International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Derivatives Market in India

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ABSTRACT

The last decade has seen a steady increase in the number of international trade and commerce due to the wave of globalization and globalization. As a result, the demand for international currency and financial instruments has grown significantly at the international level. In this regard, changes in exchange rates, interest rates and stock market prices have increased the financial risks in the corporate world. Negative changes have even threatened the existence of a business. therefore, to control such a risk, new financial instruments have been developed in the financial markets, better known as financial derivatives. The primary purpose of these instruments is to provide future interest rate bonds at incorrect future movement prices, in order to reduce the level of financial risks. This research paper examines the history of the exit, the introduction of the exit, the options, the future and the forward, the OTC exit field, and the types of exit.

KEYWORDS

- Derivatives
- Introduction to derivatives
- History of Derivative
- Options Future and Forwards
- Types of Derivatives

INTRODUCTION

Derivative is a broad group of securities defined on the basis of other securities, that is, the price of an exit depends on the value of the other security, so-called underlying. These basic securities are usually stocks or bonds, although they can be various other financial products, even some of the derivatives.

Emergence of the market for Derivative contracts arises from the desire of economists who do not stabilize risks to protect themselves from the uncertainty that arises from volatile commodity prices. By closing commodity prices, imported products reduce the impact of commodity price fluctuations on profit and cash flow the situation of investors who do not like risk. Derivative products began to emerge as fencing devices against flexibility

HISTORY

The National Stock Exchange is one of India's newest stock exchanges (1992). In 1992, the National Stock Exchange was established as a tax-paying corporation, which was later recognised as a stock exchange under the Securities Contract Regulation Act of 1956. The NSE began trading Index Futures on June 12, 2000. The underlying S&P CNX Index serves as the foundation for this financial derivative index. Derivatives on equities goods have been the biggest major success in the exchange-traded market. Index futures launched in June 2000, followed by index options in June 2001, then individual stock options and futures in July 2001 and November 2001, respectively. Since their introduction, derivatives on stock indices and individual equities have risen fast. Single stock futures, in particular, have become as popular as index futures.

In reality, the NSE has the biggest volume (number of contracts traded) in single stock futures in the world, making it the top holder among world exchanges at the moment. While single stock options were once less popular than stock futures, they have seen a rapid increase in popularity since being modified to European style in 2011.On June 4, 2001, the NSE introduced Index Option. Individual security futures were first traded on November 9, 2001. Futures contracts are available on 233 SEBI-approved stocks. Options on individual securities began trading on July 2, 2001. The option contracts are based on the American method of exercising options. Trading Interest Rate Futures was launched on June 24, 2003, but it was later shut down owing to pricing issues. On January 1, 2008, the NSE launched Mini Index Futures and Options, with a minimum contract size of Rs 1 lakh. On December 10, 2008, the NSE began trading Currency Futures on the US Dollar-Rupee in the Indian Derivative Market. Index options, on the other hand, are far more popular than index futures. Index options now account for almost two-thirds of overall F&O turnover. Interest rate futures on 10 Year Notional Coupon bearing Govt. of India Security and the recently announced (2011) 91-day Govt. of India T-Bill were issued by the NSE in 2009, but they have seen

limited activity compared to equity derivatives. Exchanges were allowed to begin offering currency derivatives contracts in the second half of 2008, beginning with the USDINR currency pair. In February 2010, three more currency pairs were added: EURINR, GBPINR, and JPYINR. Currency options contracts for USDINR were introduced on October 29th, 2010 and are currently the only option contract available in the market. Forex derivatives have experienced more activity and higher trade volumes than interest rate derivatives or any other category since their inception. Only since April 2003 has it been possible to trade exchange-traded commodities derivatives.According to SEBI criteria, a retail investor is someone who invests less than Rs 2 lakh in a particular security at any given time. A High Net Worth Individual is an investor who invests more than Rs 2 lakh in a particular security at any given time (HNI). Scheduled commercial banks, foreign institutional investors registered with SEBI, insurance players registered with IRDA, asset management companies, pension funds with a corpus of at least Rs 25 crore, and provident funds with a corpus of at least Rs 25 crore are all examples of qualified institutional buyers. In comparison to developed countries, retail participation in the Indian capital market is essentially non-existent.

