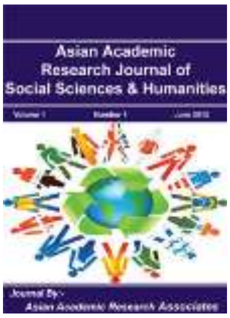
AARJSH VOLUME 1 ISSUE 6 (DECEMBER 2012) ISSN : 2278 – 859X

A Peer Reviewed International Journal of Asian Academic Research Associates

AARJSH

ASIAN ACADEMIC RESEARCH JOURNAL OF SOCIAL SCIENCE & HUMANITIES



FINANCIAL DERIVATIVE BUSINESS IN INDIA

MR. D BALAMUNISWAMY*; DR. MORUSU SIVA SANKAR**

* Research scholar
Dept. of Economics
S V University Tirupati 517502

** Post-Doctoral Fellow,
Dept. of Commerce,
S V University Tirupati 517502

ABSTRACT

A derivative is a financial instrument whose value is based on one or more underlying assets. In practice, it is a contract between two parties that specifies conditions (especially the dates, resulting values of the underlying variables, and notional amounts) under which payments are to be made between the parties. The most common types of derivatives are: forwards, futures, options, and swaps. The most common underlying assets include: commodities, stocks, bonds, interest rates and currencies.

Under US law and the laws of most other developed countries, derivatives have special legal exemptions that make them a particularly attractive legal form to extend credit. The strong creditor protections afforded to derivatives counterparties, in combination with their complexity and lack of transparency however, can cause capital markets to underprice credit risk. This can contribute to credit booms, and increase systemic risks. Indeed, the use of derivatives to conceal credit risk from third parties while protecting derivative counterparties contributed to the financial crisis of 2008 in the United States.

Financial reforms within the US since the financial crisis have served only to reinforce special protections for derivatives, including greater access to government guarantees, while minimizing disclosure to broader financial markets.