Sebi doesn't want FMC under its purview

With the Forward Markets Commission (FMC) being moved to the finance ministry, sources say the commodity market regulator would remain a separate division; it wouldn’t be merged with the Securities and Exchange Board of India (Sebi), as was widely believed.

“Sebi has conveyed to the finance ministry it doesn’t want FMC to come under its purview,” said the source, adding the regulator had wrote to its parent ministry that without amending the Sebi Act, commodity derivatives couldn’t be regulated by Sebi. Parliamentary approval is needed to amend the Act.

The Sebi Act deals with securities and the definition of securities, according to the Securities Contracts Act, doesn’t include commodities. Therefore, Sebi isn’t able to allow exchange-traded funds (ETFs) in commodities other than gold. For gold ETFs, too, a special arrangement was made.

For FMC, irrespective of whether it is merged with Sebi or remains a division under the finance ministry, it would have to be strengthened further. Bringing FMC under Sebi would create several regulatory discrepancies---the capital and commodities markets function differently. For equities, a price rise is good for all, but for commodities, consumers and producers have divergent interests. Also, in case of agriculture commodities, the prices determine inflation and cropping patterns.

Earlier, FMC was a division under the department of consumer affairs.

To make FMC a powerful statutory regulator, the Forward Contract Regulation Act would have to be amended. A Bill for the amendment is pending with Parliament.

Observers see possibilities of the convergence of policies governing stock exchanges and commodity exchanges. In what could be a beginning, on Monday, FMC announced the restructuring of a risk management group headed by J R Verma, who had headed many such panels, including those on equity derivatives. The group would also have a Sebi representative and a BSE official.

Recently, FMC had questioned whether shareholders should be allowed to trade on the same exchange in which they held equities? It had sought the views of commodity exchanges. If implemented, this could be the first big move towards the convergence of the policies of capital and commodity market regulators. For commodity exchanges excluding MCX, it could lead to huge volumes.

For FMC, the change in the parent ministry wouldn't help the spot commodity exchange segment, as this space remains unregulated. There is a need for a regulator for spot exchanges.

(Business Standard)