SEC NIGERIA

SECURITIES AND EXCHANGE COMMISSION, NIGERIA

A PUBLICATION OF THE IMPLEMENTATION COMMITTEE ON NIGERIA COMMODITIES TRADING ECOSYSTEM

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NIGERIAN COMMODITIES TRADING ECOSYSTEM – What you need to Know Vol. 2

EVOLUTION OF COMMODITY TRADING MARKETS

Commodity trading history can be traced to the agricultural revolution of 8500BC during which farmers and traders fashioned a means to secure prices of commodities against price fluctuation caused by weather, conflict, and supply and demand gap. Trading evolution, excess supply and the quest of merchants to raise money while commodity was in storage formed the basis for futures agreement. The first recorded commodity futures trades occurred in the 17th century in Japan, although there is some evidence that rice may have been traded some 6,000 years ago in China.

The first contract for a future price was created in the early 1800s in the US. This forward contract allowed a buyer to pay for the commodity in advance of taking delivery of it. The Chicago Board of Trade (CBOT) was set up in 1848; trading in contracts that were standardized in terms of quantity, quality and delivery. The CBOT added soybeans contract in 1936 and has since merged with the Chicago Mercantile Exchange to form the CME Group.

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HISTORY OF COMMODITIES TRADING IN NIGERIA

Some of the modern day agricultural marketing challenges such as access to market and produce funding were also present in the colonial era and responsible for the setting up of the Produce Marketing Boards by the colonial administration. The boards were to link the peasant farmers to market at stable prices. The Marketing Boards were set up in the three existing regions between 1947 and 1963 before the Western Region was spilt into Western and Mid-Western Regions. Cocoa Marketing Board was established in 1947 in the Western Region while Cotton and Groundnut Marketing Boards were set up in the Northern Region and Palm Produce Marketing Board in the Eastern Region in 1949 (Iweze, 2014).

The Boards were set up not only for price stabilization but also to serve as a source of funds for the economic development of the regions as well as to carry out research and development principally in cocoa, cotton, groundnuts, palm products and rubber.

The commodity boards were scrapped following the liberalization of the economy under the Structural Adjustment Programme (SAP) in 1986. Ironically, commodity exporters to date, still buy cash crops on the basis of the framework developed by the commodity boards.

The Central Bank of Nigeria noticed the

COMMODITY EXCHANGES IN AFRICA

In 1861, the Egyptian Cotton Exchange was established in Alexandra and became one of the earliest commodity exchanges in the world. It played a key role in global trade, attracting users from the international community including Africa, Asia and the Americas. The exchange closed 100 years later in 1961 with the entry of the government as a player in the cotton trade.

African governments' quest to deregulate their economies and open up the financial markets in the 1990s triggered their withdrawal from commodity trading and led to the establishment of commodity exchanges in a number of African countries with varying degree of success. Uganda, Zambia, Zimbabwe, South Africa, Kenya all established commodities exchange in the 1990s.

The African Union Abuja Treaty of 1991, identified the need for an African Commodity Exchange and might have provided some awareness and push for the set - up of commodity exchanges in the continent, at the time. The concept of an African Commodity Exchange became one of the "instruments of integration" of the African Union (AU). In West Africa, there was also an attempt to create a regional exchange for food products following the adoption of the UEMOA Agricultural Policy paper by UEMOA heads of state in December 2001.

vacuum created by the abolition of Commodity Boards in 1986, advised the Federal government to establish a Commodities Exchange. There was no gainsaying that the abolition of the commodity boards affected the standards and quality of commodities particularly, export produce, as there was no strong quality control and grading agency to ensure standards of the commodities.

The intervention by the CBN was an attempt to address the consequent effect of scrapping the boards. The reason was that a commodities exchange would provide standards and grading and assume that function of the commodities board and invariably promote produce quality, particularly of exports. Obviously, while this was a major concern for the CBN, it also recognized the wider benefits of having a thriving commodity exchange in the country.

An Inter-Ministerial Technical Committee was consequently set-up in 1989 to examine the possibility of setting up a commodities exchange in the country which SEC was a part. The committee submitted its report a year later supporting the establishment of a commodity exchange. However, there was no concrete action was taken by government to do so.

