

# A brief history of derivatives in India

**Rohith Krishna** (2019DMB07)

27 August 2020

Although the main stock exchanges BSE and NSE were established in 1979 and 1992 respectively, the derivatives market in India has been in existence for a longer period. Here a brief history of the derivatives market is presented.

- **Bombay Cotton Trade Association** used to trade futures in 1875., in the commodity derivatives market.
- Trading at that point involved only a few brokers, with their practice under a banyan tree in front of town hall in Bombay. Eventually the BSE was formed in 1927 under the supervision of **Bombay Securities Control Act 1925**.
- In **1952 the Indian government had banned cash settlements and options trading** following trading of derivatives shifted to informal forwards market. However this has changed in recent years and the government has become less wary about derivatives trading and more open to market-based prices.
- Formally **financial derivatives were introduced by the Securities Laws Ordinance in 1995**, revoking the ban on options trading in India. This was followed by lifting the ban on futures trading in several commodities.
- Since **2000, electronic commodity exchanges** have also been set up.
- On recommendation of the **LC Gupta committee**, SEBI granted approval for derivatives trading in India effective since May 2001.
- In this, SEBI allowed **derivatives trading segments in the two stock exchanges - NSE and BSE**. Their clearing houses were allowed to trade and settle in approved derivatives contracts.
- SEBI initially. approved trading in index futures contracts based on S&P, NIFTY and SENSEX. It later extended index based trading in options as well as individual securities.
- **Single stock futures were also launched in 2001**. The index futures and options contract on NSE were based on S&P and CNX.
- In **2003, NSE introduced Interest Rate Futures**. These were subsequently banned due to issues in pricing.

Date	Event
14 December 1995	NSE asked SEBI for permission to trade index futures.
18 November 1996	SEBI setup L. C. Gupta Committee to draft a policy framework for index futures.
11 May 1998	L. C. Gupta Committee submitted report.
7 July 1999	RBI gave permission for OTC forward rate agreements (FRAs) and interest rate swaps
24 May 2000	SIMEX chose Nifty for trading futures and options on an Indian index.
25 May 2000	SEBI gave permission to NSE and BSE to do index futures trading
9 June 2000	Trading of BSE Sensex futures commenced at BSE.
12 June 2000	Trading of Nifty futures commenced at NSE.
31 August 2000	Trading of futures and options on Nifty to commence at SIMEX.
June 2001	Trading of Equity Index Options at NSE
July 2001	Trading of Stock Options at NSE
9 November 2002	Trading of Single Stock futures at BSE
June 2003	Trading of Interest Rate Futures at NSE
13 September 2004	Weekly Options at BSE
1 January 2008	Trading of Chhota(Mini) Sensex at BSE
1 January 2008	Trading of Mini Index Futures & Options at NSE
29 August 2008	Trading of Currency Futures at NSE
2 October 2008	Trading of Currency Futures at BSE

## Regulation in derivatives trading

- Regulation is based on the LC Gupta Committee report.
- It is consistent with International Organization of Securities Commission (IOSCO) principles.
- Addresses concerns of investor protection, market efficiency and integrity and financial integrity.
- There is a division of responsibility between Exchanges and SEBI, in place.
- SEBI's role is to approve rules, byelaws etc.
- Exchanges' role is to approve proposed derivatives contracts before trading commences.
- SEBI has a supervisory role in order to permit flexibility, maximize effectiveness of regulation and minimize the cost of regulation.
- The J.R. Varma committee suggests a methodology for risk containment measures for index-based futures and options, stock options and single stock futures.
- This include calculation of margins, position limits, exposure limits and reporting and disclosure.

## Growth of Derivatives in India

- Equity derivatives have grown exponentially in volume as well as the number of contracts traded.
- NSE accounts for the high majority of derivatives traded in India. For NSE the underlying value of derivatives traded exceeds its cash segments. The opposite is true for BSE.
- Currently Index futures and options, individual stock futures and options; Nifty futures and options, Midcap and Mini index futures and options etc are traded at NSE. Since 2008, Long term options contracts and currency futures have also been introduced at NSE.
- BSE trades index as well as individual stock futures and options. It has also traded Chhota futures with SENSEX as the underlying asset and currency futures since 2008.
- NSE trades with a system called NEAT- F&O with fully automated screen-based trading with all derivatives products available nationally. It also supports an anonymous order driven market that operates on a time priority/strict price basis.

