Options Trading a Big Step Towards Formalising Trade in Gold: Jaitley

Our Bureau

New Delhi: Finance minister Arun Jaitley on Tuesday said options trading in gold was one of the steps towards formalising the trade in the yellow metal, launching the product on the commodities exchange MCX. "This marks a very important evolution in the trade of the yellow metal itself," Jaitley said, adding that it hedges all risks by giving traders the option of futures.

This is India's first commodity option, a derivative product that had not been allowed so far.

Till now, only futures trading in gold and other commodities was available on the MCX and the launch augments the number of products available for traders to hedge their risks.



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Speaking at the launch, the finance minister said the government was taking measure to formalise gold trading.

"We are great buyers of this product and one of the efforts of the entire system has been, consistently through policy formulation, to formalise this trade also," Jaitley said. "I am sure the more it formalises itself, the better it is for consumer, the better it is for the jewelers, the better it is for those trading in this and that is in consonance with the kind of business environment in the future that we see for ourselves," he said.

"The launch denotes one of the most significant reform measures since modern commodity derivatives trading started 14 years ago," Saurabh Chandra, chairman of MCX, said.

MCX managing director and CEO Mrugank Paranjape said that as per Sebi's rules, options trade is allowed in a commodity that has certain volumes in futures trade and 7-8 commodities such as cotton, CPO, crude, silver, zinc and copper which qualify. "After 3-6 months, we will decide after looking at the success of the gold options," he said.

Options give buyers the right to buy or sell the underlying product at a specified price at the expiry. But there is no obligation to execute the trade. This means that the risk is limited only to the premium paid to acquire the option. This allows traders to hedge their risks at a small cost.