Nonetheless, an unsuccessful attempt was made by FALCOMEX, a private sector initiative, to establish a commodity exchange. Other than these efforts, no other attempt was made either by government or the private sector until August 8, 2001 when the Federal Government directed the conversion of the then Abuja Stock Exchange to a Commodities Exchange vesting the Ministry of Finance with the responsibility of midwifing the conversion process.

Following the conversion of Abuja Stock Exchange to a commodities exchange, the SEC developed regulatory framework for supervision of the commodities exchange and engaged both the Bureau of Public Enterprises (BPE) and the Exchange to kick-start trading.

In 2014, SEC developed a 10-year capital market master plan to transform the Nigerian capital market. Mindful of the need to have an organized commodities market, one of the recommendations of the master plan is to develop a thriving commodities trading ecosystem.

To achieve this mandate, the SEC set up a committee consisting of major stakeholders to review and come up with recommendations and road map for implementation. These efforts are key to the development of the commodities market.

COMMODITY TRADING AND ITS IMPORTANCE

Commodity trading ecosystem can be defined as the environment within which commodities trading takes place and directly or indirectly, affects activities and development of the commodities market and the exchanges. The ecosystem is comprised of various elements, which are integral to the architecture of the market and vital to the smooth and efficient functioning of a commodity market or exchanges.

The ecosystem encompasses all spheres of the commodity trading environment such as its operations, products traded, infrastructure, logistics, traders/brokers, commodity merchants, farmers, miners, end users and other stakeholders. It also covers the legal and regulatory framework. If these elements are absent, inefficient or underdeveloped, the commodities trading ecosystem would not be functional and therefore maximum value will not be derived from its existence.

A commodities market is simply a platform for connecting buyers and sellers of commodities. It may be formal (organised) or informal (unorganised), have physical location with central trading places or virtual without a specific trading location, in which case trading

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SECURITIES AND EXCHANGE COMMISSION, NIGERIA

Commodities Trading Ecosystem Roundtable

Theme: Building a Strong Commodities Trading Ecosystem for Inclusive Economic Development

Date: Thursday, October 3, 2019 **Time:** 08:00am
Venue: Eko Hotel and Suites

NIRSAL BOA AFEX NCX FMDQ NEXIM

GEO-POLITICAL EDUCATION/ENLIGHTENMENT PROGRAM ON COMMODITIES TRADING ECOSYSTEM FOR UNIVERSITIES AND COLLEGES OF EDUCATION

The program is targeted at the states with the presence of Universities and Colleges of Agriculture and the growth of a specific commodity, which provides income and employment for a vast proportion of the population.

The pilot phase will commence in Q1 2020 in collaboration with the States Ministries of Agriculture and Rural Development to sensitize, enlighten all relevant stakeholders in the Commodities Trading Ecosystem with a view to bridging the knowledge gap and revamping this very important ecosystem to achieve its full potential.

INTERNATIONAL CONFERENCE ON THE NIGERIAN COMMODITIES MARKET

The international conference will provide a platform for high-level regulators and industry experts from both commodity exchanges, sell-side and buy-side to further discuss take-away from the Up Roundtable on Commodities Trading Ecosystem scheduled for October 2019.

The Conference is expected to bring with it international exposure for the Nigeria n Commodities Trading Ecosystem as well as showcase the opportunities abound in our market.
The Conference is coming up **Wednesday, 4th to Thursday, 5th March 2020** at the **Transcorp Hilton Hotel in Abuja.**
The theme is: **"Commodities Trading Ecosystem: Key to Diversifying the Nigerian Economy"**

can be conducted remotely by participants. Our focus is however, primarily on promoting the formal or organized market such as commodity exchanges, which provide a formal and more structured mechanism for trading in designated commodities.

Such markets provide significant value addition to economies; a reason why countries make concerted efforts to develop them. This view is buttressed by Chuck Kowalski who observed that "it's unlikely that the US would have experienced as much economic growth in the last 100 years as it has without them (commodity exchanges)."