## Entities of trading at NSE

1. **Trading members:** Trading members can trade either on their own account or on behalf of their clients including participants. They are registered as members with NSE and are assigned an exclusive trading member ID. Trading members are hedgers, speculators and arbitrageurs.
2. **Clearing members:** Clearing members are members of NSCCL. They carry out confirmation/inquiry of trades and the risk management activities through the trading system. These clearing members are also trading members and clear trade for themselves or others.
3. **Professional clearing members:** A clearing member who is not a trading member is known as a professional clearing member (PCM). Typically, banks and custodians become PCMs and clear and settle for their trading members.
4. **Participants:** A participant is a client of trading members like financial institutions. These clients may trade through multiple trading members, but settle their trades through a single clearing member only.

## NSE Equity Derivatives quote as on 28 August 2020

MW-FO-top20\_contracts-28-Aug-2020

INSTRUMENT TYPE	SYMBOL	EXPIRY DATE	OPTION TYPE	STRIKE PRICE	LAST PRICE	CHNG	%CHNG	VOLUME (Contracts)	VALUE	OPEN INTEREST	UNDERLYING VALUE
Index Options	BANKNIFTY	03-Sep-2020	Call	24,000.00	230.65	53.75	30.38	51810	31,90,21,882.50	26010	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Put	23,500.00	194.10	-110.50	-36.28	40156	22,96,43,752.50	20644	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Call	23,800.00	331.75	82.45	33.07	38017	32,46,00,324.00	13062	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Call	24,500.00	78.75	8.65	12.34	32358	7,25,47,840.00	14733	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Put	23,000.00	86.25	-52.45	-37.82	26982	6,51,53,175.00	20065	23,871.15
Index Options	NIFTY	03-Sep-2020	Call	11,600.00	99.70	14.50	17.02	26894	21,20,34,897.00	24517	11,614.30
Index Options	NIFTY	03-Sep-2020	Put	11,600.00	88.30	-31.20	-26.11	25237	17,70,64,156.50	19849	11,614.30
Index Futures	BANKNIFTY	24-Sep-2020	-	-	23,836.25	234.25	0.99	24009	15,21,98,16,218.75	58352	23,871.15
Index Options	NIFTY	03-Sep-2020	Put	11,500.00	53.50	-24.65	-31.54	22662	9,48,06,063.00	28950	11,614.30
Index Options	BANKNIFTY	03-Sep-2020	Call	23,700.00	386.90	93.65	31.94	22505	22,00,38,274.50	8518	23,871.15
Index Options	NIFTY	03-Sep-2020	Call	11,700.00	51.50	8.40	19.49	21630	9,17,92,642.50	17706	11,614.30
Index Options	BANKNIFTY	03-Sep-2020	Call	23,900.00	279.20	69.85	33.37	20989	15,25,45,932.00	7376	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Call	23,600.00	446.40	107.90	31.88	18781	21,38,67,008.00	7186	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Put	23,600.00	229.25	-124.55	-35.20	18665	12,73,23,655.00	10336	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Put	23,800.00	311.50	-149.30	-32.40	17439	15,55,16,481.00	7926	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Call	24,200.00	151.40	28.55	23.24	16993	7,09,77,300.00	7183	23,871.15
Index Options	BANKNIFTY	03-Sep-2020	Call	25,000.00	26.10	-3.35	-11.38	16979	1,31,91,951.50	13565	23,871.15
Index Options	NIFTY	03-Sep-2020	Call	11,800.00	21.95	2.85	14.92	16055	2,93,36,357.25	20896	11,614.30
Index Options	NIFTY	03-Sep-2020	Put	11,400.00	31.85	-17.30	-35.20	14750	3,77,39,326.50	25269	11,614.30
Index Options	NIFTY	03-Sep-2020	Call	12,000.00	4.25	-0.20	-4.49	12829	44,47,512.00	21823	11,614.30

