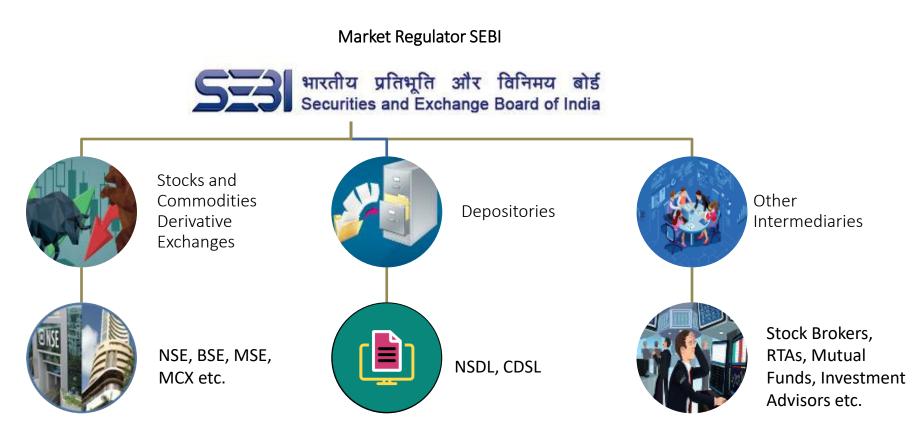
# **Let's Understand Derivative Trading**





#### Indian Securities Market - Overview





# Starting Investment in Securities Market



#### Accounts Required







**Bank Account** 

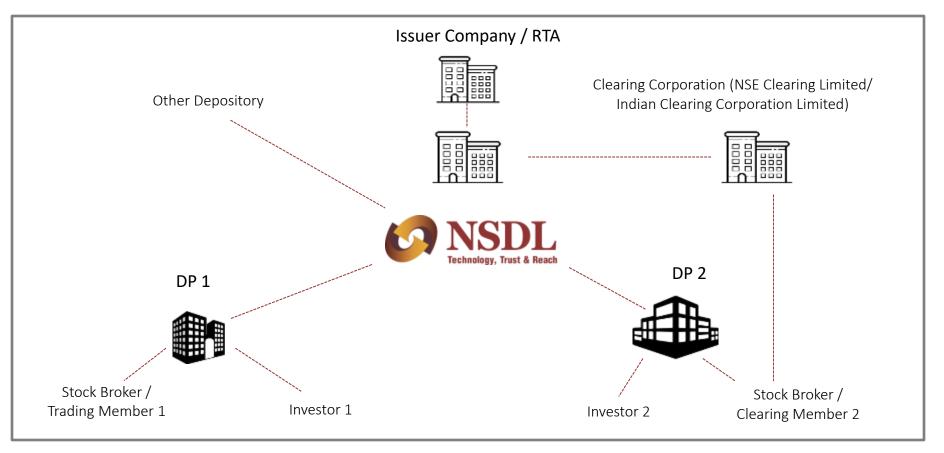
Trading or Broking Account

**Demat Account** 

Many DPs offer a 3-in-1 account opening facility which gives you the convenience of opening a trading, demat and bank account – all together. Now many DPs are offering online demat account opening. Trading or Broking account is required only if you want to buy / sell shares through stock exchange.

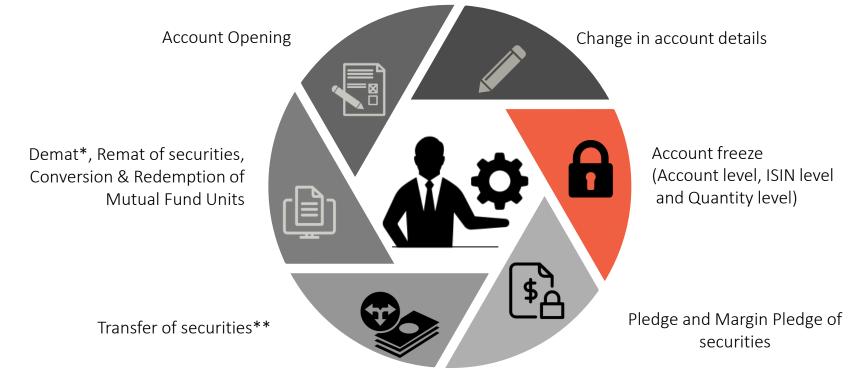
### Indian Securities Market - Depository System