This observation by Chuck Kowalski is perhaps also true of many other countries. This importance has seen commodity exchanges sprang up all over the world, in developed and developing countries, trading all kinds of commodities from agriculture, to metals and precious stones.

While commodities exchanges have existed for more than a century in some developed countries, they are a more recent phenomenon in developing countries. In Africa, most exchanges, with the exception of the defunct Egyptian Commodities Exchange, which was established in the 19th Century, are relatively very recent initiatives.

BENEFITS OF COMMODITY EXCHANGES

There are several reasons why commodity exchanges are important to the economy. Many of these reasons have been well documented, some of which are listed below:

1. They promote economic growth by fostering the development of both soft and hard commodities by efficiently linking commodities to industry, which could improve industrial output and profitability. A thriving commodities trading ecosystem, can therefore, facilitate industrialization of the economy and improve tax revenue;

2. They create employment and raise the living standard of the farming community as opportunities are provided for better access to market, produce marketing, access to market price and other important information, which could lead to improved produce prices for farmers, among other benefits. Since small holder farmers are usually the rural poor, improvement in their living standards can have positive impact on rural development and mitigate rural - urban migration;

3. They can serve as a platform for small holder farmers to be brought into the financial sector as they get exposed to financial services such as bank deposit and credit facilities, thereby fostering the much needed financial inclusion;

4. They engender economic diversification. This is more so for an economy like Nigeria, which is heavily dependent on a single product for its foreign exchange earnings, namely crude oil. For an essentially agrarian economy like ours, with good solid mineral deposits, developing the commodities market remains a potent way to diversify the economy away from crude oil, as well as widen the national tax base. A diversified economy will potentially diversify the export base and improve government revenue;

5. They improve the attractiveness of agribusiness and foster agricultural production as farmers and end users benefit from the use of the exchange. As value is seen and derived from the exchange, more people are likely to be drawn to agribusiness. Increased production would reduce import dependence and encourage more private investment in the agricultural sector;

6. As a platform and transparent pricing mechanism is provided for trading solid minerals, activities in this sector could go up and more investment attracted with multiplier effect on the economy;

7. Through the provision of price and other information transparency as well as better access to market, they reduce the exploitation of smallholder farmers by intermediaries. This enhances value to farmers, improves their well-being and encourages farming activities;

8. They provide rules and regulations, which bring order to the market. This in turn forces and encourages producers, including farmers, and traders to meet the ethical and quality standards of the market;

9. By efficiently linking buyers and sellers in sufficient number, commodity exchanges create liquidity and facilitate price discovery, which further bolsters commodity trading. Market information such as price, quantity and quality are regularly made available to the public which aids decisions and trades;

10. They provide a ready market for the sale of commodities and incentivise the use of storage facilities (warehouses) which can help minimize post-harvest losses;

11. Through grading and standardization of commodities, commodity exchanges promote high standards of quality thereby boosting export as confidence is strengthened in the quality of commodities exported through the exchange;

12. Commodity exchanges provide risk management tools; enabling entities hedge against possible adverse development in the future prices of commodities. Such facilities help industries plan by providing price and supply certainties. Farmers can also use the market to hedge their commodities against adverse price fluctuation;

13. They promote agricultural produce financing and development of warehouse receipts which can enables farmers including small holder farmers borrow against the commodities in the warehouse;

14. Commodity exchanges provide reliable price benchmarks for non-exchange traded markets such as the Over – The – Counter (OTC) market;

15. Through the use of warehousing, they help to ensure continuous supply of commodities regardless of the season. This guarantees raw materials for the industry at all times, reducing risk of production disruption as well as storage and production cost;

16. Commodity exchanges can also assist in moderating consumer price because of their ability to drive up agricultural production;

17. They provide opportunity for securitization of commodities through the warehouse receipt system, which can also be used as collateral to unlock finance from financial institutions;

18. They provide opportunities for investment in the commodities value chain such as warehousing, assaying services, brokerage and logistics;

19 They promote the development of derivative markets as derivative instruments with commodities as the underlying instruments are developed with the attendant benefits such as permitting farmers and others to hedge their investments; and finally

20 A thriving commodity exchange can contribute to moderating and reducing illegal mining of solid mineral products as the exchange tracks and records the origin (source) of all commodities traded on its platform.

