



DERIVATIVES

Derivatives: what they are

Contracts that take their value from something else: what they do, how margin works, what SEBI found

SEBI study figures for FY 2025-26, published August 2026; rules as on 12 October 2026

For training and education only. Not investment advice.

A derivative is a contract whose value comes from the price of something else.

That something else is called the underlying. It can be a share, an index, a currency, a commodity or an interest rate. The price is agreed today; the contract is settled later.

Four kinds of contract



Forward

A private agreement to buy or sell something on a future date at a price fixed today. It is not traded on an exchange.



Future

A forward in a standard size, traded on an exchange. A clearing corporation stands between the buyer and the seller.



Option

A right, but not a duty, to buy (a call) or to sell (a put) at a set price. The buyer pays a premium for that right.



Swap

An agreement to exchange one stream of payments for another, such as a fixed interest rate for a floating one.

Hedging: an exporter fixes her rupees

THE SET-UP

An invented garment exporter will be paid US\$ 1,00,000 three months from now.

She agrees a forward with her bank: she will sell the dollars at ₹90 each on that day. The rate is assumed.

- 1 With the forward she will receive $1,00,000 \times ₹90 = ₹90,00,000$, whatever the dollar is worth on the day.
- 2 If the dollar is at ₹87 on the day, she would have received ₹87,00,000 unhedged. The forward leaves her ₹3,00,000 better off.
- 3 If the dollar is at ₹93 on the day, she would have received ₹93,00,000 unhedged. The forward leaves her ₹3,00,000 worse off.
- 4 In both cases she receives ₹90,00,000. She gave up the possible gain to remove the possible loss.

A hedge does not aim to make money. It fixes an outcome that was uncertain.

Illustration with an invented exporter and assumed exchange rates. Not a view on the rupee.

Three reasons people use them

Use	What the person does	What happens to risk
Hedging	Already has an exposure and takes the opposite position in a derivative. The exporter on the previous slide is a hedger.	An existing risk is reduced. Some possible gain is given up in return.
Speculation	Has nothing to protect. Takes a position because of a view on where the price will go.	A new risk is taken on. The result depends on being right, and on being right in time.
Arbitrage	Buys in one market and sells the same thing in another at the same time, to capture a gap between the two prices.	Little price risk is intended. The gaps are usually small and close quickly.

The contract is the same in all three. What differs is the position the person already holds.

Cash market and derivatives market

Cash market

- You buy the share itself.
- You pay the full price.
- There is no expiry. You can hold for years.
- The loss cannot exceed what you paid.

Derivatives market

- You enter a contract on a share or an index.
- You deposit a margin, a part of the value.
- Every contract has an expiry date.
- A loss on futures can exceed the margin.

An index derivative contract must be worth at least ₹15 lakh when it is introduced (SEBI, 2024).

Source for the contract value: SEBI circular SEBI/HO/MRD/TPD-1/P/CIR/2024/132, 1 Oct 2024, para 5.4.

Margin: a small move, a large result

ONE CONTRACT

An index futures contract is worth ₹16,00,000.

The buyer deposits a margin of 12.5%, which is ₹2,00,000.

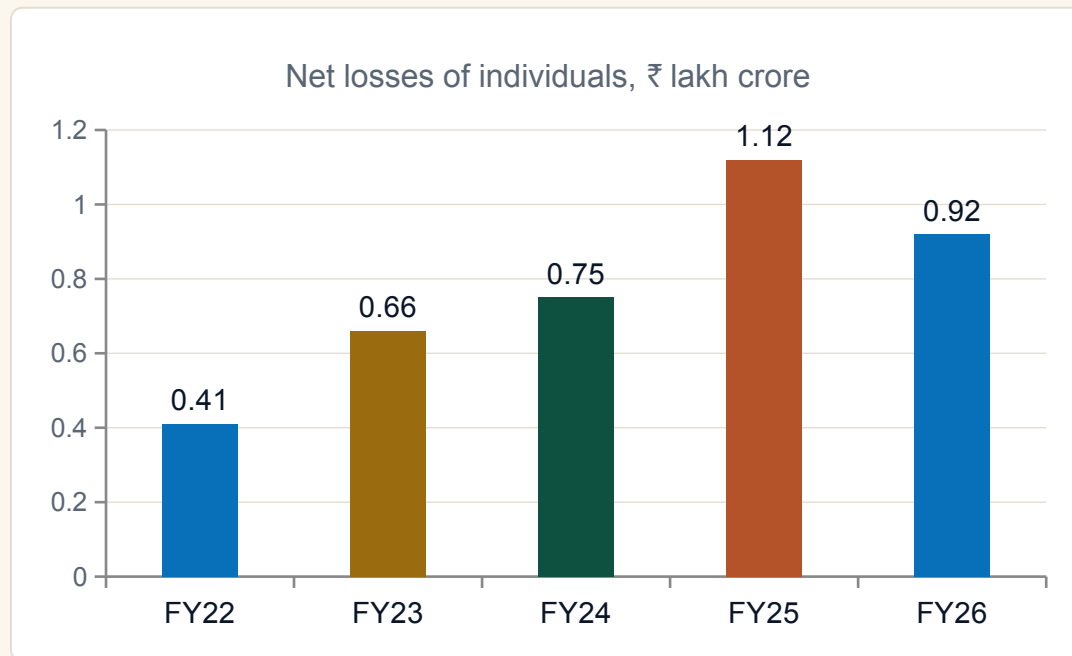
All figures are assumed.