By 2011, it recorded around 109 commodities available for futures trading on 21 approved exchanges. Bullion contracts account for 40.75 percent of all commodity turnover, or the majority of total turnover. MCX has the largest percentage of turnover among all exchanges, accounting for more than 82 percent of total traded value. In August 2009, the NSE introduced Interest Rate Futures. Currency Futures were introduced to the NSE in February 2010. In October 2010, the NSE offered Currency Options on the USD-Rupee. Later, the NSE began trading 91-day T-Bill Futures. In January 2013, the NSE launched S&P CNX Nifty Futures in Japan. NVIX Futures was launched by the NSE in February 2014.

Literature Review

(**Masood, 2016**)Derivatives are novel financial products developed in the twenty-first century to assist market participants.lowering the risk Commodity derivatives are not new to the globe, but they have reentered the fray with a fresh face. In India, derivatives are implemented on an index first, followed by securities and commodities phase by phase for the improvement of markets and price discovery. Following the introduction of commodity derivatives, the market for commodity derivatives began to move with colours, which greatly aided the economy. The Indian commodity derivatives market was streamlined in 2003, and futures contracts trading saw a spike in terms of volume and value over that decade, with very rapid expansion.To compete in the world market with international heavyweights like as NYMEX, CBOT, LME, and others, it established itself as the top fifth exchange in terms of number of contracts in gold, silver, copper, and natural gas. It has been discovered that trading in commodity futures is around three times more than trading in the actual market, but it is more than ten times greater in industrialised nations. Despite meeting worldwide norms, the sector has obstacles due to a lack of infrastructure, warehousing, inadequate risk-mitigation devices, and so on. If regulators address these challenges, the Indian commodities derivatives market will undoubtedly become a globalcommodity derivatives market icon.This article analyses the performance of the Indian commodity derivatives market by assessing market growth in terms of the number of commodities approved for trading, as well as the volume and value ofcommodity derivatives traded.

(Dr. Shree Bhagwat, 2012) The past decade has seen a tremendous growth in the volume of international trade and business as a result of this wave globalization and globalization. As a result, the need for international currency and finance tools are increasingly at the international level. In this case, changes in exchange rates, interest rates and shares market capitalization of various currencies increases financial risk in the corporate world. Negative changes have been equated threatened the very survival of the business world. therefore, to manage such risks, new financial tools are available developed in the financial markets, also known as financial sources ,. The basic purpose of these tools provide future price obligations to provide protection against improper movement future prices, in order to reduce the level of financial risks. Today, revenue has increased popular and widely used in the financial world. This is growing at an astonishing rate worldwide that is now called the derivatives revolution. In India, the emergence and growth of the derivatives market is relatively low the latest thing. Since its inception in June 2000, its exit market has shown tremendous growth both in terms of terms.volume and amount of contract sold. Market profits have grown from Rs.2365 Cr. 2000-2001 to Rs.16807782.22 Kr. in 2012-13. In a short period of twelve years, the output of some of India's stock has passed cash part based on profit and the number of commercial contracts. Successful research includes its scope, history, concept, meaning, types, features, law, market, styles, growth, prospects for the future and challenges to emerge from India and the market status of Indian derivatives are compared to the global exit market.

