Interview: MCX head for cut in CTT, gold import duty to boost volume

By Shrikant Kuwalekar and Abhijit Doshi

MUMBAI - The tax on transactions in the commodities futures market brings in only a meagre amount into the government kitty. But its imposition has weighed heavy on the volumes in the market, which is still in a fledgling stage.

Amid widespread calls for the scrapping of the commodities transaction tax, which was levied in July 2013, the exchange--widely seen as the worst hit by the move--is the one advocating only a cut.

Just ahead of presentation of the Union Budget for 2017-18 (Apr-Mar), Mrugank Paranjape, managing director and chief executive officer of the Multi Commodity Exchange of India, says slashing of the tax rate would help bring back trade volumes without really hurting the exchequer.

"If you drop the CTT from today's 1,000 rupees (per 10 mln rupees of sell- side turnover) to 200 rupees, we believe the offsetting (rise in) trade volumes, even if it goes back to original levels, will give the same amount of revenue," Paranjape said in an interview to Cogencis.

The volume of commodity derivatives has fallen 50-60% over the last three years following the imposition of commodities transaction tax. MCX was the worst hit, as volumes in its benchmark contract, gold, among others, took a beating.

The industry is mature enough to accept that the government needs revenue, and there is always a rationale to bring people under the tax cover, Paranjape said, justifying his opinion on the transaction tax.

"However, we need to see the impact on total economic activity (due to imposition of commodities transaction tax)," he said.

The levy, which earns 5-6 bln rupees annual revenue for the exchequer, had resulted in a bigger indirect loss to the industry and government as several intermediaries went out of business. Also, large trades shifted either overseas, or to the parallel illegal market.

Studies by the MCX and by a number of independent agencies also pointed that "the possible decrease in economic activity due to the tax may outweigh (the revenue collected from the tax)", Paranjape said.

"Don't scrap it, but let us accept that we should create more economic activity. Use this opportunity to get to the stage where we become a cogent, vibrant and liquid market," he said.

Paranjape also explained that in the broader picture, imposition of the commodities transaction tax had not only hit volumes but also created hurdles in the country's potential efforts to become the price setter for gold.

Prior to the imposition of the transaction tax, the impact cost of gold futures trade in India was lower than that on the COMEX, taking the world's largest gold consumer closer to a situation where it could have influenced global gold prices.

He said a combination of a cut in the commodities transaction tax rate, and simultaneous lowering of the import duty on gold would create a win-win situation for the industry as well as government offers.

India currently levies 10% customs duty on gold imports, which has led to widescale smuggling of the yellow metal, and increased dominance of cash deals in bullion trade.

This proved to be a double whammy for the MCX, which was already reeling from the effects of the commodities transaction tax, as illegal gold purchases by jewellers could not be hedged on the exchange's official platform, giving rise to illegal or 'dabba' trade.

"But with GST (Goods and Services Tax) on track, (a) very good move will be reducing the customs duty, and have a combined rate, that is, customs duty plus GST, maybe 5-6%... Great opportunity for government to completely eliminate the parallel market or black economy and at the same time keep the revenue intact," Paranjape said.

BANK PARTICIPATION

Paranjape said the MCX had approached the Reserve Bank of India to allow banks' broking subsidiaries to operate in the commodity market, which would give a big boost to volumes.

A few years ago, ICICI Comtrade was formed to deal in commodities, but it had to shut operations as banks, either directly or indirectly, were not allowed to deal in the commodity derivatives governed by the Forward Contract (Regulation) Act.

With commodity futures being treated as a security under the Securities Contracts Regulation Act, broking arms of banks can be allowed to distribute commodity products, he said.

"They (banks' broking arms) account for about 30% of the share of the broking and DEMAT in equity market. Within that also if they come into the distribution market, it will boost volumes in the next two to three years," Paranjape said.

REPOSITORY, CLEARING CORP

Paranjape said his exchange was in the final stages of entering the repository business.

"We are very clear - repository is a part of the complete value chain," he said, adding that the exchange would prefer to collaborate, rather than have a separate company owned by it.

The exchange will be a part of Central Depository Services (India) Ltd's proposed repository venture, in which CDSL will hold a majority stake and BSE Ltd and MCX will share the rest.

The Warehousing Development and Regulatory Authority had, in December, awarded a letter of intent to CDSL and National Commodity and Derivatives Exchange to set up commodity repositories.

MCX is also in the final stage of launching a clearing corporation, MCX Clearing Corp Ltd, as directed by the Securities and Exchange Board of India, Paranjape said.

"We have already applied for SEBI's approval to start clearing corp operations... We will be fully operational in Apr-Jun if the regulator approves it in the next few weeks," he said.
As per the market regulator's guidelines, commodity exchanges must set up a separate clearing corporation with a net worth requirement of 3 bln rupees by September 2018.