State	Cotton	Kapas	Staple Fibre Yarn	Raw Jute	Jute goods	Groundnut	Groundnut oil	Linseed	Cottonseed	Castorseed	Coconut oil	Pepper	Turmeric	Rapeseed & Mustard- seed †	Total	
Andhra Pradesh	2	..	1	..	..	..	..	..	3	
Delhi	1	..	..	..	..	..	..	1	2	
Gujarat	..	1	1	..	..	5	7	..	8	1	..	..	..	..	23
Kerala	2	2	..	..	4	
Madhya Pradesh..	1	1	2	..	..	..	..	..	4	
Madras	1	..	..	..	..	..	..	..	1	
Maharashtra																
(a) Greater Bombay	1	..	1	..	..	1	1	1	1	1	..	1	..	..	8
(b) Rest of Maharashtra	2	1	..	2	..	..	..	1	..	6	
Punjab	2	..	..	..	..	..	2	..	..	..	..	1	5	
Uttar Pradesh	1	..	..	..	..	..	1	2	
West Bengal	1	1	..	..	1	..	..	..	..	..	..	3	
Total	..	2	3	1	1	1	8	14	4	16	2	2	3	1	3	61

*NOTE—The classification is by organised markets and not by the number of associations conducting them. Where the same association conducts trading in a number of commodities it is reckoned as so many different markets.

†Banned commodity.

CHAPTER VII

STRUCTURE OF FUTURES CONTRACTS

Introductory

7.1. Every futures contract matures in a definite period which is known as a delivery period or delivery month, and all physical or constructive deliveries against outstanding transactions for any such delivery period are required to be given or received only during that period. At present, among the recognised associations, the selection of delivery months, their aggregate number within a year and the duration of trading for each delivery period differ from commodity to commodity as well as from centre to centre. Usually, however, the months chosen reflect some important and broad phases of the annual cycle of production, marketing and consumption. Regional differences in both the selection of delivery months and the duration of trading in them are explained partly by local variations in these phases and partly by trade practices and custom. Despite the local factors, however, there is some scope for rationalising the existing trading practices in order to improve the arbitrage and the hedging efficiency of the markets and to curb the wasteful speculative excesses therein. In the past, the Commission had no doubt attempted to bring about a certain degree of uniformity in these trade practices; but still much remains to be done.

Present Practices

7.2. The delivery periods for the various futures contracts in different commodities and different markets and the duration of trading for each delivery month therein are shown in a table in Annexure I to this Chapter. It will be apparent therefrom that the trading practices pursued at various recognised associations in the country not only differ from commodity to commodity, but no uniform practice is observed even in respect of futures contracts traded in the same commodity. Thus, for instance, in groundnut oil, there were four delivery periods in a year in Bombay and Saurashtra; six at Delhi, Hyderabad and Adoni and twelve maturing in each of the calendar months at Madras. Similarly in cotton, cottonseed and linseed, different delivery months are prescribed by the different recognised associations. Delivery period practices also differ from commodity to

commodity. The number of delivery periods in a year varies from 2 in castorseed at Ahmedabad to as many as 12 in groundnut oil and coconut oil in the South. In between, there are generally 3 delivery periods for cotton, rapeseed/mustardseed, linseed, gur and turmeric, 4 for cottonseed, raw jute and jute goods and 8 for pepper.

7.3. Differences exist in the duration of contracts also; such durations vary from as 2 to 3 months in groundnut oil and coconut oil at Adoni, Madras, Alleppey and Cochin, to as many as 8 to 9 months for the new season's contracts in cotton, castorseed, rapeseed/mustardseed, cottonseed, groundnut and groundnut oil in Maharashtra, Gujarat and North India. On an average, however, trading for most of the contracts runs for a period of 4 to 5 months.

7.4. Trading at most of the associations is usually permitted for only one delivery period at a time, but trading for the next delivery period commences a month or two prior to the maturity of the futures contract for the earlier delivery period. In the maturing months of a contract therefore, there is normally concurrent trading for two delivery periods—a nearer one and a distant one. In Madras and Kerala States, however, as futures contracts mature in almost every month, frequently contracts for three different delivery periods are traded in simultaneously.

Trading Practices in U.K. and U.S.A.

7.5. These diverse trading practices of the futures markets in India may well be contrasted with those which prevail in similar markets abroad. In the U.S.A., in most of the commodities brought within the purview of the Commodity Exchange Act, the futures contract usually permits delivery during any one of the twelve successive calendar months. The active trading months in commodity futures, however, are few and uniform for all 'contract' markets. Thus in the grain (wheat, corn, oats, rye and flaxseed) trade, active trading is confined largely to four delivery periods, viz., May, July, September and December. In cotton, trading is mostly concentrated for the five months of October, December, March, May and July but since trading commences in every 'futures' nearly 18 months ahead of its maturity, as many as seven different 'futures' are active at any one time. The Liverpool Cotton Association in the U.K. provides for five double month delivery periods in a year viz. October/November, December/January, March/April, May/June, July/August, and all the five positions are open for trading simultaneously.

Uniformity in Delivery Months

7.6. From the brief sketch of trading practices abroad, it will be recognised that the commodity futures markets in this country have yet a long way to go in rationalising the existing practices and attaining a large measure of uniformity in respect of delivery months, commencement of trading in futures contracts and the duration of such contracts. True, the contracts traded at the various mofussil centres are regional in character, and the delivery months had been devised partly to coincide with the actual marketing periods in the different regions; but still, we think, it should be possible for recognised associations trading in the same commodity to strive for some sort of uniformity in the delivery months. Uniformity in the delivery months, is desirable as it would encourage arbitrage transactions between different futures markets and thereby check an errant trend in prices in any one of them. Swift arbitrage has a useful economic function to perform in reducing regional price differentials and thereby flattening the geographical price surface.

7.7. Hitherto, uniformity in delivery months existed only in the gur markets. It should be possible to extend it to other commodities, particularly to oilseeds and oils, because the marketing season of any particular oilseed shows little variation from region to region. Thus, e.g., in groundnut in most of the regions, the bulk of the crop is marketed between December and March. In the case of rapeseed/mustardseed, whose production is concentrated in U.P. and the Punjab, marketing is confined to the period from April to July. Likewise, linseed which is largely grown in Madhya Pradesh and U.P. is marketed between March and June, and castorseed arrivals are centred around the period from February to May. In the case of cottonseed, however, such a concentration of the marketing season may not be seen, mainly because marketing seasons of kapas are different in the major producing regions. But large stocks of cottonseed, which are more relevant for our purpose, are available all the year round. There are, therefore, no insurmountable difficulties in the adoption of uniform delivery months in each individual oilseed commodity. The principle may also be extended, if possible, to other commodities depending upon the merits of each case.

7.8. It may be contended that the existing system of delivery months in different regions has been fashioned by the trade mainly to meet the local traditions and requirements. Thus, for instance, in the South Indian States of Madras and Kerala, monthly contracts have been devised by the local associations, since such contracts enable the actual handlers of the commodity who, in fact, predominate in the markets there to give and

receive deliveries in the course of their regular business. But such a use of the futures market is hardly in consonance with the prevailing tenets of the theory of futures trading. Futures contracts are primarily meant for off-setting the risks of price variations on inventories and forward sales, and, therefore, as a rule, hedges should be lifted through appropriate offsetting transactions whenever price risks cease. Delivery on the futures market must be an exception rather than a rule. "In fact, the more perfectly the market operates as an insurance vehicle, the smaller the deliveries. Theoretically, a perfect exchange or insurance market would have no deliveries."

7.9. The use of futures contracts for large scale purchases or sales of actual commodities needs to be discouraged for one more valid reason. When used as a merchandising market, the futures market would not attract sufficient speculative activity to give it the much needed breadth and liquidity. As a result, it often becomes vulnerable to sharp and abnormal variations in prices. Moreover, when operators trade in the futures contracts for giving and receiving actual deliveries, they necessarily hold to their commitments till the due date. Such a practice endangers the security of the market if unforeseen contingencies (such as shortage of wagons, dock strike etc.) affect adversely the supply situation during the limited delivery period. It therefore appears advisable for the recognised markets in South India to adopt not more than 5 delivery periods in a year. At the same time, trading in ready and delivery contracts should also be properly developed so as to facilitate physical purchases or sales by the genuine trade interests.

7.10. At the other extreme, there are some associations concerned in commodities like linseed, castorseed, etc., which permit trading for only two or three delivery periods in a year. From the point of view of hedgers, this system is somewhat undesirable, since there is little scope for the hedgers to place their hedges in the appropriate months of their choice, which coincide more or less with the period of their contract for actual delivery or shipment. Besides, in castorseed and linseed the last deliveries of the season mature as early as in September and in mustardseed in November although merchants and manufacturers often carry large stocks of castorseed till December and that of linseed and mustardseed till February of the next year. True, in these commodities the contracts for the new season usually commence in July or August (for mustardseed, September/October) of the previous year, but with large backwardation for such contracts of new season, the stocks from the old crop cannot be

¹J.B. Baer and Saxon, "Commodity Exchange and Futures Trading" (1949) P. 210. (Harper Bros. 1949).

fruitfully hedged in them. As a result, the stockists in these oil-seed commodities are often deprived of hedging facilities for nearly 3 to 5 months in a year. The recognised associations in these commodities may, therefore, consider the advisability of increasing the number, of delivery months in a year, so that the trade can have adequate hedging facility throughout the year. For that purpose, they may also extend delivery periods in castorseed upto November, and in linseed and mustardseed at least upto December of every year. If, in any year, it is not expedient to permit trading for any such distant delivery period owing to acute shortages, it is always open to the association and the Commission to prohibit such trading during that particular year. Such an expedient in a year of abnormal shortages, however, may not be made an excuse for denying hedging facilities to the trade during years of relatively normal crops.

Commencement of trading in contracts of new season

7.11. Many recognised associations at present commence trading in futures contracts of new season nearly 8 to 9 months in advance of their maturity. In some commodities like cotton, castorseed, linseed, etc., trading in the new season's contracts often begin well before even the sowings commence. Consequently, in the absence of any idea about either the prospective supply or demand, prices of such futures contracts, at least during their initial months, have little economic basis and are scarcely better than random guesses. The early commencement of trading in the new season's futures contracts is often sought to be justified on the ground that their quotations act as price barometers, and serve as guide posts to the farmers and the traders in drawing their production and merchandising plans. Empirical evidence, however indicates that the futures market quotations of new crop contracts for expectation, periods of more than 5 months from maturity of such contracts are far from accurate when compared with the eventually realised prices during the delivery periods.

7.12. On this issue, it would be wrong to draw a parallel with the practices in the U.S.A., where trading for every delivery period commences at least one year (in cotton, as many as 18 months) in advance of the maturity of the contract. In that country, large commodity surpluses are carried from year to year, and these tend to influence in a major way the prices of the subsequent season's contracts. American merchants often carry stocks for almost a whole year, while exporters in many agricultural commodities enter into contracts for exports, several months ahead of the final shipment. In India, on the other hand, in most of the agricultural commodities subjected to futures trading, limited stocks are carried from season to season, while expecting in jute goods, pepper and turmeric, exports are

either altogether prohibited or negligible. In these circumstances, unless there are valid reasons to act otherwise, it seems desirable to restrict trading in most of the futures contracts of new season for a period of not more than 5 to 6 months from the due date, so as to prevent unhealthy speculation in the months prior to the peak marketing season, and also to improve the price forecasting efficiency of the futures market.

Concurrent running of futures contracts

7.13. Another important issue which the commodity futures markets recognised especially for trading in export commodities like jute goods might consider, relates to the desirability of running concurrently trading for all delivery periods of a season, or for at least two or more such successive delivery periods. This kind of trading practice prevails on all 'contract markets' in the U.S.A. and has a few welcome features. The most obvious advantage is that it enables the hedger to place his hedge in a contract for a delivery period which most nearly coincides with the timing of his requirement in the physical market. At present, trading for most of the delivery periods in the recognised futures markets does not extend to more than 5 to 6 months, and often during the year, there is no futures contract maturing beyond even 2 to 3 months. In such circumstances, a hedger having a distant forward commitment (for either purchase or sale) is compelled to switch over his position in the futures market from one delivery period to another if he wishes to keep his hedge alive. But such a switchover involves for the hedger uncertain expenses of badla (i.e. carry-over costs). Since these charges cannot be ascertained at the time when the original hedge is entered, they import an element of risk in the hedge itself. The uncertainty about the badla charges is particularly strong in markets for export commodities like jute goods, where in such costs vary extensively with the changes in the prospective international supply and demand situation. Prof. J. A. Todd an eminent economist invited by the Government of Bengal as early as in 1940 and again in 1944 to conduct an enquiry into the working of the jute and hessian futures markets at Calcutta, had also recommended in his interim report as well as in the further report, that contracts for all delivery periods in jute and jute goods should run concurrently throughout the year.

7.14. The simultaneous running of futures contracts for all or more than one delivery period in a year also holds promise of two other benefits. Firstly, it might increase the liquidity of the futures market through possible arbitrage between contracts for different delivery periods. Secondly, by distributing hedges over successive delivery periods, this practice might enable the futures market to regulate more effectively the rate of production, marketing and consumption in the commodity.

7.15. We are aware that against these advantages must be weighed the experience of the Bombay Oilseeds and Oils Exchange Ltd., during the 1961-62 season, when the oilseeds trade in Bombay showed a complete apathy to the contracts for the distant delivery periods till the contracts maturing earlier entered their delivery period. From this experience, it seems that old traditions die hard; but nothing will be lost by permitting trading concurrently in at least two successive delivery periods for the same season in commodities like raw jute and jute goods, where such a practice is of considerable practical interest to the exporters and the manufacturers. Given sufficient time for the trade to work the new system, there is no reason why this practice should not succeed.

Standard terms of contracts

7.16. Under the Agricultural Produce (Grading and Marking) Act, 1937, the Ministry of Food and Agriculture (Directorate of Marketing and Inspection) have now prescribed standard contract terms on mutual basis and Agmark grades for certain commodities like vegetable oils, H. P. S. groundnut, linseed, certain varieties of kapas, turmeric, etc. We understand that for some other commodities also steps are being taken to prescribe similar standard contract terms. Certain associations like the Bombay Oilseeds and Oils Exchange have already adopted these terms for specifying the basis of the futures contracts and varieties tenderable against it. We recommend that other associations should also be encouraged to adopt the standard terms.

ANNEXURE I

DELIVERY PERIODS AND DURATION OF FUTURES CONTRACTS IN COMMODITY FUTURES MARKETS

Commodity	Markets	Delivery period	Approximate Duration of Futures Contracts
1	2	3	4
<i>(A) Regulated Commodities</i>			
1. Cotton ..	.. (i) The East Indian Cotton Association Limited, Bombay.	March	8 to 9
		May	4 to 5
	August	4 to 5	
	(ii) The West India Cotton Association Limited, Ahmedabad.	May	11
August		5	

ANNEXURE I—contd.

