

GOVERNMENT OF INDIA
MINISTRY OF AGRICULTURE AND FARMERS WELFARE
DEPARTMENT OF AGRICULTURE, COOPERATION AND FARMERS WELFARE

LOK SABHA
UNSTARRED QUESTION NO.1836
TO BE ANSWERED ON THE 6TH MARCH, 2018

OPTION TRADING IN GUARSEED

1836. SHRI J.J.T. NATTERJEE:

Will the Minister of AGRICULTURE AND FARMERS WELFARE **†ãöŠääÓã** एवं किसान कल्याण ½ää"ääè be pleased to state:

- (a) whether the Government recently launched first agricultural-commodity options trading in Guarseed;
- (b) if so, the details thereof;
- (c) whether this is designed as hedge for farmers to safeguard against price risks;
- (d) if so, the details thereof;
- (e) whether the Government is planning the same mechanism for other crops too; and
- (f) if so, the details thereof?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF AGRICULTURE AND FARMERS WELFARE

†ãöŠääÓã एवं किसान कल्याण ½ää"ääÈã¼ã ½ãñâ Àã¾ã ½ää"ääè (SHRI GAJENDRA SINGH SHEKHAWAT)

(a) & (b): Yes, Madam. The National Commodity and Derivatives Exchange Limited, Mumbai (NCDEX) has launched the Options on Guar Seed Futures on January 14, 2018, as approved by Securities and Exchange Board of India (SEBI). This is the first Options product on agricultural commodity futures allowed for trading in India.

SEBI vide circular dated June 13, 2017 issued guidelines with regard to eligibility criteria for selection of underlying commodity futures for launch of option contracts, product design and risk management framework to be adopted for trading in options on commodity futures. Based on the guidelines, NCDEX applied for options on Guar seed

10 MT futures, vide its application dated August 7, 2017 and SEBI has approved the same on September 11, 2017.

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(c) & (d): Options are derivatives contracts in which buyer of an options has the right, but not the obligation, to buy or sell the underlying at a pre decided price (exercise price) by paying some premium. At the time of expiry, if the exercise price of option is not perceived as favourable by buyer of an Option, he may choose not to exercise the option contract and thus will lose only the premium amount paid.

Farmers/Farmers Producer Organisations (FPOs) may utilise this product by buying a put option, thereby hedging their sell price i.e. fixing sell price of their produce by paying a premium without any downside risk. However, if at time of expiry, the Farmers/FPO perceives that the exercise price of option is lower than the prevailing market prices or, if they perceive that they may not be able to deliver the corresponding quantity of commodity for the exercise of the option contract they had entered into, they may chose not to exercise the option.

(e) & (f): Currently, SEBI has permitted Options contracts in only one commodity each in the category of agricultural commodity futures (Guar Seed) and in the category of non-agricultural futures (Gold). However, options on additional agricultural commodities are permissible, subject to exchanges applying to SEBI for more such commodities which meets the eligibility criteria prescribed vide SEBI circular dated June 13, 2017.
