Universal exchanges

Why in news?

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SEBI has finalised norms for universal exchanges.

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What is difference between equity and commodity trading?

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- **Equity trade -**The market in which shares are issued and traded, mostly through exchanges, this is also known as stock market.
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- This gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performance.
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- The securities traded in the equity market can be either public stocks, which are those listed on the stock exchange, or privately traded stocks.
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- **Commodity trade -** This market is mostly related to food, energy or metals, are an important part of everyday life.
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- Commodities traditionally move in opposition to stocks, so they are used as a significant way to diversify a portfolio beyond traditional securities.
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- Types of commodities in this market includes Metals like gold, silver, etc., Energy like crude oil, gasoline etc.
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What are universal exchanges?

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- Usually security exchanges and commodity trading are regulated by separate entities.
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- By creating universal exchange SEBI has allowed the same exchange to offer products in the equity, commodity derivatives, and debt and currency segments.
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- By this stock exchanges need not to set up different entities to offer commodity trading.
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- Detailed guidelines are yet to be issued, but new products will only be introduced with SEBI approval.
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What is the significance of this move?

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- The NSE and the BSE offer equity and equity derivatives, while the MCX and the NCDEX specialise in commodity derivatives.
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- This clearance will enable the BSE and the National Stock Exchange (NSE) to launch commodity derivatives trading.
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- It will also enable Multi Commodity Exchange of India (MCX) and the National Commodity and Derivatives Exchange (NCDEX) to move into the equity segments.
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What are prospects of Universal exchanges?

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- Universal exchanges will enhance competition across all categories, thus creating deeper markets with lower spreads and exchange fees.
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- It would offer greater convenience, in that traders will be able to trade all asset categories from a single account.
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- It may also lead to consolidation, cross-holding norms will have to be reviewed in case mergers between exchanges appear attractive.
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- Long trading hours of NSE and BSE enables traders to respond instantly to events at odd hours.
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- Indian exchanges will find it easier to compete with their global counterparts and they can also present in multiple segments.
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What are the challenges involved?

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- Given the significant differences between commodities and equities risk management across asset classes will be a challenge and it might face implementation challenges.
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- Commodity futures can involve physical delivery which require the holder to either produce the commodity or take delivery from the exchange.
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- But most Indian commodity futures are cash-settled, with delivery only in gold and silver.
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- Commodity exchanges will remain open for very long hours, since many commodities track global prices but stock markets are time bounded.
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- If the NSE and the BSE do start offering commodity derivatives segments, they will have to keep those segments open for longer hours which needs regulation.
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Source: Business Standard

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