Budget 2015-16: Expect commodity transaction tax to be removed, says MCX

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MCX is hoping that the commodity transaction tax will be removed in the upcoming Union Budget, according to PK Singhal, Joint Managing Director .

In an interview with CNBC-TV18, Singhal says Taiwan is the only other country which levies a CTT.

He says commodity trading volumes have come down significantly since the imposition of CTT, and this is also leading to grey market transactions in which the government gets no revenue at all.

Average daily turnover on MCX has fallen from Rs 50,000 crore to Rs 30,000 crore since CTT was introduced, Singhal says.

MCX has regained the market share it lost in the aftermath of the scam at NSEL, Singhal says.

He feels the shifting of the Forwards Market Commission to the Finance Ministry from the Consumer Affairs Ministry is a positive step.

Below is the transcript of PK Singhal's interview with CNBC-TV18's Latha Venkatesh and Sonia Shenoy.

Latha: The prime purpose of getting you is to ask you what you are expecting from the Budget for your trade.

A: If you ask me about expectation then our first basic expectation from the Budget is finance bill - either the Commodities Transaction Tax (CTT) is removed or it is reduced. However, world over nowhere other than Taiwan there is any transaction tax on commodity futures and after the imposition of transaction tax on commodity futures the volumes have fallen down. It is not a question of volume because basically the hedging efficiency has lost and out of top five exchanges in the commodity futures markets in the world three are in China.

The present vision of our government is to make 'Make in India' story successful and for that you need a good hedging platform and that hedging platform is not available for small and medium enterprises (SMEs). Government has rightly exempted agri commodities from CTT but somehow there is a necessity to revisit the CTT on bullion as well as base metal at least because before the imposition of CTT the impact cost in Indian MCX bullion contract was lower than CME. So after the imposition of CTT the cost of transaction has increased manifold. Exchanges are charging Rs 183 per crore as a transaction cost as against that CTT

is Rs 1,000 per crore on the sales side which results into the increase in the impact cost from Rs 183 to Rs 683 per crore.

I think nowhere there is a tax where more than what you are paying to the exchange as a transaction cost you are paying by way of tax and this tax is basically not necessary.

Sonia: Can you give us a sense of how much the volumes have fallen because of the imposition of CTT?

A: Yes, I can give you a very clear sense. In financial year 2011-12 and 2012-13 and as well as prior to CTT imposition i.e. 2013-14 the volume in MCX – I can tell you about MCX because almost 100 percent volume in base metal bullion and energy takes place in MCX. It was in the range of 52,000 to 55,000 crore per day on single side which after imposition of CTT was reduced to about 30,000 crore. So you can understand how much volume fall has taken place and after that there was National Spot Exchange Limited (NSEL) problem and that is a different issue. So, those volumes fall which was due to NSEL issue has come back. Now we are again having same market share, but you see in agri commodities there is no CTT. Even then there is not much increase in agri commodity volume because you know there are lakh of SMEs and as far as our gold contract is concerned you ask anybody even a small jeweller to the biggest jeweller or exporter in jewellery they hedge on our exchange.

Latha: Any other expectations, have you had conversation with the ministry. You have seen the movement of FMC to the finance ministry from the consumer affairs ministry and now possibly the eventual merger into Securities and Exchange Board of India (SEBI) as well. Is the longer term terrain in which you fight much cleaner now. Are you expecting therefore better business?

A: There are two issues. One issue is very relevant which is most necessary. As per the Nelson report prior to CTT it says that the 'dabba trading' or bucket shops volume is three times of the official volume in the exchanges and this bucket shops or dabba trading is all illegal trades. It happens in cash with no audit trail. So it is one of the biggest damage the country has because it is all black money transaction and after imposition of CTT because the cost of transaction has increased as per the market sources it is now about 10 times of the exchange volume.

So, FMC presently in the present avatar does not have any infrastructure, they don't have manpower, they don't have any raid and panel provisions to take action against the dabba traders. So the biggest benefit in case the merger of FMC with SEBI takes place then that power will come, but I have my own doubts about whether the merger will be helpful because commodity basically other than gold all the other commodities are consumable and it is not asset class. Base metal is consumable, energy is consumable.

So basically I don't think SEBI has a bandwidth or the merger will be the right step but at least if nothing is happening, people make compromise. They think, if FCR is not passed at least it is better that the regulator will have a strong panel action.

However, one thing I fully agree that shifting of FMC from the ministry of consumer affair to the Finance Minister was a very positive step and it was basically because finance ministry that way is more responsive and I am not saying that consumer affair ministry was not responsible but the point is finance ministry is more clear about what is happening abroad in the commodity futures trade or securities market, so they are more updated.