



19BAE710-FINANCIAL DERIVATIVES

Regulations & Framework of Derivatives Market

The derivatives market in India is regulated by the Securities and Exchange Board of India (SEBI), which is the primary regulatory authority overseeing the securities market in the country. The regulatory framework for the derivatives market is designed to ensure transparency, investor protection, and the integrity of financial markets.

Regulatory Authority:

1. Securities and Exchange Board of India (SEBI):

- SEBI is the apex regulatory body governing the securities markets, including the derivatives segment. It was established in 1988 and operates under the SEBI Act, 1992.

Regulatory Framework:

1. SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992:

- These regulations lay down the requirements and obligations for stockbrokers and sub-brokers engaged in the trading of securities, including derivatives.

2. SEBI (Derivatives) Regulations, 2000:

- This framework provides comprehensive guidelines for the trading and settlement of derivatives contracts. Key provisions include:
 - Eligibility Criteria: Establishes criteria for entities eligible to participate in the derivatives market.
 - Risk Management: Specifies risk management measures for stock exchanges and clearing corporations.
 - Margins and Settlement: Prescribes margin requirements and settlement procedures.
 - Code of Conduct: Outlines a code of conduct for market participants.

3. SEBI (Foreign Institutional Investors) Regulations, 1995:

- These regulations govern the participation of Foreign Institutional Investors (FIIs) in the Indian securities market, including derivatives.

4. SEBI (Foreign Portfolio Investors) Regulations, 2014:

- The regulations provide a framework for the registration and operation of Foreign Portfolio Investors (FPIs) in India.

5. Securities Contracts (Regulation) Act, 1956 (SCRA):

- SCRA provides the legal framework for the regulation of stock exchanges and the securities industry in India.

6. Clearing Corporation of India Limited (CCIL):

- CCIL plays a crucial role in the clearing and settlement of transactions in the derivatives market. It operates under the regulatory oversight of SEBI.

7. International Financial Services Centres Authority (IFSCA):

- For derivatives trading in the International Financial Services Centre (IFSC) at Gift City, SEBI regulations are complemented by the regulatory oversight of IFSCA.

Key Regulatory Aspects:

1. Product Approval:

- New derivative products or contracts require SEBI approval before being introduced in the market.

2. Eligibility Criteria for Participants:

- SEBI establishes eligibility criteria for entities to participate as stockbrokers, clearing members, and other participants in the derivatives market.

3. Risk Management:

- Exchanges and clearing corporations are mandated to implement robust risk management measures, including margin requirements and stress testing.

4. Market Surveillance:

- SEBI conducts market surveillance to detect and prevent market abuse, manipulation, and fraudulent activities.

5. Disclosure and Transparency:

- Listed companies are required to make timely and accurate disclosures regarding their derivative positions and exposures.

6. Investor Protection:

- SEBI focuses on ensuring investor protection through regulations that promote fair and transparent practices.

Recent Developments:

1. Integration of Commodity Derivatives:

- SEBI has been working on integrating the commodity derivatives market with the securities market to streamline regulations and improve efficiency.

2. Technology and Risk Management Framework:

- Continued emphasis on the use of technology for surveillance, risk management, and overall market infrastructure.

3. Sustainable Finance Initiatives:

- SEBI has been actively involved in promoting sustainable finance and responsible investment practices in the derivatives market.

The regulatory framework for the derivatives market in India is dynamic, and SEBI regularly reviews and updates regulations to align with market developments, enhance risk management practices, and safeguard investor interests.