1	2	3	4
			months
2. Groundnut	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay.	January April July Sept.	6 to 7 4 to 5 4 to 6 5
	(ii) The Saurashtra Oil and Oilseeds Association Limited, Rajkot.	January April July Sept.	6 to 7 4 to 5
	(iii) The Spices and Oilseeds Exchange Limited, Sangli.	Poush Chaitra Srawan	6
	(iv) Shri Grain Seeds and Oil Merchants' Chamber Limited, Latur.	February April June August	8 4 4 4
3. Groundnut in-shell	(i) The Saurashtra Oil and Oilseeds Association Limited, Rajkot.	January April July Sept.	8 5 to 6 5 to 6 5 to 6
	(ii) The Spices and Oilseeds Exchange Limited, Sangli.	Chaitra Shrawan Poush	4 to 5 4 to 5 4 to 5
	(iii) Shri Grain Seeds and Oil Merchants' Chamber Limited, Latur.	February April June Sept.	6 4 4 4
4. Groundnut Oil	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay.	January April July Sept.	6 to 7 4 to 5 4 to 6 5
	(ii) The Saurashtra Oil and Oilseeds Association Limited, Rajkot.	January April July Sept.	6 to 7 4 to 5
	(iii) The Adoni Oilseeds and Oil Exchange Limited Adoni.	January March May July Sept. Nov.	7 4 4 4 4 4
	(iv) The Hyderabad Oils and Seeds Exchange Limited, Hyderabad.	February April June August October December	5
	(v) The Madras Oils and Oilseeds, Exchange Limited, Madras.	Monthly beginning from January	2½

ANNEXURE I—contd.

1	2	3	4
			Months
	(vi) The Madhya Pradesh Commercial Exchange Limited, Akola.	January March May August	3 to 4 4 4 5
	(vii) The Ahmedabad Seeds Merchants Association, Limited, Ahmedabad.	January April July Sept.	7 5 5 5
	(viii) The Om Oils and Oilseeds Exchange Limited, Delhi.	January March May July Sept. Nov.	6 4 4 4 4 4
5. Castorseed	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay.	March June Sept.	9 4 5 to 6
	(ii) The Ahmedabad Seeds Merchants Association Limited, Ahmedabad.	May Sept.	10 to 11 5 to 6
6. Linseed	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay.	March June Sept.	9 7 5 to 6
	(ii) The Central India Commercial Exchange Ltd., Gwalior.	May Sept. Nov.	8 to 10 6 4
	(iii) The Kanpur Oils and Oilseeds Association Limited, Kanpur.	May Sept. January	9 to 10 5 5
	(iv) The Calcutta Wheat, Seeds and Bullion Merchants Association, Calcutta.	May Sept. January	9 to 10 5 5
7. Cottonseed	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay.	January April July Sept.	7 4 to 5 4 4
	(ii) The Madhya Pradesh Commercial Exchange Ltd., Akola.	January March May July	7 to 8 3 to 4 3 to 4 3 to 4
	(iii) The Central India Cotton Association Limited, Ujjain.	Magh Chaitra Jeth Srawan	7 to 8 3 to 4 3 to 4 3 to 4
	(iv) The Saurashtra Oil and Oilseeds Association Limited, Rajkot.	May Sept.	10 to 11 4 to 5
	(v) The Ahmedabad Seeds Merchants Association Ltd., Ahmedabad.	May Sept.	10 to 11 5 to 6

ANNEXURE I—contd.

1	2	3	4
			Months
	(vi) The Indian Exchange Ltd., Amritsar.	January March May July	8 to 9 4 4 4
	(vii) The Southern Gujarat Oil- seeds Merchants' Association Limited, Palej.	April October	8 to 9 7 to 8
	(viii) The Punjab Company Ltd., Bhatinda (320F).	January April July	6 to 7 4 to 5 4 to 5
	The Punjab Company Ltd., Bhatinda (Desi).	December March June	5 to 6 5 5
	(ix) The Adoni Oilseeds & Oil Association Ltd., Adoni (Farm).	March April May	6 4 4
	The Adoni Oilseeds & Oil Asso- ciation Ltd., Adoni (Laxmi).	February March April May	5 4 4 4
	(x) The Jalna Merchants Associa- tion Limited, Jalna.	January March May August	6 3 3 to 4 4 to 5
8. Coconut Oil	.. (i) The Alleppey Oil Millers' and Merchants' Association, Alleppey.	Monthly contracts of Calen- dar Year.	2
	(ii) The Cochin Oil Merchants Association, Cochin.	Do.	2
9. Kapas ..	.. (i) The Surendranagar Cotton, Oil and Oilseeds Association Limited, Surendranagar.	Chaitra Vaishakh	9 9
	(ii) The Punjab Company Ltd., Bhatinda (Desi).	February November	4 to 5 4 to 5
	The Punjab Company Ltd., Bhatinda (320F).	March December	4 to 5 5 to 6
	(iii) The Mahesh Beopar Company Ltd., Dhuri (Desi).	February November	4 to 5 4 to 5
	The Mahesh Beopar Company Ltd., Dhuri (320F).	December March	5 to 6 4 to 5
10. Pepper	.. (i) The Pepper & Ginger Mer- chants' Association Limited, Bombay.	January March May July September November	4 4 4 4 4 4
	(ii) The India Pepper and Spice Trade Association, Cochin.	March, May, July, August, October, Dec- ember, Janu- ary and Feb- ruary.	2 to 4

ANNEXURE I—contd.

1	2	3	4
			Months
	(iii) The Alleppey, Oil Millers' and Merchants' Association, Alleppey.	March, April, May, July, August, October, December, January and February	2 to 3
11. Turmeric	.. The Spices and Oilseeds Exchange Limited, Sangli.	May October December	8 to 9 8 3 to 4
12. Raw Jute	.. The East India Jute and Hessian Exchange Limited, Calcutta.	September December March June	4 4 4 4
13. Hessian and Sackings.	The East India Jute and Hessian Exchange Limited, Calcutta.	August November February May	4 4 4 4
14. Staple Fibre Yarn	The Bombay Yarn Merchants Association and Exchange Limited, Bombay.	January March May July September November	4 3 to 4 3 to 4 3 to 4 3 to 4 3 to 4
B. Banned Commodities (formerly regulated)			
1. Rapeseed Mustard-seed.	(i) The Om Oils and Oilseeds Exchange Limited, Delhi and (ii) The Punjab Company Limited, Bhatinda.	May August November	7 to 8 5 5
	(iii) The Kanpur Oils and Oilseeds Exchange Limited, Kanpur.	May August November	7 4 5
	(iv) The Agra Merchants Chamber Limited, Agra.	Jeth Bhado Magsar	7 to 8 4 to 5 4 to 5
2. Gur	.. (i) The Rajdhani Grains and Jaggari Exchange Limited, Delhi. (ii) The Chamber of Commerce, Hapur. (iii) The Kaisarganj Beopar Company Limited, Meerut. (iv) The Vijay Beopar Chamber Ltd., Muzaffarnagar. (v) The Agra Merchants Chamber Limited, Agra. (vi) The Indian Exchange Limited, Amritsar. (vii) The Ludhiana Grain Exchange Limited, Ludhiana.	Phagun Vaisakh Ashad	9 to 10 3 to 4 3 to 4

ANNEXURE I—concl'd.

1	2	3	4
			Months
3. Gold and Silver	The Bombay Bullion Association Ltd., Bombay.	Phagun Jeth Bhadrapad Magsar	3½ 3½ 3½ 3½
4. Groundnut Oilcake	(i) The Bombay Oilseeds and Oils Exchange Limited, Bombay	January April July September	6 5 to 6 4 to 5 4 to 5
	(ii) The Saurashtra Oils and Oilseeds Association Limited, Rajkot.	January April July September	6 5 4 to 5 3
	(iii) The Adoni Oilseeds and Oil Exchange Limited, Adoni.	Alternate months beginning from January	3
	(iv) The Hyderabad Oils and Seeds Exchange Limited, Hyderabad.	January March June September	7 7 6 6

CHAPTER VIII OTHER RECOMMENDATIONS

(I)

Penalty Provisions and Enforcement

8.1. The irregularities committed in the Forward Markets consist either of the direct contravention of the provisions of the Forward Contracts (Regulation) Act, 1952 or the Rules made thereunder or the infringement of various stipulations of the bye-laws and articles of associations of the recognised associations. The former include trading in banned commodities, in options and in regulated commodities but outside the auspices of the recognised associations. The common infringement of the bye-laws consists of trading above the prescribed limits on open position, non-payment of dues (margins), violations of the Orders issued by the Commission, etc. The breach of the provisions of articles of association arises mostly when a member fails to pay his subscription and other dues.

8.2. Penalties have been provided under three different authorities to cover all cases. Firstly, criminal proceedings are launched in a court of law against an operator for violation of the provisions of the Act and on conviction, the Court can sentence him to pay fine and/or undergo imprisonment. Secondly, when provisions of bye-laws and articles of associations are contravened by members, the Board of Directors of the recognised associations can impose a fine or can also suspend or expel the erring members. Thirdly, the Commission can, on its own initiative, suspend a member from the membership of any recognised association and also prohibit him from entering into any forward contract either in his own name or through any other members. Unlike the power of the court, the power of the recognised association and the Commission to take penal action is restricted to members of the recognised association and they have virtually no control over the non-members.

8.3. At present, penal action against any person is taken either by instituting criminal proceedings against him in a court of law or by taking departmental action. Departmental action can be taken at four levels, viz., the Vigilance Committee, the Board of Directors, the Directorate of Enforcement and the Commission.

(i) Vigilance Committees have been appointed by most of the recognised associations for carrying out periodical inspection of books of accounts of members with a view to detecting

the violations of various provisions of the bye-laws. They have to examine periodically the books of accounts, investigate the cases of violations of bye-law obtain explanation from members and record evidence on all matters connected therewith and forward their recommendations to the Board of Directors for suitable action. The attitude of Vigilance Committees is generally lukewarm though some of them have worked conscientiously. In certain cases, the vigilance committees have recommended fines on members upto Rs. 10,000.

(ii) The Board of Directors of the recognised associations generally take action against the concerned members on the basis of the recommendations of vigilance committees. This action is mostly in the form of imposition of fines of small amounts. On certain occasions, however, they have suspended members from trading for a specified period. When the irregularities committed by members are referred to the Board by the Director of Enforcement, the Board usually refers such cases again to the vigilance committee and takes suitable action. Generally, the Directors on the Board, being elected by the members themselves are reluctant to take drastic action.

(iii) The Director of Enforcement and other Officers of the Commission also undertake, under section 8(4) of the Act, periodic inspection of books of accounts and other documents of the members of the recognised associations. If any irregularities are revealed, they are referred to the Board of Directors for taking suitable action against the concerned members. If the irregularity involved pertains to the violation of the provisions of the Act, the Director of Enforcement can also take steps to prosecute the member concerned.

(iv) The Commission can, in appropriate cases, advise the recognised associations to take suitable action. Besides, the Commission can, on its own, suspend a member from the membership of the recognised association and prohibit him from trading. In actual practice, however, such a need generally does not arise and the Commission has not so far utilised these powers.

8.4. A number of offences under the Act are at present committed by persons who are not members of the recognised associations or by the registered associations trading in the so-called free commodities. Many of these offences have been made cognizable and the responsibility for action against the offenders has been placed on the police agencies. The Enforcement Directorate of the Commission has no direct authority in regard to action in such cases. All that it can do is to assist the police agencies by way of providing technical guidance. In actual

practice, however, we find that the Enforcement Directorate is virtually carrying the whole burden of initiating police action, assisting in the organisation of raids and the seizure of documents, scrutinising the seized documents and advising the police authorities in the matter of framing the charge-sheet, preparing the prosecution case, and, if necessary, indicating the grounds of appeal against an adverse decision. Considering that these offences are committed at many different places all over the country, the enforcement machinery at the disposal of the Commission can hardly cope with such work. Nor do we think it to be the proper function of the Commission to deal with illegal trading outside the recognised associations except by way of providing to the police authorities information which may have come to its knowledge about such trading, and giving assistance in explaining the technicalities of forward trading relevant to the cases in question. Otherwise an accumulation of arrears of cases pending disposal with the Directorate of Enforcement can hardly be avoided. Further, the contribution that the Enforcement Directorate ought to make in enabling the Commission to keep a watch on and enforce discipline in the working of the recognised associations is substantially reduced by the diversion of its attention to cases of illegal trading in all parts of the country.

8.5. We, therefore, think that change in the basic approach to the functions of the Enforcement Directorate is called for. In our view, the Directorate should be mainly an instrument in the hands of the Commission for the purpose of a close scrutiny of the trading practices and operations of the members as well as non-members functioning under the auspices of the recognised associations; and the responsibility for curbing illegal trading outside the associations should be primarily borne by the State Police or by the C.B.I. The Commission on its part should be primarily responsible for enforcing discipline only within the field under its own jurisdiction, namely, the recognised associations and not with all forms of irregularities and illegal trading all over the country. Regarding the latter, it could collect information by keeping a vigilant eye on the trade and pass on such information to the appropriate authorities. Here too it should be concerned only with such matters as are likely to impinge on the efficient working of the futures markets under its control.

(II)

Business of Non-members

Appropriation of non-member clients' business

8.6. A trading practice which is very common with some of the members of the recognised associations, but which has

many harmful consequences for the market relates to the appropriation of non-member clients' business (i.e., of those who trade in the futures contracts with or through members of recognised associations, but who are themselves not members of such associations). Section 15(4) of the Forward Contracts (Regulation) Act permits a member of a recognised association to enter into a forward contract on his own account with a person other than a member subject to the condition that "he had secured the consent or authority of such person and discloses in the note, memorandum or agreement of sale or purchase that he had bought or sold the goods, as the case may be, on his own account". This condition was incorporated in the Act at the instance of the Expert Committee which examined the draft Futures Contract Bill. The Committee had then felt "that an order given by a non-member should as a rule, be executed on the market". The Committee thought that the requirement for securing the consent of the client would remove the evil of appropriation of non-member clients' business.

8.7. Experience, however, shows that many members of recognised associations continue to appropriate on an appreciable scale the orders of their non-member clients and the consent of clients for the purpose of such appropriation is obtained as a routine formality. We also understand that the Forward Markets Commission had on several occasions asked the recognised associations to consider the need for providing certain by-laws for regulating the practice of appropriation and removing some of the undesirable features thereof. The Associations, however, have evaded their responsibility for one reason or the other.

8.8. The harmful consequences of this trade practice are four. Firstly, as the transactions are not executed in the ring, the liquidity of the futures market is reduced. Secondly, the competition in the trading ring becomes less perfect and, as a result, the prices quoted therein do not reflect the true market forces of supply and demand. Thirdly, the clients may not obtain the best terms for their orders; and lastly, there is much evasion of the regulatory measures and the payment of stamp duty, legal ordinary margins etc., which gives members appropriating non-member clients' business and unfair advantage over other members.

8.9. We are of the opinion that this practice must be done away with and every member of a recognised association should be required, under the Act, to execute all the orders of his constituents in the trading ring of the associations. A member violating this rule may be rendered liable to appropriate penalties.

while the contract entered into in such violation may be made voidable at the instance of the non-member client involved.

