Amendments to forward contracts Act will fuel growth: MCX chief

Kavitha Venkatraman

Chennai, Mar 30: Changes to a 59-year-old legislation could mean a new phase of life for an eight-year-old bourse.

Amendments to the Forward Contracts Regulation Act, 1952, will open up new avenues to the Financial Technologies-promoted Multi Commodity Exchange of India (MCX), which has already touched a turnover of ₹87 lakh crore in the year to December 2010. The commodity exchange will start trading in weather derivatives, freight and intangible commodities futures once the long-pending amendments are in place.

The bad news is that the amendments have been pending for close to six years. MCX has been working with experts and would be able to launch trading in freight futures and others after obtaining necessary approvals from the regulator, said Lamon Rutten, managing director and chief executive officer, MCX.



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managing director & CEO, MCX

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Speaking to *FE*, he said the amendments have been pending since 2005 in various avatars. But once they are passed and enacted in Parliament, it would throw open lot of opportunities for growth.

"To widen and deepen our commodities market for the future, policymakers need to strengthen the institutional infrastructure through market-friendly policies on taxation, enabling of institutions such as banks and mutual funds to participate in the commodity futures market, and the provision to initiate trading in options and intangible commodities," he said, adding that at present, since institutions are not permitted to participate in the commodities futures market, only retail investors and small and medium enterprises are in the field.

The amendment would also give autonomy to regulator Forward Markets Commission (FMC) and power to regulate the market effectively, he added.

He said MCX since its inception has been growing steadily. There are now about 1.3 million unique client codes and 2,100 member brokers. The number of client codes has been increasing at the rate of 33.33% every year. Key commodities traded at the exchange are gold, crude oil, copper and silver.

Talking about plan for an initial public offering, he said, "We planned for an IPO in 2008 but shelved the idea because of the market scenario. But now we are gearing up for the issue. MCX is in the final stages of preparing the paper (draft red herring prospectus)." However, he refused to give any further details on the issue, including the size.

Financial Technologies has to bring down its equity stake from the current level of 31% to 26%, as per FMC guidelines on the equity structure for the national commodity exchange, and an IPO could be one option for the promoter to pare its equity stake.

However, Rutten said the IPO may not be necessarily linked to bringing down FT's stake in MCX.