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Regulation and Policy issues for Commodity Derivatives in India

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1 Introduction

Commodity derivatives in India have a chequered history. Though the derivative markets survived the prohibition inflicted from time to time, thanks largely to the gray unregulated markets, the participants have not been able to shrug off the scare of the markets being banned any time in future. It is not surprising that these markets have not developed as much as the markets in developed countries or even the securities market in our own country. The exchanges emerging from a suffocating environment are crying to breathe in a free and liberal regulatory and policy environment. This article attempts to give an overview of the developments in the commodity derivative markets and tries to explain the rationale for this, what in the present times may perhaps be considered as, obscurantist and retrograde approach, in this era of detailed regulation.

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2 Evolution of Commodity Derivative Markets

Commodity Derivative markets were set up in India in cotton in 1875 and in oilseeds in 1900 at Bombay. Forward trading in raw jute and jute goods started at Calcutta in 1912. Forward Markets in Wheat had been functioning at Hapur since 1913, and in bullion at Bombay, since 1920. In 1919, the government of Bombay passed Bombay Contract Control (War Provision) Act and set up the Cotton Contracts Board. With a view to restricting speculative activity in cotton market, the Government of Bombay issued an Ordinance in September 1939 prohibiting option business. Bombay Options in Cotton Prohibition Act, 1939, later replaced the Ordinance. In 1943, the Defence of India Act was utilized on a large scale for the purpose of prohibiting forward trading in some commodities and regulating such trading in others on an all India basis. In the same year oilseeds forward contracts prohibition order was issued and forward contracts in oilseeds were banned. Similarly orders were issued banning forward trading in food-grains, spices, vegetable oils, sugar and cloth. These orders were retained with necessary modifications in the Essential Supplies Temporary Powers Act 1946, after the Defence of India Act had lapsed. With a view to evolving the unified systems of Bombay enacted the Bombay Forward Contract Control Act, 1947.

3 Legal Framework

After Independence, the Constitution of India adopted by Parliament on 26th January, 1950 placed the subject of "Stock Exchanges and Futures Market" in the Union list and therefore the responsibility for regulation of forward contracts devolved on government of India. The Parliament passed the Forward Contracts (Regulation) Act, 1952, (FCRA) which presently regulates forward contracts in commodities all over India.

Exchange controls were in place and RBI had jurisdiction over forex as well as money market. The Securities Contracts (Regulation) Act (SCRA) was enacted in 1957 on the lines of FCRA, 1952, but another department of the government regulated security markets. The Securities and Exchanges Board of India (SEBI) was given a statutory status in the year 1991. Derivative trading was introduced in securities as later as in the year 2001, after the term "security" in the SCRA was amended to include derivatives con-

tract in securities. Consequently, regulation of derivatives came within the purview of SEBI. We thus have separate regulatory authorities for forex, money market and commodity derivative markets.

The experience has shown that the security market does not operate independently, i.e. without interaction with of money/forex market. The commodity derivatives market is relatively insignificant at present to be influenced by the money/forex markets. But this may not necessarily be the case in near future. In the USA, the Commodity Futures Trading Commission (CFTC) has jurisdiction to regulate all types of derivative contracts – forex, government securities, interest rates, equities etc. In U.K., even greater convergence of regulatory authority is achieved by vesting regulatory powers to a single agency, the Financial Services Authority, (FSA).

In India, there have been occasions to disentangle of issues of regulatory jurisdiction between RBI and SEBI. The proposals of allowing stock brokers to trade in commodity derivatives market and regional stock exchanges being allowed to trade commodity futures contract are being discussed at regulatory levels. Therefore, similar issues of regulatory jurisdiction and the desirability of regulatory convergence are likely to become relevant. As issues involved have many more dimensions besides academic, and there is a will on the part of regulators to discuss issues with open mind, it would not be useful to take a particular position at this stage.

As things stand, the Forward Markets Commission (FMC) continues to have jurisdiction over commodity forward contracts. The main features of the FCRA are as follows:

- The Act applies to goods, which are defined as any movable property other than security, currency and actionable claims.
- In the preamble of the Act itself, the intention of the legislature to prohibit options in goods is made explicit. By a specific provision, section 19, such agreements are prohibited. (The proposal to regulate options in goods is under consideration of the government.)
- The Act classifies contracts/agreements into two broad categories, viz., ready delivery contracts and forward contracts. Ready delivery contract are those where delivery of goods and full payment of price therefore is made within a period of eleven days. (The proposal to extend the period to thirty days is under consideration of Government). It is further clarified that notwithstanding the period of performance contract, if the contract is performed by payment of

money difference (cash settlement), it would not be a ready delivery contract.