Control over the business of non-members

8.10. During the last few years, the Commission was also faced with the problem of control over the business of non-members. The need for such control became apparent as early as 1957 when restrictions on trading applicable to members were extended for the first time to non-members as well. At first, the association members were required to report in the periodical trading returns the names of their clients and the business done on their behalf.

8.11. However, as it proved difficult under this system to identify individual clients on the basis of their names alone, the Commission introduced a scheme of registration of non-members with the recognised associations. While it is possible that this scheme might have driven some non-members to illegal markets, in the absence of a large inspectorate to check the identity of individual non-members spread all over the country, the problem of their identification remained as elusive as ever.

8.12. We are aware that the task of controlling the business of non-members is a difficult one. We also recognised the need to create a suitable machinery to exercise effective control over the business of non-members who, in fact are responsible for more than half of the total business in any commodity futures market. Nevertheless, we do not favour any scheme of registration of non-members which, apart from being irksome, has not proved very effective for the purpose of regulation. Many of the abuses emanating from non-member business would, however, be eliminated as a result of our suggestion made elsewhere that every member must maintain a record showing the names, addresses and other details of his non-member constituents, and that all non-member business must be transacted in the ring. We, however, suggest that a provision may be made in the Futures markets (Control) Act that non-members would be bound by the bye-laws of the association relating to trading, fulfilment of contracts and disciplinary action. In case, a non-member fails to abide by the decision of the Board of Directors of the association in these matters the Board may direct all its members not to trade with or for such non-member for a prescribed period not exceeding, say, one year. Members violating such directions would of course render themselves liable for suitable disciplinary action under the rules of the association. We hope that these powers would generally be adequate for exercising control over the business of non-members.

(III)

Reporting of Futures Business

8.13. An essential prerequisite of an effective regulation of futures trading is a system of market intelligence designed to provide the authorities, punctually and continuously, with the basic facts and figures on the transactions of brokers and traders. All commodity exchanges are therefore required under the law to furnish to the controlling authorities prompt, full and accurate reports regarding futures trading and other allied statistics.

Present position

8.14. At present, Rule 10(2) of the Forward Contracts (Regulation) Rules, 1954 requires every member of a recognised (and also registered) association to send to the Commission returns relating to his affairs in such form and in such manner and at such times as may be specified in this behalf by the Commission. Under this Rule, except during emergencies and except when severe regulatory curbs were imposed on futures markets, the Commission generally prescribed weekly returns which broadly provide for three kinds of information. Firstly, in such returns, every trading member reports *for each day of the week* for each 'future' (i.e., for futures contract in respect of each delivery period) and commodity, (a) the total of the purchases and the total of the sales put through by him in the futures market on his own account and on account of all his clients; and (b) the resultant total outstanding business, both long and short, carried by him on his own account and also on account of all his clients. Secondly, he also reports, *collectively for the whole week*, the total of the purchases, sales and the outstanding business done or held by him, separately, (a) on his own account; (b) on account of all his clients; and (c) on account of his clients, but appropriated to himself. Finally, in the annexure to the return, he reports the name of each of his client, the total of the purchases and of the sales put through by him during the week on account of such client and the total outstanding business carried on account of such client at the end of the week.

8.15. During emergencies and whenever severe regulatory curbs are imposed on the futures markets, the Commission usually calls for daily statements from the members of the concerned recognised associations. These daily statements are very similar in content to the weekly returns. Their merit is that they give the details of purchases, sales and open position on

account of individual clients on a daily basis¹ and are received by the Commission within only 2 to 4 days from the date of reporting².

Present practice in U.S.A.

8.16. Before we consider the adequacy of the prevailing reporting system, it may be interesting to describe briefly the system that is in vogue in the U.S.A. Detailed reporting requirements are prescribed in the regulations framed under the U.S. Commodity Exchange Act. Under these regulations, members of the contract markets (i.e., futures markets recognised under the Commodity Exchange Act), futures commission merchants and 'reporting' traders (i.e., traders holding or controlling open contracts which equal or exceed the quantity fixed for reporting) are required to submit daily reports in the prescribed forms. These reports not only disclose full details of trading in the futures markets of both the futures commission merchants and their clients, but, in case of large reporting traders, they also reveal the break-up of the open position into 'hedge' and 'speculative' classes. Further, the merchants, processors and dealers are also required to submit on a weekly basis detailed reports of their stocks and of outstanding purchases and sales in ready and delivery contracts.

8.17. On the basis of the reports received from the clearing members the Commodity Exchange Authority, which supervises the working of the contract markets, releases to the Press every day, the details of the volume of trading and open contracts in each 'future' commodity and market for the immediately preceding day. The daily reports of the futures commission merchants and large traders and the weekly reports received from the merchants, the processors and the dealers enable the Authority to pinpoint questionable trading practices and trouble spots. The cross reports from different market functionaries also enable the authorities to check the accuracy of reporting and disclose evidence on evasions of speculative limits and price manipulations.

8.18. Besides these daily and weekly reports, the Commodity Exchange Authority in U.S.A. makes periodically marketwise surveys of all traders operating in the futures markets. The results of these surveys are analysed and interpreted, and are often made available to the public in the form of reports. These

¹ On many occasions, however, the Commission had exempted the members from reporting the names and details of business of those of their clients whose outstanding business was less than some prescribed limit.

² The weekly returns are usually received by the Commission within 6 to 15 days after the end of the week to which they relate.

reports are illuminating and throw considerable light on the utility and efficiency of different commodity futures markets. They also assist in understanding the market behaviour and trade practices of different classes of operators.

8.19. The daily reporting system as is prevalent in the U.S.A. has no doubt, many advantages. The daily returns enable the regulating authorities to make a timely analysis of the market situation. They give prompt intimation of developing crisis and provide early evidence of the anti-social activities of the individual traders. Nevertheless, we feel that although the American system of reporting is an ideal to be aimed at, in view of the underdeveloped state of our markets and the limited resources of several operators trading therein, it would be difficult to enforce, at present, such a detailed reporting programme without causing much hardship and inconvenience to the trade. We therefore suggest that the present system of submitting weekly returns by the members of recognised associations may be continued. The Commission may, however, be empowered under the Act to call for daily returns during critical situations in such form as it may prescribe.

8.20. In addition, the Commission should have the authority to obtain from those operators (members as well as non-members), whose business exceeds a prescribed limit, the break-up of their open position into 'hedge' and 'speculative' business. The definition¹ of 'bona fide hedge' given in Section 4a(3) of the Commodity Exchange Act in the U.S.A. may be

¹. Under Section 4a(3) of the Commodity Exchange Act, "bona fide hedging transactions shall mean sales of any commodity for future delivery on or subject to the rules of any board of trade to the extent that such sales are offset in quantity by the ownership or purchase of the same cash commodity or, conversely, purchases of any commodity for futures delivery on or subject to the rules of any board of trade to the extent that such purchases are offset by sales of the same cash commodity. There shall be included in the amount of any commodity which may be hedged by any person,

(A) the amount of such commodity such person is raising, or in good faith intends or expects to raise, within the next twelve months, on land (in the United States or its Territories) which such person owns or leases;

(B) an amount of such commodity the sale of which for future delivery would be a reasonable hedge against the products or by-products of such commodity owned or purchased by such person, or the purchase of which for future delivery would be a reasonable hedge against the sale of any product or by-product of such commodity by such person ;

(C) an amount of such commodity the purchase of which for future delivery shall not exceed such person's unfilled anticipated requirements for processing of manufacturing during a specified operating period not in excess of one year: Provided, That such purchase is made and liquidated in an orderly manner and in accordance with sound commercial practice in conformity with such regulations as the Secretary of Agriculture may prescribe."

adopted for the purpose. As a counter-check to the above information, the Commission should have the authority to ask for information regarding the position of these operators in the ready markets, pertaining to stocks and outstanding purchases and sales. In addition, for the purpose of long-term analysis and research, the Commission should have authority to obtain relevant information for conducting special surveys on its own or through accredited agencies. In calling for additional information as aforesaid, the trade would not be put to any severe hardship and inconvenience, as the information would be called only when necessary from a limited number of big traders having generally a large business in the ready and the futures markets. The information, however, would be useful to the regulating authorities in identifying unhealthy trends in the futures markets. It will also be useful for a periodical assessment of the utility of the futures markets and the economic service they render. In the course of our enquiry, we found that no data are available regarding the extent of the use of the futures markets by the hedgers, and hence, we feel that this important gap in the futures trading statistics can partly be filled in by calling for the additional information suggested above.

8.21. Incidentally, in order to ensure accurate reporting of futures trading statistics, the present powers of the Central Government under section 8 of the Act to examine books, documents, etc., of various individuals and firms may be enlarged to specifically empower the Futures Markets Commission as well as its officers to inspect, whenever necessary, all records, books of accounts and documents (*including those relating to ready and delivery contract transactions*) of all persons entering into futures contracts. Every member of a recognised association shall also be required to keep a record in permanent form which shall show for each of his non-member constituent, the true name and address of such constituent (and if such a constituent is a firm or a company, the names and addresses of all partners and directors thereof), his principal occupation or business, and the name and address of any other person, firm or company guaranteeing the futures trading business of such constituent or exercising any trading control over him. Such a record should be open to inspection by any authorised representative of the recognised association or the Futures Markets Commission. The Commission, the Recognised Association and their duly accredited officers may also be authorised to inspect warehouses, godowns or other similar places where persons entering into 'hedge' transactions claim to have stored their goods. Non-submission of returns or any wilful misreporting therein may be made an offence under the new Act.

(IV)

Research

8.22. The overall effect of the totality of our recommendations would be to radically alter the character of the Futures Markets Commission's work. The references to and from the Central Government will be greatly reduced, there would also be fewer associations to deal with, the pursuit of illegal trading will occupy less of its time. The enforcement unit will have to transform itself into an 'intelligence' unit. This, in fact, would be symptomatic of the new look we wish the Commission to acquire.

8.23. Technical studies in commodity marketing are not yet well developed in the country. The field of futures market is veiled in mystery, suspicion and prejudice. In a country which is as yet so predominantly agricultural, this is a serious lacuna.

8.24. The Commission, if it is to discharge its new responsibilities efficiently, will have to organise a well equipped market intelligence room headed by a competent economist. There are no doubt other specialised agencies in the Government, e.g., the Directorate of Marketing, and Directorate of Economics and Statistics and the Agricultural Prices Commission in the Ministry of Food and Agriculture, which collect and analyse market information. We do not therefore wish to suggest any unnecessary duplication of work, but there is certainly a scope for proper allocation of market intelligence and research work amongst the various agencies of the Government. The Futures Markets Commission is in a unique position to study the market and price behaviour from a point of vantage. It will have, in its possession, day-to-day information regarding the market trends which no other agency in the Government is likely to have. In fact, the Commission would not be able to discharge its responsibilities in the absence of such information and its competent analysis.

8.25. We have pointed out earlier that futures trading is perhaps one of the most misunderstood activities in the economic field. It would therefore be necessary for the Commission, the recognised associations and the other concerned trading bodies to embark on a programme of publicity in a concerted bid to educate public opinion about the true role of futures trading in the orderly marketing of commodities. For this purpose, popular pamphlets on this subject should be published. Similarly, information regarding prices, volume of turn-over, open position, etc. should be publicised by the concerned associations through the daily news papers and, if possible, over the All India Radio.

8.26. In view of these proposals, we recommend that the Commission's office should be strengthened with a competent staff to man its information and analysis section. It is not necessary at this stage to give any detailed layout of the staff positions or its work. It should suffice if the importance of this work is appreciated by the Government and adequate provision is made for it in the new set-up.

8.27. We have deliberately avoided the use of the word 'research' in what we have said hitherto. This does not mean that the Commission would not be concerned with the research aspect of the problems it has to deal with. In fact, all along our enquiry we got the feeling that much of the confusion in thinking—and perhaps action—in high quarters emanates from a faulty image of futures trading and futures markets. Only the searchlight of research can dispel this confusion and put the issue in a proper perspective.

8.28. The type of research which is needed for the purpose needs a detachment and even leisure which an executive authority is never in a position to ensure. Even its intelligence section will be too preoccupied with day-to-day work and there would be a constant pressure for rush analysis and action. It will not be able to sit back and think.

8.29. The type of research work we have in view can be best conducted in the quite atmosphere of a University. We are fully aware that while the University scholars have all the leisure, the atmosphere and the training for objective analysis, quite often they do not have the intimate contact with the real world of business and its complexities. If therefore a scientific approach and an intimate knowledge of the real world are to be combined, it would be necessary to develop a close liaison between the academic personnel, the Commission's intelligence staff and the businessmen. In any case, the academic personnel will have to depend upon the Commission and, to some extent, on the recognised associations for the primary data.

8.30. We were very happy to learn that at the suggestion of the Minister for Commerce, Shri Manubhai Shah, one such research unit for the study of forward markets has been established in the Department of Economics of the University of Bombay. The most gratifying feature of this research set-up is that apart from the Government grant, the East India Cotton Association, the Bombay Oilseeds and Oils Exchange, the Saurashtra Oil and Oilseeds Association and the Pepper and Ginger Merchants Association, are giving financial assistance for the support of the Unit. The unit was sanctioned in 1964 but commenced working from April 1965 with the appointment of

a Senior Research Officer. During the short period of eighteen months since its establishment, it has prepared two monographs—one on "Hedging Efficiency of the Cotton Futures Market" and the other on "Accuracy of Price Forecasts by Commodity Futures Markets", besides a few research articles. This, we think, is a creditable performance. It was therefore disquieting to learn that the financial sanction from the Government is to terminate in February 1967. This would be unfortunate and we would strongly urge not only the continuation of the support to the Bombay Unit, but its extension through establishing a similar unit, preferably at the Calcutta University.

(V)

Additional Functions to the Commission

8.31. We have been asked to examine and suggest what other functions could be entrusted to the Forward Markets Commission. We believe that if the Commission acquires an autonomous status as recommended by us, all its time and energy would be required to keep a constant watch on market conditions, competently scrutinize the developments and changing trends, supervise the functioning of the recognised futures markets through a careful analysis of the voluminous information it would be receiving constantly in the form of returns from the recognised associations and, last but not the least, exercising its regulatory powers. This is a formidable list of functions and responsibilities, many of them arduous and often delicate. We do not therefore think that it is necessary to load the Commission with additional functions.

8.32. We are aware that at one time there was a suggestion for combining the work of the supervision of the commodity futures markets and the stock exchanges in a single authority. We have briefly examined the proposition, but do not find it worthwhile experimenting with. Apart from anything else, we think that it would not be advisable to divert the attention of the Commission from its responsibility to ensure a smooth and healthy functioning of the futures markets.

(VI)

Amendments to the Act

8.33. The Committee was also asked to suggest amendments to the existing Act in order to effect improvements. We think that if the major recommendations made in our Report are accepted by the Government, the entire legislation will need to be recast, beginning with its title. The word 'Forward' would need to be replaced by the word 'futures', both for the legislation as

well as for the Commission. The definitions, particularly of the different types of contracts will need to be altered, and added where no definition—e.g. of the hedge or the futures contract—is given. Similarly, the functions and the powers of the Futures Markets Commission and the sharing of authority between the Government, the Commission and the recognised associations will need to be redefined. Incidentally, all the provisions regarding the 'free' commodities and the category of registered associations will have to be deleted. All these aspects taken together cover the bulk of the existing Act. It is therefore obvious that an entirely fresh legislation will have to be enacted—if our recommendations are accepted.

