

SEBI to soon permit settling of options in goods, simplify trading

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Commodity market regulator, the Securities and Exchange Board of India, will soon permit settling options on the basis of the underlying commodity. Under the existing system, options devolve into futures first, and then futures are settled. The new rule was announced by Nagendraa Parakh, Executive Director, SEBI, at India Commodities Day, an annual event organised by the Multi Commodities Exchange.

The settlement of commodity options on the derivatives platform will soon be possible with the government having notified the change in the Securities and Contract Regulation Act (SCRA) three weeks ago. This will make a big difference and simplify the settlement process for options trading. Parakh said, "Settling option based on real commodities and prices is an efficient mechanism. The move will open up potential for the growth of options much beyond futures market. Settling options on goods is better than that based on derivatives, which is derived price."

Actual hedgers who prefer to hedge using options, are more comfortable if settlement is in goods. The current mechanism of options first ending in futures and then settlement taking place is not user-friendly. At present, options are permitted only in commodities that are liquid in futures. Once SEBI changes the norms to permit options on goods, many more commodities, irrespective of their futures can also be introduced.

SEBI has now mandated MCX and other exchanges to make metal derivatives deliverable for settlement in cash. Since MCX has successfully settled metals futures and deliveries are happening smoothly, Parakh has now asked the exchange to focus on reducing transaction cost for players. SEBI, at its end, is looking to allow more products and introduce new practices to make market efficient and user-friendly.

SEBI recently allowed futures on commodities indices. MCX has finalised plans and next big thing from the exchange will be index futures. P S Reddy, MCX MD & CEO, said on the occasion, "brokers should look at increasing participation in commodity derivatives. Those who have been active in equities should look for opportunities to help and motivate their existing clients to hedge in commodities as well."