LAGOS COMMODITIES
& FUTURES EXCHANGE

LAGOS COMMODITIES AND FUTURES EXCHANGE:

Our Evolution as a Catalyst in the Nigerian Commodities Eco-system

In a modest effort to contribute to the development of the Nigerian economy, the Association of Securities Dealing Houses of Nigeria (ASHON), conceived and promoted the establishment of the Lagos Commodities and Futures Exchange which was licensed by SEC via their letter dated 17th June, 2019 with effect from 14th June, 2019 to trade on four asset classes namely Agricultural Commodities, Solid Minerals, Oil & Gas and Currencies.

Lagos Commodities and Futures Exchange (LCFE) is a platform where commodity-linked contracts are traded on the basis of rules and procedures which we determine subject to SEC rules and Investments and Securities Act (ISA), 2007.

As we are poised to develop the Nigerian Commodities eco-system by helping farmers to enhance their access to markets and expand their risk management capacity by reducing their exposure to price fluctuation; production risks and also strengthen their bargaining power.

OPERATIONS

We have established a befitting and world standard trading floor which will serve as a platform for trading by brokers and other market players.

The trading floor is an octagonal area where the trades will take place. The Dealing member firms will also be able to trade from remote locations hence our FIX protocol. Operating during regular business hours, LCFE will open its platform for registered floor traders who are licensed to trade in particular asset classes to trade on different commodity contracts.

Trades are made on the trading platform using the trading engine by bidding or offering a price and quantity of contracts, depending on the intention to buy (bid) or sell (offer).

Through our zero default policy, fast and efficient Clearing and Settlement will be achieved through the partnership between our CSD and settlement except in cases of illegal activities. It establishes the net obligations of each member, informs the members of their daily net obligations and transfers cash funds and commodity ownership among Investors trading through Dealing member firms. Currently, LCFE is

working with select banks who will act as settlement banks.

LCFE will through its technology partners and certification agents make available services such as sampling, grading, weighing and certifying of the Commodities coming to each warehouse or storage unit using international standard equipment to determined established standards.

We understand that making optimal decisions in trading requires promptly seeing and acting on the interplay between market demand, capacity availability and the buyer/seller's existing commitments. By understanding the trade-offs across a full portfolio of contracts,

we have engaged efficient logistic companies to deal with the demand and supply aspect of trades carried out using our platform.

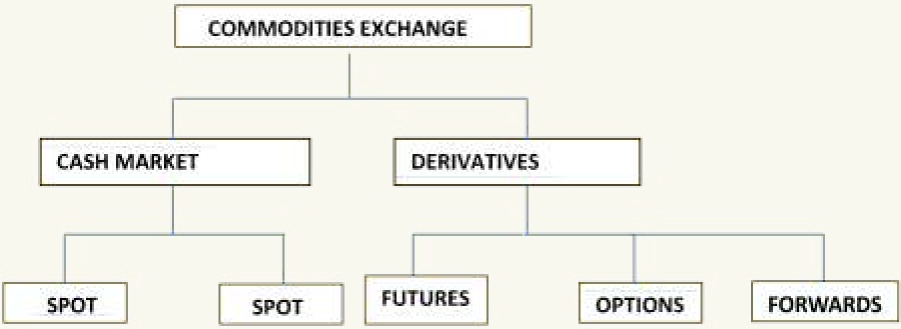
OUR TECHNOLOGY

The activities of the Exchange are primarily driven by top notch technology. We have set the bar to meet up with international standards. Hence, we have installed a world class trade matching engine that trades and matches multi-asset classes. Successful demonstrations of trades have been conducted from initiation to settlement of trade by the Settlement bank and we are preparing for the official inauguration of our Exchange. LCFE has also commenced with engagement of the Fintech ecosystem for financial inclusion.

Types of Commodities Market

Commodities market can be broadly classified into the Cash or Spot Market and the Derivatives Market (see figure 1). In the cash market, transactions are conducted for immediate delivery of physical commodities or securities while in the derivative market delivery is at a future date.

