Spot Price Polling

In India there is no effective mechanism or real time spot price information of commodities. The only governmental agency which collects and disseminates spot prices across the country is Agmarknet. It collects the post-trade mandi data, but such information is not disseminated real time. Moreover, such prices do not relate to a pre-determined quality specification on a consistent basis. The data disseminated is based on the commodity traded on the day in the market with the range of prices within which trades take place.

The Exchange on the other hand requires spot price information of the current day and for the commodity quality specifications as stipulated for the futures contracts being traded on its platform. The Exchange utilizes the spot price information at the basis centre of the underlying commodity being traded on its platform for the purpose of determination of the Final Settlement Price (FSP).

The availability of spot price data provides regular information about the indicative spot prices to the trading members to take a view on the futures market and vice versa. In absence of such information, the trading members may find it difficult to keep track of the underlying markets at various geographical locations across the country. The information also helps the Exchange to analyse the price data concurrently to make meaningful analysis of price movement in the futures market and helps in the market surveillance function.

Considering the above, the price polling and dissemination approach adopted by the national commodity exchanges has helped address the issues at hand. Key positives of the same are given below.

Price Transparency**:**

At the commencement of the operations of the Commodity exchanges, the conditions wherein the physical markets operated were extremely opaque. The price visibility of commodities traded in the physical market was restricted to a few participants within the trade and limited to the immediate geography. Further, these prices were not available on a real time basis from any government or private agencies for the reference of market participants through the country. National level exchanges had the challenge to overcome these shortcomings in order to transmit a fair and transparent price prevailing in the spot/physical market to enable participants to take a price view while dealing in futures contracts.

Price Tracking**:**

It is important for a participant on the futures market to know the price movement in the futures contract vis-à-vis the movement in the underlying. Tracking this 'Basis' gives the participant the ability to justify the pricing of the futures contract. In a scenario wherein the underlying market was both opaque and heterogeneous in nature, the spot price polling mechanism gave the market a firm pivot on which the futures contracts anchored.

Final Settlement Price**:**

Most of the contracts traded in the initial years were either 'Intention Matching' or 'Sellers Option' contracts. In these contracts the threat of delivery was limited, resulting in most of these contracts being cash settled. The Final Settlement Price (price at which the residual Open Interest upon the expiry of the contract was settled) was therefore critical to the smooth functioning of these markets.

In a scenario wherein the underlying spot markets are transparent, liquid and homogeneous in nature, it is easy to settle futures contracts on the traded prices of these underlying markets. For example, in the equity markets, as the underlying assets (in both cash as well as futures segment) are traded on the same platform, the futures contracts are settled on the traded prices of these assets. However, in the commodity markets, the underlying spot/physical markets are dispersed, the underlying asset itself has high quality variations and need not be uniformly traded throughout the year. In this scenario, it was felt that the process of polling from across section of physical participants of the price for a given standard grade of a commodity at a given time of the day would be best suited to determine the final settlement price.

Polling process

Polling is process of eliciting information from a cross section of market players about the prevailing spot price of the commodity in the market. Primarily the data on spot prices is captured at the identified basis centres which are also termed as the primary centre of a commodity, by inviting price quotes from the empanelled polling participants representing the value chain comprising various user class viz. traders/ brokers, processors, importers/ exporters and users. Active players in the market belonging to different segments in the value chain are chosen as polling participants to ensure that they are aware of the prevailing prices.

Methodology

The Exchange has put in place scientific processes for polling of spot prices and follows the same meticulously in a consistent manner. Any movement in Spot prices is separately checked by the Exchange officials who are in constant touch with the market participants with a view to cross-check the polled prices.

The Exchange has developed a robust and consistent spot polling mechanism where the prices are polled from a number of physical market participants. The method employed for calculating/arriving at the final settlement price is an integral part of the contract specifications of the commodity which is readily available on the Exchange website.

The methodology is detailed below.

1. Polling is the process of eliciting information from a cross section of market players about the prevailing price of the commodity having specifications as those of the contract traded on the exchange in the market.

2. The Exchange conducts polling for collection of spot prices from various centers including all Basis Centres and Additional Delivery Centres spread across the country. The prices of the underlying commodity are polled and disseminated to the Market for following three basic reasons:

    a. Enable members to take a view on the future prices
    b. Enable Exchange to study price movements and aid surveillance
    c. To determine the Final Settlement price on the day of expiry of the contract.

3. The price for a commodity at a center is polled from a universe of empanelled Polling Participants. Quotes collected from each Polling Participant are subjected to the statistical process of bootstrapping to arrive at the final benchmark price.

4. The entire process is automated and is completed without manual intervention.

5. The Exchange regularly reviews the panel of polling participants with a view to strengthen the process by adding more participants and also removing those which are inactive. The polling process also entails excluding polling participants having significant positions in the futures contracts to cancel out bias in the polling process. New polling participants, when added, are

apprised of the contract specifications and are monitored initially to ensure that the quotes are in keeping with the underlying market realities.

6. The Exchange also closely interacts with the physical market participants during mandi visits to ascertain the fundamental factors relating to the commodity and to verify that the spot prices disseminated by the Exchange are in keeping with the underlying market.

7. In case of any divergence the Exchange, after careful consideration and in consultation with the regulatory authority's initiates steps/ measures to protect the integrity of the price discovery function of the futures contracts traded on the Exchange.

8. The Exchange also verifies, from time to time, other elements such as mandi tax, local and government taxes, processing charges, labour, transportation costs, etc. to ensure that the polled prices correctly reflect the practices and conventions followed in the underlying physical markets which are relevant to the traded commodity.