(BOSE, 2006) Export products offer some significant economic benefits such as risk management or risk redistribution away from risk aversion investors in those who are willing and able to take risks. Out of the other the acquisition of the price of a commodity, i.e. the process of determining the price level of any asset based on provision and demand. These exit functions help in efficiency economic allocation; at the same time their misuse also causes a threat to the stability of the financial sector and the economy as a whole. Kwein the mid-1990s India began to revive the outflow of trade in commodities market also introduces various tools in foreign trade derivatives market, while the derivatives of financial markets were introduced in 2001. Considering India's knowledge in the trade of random transactions, Products for sale quickly gained huge prices. This paper presents accounts of major developments in Indian market, exchange rate and derivative financial markets, and defines regulation provisions introduced to reduce the misuse of alternatives. (Vashishtha, 2010) Risk is a hallmark of many commodity markets and financial markets. Changes in the prices of agricultural and non-agricultural goods are lured, over time, by service delivery dynamics. The last two decades have seen a recurring increase in numbers the volume of international trade and business due to the globalization of trade as well universal freedom. This has led to a rapid and unexpected variety on commodity prices, interest rates and exchange rates, and later, to disclose business world in uncontrolled financial risk. In the current very uncertain business situation, the importance of disaster risk management is much greater than ever before. I the emergence of an exit market is a brilliant work of financial engineering that provides an effective and inexpensive solution to the risk problem attached to value uncertainty of basic assets. In India, the emergence and growth of the exit is another the market is the latest. Since its inception in June 2000, its output the market has shown significant growth in volume and sales value contracts.

Market fluctuations have grown from Rs.2365 crore in 2000-2001 to Rs. 11010482.20 crore in 2008-2009. In a short period of eight years, the output of the other trades India has exceeded its share of revenue in terms of profit and the number of trade contracts. In current research covers its scope to analyze the historical roots of alternative trade, product types, innovation and policy development, trends and growth, the future prospects and challenges of an Indian-based market. Another space is also dedicated to. A brief discussion of the state of the export market in the world compared to the exit from India market.

(Arora, 2010)OTC exit markets around the world have shown tremendous growth in recent years. After the current financial crisis, which is believed to have occurred to exacerbate OTC exit, growing attention is paid to the analysis of OTC the control area of these markets. In this context, we review the controls market structure of OTC derivatives in India. The paper, among other things, wants to prove the point that the OTC exit markets in India, unlike many others authorities, well controlled. Contracts only where one part of the contract is RBI-controlled business is considered legal in India. Good reporting system and a post-transaction cancellation and payment system, through an intermediate group, ensure proper monitoring of system risks in the Indian OTC market. From among the various OTC exit markets allowed in India, the interest rate exchange and foreign exchange transfer are two major markets. However, by international standards, the total size of the Indian OTC exit market outlets still remains small because the automatic credit fluctuations were not clearly in India until now. It seems that the Indian OTC exit markets will grow rapidly and thereafter the current financial crisis is over. This research paper explores those open-ended issues that are essential to ensure market stability and development. About a lot of issue we have discussed the competition between exit trading and OTC trading, they believe that both markets serve different purposes and can contribute significantly to them risk management and market efficiency, if viewed as consistent. About the introduction of new products from other credit risk transfer, the latest The RBI's announcement that it will introduce automatic credit fluctuations is welcome mark. We believe that the default credit stream alternates with the reporting platform once managing its post-trading activities with a middle class can provide better market monitoring. Strengthening the Erase position Corporation of India Ltd. (CCIL) as the only central Indian OTC company derivatives market and better management of the off-balance sheet business of financial institutions are two steps proposed to ensure stability of the market.

(BAMBA, 2013) Trading in derivatives in India began in June 2000, with the introduction of futures contracts in the BSE Sensex and the S&P CNX Nifty Index on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), respectively. In the Indian market, options trading began in June 2001. Since then, the futures and options (F&O) market has expanded in terms of new products, contracts, traded volume, and value. With a market share of more than 99.5 percent, the NSE has established itself as the industry leader in this area in India. From 2006 to 2007, the NSE's F&O segment outpaced the cash market segment, with an average daily turnover of Rs?91.91 billion compared to Rs114.79 billion in the cash segment (Derivatives Updates on NSE website, www.nseindia.com, 2007). This demonstrates the significance of derivatives in the economy's capital market sector. The research aimed to quantify the volatility effects of the cash market adoption of derivatives. We seek data in this study to determine if the listing of futures and options causes a major change in the volatility of the Indian stock market.

