Sebi permits options trading in commodity futures

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The Securities and Exchange Board of India (Sebi) on Tuesday laid out rules for the introduction of commodity options. The regulator said it would allow only one commodity option per exchange on a pilot basis.

Sebi said exchanges would have to submit proposals to it for the product they wish to launch. It said agricultural commodity options would need to be based on a commodity which has an average daily turnover of at least Rs200 crore. For non-agri commodities, the bar has been set higher at Rs1,000 crore. Moreover, these commodities would have to be in the top five in these exchanges in daily turnover.

Sebi had first allowed commodities exchanges to launch options in September last year after a budget proposal. However, owing to lack of clarity on settlement and pricing, commodity exchanges could not launch options.

The markets regulator cleared the issues around settlement in a board meeting on 26 April by finalizing amendments to the Stock Exchange and Clearing Corporation (SECC) regulations and Securities Contract Regulation Act.

After the change in rules, exchanges could introduce options which had futures contracts as underlying. That means option contracts would be converted to futures on the day of expiry.

Earlier rules allowed for settlement of options only through physical delivery or via cash. That posed a logistic hurdle and was not in line with global practices.

"These norms were drafted after consultation with a wide spectrum of market participants and so they broadly address the wishes and concerns of all stakeholder groups. Moreover, the features relating to the product design, such as the choice of underlying, will ensure commodity options would operate on a strong foundation," said Mrugank Paranjape, MD and CEO, MCX.

MCX would decide on the option product after consulting stakeholders but based on Sebi criteria it could consider options in gold or silver.