- The Act defines forward contract as the contract for delivery of goods which is not a ready delivery contract.
- Forward contracts are implicitly classified into two broad categories, viz., specific delivery contracts and non-specific delivery contracts or standardized contracts. Though, de-facto, the focus of the regulation are standardized contracts (futures contracts), these are not defined in the present Act (it is proposed to introduce definition of "futures contract" in the Act).
- Specific delivery contracts (where the terms of the contracts are specific to each contract – customized contracts) where the buyer does not transfer the contract by merely transferring document of title to the goods and exchanging money difference between the sale and purchase price (also termed as Non-transferable Specific Delivery Contracts) are normally outside the purview of the Act. However, there is an enabling provision empowering the government to regulate or prohibit such contracts.
- The Act provides for either regulation of the other forward contract in specified commodities or prohibition of specified commodities. Such contracts in the commodities, which do not figure in, regulated or prohibited categories are outside the purview of the Act, except when they are organized by some exchange.
- The Act envisages a three-tier regulation. The exchange which organizes forward trading in regulated commodities, can prepare its own rules (articles of association) and byelaws and regulate trading on a day-to-day basis.

  The FMC approves those rules and byelaws and provides regulatory oversight. It also acquires concurrent powers of regulation either while approving the rules and byelaws or by making such rules and byelaws under the delegated powers.

  The Central government – Department of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution – is the ultimate regulatory authority. Only those associations which are granted recognition by the government, are allowed to organize forward trading in regulated commodities. Presently the recognition is

commodity-specific. The government has original powers to suspend trading, call for information, require the exchanges to submit periodical returns, nominate directors on the Boards of the exchanges, supersede the Board of Directors of the exchange, etc.

Most of these powers are delegated to the FMC; otherwise the role of FMC is recommendatory in nature. The government has full control over the FMC, which is the subordinate office of the Department of Consumer Affairs, depending upon the budget allocation for its existence. The FMC also is subject to the rules and regulations relating to all matters including appointment of staff and officers, incurring office expenses and conducting tours, etc., as are applicable to any government Department.

- Only police authorities have powers to enforce illegal trading in prohibited commodities and options in goods. FMC can merely forward information and render technical assistance to police. The penalties provided under the Act are nominal and does not have deterrent effect. Since judicial magistrate first class has jurisdiction to try offences under this Act, the fine cannot exceed Rs.10,000. The minimum fine prescribed for the second offence is Rs.1,000 only. There is no provision to relate the penalty to the amount involved in the offence. (The government is considering amending the Act to raise the fine to Rs.5,000.)

4 Present Status of Commodity Derivative market and Policy Liberalisation

Forward trading was banned in 1960's except for pepper, turmeric, castor seed and linseed. Futures trading in castor seed and linseed was suspended in 1977.

Apparently on the basis of the recommendations made by Khusro Committee, forward trading in potato and gur was allowed in early 1980's and in castorseed in 1985. After the process of liberalization of the economy started in 1990, the government set up a committee under the Chairmanship of Prof. K. N. Kabra in 1993 to examine the role of futures trading in the context of liberalization and globalization. The Kabra Committee recommended allowing futures trading in 17 commodity groups. It also

recommended strengthening of the FMC and amendments to the FCRA, 1952. The major amendments include allowing options in goods, increase in outer limit for delivery and payment from 11 days to 30 days for the contract to remain ready delivery contract and registration of brokers with the FMC. The government accepted most of these recommendations. Additional staff was provided to the FMC and the post of Chairman was upgraded to the legal of Additional Secretary to the government of India. The recommendations to set up Regional office at Lucknow, Delhi and Kochi were kept in abeyance for the time being. As of end 2002, futures trading had been permitted in all recommended commodities except bullion and basmati rice.

The commodity derivatives markets have gained some respectability with commencement of trading at National Board Board of Trade (NBOT, originally SOPA). Within two years of its operation, NBOT has been able to trade a significant fraction of the aggregate volume being traded by all the exchanges. The initial liquidity at NBOT was brought by the operators in the informal bullion market at Saraffa in Indore. Now the illegal trade in the Saraffa has vanished and the entire liquidity has migrated to the NBOT. The President of the NBOT facilitated the "pull and push" of these operators towards the legal market.