CHAPTER IX

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

I

Basic Approach

9.1. The first major issue before the Committee was to decide whether futures trading has a place in the economic system in India generally and under the current and prospective economic situation in particular. It is quite clear that futures markets cannot function without what may be termed 'speculation', for want of a more suitable word. The direct question to which we had to address ourselves was therefore: Has such 'speculation' on commodity markets any economically useful and justifiable purpose?

9.2. Our considered view on this question is that as long as the market economy is allowed to function, even with the types of social controls as they have been currently applied or envisaged as a part of planning, both the futures markets and the speculation incidental to it would contribute to the orderly marketing of commodities, particularly agricultural commodities with seasonal production.

9.3. It must be conceded that the experience of the working of the futures markets during the last few years has not always revealed such a contribution. The reasons are not only many but complex. First and foremost, we think that there was no clear enunciation of the precise role and place of futures trading. One view was that if the futures markets were allowed to function freely, powerful speculators would use them for pushing up prices to artificially high levels. On the other hand, it was felt that if futures trading were totally banned, it would not only deny hedging facilities to genuine operators but also cause unemployment among a large number of people dependent for their livelihood on the futures markets. In the anxiety to strike a middle course, whenever prices rose sharply, severe fetters were imposed on futures trading. Not that the markets—and prices—never deserved any regulatory restraints. But since no action was contemplated in the ready markets, the action taken in the futures markets hardly led to an improvement in the situation. We feel that a greater degree of conviction about the legitimacy and usefulness (or the reverse) of futures trading

would lead to a more purposive or less ambivalent action on the part of decision-makers. Our recommendation, therefore, is that before adopting any pattern of regulation hereafter, the Government should leave no doubt about its basic approach to the issue of futures trading and its proper place in the economy.

9.4. Secondly, under the scheme of the Forward Contracts (Regulation) Act, 1952, there was a duality in the controlling authority: several crucial powers were retained by the Central Government and those that were bestowed on or delegated to the Commission were of a comparatively minor significance. Decisions could not therefore be taken expeditiously on many occasions, and occasionally there were differences between the Commission and the Government.

9.5. To avoid duality in the exercise of controls, we have recommended that the Futures Markets Commission should have the status of a statutory, autonomous Commission, the Government retaining the overall authority to lay down the basic policy to be followed.

9.6. The second basic recommendation of the Committee is in regard to simplification in the scheme of regulatory measures. As a first step, we have recommended a fresh classification of contracts and suggested that the jurisdiction of the Futures Markets Commission should be normally confined to the operations of the futures contracts and the specific transferable contracts. Incidentally, this will do away with the present dual categories of associations viz., recognised and registered. All trading on futures trading will be conducted only through recognised associations.

9.7. In our view, the Futures Markets Commission should not be pre-occupied with the pursuit of 'illegal trading' which—control or no control—is almost ubiquitous. This will enable the Commission to concentrate all its time on the study of the market situations and, in the light of it, to supervise and regulate the working of the futures markets. Since it would no longer be necessary to wait upon the Central Government for all its decisions, the Commission would be able to function effectively and with greater speed.

9.8. With the Central Government's role being confined to laying down the general policy and the Commission acquiring the status of an autonomous authority, the next important issue is the sharing of regulatory functions between the Commission and the associations. In this regard, our view is that it should be the responsibility primarily of the association and its Board of Directors to regulate trading and impose the necessary discipline

on its members. The Commission should retain the authority to intervene only on some crucial matters and when the association fails to perform its duty. Our concrete suggestions regarding the division and sharing of responsibilities are given towards the close of Chapter V.

II

Recommendations

Types of Contracts

1. The classification of different types of contracts should be made with reference to (a) the purpose for which they are entered and (b) the mechanics of their execution and not with reference to the time element. (Paragraph 2.12).

2. In the place of the present n.t.s.d. contract, a contract which permits one transfer (in addition to all transfers in favour of or by banks) should be instituted, and it may be called 'Specific Delivery (Forward) Contracts' (S.D.F. Contracts). (2.15).

3. The t.s.d. contracts should be included under the 'settlement' and not the 'delivery' type of contract. It may be called 'Specific Transferable Contract'. (2.17).

4. Contracts entered into under the auspices of a recognised commodity exchange/association in terms of a basis variety and used for the purpose of hedge and speculation may be called 'futures contracts'. (2.16).

5. Normally, the business in futures and the specific transferable contracts alone should be within the purview of the Commission. (2.12).

6. The regulation of S.D.F. Contracts may be resorted to whenever necessary and in any manner as the Government may deem fit. (2.20).

7. All trading in futures and specific transferable contract, should be permitted only under the auspices of associations/exchanges recognised under the Act. Any other business (in whatsoever form), which assumes the predominant character of settlement by the payment of price differences should be declared illegal. (2.19).

8. The title of the regulating Act should be the 'Futures Market (Control) Act' and the name of the authority administering it should be the 'Futures Markets Commission'. (2.18).

9. There is no justification for legalising option trading. (2.26).

The need for Futures Trading

10. Futures trading performs a useful function by providing different types of hedging facilities which are essential for the orderly and efficient marketing of commodities. (3.14). As long as there are possibilities of fairly wide price fluctuations, there is need for hedging and therefore for futures trading. In times of shortages, futures markets through the device of short sales may act as safety valves against hoarding and speculative price rise in the economy (3.29 and 3.35).

11. Futures markets will have no significant part to play when complete or near complete price and distribution controls exist. (3.37).

Regulation of Forward Trading

12. A review of the use of the various regulatory measures adopted by the Commission suggests that the action taken mainly served the limited purpose of reducing the volume of trading and open position in the forward markets. It did not check the rise in ready prices if that was the intention. (5.29).

13. The regulatory measures should not generally be used for artificially restraining prices on the futures market, if no similar action is taken in respect of spot prices; but the object should rather be to curb unhealthy and unlawful trading practices. (5.30).

14. Futures markets will fail to perform their legitimate functions, if the powers of regulation are used to maintain futures prices at a level wholly out of line with prices in the spot market (5.34).

15. Regulatory measures should be applied sparingly, taking a certain amount of calculated risk. (5.33).

16. If in the view of Government, conditions are such that the functioning of the futures markets in certain commodities would seriously harm the economy, they should ban them outright rather than permit them to function in a crippled state. (5.33).

Recognised Association

17. Care should be taken before giving recognition to an association, but once it is given, it should be trusted to act with a sense of responsibility. (5.35).

18. There should be a clearly defined allocation of the various regulatory powers between the Commission and the recognised association. (5.36).

19. The Commission should be able to exercise more extensive powers during emergencies, but on every such occasion a press note should invariably be issued explaining the background and the necessity of action. (5.36).

Registered Associations

20. The category of registered associations should be abolished. (4.10).

Selection of commodities

21. The number of commodities, in which futures trading is to be permitted, should be judiciously determined. (6.2). Before a commodity is approved for futures trading, it should be clearly established that the absence of the facility of hedging is likely to adversely and severely affect the orderly marketing of that commodity. (6.7).

22. Commodities in which futures trading is to be permitted should be listed in a 'Schedule' to be annexed to the new Act. The Government may retain under the Act, the power to add to or subtract from the list of commodities in the Schedule. (6.10).

23. Futures trading in commodities other than those listed in the schedule referred to above may be declared illegal. (6.9).

Selection of Centres

24. Futures trading is not a small town business. There need not be more than one futures market in a region for a commodity. (6.13).

25. There should be only one recognised association for futures trading in one commodity in a single city or town. (6.16).

Months of Delivery

26. Some uniformity in the delivery months in a commodity at all markets particularly in different oils and oilseeds, is desirable. (7.6, 7.7).

Duration of Futures Contracts

27. Futures trading in a particular season's crop should not generally begin more than five to six months in advance of the maturity date of the first contract of that season. (7.12).

28. Futures markets, particularly those recognised for trading in export commodities like jute goods, might consider the desirability of running concurrently trading for all delivery

periods of the season, or atleast for two or more such successive delivery periods. (7.13).

29. The use of the futures contracts for giving or taking physical delivery should be discouraged. (7.9).

Non-members

30. Every member of a recognised association should be required to execute all the orders of his constituents in the trading ring of the associations. The contracts not entered into in the ring, may be made voidable at the instance of the non-member client concerned. (8.9).

Enforcement

31. The Enforcement Directorate of the Commission should be mainly an instrument for the purpose of a close scrutiny of the operations under the auspices of the recognised association. The responsibility for curbing all illegal trading outside the recognised associations should be primarily borne by the State Police or the C.B.I. (8.5).

32. The Act should provide for non-members to be bound by the Bye-laws of the concerned recognised associations relating to trading, fulfilment of contracts and disciplinary action. (8.12).

Reporting of Business

33. The present system of submitting weekly returns may continue. The Commission may, however, be empowered under the Act to call for daily returns during critical situations in such form as it may prescribe. (8.19).

34. The Commission should have the authority to obtain from operators the break-up of their open position into 'hedge' and 'speculative' business. (8.20).

35. The Commission should specifically be empowered to inspect, whenever necessary, all the records, books of accounts and documents including those relating to ready delivery transactions of all persons entering into futures contracts. (8.21).

36. Members of recognised associations should keep a detailed record regarding their non-member constituents. (8.21).

The Futures Markets Commission

37. The Futures Markets Commission should be a specialised, independent and autonomous body entrusted with the function of supervising and regulating futures trading. (4.17).

38. The Government would retain the ultimate authority to lay down the general policy and issue the necessary directive for that purpose, but there should be no day-to-day intervention by it in the working of the Commission. (4.17).

39. The Commission should derive all its authority and powers directly from the Act and not through the constitution and bye-laws of recognised associations. (4.17).

40. The Commission should organise a well-equipped market intelligence room headed by a competent economist. For this purpose, the Commission's office should be strengthened with competent staff to man its information and analysis section. (8.24 and 8.26).

41. The Commission would have, under our scheme, a formidable list of functions and responsibilities, many of them arduous and often delicate. There is, therefore, no need to entrust it with additional functions. (8.31).

Research

42. It is necessary to develop research in commodity markets in the country, and for this purpose to establish a close liaison between the academic personnel, the intelligence staff of the Commission and the businessman. (8.29).

43. The creation of the Research Unit at the University of Bombay was a welcome step and not only does it deserve continued support but there is also a need for establishing a similar unit, preferably at the Calcutta University. (Para 8.30).

Amendments to the Act

44. If the major recommendations made in the Report are accepted by the Government, the Forward Contracts (Regulation) Act, 1952 would have to be entirely recast. (Para 8.33).

(M. L. DANTWALA), *Chairman.*

(A. S. NAIK).

(R. T. MIRCHANDANI).

(G. M. LAUD).

(C. L. GHEEVALLA).

(S. V. KOGEKAR).

(R. MAHADEVAN).

} *Members.*

(D. R. PENDSE), *Secretary.*

BOMBAY,

SATURDAY, THE 20TH OCTOBER, 1966.

APPENDIX I
GOVERNMENT OF INDIA
MINISTRY OF COMMERCE
***RESOLUTION**

New Delhi, the 16th February, 1966

27th Magh 1887 (S)

No. 35(2)-Com. (Genl)(FMC)/65.—The question of constituting a committee to review the working of the Forward Markets Commission, Bombay has been engaging the attention of the Government of India for some time past. The Government of India have accordingly decided to set up a Committee consisting of the following persons to conduct such a review and to make recommendations to the Government on the subject.

1. Prof. M. L. Dantwala, Chairman, Agricultural Prices Commission, Department of Agriculture, Ministry of Food & Agriculture, New Delhi—*Chairman*.
2. Shri A. S. Naik, I.C.S., Chairman, Forward Markets Commission, Bombay—*Member*.
3. Shri R. T. Mirchandani, Agricultural Marketing Adviser to the Government of India, Ministry of Food & Agriculture, Nagpur—*Member*.
4. Shri G. M. Laud, Editor, 'The Financial Express', Sasoon Docks, Colaba, Bombay—*Member*.
5. Shri C. L. Gheevala, Secretary, Indian Merchants' Chamber, 76, Veer Nariman Road, Churchgate, Bombay—*Member*.
6. Prof. S. V. Kogekar, Member, Forward Markets Commission, Bombay—*Member*.
7. Shri R. Mahadevan, Deputy Financial Adviser, Ministry of Finance, New Delhi— *Member*.

2. Shri D. R. Pendse, Deputy Director, Forward Markets Commission, Bombay will be the Secretary.

*As amended vide Resolutions No. 35 (2)— Com. (Genl.) (FMC)/65 dated the 25th April, 2nd June, 28th June, 25th August and the 5th October, 1966.

3. The terms of reference of the Committee will be as follows:

- (a) to review the working of the FMC during the last 10 years, to find out the extent to which the Commission has been able to carry out the objectives as embodied in the statement of Objects and Reasons of the Statute,
- (b) to assess the role that the forward markets can play in future in the light of the changed economic conditions in the country,
- (c) to suggest amendments to the existing Act in order to effect improvements,
- (d) to examine and suggest what other functions can be entrusted to the FMC.

4. The Committee may meet at New Delhi or such other places in the country as it considers necessary.

5. The Committee will submit its report to the Government within six months.

6. This cancels all the previous notifications on this subject.

Sd. M. L. GUPTA

Under Secretary to the Government of India

APPENDIX II

A—QUESTIONNAIRE I

To be filled up by Recognised Associations

(NOTE: 1. All replies to this questionnaire will be treated as confidential.

2. Replies may be given on separate sheets.

3. If the Association desires not to answer any one or more of these questions, it is free to do so).

I. Organisation

1. Name and address of the Association.

2. Please furnish the following details of members and brokers registered with your Association.

Panel or Trade interest of Members/Brokers	No. of Members/Brokers as at the end of				
	1961	1962	1963	1964	1965
(a)					
(b)					
(c)					
(d)					
(e)					

II. Production, Stocks, Trading etc.

3. In the following proforma, please give the highest, lowest and the average total open position of the market for each of the hedge deliveries during each of the five years 1961 to 1965. Also indicate what proportion of this position you would approximately assess as hedge and speculative positions. Explain the basis on which you would distinguish between the two. (Separate figures may be furnished for each recognised commodity and type of forward contract, i.e., hedge, t.s.d. or n.t.s.d.).

Year and delivery	Open position in units*			Hedge position (in per cent)		Speculative position (in per cent)	
	Highest	Lowest	Average	Long	Short	Long	Short
	on any day	on any day	Daily				

* (This column refers to the total (either long or short—both of them being necessarily equal) of the open positions of all the members held on their own account plus the open position held on account of each of their clients taken separately).

4. Please furnish figures of actual or approximate monthly arrivals and month-end stocks at your centre, of each of the commodities for which your Association has been recognised, during each of the last five years, viz., 1961, 1962, 1963, 1964 and 1965.