# Services offered by Depository Participant

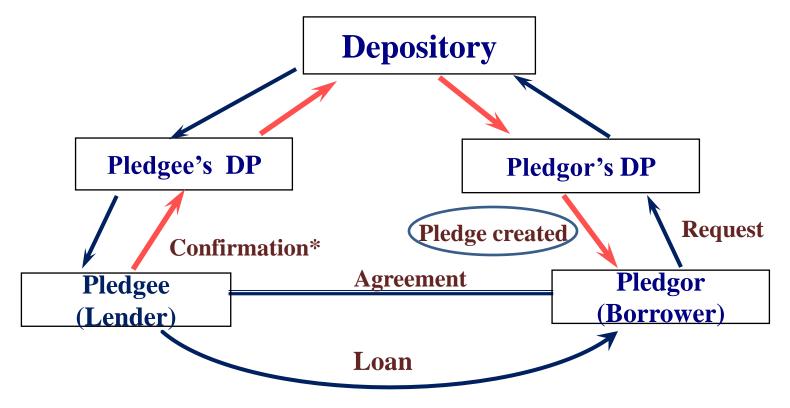




\*Even unlisted shares can be dematerialized. \*\*Transfer of securities held in physical form not allowed w. e. f. April 1, 2019. Re-lodgement of transfer deeds which were submitted prior to this, but were rejected or returned, was allowed till March 31, 2021. Shares pending for transfer with listed company / its RTA shall be issued only in demat.

## Pledge Creation and Confirmation

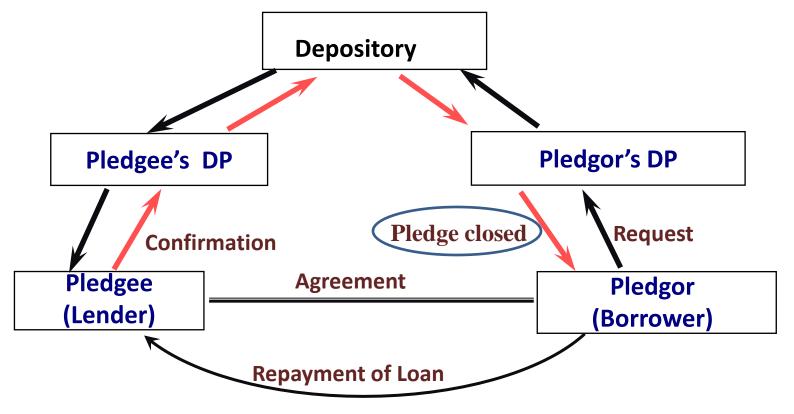




\* Not needed if Pledge Standing Instruction is enabled

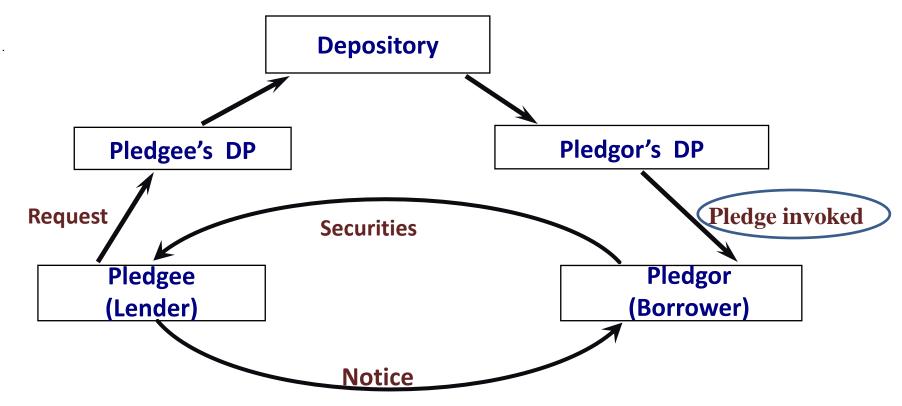
# Pledge Closure (Normal)