The NBOT example shows that the leadership and channeling the liquidity from informal market to the official market was very significant in developing an exchange in a short run rather than the best systems and procedures and regulatory reforms. There is wide scope to replicate this model in mustard seed complex, kapas and bullion. A statement indicating the years from which trading is being permitted in different commodities in uninterrupted manner and volume of trading during the last two years is given below (Table 8.1):

The other developments in the direction of further liberalization of commodity derivative markets are:

- In paragraph 44 of the National Agricultural Policy announced by the government in 1999, it was stated that the government would enlarge the coverage of futures market to minimize the wide fluctuations in commodity prices, as also for hedging their risk. It was mentioned that an endeavor would be to cover all-important agricultural products under futures trading in the course of time.

Table 8.1 Commodity Futures Markets in India

Commodity	Futures Exchange	Year Since Futures Contract is being Traded	Volume of Trade (Rs.crore)		
			1999–00	2000–01	2001–02
Pepper (domestic and international)	IPSTA, IPSTA-ICE	Domestic futures trading started in 1952, and by IPSTA in 1957; International contract was opened for trading in November 1997.	2967.7	2586.0	611.01
Turmeric	SOE	1957	0.03	0.21	4.38
Gur	VBC, COC, BOOE, MACE, ROOE, CICE	1982	10185.79	8470.40	10793.69
Potato	COC	1985	5.48	14.36	0.87
Castor seed	ACE, BCE, RSOBMA	1985	8047.06	6244.36	6029.38
Hessian	EIJHE	1992	0.81	0.22	0.40
Sacking	EIJHE	1998	1233.94	1703.44	2402.12
Coffee	CFEI	1998		289.04	51.60
Cotton	EICA	1999		139.45	11.59
Castor Oil – International	BCE	1999	13.86	4.70	2.04
Soybean, soy oil and soy meal	NBOT	December, 1999	261.11	7892.18	14263.2
RBD Palmolein	BCE	April, 2000		8.68	8.60
Rapeseed/Mustard seed, its oil and cake	KCE & NBOT	December, 2000		45.00	23.15
Copra/coconut, its oil and oilcake	FCEI	October, 2001			81.91

(Continued. . .)

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Commodity	Futures Exchange	Year Since Futures Contract is being Traded	Volume of Trade (Rs.crore)		
			1999–00	2000–01	2001–02
Groundnut its oil and oilcake	BCE and RSOBMA	November, 2001			498.09
Sunflower seed, its oil and oil-cake	BCE	November, 2001			1.43
Cottonseed, its oil and cake	RSOBMA, BCE and ACE	November 2001			0.21
Total			22858.58	27380.04	34783.67

Notes:
IPSTA = Indian Pepper and Spice Trade Association, Kochi
VBC = The Vijay Beopar Chamber, Muzaffarnagar
MACE = The Meerut Agro Commodity Exchange, Meerut
ROOE = Rajdhani Oils and Oilseeds Exchange, Delhi
EICA = The East India Cotton Association, Mumbai
ACE = The Ahmedabad Commodity Exchange, Ahmedabad
KCE = Kanpur Commodity Exchange, Kanpur
BCE = The Bombay Commodity Exchange, Mumbai (erstwhile The Bombay Oilseeds and Oils Exchange)
CICE = Central India Commercial Exchange, Gwalior.
SOE = Spices and Oilseeds Exchange, Sangli;
COC = The Chamber of Commerce, Hapur
BOOE = Bhatinda Om and Oil Exchange, Bhatinda
EIJHE = The East India Jute & Hessian Exchange; Kolkata
CFEI = The Coffee Futures Exchange of India, Bangalore
NBOT = National Board of Trade, Indore
FCEI = First Commodity Exchange in India, Kerala
RSOBMA = The Rajkot Seed Oil and Bullion Merchants' Association, Rajkot

- An expert committee on agricultural marketing headed by Mr. Shankerlal Guru recommended linkage of spot and forward markets, introduction of electronic warehouse receipt system, inclusion of more and more commodities under futures trading and promotion of national system of warehouse receipt.
- A sub-group on forward and futures markets was formed under the chairmanship of Dr. Kalyan Raipuria (Economic Adviser, Department of Consumer Affairs) to examine the feasibility of implementing the recommendations made by the expert committee, which recommended that the commodity specific approach to the grant of recognition should be given up. Exchanges which meet the criteria to be stipulated by the Government, should be able to trade contracts in any permitted commodity.
- In the Budget speech made on 28th February 2002, the Finance Minister announced expansion of futures and forward trading to cover all agricultural commodities.
- The economic survey for the year 2000-2001 indicated the intention of the government to allow futures trading in Bullion.