Many country-specific criteria impact substantially on the choice of enterprises in developing countries, as opposed to firm-specific ones in established economies, according to the hedging literature. Furthermore, greater legislation in such nations can increase hedging performance. According to research, various asset classes in developing nations have varied levels of efficiency and inefficiency. Because of market development and regulation, currency markets appear to be more efficient than commodities markets. The particular nature of market structure also has an impact on derivatives performance in emerging nations. Derivatives in developing market economies exhibit information distribution in terms of market efficiency. However, there are examples of irrational conduct by investors and noise traders in various markets.

Traders are susceptible to heuristic cognitive tendencies. There is more evidence that derivative trading is responsible for lower volatility in cash prices, however there is some evidence to the converse as well. This price stabilising function is critical in growing economies such as India and China, where large populations live in abject poverty.

(Singh, 2017)Derivatives in developing market economies exhibit information distribution in terms of market efficiency. However, there are examples of irrational conduct by investors and noise traders in various markets. Traders are susceptible to heuristic cognitive tendencies. There is more evidence that derivative trading is responsible for lower volatility in cash prices, however there is some evidence to the converse as well. This price stabilising function is critical in growing economies such as India and China, where large populations live in abject poverty.

(Mubarak, 2017)Derivatives' discovery rebuilt and revolutionised the whole global financial industry, and derivatives have earned a well-deserved and extremely prominent place among all financial instruments. Derivatives are customized contracts that are used for a variety of purposes such as lowering funding costs, increasing return, and lowering risk, among others. However, the most important use of derivatives is price discovery and market risk transfer, also known as hedging, which is a protection against losses caused by price volatility. Thus, derivatives are a significant risk management instrument, as well as a speculative and arbitraging tool, that aid in the proper management of risk and the optimization of outcomes by stakeholders. As people became more aware of the value of derivatives as a risk management, speculative, and arbitraging tool, derivatives markets expanded as well. The advent of the derivative market is an innovative work of financial engineering that provides an effective and less expensive solution to the risk problem caused by excessive uncertainty and price volatility. Since 2000, the Indian financial derivatives market has grown dramatically in terms of both volume and quantity of traded contracts, and stock markets are becoming more internationally efficient. Previously, the BSE was the most popular and dependable stock market in India, but since the creation of the NSE (National Stock Exchange), it has surpassed the BSE in terms of turnover. The NSE alone accounts for 90% of derivatives trading in Indian markets. According to official data, the overall sales in the financial derivatives industry increased by Rs 648258.24 billion in 2015-16, compared to Rs 2365 in 2000-01. When compared to NSE trading numbers, the NSE's performance is well merited, elegant, and encouraging in terms of volumes and number of contracts traded in all categories of derivatives products. As a result, the current study is being

conducted to examine derivative trading on the NSE in India. It is an attempt to depict the growth and extension of financial derivatives on the NSE in India from 2000-01 to 2015-16

(Dhar, 2013) The phrase risk management refers to the process of identifying, assessing, and prioritising risks, as well asthe coordinated and wise allocation of resources to control and mitigate risk by lowering the possibility and effect of unexpected events. Over the last three decades, derivative instruments have grown in importance, particularly in the realm of financial risk management. Forward contracts, futures, swaps, options, and other derivatives are commonly traded in the over-the-counter market by financial institutions, fund managers, and corporate treasurers. Derivatives are included in bond issuance, utilised in CEO compensation schemes, and integrated in capital investment possibilities, among other things. The research paper's objectives are to identify various hedging, speculation, and arbitraging strategies using derivative contracts, as well as to interpret how retail investors, High Networth Individuals (HNIs), and Qualified Institutional Buyers (QIBs) portfolios can be managed, optimised, rebalanced, and monitored. The study will also examine how a stock portfolio might be connected with the derivative market to strengthen an investor's position.