# **Pledge Invocation**





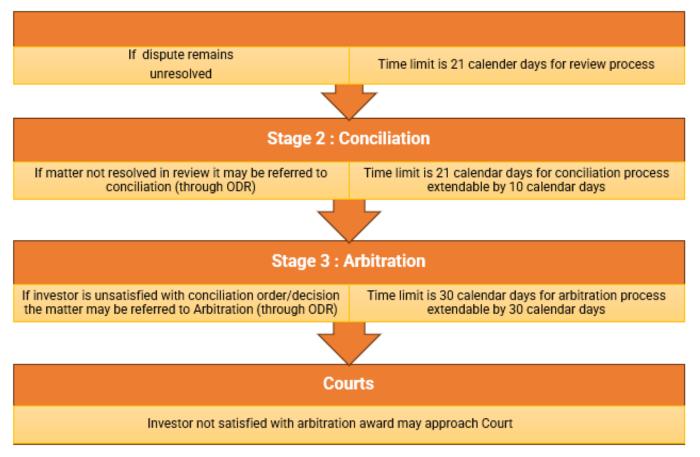
#### SMART Online Dispute Resolution (SMART ODR) Mechanism



- 1. An investor/client (including institutional/corporate client) shall first take up grievance directly with the Market Participant by lodging a complaint.
- 2. If the grievance is not redressed satisfactorily, the investor/client may escalate through SEBI SCORES.
- 3. If the investor/client is still not satisfied with the outcome, then the investor/client can initiate ODR through the SMART ODR portal.
- 4. An investor/client can initiate dispute through ODR if grievance is lodged directly with Market Participant and remains unresolved; **OR** after lodging grievance on SCORES and is not satisfactorily resolved.
- 5. Market Participant may also initiate dispute through the ODR Portal by giving notice period of 15 calendar days to the investor/client for resolution of the dispute, which is not resolved.
- 6. For more information, visit SEBI Circular No. SEBI/HO/OIAE/OIAE\_IAD-3/P/CIR/2023/195 dated July 31, 2023 on SEBI website.

#### Stages of SMART ODR





#### Legislative and Regulatory References

- Prevention of Money Laundering Act, 2002
- Prevention of Money Laundering (Rules), 2005
- SEBI Master Circular October 15, 2019

#### What is Money Laundering (ML)?

• Money Laundering is "the process in which the proceeds of crime are converted and disguised as legitimate assets"

#### What is Anti-Money Laundering (AML)?

• Anti-Money Laundering is "the initiative to effectively prevent, detect, control and report ML activities to the authorities"

#### What are Suspicious Transactions?

Transactions (including attempted transactions), that may involve proceeds from a predicate offence, do not have any economic rationale, made in circumstances of unusual or unjustified complexity or gives rise to a reasonable ground of suspicion that it may involve financing of activities relating to terrorism

Key Authorities – Financial Intelligence Unit (FIU-IND), Ministry of Home Affairs and the Enforcement Directorate

# Key points for all Investors

#### Technology, Trust & R IPFT

#### Individuals:

- Provide officially valid documents for proof of identity and address
- Furnish correct information on income, occupation, business, marital status, etc.
- Provide accurate financial information salary or business income as applicable
- Inform about any changes to the above information
- Invest only using own sources of funds, not third party funds
- Do not fall prey to any gimmicks or schemes from anyone

#### Non – Individuals:

- Provide officially valid documents for proof of identity and address
- Furnish information about Beneficial Owner(s), where applicable
- Furnish all other related documents (AoA, MoA, Partnership deed, ASL, etc.)
- Provide correct information about nature and type of business
- Changes to the above information may be duly informed to DPs

Cooperate with DPs who may seek any additional information for due diligence Be diligent and aware about various money laundering schemes Contact your DP or broker in case of any doubts



Keep record of documents signed, account statements, contract notes received and payments made. Save important emails and take periodic back up of data.

BO may note that off-market transfer of shares leads to change in ownership and cannot be treated as pledge.

Change password of your online accounts frequently. Never share your passwords, OTP, CVV and PIN with any one. Never click on suspicious links received via SMS, email or social media platforms.

Read SMS, emails, letters, statements, bills sent by your broker, bank, DP and NSDL. These are sent to you to keep you updated.

