

Diamond Futures to Turn Attractive for Investors

ICEX's proposed design helps investors trade this costly product as size of contract is kept small; Sebi approval awaited

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Mumbai: The Indian Commodity Exchange's (ICEX) diamond futures contract that is awaiting the nod of the Securities & Exchange Board of India (Sebi) has been designed in such a way as to allow ordinary investors to lay wagers on and even take delivery of diamonds on the Reliance Capital-anchored bourse.

Sebi is examining the nuts and bolts of the ambitious contract that has not yet been launched on a derivatives exchange.

"You have gold, stocks, bonds and the like as investments avenues but diamonds were missing from the investors' list for lack of a feasible exit option," said a person aware of the contract design. "ICEX's contract, if approved, will give him that ability by not only allowing him to



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benefit from price appreciation but also facilitating delivery at the expiry of a contract."

Former employees of MCX, the country's largest commodity exchange, have played a significant role in contract design, ET has learnt. Three contracts will be avail-

able to investors/traders—1 carat (one carat comprises 100 cents), 50 pointer (cents) and 30 pointer of HVS2, one of the largest traded stones. (H in HVS2 stands for colour while SV2 stands for the clarity of the stone). That makes a total of nine concurrent contracts. However,



TRADING TURNS EASY

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the lot size of each contract will be one cent or one-hundredth of a carat. This will also be called one electronic unit (EUs). The prices will be based on ex-Surat.

Assuming that a 1 carat diamond costs ₹3.5 lakh, the lot size will be valued at ₹3,500. Since futures trading involves putting up a margin of around 5%, an investor can take exposure by putting up just ₹175, on the basis of the assumed cost. If the price of 1 EU jumps to say ₹3,600, a buyer gains ₹100 on an investment

of ₹175. If it falls by the same amount, the buyer faces a mark-to-market loss of ₹100.

However, those desirous of taking delivery of either one of the three contracts can accumulate EUs. So, if he accumulates 30 EUs, he can opt to take a 30 pointer, 50 EUs a 50 pointer and 100 EUs a one carat stone. ICEX will also allow him to re-tender the stone on the exchange which has been removed from the exchange vault, provided he gets it recertified by an accredited certifier. Even the impact of commodity transaction tax (CTT) of 0.01% will be minuscule in tens of paise unlike on a kilo contract of gold, said the person cited earlier. For example, at ₹30,000 sale price, CTT impact is ₹300 but for the sale of one carat at ₹3,500, CTT is a minuscule 35 paise. An ICEX official said the contract was being studied by Sebi, but declined to divulge details.