# NSE Currency derivatives quote as on 28 August 2020

MW-CD-INR-28-Aug-2020

INSTRUMENT TYPE	SYMBOL	EXPIRY DATE	OPTION TYPE	STRIKE PRICE	SPREAD	LAST PRICE	CHNG	%CHNG	VOLUME (Contracts)	VALUE	OPEN INTEREST	NO. OF TRADES
Currency Futures	USDINR	28-Sep-2020	-	-	0.0025	74.0650	-0.07	-0.09	121602	9,13,48,14,152.50	1640933	6383
Currency Futures	GBPINR	28-Sep-2020	-	-	0.0075	98.0450	0.38	0.39	12454	1,25,27,07,217.50	79426	1833
Currency Futures	JPYINR	28-Sep-2020	-	-	0.0075	69.3125	-0.58	-0.82	10756	75,50,55,347.50	30260	1644
Currency Futures	EURINR	28-Sep-2020	-	-	0.0050	87.7750	0.27	0.31	10464	95,90,13,417.50	150196	1447
Currency Futures	USDINR	27-Oct-2020	-	-	0.0050	74.3025	-0.07	-0.09	7783	60,91,50,500.00	245843	622
Currency Futures	GBPINR	27-Oct-2020	-	-	0.0050	98.3325	0.37	0.38	1017	10,08,48,945.00	17191	237
Currency Futures	EURINR	27-Oct-2020	-	-	0.0100	88.0550	0.24	0.27	748	7,56,05,145.00	53074	150
Currency Futures	JPYINR	27-Oct-2020	-	-	0.0100	69.5450	-0.61	-0.87	690	4,84,70,000.00	1361	132
Currency Futures	USDINR	25-Nov-2020	-	-	0.0100	74.5300	-0.06	-0.08	581	4,32,92,002.50	74584	64
Currency Futures	USDINR	29-Dec-2020	-	-	0.0150	74.8300	-0.06	-0.09	188	1,40,63,507.50	60956	42
Currency Futures	EURINR	25-Nov-2020	-	-	0.0050	88.3400	0.24	0.27	112	98,89,850.00	8441	17
Currency Futures	USDINR	27-May-2021	-	-	0.1725	76.1525	-0.10	-0.13	82	62,50,877.50	12402	10
Currency Futures	GBPINR	25-Nov-2020	-	-	0.0300	98.5500	0.31	0.32	49	48,28,682.50	830	14
Currency Futures	USDINR	27-Jan-2021	-	-	0.0275	75.1225	-0.05	-0.07	35	26,27,910.00	30080	22
Currency Futures	USDINR	24-Feb-2021	-	-	0.0575	75.3225	-0.11	-0.14	26	19,59,152.50	17799	9
Currency Futures	JPYINR	25-Nov-2020	-	-	0.1800	69.7300	-0.61	-0.87	17	11,83,542.50	63	7
Currency Futures	USDINR	27-Aug-2021	-	-	0.1375	76.9000	-0.09	-0.11	15	11,53,465.00	76	4
Currency Futures	USDINR	29-Mar-2021	-	-	0.0675	75.5450	-0.12	-0.16	11	8,31,040.00	11550	4
Currency Futures	USDINR	28-Jun-2021	-	-	0.0800	76.5100	0.01	0.01	6	4,58,715.00	21642	3
Currency Futures	USDINR	28-Jul-2021	-	-	0.0575	76.6850	-0.12	-0.15	5	3,83,292.50	13655	3
Currency Futures	USDINR	28-Apr-2021	-	-	0.1500	75.8025	-0.13	-0.17	1	75,802.50	5089	1

## References

1. [Development of Financial Derivatives Market in India- A Case Study](#). Vashishtha and Kumar, International Research Journal of Finance and Economics, ISSN 1450-2887 Issue 37 (2010)
2. [Development of Financial Derivatives Market in India and its position in Global Financial Crisis](#). Bhagawat, Omre, Chand. IJSER journal ISSN 2229-5518 (2012)
3. [Derivatives market in India: Evolution, trading mechanism and future prospects](#). Gakhar and Meetu. International Journal of Marketing, Financial Services & Management Research, ISSN 2277- 3622 Vol.2, No. 3, March (2013)