- 1 He controls ₹16,00,000 with ₹2,00,000. That is 8 times his money ($16,00,000 \div 2,00,000$).
- 2 The index rises 2%. Gain: 2% of ₹16,00,000 = ₹32,000. On his ₹2,00,000 that is a gain of 16%.
- 3 The index falls 2% instead. Loss: ₹32,000. On his ₹2,00,000 that is a loss of 16%.
- 4 The index falls 15%. Loss: ₹2,40,000. That is his whole margin and ₹40,000 more.

A 2% move became 16% of his money, up or down. Leverage multiplies both.

Illustration with assumed figures. Actual margins are set by the clearing corporation and change with risk.

SEBI found: most individual traders lose



Equity futures and options

- In FY 2025-26, 87.7% of individual traders made a net loss (90.9% the year before).
- Sample's combined net loss, FY 2025-26: ₹91,685 crore, after transaction costs.
- Average net loss: ₹1.17 lakh a trader. Options made up 92% of the losses.
- Five years, FY22 to FY26: about ₹3.85 lakh crore of net losses.

Source: SEBI, 'Profitability of Individual Traders in the Equity Derivatives Segment (FY25-FY26)', August 2026. Sample: top 15 brokers, about 90% of individual traders.

What SEBI changed from late 2024

Measure	What changed	Date
Larger contracts	An index derivative contract must be worth at least ₹15 lakh when introduced. The earlier range, ₹5 lakh to ₹10 lakh, was set in 2015.	20 Nov 2024 (new); NSE 2 Jan 2025
Fewer weekly expiries	Each exchange may offer contracts with a weekly expiry on only one of its benchmark indices.	20 Nov 2024
Expiry-day margin	An additional 2% margin on options sold that expire that day. Offsetting across expiries is not allowed for contracts expiring that day.	20 Nov 2024 and 10 Feb 2025
Premium upfront	Brokers must collect the option premium from the buyer upfront.	10 Feb 2025
Fixed expiry days	Each exchange's equity derivatives expire on one day, Tuesday or Thursday. Apart from one weekly index option, contracts run at least a month.	Circular of 26 May 2025

Sources: SEBI circulars SEBI/HO/MRD/TPD-1/P/CIR/2024/132 (1 Oct 2024) and SEBI/HO/MRD/MRD-TPD-1/P/CIR/2025/76 (26 May 2025); SEBI study, Jul 2025.

How mutual funds may use derivatives

100%



Total exposure cap

Equity, debt and derivative exposure together cannot exceed 100% of net assets. A hedge no larger than its holding is exempt.

20%



Options

A scheme cannot write (sell) options, except covered calls on shares it holds. Option premium paid and received is capped at 20% of net assets.

65%



Arbitrage funds

They typically buy shares and sell matching futures. At least 65% of assets is in equity and equity-related instruments.

Trustner distributes mutual funds. It does not distribute or recommend derivative trading.

Source: SEBI Master Circular for Mutual Funds as on 20 March 2026: paras 8.5.1, 13.15.1, 13.18.1, 13.18.3 and 13.18.6, and the category table for hybrid schemes.

Four things people get wrong



'Derivatives are only for gambling.'

Exporters, importers, producers and funds use them to hedge. The contract is the same; what differs is the use.



'The margin is the most I can lose.'

On futures, and on options sold, the loss can exceed the margin. For an option buyer the loss is limited to the premium paid.



'Options cost little, so the risk is low.'

The whole premium is lost if the option expires worthless. Options made up 92% of individuals' losses in FY 2025-26.



'An arbitrage fund is a derivatives bet.'

It holds shares and sells matching futures, so the two positions largely offset each other. Its returns are still not assured.

Trustner does not distribute or recommend derivative trading. This deck explains; it does not coach.

Source: SEBI, 'Profitability of Individual Traders in the Equity Derivatives Segment (FY25-FY26)', August 2026.

Check yourself

Q1

An exporter will receive US\$ 50,000 in two months and sells them forward at an assumed ₹90. How many rupees does she receive if the dollar is at ₹86 on the day? At ₹94?

Q2

A futures contract is worth ₹20,00,000 and the margin is an assumed 10%. The price falls 4%. What is the loss in rupees, and as a share of the margin?

Q3

In SEBI's August 2026 study, what share of individual traders in equity derivatives made a net loss in FY 2025-26, and what was their combined net loss?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Losses of individual traders: SEBI, 'Profitability of Individual Traders in the Equity Derivatives Segment (FY25-FY26)', August 2026.
- Earlier findings: SEBI studies of January 2023, September 2024 and July 2025, as summarised in the August 2026 study and in SEBI's July 2025 comparative study.
- Measures: SEBI circulars SEBI/HO/MRD/TPD-1/P/CIR/2024/132 (1 Oct 2024) and SEBI/HO/MRD/MRD-TPD-1/P/CIR/2025/76 (26 May 2025); SEBI Annual Report 2025-26, Chapter 4.
- Mutual funds and derivatives: SEBI Master Circular for Mutual Funds as on 20 March 2026, paragraphs 8.5, 13.15 and 13.18, and the scheme category table.
- The exporter and the futures buyer are invented. Their exchange rates, contract value and margin are assumed for the arithmetic only.

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