Accept the DIS only if serial number is pre printed and Client ID is pre stamped or pre printed. Keep DIS in safe custody. Do not to leave the DIS "blank or signed" with the Depository Participants (DPs) or any other person/entity when not in use.



- Inform your DP about any change in your Personal Information such as address, bank account immediately.
- If your DP is offering you an online account opening facility, you also have the facility to close your account online.

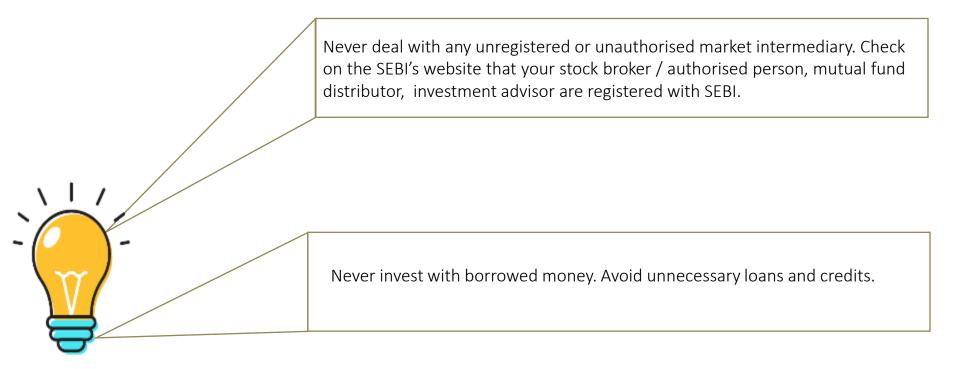
Always mention your Mobile Number and email ID in account opening form and keep them updated.

NSDL publications and presentations are available in Hindi, English and other languages at <u>www.nsdl.co.in</u>  $\rightarrow$  Education

Schedule of Awareness Programs, Registration, Feedback and Webinar Recordings are available at <u>www.nsdl.co.in</u>  $\rightarrow$  Education

#### Be a Prudent Investor – Don'ts







Nominate Karo - Surakshit, Samajhdaar, aur Atmanirbhar Niveshak Bano !



#### — NOMINATE YOUR LOVED ONES TODAY!! –

Opt-in/Opt-out of Nomination in your demat account for ensuring smooth transmission of securities and to prevent accumulation of unclaimed assets in securities market.





Do Not Fall Prey To Stock Tips, Hot Picks etc. Circulated on Twitter, Instagram, WhatsApp, Telegram, Unsolicited SMS, YouTube Channels etc.



Be a Prudent Investor – Consult a SEBI Registered Investment Advisor and Do Your Own Homework Before Investing



Do Not Invest In Any Ponzi Scheme, Unregistered Collective Investment Scheme or Any Other Schemes Promising Unrealistic Returns



Be a Prudent Investor – Consult a SEBI Registered Investment Advisc and Do Your Own Homework Before Investing

# Be Vigilant! Invest through a SEBI registered Intermediary

Investors are advised to stay away from fraudulent schemes/Apps promising unrealistic returns. Beware of impersonators !!

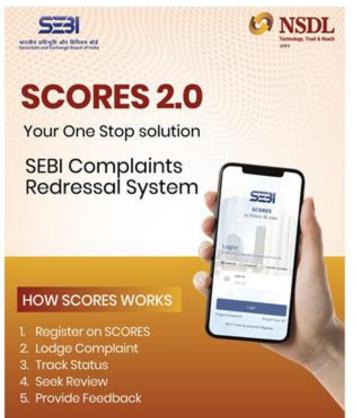
For more information on NSDL Depository Participants registered with SEBI, visit <u>https://nsdl.co.in/direct\_search.php</u> on NSDL website.

For SEBI registered Intermediaries, visit <u>SEBI | Recognised Intermediaries</u> on SEBI website.

# Proceed with Caution

stay away from fraudulent schemes/Apps promising unrealistic returns

#### **SEBI Complaints Redressal System - SCORES 2.0**



For more information, visit <u>https://scores.sebi.gov.in/scores-home</u>



#### **Dharohar – Milestones in the Indian Securities Market**

An Initiative By



# Explore the evolution of Indian Securities Market



Website: https://mism.org/

Milestones in the Indian Securities Market

Launched by SEBI on the occasion of 76th Republic Day, January 26, 2025

Get ready to explore the transformation of India's securities market!

