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Finance minister Arun Jaitley at the launch of the commodity options on gold futures, in New Delhi on Tuesday PTI

Options will help formalise trading in gold, says Jaitley

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MUMBAI/NEW DELHI: Finance minister Arun Jaitley on Tuesday launched the first options security with gold as the underlying asset for trading on Multi Commodity Exchange. Jaitley said that launching gold options is a step towards "formalising trade" in the yellow metal. Options are derivatives which give a buyer the right but not the obligation to buy or sell an underlying asset or instrument at a specific price on or before a certain date.

"This marks a very important evolution in trading of the yellow metal itself," Jaitley said after launching the options trade.

Indians are great buyers of gold. This new product will be extremely successful, he added.

Jaitley also said that it will help in the government's drive to formalise gold trading in India.

"I am sure more it formalises, better it is for consumers, jewellers and those trading in this. That's in consonance with the business environment for future that we see for us."

This is the first product for options trading that the Securities and Exchange Board of India (Sebi) has allowed after 14 years of commencement of commodity exchanges in the country. While the market regulator had allowed exchanges to launch options in September 2016, it was only on 26 April it clarified that the options would have futures as underlying for settlement. The gold options contract launched on Wednesday allows trading in 1kg gold.

The lot size for gold commodity options would be ₹30 lakh.

"The commodity options would be taken up initially by hedgers, professionals and high net worth individuals," said Kishore Narne, head of commodities at Motilal Oswal Commodities Broker Pvt Ltd.

"Retail investors will participate only if mini gold contracts are launched as the lot size is not manageable for retail as per the current specification. However, the first day's volumes show a healthy sign that soon it will cross the futures trading volumes."

In India's equity market, options account for 83.61% of total trading in derivatives.

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