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Guardrails in F&O segment are welcome



Stock Trading. Speculative froth ■ ANI

The Securities and Exchange Board of India's (SEBI) recent study on retail participation in the Futures and Options (F&O) segment revealed several critical points that deserve greater attention to understand the underlying issues and pave the way for a more balanced and informed participation.

The study also found that many retail investors do not actively use F&O instruments for hedging purposes, which exposes them to greater market risks. It is just as well that SEBI, on Tuesday, acted against speculative excesses in this segment.

The report reveals that a staggering 93 per cent of individual traders incurred losses in equity F&O trading between FY22 and FY24, accumulating over ₹1.8 lakh crore in losses. In FY24 alone, their net loss amounted to ₹75,000 crore.

Despite these losses, a worrying 76.3 per cent of traders continued to engage in F&O trading, suggesting risk-seeking behaviour and difficulties in curbing speculative trading. The report also highlights the concentration of traders and losses in a few States.

Over half of the F&O traders in FY24 were from just four States: Maharashtra, Gujarat, Uttar Pradesh, and Rajasthan. Gujarat, in particular, saw traders incur a collective loss of ₹8,888 crore in FY24. Another notable trend is the increasing participation of young traders. The proportion of traders below 30 years old rose significantly from 31 per cent from FY23 to 43 per cent in FY24, underscoring the need for targeted investor education.

Finally, the report contrasts the losses of individual traders with the profits generated by proprietary traders and FPIs utilising algo trading strategies. This disparity raises concerns about market structure and the potential impact of algorithmic trading on retail investors.

Focus on empowerment

The cornerstone of responsible participation in F&O lies in comprehensive investor education.

SEBI, National Stock Exchange, Bombay Stock Exchange and other bodies need to collaborate to develop and disseminate educational materials that explain F&O instruments, risk management strategies, and the importance of long-term investment goals, in addition to the existing educational initiatives.

While F&O instruments offer significant potential for hedging and portfolio management, their inherent complexity can be daunting for retail investors.

Brokers and intermediaries play a critical role in guiding retail investors towards responsible trading practices.

Implementing robust risk management frameworks, including position limits and margin requirements as directed by SEBI on Tuesday, could help mitigate risks and protect investors from excessive losses. Encouraging investors to adopt a disciplined approach, set realistic expectations, and avoid impulsive trades can contribute to better outcomes.

Developing user-friendly platforms that provide real-time market data, risk analysis, and educational resources can empower retail investors to make more informed decisions.

SEBI's study underscores the challenges faced by individual investors in this complex market.

By prioritising investor education, simplifying product design, implementing robust risk management frameworks, and leveraging technology, a more vibrant F&O ecosystem can be created that benefits all participants.

F&O instruments, when used responsibly and with a long-term perspective, can offer significant potential for hedging, portfolio management, and wealth creation.

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