

# INDIA Forbes

DECEMBER 29, 2017

**MCX**  
METAL & ENERGY  
Trade with Trust

MCX INVESTOR (CLIENT) PROTECTION FUND



**ALL ABOUT OPTIONS**

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# A STEP IN THE RIGHT DIRECTION.



## Why is *Commodity Options Gold* a big step forward?

Indian commodity derivatives market is all set for a transformation. ***Commodity Options on Gold Futures*** is a flexible, powerful financial instrument which will provide substantial opportunities for both hedgers and investors. When you buy Commodity Options on Futures, you need to only pay a fraction of the purchase cost, known as a premium. This is the risk you take as an Options buyer for benefits that are not limited. If you are in a business where the price of gold can impact your bottom line, Options can help you manage the frequently changing cost. This instrument will help businesses maintain a fixed cost through out the year. Get ready.





# LEVERAGING **STRENGTH**, STEERING **GROWTH**

**M**ulti Commodity Exchange of India Limited (MCX), India's first listed exchange, is a state-of-the-art, commodity derivatives exchange that facilitates online trading, and clearing and settlement of commodity derivatives transactions, thereby providing a platform for risk management. The Exchange, which started operations in November 2003, offers trading in varied commodity derivatives contracts across segments including bullion, industrial metals, energy and agricultural commodities. The Exchange focuses on providing commodity value chain participants with neutral, secure and transparent trade mechanisms, and formulates quality parameters and regulator guidelines,

in conformity with the regulatory framework and the feedback constantly received from participants. The Exchange has an extensive national reach with its presence in 1200+ cities and towns across India as on 31 July, 2017, through 670 registered members and 51,000+ Authorised Persons.

MCX is India's leading commodity derivatives exchange with an average daily turnover of Rs.22,560 crore (single side) and a market share of over 90% in terms of the value of commodity futures contracts traded for year 2016-17. The Exchange accounted for almost 100% market share in the bullion, metal and energy futures trade in FY 2016-17. MCX along with




Thomson Reuters has recently launched commodity indices viz iCOMDEX in India keeping in mind the participants and the evolving regulatory enablers. The Exchange has been certified with three ISO standards, ISO 9001:2008 Quality Management System, ISO 27001:2015 Information Security Management Standard and ISO 14001:2004 Environment Management Standard.

With an aim to seamlessly integrate with the global commodities ecosystem, MCX has forged strategic alliances with leading international exchanges, various trade bodies, corporates, educational institutions and R&D centres across the country. These alliances enable the Exchange in improving trade practices, bringing in relevant products, increasing awareness, and facilitating overall improvement of the commodity market. The Exchange often partners with these entities to conduct awareness programmes across the country to spread education on the need and benefits of managing price risks by trading on commodity derivatives exchanges.

MCX's ability to use and apply technology in line with changing dynamics of the markets, regulations and participant expectations is a key factor in the development of its business. The Exchange's technology framework is designed to provide high availability for all critical components, which guarantees continuous availability of trading facilities. The robust technology infrastructure of the exchange, along with its rapid customisation and



deployment capabilities enables it to operate efficiently with fast order routing, immediate trade execution, trade reporting, real-time risk management, market surveillance and market data dissemination. In its endeavour to meet the participant expectation in view of the launch of Options, a new product, the exchange has augmented its technology infrastructure. MCX has also opened its office at GIFT City in Gandhinagar for housing the Exchange's Business Continuity (BC) and Disaster Recovery (DR) centre and a training and education facility.

MCX offers the benefits of fair price discovery and price risk management to the Indian commodity market ecosystem. For more information about MCX and its products, visit [www.mcxindia.com](http://www.mcxindia.com). 





# A HISTORIC EVENT TO RECKON WITH

**T**he launch of Commodity options marks a significant milestone in the history of India's commodity derivatives market, and the long wait of participants is over.

Commodity and capital market regulator Securities and Exchange Board of India (SEBI) had given an approval to the Multi Commodity Exchange Ltd (MCX) to launch option trading in gold. The Exchange launched Options on the auspicious day of Dhanteras, i.e. 17th October, 2017. The option contract is on MCX's 1 KG Gold futures contract. That means, on exercise at expiry, option positions shall be devolved into respective underlying 1 KG Gold futures contract positions.

Options are low-risk hedging instruments and would complement the existing futures contracts, and further aid the price discovery process. Options are derivatives instruments that give the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on a certain future date. They provide a form of price insurance for option buyers for a fraction of total contractual cost, called option premium and, therefore, are best suited for hedgers. The buyer's maximum risk is limited to premium paid, but buyers can take advantage of any favourable price movement in underlying.