5. Please furnish, in the following proforma, figures of actual production of each of the commodities for which your Association has been recognised under the Forward Contracts (Regulation) Act, in the region 'commanded' by your Association. (Note : The region commanded by the Association should cover only such district or districts in which the Association provides for at least one delivery centre).

Region (Name of the District)	Commodity				
	Production (in unit)				
	1961	1962	1963	1964	1965

III. Regulation

6. Is some regulation of futures trading and forward markets necessary or should they be allowed to function without let or hindrance? What would have been the results, in your opinion, if there had not been any regulation of futures trading during the last decade or so?

7. Do you believe that the regulation of your futures market during this period has met the purpose of curbing excessive speculation? If not, please state in what respects and for what reasons you feel that such regulation was not adequately successful. Specify and explain separately each instance against which there is dissatisfaction.

8. Do you think that the regulatory measures imposed at your Association were effective (a) in curbing speculative excesses, (b) in stabilising prices and (c) in improving the hedging utility of the market?

Please also offer the views of your Association on the merits and short-comings of each of the regulatory measures resorted to in respect of your Association.

9. Have there been any instances of manipulation (like corners, bear raids, squeezes, etc.) at your Association since it was recognised? Please describe briefly the nature of manipulation, the remedial measures taken by either the Association or the Commission and the effects thereof.

10. Do you feel that there is scope for changes in the manner of regulation in order to improve the efficacy of regulation and the hedging utility of the futures market? If so, please give detailed comments.

11. Do you consider it necessary to amend the Forward Contracts (Regulation) Act, 1952 to improve the working and/or regulation of futures markets? Would you like to suggest any amendments to the Act for this purpose?

12. Do you think that the regulation of non-transferable specific delivery contracts is also necessary in the interest of the trade and the economy? Please give reasons.

13. If you are recognised for non-transferable specific delivery contracts in one or more commodities, please offer your views on the success of such regulation in restraining speculative transfers.

IV. General

14. Please indicate the benefits the following sections of the society, viz., (i) growers, (ii) trade, (iii) industry and (iv) consumers, have derived from the futures market, particularly in

the field of marketing of the commodities for which your Association has been recognised. If possible, please furnish necessary evidence—statistical or otherwise—in support of the views expressed.

15. Do you think that in the context of the present and the prospective (say, for next 10 years) supply and demand situation in each of the commodities for which your Association has been recognised, there is any need for the continuance of a futures market in that commodity? Please give reasons.

16. Do the recent developments in primary marketing such as the growth of co-operative marketing and controls on sales, movements (procurement, ceiling on prices, zonal restrictions, etc.), diminish the role of the futures market, in the commodities regulated by your Association?

17. Do you think that the orderly marketing of the commodity for which your Association is recognised would in any way be affected if forward trading is altogether prohibited therein? Please give your detailed comments and also state the other serious hardships, if any, from which the trade in particular and the economy in general would suffer in the absence of a forward market.

18. When the trade in most of the other commodities including agricultural commodities like cereals, pulses, plantations, etc., does not seem to be hampered because of the absence of a forward market, why is a futures market such a necessity in respect of commodities for which your Association has been recognised?

19. Do you feel that in times of shortages, futures trading, instead of helping to stabilise prices, actually tends to aggravate the rising price trend? Please give reasons for your views and, if possible, suitable evidence—statistical or otherwise—in support.

B—QUESTIONNAIRE II

To be filled up by Registered Associations

(NOTE : 1. All replies to this questionnaire will be treated as confidential.

2. Replies may be given on separate sheets.

3. If the Associations desire not to answer any one or more of these questions, they are free to do so).

I. Organisation

1. Name and address of the Association.

1A. Date of establishment.

2. Please furnish information about the experience of your Association in conducting futures trading in various commodities, in the following proforma.

Name of the commodity in which trading was conducted or is being conducted	Approximate date when trading had first started in the commodity	Approximate date when trading in the commodity was stopped at the Association
(a)		
(b)		
(c)		
(d)		

3. Please furnish the following details of members and brokers registered with your Association.

	As at the end of				
	1961	1962	1963	1964	1965
No. of Members ..					
No. of Brokers ..					

II. Production, Stocks, Trading etc.

4. Please furnish the following information about the commodities in which futures trading had been conducted or is being conducted by your Association : (i) Annual production (average of the last five years) in your region. (Note : The 'region' should cover only such district or districts in which the association provides for at least one delivery centre), (ii) Average monthly arrivals at the centre; and (iii) Average month-end stocks at the centre.

5. In the following proforma, please furnish information regarding (1) average monthly turnover; and (2) the average monthly total open position of all members and their clients. Please indicate what proportion of this position would you approximately assess as hedge and speculative positions. Explain the basis on which you would distinguish between the two.

Separate figures may be furnished for each commodity in which your Association has so far conducted trading.

Commodity	Annual Average turn over (in unit!)	Average open position* (in unit)	Hedge position (in per cent)		Speculative posi- tion (in per cent)	
			Long	Short	Long	Short
	(Year)					
	(Year)					
	(Year)					

* (In this column, please give the total (either long or short—both of them being necessarily equal) of the open positions of all the members held on their own account plus the open position held on account of each of their clients taken separately).

6. Please also furnish figures of tenders received against the futures contracts in various commodities in which trading was conducted at your Association during any one of the last five years.

III. Regulation

7. Please give the number of cases of default and payment difficulties at your Association during each of the last five years.

8. Have there been any instances of manipulation (like corners, bear raids, squeezes, etc.) at your Association since it first started conducting futures trading in various commodities? Please describe briefly the nature of manipulation, the remedial measures taken by the Association and the effects thereof.

9. Is some regulation of futures markets necessary or should they be allowed to function without let or hindrance? Give reasons in support of your view.

10. Had the Forward Markets Commission given advice to your Association in matters of regulation of futures trading conducted at your Association? Was it at your request or at the instance of the F.M.C. itself? Do you feel that you have or have not benefited from such advice? Please give specific instances in support of your view.

11. Do you feel that a closer control of the futures markets in free commodities is called for in order to improve the hedging utility of these markets? Please give reasons.

12. As you are aware, there have been several complaints of illegal futures trading being conducted by some of the members of some of the registered associations. Has your Association come across any cases of such illegal trading? What action was taken by your Association in such cases? How do you propose to put a check to such practices? What measures do you suggest to put an effective stop to such illegal trading?

IV. General

13. Please indicate the benefits the following sections of the society viz. (i) growers, (ii) trade, (iii) industry and (iv) consumers, have derived from the futures market, particularly in the field of marketing of the commodities in which your Association has been conducting trading. If possible, please furnish necessary evidence—statistical or otherwise—in support of the views expressed.

14. Do you think that in the context of the present and the prospective (say, for next 10 years) supply and demand situation in each of the commodities in which your Association has been conducting trading, there is any need for the continuance of a futures market in that commodity? Please give reasons.

15. Do the recent developments in primary marketing such as the growth of co-operative marketing and controls of sales, movements (procurement, ceiling on prices, zonal restrictions, etc.), diminish the role of the futures market.

16. Do you think that the orderly marketing of the commodity would in any way be affected if forward trading is altogether prohibited therein? Please give your detailed comments and also state the other serious hardships, if any, from which the trade in particular and the economy in general would suffer in the absence of a forward market.

17. When the trade in most of the other commodities including agricultural commodities like cereals, pulses, tea, coffee, etc. does not seem to be hampered because of the absence of a forward market, why is a futures market such a necessity in respect of the commodities, in which your Association is conducting trading?

18. Do you feel that in times of shortages, futures trading, instead of helping to stabilise prices, actually tends to aggravate the rising price trend? Please give reasons for your views and, if possible, suitable evidence—statistical or otherwise—in support.

C—LIST OF TOPICS ON WHICH VIEWS OF INDIVIDUALS, OTHER INSTITUTIONS ETC., WERE INVITED.

1. Role of futures markets in orderly marketing of agricultural commodities, particularly in the light of the current situation and likely developments in marketing—such as continuing shortage of supply, growth of co-operative marketing, state trading, price controls, compulsory procurements, etc.

2. The necessity and the desirability of regulation of futures trading in one form or another.

3. Effectiveness of the existing regulation and amendments seemed necessary.

4. The extent to which the consumers of the commodities, in which hedge markets are at present permitted, are making use of such markets. Factors inhibiting such use.

5. Use and misuse of the non-transferable specific delivery contracts.

6. Additional function or work which in your view may be entrusted to the Forward Markets Commission.

APPENDIX III

LIST OF WRITTEN REPLIES RECEIVED

A. Central State Governments:

1. The Government of Madhya Pradesh, Bhopal.
2. The Government of West Bengal, Calcutta.
3. The Government of Andhra Pradesh, Hyderabad.
4. The Director, Regional Office (Cotton Development), Ministry of Food, Agriculture, Community Development & Co-operation, Government of India, Bombay.
5. The Jute Commissioner, Ministry of Commerce, Government of India, Calcutta.

B. Individuals:

Delhi

1. Shri Jai Dev.
2. Shri Jai Narayan.
3. Shri Nand Kishore.
4. Shri L. S. Venkataramanan.

Gujarat

5. Shri M. F. Chauhan, Ahmedabad.
6. Shri Fakirchand Anupchand Dalal, Broach.
7. Prof H. L. Dholakia, Baroda.
8. Principal, C. N. Hakani, Rajkot.
9. Shri Dayalji G. Patel, Surat.

Kerala

10. Shri K. M. Ali, Trivendrum.
11. Shri C. S. Parameshwara Sarma, Alleppey.

Madhya Pradesh

12. Shri Bhavanji Devraj, Ujjain.

Madras

13. Shri K. Sriraman, Madras.

Maharashtra

14. Shri Babulal Chirawalla & Others, Bombay.
15. Shri Devji Rattansey, Bombay.
16. Shri N. K. Doshi, Bombay.
17. Shri Bhanuchandra D. Gandhi, Bombay.

18. Shri Chimanlal B. Gandhi and Shri Lakshmidas Gordhanadas Gaglani, Bombay.
19. Shri Ratilal M. Gandhi, Bombay.
20. Shri Nathmal K. Goenka, Akola.
21. Shri Arun Kumar Gupta, Bombay.
22. Shri Karsanji Madhavji, Bombay.
23. Prof. N. K. Kulkarni, Sangli.
24. Shri G. R. Mansukhani, Bombay.
25. Shri Bhagwandas P. Dalal Marfatia, Bombay.
26. Shri V. V. Mariwala, Bombay.
27. Shri Chunilal B. Mehta, Bombay.
28. Shri J. K. S. Nicholson, Bombay.
29. Shri R. G. Saraiya, Bombay.
30. Shri Vanechand Tribhuvandas Shah, Bombay.
31. Shri Nanji Pragji Thakkar, Bombay.
32. Shri Tulsidas Kilachand, Bombay.

Uttar Pradesh

33. Shri Atma Ram, Kanpur.
34. Shri Deepchandra, Muzaffarnagar.

West Bengal

35. Shri N. L. Kanoria, Calcutta.
36. Shri B. P. Kedia, Calcutta.
37. Shri N. C. Ray, Calcutta.
38. Shri J. N. Sen-Gupta, Calcutta.

C. Other Associations, Institutions, Firms etc.:

Delhi

1. The Rajdhani Brokers Association Limited, and the Brokers of the Om Oils and Oilseeds Exchange Limited, Delhi.
2. The Federation of Indian Chambers of Commerce and Industry, New Delhi.
3. The National Agricultural Co-operative Marketing Federation Limited, New Delhi.

Gujarat

4. Akhil Saurashtra Khedut Samaj, Dhoraji.
5. Gujarat Vepari Mahamandal, Ahmedabad.
6. Shah Chandrakant Shivilal and Brothers, Rajkot.

Maharashtra

7. The Akola District Cotton Merchants Association, Akola.
8. All India Cottonseed Crushers' Association, Bombay.
9. The Bombay Bullion Association, Limited, Bombay.
10. The Bombay Oilseed Crushers' Association, Bombay.
11. The Indian Cotton Mills' Federation, Bombay.
12. The Indian Merchants' Chamber, Bombay.
13. Premji Bhanji and Company, Bombay.
14. The State Bank of India, Bombay.
15. The Western India Chamber of Commerce Limited, Bombay.

Uttar Pradesh

16. The Chamber of Commerce, Hapur.
17. Vijai Beopar Chamber Limited, Muzaffarnagar.

West Bengal

18. The Bengal Chamber of Commerce and Industry, Calcutta.
19. The Bengal Jute Dealers' Association, Calcutta.
20. The Bengal National Chamber of Commerce and Industry, Calcutta.
21. The Bharat Chamber of Commerce, Calcutta.
22. The Calcutta Baled Jute Association, Calcutta.
23. The Gunny Trades Association, Calcutta.
24. The Jute Balers' Association, Calcutta.
25. The Jute Brokers' Association, Calcutta.
26. Kathiawar Trading Company, Calcutta.

D. Recognised Associations:*Andhra Pradesh*

1. The Adoni Oilseeds and Oil Exchange Limited, Adoni.
2. The Hyderabad Oils and Seeds Exchange Limited, Hyderabad.

Delhi

3. Om Oils and Oilseeds Exchange Limited, Delhi.

Gujarat

4. The Ahmedabad Seeds Merchants Association Ltd., Ahmedabad.
5. The Saurashtra Oil and Oilseeds Association Ltd., Rajkot.

6. The Southern Gujarat Oil Seeds Merchants' Association Limited, Palej.
7. The Surendranagar Cotton, Oil and Oilseeds Association, Limited, Surendranagar.
8. The West Indian Cotton Association Limited, Ahmedabad.

Kerala

9. The Alleppey Oil Millers' and Merchants' Association, Alleppey.
10. Cochin Oil Merchants' Association, Cochin.
11. India Pepper and Spice Trade Association, Cochin.

Madhya Pradesh

12. The Central India Commercial Exchange Limited, Gwalior.
13. The Central India Cotton Association Limited, Ujjain.

Madras

14. The Madras Oil and Seeds Exchange Limited, Madras.

Maharashtra

15. The Bombay Oilseeds and Oils Exchange Limited, Bombay.
16. The Bombay Yarn Merchants Association and Exchange Limited, Bombay.
17. The East India Cotton Association Limited, Bombay.
18. The Grain, Rice and Oilseeds Merchants' Association, Bombay.
19. The Madhya Pradesh Commercial Exchange Limited, Akola.
20. The Pepper and Ginger Merchants' Association Limited, Bombay.
21. The Spices and Oilseeds Exchange Limited, Sangli.
22. The Vanaspati Manufacturers' Association of India, Bombay.

Punjab

23. The Mahesh Beopar Bhandar Company Limited, Dhuri Mandi.
24. The Punjab Company Limited, Bhatinda.

Uttar Pradesh

25. The Agra Merchants' Chamber Limited, Agra.
26. The Kanpur Oils and Oilseeds Exchange Limited, Kanpur.

West Bengal

27. The East India Jute and Hessian Exchange Limited, Calcutta.
28. East India Oil Millers' Association, Calcutta.

E. Registered Associations: Delhi

1. The Rajdhani Grains and Jaggery Exchange Limited, Delhi.

Gujarat

2. The Ahmedabad Cotton Merchants' Association, Ahmedabad.
3. The Botad Cotton Association Limited, Botad.
4. The Rajkot Oilcake Merchants Association Limited, Rajkot.
5. The Talod Oil and Oilseeds Merchants Association, Talod.
6. The Viramgaum Merchants' Association, Viramgaum.

