

Stakeholder meeting of bullion participants with FMC on 5th Dec 2012 in Mumbai

Points raised by stakeholders with the FMC and the Exchanges

1. Losses and gains from futures trading should be allowed to be set-off against business income of bullion / jewellery industry participants. At present, the gains and losses from futures are taken as “speculative income or losses” and set-off is not permitted. This issue has been represented to the finance ministry earlier. Need to pursue with the finance ministry on this further. If this is done, then it would increase the jewellers participation.
2. RBI permits banks to hedge their residual exposures in bullion at overseas exchanges. However, this circular came when the national level derivative exchanges did not exist in India. During the last 10 years, the Indian commodity derivatives exchanges have grown in terms of participation and liquidity. As per Deloitte study, hedging bullion exposures on the Indian exchanges is more cost efficient compared with hedging at overseas platform due to higher liquidity and lower impact costs. Lastly, bullion products listed on the Indian exchanges address both metal price risks as well as currency risks. Given these, banks should be allowed to participate in the Indian exchanges to provide service to their customers and also to hedge their residual exposures.
3. Suggestions made on bullion contracts :
 - a. Short-duration contracts with 3 days, 7 days and 15 days maturity is need for jewellers.
 - b. To cater to the investment interest and to reduce the burden on the physical metal, exchanges may consider launching gold and silver contracts based in US\$ and settled in Indian rupees.
 - c. Gold mini contract specification may be changed to 999 as against 995. This will address the requirement of the jewellers, who are the major users of this product.
 - d. As bullion physical market participants are exposed to price fluctuations in bullion commodities when Japan and Singapore markets are active in early morning hours, exchanges may extend their trading hours in the morning. Significantly, the exchange traded currency derivatives market in India also opens in the morning at 9 a.m. in the morning.
 - e. Options contracts may be introduced for the benefit of the industry.