SEBI's 'Dharohar' platform offers a unique glimpse into the market's growth over the years.

For more information, visit <a href="https://mism.org/">https://mism.org/</a>







### **SEBI Launches Free Online Investor Certification Examination**

#### **Fechnology**, Trust IPFT

#### Enhance your investment knowledge and test your skills with this voluntary certification program



#### TEST YOUR KNOWLEDGE WITH

### **SEBI-Investor Certification Exam**

The registration process is easy just use your Aadhaar and OTP. Don't miss this opportunity to test your financial skills and stay ahead

Think you know the basics of securities market?



Test your knowledge of securities Markets and investment.



Test yor knowledge about investment process and associated risks





certification@nism.ac.in



FREE ONLINE CERTIFICATION EXAM

No Exam Fee

 To test your Knowledge about securities market

💇 Free Study Material

REGISTRATION

https://sice.nism.ac.in/

SCAN FOR



Test your Knowledge with

#### SEBI-Investor Certification Examination







भारतीय प्रतिभूति और विनिमय बोर्ड Securities and Exchange Board of India

🔮 +91 8080806476 🛛 certification@nism.ac.in

#### For more information, visit

SEBI Investor Website (https://investor.sebi.gov.in/)

NISM website (https://www.nism.ac.in/sebi-investorcertification-examination/).

### **SEBI Investor Website**





Learn to Manage Your Money for Financial well-being.

For more information related to investments in securities market, please visit SEBI Investor Website <u>https://investor.sebi.gov.in</u>

### SEBI Saa₹thi 2.0 Mobile App





For more information related to investments in securities market, please visit SEBI Investor Website <u>https://investor.sebi.gov.in/</u> and SEBI Saa₹thi Mobile App

## NSDL Newsletter for Investors



#### The Financial Kaleidoscope - Free monthly newsletter





March 2025

#### Women and Financial Planning: Taking Charge of Your Financial Future



www.nsdl.co.in

Education

Newsletter – The Financial Kaleidoscope

# If You are holding Securities in Paper form



- 1. Provide PAN, KYC information and Nomination to RTA / Company for all joint holders.
- 2. Get PAN and Aadhaar linked for all joint holders.
- 3. Folio may be frozen if not complied.
- 4. Electronic interface provided by company / RTA for various service requests like issuance of duplicate shares, transmission, change in name etc.
- 5. SEBI has prescribed 'Simplified and Standard Norms' for processing of various service requests [Form ISR 1 and other forms available on website of listed company / RTA].

# Lodge complaints for Unsolicited Communication and fraudulent activities using telecom resources



In case of Unsolicited Communication and fraudulent activities using telecom resources, you can lodge complaints as follows:

- a) In case of receiving spam or commercial communication make "DND" complaint at respective Telecom Service Provider's App/Website, TRAI DND App, or Call/SMS to 1909
- b) In case of receiving suspected fraud communication, report the same to "Chakshu Platform" of DoT (<u>https://sancharsaathi.gov.in/sfc/Home/sfc-complaint.jsp</u>)
- c) In case fraud has already happened Report the same to Cyber Crime helpline number 1930 or website (<u>https://www.cybercrime.gov.in</u>)

# **Grievances Redressal**

- 1. Read Investor Charter at <u>www.nsdl.co.in</u>  $\rightarrow$  Education
- Lodge your complaint with SEBI at <u>https://scores.sebi.gov.in/</u> or SEBI Saa₹thi Mobile App.
- For filing dispute for resolution by conciliation and arbitration, visit SEBI's Securities Market Approach for Resolution Through ODR (SMART ODR) Portal <u>https://smartodr.in/login</u>
- 4. SEBI Toll free helpline 18002667575 / 1800227575
- 5. NSDL helpline 022-48867000
- 6. Online submission of Grievances at <u>www.nsdl.co.in</u>  $\rightarrow$  Query related to Demat
- 7. NSDL email for grievance <u>relations@nsdl.com</u>
- 8. NSDL email for other information info@nsdl.com







# Be alert.

Never click on unknown links... you may risk expos your bank account to frauds.