(Chand, 2021) During the first decade of the twenty-first century, India's liberalised economy saw a significant expansion in worldwide commerce, exposing Indian corporations to international currency volatility and hence the risk of loss due to currency fluctuation. Despite the fact that forward contracts are the most often used derivative contracts to mitigate currency risk. However, Indian corporations have used different types of derivatives to hedge foreign currency risk, such as swaps, options, and swap options. However, a lack of underlying knowledge of the risk on these derivative contracts, which were designed to hedge currency risks, resulted in massive losses for some corporations, causing them to declare bankruptcy.

Derivatives caused substantial losses in India and many other economies over the decade 2005-2010, affecting corporate profitability and resulting to the bankruptcy or near-bankruptcy of numerous Indian and global enterprises. Corporate losses resulted in heated opinions between market intermediaries such as banks and Indian corporates on issues such as the necessity to engage in such derivatives, resulting in litigation, some of which is still unresolved in Indian courts.

As a result, the financial system has suffered from and continues to suffer from severe structural deficiencies, as well as a lack of clear knowledge of the products, highlighting the need for a comprehensive risk management framework.

Corporates, it is believed, have yet to establish their adequate risk appetite and risk management framework in order to engage in derivatives, particularly currency derivatives. As a result, the focus of this research is on building an appropriate framework for developing a currency derivative framework for effective risk management for Indian corporates.

(Kaur, 2013)In its history of commodity derivatives, commodity futures market has witnessed several developments since 2003. There has been tremendous growth in commodity futures market in terms of volume of trade, number of products on offer participants and technology. Commodity futures are diversified asset class they do not boost resources for firms to invest, rather they allow producers to gain insurance for the future value of their outputs. Commodity futures perform two vital functions of the economy 1.e., price discovery and risk management. Futures markets provide liquidity and facilitates to hedge against future price risk.

(R, 2016)A great deal of effort has been expanding in investigating the important influence of the development of the derivatives market on various aspects of financial systems. In, (2010) explore the role of derivatives in the nexus between finance and growth via three channels: volume, efficiency, and risk. First, in the volume channel, the development of derivatives markets influences the financial market and economic growth by facilitating and increasing the accumulation of capital. It enhances the allocation of resources into investment activities at higher rates of return with the help of the mobility of savings and the higher potential of investment in an enormous range of risky projects. Second, the efficiency channel is a summary of several functions, such as an efficient substitute for cash market trade, resource movement across time and space, and an information provider for risk management and price strategy.

(Duc Hong Vo, 2018)The current study is a thorough check into the past, present and future status of progress and developmental policy opportunities for commodity exchanges in India. India is commonly an agricultural economy; as a result, fluctuations in commodity prices have always been a primary burden for the producers as well as the consumers. In India, more than two-third of the one billion populations rely upon on agricultural commodities. For agricultural liberalization Commodity Futures Markets are a part and parcel of a list. Many agricultural economists understood the

requirement of liberalization in this sector. Despite achieving that liberalization Futures markets acts as an instrument. Nevertheless, the recent effort by the Government to authorize National level Multi-Commodity Exchanges has given; an attempt in the arm-commodities includes all kinds of goods. The present study was undertaken with respect to all six National level Commodity Exchanges in India namely NMCE, Ahmadabad; MCX, Mumbai; NCDEX, Mumbai; ICEX, Mumbai; ACE, Ahmadabad; and UCX, Mumbai. In India, thus these exchanges are carrying on substantial role in trading activities.