Madhya Pradesh

7. The Sindh Mahajan Exchange Limited, Gwalior.
8. The Sukkar Mahajan Association Limited, Gwalior.

Maharashtra

9. The Bombay Hessian and Gunny Merchants' Association Limited, Bombay.
10. The East India Chamber of Commerce Limited, Bombay.
11. Indian Oil and Produce Exporters Association, Bombay.

Punjab

12. The Bhiwani Traders' Association Limited, Bhiwani.
13. The Jai Hanuman Trading Company Private Limited, Jind.
14. The Ludhiana Yarn Syndicate (Private) Limited, Ludhiana.
15. The Mansa Ganesh Chamber of Commerce Limited, Mansa.
16. The Moga Chamber Limited, Moga.
17. Shri Mahabir Beopar Chamber (Private) Limited, Ambala City.

Rajasthan

18. The Bullion Association Limited, Jaipur.

Uttar Pradesh

19. The Aligarh Commercial Association Limited, Aligarh.
20. The Bullion and Agricultural Produce Exchange Limited, Agra.
21. The Upper India Sugar Exchange Limited, Kanpur.
22. The Cawnpore Bullion Association Limited, Kanpur.
23. The Cawnpore Sugar Merchants' Association, Kanpur.
24. Grain Chamber Limited, Muzaffarnagar.
25. The Khurja Chamber of Commerce Limited, Khurja.

West Bengal

28. Jute Fabric Brokers Association, Calcutta.
27. Indian Jute Mill Association, Calcutta.
28. Jute Fabric Brokers Association, Calcutta.

APPENDIX IV
LIST OF INTERVIEWS

I. *Ahmedabad* (26th May, 1966)

1. Government of Gujarat.
Shri Utsav Parikh, (Minister for Agriculture) and
Officers.
2. Gujarat Vyapari Mahamandal, Ahmedabad:
Shri Charandas Haridas.
Dr. Biharilal Kanaiyalal.
Shri Chandulal Premchand and Shri I. N. Kania.
Shri Jagivandas Liladhar.
Shri Ramanlal N. Gandhi.
Shri K. M. Shah.
3. The Ahmedabad Seeds Merchants Association, Ltd.,
Ahmedabad:
Shri J. K. Parikh.
Shri T. C. Parikh.
Shri B. M. Sheth.
Shri P. V. Shah.
Shri C. L. Shah.
Shri J. L. Thakkar.
Shri F. N. Sanghvi.
4. The West Indian Cotton Association Limited, Ahmeda-
bad:
Shri Sakarchand Manilal.
Shri Lalbhai Gatabhai.
Shri Kishoribhai Purosotamdas.
Shri Suryakumar Jagabhai.
Shri Hamirkumar Jagabhai.
Shri Somchand Kalidas.
Shri Nalinikant Keshavlal.
Shri Shantilal Manilal.
5. The Ahmedabad Cotton Merchants Association, Ahmeda-
bad:
Shri Navnitlal H. Shah.
Shri Surendra C. Shah.
Shri Hamanlal G. Parikh.

6. The Botad Cotton Association Ltd., Botad:
Shri Purshothamdas G. Parikh.
Shri P. G. Shah.
7. The Kapadvanj Oil and Seeds Merchants Association,
Kapadvanj:
Shri Dhirajlal A. Shah.
Shri Natvarlal Jaychandbhai Shah.
8. Talod Oil and Oilseeds Merchants Association Ltd.,
Talod.
Shri Sankarlal Dungarsay Shah.
Shri Ambalal Kodarlal Shah.
Shri Hiralal K. Shah.

II. Rajkot (27th May, 1966)

1. Akhil Saurashtra Khedut Samaj, Dhoraji:
Shri Bhagwanji Bhanji Patel.
Shri Nathalal Premjibhai Patel.
Shri Mohanlal Gokalbhai Patel.
Shri Mohanlal Rajabhai Patel.
Shri Ranabhai Jerambhai Patel.
Shri Vithaldas Ravjibhai Patel.
Shri Lakhabhai Hansraj Patel.
Shri Trikamlal Juthabhai Patel.
Shri Jadavbhai Popathbhai Patel.
Shri Ravjibhai Kanjibhai Patel.
Shri Naranbhai Karsanbhai Patel.
Shri Bhimjibhai Naranbhai Patel.
Shri Jeramdas Bhanjibhai Patel.
Shri Manilal Bhimjibhai Patel.
Shri Chhotalal Hirachand.
2. Oilcake Extraction Plant Owners, Rajkot:
Shri C. G. Kothari.
Shri M. K. Patel and a Representative of Ulhas Oil and
Chemical Industries, Bhavnagar.
3. The Rajkot Oil Millers' Association, Rajkot:
Shri Girdharlal Josraj.
Shri Khurjibhai Kheraj.
Shri Narottamdas Nandavi.
Shri S. C. Kothari.

4. The Saurashtra Oil and Oilseeds Association Limited,
Rajkot:

Shri R. N. Chitalia.
Shri J. M. Bavishi.
Shri M. F. Chauhan.
Shri B. V. Mehta.
Shri N. A. Mehta.
Shri S. H. Parekh.
Shri H. C. Patel.
Shri M. K. Patel.
Shri M. N. Patel.
Shri C. J. Shah.
Shri N. K. Shah.
Shri N. G. Vyas.
Shri G. B. Shivdasani.

III. Surendranagar (28th May, 1966)

1. Rajkot Oilcake Merchants Association, Rajkot:
Shri R. C. Chitalia.
2. Saurashtra Mill Owners' Association, Surendranagar:
Shri A. P. Shah.
3. The Surendranagar Cotton, Oil and Oilseeds Association, Surendranagar:
Shri Jayantilal Maganlal Bavishi
Shri Shantilal Tribhuvandas
Shri Ramniklal Keshavlal
Shri Shantilal Harilal
Shri Champaklal Narandas
Shri Ramaniklal Maganlal
Shri Dharashibhai Manekchand
Shri Punamchand Dipchand
Shri Ramniklal Chatrabhuj
4. Shri Dhrangadhra Cotton Merchants Association, Dhrangadhra, and
5. Viramgaum Merchants Association, Viramgaum:
Shri Sakarchand Amarseybai
Shri Sumatichand Dolatchand
Shri Laxmichand Kalidas
Shri Mukandrai Maneklal Maniar
Shri Amritlal Trikamji Parikh

IV. Calcutta (6th to 8th June, 1966)

1. Government of West Bengal:
Shri P. C. Sen (Chief Minister of West Bengal) and
Officers
2. Jute Commissioner, Government of India, Ministry of
Commerce, Calcutta:
Shri G. C. L. Joneja, Jute Commissioner
Shri G. Sivaraman, Deputy Jute Commissioner.
3. Regional Office (Jute Development), Government of
India, Department of Agriculture, Ministry of Food, Agriculture,
Community Development and Co-operation, Calcutta:
Shri H. D. Naithani, Director.
Shri A. Majumdar, Deputy Director (Development)
Shri S. M. Ganguli, Deputy Director, (Economic Research
and Statistics).
4. The State Trading Corporation of India, Regional Office,
Calcutta:
Shri R. L. Mehra, Regional Manager
Shri M. S. Rao, Deputy Chief Accounts Officer
5. Shri S. N. Bagla.
6. Shri D. P. Goenka.
7. Shri N. L. Kanoria.
8. Bengal Jute Dealers' Association, Calcutta:
Shri Kisanlal Chowdhury
Shri Madanlal Kala
Shri B. N. Mathur
9. Bengal National Chamber of Commerce and Industry,
Calcutta:
Rai Bahadur G. V. Swaika
Shri N. K. Jalan
10. The Bharat Jute Sellers' Association, Calcutta:
Shri S. R. Mehta
11. Calcutta Baled Jute Association, Calcutta:
Shri T. L. Sethia
Shri D. M. Chatterjee
12. Gunny Trades Association, Calcutta:
Shri Bilasroy Agarwala
Shri S. N. Bagla

Dr. B. P. Kedia
 Shri G. C. Sil
 Shri H. K. Rai

13. The Jute Balers' Association, Calcutta:

Shri N. C. Jhanwar
 Shri S. Ladia
 Shri R. N. Mohnot

14. Jute Brokers Association, Calcutta:

Shri R. K. Bhuwalka
 Shri R. L. Saraf
 Shri Basudev Dhandhanian
 Shri Prabhudayal Pansari
 Shri S. K. Warriar
 Shri N. K. Bose

15. Indian Chamber of Commerce, Calcutta:

Shri S. S. Kanoria
 Shri R. P. Goenka
 Shri B. Kalyanasundaram

16. National Agricultural Co-operative Marketing Federation, Calcutta:

Shri D. N. Dutt Roy

17. The Calcutta Wheat, Seeds and Bullion Association, Calcutta:

Rai Bahadur G. V. Swaika
 Shri M. L. Gupta
 Shri S. S. Swaika
 Shri D. L. Kankani

18. The East India Jute and Hessian Exchange Ltd., Calcutta:

Shri R. P. Goenka
 Shri R. K. Mehta
 Shri S. Parasrampuriah
 Shri S. N. Bagla
 Shri Govind Prasad Kanoria
 Shri K. K. Dutta

19. East India Oil Millers' Association, Calcutta:

Shri M. L. Gupta
 Rai Bahadur G. V. Swaika
 Shri S. S. Swaika
 Shri S. C. Chatterjee

20. Calcutta Jute Fabric Shippers' Association, Calcutta:

Shri D. Duncan Smith
 Shri M. L. Mehta
 Shri S. N. Kanodia

21. The Indian Jute Mills Association, Calcutta:

Shri R. N. Bangur
 Shri H. S. Singhanian
 Shri D. E. Macintosh
 Shri D. P. Goenka
 Shri S. K. Ghosh
 Shri J. S. Coventry
 Shri C. L. Bajoria
 Shri A. C. Deaves
 Shri R. P. Goenka
 Shri E. I. Brown

V. Bombay (13th to 16th July, 1966)

1. Government of Maharashtra:

Shri Vasant Rao P. Naik, Chief Minister
 Shri S. K. Wankhede, Minister for Finance and Officers

2. Textile Commissioner, Government of India, Ministry of Commerce, Bombay:

Shri R. Doraiswamy, I.A.S., Textile Commissioner.
 Shri R. Viswanathan, Director.

3. Regional Office (Cotton Development), Government of India, Ministry of Food, Agriculture, Community Development and Co-operation (Department of Agriculture), Bombay:

Shri Avtarsingh, Director,
 Shri M. S. Natesan, Deputy Director (Marketing and Planning)

4. Reserve Bank of India, Bombay:

Shri V. M. Jakhade, Deputy Economic Adviser

5. Shri B. N. Adarkar
6. Shri Ratilal M. Gandhi
7. Lala Jagannath
8. Shri G. R. Mansukhani
9. Shri Charandas V. Mariwala
10. Shri Chunilal B. Mehta.
11. Shri J. K. S. Nicholson
12. Shri Dayaljibhai Patel
13. Shri R. G. Saraiya.
14. All India Cottonseed Crushers' Association, Bombay:
 - Shri M. P. Mansinghka
 - Shri J. T. Kapadia
 - Shri B. P. Maheshwari
 - Shri N. S. Agarawal
 - Shri J. M. Shah
 - Shri N. D. Mehta
15. The Bombay Bullion Association Ltd., Bombay:
 - Shri Chandulal Kasturchand
 - Shri Mangulal Trikamlal
 - Shri Amritlal G. Sonawala
 - Shri Shantilal N. Sonawala
 - Shri Jayendra A. Mehta
16. The Bombay Cotton Merchants' and Muccadams' Association Ltd., Bombay:
 - Shri Hansraj Jivandas
 - Shri J. K. S. Nicholson
17. Bombay Oilseeds Crushers' Association, Bombay:
 - Shri Nanji G. Chheda
 - Shri A. N. Divecha
 - Shri R. C. Sheth
18. The Cotton Buyers' Association, Bombay:
 - Shri Hasmukhlal Cursondas
 - Shri R. N. Barrot
 - Shri Nabinchandra C. Sayta

19. Indian Cotton Mills' Federation, Bombay:
Shri Radhakrishna Ruia
Shri C. V. Radhakrishnan
Shri R. V. Joshi
20. Maharashtra Chamber of Commerce, Bombay:
Shri P. F. Jhunjhunwala
Shri A. A. Deshpande
21. Maharashtra State Co-operative Marketing Society Ltd.,
Bombay:
Shri N. S. Kulkarni
Shri K. B. Rohamare
Shri P. P. Dave
Shri D. B. Tambat.
22. The Bombay Oilseeds and Oils Exchange Ltd., Bombay:
Shri Ramdas Kilachand
Shri Gokulchand J. Agrawal
Shri Dhudsingh Shekhavat
Shri Mangulal Trikamlal
Shri Chandulal Kasturchand
Shri Rasiklal V. Sheth
Shri Gunvant K. Shah
Shri P. V. Pakvasa
23. The Bombay Yarn Merchants' Association and Exchange
Ltd., Bombay:
Shri Ravindra Maganlal
Shri Thakorlal Chunilal Mody
Shri Kantilal K. Sheth
Shri Dhirajlal Mansukhlal, Boradia.
24. The Central India Cotton Association Ltd., Ujjain:
Shri H. C. Jain
Dr. V. D. Nagar
Shri Phoolchand Jhanjari
Shri Kantilal Jhalani
25. The East India Cotton Association Ltd., Bombay:
Shri M. R. Ruia
Shri Ramdas Kilachand
Shri K. R. Marfatia

Shri P. F. Jhunjhunwala

Shri Chandulal K. Shah

Shri D. G. Damle

Shri N. K. Doshi

26. The Grain, Rice and Oilseeds Merchants' Association,
Bombay :

Shri Devji Rattansey

Shri H. R. Raja

Shri Premji Bhanji

Shri Rasiklal Jethabhai Bhatt

27. The Madhya Pradesh Commercial Exchange Ltd., Akola :

Shri N. H. Khandelwal

Shri A. B. Kedia

28. The Pepper and Ginger Merchants' Association Ltd.,
Bombay :

Shri Vallabhdas V. Mariwala

Shri Abhechand D. Gandhi

Shri C. V. Mariwala

Shri Meghji Velji

Shri D. N. Shah

29. The Spices and Oilseeds Exchange Ltd., Sangli :

Shri G. K. Negandhi

Shri M. R. Perandare

30. The Vanaspati Manufacturers Association of India,
Bombay :

Shri H. N. Batra

Shri C. V. Mariwala

Shri A. C. Chhatrapati

Shri P. D. Shah

31. The Bada Sarafa Cotton Association, Indore :

Shri Laxminarayanji Jhavar

Shri Ranchhoddasji Agarwal

32. The Bombay Hessian and Gunny Merchants' Association
Ltd., Bombay :

Shri Devkishan R. Jakhotia

Shri Gordandas B. Dutia

Shri Ratilal N. Waghani

Shri Pragji Jivandas

Shri Narendra V. Shah

33. The Bombay Metal Exchange Limited, Bombay:
Shri M. S. Mehta.
34. The Bombay Sugar Merchants' Association, Bombay:
Shri Jhamandas T. Talreja
Shri A. B. Karia
35. The East India Chamber of Commerce Ltd., Bombay:
Shri Jivanlal Amulakh Kanodia
Shri N. N. Doshi
Shri J. C. Shah
Shri K. R. Shah
Shri J. H. Shah
36. The Indian Oil and Produce Exporters Association,
Bombay:
Shri N. P. Nopany
Shri M. L. Vasa
Shri S. L. Bheda
Shri R. C. Sheth
37. Shri Indore Bullion Exchange Ltd., Indore:
Shri Laxminarayanji Jhawar
Shri Ranchhoddasji Agarwal
38. The Sizing Materials Manufacturers' and Dealers' Association Limited, Bombay:
Shri Meghji Velji
Shri Balubhai B. Shah
Shri Somnath N. Thakar
Shri Narendra V. Shah

VI. *Delhi (1st to 3rd August, 1966)*

1. Ministry of Commerce, Government of India, New Delhi:
Shri Manubhai Shah, Minister for Commerce.
2. Ministry of Food and Agriculture, Government of India,
New Delhi:
Shri C. Subramaniam, Minister for Food and Agriculture.
3. State Trading Corporation of India Ltd., New Delhi:
Shri Ganga Lal Casewa
4. Shri Ramdayal Gupta.
5. Shri Ajit Mazoomdar.

