SEBI may okay options trading in crude, zinc on MCX this month

Options in copper, silver likely by first quarter of FY'20

SURESH P IYENGAR

Mumbai, February 28

Commodity and capital market regulator SEBI is expected to approve the country's largest commodity exchange MCX's application for launching options trading in crude and zinc by the first half of March.

The exchange, which currently trades only in gold options, had applied for extending options trade in crude, zinc, copper and silver.

The Securities and Exchange Board of India (SEBI) is almost convinced with MCX's application for launching options trading in more commodities and would clear crude and zinc by mid-March, while the other two commodities — copper and zinc options — will be cleared in the first quarter of next fiscal, sources said.



Other non-agri commodities

Confirming that the exchange has sought SEBI's permission for options trading in more commodities, an MCX spokesperson said the final date for launch will be decided after receiving the regulator's approval.

Besides the four commodities, MCX can launch options trading in lead and natural gas as they meet the prescribed norms. As per SEBI regulations, a non-agriculture commodity will qualify for options trading only if it had registered an average daily turnover of ₹1,000 crore for one year in the underlying futures contracts, while it is ₹200 crore for agricultural commodities.

Budget boost for options

Investors' interest in options being traded on commodity exchanges has remained lacklustre due to tax impact and devolvement of options contract in the futures market on its expiry.

With effect from April 1, the government has reduced the transaction tax on options buyer to 0.0001 per cent on settlement value from 0.125 per cent.

The transaction tax on options buyer whose position will devolve on futures market will now be reduced to ₹3 (0.0001 per cent of ₹30 lakh) from April 1 while it is ₹3,750 (0.125% of ₹30 lakh) now, considering an investor is taking position in Gold 1 KG Options with a strike price of ₹30,000 per 10 grams (i.e ₹30,00,000 contract value with 1 kg futures as underlying) and assumed Option premium of one per cent.

The same on options seller would remain at ₹300 (0.01 per cent of futures traded value at ₹30 lakh).

The transaction tax on options buyer and seller has been retained at nil and 0.05 per cent.

Market making

Notwithstanding the reduction in transaction tax , SEBI is also considering to allow market making in options to boost investors' interest.

Market maker is an operator or a broking house that will give buy and sell quote for a fee. This will boost liquidity and attract more investors. The exchange will pay the market maker for giving the quote on both sides.

It is important for the regulator to allow market making now when investors are excited on the new investment avenue rather than attempting to attract them after the initial buzz dies down, said an analyst.

