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Options trading in commodity futures

Why in news?

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Securities and Exchange Board of India (SEBI) recently laid out rules for the introduction of commodity options.

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What are futures and options?

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- Derivatives are financial instruments with a price that is dependent upon or derived from one or more underlying assets.
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- Futures and options represent two of the most common form of "Derivatives".
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- An option gives the buyer the right, but not the obligation to buy (or sell) a certain asset at a specific price at any time during the life of the contract.
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- In futures contract buyer has the obligation to purchase a specific asset, and the seller has to sell and deliver that asset at a specific future date.
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What are the changes made?

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- SEBI has also permitted options trading in commodity futures.
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- It allowed commodity exchanges to launch options in agri and non-agri commodity futures if they pass the minimum average daily volume

requirement.
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What are benefits?

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- Options are better hedging-and-trading tools than futures.
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- Losses are limited for the buyer and costs are lower. Buyer is less affected by volatility in market price.
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- The launch of options will boost overall market participation and also complement the existing futures.
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- Thus it makes the commodities market more efficient.
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- The combination of futures and options can give market participants the benefit of price discovery of futures
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Source: Businessline

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