We have organised several training and awareness programmes on basic and advanced options across the country during the last six to seven months.



**Mrugank Paranjape**  
Managing Director and Chief Executive Officer, MCX

The year has been remarkable for the market as several developments unfolded during the period. SEBI allowed Category III Alternative Investment Funds (AIFs) to participate in the commodity derivatives market. Additionally, the restrictions on stock brokers dealing in securities to deal in commodity derivatives have been done away with. This integration would bring forth many synergies that would benefit the market at large. It enhances economic efficiency in meeting operational and compliance obligations at the member level, potentially resulting in ease of doing business.

In another significant development, the Reserve Bank of India (RBI) has allowed banks to offer brokering services for the commodity derivatives segment through their subsidiaries, and also permitted them to become a Professional Clearing Member of the commodity derivatives segment of exchanges. This move would help in a considerable expansion in the client base of the commodity market, especially at a time when commodity options have been introduced.

New products such as options, institutional participation and the opening up of banks-supported distribution channels would be contributing to the overall development of the commodity derivatives market in a big way.

So, education and training for new products such as options will be the primary focus for the exchange. **■**

## FUTURES CONTRACTS

# Vs

## OPTIONS CONTRACTS

### Definition

An agreement to buy or sell an underlying on a certain date and at a certain price, in the future.

An agreement which gives the buyer the right but not the obligation to buy or sell an underlying at a certain price on or before a certain date.

### Obligation

Buyer and seller are both obligated to honour the contract upon expiry.

Only seller is obligated to honour the contract on expiration.

### Margin account

Both parties need to maintain a margin.

Only option writer maintains a margin.

### Advance payment/ Contract pricing

No, except the initial margin.

Requires upfront fixed premium from the buyer.

### Risks

Both buyer and seller have unlimited risk.

Option buyer has limited risk; Option writer has unlimited risk.

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# EXPERT SPEAK

## **Sanjeev Agarwal – Gitanjali Export Corporation Ltd.**

“ The bullion industry is becoming organised with the latest government reforms and policies. Earlier seen as a family business, it is now seeing the inclusion of professionals. With more financial instruments available, it gives an opportunity to better manage risk. Options is a very good product on offer, which will help manage risk at a small premium to be paid. ”

## **Gautam Choksi – Hindustan Platinum**

“ As a refinery, we look to lock our risks and have been traditionally hedging in global commodity exchanges. We look forward to the Indian exchanges provide that opportunity. ”

## **Ashish Pethe – Waman Hari Pethe Jewellers**

“ Gold prices have been volatile in the last 2-3 years and it gets especially difficult for retail markets to manage the wide fluctuations. Hedging is important. Trading commodity futures has not been without risk, we look forward to Options trading to fill that gap. ”

## **Keyur Shah – Muthoot Pappachan Group**

“ Gold Options is a welcome step. Volatility in the gold prices has been high in recent years and that leads to spoiling calculation of the business. We have an in-house trading team which handles financial instruments, but small- and medium-sized jewellers and bullion dealers will need more awareness. Banks and mutual funds should also be allowed in Commodity trades so that market participation sees an increase. ”

## **Praveenshankar Pandya – The Gem & Jewellery Export Promotion Council (GJEPC)**

“ Gold is a sensitive commodity and has gone through a lot of policy changes in India. Gold in our country hasn't been marketed well. Apart from gold being traded as a financial instrument, it also is a raw material for the jewellery industry on which a lot of people are dependant for their livelihood. While we applaud the Gold Options, all instruments should be thought through well. ”

# Why is Options on Gold, a first of its kind?



India is the world's second largest gold market with a demand of 675 metric tonnes in 2016 alone. But, with an annualised price volatility of 15%, it is also one of the most risk-prone industries with a price risk of over ₹30,000 crore. And this is exactly where Gold Options on Futures will be a boon.

Here's how it works. You pay a fraction of the purchase cost, known as premium. This will be the small risk you take as an Options buyer for benefits that are not limited. This will help you maintain a fixed cost throughout the year and thus tide through the volatility. The entry of Options on the 1kg Gold Futures contract at MCX, a flexible financial instrument will provide substantial opportunities for both hedgers and investors.

MCX has in recent months connected with over 6000 jewellers across the country and has taken up the task of educating them on this low-risk yet powerful instrument of price risk management, which is set to change the way gold is traded in the market.