

Markets

SEBI allows commodity options on spot prices

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Suresh P Iyengar In a major boost to revive options trading in commodity markets, SEBI has allowed exchanges to launch option trading based on spot market prices and removed the major impediments of options devolving futures market.

The market regulator SEBI has also removed the minimum average daily volume criteria of a commodity in futures market to be eligible for launching options.

Currently, for launching options trading, a particular agriculture commodity should have registered a minimum average daily volume of over ₹200 crore on the futures market. For a non-agricultural commodity, it is over ₹1,000 crore. In addition, the options contract, on expiry, devolves into that particular commodity's futures contract. Following this, a trader has to start paying margins, which are not applicable on an options contract.

SEBI has now allowed settlement of option contracts based on spot market and all the options contract would be on compulsory delivery basis.

Sanjit Prasad, Managing Director and CEO, ICEX, said the new norms will pave way for launching options contract 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, he said.

Replacing MSP intervention

Option will 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 government, he said.

Narinder Wadhwa, President, Commodity Participants Association of India, said 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, he added.

PS Reddy, Managing Director and CEO, MCX, said the SEBI move gives greater flexibility to exchanges to introduce products that cater to a large section of stakeholders and helps in adding to overall market efficiency.

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