



**DEPARTMENT OF CONSUMER AFFAIRS, GOVERNMENT OF INDIA
FORWARD MARKETS COMMISSION**

DO'S AND DON'TS FOR DEALING IN COMMODITY FUTURES

**BEFORE PARTICIPATING IN THE COMMODITY FUTURES MARKET
PLEASE SEEK ANSWERS TO THE FOLLOWING QUESTIONS**

1. Why am I participating in the Commodity Futures Markets? (As a hedger, trader or arbitrageur ?)	6. Have I read the commodity contract fully and understood its implication on my position?
2. What should be my extent of participation?	7. How liquid is the contract I wish to participate in?
3. Would it make any difference if I do not participate?	8. What would be my exit cost/ Can I close out my position whenever I want? (i.e., Is the contract liquid enough to permit easy exit?)
4. What is my risk bearing capacity?	9. Do I have adequate access to information about the fundamentals of the commodity that I wish to trade?
5. How long should I hold my positions?	10. Does the product on the exchange serve my purpose of trading in the market?

Dealing in Commodity Futures	
DO'S	DON'TS
1. Read the FMC/ Exchange guidelines and circulars available on the websites of the Exchanges	1. Do not fall prey to market rumors and tips
2. Refer to Forward Contracts (Regulation) Act {FC(R)A}, 1952 before dealing in futures trading in commodities.	2. Do not act based on bull/bear run of market sentiment in the market.

Dealing with Member (Commodity Broker) of the Commodity Exchanges	
DO'S	DON'TS
1. Trade only through Exchange Registered Member and always insist on contract note against a confirmed trade.	1. Do not undertake off-market transactions in commodities. It is both risky and illegal.
2. Insist on filling up a 'Know Your Client' (KYC) Form and on getting a Unique Client ID.	2. Do not deal with unregistered intermediaries. Ask for/Know about their regulatory approval reference (UMC) before trading through the intermediary. The list of Members is available on the website of the respective Exchanges.

Dealing in Commodity Futures	
DO'S	DON'TS
3. Go through all rules, regulations, bye-laws and circulars issued by the Exchange available on the websites of the respective exchange.	3. Do not go by any explicit/ implicit promise made by analysts/ advisors/ experts/ market intermediary until convinced.
4. Read commodity contract specifications and the concerned circulars carefully including recent modifications, if any .	4. Do not go by the reports/ predictions made in various print and electronic media without verification.
5. Understand the commodity and price impacting parameters before participating in commodity futures.	5. Do not trade in any commodity without knowing the risk and rewards associated with it.
6. Study historical and seasonal price movement.	6. Do not deal with any intermediary not registered with the exchange on which you wish to trade.
7. Keep track of Government Policy announcements	7. Do not trade based on long-term price prospects of the commodity without understanding your short-term risk bearing capacity
8. Be aware of the risks associated with your positions in the market and your ability to respond to margin calls on them as unfavourable price movements result into higher margin requirement.	8. Do not let risks against your positions accumulate in the market beyond your capacity to bear them.

Dealing with Member (Commodity Broker) of the Commodity Exchanges	
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3. Insist on reading and signing a 'Risk Disclosure Agreement'.	3. Do not get carried away by alluring advertisements, rumours, hot tips or the promise of assured returns by the Member. As the Portfolio Management Schemes (PMS) are not available in commodity markets, the promise of returns by any Member is illegal..
4. Go through details of Client Member Trading Agreement to know your rights and duties vis-à-vis those of Member-Brokers.	4. Do not start trading before reading and understanding the Risk Disclosure Agreement.
5. Ask all relevant questions and clear your doubts with your Member before transacting.	5. Do not neglect to confirm in writing, orders for higher value given over phone
6. Pay required margin in time and understand the consequences of non payment.	6. Do not forget to take note of risks involved in the commodity trading. . .
7. Obtain receipt for collateral security deposited with Trading Member (TM) towards margin.	7. Do not delay payment/ deliveries of commodities to Member.
8. State clearly to the Member who will be placing orders on your behalf.	8. Do not give authority to the Member of the Exchange to make 'sale' and 'purchase' decisions on your behalf and also <u>do not surrender the right of receiving contract notes on a daily basis.</u> Portfolio Management Schemes (PMS) are not allowed in commodity market.

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9. Collect/pay mark-to- market margins on your futures position on a daily basis from/to your Trading Member as per the Exchange rules and regulations	9. Do not miss on keeping track of your financial and contractual obligations against your positions
10. Understand the Delivery and Settlement Procedure.	
11. Comply with taxation and other state regulatory issues relating to sale/ delivery and stamp duty.	
12. Apply your own prudent judgment while trading in a commodity.	
13. In case of any doubt/problem contact the Exchange help desk.	
14. Participate in the commodity derivatives markets after analyzing the facts and doing due diligence. Please reflect your own price views while	

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9. While trading through an Authorized Person ensure that a duly signed contract note has` been issued by the Member for every executed trade, highlighting the details of the trade along with your Unique Client-ID. FMC's circular dated 28.7.2010 on Authorised Persons maybe referred for details.	9. Do not accept unsigned/ duplicate contract note/ confirmation memo.
10. Ensure that the Contract Note contains all the relevant information, such as Member Registration Number, Order No., Order Date, Order time, Trade No., Trade Rate, Quantity, Arbitration Clause.	10. Do not accept contract note/ confirmation memo signed by any unauthorized person.
11. Insist on a bill for every settlement.	
12. Insist on periodical statement of your ledger account.	
13. Reconcile the statement of transactions from the Member and the holding statement of Depository Participant after every transaction..	
14. Deliver the commodities in case of sale or pay the money in case of purchase within the time prescribed.	

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participating in these markets and not of the others.			
		15 Cross check the genuineness of the trades carried out through trade verification facility available on the website of the respective Exchange.	

Rights of the Client	
<ul style="list-style-type: none"> In case of any dispute with a Member regarding the trades done on a Commodity Exchange, the client can contact the Exchange for suitable redressal as per the byelaws of the Exchange including use of arbitration mechanism of the Exchange. 	
<ul style="list-style-type: none"> All rights are available to a client for all exchange-traded transactions for which the client must have a duly authorized contract note of the broker. 	
<ul style="list-style-type: none"> Approach the Exchange Management or the FMC for redressal of the grievances. 	

BEWARE OF THE FOLLOWING

- Any person who promises you high returns in a short span of time. No schemes for assured returns are allowed in commodity markets.
- Dabba' (Bucket Shops). Dabba trading (trading outside the exchange platform) is illegal, punishable under law and highly risky.
- Advices through television or print media. They are not the opinion of the channel or publisher but of the the individual speaker/writer.
- SMS's/Emails/rumours/and trading tips. Please do not be lured by such sources of information promising quick gains and unrealistic high returns.
- Advice available on Websites/Blogs/astrology predictions or /Newspaper. Use of such unconfirmed information exposes one to undue risk.

Forward Markets Commission (FMC) is the regulator of the Commodity Futures Market.
For more information on FMC, visit www.fmc.gov.in
or call 91-22-22795300 or contact.fmc@nic.in