

# Trading in Polished Diamond Derivatives Awaits Sebi Nod

If approved, this would be the world's first such trade; contracts to be traded on ICEX


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**Mumbai:** Indian diamantaires and even residents could get to trade the world's first derivatives on polished diamonds if capital markets regulator Sebi approves the proposal for such a launch by Reliance group-anchored Indian Commodity Exchange (ICEX), which expects to resume operations shortly.

Sebi met with 50 industry representatives and ICEX officials on Friday to elicit the trade's interest in and the logic for having a diamond derivatives contract, which no exchange in the world has launched yet, given the various grades of diamond and sole dependence for price discovery on New York-based 'maverick' Martin Rapaport's Rapaport Price List. The diamonds are sold normally at a discount to Rapaport's price list.

Industry officials ET spoke with felt a domestic diamond derivatives contract could enable India to have some say in price determination, given that India cuts and polishes 11 out of 12 rough diamonds globally before exporting them. However, they stressed the need for the regulator to approve a contract which would benefit the trade and not become a ground merely for punting. They also said that parts of the contract relating to exposure limits, participation, etc, would have to be examined. For instance, Sebi currently does not allow foreign entities or institutions to trade in commodity futures.

"If foreign counterparties are not allowed would existing domestic participants be large enough to take on the counterparty risk that manufacturers seek to hedge themselves against," asked Vinod Shetye, consultant to diamond companies in Bharat Diamond Bourse, one of the two major centres for dia-



**How will the Trade Help**

**This will help India have some say in price determination**

**INDIA'S EDGE**

- India cuts & polishes 11 out of 12 rough diamonds globally before exporting them

**PROPOSAL AS IT STANDS NOW**

- ICEX has already submitted contract design to Sebi

**WHAT TO WATCH OUT FOR**

- Contract must benefit trade, not become a punting ground
- Subjects like exposure limits, participation, etc, in contract need to be examined

monds based in Mumbai, the other centre being Surat. But, a few who attended the meeting expressed confidence that Sebi would approve contract design keeping in mind all the trade's concerns.

"The idea (for a diamond contract) is novel and daring and we're sure Sebi will approve a contract that will encourage adequate participation by trade," said Anoop Mehta, MD, Mohit Diamonds, one of the 30-odd Indian diamond firms to whom De Beers supplies rough diamonds.

Praveenshankar Pandya, chairman of Gems & Jewellery Promotion Council (Gjepe), who was also present at the Sebi meeting, gave a 'thumbs up' to the proposed contract, adding that it made sense at a time Singapore's

state investment company Temasek has thrown its heft behind Singapore Diamond Investment Exchange, an over the counter platform that began earlier this month and has Jim Rogers as an investor. A Sebi official was not available for comment.

ICEX had submitted the contract design to Sebi shortly after the regulator took control of the commodity

derivatives segment from the Forward Markets Commission (FMC) in September 2015. Reliance Capital, which owns 26%

in the bourse, proposes to restart operations which were suspended in April 2014 after an erosion in networth amid intense competition from listed exchange MCX and agri bourse NCDEX, the country's largest energy and metals and agri bourses respectively. To shore up its networth, ICEX recently did a Rs 50 crore rights issue which its shareholders subscribed to at a ten times premium to face value of Re 1 a share. Also, earlier this year, Bharti Airtel group veteran Akhil Gupta bought a 5% stake in ICEX from MMTC which now holds 13% in the exchange, an ICEX official said.

Sources in the trade say that ICEX is also banking on the expertise of its revamped top level management, some of whom were earlier instrumental in developing contracts on MCX.

An ICEX official told ET, "ICEX has submitted the diamond contract sometime ago and the regulator has been doing a detailed study of the said contract. ICEX will recommence its trading operations shortly subject to the regulator's approval."

In the fiscal year through March 2016, India imported a provisional \$14 billion worth of rough diamonds and exported close to \$20 billion cut and polished diamonds. Antwerp and Hong Kong are the major centres for exports, which service the Western and Eastern markets.

