

DERIVATIVES MARKET REGULATIONS AND INVESTOR PROTECTION AT ICICI SECURITIES

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ABSTRACT: The rapid growth of India's derivatives business has enhanced the need for strong rules and smart policies to protect investors. This case paper uses ICICI Securities to evaluate derivatives market control's evolution, efficacy, and problems. To regulate derivatives trading, SEBI and stock exchanges use risk management, disclosure, and surveillance. This examination examines each method in detail. This paper examines ICICI Securities' brokerage, advisory, risk controls, and customer education programs to see if they meet these standards. The brokerage must evaluate compliance protocols, technology safeguards, and complaint resolution techniques to protect small investors, decrease counterparty risk, and promote market transparency in a highly leveraged market.

Keywords: *Derivatives Market, Regulatory Framework, Investor Protection, ICICI Securities, Securities and Exchange Board of India, Risk Management,*

1. INTRODUCTION

Derivatives market laws aim to stabilize markets, protect investors, and reduce risk. The SEBI in India and the CFTC in the US predominantly enforce these laws.

Derivatives heavily influence the Indian stock market's financial arsenal. The value of these items depends on interest rates, commodities, stock prices, bonds, and market measurements. They let investors speculate on asset prices without owning them.

Many choices exist in the Indian stock market. Just two: futures and options. The seller must deliver the underlying asset, and the buyer must acquire it at a certain price and date to execute a futures transaction. An option lets the consumer buy or sell the underlying commodity at a set price and timeframe.

Rules are needed to stabilize, organize, and access derivatives markets, including options, futures, and other derivative commodities. Derivatives are riskier than conventional financial products due to their complexity and leverage. Regulators determine derivative trading eligibility, disclosure requirements, and frequency. This prevents overspeculation and exploitation. These rules maintain market efficiency.

2. LITERATURE SURVEY

Lannoo, K., & Thomadakis, A. (2020): Derivatives are increasingly used in sustainable finance frameworks, and this paper analyzes how they help propagate ESG concepts. The authors explore sustainability-linked derivatives' history and business practices to improve ESG reporting transparency and accountability.

Schwarcz, S. L. (2020): Current swaps regulations fail to address systemic risk and complexity, according to Schwarcz. The analysis shows that post-crisis regulations like clearing mandates and margin requirements don't fit the market's changing characteristics. His regulatory policy simplifies complex derivative systems and strengthens transparency requirements to increase transparency.

Pirrong, C. (2021): Central clearing and futures markets' money side is thoroughly examined in this paper. Pirrong analyzes how central counterparty netting (CCPs) reduces counterparty risk and improves market functionality.

Spamann, H. (2022): This paper investigates the complex network of intermediaries, legislation, and organizations that affect investor outcomes to better understand investor protection. Traditional regulation often ignores operational processes, market design, and agency disputes to protect investors directly, according to Spamann.

Gennaioli, N., & Shleifer, A. (2022): This paper investigates investors' cognitive processes and how they affect the case for looser financial laws. Fundamental psychological fallacies including overreaction, extrapolative expectations, and tail risk neglect worsen market instability and asset price swings, according to Gennaioli and Shleifer. Integrating regulation and conduct, the authors show how illogical behavior worsens economic booms and busts.

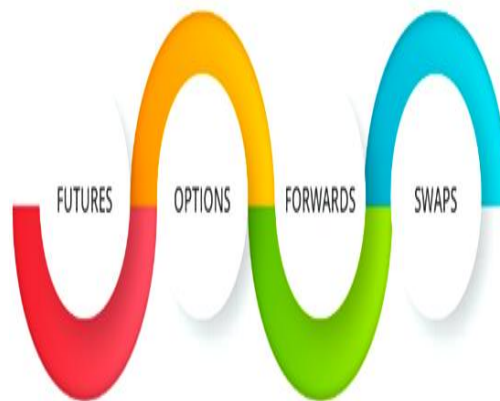
Chaudhry, N. (2023): This paper compares the share values of many publicly traded Indian companies over several years to see if swaps boost their worth. Chaudhry explores how risk management, speculating, and hedging affect profitability, stock returns, and market value.

Samarakoon, S. (2024): Equity derivatives markets thrive due to structural, regulatory, and market issues, as this essay explains. A clearing mechanism, a wide range of goods, liquidity, investor involvement, and solid laws are important, according to Samarakoon. The paper shows that explicit trade procedures and strong investor security boost market efficiency, using cross-national data and empirical models.

