Bourses excited at merger possibilities

Stock exchanges, commexes could venture into each other's territory after Sebi absorbs Forward Markets Commission

Rajesh Bhayani | Mumbai March 02, 2015 Last Updated at 00:46 IST

Merger of the Forward Markets Commission (FMC) with the Securities and Exchange Board of India (Sebi) allows a commodity exchange to expand in segments permitted under a stock exchange and vice versa.

From the proposed Bill in this regard, "all recognised associations under the Forward Contracts Regulation Act shall be deemed to be recognised stock exchanges under the Securities Contracts Regulation Act".

Exchanges, stock and commodities, are excited. Says a senior figure in the sector, on condition of anonymity: "After the merger, stock and commodities exchanges, subject to Sebi permission, will have fungibility in penetrating each other's market segment." This means a commodity exchange can start currency derivatives and equity trading. A stock exchange can launch commodity trading.

The BSE exchange earlier had got Sebi approval to set up a commodity exchange. After the regulators' merger, it can launch commodity trading as a segment of itself. The National Stock Exchange already has a stake in the National Commodity and Derivatives Exchange; Multi Commodity Exchange (MCX) has a stake in the Metropolitan Stock Exchange (earlier MCX-SX).

And, clearing corporations and depositories will also get such fungibility. A clearing corporation of a stock exchange will do clearing and settlement for all segments, while depositories will be allowed to handle commodities.

Even market intermediaries will benefit. Says P K Singhal, joint managing director of MCX: "The benefit of a FMC and Sebi merger is that securities brokers who have memberships of commodity futures through their subsidiary companies will benefit, as it will reduce the duplication in a number of issues, as well as decrease the cost of transaction and compliance."

Hence, the stock exchanges are also pleased. Says Ashishkumar Chauhan, managing director of the BSE: "The merger is a welcome move. It will streamline the transaction processing marketplaces in India and also bring consistency in practices, regulations and operations for exchanges, exchange members, investors and traders, and there will be a single KYC (know-your-customer processing). Overall, a well-thought and positive move, which will help the sector and investors alike."

Added Singhal of MCX: "Down the line, in a year or so, new products such as options, indices, weather derivatives and freight can be introduced. MCX is ready to introduce these for some years." Weather and freight derivatives are otherwise not traded in India but globally there are vibrant futures in the Baltic Freight index and even in the weather. The Bill proposes to empower the central government to declare weather and freight as derivatives permissible to be traded on the exchanges.