Revenues may be hit initially after launch of options: MCX

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MUMBAI

Multi Commodity Exchange of India Ltd (MCX), India's largest commodities bourse by turnover, plans to introduce options trading by January to boost revenue after the markets regulator permitted the trading of the derivatives at the end of last month.

"As an exchange we would have liked more non-agricultural commodities to be allowed. But, we understand the regulator's point of view as to why the roll out would be in a phased manner," said Mrugank Paranjape, managing director and CEO of MCX. "Considering that the Commodities Derivatives and Advisory Committee is yet to formally finalise the criteria for selecting commodities for launching options, we may be able to approach the regulator for approval sometime towards end of November. Realistically, we will be able to launch in one of the more liquid commodities by January."

Transaction fees on options are a fraction of those earned on futures contracts

The Securities and Exchange Board of India (Sebi) permitted the trading of options contracts on 28 September with the aim of increasing liquidity and attracting more investors to the commodities market. The permission to introduce trading in options was given a year after the erstwhile commodities futures markets regulator Forward Markets Commission was merged with Sebi. Commodities exchanges now have to comply with increased surveillance and stricter risk management to prevent defaults in delivery.

The options contracts are expected to facilitate hedging by market participants and help deepen the commodity derivatives market. Only futures contracts based on individual commodities are traded on commodity bourses now. "The revenue flow of the particular commodity contract may see a dip in the initial phase as typically options are less of a revenue generator as compared to futures. However, in the long run, revenues from options should get robust," said Paranjape.

Transaction fees on options are a fraction of those earned on futures contracts; this will potentially lead to a hit on revenues in the near term.

Mint reported on 6 October that there could be some cannibalization, since options are far cheaper to trade and provide higher leverage vis-a-vis futures contracts.

According to Paranjape, it remains to be seen if the regulator allows the options to be settled in cash on expiry dates or devolved into futures contract as the settlement nears.

On 30 September, Sebi had highlighted its concerns about lopsided businesses concentrated at one exchange.

"A basic observation may throw up the picture that one exchange is focusing on only agricultural commodities and the other on only non-agricultural commodities. However, the reality is that the market focus on agricultural commodities is generally less due to issues around good delivery," said Paranjape.

"We are looking to increase our presence in agricultural space too but it would be a cautious approach. We have applied to Sebi for permission for a few contracts," he added.

MCX has applied for approval to launch contracts of pepper and is exploring the possibility of launching castor seed contracts.

The total turnover at MCX was Rs5.76 trillion in July 2016, which is a decrease of 1.43% over Rs5.84 trillion during June 2016. The contribution to the total turnover at MCX from the bullion segment was at 44.08% followed by energy segment at 26.7%, metals segment with 26.56% and agricultural commodities at a share of 2.66%.

"The commodities futures market today is akin to the securities market in 1995, in the sense that it is on the cusp of booming development," said Paranjape.