THE HINDU BusinessLine

Meet the Regulator

‘New products, services on NCDEX in 2017’

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SAMIR SHAH, CEO, NCDEX

The exchange will strengthen risk management, surveillance and warehousing

In 2016, the Indian commodity market welcomed its new regulator and saw a stringent regulatory environment. Samir Shah, CEO, NCDEX, in an interaction with BusinessLine, highlights the changes in the market last year and what lies in store this year. He also explains the reason behind the exchange’s relaunch of castor seed futures.

How was trader participation in agri commodities futures in 2016? Immediately after demonetisation, the volumes on the exchange dropped sharply. Have they recovered since?

On the business front, 2016 was fraught with challenges and disruptions — starting with the suspension of the forwards segment, the castor and chana suspension and finally, the disruption as a result of demonetisation. The withdrawal of old currency caused severe disruption in the physical markets which has had an equally severe impact on the derivatives market. However, we believe this a short-term impact and slowly the volumes should come back as the underlying physical markets return to normal.

Participants are adapting to new realities and taking cues from there, volumes on the exchange are also seeing encouraging trends in the New Year. Open Interest has again inched up close to ₹3,000 crore.

2017 has begun on an optimistic note and the relaunch of castor seed and soyameal futures contract has been a good confidence booster for the market. In our opinion, the journey towards normalcy has definitely well and truly begun.

How do you see 2017? What are your expectations from the Budget for the commodity markets?

2017 is expected to be a year of growth building on the strong foundation of technology, risk management and surveillance. It will be a year of new products, new services like the proposed WDRA regulated repository and new market participants while continuing on the path of strengthening risk management, surveillance and warehousing.

With the Budget round the corner, we have a few things on our wish list. Foremost is enhancing farmer income through market access. We believe the exchange-traded forwards segment is a potent tool to achieve that.

Reintroducing forwards on commodity exchanges with suitable safeguards, if required, will help give farmers some of their lost power. Intra-operability between the NAM and state markets is another crucial area.

Some States have taken a leaf out of the successful Karnataka model and embarked on modernisation of the primary markets in the state. In view of the enormity of the task, a multi-agency approach at the state level with a clear roadmap for integration of the state markets with the national market would be a far effective solution.

The Budget could also look at some developmental steps for the commodity markets, like ushering in new participants such as foreign entities who have exposure to Indian markets, Alternate Investment Funds (AIFs), Portfolio Investment and FIIs.

How close or far are we to the introduction of commodity options? What needs to be done to increase hedger participation in commodity futures?

Options will be a major step towards deepening the market and providing a better risk management tool to all types of market participants. SEBI is working very closely with the national commodity exchanges as well as members of CDAC to discuss all details relating to regulation and risk management of options. It is important to get the product structure right and we expect that SEBI will come out with detailed guidelines on options soon.

Commodity futures are an economic tool, helping agri businesses manage their price risks effectively and hedgers are an integral part of the commodity ecosystem. It is important to encourage their participation by taking developmental measures which include reduction in the cost of hedging, relaxation of hedge limits for bonafide hedgers and exempting exchange warehousing ecosystem from stock limits, among others.

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With hedgers looking for policy continuity, it is important to offer them a stable and well-regulated environment. Recognising that a well-defined hedge policy is imperative for an organisation and improves its credit-worthiness, the banking system can take cognizance of this fact and provide such agri businesses preferential lending rates. Exchanges, along with SEBI and the RBI, could evolve a policy to this effect.

How are your farmer initiatives shaping up? What's the feedback from AP and Karnataka, where you have an online spot market? Are cash transactions moving online?

The results of our initiative to connect farmers to markets are encouraging. For the first time in India, farmers have used the futures platform to hedge their price risk and to lock-in prices. In the last one year, more than 19,500 farmers, belonging to 10 farmer producer companies (FPC) have received 15-20 per cent higher farm-gate prices due to active hedging on the exchange platform.

We are committed to unlocking income opportunities for small holder farmers and plan to connect 50,000 farmers by March end.

Our subsidiary, NCDEX eMarkets Limited (NeML), has been actively engaged in transforming physical markets in the states, with over 150 markets under the Unified Market Platform (UMP) in Karnataka.

The UMP has a clearing and settlement module that enables direct payment to farmers. There are over 20 lakh farmers registered in Karnataka and while there was some initial reluctance after demonetisation, we are seeing greater acceptance of online cashless methods of payment by the farmers.

You have relaunched castorseed futures after its suspension due to market integrity issues last year. What has changed now?

In the last year, NCDEX has significantly strengthened its risk management practices and processes, and introduced concentration margins, penalties for late payments of member obligations, and a more fit-for-purpose initial margin structure for commodities based on liquidity.

The strengthening of these systems, making them more robust and world-class was aimed at making the markets safer.

The exchange also demonstrated its commitment to protect investor interest through the close-out process, which was very well appreciated by the market participants.

Backed by regulator confidence and the support of market participants, the contract has been relaunched and has received an extremely encouraging response from the market, with over 10,000 MT of Open Interest on the first day itself.

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