The derivative market can be broadly categorized into the forward and futures markets. The forward market trades in contracts of commodities and financial instruments which are for future delivery but customized to the specifications of the transaction parties. They are traded over-the-counter and not on an exchange.



In other words, a derivatives commodities market deals in financial contract between parties, which is derived from ascertaining the value of an underlying commodity. Because the derivative market relies on the price of the underlying market, it is essential that a strong cash (spot) market exists prior to the introduction of derivatives.

In the futures market, buyers and sellers agree on the quality and quantity of a specified commodity to be delivered at an agreed price and date in future. In the options segment, parties enter into contract that confers the right, not the obligation, of a buyer to buy or sell a given commodity at a particular price for delivery on or before a given period.

A major distinction between the cash and derivatives commodities market is that transactions in the cash market are usually carried out by buyers who have immediate use for the commodity purchased while transactions in the derivatives market do not often result in physical delivery as they can be offset before the delivery date.

A. Market Summary

In the month of August, commodities traded in a similar fashion on the AFEX commodities exchange and spot market. Prices of soybeans and paddy rice witnessed declines on both markets while maize gained 8.88% on the exchange.

As expected, a wind down of trading activities by major buyers and early harvest in regions with early rains triggered a decline in the prices of commodities in major source markets across the country.

Furthermore, price volatility has improved month-on-month for all three commodities in the physical markets while increasing on the exchange.

Exchange executed prices for the month under review were generally lower than the physical markets, regardless of the higher volatility which granted the physical markets comparatively more expensive but stable trading prices to commodity buyers.

In addition, the AFEX exchange offered more competitive prices when compared to international prices in August.

B. Market Perspective

Physical Markets

The average national market survey price for Maize and Soybeans sustained a 7-month decline from February closely followed by Paddy rice which saw a three month price decline.

Market price volatility declined across all three commodity prices with Soybeans experiencing a 5-month consistent decline in price volatility. This has expectedly resulted in Soy prices being the most stable commodity comparatively this season.

The change in price volatility was most notable for Paddy at 8% (▼88%) by a wide margin. The survey price volatility for Maize experienced a decline to 8% (▼16%) while Soybeans' price volatility declined to 6% (▼2%).

AFEX Commodities Exchange

The Exchange traded price offered the best possible average price for Maize, Soybeans and Paddy in addition to more stable prices for Paddy rice in August, 2019. The average executed prices on the Exchange were lower than MSP Maize and Soybeans by -7.1% and 2.8% respectively.

Price volatility (PV) increased for Maize to 9% (▲3%) while Soybeans and Paddy rice price volatility increased from 0%, the lowest S -T-D volatility to 2 0% (▲20%) and 2 % (▲2%).

Market Survey Prices

	Max	Min	Average	M-o-M %Δ
Maize	108.00	70.00	89.92	(1.08) ↓
Soybean	253.00	84.00	135.78	(2.17) ↓
Paddy rice	139.71	94.67	118.63	(27.39) ↓

Exchange Executed Prices

	Max	Min	Average	M-o-M %Δ
Maize	88.00	80.00	83.55	8.88 ↑
Soybean	132.00	132.00	132.00	(18.52) ↓
Paddy rice	125.00	125.00	125.00	(1.57) ↓

International Prices

	Max	Min	Average	M-o-M %Δ
Maize	103.63	86.82	91.13	(10.23) ↓
Soybean	167.21	148.43	163.91	1.60 ↑
Paddy rice	289.00	116.97	181.64	0.42 ↑

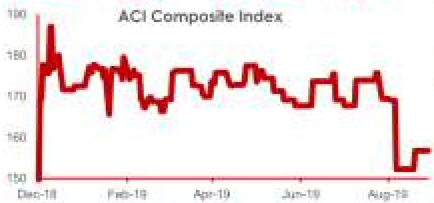
International Markets

World supply for Maize Increased as a direct result of harvests in the USA which is the largest producer. However, there was a decline in the FAO cereal index due to seasonal tightness from the northern hemisphere. On the other hand, export availability was not sufficient to cause a price decline for Soybeans and Paddy rice as Asian demand for Soybean remains high and weather concerns are a current issue in countries which produce paddy rice in Asia.