6. Shri Mangat Rai, I.A.S. (Retired).
7. Shri L. S. Venkataramanan.
8. Brokers of the Om Oils and Oilseeds Exchange Ltd.,
Delhi:
 - Shri Amarnath
 - Shri Tilakraj
 - Shri Rooplal
9. Chamber of Commerce, Hapur:
 - Shri Rameshwar Dayal
 - Shri Reoti Saran
10. The Kaiserganj Beopar Company Ltd., Meerut:
 - Shri Jai Narain Jain
 - Shri Gujar Mal
11. National Agricultural Co-operative Marketing Federa-
tion, Delhi:
 - Dr. H. K. S. Rana
12. Rajdhani Brokers' Association, Delhi:
 - Shri K. R. Bhatia
 - Shri Brijlal Agarwal
 - Shri Nirmal Singh
13. Vijay Beopar Chamber Ltd., Muzaffarnagar:
 - Shri Deepchandra
 - Shri Tarachand
 - Shri Trilokchand
14. The Agra Merchants Chamber Ltd., Agra:
 - Shri Ramkishore Khandelwal
 - Shri Shyamlal Jain
 - Shri Rai Amarnath Agarwal
 - Shri Hotilal Jain
15. The Central India Commercial Exchange Ltd., Gwalior:
 - Shri Tejmal Harkhawath
 - Shri Hari Shankar Goyal
 - Shri Madan Gopal Agarwal
16. The Indian Exchange Ltd., Amritsar:
 - Shri D. D. Bhatia

17. The Kanpur Oil and Oilseeds Exchange Ltd., Kanpur:
 Shri C. L. Nevatia
 Shri B. N. Malik
18. The Mahesh Beopar Bhandar Company Ltd., Dhuri Mandi:
 Shri Parshotamlal
 Shri Hukam Chand
 Shri Amarnath
 Shri Ramlal
19. Om Oils and Oilseeds Exchange Ltd., Delhi:
 Shri Shaivlal Minocha
 Shri Jai Narain
 Shri Nandakishore Aggarwal
 Shri Sham Sunder Sindhi
20. The Punjab Company Ltd., Bhatinda:
 Shri Des Raj Banarasidass
 Shri Roshanlal Gupta
21. The Aligarh Commercial Association Ltd., Aligarh:
 Shri Chintamani Gupta
 Shri Hari Baboo
 Shri Har Gopal
22. The Auraiya Chamber of Commerce Pvt. Ltd., Auraiya:
 Shri V. C. Bhargava
 Shri R. R. Bajpai
23. The Bhatinda Chamber of Commerce, Bhatinda:
 Shri Roopchand
 Shri Pritam Singh
24. The Bhiwani Traders' Association Ltd., Bhiwani:
 Shri Bhagirathmal Buwaniwal
 Shri Devi Dayal Gupta
25. The Bullion and Agricultural Produce Exchange Ltd., Agra:
 Shri Jagdish Prasad
 Shri Ram Baboo Garg
 Shri Khiyali Ram Jain

26. Bullion Association Ltd., Jaipur:
 Shri Gopichand Tholia
 Shri Kasturchand Buchara
 Shri Roomal Gangawal
27. The Bullion Merchants Association, Delhi:
 Shri Ram Avtar
 Shri Madanlal
 Shri Amarnath
28. The Cownpore Bullion Association Ltd., Kanpur:
 Shri Gangadhar Misra
 Shri Motilal Bazaz
29. The Commercial Exchange Private Ltd., Morena:
 Shri Devkinandan Kothari
 Shri Gajendar Singh
 Shri H. Sharma
30. The Jai Hanuman Trading Co. Pvt. Ltd., Jind Mandi:
 Shri Ram Rup
 Shri Rameshwar Das Gupta
31. The Ludhiana Grain Exchange Ltd., Ludhiana:
 Shri L. Nanakchand Gupta
 Shri Sat Prakash Goel
32. The Mahabir Beopar Mandal Ltd., Hapur:
 Shri Rameshwardas
 Shri Rameshwardas Somani
 Shri Radheylal
33. The Moga Chamber Ltd., Moga:
 Shri Bhagwandas
34. The Narwana Company Pvt. Ltd., Narwana:
 Shri Chunilal
35. Rajdhani Grains and Jaggery Exchange Ltd., Delhi:
 Shri Shivilal Minocha
 Shri Ram Avtar
 Shri Mohanlal Khullar

36. Rohtak Krishna Trading Company Private Ltd.,
Rohtak :

Shri Mahabir Parshad
Shri Tarachand Jindal

37. Shri Braj Vyopar Mandal Pvt. Ltd., Mathura:

Shri Kapoorchand
Shri Murli Manohar

38 Shri Byoparik Chamber Saraffan Ltd., Gulabpura:

Shri Bheem Singh
Shri Indarmal

39. Shri Ganganagar Beopar Mandal Pvt. Ltd., Sri
Ganganagar:

Shri Nathuram Yogi
Shri Ram Nivas Jain

40. Shri Gopal Chamber Ltd., Hathras:

Shri Prakash Chandra
Shri Rajkumar Taliwal

41. Shri Laxmi Vyopar Mandal Ltd., Kasganj:

Shri Ram Rachhpal
Shri Pannalal Gupta

42. The Sind Mahajan Exchange Ltd., Gwalior:

Shri Mulchand Jaisinghani
Shri Ramswarup Parwal

43. The Sukkur Mahajan Association Ltd., Gwalior:

Shri Ghanshyamdas Khubchandani
Shri Varialmal.

APPENDIX V
LIST OF RECOGNISED ASSOCIATIONS*

Name of Association	Commodity
<i>Andhra Pradesh</i>	
1. The Adoni Oilseeds and Oil Exchange Limited, Adoni.	Groundnut Oil and Cottonseed.
2. The Hyderabad Oils and Seeds Exchange Limited, Hyderabad. @	Groundnut Oil
<i>Delhi</i>	
3. The Om Oils and Oilseeds Exchange Limited, Delhi.	Groundnut Oil and Rapeseed and Mustardseed.
<i>Gujarat</i>	
4. The West India Cotton Association Limited, Ahmedabad.	Cotton.
5. The Ahmedabad Seeds Merchants' Association Limited, Ahmedabad.	Groundnut Oil, Castorseed and Cottonseed.
6. The Saurashtra Oil and Oilseeds Association Limited, Rajkot.	
(i) Rajkot Ring	Groundnut kernel, Groundnut Oil and Cottonseed.
(ii) Bhavnagar Ring	Groundnut whole, Groundnut Oil and Cottonseed.
(iii) Jamnagar Ring	Groundnut kernel, Groundnut Oil and Cottonseed.
(iv) Dhoraji Ring	Groundnut kernel, Groundnut Oil and Cottonseed.
(v) Veraval Ring	Groundnut kernel, Groundnut Oil and Cottonseed.
(vi) Surondranagar Ring	Cottonseed, Groundnut Oil and Groundnut whole.
7. The Surendranagar Cotton, Oil and Oilseeds Association Limited, Surendranagar.	Kapas.
8. The Southern Gujarat Oilseeds Merchants' Association Limited, Palej.	Cottonseed
<i>Kerala</i>	
9. The Alleppey Oil Millers' and Merchants' Association, Alleppey.	Coconut Oil and Pepper.

*As on the 30th September, 1966.

@Renewal of recognition is under consideration.

Name of Association	Commodity
<i>Kerala—contd.</i>	
10. The Cochin Oil Merchants' Association, Cochin.	Coconut Oil.
11. The India Pepper and Spice Trade Association, Cochin.	Pepper.
<i>Madhya Pradesh</i>	
12. The Central India Cotton Association Limited, Ujjain.	
(i) Ujjain Ring	Groundnut Oil and Cottonseed.
(ii) Ratlam Ring	Cottonseed.
13. The Central India Commercial Exchange Limited, Gwalior.	Linseed.
<i>Madras</i>	
14. The Madras Oil and Seeds Exchange Limited, Madras.	Groundnut Oil.
<i>Maharashtra</i>	
15. The East India Cotton Association Limited, Bombay.	Cotton.
16. The Bombay Oilseeds and Oils Exchange Limited, Bombay.	Groundnut, Groundnut Oil Castor-seed, Cottonseed and Linseed.
17. The Pepper and Ginger Merchants' Association Limited, Bombay.	Pepper.
18. The Bombay Yarn Merchants' Association and Exchange Limited Bombay.	Staple Fibre Yarn.
19. The Grain, Rice and Oilseeds Merchants' Association, Bombay.	Groundnut.
20. The Vanaspati Manufacturers' Association of India, Bombay.	Groundnut Oil.
21. The Jalna Merchants' Association Limited, Jalna.	Cottonseed.
22. The Madhya Pradesh Commercial Exchange Limited, Akola.	Cottonseed and Groundnut Oil.
23. Shri Grain Seeds and Oil Merchants' Chamber Limited, Latur.	Groundnut.
24. The Spices and Oilseeds Exchange Limited, Sangli.	@Groundnut and Turmeric.
<i>Punjab</i>	
25. The Punjab Company Limited, Bhatinda	Cottonseed, Kapas and Rapeseed and Mustardseed.
26. The Indian Exchange Limited, Amritsar.	Cottonseed.
27. The Mahesh Beopar Bhandar Company Limited, Dhuri Mandi.	Kapas.

@Renewal of recognition is under consideration.

Name of Association	Commodity
<i>Uttar Pradesh</i>	
28. The Kanpur Oils and Oilseeds Exchange Limited, Kanpur.	Linseed,
29. The Agra Merchants Chamber Limited, Agra.	Rapeseed and Mustardseed.
<i>West Bengal</i>	
30. The East India Jute and Hessian Exchange Limited, Calcutta.	Raw Jute and Jute Goods.
31. The Calcutta Wheat, Seeds and Bullion Association, Calcutta.	Linseed.
32. The East India Oil Millers' Association, Calcutta.	N. T. S. D. Contracts in Groundnut and Groundnut Oil.

APPENDIX VI
LIST OF REGISTERED ASSOCIATION*

Name of Association	Commodity
<i>Delhi</i>	
1. The Bullion Merchants' Association, Delhi	(1) Gold (2) Silver.
2. The Chamber of Colours and Chemicals Limited, Delhi.	(1) Mustard Oilcake. (2) Methi. (3) Sesamum Oilcake (Gingly Oilcake).
3. Rajdaani Grains and Jaggery Exchange, Delhi.	Mustard Oilcake.
4. Shri Mahalaxmi Bullion Exchange Limited, Delhi.	(1) Gold. (2) Silver.
<i>Gujarat</i>	
5. The Ahmedabad Cotton Merchants' Association, Ahmedabad.	Cotton (N.T.S.D.C.).
6. The Botad Cotton Association Limited, Botad.	Kapas (Unginned cotton)
7. The Cotton Merchants Union, Dhrangadhra.	Kapas (Unginned cotton) (N.T.S.D.C.).
8. Shri Dhrangadhra Cotton Merchants' Association, Dharangadhra.	(1) Kapas. (2) Cotton Pods.
9. The Grain and Seeds Merchants' Association, Huri.	Kapas.
10. The Kapadvanj Oil and Seeds Merchants' Association, Kapadvanj.	(1) Groundnut (2) Groundnut Oil } N.T.S.D.C.
11. The Rajkot Oilcake Merchants' Association Limited, Rajkot.	Groundnut Oilcake.
12. The Seeds and Grain Merchants' Association, Jamnagar.	(1) Groundnut-in-shell } (N.T.S. (2) Cottonseed } D.C.)
13. Shri Radhanpur Brokers' Association, Radhanpur.	(1) Kapas (Unginned cotton) (2) Cotton Pods.
14. Shri Radhanpur Vyopari Association, Radhanpur.	(1) Cotton Pods. (2) Kapas (Unginned cotton).
15. The Talod Oil and Oilseeds Merchants' Association, Talod.	Groundnut Oilcake (N.T.S.D.C.)
16. The Viramgaum Merchants' Association, Viramgaum.	Kapas (Unginned Cotton).

* Under the Act, recognised associations are also 'registered' associations. They have been excluded from the above list, unless they are registered for some commodities in addition to those for which they are recognised.

