INTRODUCTION

Derivatives have been around in some form for centuries, their growth has accelerated rapidly during the last 25 years. The vast majority of derivatives, however, are created in private transactions in over-the-counter markets. In the last few years, there are a lot changes that have taken place in derivatives market. Both the gains as well as the risks in derivatives market for retail investors are high. The margining and collateral requirements pose challenges for retail investors, adding to the cost and complexity of derivatives trades.

Any market requires a fine balance between development and regulation. Too much of developmental focus would mean a less restrictive framework which could be open to manipulation. Too much of regulation could kill the market. The derivatives market in India is presently at a tipping point. A push in the right direction can frog leap the Indian capital market to very great heights.

There is a regulatory framework already existing for protection of retail investors. Which are the entities which are responsible for this framework? How robust is this framework? How protected do the small investors feel? What are some challenges which they feel in the derivatives market? Is the framework too restrictive? Is it too open to interpretation? Is it good enough to encourage retail investor’s to invest wisely in this highly volatile market? What activities have been done by various entities to educate the retail
investors about their rights and responsibilities? How effective have these been? These are some questions which this study shall attempt to find answers to.

The legal framework for derivatives trading is a critical part of overall regulatory framework of derivatives markets. This will be clear when it is discussed later on how the regulation and control of derivatives trading and settlement have been prescribed through suitable amendment to the bye-laws of the stock exchanges where derivatives trading was permitted.

While the role of state intervention in the functioning of markets is a matter of considerable debate, it is generally agreed that regulation has a very important and critical role to ensure the efficient functioning of markets and avoidance of systemic failures (Sahoo 1997). The purpose of regulation is to promote the efficiency and competition rather than impeding it.

The present study will analyse the above problems and try to make a research on the above issues.