#### Beware of unknown links:

- · Delete SMS/emails with unknown links immediately
- · Verify details of website if it requests financial details
- · Do not share personal or bank inform on social media



isit https://rbikehtahai.rbi.org.in/dp



DigiSaathi, 24/7 helpline for automated responses on information related to digital payment opt Toll-Free Number: 1800-891-3333; A Short Code: 14431; Website: www.digisaathi.info





Beware of links offering: Unauthorised Digital Lending App Fake Lottery Schemes



For more details.

- · While making payments using QR cod confirm the name on the screen
- · Never download Lending Apps from unknown sources
- Do not share personal or bank information with unknown entities



DigiSaathi, 24/7 helpline for automated responses on information related to digital payment opt Toll-Free Number: 1800-891-3333; A Short Code: 14431; Website: www.digisaathi.info



# Be smart.

Verify the credentials of unknown callers, investme portal sites and requests for urgent help for money through social media.





#### Beware of fraudsters:

- · Do not answer calls/emails from unkno persons demanding money
- · Check details of websites/Apps offering high returns
- · Verify requests for urgent help for mon



For more details. isit https://rbikehtahai.rbi.org.in/dp



DigiSaathi, 24/7 helpline for automated responses on information related to digital payment op Toll-Free Number: 1800-891-3333; A Short Code: 14431; Website: www.digisaathi.info



# **Derivative Trading**

#### What is a Derivative?

- 1. It is a financial instrument that derives it value from some other asset.
- 2. The value is derived from the value of one or more variables related to underlying asset in a contractual manner.
- 3. Hence, derivative is actually a contract, not an asset.





# Type of Underlying Assets



- 1. Financial assets such as equities, debts, bonds, currencies and indices.
- 2. Agricultural produce such as grains, coffee, pulses and cotton.
- 3. Metals such as gold, silver, copper and aluminum.
- 4. Energy sources such as crude oil, natural gas, electricity and coal.
- 5. Interest rate.



### Why Derivative?



1. Derivatives helps as a risk management tool for anyone having an underlying risk exposure based on the future price of a financial asset or a commodity.

It works on the principle of transferring the price risk from one party to another who is willing to take that risk in anticipation of financial benefits in the future.

2. Derivatives market helps in improving price discovery in market.



# Types Of Derivative Contract



Future:

- I. Futures contract is an agreement between two parties to 'buy' or 'sell' specified quantity of an asset on a specified date at a fixed price.
- II. Future contracts are standardized and are traded on exchange.

Options:

- I. Gives the holder a 'Right' to buy or sell the underlying asset.
- II. 'Right' is transferable / tradeable.
- III. It is not mandatory for holder to exercise the Right.

Another way to classify 'Derivatives' is based on the underlying Asset.

# **Equity Derivatives - Stock Based**



- 1. Equity derivative is a contract between two persons to buy or sell the underlying equity share in the future at a specific price.
- 2. Equity derivative derives its value from increase or decrease in the price of underlying equity share in the market.
- 3. Equity derivatives (stock options and futures) are available for stocks which are selected by stock exchanges on the basis of strict criteria.



## Equity Derivatives - Index based



- 1. Index derivative is the derivative contract that has an index as underlying asset.
- 2. Examples :
- I. Nifty futures and Nifty options
- II. Nifty midcap 50 futures and options
- III. Sensex futures and options





Parameter	Explanation		
Trading Cycle	<ol> <li>Maximum of 3-month trading cycle - the near month (one), the next month (two) and the far month (three).</li> <li>A new contract for 3 months duration is introduced on the trading day following the expiry of the near month contract.</li> <li>This way, at any point in time, there will be 3 contracts available for trading in the market - one near month, one mid month and one far month duration.</li> </ol>		
Expiry Date	<ol> <li>Last Thursday of the expiry month.</li> <li>If the last Thursday is a trading holiday, the contracts expire on the previous trading day.</li> </ol>		
Contract Size	Minimum ₹5 lakh at the time of introduction.		
Price step	5 paise		



