

Preface to the First Edition

As recently as 1985, futures trading was so obscure in India that even bankers, financial journalists and some professors of finance and economics would ask what it was. Discussions on the subject, with layman or professional alike, would almost always have to begin with a lengthy introduction.

Today, awareness has increased. The gradual globalisation of the Indian economy means that Indian professionals and academics simply cannot afford to be unaware of futures and other derivatives, and their applications in India. Yet, there is no work of reference on the subject for the Indian reader to turn to. This book is a modest attempt to fill that gap.

While covering the whole canvas, the book tries to address the specific needs of diverse groups of readers. For the professional and the student of finance, it provides a detailed study of the manner in which the markets work and how the knowledge can be used to make profits or avoid losses. For the academic and the student of economics, it surveys the theoretical literature, explains methods by which empirical studies can be performed and presents some of the findings of the author's empirical research on Indian futures markets. For the policymaker, regulator and government official, the book examines at length the larger public purpose of derivatives markets, covering the regulatory experience in India, comparing it with experience abroad and suggesting improvements. For the generalist manager, management accountant, internal auditor and board member of a corporate entity, it discusses at length the management of derivative exposures; a job which cannot be left entirely to the specialist (as the spate of expert-led derivative disasters has so painfully shown). For the financial accountant and external auditor, it provides a detailed overview of the accounting treatment of derivative transactions and the issues involved. For the tax practitioner, it examines the taxation of derivatives under the Income Tax Act.

In a book of this nature, there is always a difficulty in balancing the needs of the practitioner with those of the academic. However, the author is hopeful that just the right balance has been struck. Issues primarily of academic interest have been placed in Appendices. Similarly, there is a difficult judgement to be exercised on the degree of complexity to which the text should go, since an

PREFACE TO THE FIRST EDITION

attempt to meet the needs of the derivatives super-specialist would detract from the usefulness of the book to others. The approach in the book is to start with the assumption that the reader knows nothing about the subject, and then step by step, reach a level where he has a comprehensive picture of the nature, functions and uses of each derivative security, as well as the economic, regulatory, accounting, taxation and other issues relating to derivatives. To enhance understanding, a large number of worked examples have been included. However, the book does not cover highly complicated trading strategies. It also avoids the use of advanced mathematics and calculus, by explaining concepts narratively, and providing numerical examples that illustrate them comprehensively.

This book owes so much to so many, that their invaluable contribution has been acknowledged separately. Responsibility for any errors, omissions or inadequacies rests entirely with the author. Any views expressed in this book are the personal views of the author and should not be construed as representing the views of the organisation(s) for which the author is currently, or was previously, working. Suggestions for improvement are earnestly solicited.

September 1998

T. V. Somanathan