C. Composite Price Index Monitor

Composite Index

The AFEX Commodities Index Composite opened at a value of 169.4 points and had a month average value of 157.8points, 12.9points (-7.6%) below July to close at 156.8points at the end of the month. The season-to-date [1] performance of the ACI Composite at the last trading day of the month was positive, closing 8.9points above the index opening at the beginning of the season.



The year-on-year (seasonality) performance experienced 11.0points (+7.5%) difference against August. 2018. The AFEX Composite Index performance

Note: [1]Season; starts in December of each year; all prices in Kilogram. Index weight; Maize-58%, Paddy rice-36%, Soybean-6%, Pts: points; All executed prices inclusive of logistics cost, all prices are quoted in Naira per kilogram was driven by the performance of the positive Maize sub-inde x which had a + 0.1%-points rise month-on-month while other sub-indices were negative.

Maize Sub Index

The Maize Sub-Index opened at 155.4points, and had a month average performance of 159.2points, +0.2points (0.1%) above July and closed at value of 165.8points. The sub-index recorded a positive season-to-date performance on the last trading day of the month closing +31.1points (+23.1%) above the December index opening while the year-on-year performance experienced an 18.9%-point increase against August, 2018.

Soybean Sub-Index

The Soybean Sub -Index opened at 184.1 points, and had a month average performance of 184.6points, 41.3point s (-18.3%) below July. It close d with a value of 195.2points . It recorded a positive season-to-date performance on the last trading day of the month closing 16.3%-points above the December opening of the index. The year-on-year performance experienced an 11.3%-point increase against August, 2018.

Paddy rice Sub-Index

The Paddy rice Sub-Index opened at 125.0points and had a month average value of 125.0points, - 2.0points (-1.58%) below July to close at 125.0points at the end of the month. The sub - index recorded a positive season - to-date performance on the last trading day of the month closing 4.2%-points above the sub-index opening at the start of the season while the year-on-year

performance experienced a 4.5%-point increase against August, 2018.

EdEX – AFEX Commodities Exchange Market Capacity Development Platform

AFEX introduced a market education platform, EdEX to address the dearth of knowledge in Nigeria's commodities market. In order for AFEX to reach various audience groups and satisfy their unique education needs, the platform is designed to accommodate online trainings, digitally distributed learning materials and in -class physical workshops.

EdEX provides market players with an understanding of membership procedures, market access and trading strategies; increase capital market participation and understanding of commodities exchange and its products and services.

Training programs are targeted at Institutional and Retail investors, Brokers/ Dealers and small-holder farmers.

AFEX 2019/2020 Wet Season Input Financing Program

AFEX successfully partnered with capital market operators including Sankore Investments and Letshego Microfinance Bank to structure bilateral short-term debt securities - Input Financing Notes to help finance smallholder farmers; the Input Financing Note aims to support the agriculture ecosystem in Nigeria by providing access to financing for small-holder farmers to obtain quality inputs for production.

The notes are low- risk investments, with the issuance of these notes, there is an increased diversification of investment portfolios and creation of additional securities into the capital market.

FAQ

1. What are commodities?
Commodities are basic goods or services that can be bought and sold. Examples of commodities are maize, cocoa, rubber, bitumen, kaolin, gas, electricity, currency, interest rate, equity, stock indices etc.

2. What is a commodity market?
A commodity market is a place where commodities are bought and sold. The market may or may not be organised.

3. What is a commodity exchange?
A commodity exchange is an organized trading platform that fosters transparent and efficient trades in physical and non-physical commodities such as agricultural commodities, financial instruments and their derivatives. Trading on an exchange can either be by call over system, pit trading or by automation. Prices are matched on the commodity exchange the same way prices are matched on a stock exchange.

4. What is trading in physicals?
Trading in physicals means trading in the real commodities e.g. sugar, coffee, cocoa, soybeans, etc in exchange for immediate cash payment in the spot market. However, payment and delivery in the forward market take place at a future date.