Parameter	Explanation	
Trading Cycle	<ol> <li>7 weekly expiry contracts, 3 consecutive monthly contracts, 3 quarterly months of the cycle March / June / September / December and 8 following semi-annual months of the cycle June / December are available.</li> <li>At any point in time there would be options contracts with at least 4 year tenure available.</li> <li>New serial weekly options contract are introduced after expiry of the respective week's contract. On expiry of the near month contract, new contracts (monthly/quarterly/ half yearly contracts) are introduced at new strike prices for both call and put options, on the trading day following the expiry of the near month contract.</li> </ol>	
Expiry Date	<ol> <li>Last Thursday of the expiry month.</li> <li>If the last Thursday is a trading holiday, the contracts expire on the previous trading day.</li> </ol>	
Price step	5 paise	

#### **Currency Derivatives**

- 1. Currency derivatives are contracts that involve the exchange of two currencies at a future date at a predefined rate.
- 2. Currency derivatives are similar to Stock Futures and Options. However, the underlying asset are currency pairs (such as USDINR or EURINR) instead of Stocks.



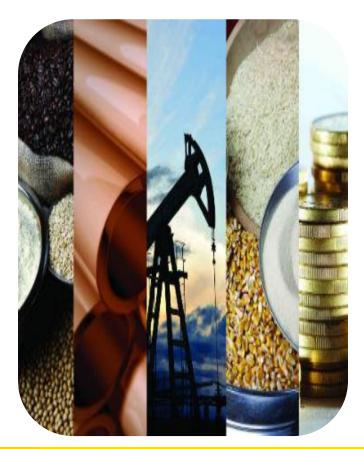




- 1. Interest Rate Futures
- 1. It's a contracts to buy or sell a notional security or any other interest-bearing instrument or an index of such instruments or interest rates at a specified future date, at a specified price.
- II. Currently, IRF contracts are available on Government of India securities, Treasury bills and MIBOR.
- 2. Interest Rate Option
- I. It's a contract whose value is based on Rupee interest rates or interest rate instruments.
- II. Currently, IRO contracts are available on Government of India securities.

#### **Commodity Derivatives**

- 1. Commodity Derivative is the contract whose value is derived from an underlying commodity that is to be settled on a specific future date.
- 2. Commodity derivatives were the first form of derivatives. Later the concept of derivatives was introduced in other securities and assets.
- 3. Contracts available on Brent Crude Oil, Copper, Degummed Soy Oil, Gold and Silver.







Term	Meaning
Strike price	<ul> <li>This is the price at which the buyer of a call option can buy a stock on or before the expiry date of contract.</li> <li>This is the price at which the buyer of a put option can sell a stock on or before the expiry date of contract.</li> </ul>
Expiration date	The date on which a derivative contract is settled.
European Option	Option contract that can be exercised by the buyer only on the expiration date.
American option	Option contract that can be exercised by the buyer on any day on or before the expiration date.



Term	Meaning
Contract value	It is the notional value of a transaction, calculated by multiplying the contract size with the future price of the stock.
Buyer of a Call / Put Option	The Buyer of a Call/Put Option is one who buys the right (but not the obligation) to buy/sell the underlying asset by paying the option premium.
Writer (or seller) of a Call / Put Option	The Writer of a Call/Put Option is one who agree to sell/buy the underlying asset if the buyer of option desires so, against the receipt of option premium.
Option Price	Intrinsic Value + Time value Intrinsic Value is difference between Strike Price and Current Market Price. Time value premium decreases as the option approaches maturity.



Term	Meaning
In-the-money option	An option is said to be In-the-money at a given time, if on exercising the option at that time, it would bring cash inflow for the buyer. This happens when the strike price of the underlying asset is less than its spot price.
Out-of-the- money option	An option is said to be Out-of-the-money at a given time, if on exercising the option at that time, it would result in cash outflow for the buyer. This happens when the strike price of the underlying asset is greater than its spot price.
At-the-money option	An option is said to be At-the-money at a given time, if on exercising the option at that time, it would be cash neutral for the buyer. This happens when the strike price of the underlying asset is equal to its spot price. But a movement in either direction leads it to becoming in-the-money or out-of-the-money option.

### Moneyness of Option Contracts



Particulars	In the Money	At the Money	Out of the Money
Call Option	Spot Price > Strike Price	Spot Price = Strike Price	Spot Price < Strike Price
Put Option	Spot Price < Strike Price	Spot Price = Strike Price	Spot Price > Strike Price



Term	Meaning
Open Interest	Total number of option contracts that are still open i.e. have not yet been exercised or not yet expired or have not been closed out by an offsetting transaction.

