Exchange Traded Forwards - Evolving a national market

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Any farmer will vouch for direct correlation between his sleeplessness and proximity of his crop to maturation.

In case of a financial emergency or any other pressing reason a farmer would sell or pledge his unripe crop if he couldn't wait until harvesting time. The act was described in text books as forward trading.

The privately negotiated Forwards had several inherent lacunae and disadvantages unlike the more structured futures contracts, but still it worked well and was preferred by farmers for a variety of reasons.

Futures Contracts restrict counter-party default risks but pose limitations since their prescribed contract size, quality specifications, and delivery schedules often do not match with commodity stakeholders' requirements and restrict many from participating in the Futures market.

National Commodity & Derivatives Exchange Ltd (NCDEX), India's leading Commodity Exchange, has introduced an exchange - traded version of Forwards to make it more formal, structured, providing it firmer legal sanctity and guarantee, to reduce risks and trading costs, and more significantly to enable a farmer to seek a buyer from anywhere across the country instead of just the familiar neighbouring areas or nearby market.

NCDEX enables buyers and sellers to enter into exchange-traded Forwards on its national electronic platform under its own regulatory framework as well as that of the Forwards Market Commission.

The electronic trading platform enables participants from the commodity value chain to trade with a counter-party from any part of the country. NCDEX's robust risk management practices and the system of argin collection helps the farmers /participants minimise counter - party default risk by assuring compensation guarantee to the extent of margin collected.

The NCDEX Edge:

- Reduction of Bilateral Agreement Risks
- Flexible Contracts
- Reduced Operating Costs
- Access to National Market Place

The exchange - traded Forward Contracts launched by NCDEX provide flexibility to buyers & sellers to customise the contract terms thus enabling the participants with diversified requirements to take part in the segment.

For instance, a sugar co-operative can negotiate pricing date, packaging, moisture content, ICUMSA value and degree of polarisation, delivery location and the mode of delivery. NCDEX offers multiple delivery options including giving or taking delivery at truck point within 100 km of agreed location; delivery through NCDEX - approved warehouses through COMTRACK, or direct delivery.

NCDEX's Forwards can facilitate participation in Spot, Forwards & Futures, backed by state-of-the-art technology, sound governance & risk management practices. The resulting synergies can provide accurate estimates of actual supply, demand and prices and thereby eliminate information asymmetries. This can promote more efficient production, storage, marketing & agro-processing operations to a national level from a hitherto local level.