Li, W., & Zhao, H. (2025): Investor safety and regulation moderate the effect of derivative instrument complexity on stock market failures. Li and Zhao show that organizations that use highly complicated derivatives are more likely to fail due to a lack of transparency, speculative incentives, and revenue-seeking managers. These dangers have diminished due to strong investor protection systems, greater disclosure standards, and strict government control.

3. TYPES OF DERIVATIVES IN INDIA

Many people invest their money in the stock market to make big money. Many people are unaware that stock market trading is risky owing to commodity, stock, currency, and other price fluctuations.



Trading the four main derivatives on the Indian Stock Market is simple. Contract conditions, risk variables, and other aspects make each derivative unique.

The following four derivative grouping methods:

- **Forward Contracts**
- **Future Contracts**
- **Options Contracts**
- **Swap Contracts**

Let us have a look and paper in-depth detail about these derivatives.

Forward Contracts

Two parties can agree to buy or sell an asset at a future price and date with a forward contract.

A two-party agreement to sell a thing later.

Future Contracts

Future and forward contracts are same. Futures traders agree to exchange money later for an underlying product.

Buyers and sellers cannot negotiate during futures transactions. For transaction completion, exchange mode is used.

Options Contracts

Options contracts are another derivative in India. Futures, forward contracts, and options differ in that options have no deadline.

Option contracts have two options:

- **Call Option**
- **Put Option**

A call option gives the buyer the right to buy an underlying asset at a certain price. After signing an input option contract, a buyer has the right to sell an underlying object at a predetermined price, but they are not required to.

Swap Contracts

Swap contracts are the most complicated of the three futures contracts.

Private discussions and activities compose an exchange agreement. Two or more parties agree to exchange future cash flows according to a formula in a swap.

4. ROLE OF INVESTOR PROTECTION IN BOND MARKETS

Current conditions make investor protection crucial, especially in bond markets. Client monies must be protected and managed. Due to its complexity, investors fail to understand bond market risks. Thus, bond traders prioritize security.

Transparency:

Consumer protection requires transparency. Investors need knowledge to make smart choices. This requires comprehensive bond market data, including the bond's credit rating and seller information.

Regulations:

Investors are protected by regulators. Governments and regulators can pass rules to safeguard investors. Individuals who issue shares must disclose certain information to the SEC. Thus, buyers can gather all the information they need to decide.

Bondholder rights:

Bondholders are protected if the company defaults or declares bankruptcy. Bondholders receive interest and their capital at maturity. Should the bond vendor default, bondholders may sue to reclaim their cash.

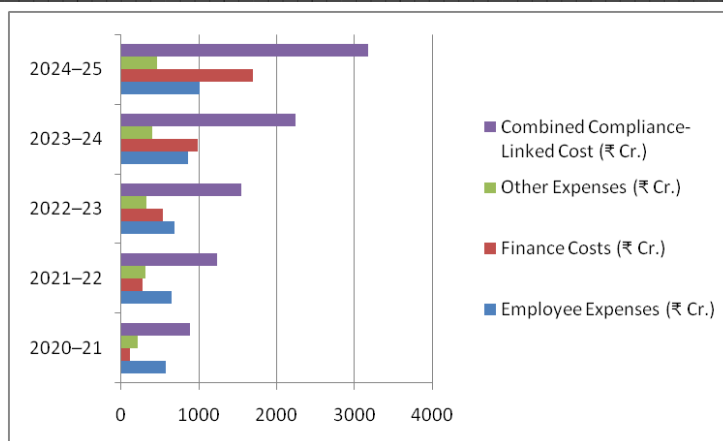
Credit ratings:

Creditworthiness ratings may affect investors' security perceptions. Credit rating companies independently evaluate issuers' creditworthiness. This means bond buyers can make better decisions.