Name of Association	Commodity
<i>Madhya Pradesh</i>	
17. The Bara Sarafa Cotton Association, Indore City.	(1) Silver (2) Cotton (3) Groundnut (4) Groundnut Oil } (N.T.S.D.C.)
18. The Chamber of Commerce, Ratlam ..	Silver
19. The Commercial Exchange Private Limited, Morona.	(1) Arhar Chuni. (2) Mustard Oilcake. (3) Moong Chuni.
20. Shri Indore Bullion Exchange Limited, Indore City.	Gold.
21. The Madhya Bharat Oilseeds Merchant's Association Limited, Sanawad.	(1) Groundnut (2) Groundnut Oil (3) Cottonseed. } (N.T.S.D.C.)
22. The Sindh Mahajan Exchange Limited, Lashkar, Gwalior.	(1) Silver. (2) Gold.
23. The Sukkur Mahajan Association Limited, Gwalior.	Arhar Chuni.
<i>Madras</i>	
24. The Madras Kirana Merchants' Association, Madras.	(1) Tin ingots (N.T.S.D.C.) (2) Hydrosulphite of Soda.
<i>Muharashtra</i>	
25. The Bombay Grains and Seeds Association, Bombay.	(1) Groundnut (2) Castorseed (3) Linseed } (N.T.S.D.C.)
26. The Bombay Hessian and Gunny Merchants' Association Limited, Bombay.	Hessian and Gunny bags (N.T.S.D.C.)
27. The Bombay Metal Exchange Ltd., Bombay.	Tin.
28. The Bombay Sugar Merchants' Association Ltd., Bombay.	Sugar (N.T.S.D.C.)
29. The Bombay Yarn Merchants' Association and Exchange Limited, Bombay.	(1) Rayon (2) Nulon. } (N.T.S.D.C.)
30. The East India Chamber of Commerce Limited, Bombay.	Groundnut Oilcake.
31. The Grain, Rice and Oilseeds Merchants' Association, Bombay.	(1) Linseed (2) Castorseed (3) Cottonseed (4) Groundnut Oilcake (5) Linseed Oilcake (6) Cottonseed Oilcake (7) Nigarseed Oilcake (8) Kardiseed Oilcake } (N. T. S. D. C.)
32. Indian Oil and Produce Exporters' Association, Bombay.	Groundnut Extraction (N.T.S.D.C.)
33. The Jaina Merchants' Association, Jalna	Kardiseed.
34. The Kolhapur Forward Exchange Limited, Kolhapur.	Gur (N.T.S.D.C.)

Name of Association	Commodity
<i>Maharashtra—contd.</i>	
35. Latur Vyapari Sangh, Latur ..	Kardiseed.
36. The Sizing Materials Manufacturers and Dealers' Association, Bombay.	(1) Tapioca Chips. (2) Tapioca Flour. (3) Tamarind Seeds.
37. The Wardha Merchants' Association Private Limited, Wardha.	Cottonseed (N.T.S.D.C.)
38. The Veoparee Association, Sailu ..	Kardiseed.
<i>Punjab</i>	
39. The Bhatinda Chamber of Commerce Limited, Bhatinda.	Mustard Oilcake.
40. The Bhiwani Traders' Association Private Limited, Bhiwani.	Mustard Oilcake.
41. Ferozepore Chamber Limited, Ferozepore Cantt.	Mustard Oilcake.
42. Hissar Trading Company, Hissar ..	(1) Mustard Oilcake. (2) Methi.
43. The Jai-Hanuman Trading Company Private Limited, Jind Mandi.	(1) Kapas (Unginned Cotton) (N.T.S.D.C.) (2) Mustard Oilcake.
44. The Kotkapura Chamber of Commerce Limited, Kotkapura.	Mustard Oilcake
45. The Kotkapura Oil Mills and Trading Company Limited, Kotkapura.	Mustard Oilcake.
46. The Krishna Beopar Company Ltd., Narnaul.	(1) Mustard Oilcake. (2) Sesamum Oilcake.
47. Shri Lakshmi Beopar Company Private Limited, Kaithal Mandi.	(1) Mustard Oilcake. (2) Kapas (Unginned Cotton) (N.T.S.D.C.)
48. The Laxmi Trading Company Limited, Barnala.	(1) Kapas (Unginned Cotton) (2) Mustard Oilcake.
49. Ludhiana Grain Exchange Limited, Ludhiana.	(1) Gur. (2) Mustard Oilcake.
50. Ludhiana Yarn Syndicate Private Limited, Ludhiana.	(1) Staple Fibre Yarn (N.T.S.D.C.) (2) Art Silk Yarn (N.T.S.D.C.)
51. The Mansa Ganesh Chamber of Commerce Limited, Mansa.	(1) Mustard Oilcake. (2) Kapas (Unginned Cotton).
52. The Moga Chamber Limited, Moga ..	(1) Kapas (Unginned Cotton). (2) Mustard Oilcake.
53. The Rohtak Krishna Trading Company, Rohtak.	Mustard Oilcake.
54. The Narwana Company Limited, Narwana.	(1) Kapas (N.T.S.D.C.) (2) Mustard Oilcake.
55. Shri Mahabir Beopar Chamber Limited, Ambala City.	Mustard Oilcake.
56. The Sirsa Kailash Trading Company, Sirsa.	Mustard Oilcake.
57. The Vishnu Commercial Chamber Private Limited, Abohar.	(1) Mustard Oilcake. (2) Kapas (Unginned cotton).

Name of Association	Commodity
<i>Rajasthan</i>	
58. Sri Ganganagar Trading Company Private Limited, Sri Ganganagar.	(1) Mustard Oilcake. (2) Methi.
59. Shri Beoparik Chamber Ltd., Bhilwara, Gulabpura.	Kapas (Unginned cotton).
60. The Bullion Association Limited, Jaipur	Silver.
61. The Jodhpur Bullion Merchants' Association Limited, Jodhpur.	Silver.
62. Sri Ganganagar Beopar Mandal Private Limited, Sri Ganganagar.	(1) Methi. (2) Mustard Oilcake.
63. The Tijarati Chamber Saraffan, Beawar	Kapas (N.T.S.D.C.).
<i>Uttar Pradesh</i>	
64. The Aligarh Commercial Association, Aligarh.	Mustard Oilcake.
65. The Auraiya Chamber of Commerce, Private Limited, Auraiya.	Arhar Chuni.
66. The Baran Boopar Mandal Private Limited, Buland Shahr.	Mustard Oilcake.
67. The Bullion and Agricultural Produce Exchange Limited, Agra.	Arhar Chuni.
68. The Chamber of Commerce, Aligarh ..	(1) Souf (Anisoed). (2) Mustard Oilcake.
69. The Chamber of Commerce, Chandausi	Arhar Chuni.
70. The Cawnpore Bullion Association, Kanpur.	(1) Gold. (2) Silver.
71. The Cawnpore Sugar Merchants' Association Limited, Kanpur.	Sugar (N.T.S.D.C.).
72. The Grain Chamber Limited, Muzaffarnagar.	(1) Cottonseed (N.T.S.D.C.). (2) Mustard Oilcake.
73. The Jain Sanatan Sikh Grain Chamber Limited, Muzaffarnagar.	Mustard Oilcake.
74. The Khurja Chamber of Commerce, Private Limited, Khurja.	Mustard Oilcake.
75. The Mahabir Boopar Mandal Ltd., Hapur	(1) Mustard Oilcake. (2) Taramira Oilcake.
76. The Mahabir Chamber of Commerce, Ghaziabad.	Mustard Oilcake.
77. The National Chamber of Commerce, Private Limited, Kanpur.	Mustard Oilcake.
78. New Bharthna Chamber of Commerce, Private Limited, Bharthna.	(1) Mustard Oilcake. (2) Arhar Chuni.
79. The Saharanpur Boopar Chamber Limited, Saharanpur.	Mustard Oilcake.
80. Shri Braj Boopar Mandal Private Limited, Mathura.	Dhania.

Name of Association	Commodity
81. Shri Gopal Chamber Limited, Hathras	(1) Arhar Chuni. (2) Corianderseed. (3) Aniseed. (4) Mustard Oilcake.
82. Shri Laxmi Vyapar Mandal Ltd., Kasganj	(1) Mustard Oilcake. (2) Arhar Chuni.
83. The Sikandrabad Mercantile Association Private Limited, Sikandrabad.	Mustard Oilcake.
84. The Upper India Sugar Exchange Limited, Kanpur.	Mustard Oilcake.
85. Shri Vyopar Mandal Limited, Sirsaganj.	Mustard Oilcake.
<i>West Bengal</i>	
86. The Calcutta Bullion Association, Calcutta.	Silver.
87. The Calcutta Jute Fabric Shippers Association, Calcutta.	Jute goods.
88. The Calcutta Ready and Forward Market Association, Calcutta.	(1) Silver. (2) Gold.
89. The Indian Jute Mills' Association, Calcutta.	(1) Jute. (2) Jute Goods.
90. The Jute Fabric Brokers' Association, Calcutta.	Jute Goods.

APPENDIX VII

TABULAR STATEMENTS INDICATING THE COMMODITIES TO WHICH PROVISIONS OF THE FORWARD CONTRACTS (REGULATION) ACT, 1952 HAVE BEEN APPLIED (AS on 30-9-1966)

Serial No.	Commodity	Region
1	2	3
<i>I—Commodities to which Section 15 has been applied.</i>		
1	Indian Cotton (Full pressed, half pressed or loose).	Entire Country.
2	Linseed	Do.
3	Cottonseed	Do.
4	Castorseed	Do.
5	Turmeric	Do.
6	Sesamum (Til or Jinjili)	Entire country except Greater Bombay.
7	Copra	Do.
8	Kardiseed	Within the limits of Greater Bombay.
9	Nigerseed	Do.
10	Mowrased	Do.
11	Raw Jute (including Mesta)	The States of West Bengal, Bihar, Assam and Orissa and the Union Territory of Tripura.
12	Jute goods (Hessian and sacking cloth/or bags, twines and/or yarns manufactured by any of the mills and/or any other manufactures of whatever nature made from jute).	In the city of Calcutta.
13	Coconut oil	In the State of Kerala.
14	Pepper	In the State of Kerala and within the limits of Greater Bombay.
15	Kapas	Entire Country.
16	Staple Fibre Yarn	Do.
17	Groundnut	Do.
18	Groundnut Oil	Do.

1	2	3
<i>II.—Commodities in which forward contracts have been banned under Section 17 of the Act.</i>		
1	Cotton Cloth	Entire Country.
2	Cotton Yarn	Do.
3	Shellac	Do.
4	Seedlac	Do.
5	Camphor	Do.
6	Wheat	Do.
7	Gram	Do.
8	Sugar	Do.
9	Jowar	Do.
10	Bajra	Do.
11	Maize	Do.
12	Ragi	Do.
13	Small Millets (Kodan, Kutki, Kodra, Kora, Varagu, Sawan, Rala, Kakun, Samai, Vari and Banti).	Do.
14	Tur (Arhar)	Do.
15	Urad (Mash)	Do.
16	Mung	Do.
17	Moth	Do.
18	Masur	Do.
19	Kulthi	Do.
20	Peas	Do.
21	Lakh (Khesari)	Do.
22	Barley	Do.
23	Guar	Do.
24	Rice or Paddy	Do.
25	Khandsari Sugar	Do.
26	Linsced Oil	Do.
27	Mustardseed Oil	Do.
28	Rapeseed Oil	Do.
29	Sesamum Oil (Til Oil)	Do.
30	Castor Oil	Do.
31	Cottonseed Oil	Do.
32	Vanaspati or Vegetable Oil Products	Do.
33	Sesamum (Til or Jinjili)	Within the limits of Greater Bombay except between or through the members of BOOE
34	Copra	Do.
35	Raw Jute (including Mesta)	Entire Country except the States of West Bengal, Bihar, Assam and Orissa and the Union Territory of Tripura.

1	2	3
36	Jute Goods (Hessian and Sacking cloth or bags, twines and/or yarns manufactured by any of the mills and/or any other manufactures of whatever nature made from jute).	The whole of India except the city of Calcutta.
37	Coconut Oil	Entire Country except the State of Kerala.
38	Betelnuts	Do.
39	Cardamoms	Do.
40	Chillies	Do.
41	Cinnamon	Do.
42	Cloves	Do.
43	Ginger	Do.
44	Pepper	Entire Country except the State of Kerala and Greater Bombay.
45	Nutmegs	Entire Country except the State of Kerala.
46	Gold	Entire Country.
47	Copper, Zinc, Lead or Tin	Do.
48	Art Silk Yarn	Do.
49	Silver	Do.
50	Gur	Do.
51	Methi	Do.
52	Coriandersced	Do.
53	Cottonseed Oilcake	Do.
54	Sesamum Oilcake	Do.
55	Rapeseed Oilcake	Do.
56	Mustardseed Oilcake	Do.
57	Aniseed	Do.
58	Arhar Chuni	Do.
59	Mung Chuni	Do.
60	Mustardseed	Do.
61	Rapeseed or Toria	Do.
62	Groundnut Oilcake	Do.
63	Taramiraseed	Do.
64	Taramiraseed Oilcake	Do.
65	Cotton pods	Do.
66	Silver Coins	Do.
67	Chara or Berseem (including Charaseed or Berseemseed)	Do.
68	Tur Dal (Arhar Dal)	Do.
69	Urad Dal (Mash Dal)	Do.
70	Mung Dal	Do.
71	Gram Dal	Do.

1	2	3
<i>III. Commodities in which non-transferable specified delivery contracts are also prohibited, in exercise of the powers conferred under Section 18 (3) of the Act.</i>		
1	Wheat	Entire Country
2	Gram	Do.
3	Jowar	Do.
4	Bajra	Do.
5	Maize	Do.
6	Ragi	Do.
7	Small Millets (Kodan, Kutki, Kodra, Kora, Varagu, Samai, Sawan, Rala, Kakun, Vari and Banti).	Do.
8	Tur (Arhar)	Do.
9	Urad (Mash)	Do.
10	Mung	Do.
11	Moth	Do.
12	Masur	Do.
13	Kulthi	Do.
14	Peas	Do.
15	Lakh (Khesari)	Do.
16	Barley	Do.
17	Guar	Do.
18	Rice or Paddy	Do.
19	S-samun (Til or Jinjili)	Within the limits of Greater Bombay.
20	Copra	Do.
21	Gold	Entire Country
22	Silver	Do.
23	Mustardseed	Do.
24	Rapeseed or Toria	Do.
25	Taramiraseed	Do.
26	Silver coins	Do.
27	Mustardseed Oilcake	Do.
28	Rapeseed Oilcake	Do.
29	Sesamum Oilcake	Do.
30	Cottonseed Oilcake	Do.
31	Taramiraseed Oilcake	Do.
32	Mothi	Do.
33	Corianderseed	Do.
34	Aniseed	Do.
35	Arhar Chuni	Do.
36	Mung Chuni	Do.
37	Gur	Entire Country, except party to party contracts.

1	2	3
38	Chara or Berseem (including Charaseed or Berseemseed).	Entire Country
39	Tur Dal (Arhar Dal)	Do.
40	Urad Dal (Mash Dal)	Do.
41	Mung Dal	Do.
42	Gram Dal	Do.
43	Art Silk Yarn imported into India ..	Do.
<i>IV. Commodities in which non-transferable specified delivery contracts are regulated (Regulatory Provisions are applied under Section 18 (3) of the Act.)</i>		
1	Groundnut	In the whole of India
2	Groundnut Oil	Do.
3	Cottonseed	Entire country except within the limits of Greater Bombay.
4	Linseed	Do.
5	Castorseed	Do.
6	Indian Cotton (full pressed, half pressed or loose).	Within the limits of Greater Bombay.
7	Kapas	Within the limits of States of Punjab, Rajasthan, Uttar Pradesh and the Union Territory of Delhi.
8	Kardiseed	Within the limits of Greater Bombay.
9	Nigerseed	Do.
10	Mowraseed	Do.
11	Raw Jute (including Mesta)	In the States of West Bengal, Assam, Bihar and Orissa and the Union Territory of Tripura.
12	Jute Goods (Hessian and Sacking cloth/ or bags, twines and/or yarns manufactured by any of the mills and/or any other manufactures, of whatever nature made from Jute).	In the city of Calcutta

1967

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