'Centre taking steps to formalise gold trade'

Options to help those dealing in the metal hedge risks: FM

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The Centre is taking steps for greater formalisation of the gold trade with an eye on the future, Finance Minister Arun Jaitley said.

Unveiling the country's first commodity options trading in the precious metal on the Multi Commodity Exchange (MCX), on *Dhanteras* on Tuesday, Mr. Jaitley said, "This marks a very important evolution in the trading of the yellow metal itself. It [options] hedges all risks for those dealing in gold."

Given that Indians were big buyers of gold, Mr. Jaitley said he expected the new product would be extremely successful, adding that it would, with appropriate policy measures, help formalise the gold trade.



Future proofing: Finance Minister Arun Jaitley symbolically starts trading on the MCX in options on gold futures. ▪PTI

Consumers to benefit

"The more it formalises, the better it is for consumers, jewellers and traders," he said. "That is in consonance with the business environment for the future that we see." he added.

"The European-styled gold options are hedger-friendly and physically settled, which means on exercise at expiration, the options position develops into corresponding underlying MCX one kilogram gold futures position at the strike price of the exercised options," the MCX said in a statement. "Gold option contract, with gold (1 kg) futures as underlying, expiring on November 28, 2017, and January 29, 2018, are made available for trading from today," the exchange said.

The "options give buyers the right to buy or sell the underlying asset but no obligation, at a specified price at the expiry. Thus, for buyers, the risk is limited only to the premium paid to the option seller (that is, option writer)," the MCX explained.

"By hedging risk of rise in gold prices using 'Gold Call Options Contract,' a jeweller would not only be protected against price rise, but also would benefit from fall in gold prices... (Similarly).. by hedging risk of fall in gold prices using a 'Gold Put Options Contract', a jeweller would not only be protected against price fall, but would benefit from rise in gold prices, " it added.

Gold is the first product for options trading that SEBI had permitted after modern commodity derivatives trading started 14 years ago.

The Finance Ministry had set up a committee for suggesting measures to transform India's gold market, said MCX Chairman Saurabh Chandra.

"There has been a very conscious effort by the government and SEBI to develop and integrate commodity markets in a phased manner... The introduction of options gives a strong impetus towards systematic development and transformation of commodity derivatives market in India, ushering in a new era in price risk management in response to stakeholder expectations," he said.

To further strengthen the market, a panel had been constituted in NITI Aayog to integrate spot and derivative markets, he added.

Describing the gold option as "an extremely low-cost product," MCX managing director and CEO Mrugank Paranjape said, "As an introductory measure, we are not charging any transaction fee on this product till December."

From the MCX's point of view, that time period would be good enough to develop the market, he added.

Mr. Paranjape also said the exchange was likely to seek SEBI's nod for options trading in other commodities as well, including silver, copper, crude palm oil, zinc and cotton.

"As per the SEBI rule, options trade is allowed in a commodity which has certain volumes in futures trade. We have 7-8 commodities like cotton, CPO, crude, silver, zinc and copper which qualify... After 3-6 months, we will decide," Mr. Paranjape added.