

⇒ Meaning & Definition of Derivatives

financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, and through which specific financial risk can be traded in financial markets in their own right.

⇒ In the Indian context the Securities Contracts (Regulation) Act, 1956 defines 'derivatives' to include :-

- 1) A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.
- 2) A contract which derives its value from the prices or index of prices, of underlying securities.

⇒ Features of Derivatives :-

- ① Derivatives are separate.
- ② Priced according to the value of the underlying asset.
- ③ for a wide variety of reasons.
- ④ through net payment.
- ⑤ geared returns.
- ⑥ offset ability.

⇒ Uses of Derivatives :-

- ① Derivatives Used by Companies.
- ② Derivatives Used by Mutual fund and Investment Institution.
- ③ Derivatives Used by financial Institution and Banks.
- ④ Derivatives Used by Individuals.