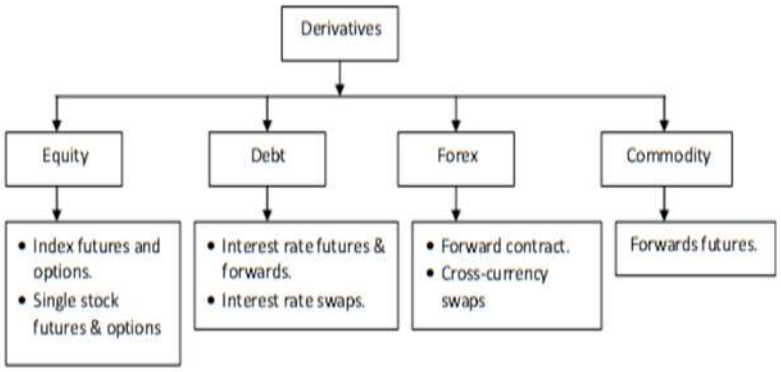
(Raol, 2008)Experts from different disciplines such as mathematics, statistics, economics, computer science, information technology and finance have contributed to the literature on derivatives. There are two main hypotheses to explain hedging. They are: (i) destabilizing force hypothesis; and (ii) market completion force/non-destabilization hypothesis. Destabilizing force hypothesis propounds that the derivatives market attracts highly levered and speculative participants due to lower trading costs, which creates artificial price bubbles and increases volatility in the spot market. Market completion force/non-destabilization hypothesis states that introduction of derivatives complements the spot market and improves information flow resulting in better investment choices for investors. It may bring more private information to the market and disseminate the same faster. Some studies suggest a possibility of speculators moving to the derivatives market from the spot market due to lower transaction costs and other benefits like cash settlement. This may lead to reduction in volatility.

(S.Sandra, 2021)Derivatives act like double-edged sword. On the one hand, derivatives if used effectively provides many benefits to the society like dissemination of information and bringing out liquidity and helping out in diversification as well as portfolio management. On the other hand, when used with in discretion. they may cause unimaginable miseries. Therefore, with the increased trading in derivatives, it is opined that there should be proper and well-established regulatory system to check the misuses. Most of the derivative transaction does not keep proper accounting records which make the audit of such transactions a difficult task. Derivative transaction with proper disclosures and control can act as a catalyst in the growth of Indian economy. The government shall introduce efficient regulatory system specifically meant for derivative market which shall be investors friendly as well.

Research Methodology

The present study is based on the analytical and descriptive research. The National level commodity exchanges in India namely NMCE, MCX, NCDEX, ICEX, ACE, and UCX were selected for the study. The study mainly depends upon the published secondary data. Secondary data are collected from the books related topics, articles, reputed journals; newspapers articles, websites, various reports, and records issued and maintained by the Government of India are also used in the study. In this we have also gone through the various types of assets.

TYPES OF DERIVATIVES MARKET



EQUITY

The options come from a financial alternative that allows you to buy or sell basic assets later. An optional contract, as described in the introduction, is a contract established by the seller that gives buyers the right, but not the obligation, to sell (optional placement) or to purchase (call option) certain goods at a certain future price.

In the case of call options, the buyer of the option is entitled to the collateral, and in the case of deposit options, the option buyer has the right to sell the collateral at the agreed price (called strike rate or exercise rate). This payment is known as a "premium" or "optional value." Options are similar to insurance contracts. Unlike the future, when stakeholders are prohibited from any profitable market movement, options buyers are protected from adverse risks while being able to reap the benefits of any favorable market movement. Profitable exchange rate fluctuations.The option buyer has the right but no obligation to enforce an optional contract, so the maximum loss an option buyer may have is limited to the amount of premium paid to enter into the contract. Options can be used for both fencing and speculation purposes. If an investor already has (or is expected to have) an open position in the local market, the option is used as a fencing tool. In the case of currency options, exporters may purchase telephone options to deal with the future depreciation of the local currency (which may make their foreign purchases more expensive), while exporters may purchase hedge options at exchange rates. There are other types of fencing, such as using a forward, future, or combination of all three, and the type of fencing chosen is determined by the costs involved.

DEBT

Interest rate risk is the risk when the overall interest rate fluctuations fluctuate. Interest rate risk has a direct impact on the value of fixed income instruments. Because interest rates and bond prices are negatively related, the risk associated with rising interest rates leads to a decrease in bond prices, on the contrary.

Bond investors, especially those who buy long-term bonds, are more vulnerable to interest rate risk..