The policy statements announced by the government indicate its resolve to introduce reforms in commodity sector. A number of initiatives were also taken to decontrol the spot markets in commodities. The number of commodities listed as essential commodities has been pruned down to 17.

5 Efficacy of imposing non-traditional best systems and practices

The long period of prohibition on forward trading in major commodities like cotton and oilseeds complex has a enfeebled the commodity derivative markets in India. Futures markets in commodities find themselves left far behind the derivative markets in developed countries which have been functioning uninterruptedly. Even the securities market in India, which was far behind the commodity derivatives market in terms of volume, level of participation etc. in 1960s, has grown rapidly. This has caused some players in commodity markets to migrate to the securities market. The equity trading cult was established and modern infrastructure, systems and regulations were introduced with the emergence of NSE and SEBI. The chal-

lenge before the commodity markets is to make up for the loss of growth and development during the three decades of restrictive government policies, which had the effect of delaying the growth of commodity derivatives markets.

In order to facilitate leapfrogging, the immediate policy response in FMC, and also in the government, was to impose world's best systems and practices on the commodity exchanges that had just emerged from three decades of hibernation. The FMC imposed some regulatory measures being implemented in the developed markets like:

- Daily mark to market margining.
- Time–stamping of trades.
- Novation of contracts and creation of trade guarantee fund.
- Back-office computerization for the existing single commodity exchange and online trading for the new exchanges.
- Demutualization for the new exchanges.
- One-third representation of independent Directors on the Boards of existing exchanges.

Though the intention behind these measures was to promote financial integrity, market integrity and transparency, most of these measures have met with steep resistance from the trade. The exchanges had therefore to be virtually forced to adopt some of the measures by regulatory dictat. The exchanges have attributed subsequent fall in the volume of trade to introduction of these measures. There has been no long time-series data across the exchanges to support this claim; but some of the exchanges did drew attention of the FMC to the fall in the volumes immediately after the measures like immediate reporting were introduced and/or stringently enforced. The office-bearers admit that not only the growth has been stunted but also a sizeable chunk of the existing volume has migrated to "informal markets." Exchanges like Bombay Commodity Exchange and Kanpur Commodity Exchange which implemented most of these reforms, were not only unable to revive the past glory but were literally deserted by all the traditional players.

The strength of brokers on the Boards of most exchanges has been drastically curtailed; but there is unanimity in the emasculated traditional broker community across the exchanges that traditional methods of trading, clearing, settlement and governance were necessary to revive the commod-

ity derivative market. The traditional players, who are conversant with trading techniques, find themselves to be too old and changes in methods of trading, clearing, and settlement too drastic. These players are willing to participate in the trade only in a de-regulated or liberal regulatory environment. The approach should be to first bring these traditional players to the formal market and then allow the commodity markets to garner minimum critical liquidity.

There is a widespread lack of awareness about the role and technique of futures trading among the potential beneficiaries. Only massive efforts to train younger generations in modern trading techniques and allowing the already trained stock brokers to trade in commodity futures can obviate the need to depend on the traditional players to revive the commodity derivative market. Creating awareness and imparting knowledge about the trading techniques and strategies among the new potential market players is feasible only in relatively medium and long term time frames.

To some extent, the dogged resistance to change could be attributed to the governance structure of the existing exchanges. Changing the governance structure of the existing exchanges is not as easy as setting up a new exchange with appropriate professional governance structure. The transition without bloodshed will therefore have to be evolutionary rather than revolutionary. In the absence of initial critical liquidity–which is necessary for least-cost exit, even potential new players are sitting on the fence. This corroborates the finding that our commodity exchanges are deeply rooted in the traditional systems and practices and, therefore thrusting any radical reforms on these exchanges would be counter-productive.

There is one school of thought, which believes that detailed regulation is conducive to participation by different market participants in the physical markets, and, that this would eventually result in the growth of trading volume. The experience in the commodity derivative markets however shows that during the pre-take-off stage, there is a trade-off between regulation and development and the minimalist approach to the regulation would be necessary for development of the markets.

