Commodity exchanges, brokers hopeful of reduction in CTT, new products

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Rate of commodity transaction tax (CTT) may be lowered to 0.001-0.005% in the Finance Bill from the current 0.01% to shore up volumes

Mumbai: Brokers and exchanges in the commodity market have repeated their demand for lower commodity transaction tax (CTT) and launch of new products as part of measures to boost drying volumes on commodity futures market and bring market efficiency.

Market participants are hopeful that the rate of CTT may be lowered to 0.001-0.005% in the Finance Bill from the current 0.01%. CTT is levied at `1,000 per crore on sell transaction and the proposed reduction in levy may result in it getting halved.

While there have been recommendations for complete removal of CTT, the government may bring down CTT to a token amount, they said.

The Multi Commodity Exchange (MCX), in its recommendations to the government, said that non-agricultural commodities should not be subjected to CTT as is the case with agricultural commodities. Since the introduction of CTT, the cost of trading in the futures market increased almost 300% whereas trade volume on commodity futures exchanges have reduced 50%, MCX said.

“High trading cost has substantially increased the impact cost... Increased cost impaired not only price discovery and market efficiency, but also denied socio-economic benefits to commodity value chain,” P.K. Singhal, joint managing director, MCX, said in budget recommendations from the commodity sector.

High trading costs have taken business away to offshore tax havens like Dubai and Singapore, and have also led to a rise in illegal (*dabba*) trading which is three times the regulated market, Singhal added.

The proposals to reduce CTT are placed before the government each year, but chances seem higher this year given the drop in trade volume.

In the FY14 budget, then finance minister P. Chidambaram had introduced a tax on transaction of non-agricultural commodities on exchanges so as to facilitate a more open and transparent trading process, especially in gold contracts.

CTT was originally proposed in Union Budget 2008, but abolished in Budget 2009, based on the recommendation of the Prime Minister’s economic advisory council.

The National Commodity and Derivatives Exchange Ltd (NCDEX) has also called for a removal in CTT and asked for introduction of new products and categories of participants.

“With commodity market coming under Sebi (Securities and Exchange Board of India), there is expectation that trading in options and indices could be introduced in future... The participation of entities such as banks and mutual funds in commodity market not only strengthens the institution, but also endows participants with depth and width of the market,” NCDEX said in its six-point expectations from the budget.

Market regulator Sebi, following the merger with Forward Markets Commission (FMC) in September 2015, planned to allow access to foreign portfolio investors (FPIs) and banks, and trading in commodities index futures and options to help the industry with a wide variety of products and better price convergence.

However, Cogencis Information Services on 11 February reported that banks, foreign institutional investors and mutual funds will have to wait longer than expected to participate in the commodity market.

“Sebi is focussed on commodity derivative market. We are looking at how commodity market is at par with securities market. Once this is achieved, then further participants, further products can be made available for risk management to commodity participants,” Sebi chief general manager P.K. Bindlish was quoted as saying.

Market participants also asked for mandatory disclosure of corporate positions on commodity exchanges. Creation of timely and reliable data regarding expected production of various crops and bringing more transparency in the warehousing system will also aid in improving the commodity ecosystem.

“Allow mandatory disclosure of corporate positions on commodity exchanges. This can first be done for PSUs and publicly listed corporates so that they can efficiently manage company as well as shareholder risk. It will also result in increased transparency and better corporate governance. A similar move was implemented for currency hedging a couple of budgets ago,” said Jayant Manglik, president of retail distribution at Religare Securities Ltd.