5. What is Spot Market?
Spot market is a market for spot contracts where payment and delivery on transactions take place immediately, or within a short period of time. It is a market that does not provide any opportunity for risk containment as it relates to quality and price dispute. This market exists for commodities such as agricultural and solid mineral products, stocks, energy and currencies

6. What is Forward Market?
A forward market is an over-the-counter market for contracts that meets the buyer's requirements and sets the price of the instrument or asset for future delivery. It is used for trading foreign exchange, securities, interest rates and commodities.

A forward market is a physical market to the extent that most transactions conducted in the market end up in physical delivery. It is also a derivative market because it is only the contracts derived from the future value of the underlying assets that are traded and not the physical commodities.

7. What is a spot contract?
A spot contract is a transaction involving two or more parties for the sale and purchase of a given asset at a given price for immediate payment and delivery. Even though, payment and delivery in spot transactions are immediate, it may take up to three days to finalize the transaction in an organized market. It is pertinent to note that while spot contracts may be traded on an exchange, almost ninety five percent of spot transactions

take place outside the exchange or over the counter.

8. What is a forward contract?

A forward contract is a tailor-made derivative contract involving two or more parties agreeing to purchase and sell a given underlying asset at a given price for delivery at an agreed date in the future. The contract is always designed to suit the taste of the buyer. Most forward contracts are over the counter contracts.

9. What is a derivative?

A derivative is a financial contract between two or more parties, which is derived from the future value of an underlying asset. The underlying assets of derivatives can be commodities, debt instruments, interest rates, stock indices, money market instruments, currencies, etc.

10. What are the main types of derivatives that are available the world over?

There are basically four main types of derivatives traded today which may either be exchange traded or traded over the counter:

(i) forward contracts

(ii) futures contracts

(iii) options contracts

(iv) swap contracts

Practically, all these derivatives are exchange traded particularly in the emerging markets. However, Forward and Swap contracts are traded mostly outside the exchange in advanced economies.

11. Why trade in derivatives?

Trading in derivatives help to hedge traders' positions against adverse price movement, for risks mitigation, effective planning and income forecast.

12. What is futures contract?

A futures contract is a firm contractual agreement between a buyer and seller for a specified asset to be delivered at a given date in the future. The contract has a standard specification so both parties know exactly what is being traded. Futures contracts are exchange traded and they are not available outside the exchange. Futures contracts are speculative contracts, which hardly end up in delivery.

13. What is options contract?

An Options contract is a derivative contract that confers the right but not the obligation to buy (call options) or to sell (put options) a given asset at a specified price (strike price) for delivery on or before a given date in the future. Buying a call option means buying the right to buy and buying a put option means buying the right to sell. As you can buy the right to buy so you can sell the right to buy (i.e. sell a call) or sell the right to sell (i.e. sell a put).

14. Who can trade on a commodity exchange?

Individuals are not allowed to trade directly on a Commodity Exchange except through accredited commodity brokers who are registered members of the exchange.

15. How do I become a trading member?

Trading members are corporate citizens, which must be registered by the Corporate Affairs Commission (CAC) and the Securities and Exchange Commission. The company MEMART must permit it to engage in commodity trading among others, and the Chief Operating Officers of the company must be sufficiently proficient in commodity business. The company must have at least one qualified commodity broker who must have passed qualifying examinations of a relevant examination body.

16. Who can make use of the exchange?

Anybody that is engaged in commodity business can make use of the exchange. This includes farmers, commodity merchants, commodity exporters and agro processing companies

17. Why must major consumers of agricultural produce make use of a commodity exchange in sourcing their raw materials?

Commodity exchange promotes realistic pricing and price discovery, enhances low cost of transaction, guaranteed quality, regular supply of the required raw materials, reduction or total elimination of contract failures as trading members or brokers operate strictly according to the rules and regulations.

18. Is there any minimum quantity that one can trade on the exchange?

Yes, the minimum quantity that one can traded is one contract size

19. What determines the contract size?

The supply and demand conditions for each commodity will determine its contract size

20. Is trade default possible on an exchange?

Defaults rarely occur on an exchange

21. Can a trade on an exchange be in dispute?

Yes, but it will be resolved amicably through arbitration

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