6 Prescription for further policy liberalisation

6.1 Policy for legal reforms

Some of the regulatory measures were imposed partly on the recommendations of the consultants appointed under the World Bank Project for institutional development of commodity exchanges and the FMC. The intention was to make good the precious three decades of the commodity economy wasted due to restrictive policies. The prescriptions, however, did not have very positive impact on the participation and volume. However, the policy initiatives taken by the government since mid 90's in the physical commodity markets have created a conducive environment for the commodity exchanges to flourish. Though due to the reasons mentioned above the traditional players in commodity derivative markets need to be given sufficient time to accept, adopt or adapt reforms, gradualism in liberalization of policies in the physical commodity markets does not serve any purpose.

At the time of writing this article, the government has taken a landmark decision to deregulate long duration margining contract (non-transferable specific delivery contracts) from the purview of Forward Contracts (Regulation) Act, 1952. There is a need for radically pruning the negative list of commodities in which futures trading is not allowed. The reasons – whether right or wrong – which led the government to ban large number of commodities no longer exist today. Prior to 1960, futures trading used to be conducted in traditional commodities at traditional places of trading and in traditional terms and conditions. When futures trading in these traditional commodities was prohibited, either non-transferable specific delivery contracts, or futures trading in the commodities of minor nature, which had no tradition of futures trading, were used as a guise for conducting futures trading in the traditional commodities. Most of these minor commodities were put in the negative list to prevent such disguised trading. Now that most of these traditional commodities like edible oil complex and cotton is legally allowed, the need for using minor commodities as a guise has disappeared.

6.2 The need for free market prices

Secondly, futures trading can generally be conducted only in commodities which have competitive markets. It is necessary that the market forces of

demand and supply largely determine the prices. India has already made a transition from a food importing country to a food surplus country. Sooner or later the government will have to substantially dilute administered price mechanism and integrate the internal food-grains market with the global markets. The shortage conditions and the perception that futures market has volatility aggravating impact in the shortage situation have changed. It is appreciated in the policy circles that even in the shortage situation, futures market helps to smoothen the demand for the commodity and has a salutary impact of reducing intra-seasonal price-spread.

It would not be pragmatic to ignore the deep-rooted perceptions about the role of futures markets in general, and speculation in particular, and the political fall-out of sharp increase or sharp decrease in the prices of some of the commodities which are considered essential by people and political parties. The policy-makers may therefore continue to keep a small negative list of such politically sensitive commodities.

It is to be remembered that merely by allowing a large number of prohibited commodities, it is not necessary that the volume of trading in the futures market will shoot up in the short run. As experience indicates, trading, liquidity and volume have a tendency to gravitate towards the traditional contracts. Trading in food-grains will not start merely because the prohibition on forward trading is revoked. Food-grains will continue to remain unsuitable for futures trading so long as the government controls in the form of administered price mechanism, procurement and supply through Public Distribution System etc. continue to have a major influence on the price. Revoking prohibition would only facilitate the government to gradually move towards a market economy. The hardship faced by producers trade and consumers on account of sudden structural shift from a tightly controlled commodity economy to a totally market economy can be avoided. This will also allow the Government, FMC and the exchanges to create awareness and impart training to the market players about the trading techniques and strategies, which would help them to protect themselves against the price-risk.

6.3 Integration of spot and derivatives markets

Integration of spot and futures market is another critical factor for growth of commodity futures in India. The spot market in commodities is con-

trolled to a large extent by the State Governments. There are restrictions on holding of stocks, turnover, and movement of goods and there are variations in the duties levied by the different State Governments. This fragments the commodity spot markets and impedes the commodity futures markets from reaching the market players outside the boundaries of the states, or zones in which the exchanges are located. Harmony, if not the rigid uniformity in the policies of different states would be necessary for developing nationwide commodity markets. It is difficult to anticipate the time frame within which this can be achieved in view of the multi-party federal structure of Indian polity.

6.4 Warehouses and warehouse receipts

Despite these largely uncontrollable factors causing fragmented spot markets, it would be necessary to address some of the other issues, which contribute to the fragmentation. The prices of commodities are influenced by their qualities, grades, seasons of production, the quality of storage and warehousing etc. Unlike securities, commodities come in different grades and qualities. Commodities are also bulky involving difficulties in transportation, which affect spatial integration. These issues can be addressed by introducing nationwide warehouse receipt system.

