MBA – IV Sem (Session : 2018-2020), P.U

Subject : Financial Derivatives

Teacher : Dr. Reena Prasad

Unit V - Derivative in India

- In India, at present NSE and BSE are the two prominent exchanges on which trading in derivatives - futures and options is done.
- This trading segment in called 'F-n-O' trading segment.

NSE (National Stock Exchange of India Limited)

- NSE started trading in derivatives from June 2000.
- Index options trading was introduced in June 2001.
- Stock based options in July 2001 and
- Futures on individual securities were introduced in November 2001.
- At present derivatives trading on 250 individual stock and
- On five indices is available. These are:

(i) S & P CNX NIFTY

(ii) S & P CNX MINI NIFTY

(iii) CNX IT

(iv) Bank NIFTY and

(v) NIFTY Midcap 50.

BSE

- After NSE, BSE also introduced trading in index based and stock based derivatives.
- Recently both NSE and BSE have started derivatives trading in interest rate derivatives and currency derivatives.

Commodity Trading

- In India, NCDEX, MCX and NMCE are the exchanges which provide the platform for derivatives trading in commodities.

- NCDEX (National Commodity and Derivatives Exchange Limited) started its operation in December 2003.

Prospects of Derivative in India

- The derivatives market in India has grown exponentially, especially at NSE.
- Stock Futures are the most highly traded contracts on NSE.
- Stock futures on NSE accounts for around 99% of the total turnover of derivatives at NSE at the end of the year 2013.

Major factors responsible for the exponential growth of derivatives in India are :

- The globalization and liberalization of world trade giving rise to new and different risk profiles of economic agents.
- The relaxation of capital controls permitting a huge increase in global investment opportunities and risks.
- The technology and communications 'revolution' – especially the advent of microprocessor.
- The development of risk management as a strategic focus of organizations.
- The success of the theoretic of derivatives pricing and hedging in the real world.
- Increased volatility of financial products prices at their respective market.
- Innovations in the derivatives markets, which optimally combine the risks and returns over a large number of financial assets leading to higher returns, reduced risk as well as transaction costs compared to individual financial assets.

Commodity Trading in India

- Commodity trading started in India in 1875 in Mumbai when Bombay Cotton Trade Association Ltd. was set up to provide for trading in cotton contracts.
- The first future market in the organized sector was set up in 1893 in Bombay.

- Later on futures trading in Ahmadabad in the oil and oil seeds and in Calcutta for transaction in jute and jute products, started.
- Forward contract (Regulation) Act was enacted in 1952 and
- FMC (Forward Market Commission) was set up in 1953 to regulate trades in commodity futures.
- In 1991, Govt. set Kabra Committee under the chairmanship of Prof. K.N Kabra to suggest a framework for the introduction of commodity futures in a regulated environment.
- The committee gave its report in 1994.
- The recommendations of the committee are :
  (1) FMC should be strengthened by providing more power to it for the introduction of commodity derivatives.
  (2) FMC must have its role as a regulator to regulate futures trading in commodities.
  (3) State of the art and technology driven exchanges should be set to provide for the trading in commodity derivatives.
  (4) Onion should be introduced for trading in future contract in addition to the commodities namely, Basmati rice, cotton and kapas, raw jute and jute goods, different oil seeds and oils, linseed and silver.
- Govt. resolved in its budget of 2002-2003 to introduce nationwide commodity and derivatives exchanges according to the recommendations of Kabra committee.
- In India there are 3 Major commodity exchanges an national level namely:
  (1) National Commodity & Derivatives Exchange of India Limited (NCDEX)
  (2) Multi Commodity Exchange of India (MCX)
  (3) National Multi Commodity Exchange of India Limited (NMCE)
- Commodity exchange is a regulated market place, in which listed commodities are bought and sold through the intervention of members (brokers) of the commodity exchange according to the bye-laws of commodity exchange.
- The exchange and its constituents are regulated by a regulatory body like FMC in India.
- All the exchanges have been set-up as a company under the provisions of Indian Companies Acts 1956 and recognised by FMC.