SWAPS

A swap Is an exchange, just as it sounds. An interest rate swap, in particular, resembles a combination of FRAs in that it comprises an agreement between counterparties to exchange sets of future cash flows. The most frequent sort of interest rate swap is a plain vanilla swap, in which one party pays a fixed interest rate and receives a floating rate, while the other side pays a floating rate and receives a fixed rate

FOREX

Forward contracts are agreements to exchange an underlying security at an agreed rate on a specified future date (called expiry date). The agreed rate is called forward rate and the difference between the spot rate, the rate prevailing today, and the forward rate is called the forward margin. The party that agrees to buy the asset on a future date is referred to as a long investor and is said to have a long position. Similarly, the party that agrees to sell the asset in a future date is referred to as a short investor and is said to have a short position. Forward contracts are bilateral (privately negotiated between two parties), traded outside a regulated stock exchange (traded in the OTC or 'Over the Counter' market) and suffer from counter-party risks and liquidity risks. Here counter-party risk refers to the default risk that arises when one party in the contract defaults on fulfilling its obligations thereby causing loss to the other party.

	Forward Contract	**Futures Contract**
Nature of Contract	Non-standardized/ Customized contract	Standardized contract
Trading	Private contract between parties – Informal, Over-the-Counter market	Traded on an exchange
Settlement	Set by the parties. Pre-specified in the contract.	Final Settlement date is fixed by the exchange. In addition, there is a provision of daily settlement, known as daily mark to market settlement.
Risk	Counterparty risk exists, no independent guarantee.	Exchange provides the guarantee of settlement and hence no counter party risk.

COMMODITY

A futures asset contract is an agreement to buy or sell a certain amount of an asset at a specified price for a specific future date. The future of the asset can be used to fence or protect the investment climate, as well as to speculate on the direction of the underlying asset. Many investors mix futures contracts with options. The future contract owner is required to take action. Unless the owner releases a future contract before it expires, the underlying asset should be purchased or resold at a specified price. The future of a commodity is different from the commodity market.

Pros

The margin accounts used require only a fraction of the total contract amount initially deposited.

* Monitors and companies can trade on both sides of the market.

* Companies can calculate the prices of necessities, and control costs.

Cons

The high degree of leverage can amplify losses and lead to margin calls and significant losses.

Hedging a commodity can lead to a company missing out on favourable price moves since the contract is fixed.

If a company over hedges a commodity, it can lead to losses from unwinding the contract.

CONCLUSION

We have defined key focus areas in our study that characterise the economic role of derivatives. We reviewed the literature on price discovery, risk management and hedging, market efficiency, and market structural challenges that have arisen in recent years. Many emerging economies have not developed robust derivatives markets.

Trading in derivatives began in India in June 2000, when the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) launched futures contracts for the BSE Sensex and the S&P CNX Nifty Index, respectively. The Indian market began trading options in June 2001. The futures and options (F&O) market has been steadily expanding in terms of new products, contracts, traded volume, and value since then. With more than 99.5 percent market share, the NSE has established itself as India's market leader. One of the key causes of the worldwide meltdown impact in 2008-09 was Western economies' excessive usage of credit derivative instruments without appropriate underpinning. Due to the unregulated use of credit derivatives, the majority of Western financial institutions filed for bankruptcy. AIG, for example, experienced a liquidity issue as a result of its overreliance on credit default swaps.AIG was unable to predict that the majority of their creditors would default on payments since the US economy created excessive credit without adequate capital by issuing the Collateral Debt Security. When the real estate bubble burst, the western economy collapsed like a house of cards. As a result, risk management through derivatives is a skill; those who master it win the game; those who do not are doomed to lose. This demonstrates the importance of derivatives in the economy's capital market sector. The purpose of the study was to quantify the volatility consequences of introducing

derivatives to the cash market. We hope to learn whether the addition of futures and options to the Indian stock market has resulted in a major change in the stock market's volatility.

Emerging economies are dealing with global financial crises by allowing exchange rate fluctuations rather than external reserve fluctuations with their central banks. There have been structural changes in emerging economies' international reserve positions, such as insurance against external shocks, export composition, capital flows, and so on.

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