Under this system, the warehouses, which meet the prescribed standards of storage, preservation, testing, grading and certification would be licensed by the Central Regulatory Authority and warehouse receipts issued by these warehouses could become negotiable. The Central Regulatory Authority could evolve a system of inspection, monitoring and surveillance to ensure that the licensed warehouses comply with the prescribed standards and warehouse receipts issued by them truly reflect the quality, quantity and the ownership of the goods. Commodity exchanges could create market place for trading and settlement of warehouse receipts to facilitate hassle free trading in commodities. This would improve the collateral value of the goods and consequently the credit flow to the commodity sector. This would obviate the need for distress-sale by the farmers and even by some of the mills which do not have waiting capacity due to inadequate liquid assets necessary for meeting the immediate consumption or working capital needs.

6.5 Exchanges trading multiple commodities

Introduction of institutional reforms is also cited as a major factor affecting the growth and development of commodity derivatives market. Setting up a modern and demutualised nationwide multi-commodity exchange is considered necessary to create competitive pressure on the existing exchanges to adopt reforms. Diverse views have been expressed on the question of having such a nationwide multi-commodity exchange.

In a meeting convened by the Department of Consumer Affairs there was a near unanimity among the representatives of financial institutions and various economic ministries that, a) there should be only one national commodity exchange, b) this should be created with the private sector initiative without any contribution in equity by the government. Public financial institutions could however, contribute equity of the exchange and c) the exchange should be run on professional lines as a commercial venture.

The government appointed a committee under the Chairmanship of Shri K.C. Misra, the then Chairman of the FMC, to prepare a road map for setting up the nation wide multi commodity exchange within the parameters laid down in the meeting held on 11th October 1999. Shri N. Nagarajan, Economic Advisor, RBI and Shri Birendra Kumar, the then M.D., SBI Capital Markets were other members of the committee. The committee selected a consortium consisting of Mahindra & Mahindra, the NSE, ICICI and the Punjab Warehousing Corporation for setting up such an exchange. Despite the extension granted by the FMC and the government, the consortium partners could not resolve differences among themselves with regard to location of the exchanges. In the process the entire commodity economy has lost about two valuable years. With hindsight, it is felt that this could have been avoided if more than one consortium were selected for setting up such an exchange. There is a growing feeling that monopoly is not in the interest of public and trade, particularly in case of a nation-wide multi-commodity exchange.

A similar issue is debated in respect of regional vs. local exchanges. It is contended that a multiplicity of exchanges trading contracts in the same product results in wastage of valuable resources. It is also mentioned that the there is a trend of consolidation world wide through mergers and acquisition or liquidation. It appears that there is a trade-off between having only one exchange (which could impose the economy to inefficiencies of

the monopolistic exchange on one hand) and having multiple exchanges (where the economy faces the risk of fragmenting volume and wasted resources on the other). While moving from a government controlled economy to a market-driven economy, the objective is to do away with a government monopoly. Substituting government monopoly by a private sector monopoly may not improve the situation for the economy. The wastage of resources is the price worth paying for creating a competitive and efficient market. The government should not force consolidation but allow and facilitate the market forces to do that. This is also true for the nationwide multi-commodity exchange.

While allowing the multiple exchanges to trade the same product and granting recognition to new exchanges to trade products already traded by the existing exchanges, the government should announce its policy in unambiguous terms. It would allow free and fair competition and no one should expect the government to provide immunity or bail-out to any exchange against competitive pressures from a successful exchanges. Exchanges themselves should conduct due diligence on the competitive environment and its impact on viability of the exchange. The exchanges themselves would be responsible for their commercial decisions to organize trading in the permitted commodities. The regulator should ensure that exchanges do full disclosure to the existing and potential participants about the risks of trading at these exchanges. Complaints of unfair and fraudulent practices against exchange management and administration ougth to be dealt with firmly and expeditiously.

7 Conclusion

To sum up, keeping in view the past baggage being carried by existing exchanges, the objective of catching up with the developed countries can be achieved in the short run by reviving the derivative markets by attracting traditional players. The policy liberalization in the physical and derivative commodity sector would help in reviving their interest. Simultaneously large-scale training programmes need to be launched for market participants who are not conversant with modern trade practices. The transition to the modern systems and practices need to be made by adopting policies which will unleash competitive pressures after the derivative markets are revived by traditional players rather than thrusting new systems and prac-

tices on the traditional players. For example, allowing the stockbrokers trading in derivative segment of the security markets to trade in commodity derivatives market would hasten the transition to modern methods of trading, clearing and settlement.

Fixed Income
and
Foreign Exchange Derivatives