Expect options trade in a year; SEBI-FMC merger to improve commodity futures market governance: PK Singhal, MCX

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In an interview with ET Now, P K Singhal, Joint Managing Director, MCX shares his views on the likely SEBI-FMC merger. Excerpts:

ET Now: How does the Sebi-FMC merger impact the business at MCX?

P K Singhal: Actually, the regulator has lot of power and, at present, the brokers of the commodity exchanges are not properly regulated. The present regulator Forward markets Commission did not have any penal powers to take action against the wrongdoers. There is no broker regulations in FMC also because FCRA did not have any provisions. Once SEBI becomes a regulator, all the fineprint we are waiting for will happen. From earlier media reports as well as from the statement of SEBI Chairman, all these brokers will be registered and governed by the SEBI broker regulations already in place. It will definitely improve the governance of the commodity futures market. That is definite.

Since SEBI has powers to raid and take actions against the wrongdoers, we expect dabba trading, which is common in the commodity future market, to go down. Prior to CTT in 2013, there was a Nielsen report which said that dabba trading is at least three times the official trade. Subsequent to CTT, most of the transaction has further increased. So dabba trading is very much rampant.

People have their own software from where they are trading through so many sources. Dabba trading is happening, especially, in gold, because in gold, there are two issues. In addition to CTT, there is smuggled gold also. So, people who need the gold, because of the import restriction, go to the dabba. We expect that there will be some terrific changes in the development of commodity market. In a year or so, we expect that option trade will be allowed. This is going to be very beneficial for farmers. We expect a lot of good things to happen in the next one-two years.

ET Now: Do you think post the merger, commodity markets will be opened for institutional investors, especially for foreign institutional investors and global hedge funds?

P K Singhal: The recommendation of earlier standing committee of ministry of consumer affairs has very clearly given a roadmap. In the media there are a lot of guesses about foreign institutions being allowed to trade. However, if you see the Standing Committee's recommendation of the earlier ministry of consumer affairs, you will find that they have given a caution of opening this market for foreign institutions and hedge funds because India's commodity market is still very undeveloped.

There are very few participants in some of the contracts, especially in agri commodities and there is a question mark about the discoveries of spot prices, so there are a number of issues. Therefore, the earlier standing committee of ministry of consumer affairs had recommended that Indian institutions, banks and all those people are allowed to trade and subsequently, when more liquidity is developed in the Indian commodity futures market, then the government and the regulator should revisit whether the FII or hedge fund should

be allowed.

There is a big question mark on allowing hedge funds because commodities, other than gold, are consumable. They are not in the asset class. I personally feel that they are different from the capital market, equity markets where it is asset class. Other than gold, all those commodities are consumable and especially in agri commodities, there is validity. It is not as if you can store agri commodities in the godown for one-year with nothing happening to them and their quality remaining the same.

ET Now: The SEBI Chairman said that it is sacrosanct for us that whatever guidelines are under SEBI domain for equity exchanges will be applicable for commodity exchanges as well. Does this mean more compliances and regulations will come in for the commodity market?

P K Singhal: During the last two-three years, all the guidelines issued by FMC were more or less in line with what is prevalent in SEBI. SEBI will probably have to continue with open interest limits; there are a few things which SEBI may have to continue with because the commodity market is slightly different but as far as governance is concerned, it is almost at par, whether it is commodity markets or equity markets. Our risk management systems are also almost at par with the security markets.

ET Now: By when do you see the FII and FDI fungibility coming in?

P K Singhal: We do not know. We are totally unaware just like you. We do not know when it will come. However, more than fungibility of FDI limit, if the government along with this notification also clarifies and gives the foreign entities, which are allowed by the regulator, permission to hold up to 15 per cent, then it will be very good for the Indian market.

ET Now: By when can we see the regulator or government making options open in the commodity index also?

P K Singhal: If you go to the website of NCDEX or MCX, you will find that both the exchanges already have their own indexes for agri commodities, for base metal, for the total commodity markets. The market is already getting aware because we have historical data for at least the last four, five, six years. I think both the exchanges are ready to launch indexes as well as options when the regulatory approval comes.