

● NCDEX TRADING

## FM launches agri options platform

FE BUREAU  
New Delhi, January 14

**IN A FIRST** for the country, finance minister Arun Jaitley on Sunday launched options trading in a farm commodity on National Commodity & Derivatives Exchange (NCDEX) and affirmed the move will enable farmers to hedge their price risks better.

NCDEX has introduced options in guar seed, one of its most important products in the futures segment. It is the second exchange to launch options trading after MCX but the first one to introduce an agri options product.

Stressing that options trading is one of the tools to ensure farmers get remunerative price for their produce, Jaitley said: "We see in some places the problem of falling prices because of higher production. Farmers are not getting the right price for their produce. Many steps have been taken in the last few years to take farmers out of this situation. There has been some positive impact," he said.

The finance minister said agriculture is the top priority for the government, because an overwhelming portion of our population is dependent on it.

Continued on Page 2

## NCDEX: FM launches agri options platform

HE ADDED that the economic growth doesn't become equitable unless gains are visible in this key sector as well.

Options give the holder the right to buy or sell the underlying asset at expiration while a futures contract holder is obligated to buy or sell the underlying asset on a future date. The buyer of a commodity option pays a premium to the seller of the option for the right. Market participants say the cost of trading in options (both farm and non-farm items) can be only a fraction of that for trading in futures—less than a fourth in certain cases. Three guar seed options contracts that will expire in February, March and April of this year are being made available on NCDEX for trading initially.

Options trading was allowed to complement the

existing array of futures contracts and help strengthen the price discovery process in the commodity market. MCX had launched options trading in gold in October last year following policy changes, 14 years after India adopted modern derivatives trading in commodity futures in a big way.

Options are of two kinds: call and put. A call option gives the holder the right but not the obligation to purchase a futures contract at a specific price on or before a certain date. A put option gives the holder the right but not the obligation to sell the futures contract at a specific price on or before a certain date. While call options are commonly used to safeguard against rising prices, put options are usually exercised for protection against falling prices.

NCDEX chairman Rabi Narayan Das said: "Agri options will serve as a powerful tool to empower farmers by allowing them to lock in the prices of their produce at a minimum cost... While, as of now, options trading is allowed in only one agri-commodity, we can expect more commodities under this over a period of time." NCDEX managing director and chief executive Samir Shah said options will protect farmers in case of a price crash while giving them an opportunity to sell their produce at higher prices if the price increases.

Presenting the Budget for 2016-17, Jaitley had announced allowing new products in the commodity derivatives market, including options.

Sebi formally notified the guidelines on options in June last year, allowing each exchange to start options trading in only one commodity initially upon meeting certain conditions (The commodity has to be among the top five in terms of the exchange's turnover value of the previous one year, among others).