19BAE710-FINANCIAL DERIVATIVES

Evolution of Derivatives Market in India

The derivatives market in India has evolved significantly over the years, driven by regulatory changes, market demand, and a growing economy. Here's a brief overview of the evolution of the derivatives market in India:

Early Years (Before 2000):

1. **Establishment of Stock Exchanges:**
   - The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) were established in the late 20th century, providing a platform for equity trading.
2. **Introduction of Index Futures:**
   - The NSE introduced index futures contracts on the S&P CNX Nifty in June 2000, marking the beginning of derivatives trading in India.

Regulatory Framework:

1. **SEBI Act, 1992:**
   - The Securities and Exchange Board of India (SEBI) Act, 1992, established SEBI as the regulator for the securities market.
2. **Derivatives Regulations:**
   - SEBI introduced regulations for derivatives trading in 2000, outlining guidelines for stock exchanges, clearing corporations, and participants.

Key Milestones:

1. **Introduction of Stock Futures:**
   - Following the success of index futures, stock futures were introduced in November 2001, allowing investors to hedge against individual stock price movements.
2. **Options Trading:**
   - Equity options trading commenced in June 2001, offering investors additional hedging and speculative tools.

3. **Introduction of Interest Rate Futures:**
    - Interest rate futures (IRFs) were introduced in August 2009, providing a platform for trading in interest rate derivatives.
4. **Launch of Currency Derivatives:**
    - Currency derivatives, including futures and options on currency pairs, were introduced in August 2008, enabling market participants to hedge currency risk.
5. **Commodity Derivatives:**
    - SEBI allowed the introduction of commodity derivatives in 2003, providing a platform for trading in various commodity futures contracts.
6. **Single Stock Options:**
    - Single stock options were introduced in 2010, expanding the range of derivative instruments available to market participants.

Market Growth and Participants:

1. **Increased Participation:**
    - The derivatives market in India witnessed increased participation from institutional investors, foreign institutional investors (FIIs), and retail investors.
2. **Product Innovations:**
    - Exchanges introduced innovative products, including weekly options contracts, which added flexibility to derivative trading strategies.
3. **Risk Management Practices:**
    - The derivatives market played a crucial role in enhancing risk management practices for market participants, allowing them to hedge against various types of risks.

Challenges and Reforms:

1. **Risk Management Practices:**
    - Challenges related to risk management, particularly during periods of high market volatility, led to periodic reviews and reforms.

2. **Regulatory Changes:**
    - SEBI implemented various regulatory changes over the years to enhance transparency, risk management, and investor protection in the derivatives market.

3. **Technology and Infrastructure:**
    - Continuous improvements in technology and infrastructure helped facilitate smoother and more efficient derivative trading.

Current Scenario:

1. **Diverse Derivative Products:**
    - The derivatives market in India now offers a diverse range of products, including equity derivatives, commodity derivatives, interest rate derivatives, and currency derivatives.
2. **Market Liquidity:**
    - Increased liquidity and market depth have contributed to the attractiveness of the Indian derivatives market for both domestic and international investors.
3. **Risk Management and Hedging:**
    - Market participants actively use derivatives for risk management, hedging, and speculation.

The evolution of the derivatives market in India has been characterized by a gradual expansion of products, increased market participation, regulatory reforms, and a focus on risk management. The market continues to evolve to meet the changing needs of investors and to align with global best practices.