A Transition in Indian Derivative Markets – A Case Study of Single Stock Futures

Chapter V

Summary
i. OVERVIEW:

SSFs introduction in India presumed a lot of debate before their introduction, regardless of all those, their commencement was a concomitant due to oblige as mentioned in the previous chapters of the current study. Subsequently, within no time these SSFs promptly occupied number one position in the world with respect to notional trading volumes. However, the frequent arguments of their highly risk nature was haunted across the financial system with several incoherent arguments based on the experiences of developed markets. As Indian case is different being an emerging market rather than by statements, it has to be addressed through empirical evidence. Therefore the present study made an attempt to examine the impact of introduction of SSFs in India. The study focused on liquidity and volatility, two crucial characteristics of any stock market. We consider five different dates of futures introduction (till 2005) that comprise 86 stock futures listing. The liquidity and volatility features are analyzed six months before and after listing of futures for each stock. First, the study concentrates on Liquidity of the spot market measured by using a proxy namely Trading Volume and concludes that the liquidity of spot segment improved substantially after SSFs introduction. Next, the study looks at Volatility of the spot market, proxy being daily log-returns. Further, the volatility estimate is linked with information absorption process by modeling return process in ARMA-GARCH framework.

ii. CONCLUSIONS OF THE STUDY:

- The initial analysis of liquidity, with regard to five different listings suggests an increase in the stocks spot volumes after SSFs introduction.
• Study observes what appears to be a strong gain in the liquidity of SSFs traded stocks in post introduction period.
• Liquidity effects across different type of companies/industries/sectors are not similar.
• Analysis of impact costs also revealed the same for liquidity effects.
• A shift in the level of the underlying volatility has been observed but not of same sign and magnitude across different listings.
• From time-varying systematic volatility, it has been observed that after the introduction of SSFs a decrease in the persistence of volatility shocks are apparent across different listings.
• In fact, there was scarce evidence for the measure which reflects the ability to quickly incorporate new information.
• The sign and magnitude of estimated volatility coefficients varied significantly across different companies/industries/sectors.
• Stock options effect was negligible and interestingly near evidence of both impacts to be null.
• There was clearly no manifestation towards unsystematic volatility i.e. asymmetries in almost all cases except for one stock.
• Presented outcomes are more robust to the model specification and market wide movements.
• The results for the Indian market are not in accordance with the majority of arguments based on the developed market studies as we cannot identify a decline in the underlying spot volumes.
• At the same time market seemed to become/towards more efficient as the volatility shocks became less persistent after the start of SSFs.
• However, study observes diametric results in very rare cases.
• Altogether, results indicate that the underlying spot market has evidence towards more market efficiency direction though not strong enough.
• We demonstrated coherent arguments with respect to SSFs introduction in India on basis of empirical evidence.

iii. LIMITATIONS OF THE STUDY:

• Study has not considered an in depth Liquidity measurement.
• Expiration effects of SSFs and fractionally integrated models.

iv. SCOPE FOR FURTHER RESEARCH:

This study is one of the first of its kind in addressing the SSFs introduction impact from liquidity and informational absorption aspects (a significant contribution as against other studies) which has several implications for policy makers, traders and academicians. Study being in the context of emerging market is considered to be more meaningful as guidance for following emerging markets. However results should be cautionary taken into account due to differential existences of micro market structure across markets. At this juncture, the present study would be very utile to extend the scope of research to study the co-integration between the prices of the stock futures and the underlying spot markets or even the consideration of analyzing the behavior around a coming to an end of a contract period analysis are good and relevant directions for future research.
v. **FINALE:**

The present study made an attempt to assess the few key aspects of the spot market after a drastic transition with the inception of equity derivative product viz. SSFs that took place in Indian stock markets. As the study being an earlier attempt in Indian context and also for emerging markets context, carries out logical assessment and the evaluations hold more proficiency.