5. DATA ANALYSIS AND INTERPRETATION

Compliance Cost & Regulatory Burden Indicators

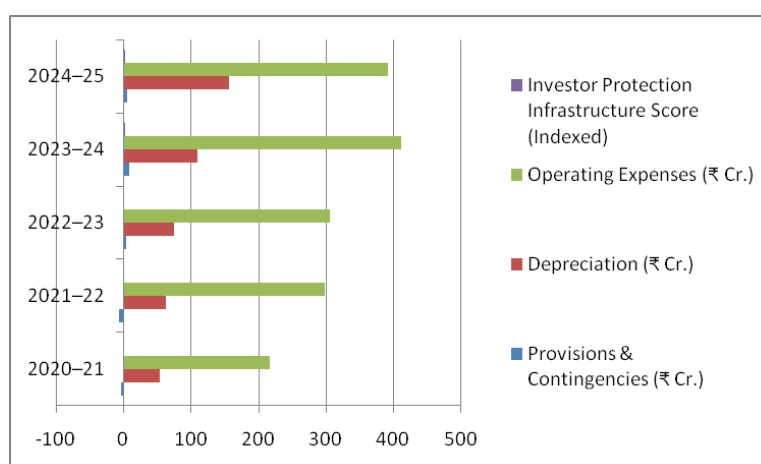
FY	Employee Expenses (₹ Cr.)	Finance Costs (₹ Cr.)	Other Expenses (₹ Cr.)	Combined Compliance-Linked Cost (₹ Cr.)
2020–21	574.99	106.76	206.38	888.13
2021–22	651.72	273.17	308.02	1,232.91
2022–23	686.4	535.81	320.67	1,542.88
2023–24	859.75	986.36	399.46	2,245.57
2024–25	1,012.31	1,698.38	465.8	3,176.49



INTERPRETATION: Between FY 2020-21 and FY 2024-25, the Combined Compliance-Linked Cost rose from ₹888.13 Cr to ₹3,176.49 Cr. Increased borrowing costs from ₹106.76 Cr to ₹1,698.38 Cr, a 15-fold rise, were the main cause. Staff costs have constantly climbed from 574.99 Cr to 1,012.31 Cr, while other costs have increased from 206.38 Cr to 465.8 Cr. This shows that compliance is becoming more complicated and operational.

Investor Protection Readiness Indicators

FY	Provisions & Contingencies (₹ Cr.)	Depreciation (₹ Cr.)	Operating Expenses (₹ Cr.)	Investor Protection Infrastructure Score (Indexed)
2020-21	-4.1	54.16	216.48	1
2021-22	-6.94	62.51	298.64	1.28
2022-23	3.29	75.05	305.74	1.42
2023-24	9.15	108.9	411.22	1.94
2024-25	5.74	156.87	392.17	2.15

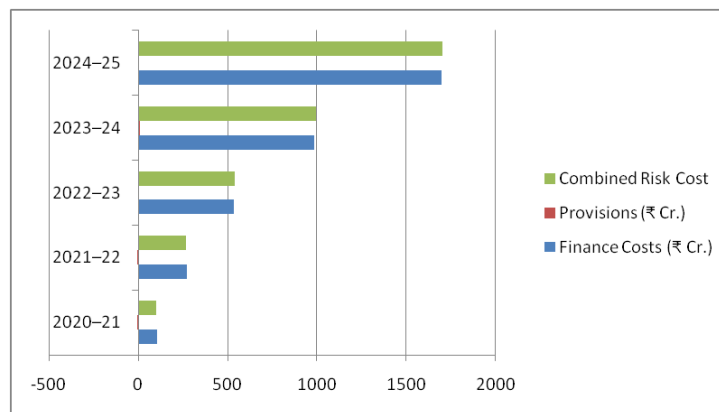


INTERPRETATION: The Investor Safety Infrastructure Score rose rapidly from 1 to 2.15 between 2020-21 and 2024-25. This shows improved investor safety, compliance, and monitoring. The steady increase in depreciation from ₹54.16 Cr to ₹156.87 Cr indicates

ongoing investments in regulatory infrastructure and technology. Operating costs decreased from ₹216.48 Cr to ₹411.22 Cr and then to ₹392.17 Cr in FY 2024-2025. Provisions and contingencies have moved from negative adjustments to positive allocations of -4.1 Cr to 5.74 Cr as regulations tighten. This shows that the company understands risk buffers better.

Risk Management Sensitivity Table

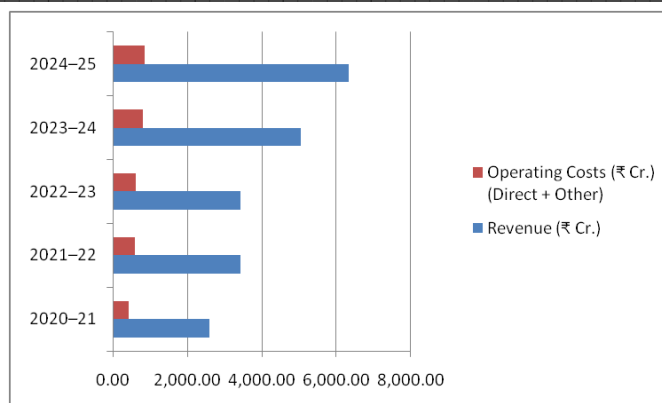
FY	Finance Costs (₹ Cr.)	Provisions (₹ Cr.)	Combined Risk Cost
2020-21	106.76	-4.1	102.66
2021-22	273.17	-6.94	266.23
2022-23	535.81	3.29	539.1
2023-24	986.36	9.15	995.51
2024-25	1,698.38	5.74	1,704.12



