Sebi okays trading in commodity options

Sets Stringent Turnover-Based Rules

TIMES NEWS NETWORK

Mumbai: Markets regulator Sebi on Tuesday paved the way for commodity bourses to launch options contracts but allowed each exchange to launch such contracts on only one commodity.

The regulator also set stringent turnover-based rules for a commodity to qualify to enter into options trading. Currently, Sebi allows futures trading on various agri and non-agri commodities. After detailed discussions with stakeholders in the commodity trading space, Sebi approved launch of options contracts which will be based on the price of futures contracts traded on the bourses.

"On a pilot basis, each exchange will be allowed to launch options on futures of only one commodity that meets the prescribed criteria," Sebi said in a circular. It said



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that to qualify for options trading, the underlying 'futures contracts' on the corresponding commodity should be among the top five futures contracts in terms of total trading turnover value of the previous 12 months. In addition, average daily turnover of underlying futures contracts of the corresponding commodity during the previous 12 months should be at least Rs 200 crore for agricultural and agri-processed commodities, and Rs 1,000 crore for other commodities. Futures contracts on a commodity should satisfy both the criteria, Sebi said.

Mrugank Paranjape, MD & CEO, MCX, said that the features relating to the product design approved by Sebi, like the choice of underlying, will ensure that the commodity options would operate on a strong foundation. "After a due process of consultation with the stakeholders, we will decide on the commodity on which we would launch our first option product, as also its contract specification features."

In a statement, leading commodities bourse NCDEX said that the launch of options on commodity futures would boost overall market participation and make the commodities market robust and efficient.

"The combination of futures & options can give market participants the benefit of price discovery of futures and simpler risk management of options," a statement from the exchange said.