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Sebi allows stock exchanges to launch 'option in goods' in commodities

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Mumbai: The Securities and Exchange Board of India (Sebi) said on Thursday said that stocks exchanges can launch 'option in goods' in their commodity derivatives segment.

This is in addition to 'options on commodity futures', the regulator said.

Sanjit Prasad, MD and CEO of ICEX said: "The provision shall pave the way for launching options contracts in commodities based on underlying spot market price and settlement through compulsory delivery. For the first time, Indian commodity derivatives market will witness both European as well as American options, where as in securities market options are restricted to European style only."

Prasad added that options can reduce the risk for the hedgers.

"Options in agriculture commodities can prove to be an important tool to replace minimum support price intervention scheme of the govt," he added,

A contract for the purchase or sale of a right to buy or sell or a right to buy and sell in the future, such underlying goods, is called 'option in goods', -- a derivatives contract.

"This is a progressive step towards integration of spot market with derivatives market. It will play a major role in stimulating agricultural marketing and enable farmer-friendly options products" said Narinder Wadhwa, President of CPAI.

The product design and risk management framework would be in conformity with the guidelines of the circular, and exchanges willing to start trading in options contracts with goods as underlying should take prior approval of Sebi for launching such contracts.

The exchanges should also make necessary disclosures such as open interest of top 10 largest participants/group of participants in "option in goods" (both long and short) and the details of their combined open interest in underlying constituents, the regulator said.

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