Time	Time         Trading Activity           Jan 1         A buys 1 option and B sells 1 option contract	
Jan 1		
Jan 2	2 C buys 5 options and D sells 5 options contracts	
Jan 3	A sells his 1 option and D buys 1 option contract	
Jan 4 E buys 5 options from C who sells 5 options contracts		5

Volume

Number of contracts traded during a given period of time. It reflects the number of contracts that changed hands from a seller to a buyer, regardless of whether it is new contract being created of an existing contract.

### How To Interpret Open Interest?



An increase in open interest along with an increase in price is said to confirm an upward trend. Similarly, an increase in open interest along with a decrease in price confirms a downward trend. An increase or decrease in prices while open interest remains flat or declining may indicate a possible trend reversal.

Price	Open Interest	What does it indicate?
Increase	Increase	Long Build-up
Increase	Decrease	Short Covering
Decrease	Increase	Short Build-up
Decrease	Decrease	Long Unwinding

### How To Trade In Derivatives?



- 1. Derivative trading is open to all individual investors having a minimum net worth of ₹2,00,000.
- 2. You need the following to trade in derivatives -
  - I. A trading (or broking) account
  - II. A savings bank account
  - III. A demat account (to keep collaterals / margins in demat form)
- 3. You need to select exchange(s) and derivative segment(s) in the trading account opening form.
- 4. If you already have a demat and a bank account, the same can be used for derivative trading.

#### How To Trade In Derivatives?

- 5. Select your stocks and contracts on the basis of the amount you have in hand, margin requirements, the price of the underlying shares, as well as the price of the contract.
- 6. You can place an order online or on phone or through broker's website or App.
- 7. You can hold the contract till its expiry and then settle it or you can enter into an opposite position.





## **Option Pricing**



- 1. There are various option pricing models.
- 2. Black-Scholes pricing model is one of most popular model.
- 3. It uses following factors to compute the fair price of an Option Contract -
  - I. Spot price of the underlying asset
  - II. Strike price of the option
  - III. Volatility of the underlying asset's price
  - IV. Time to expiration
  - V. Interest rates



- 1. Futures contracts have linear payoffs means there can be potentially unlimited upside or unlimited downside.
- 2. Convergence : The difference between spot and futures contract declines as the contract nears to its expiry so as to become zero on the date on maturity.
- 3. Future contracts are valued as difference of spot price and the futures price. When the future contract trades at higher then spot, it is said to be at a Premium, else at Discount.

## Taxation of Derivative Trades



- 1. Prior to F. Y. 2005–06, all derivative trades were considered as speculative transactions for the purpose of Income Tax Act.
- 2. A loss on a derivative trade could only be set off against other speculative income which resulted in the payment of higher taxes for such individuals.
- 3. Now, derivative transactions carried out in a 'recognised stock exchange' are excluded from speculative transactions. Hence, losses on such transactions can be adjusted against other sources of income (except income from salary).
- 4. Such losses can also be carried forward for a period of eight successive years.
- 5. This provision is not applicable for transactions carried out on un-recognised exchange and non-listed instruments.
- 6. Deduction available for Securities Transaction Tax (STT) paid on such transactions.

## Remember – If you are trading in Derivatives



- 1. Derivatives are different from Equities. They need lot more understanding and research.
- 2. Understand the risks and market dynamics involved in derivative trading.
- 3. Take qualified professional's help if you need.
- 4. Before commencing trade, understand all charges including brokerage, commissions, and other fees. Check that it is as per the guidelines issued by SEBI and Exchange.
- 5. Ensure all your trades are conducted under your Unique Client Code (UCC).

## Remember – If you are trading in Derivatives



- 6. Always get a duly signed contract note for every trade and verify all details on it.
- 7. Keep adequate funds and securities to meet sudden margin calls.
- 8. A good strategy is to first invest in products like mutual funds.
- 9. After gaining some experience investors can move to buying stocks and then to derivative, if they are confident enough.
- 10. Derivate market is dominated by sophisticated players and algo traders. They have access to high end technology and quicker means of access to latest market information. This means retail investors must do thorough homework to succeed in derivative trading.



# THANK YOU

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