CHAPTER – VI
PROCEDURE FOR TRADING IN COMMODITIES MARKET

6.1 WORKING OF COMMODITY MARKET.

There are two kinds of trades in commodities. The first is the spot trade, in which one pays cash and carries away the goods. The seconds is futures trade. The underpinning for futures is the warehouse receipt. A person deposits certain amount of say, good X in a warehouse and gets a warehouses receipt. Which allows him to ask for physical delivery of the good from the warehouse. But someone trading in commodity futures need not necessarily posses such a receipt to strike a deal. A person can buy or sale a commodity future on an exchange based on his expectation of where the price will go. Futures have something called on expiry date, by when the buyer or seller either closes (square off) his account or give/take delivery of the commodity. The broker maintains an account all dealing parties in which the daily profit or loss due to changes in future price is recorded. Squiring off is done by taking on opposite contract so that the outstanding is nil.

For commodity futures to work, the seller should be able to deposit the commodity at warehouse nearest to him and collect the warehouse receipt. The buyer should be able to take physical delivery at a location of his choice on presenting the warehouse receipt. But at present in India very few warehouses provide delivery for specific commodities.

Today commodity trading system is fully computerized. Traders need not visit a commodity market to speculate. With online commodity trading they could sit in the confines of their home or office and call the shots. The commodity trading system consists of certain prescribed steps or stages as follows:

1. Trading :- At this stage the following is the system implemented-
   6. Position limits
2. Clearing :- This stage has following system in place-
3. Settlement: - This stage has following system followed as follows:
   1. Marking to market
   2. Receipts and Payments
   3. Reporting
   4. Delivery upon expiration or maturity.

6.2 PROCEDURE TO INVEST IN A COMMODITY MARKET

1. An investor can transact a business with the approved clearing member of 
   Commodity Exchanges. The investor can ask for the details from the Commodity 
   Exchanges about the list of approved members.

2. When investor approaches Clearing Member, the member will ask for identity 
   proof. For which Xerox copy of any one of the following can be given

   a) PAN card number
   b) Driving License
   C) Vote ID
   d) Passport

3. The front page of Bank Pass Book and a canceled cheque of a concerned bank. 
   Otherwise the Bank Statement containing details can be given.

4. In order to ascertain the address of investor, the clearing member will insist on 
   Xerox copy of Ration Card or the Pass Book/ Bank Statement the address of investor is 
   given.

5. The clearing member will ask the client to sign
   a) Know your client Form   b) Risk Discloser Document
6.3 THE FOLLOWING FACTORS SHOULD BE CONFIRMED WHILE SELECTING A COMMODITY BROKER FOR INVESTMENT:

- Net worth of the broker of brokerage form.
- The clientele.
- The number of franchises/branches.
- The market credibility.
- The references.
- The kind of service provided - back office functioning being most important.
- Credit facility.
- The research team.

These are amongst the most important factors to calculate the credibility of commodity broker.

6.4 BROKER:

The broker is essentially a person of firm that liaisons between individuals traders and the commodity exchanges. In other words the Commodity Broker is the member of Commodity Exchange, having direct connection with the exchange to carry out all trades legally. He is also known as the authorized dealer.

COMMODITY TRADER/BROKER OF COMMODITY EXCHANGE:

To become a commodity trader one needs to complete certain legal and binding obligations. There is routine process followed, which is stated by a unit of government that lays down the laws and acts with regards to commodity trading. A broker to gain such a membership in exchange.

To become a member of Commodity Exchange the broker of brokerage firm should have net worth amounting to Rs. 50 Lakh. This sum has been determined by Multi Commodity Exchange.
MEMBER OF COMMODITY EXCHANGE:

To become a member of Commodity Exchange the person should comply with the following Eligibility Criteria.

1. He should be Citizen of India.
2. He should have completes 21 years of his age.
3. He should be Graduate or having equivalent qualification.
4. He should not be bankrupt.
5. He has not been debarred from trading in Commodities by statutory/regulatory authority,

There are following three types of Memberships of Commodity Exchanges.

