

# CTT Conundrums

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# Agenda

- Rationale for tax
- Commodity and capital markets
- Impact of CTT

# Basis of imposition of CTT

## Points

**Commodity market is mature**

**Revenue generation**

**Tracking information for better compliance**

**Theory of neutrality**

## Counter-points

- Market is 4 years old
- Limited instruments
- Limited players

- Estimates based on current volumes. But, volumes will fall and realization will be lower

- 98% volumes from online exchanges
- Have excellent surveillance systems
- Complete audit trail exists
- Already give info to IT and excise dept

- STT excludes bonds and currencies
- Operate on thin spreads just as commodities

# Assumptions made not right

- Commodity market not mature as yet
  - Are just 4 years old unlike securities which are over 100 years old
- STT introduced after market matured in over 15 years time
- Is still in the initial stages of growth
  - Is also reconciling the dilemma created by the ban in trading of 4 commodities and subsequent regulation

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# Commodity markets are different

Capital market	Commodity market
Purpose is capital formulation and capital appreciation	Purpose is price discovery and price risk management
Stock derivatives based on underlying domestic security	Commodity derivatives are based on assets of global nature
Trading in Indian stocks primarily on Indian exchanges	Trading in commodities can be considered in overseas exchanges for hedgers
Both spot and futures are traded electronically	Spot exists outside exchanges and will be out of purview of CTT
No commitment to any section	Commitment to farmers who will be impeded with high entry costs

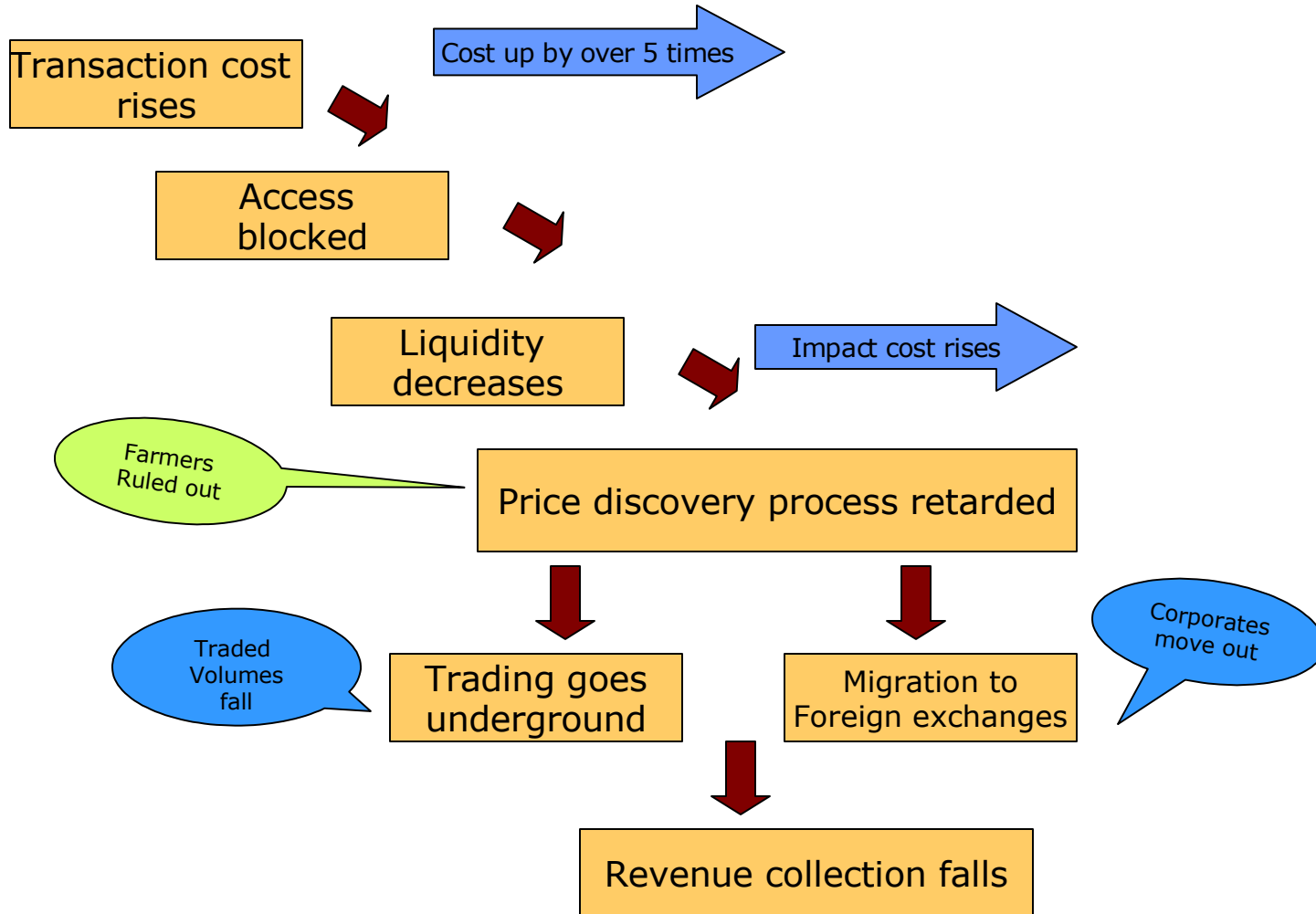
# Differences in markets

- The capital and commodity markets are really quite different
  - Same yardsticks cannot be applied here
- Commodities subject to myriad taxes such as mandi fees, sales tax, VAT, CST, excise etc unlike stocks
- In capital markets in lieu of the STT certain benefits have been extended
  - Setting off losses from trading in futures against profits from other business
  - Differentiation between short term and long term gains

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# Impact of CTT: Flowchart



It may be noted that regulatory intervention in October 2007 on PNs has made FIIs shift to SGX for trading in Nifty. From October to March open interest in SGX Nifty rose from Rs 1130 cr to Rs 1580 cr while that on NSE Nifty futures fell from Rs 19,000 cr to Rs 18,070 cr

# Impact

- Transaction costs would be rising from around Rs 3/lakh to Rs 20 with the tax of Rs 17
  - Market cannot absorb this burden
  - Most trades reckoned on very thin price spreads
- Hedgers will be eased out gradually from the market
- Farmers do not pay cess or mandi fees, but if they transact on futures exchanges have to pay CTT as sellers
- Futures is based on spot price, and as spot does not pay CTT, this component will distort futures price
  - Given that deliveries are taking place and the cost is getting imbibed in the price, the final price of goods in spot market would tend to increase

Thank You