

## A first step: On Multi Commodity Exchange

The debut (प्रारंभ) of gold options should be seen as a step towards greater reforms

With the introduction of a new financial instrument, India is a step closer to building a vibrant (उद्योगी जोशपूर्ण) market for

commodities (माल). Success in the long journey, however, will require avoiding some policy mistakes of the past. The Multi Commodity Exchange has introduced gold option contracts for the first time in India. The

derivative (अमौलिक) instrument (साधन) allows investors to enter into contracts to either buy or sell gold some time in the future at a pre-determined price, thus allowing investors to hedge (रोकना) any volatility (अस्थिरता) in the price of the metal, for a price. The fact that options usually also turn out (to develop in a particular way, or to have a particular result) to be cheaper than binding (आवश्यक) future agreements will help in the wider participation of investors in the realm (क्षेत्र) of commodity

speculation (अनुमान). As Finance Minister Arun Jaitley stated (घोषित) during the launch of the derivative at the MCX, gold options will also help bring into formal channels more of the gold that is traded. Notably, (विशेषकर) the introduction of gold options is in line (in a queue/under control) with the government's announcement last year that it would take steps towards introducing new varieties of commodity derivatives in the market. MCX, in fact, has said it might seek permission to write options contracts on other commodities which, based on their current futures trading volumes, satisfy rules set by SEBI. To improve market efficiency, the market regulator is also mulling (विचार करना) the entry of mutual funds and portfolio (शेयर समूह) management services

into the business of investing in commodity derivatives.

Naturally, some concerns have been expressed over financial speculation. The benefits of well-regulated commodity speculation, however, are likely to outweigh (अधिक भारी होना, महत्वपूर्ण साबित होना) the potential (संभावित) systemic risk from asset bubbles. Options, like other financial derivatives, allow price risks to be transferred between market players in an efficient manner. The business of anticipating (उम्मीद करना) prices in the future is left to professional speculators while their clients benefit from the prospect (संभावना) of stable prices. In the process, financial derivatives can facilitate (आसान कर देना) the conduct of real economic activity in higher risk segments — including in agriculture and industrial activity — that would not happen otherwise. Confusion over this has led to an unjustified (अनुचित) hostility (शत्रुता) towards financial speculation, as well as some hasty policy measures (साधन). Almost a decade ago, a rapid (शीघ्र) increase in food prices pushed the government to impose (थोपना) a blanket ban on any speculation on agricultural products. While it may have been relevant for the specific circumstances, the wide-ranging nature of the move (कदम) slowed the development of a healthy market for commodity speculation. The government should now resist similar temptation (लालच) and focus instead on real-time monitoring (जाँच) systems. Apart from the standardised derivatives approved by SEBI for trading in exchanges, a framework (रूपरेखा ढांचा) that promotes over-the-counter products will help improve the scope for risk mitigation (राहत). The debut of gold options should be seen as a step towards greater reforms