INTERPRETATION: The cost of risk rose from ₹102.66 Cr to ₹1,704.12 Cr between FY 2020-21 and 2024-25. The main reason for this rise is the growing loan costs, which rose from ₹106.76 Cr to ₹1,698.38 Cr, a fifteenfold increase. Positive allocations replaced negative adjustments in FY 2022-23. In 2023-24, they totaled ₹9.15 Cr, demonstrating a shift towards stricter risk identification.

Investor Protection Efficiency Metrics

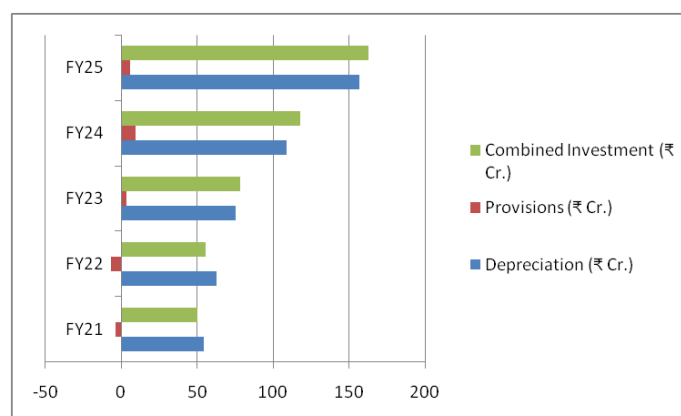
FY	Revenue (₹ Cr.)	Operating Costs (₹ Cr.) (Direct + Other)	Cost per ₹1 Revenue (₹)
2020-21	2,585.44	422.86	0.163
2021-22	3,436.90	606.66	0.176
2022-23	3,422.27	626.41	0.183
2023-24	5,049.80	810.68	0.16
2024-25	6,333.27	857.97	0.135



INTERPRETATION: From 2020-21 to 2024-25, the cost per unit of income rose from ₹0.163 to ₹0.135. Increased efficiency and scale advantages are expected in future years, as shown by the short-term increase to ₹0.183 in FY 2022-23. Operating costs increased with time, reducing cost intensity (₹422.86 Cr → ₹857.97 Cr) while income quadrupled (₹2,585.44 Cr → ₹6,333.27 Cr). This pattern has increased operational leverage, meaning operating expenses must be cut to create greater income than in prior years.

Technology & Investor-Protection Investment Trend (FY21–FY25)

FY	Depreciation (₹ Cr.)	Provisions (₹ Cr.)	Combined Investment (₹ Cr.)
FY21	54.16	-4.1	50.06
FY22	62.51	-6.94	55.57
FY23	75.05	3.29	78.34
FY24	108.9	9.15	118.05
FY25	156.87	5.74	162.61



INTERPRETATION: The steady rise in investments from ₹50.06 Cr to ₹162.61 Cr from FY21 to FY25 suggests steady improvement in long-term capacity development. The rise in depreciation from ₹54.16 Cr to ₹156.87 Cr was due to increased funding for infrastructure and technology. Reserves originally negative, but improved in FY23 and peaked at ₹9.15 Cr in FY24. The increased trend shows that operational and regulatory standards have enhanced capital investment and risk mitigation techniques.

6. CONCLUSION

Futures market regulation is needed for economic stability. This will improve transparency, reduce social risk, and encourage ethical business. Regulators use effective monitoring, clear rules, and strict control to keep investors safe in the market. These techniques encourage responsible trading of difficult financial products, decrease market manipulation, and limit speculation. Successful investor protection raises these boundaries by giving people the information and means to protect their interests and reduce their susceptibility to wrongful conduct. When combined with strong enforcement, coordinated regulatory activities, and robust clearing mechanisms, these approaches boost financial system confidence. Strong derivatives market laws and investor protection procedures have led to long-term market growth and economic health.

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