# Exchange Traded Forwards – Flexible Quality Norms and Quality Assurance

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The appeal of an agricultural commodity, which is also its biggest challenge, is its diversity. Products vary with soil, water, grade, manure and fertilizers used, as also atmospheric variations. For a trader as well as for big buyers and sellers, this poses a huge challenge.

For large corporations that buy in bulk, ensuring standard quality is critical in a competitive marketplace. Grading, which helps classify different varieties, establishes common trade language and minimizes the need for physical checking and handling at many points. Standardisation from grading helps in seamless trading in agricultural commodities.

Yet, standardised quality specifications of futures trade often do not fit into an individual's physical market requirements. This not only keeps much of the physical trade outside trading and delivery domain of an exchange but also restricts them from hedging their price risks on the exchange fully or partially.

Exchange traded forwards available on the national online trading platform of NCDEX are set to overcome these constraints while improving trading efficiency and retaining the quality standards. By using 'bid & offer' parameters these forwards enable parties to customise quality specifications of the underlying commodity as per their needs. They also provide for 'fixed parameters' that are a set of minimum quality norms stipulated by the exchange, and which cannot be compromised.

For instance, while entering into 'exchange traded forward contracts' for sugar, a buyer and a seller can mutually decide upon the grade of sugar, packaging material, moisture level, ICUMSA value, and the crop year. Yet, with regard to polarisation, sulphur content and grain size, sellers are mandated to fulfil NCDEX stipulated norms.

It also offers an option of sampling and assaying of commodity to the buyer. Assaying is a process to analyse the physical sample of a product to determine its composition and chemical properties and helps reduce risks pertaining to quality, human error and manipulation. While a buyer can lift the material without assaying, he can also opt for assaying even if he gets goods under COMTRACK®.

**The NCDEX Edge:**
• Reduction of Bilateral Agreement Risks • Flexible Contracts • Reduced Operating Costs • Access to National Market Place

As exchange traded forwards are executed under the regulatory framework of the exchange, they help minimise the risks arising on account of buyer or seller's default due to quality*. Margin mechanism available on the exchange assures compensation guarantee to the extent of the margin collected. This, in turn, increases trading convenience by enhancing confidence to trade, especially with unknown counter-parties.

FOOTNOTE
***Seller's default:** When the seller fails to provide the commodity of the quality mutually agreed upon or when the quality of goods provided by him does not match with the one mutually agreed upon.

**Buyer's default:** If the assayer s report indicates that the goods are acceptable as per the quality basis under contract specs, the buyer needs to lift the goods. If he fails to do so, it is buyer's default.