AIFs' advent to deepen commodity markets

OUR BUREAU

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Capital market regulator Sebi's decision to allow Category III alternative investment funds (AIFs) to invest in commodity derivatives will deepen the market and enhance the price discovery process.

Primarily category-III AIFs, which include hedge funds and PIPE (private investment in public equity) funds, can collect money from well-informed, sophisticated investors and invest in risky assets for higher returns.

While allowing category-III AIFs to participate in commodity derivatives market, Sebi said these funds should not invest more than 10 per cent of the investible funds in one underlying commodity.

Besides abiding by Sebi and RBI norms, AIFs should disclose to investors their decision to invest in commodity derivatives before raising money and provide exit options for dissenting investors, it said

Mrugank Paranjape, Managing Director, MCX, said a "significant beginning" had been made to not just provide access to a fast-growing asset class to investors, but also unlock the potential that this asset class holds. The presence of AIFs will spur infusion of research-based information, capital, innovation and new trading strategies in commodity markets. It will also improve the quality of price discovery, lending it a degree of depth and vibrancy that matches the global standards and incentivise hedging interest in the commodity derivatives market, he said.

An NCDEX statement said the move would benefit hedgers and boost overall market participation, depth and liquidity.