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MCX launches EFP in 12 commodities

fe Bureau

Mumbai, Dec 1: MCX India Ltd on Tuesday started an exchange of futures for physicals (EFP) transactions in 12 commodities.

An EFP transaction is one where two parties who have agreed to a physical transaction at a future date then enter into a similar transaction in futures on the bourse.

As per market experts EFP in simple terms is defined as a futures contract provision, involving an agreement for delivery of physical product, that does not necessarily conform to contract specifications in all terms, from one market participant to another, and a associated assumption of equal and opposite futures positions by the same participants at the time of the agreement.

"This is an important step towards achieving greater integration of the commodity futures markets with the physical market and it will greatly enhance the utility of commodity futures trading for commodity value chain stakeholders," the exchange said in a release.

The facility minimises the risk of default as the exchange imposes penalties in case of a default in a futures trade, while the physical trade offers no such recourse.

To start with, MCX will be offering EFP in gold and gold mini, silver and silver mini, copper, zinc, aluminum, nickel, lead, chana, wheat and mentha Oil.

"This will provide an avenue for the traders to meet each other on a non-electronic platform. Open interest (OI) on the future contract may either increase or decrease depending upon the kind of transaction. In spite of its positives, the credit default risk remains in the transaction as it is not settled on any electronic platform guarded by any regulator," said Naveen Mathur, commodity head at Angel Broking.

Internationally, almost all benchmark commodity exchanges facilitate EFP transactions.

Many more futures positions are closed out through EFPs than through standard delivery procedures. The popularity of EFP transactions, for years, belies doubt, if any, over the possibility of its success in India.