LET'S TALK ABOUT DERIVATIVES

RISK MITIGATION THROUGH DERIVATIVES

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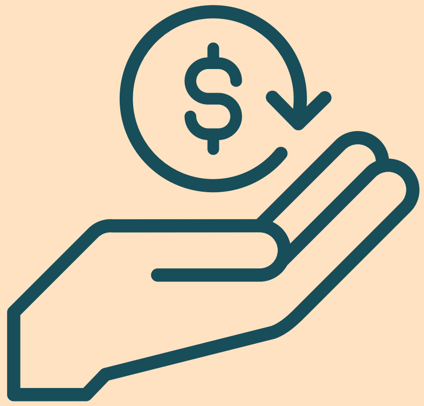
DEFINATION



Derivatives are financial instruments whose **value is derived from an underlying asset, index, or reference rate**.
They play a vital role in risk management in financial markets.

WHY IT IS USED?

- Speculation
- Hedging
- Arbitrage

WHAT ARE TYPES?

1. Forwards
2. Futures
3. Options
4. Swaps

1.FORWARDS

Forward contracts are agreements between two parties to **buy or sell an asset at a specified future** date and price.
They provide price certainty but bear the risk of default.

CALCULATION

- **Example:** You agree to buy 100 barrels of oil from a supplier in 3 months at a price of $70 per barrel.
- **Calculation:** If the market price of oil after 3 months is $80 per barrel, you saved $10 per barrel.

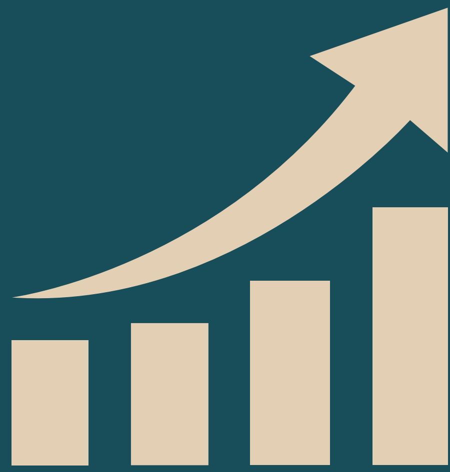
2.FUTURES

Futures contracts are standardized, **exchange-traded versions of forward contracts.** They offer liquidity, transparency, and are marked-to-market daily, reducing default risk.

CALCULATION

- **Example:** You purchase a futures contract for 100 shares of XYZ Corp at $50 per share expiring in 3 months.
- **Calculation:** If the market price of XYZ Corp shares is $55 at expiration, you gain $5 per share.

3.OPTIONS



Options provide **the right,** but not the obligation, **to buy (call option) or sell (put option) an asset** at a predetermined price (strike) before or on a specific date (expiration). Versatile tools for hedging and speculation!

CALCULATION

- **Example:** You buy a call option for 100 shares of ABC Inc at a strike price of $60 per share for $3 per option.
- **Calculation:** If the market price of ABC Inc shares rises to $70, you can exercise the option, buying shares at $60 each, making a profit of $7 per share ($70 - $60 - $3).

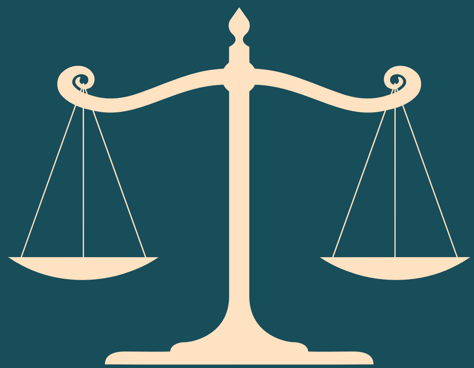
4.SWAPS

Swaps involve an **exchange of cash flows between two parties.**
Common types include **Interest rate swaps** and **Currency swaps**.
They're used for managing interest rate and currency risk..

CALCULATION

- **Example:** Company A has a variable interest rate loan, and Company B has a fixed interest rate loan. They agree to swap their interest payments.
- **Calculation:** If Company A saves $10,000 annually due to the swap, and Company B pays $10,000 less in interest, both benefit.

REGULATORY BODIES



- Securities and Exchange Board of India (SEBI)
- Reserve Bank of India (RBI)
- National Stock Exchange of India Limited (NSE)
- Bombay Stock Exchange (BSE)
- Forward Markets Commission (FM**C)**

CONCLUSION

DERIVATIVES ARE **POWERFUL FINANCIAL TOOLS** THAT SERVE VARIOUS PURPOSES IN TODAY'S DYNAMIC MARKETS.
EACH TYPE HAS ITS UNIQUE CHARACTERISTICS, OFFERING **OPPORTUNITIES AND MANAGING RISKS**.
EXPLORE AND USE THEM WISELY!

Hope you find it useful !!

Be sure to like share and comment.