TRADING-CUM-CLEARING MEMBER (TCM):

A TCM is entitled to trade on his own account as well as on account of his clients and clear and settle trade himself. A sole proprietor, partnership firm, a joint Hindu Undivided Family (HUF), a corporate entity, a co-operative society, a public sector organization or any other Government or Non-Government entity can become a TCM.

There are two types of TCM, TCM-1 and TCM-2. TCM-1 refers to transferable non-deposit based memberships and TCM-2 refers to non-transferable deposit based memberships.

A person desired to register as TCM is required to submit an application as per the format prescribed under the business rules, along with all enclosures, fee and other documents specified therein. He is required to go through interview by Membership Admission Committee and committee is also empowered to frame rules or criteria relating to selection or rejection of a member.

INSTITUTIONAL TRADING-CUM-CLEARING MEMBER (ITCM):

Only on institution/Corporate can be admitted by the Exchange as a member, conferring upon them the right to trade and clear through the clearing house of exchange as an Institutional Trading-Cum-Clearing Member (ITCM). The member may be allowed
to make deals for himself as well as on behalf of his clients and clear and settle such deals. Trading Members who would be registered as trading members.

PROFESSIONAL CLEARING MEMBER (PCM):

A PCM entitled to clear and settle trades executed by other members of the exchange. A corporate entity and an institution only can apply for PCM. The member would be allowed to clear and settle trades of such members of the Exchange who choose to clear and settle their trades through such PCM.

MEMBERSHIP DETAILS FOR NCDEX:

TABLE 6.1

Trading-cum-clearing Member: - TCM

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>NCDEX: TCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest Free Cash Security Deposit</td>
<td>15.00 Lakhs</td>
</tr>
<tr>
<td>2</td>
<td>Collateral Security Deposit</td>
<td>15.00 Lakhs</td>
</tr>
<tr>
<td>3</td>
<td>Admission Fee</td>
<td>5.00 Lakhs</td>
</tr>
<tr>
<td>4</td>
<td>Annual Membership Fees</td>
<td>0.50 Lakhs</td>
</tr>
<tr>
<td>5</td>
<td>Advance Minimum Transaction Charges</td>
<td>0.50 Lakhs</td>
</tr>
<tr>
<td>6</td>
<td>Net worth Requirement</td>
<td>50.00 Lakhs</td>
</tr>
</tbody>
</table>

Sources: [www.ncdex.com](http://www.ncdex.com)
TABLE -6.2

Professional Clearing Membership: - PCM

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>NCDEX: PCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest Free Cash Security Deposit</td>
<td>25.00 Lakhs</td>
</tr>
<tr>
<td>2</td>
<td>Collateral Security Deposit</td>
<td>25.00 Lakhs</td>
</tr>
<tr>
<td>3</td>
<td>Annual Subscription Charges</td>
<td>1.00 Lakhs</td>
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<tr>
<td>4</td>
<td>Advance Minimum Transaction Charges</td>
<td>1.00 Lakhs</td>
</tr>
<tr>
<td>5</td>
<td>Net worth Requirement</td>
<td>5000.00 Lakhs</td>
</tr>
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</table>

Sources: [www.ncdex.com](http://www.ncdex.com)

TABLE – 6.3

Membership Details for MCX:

<table>
<thead>
<tr>
<th>Category</th>
<th>Admission Fees</th>
<th>Initial Security Deposit</th>
<th>Annual subscription</th>
<th>Net worth Criteria</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td>Corporate</td>
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<tr>
<td>TCM-1</td>
<td>Rs.10Lakhs</td>
<td>Rs.15Lakhs</td>
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<td>Rs.50Lakhs</td>
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<tr>
<td>TCM-2</td>
<td>Rs.5Lakhs</td>
<td>Rs.50Lakhs</td>
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<tr>
<td>ITCM</td>
<td>Rs.10Lakhs</td>
<td>Rs.50Lakhs</td>
<td>Rs.50,000</td>
<td>Rs.10Lakhs</td>
</tr>
<tr>
<td>PCM</td>
<td>Nil</td>
<td>Rs.50Lakhs</td>
<td>Rs.1,00,000</td>
<td>Rs.10Lakhs</td>
</tr>
</tbody>
</table>

Sources: MCX Certified Commodity Professional Reference Material