

Why let foreign players use derivatives for speculation?

Devina Mehra | 4 June 2026



Foreign entities are taking away huge amounts of money as profits from purely speculative trades in derivatives. (Pexel)

SUMMARY

While the country is trying maintain the rupee's exchange rate a reasonable level, foreign players are making speculative money off derivatives while draining our forex and the pockets of Indian retail investors. It's time for restrictions.

Recently, Indians were asked to reduce energy usage through measures like work-from-home, car pooling, etc. Of course, this was consequent to the West Asia war and its disruption of crude oil and petroleum product supplies. But in addition, we were asked to cut back on foreign travel and gold purchases, among other expenses.

This went beyond the present conflict to pressure on the Indian rupee's exchange rate. Earlier this year, some measures were taken to restrict the type of foreign-currency transactions that could be undertaken by Indian banks and corporations.

The message seems to be that we should reduce outflows of foreign currency to help keep the rupee's exchange rate at a reasonable level.

I have even seen some ill-thought-out recommendations, like disallowing foreign investors and corporations from taking away money through initial public offering (IPO) listings and offers-for-sale on Indian capital markets. However, any restrictions on capital repatriation will further make foreigners head for the exit. Any such move would have negative second-order effects.

Another set of policy measures, though in a completely different area, aims to curb excess speculation in derivatives on Indian stock exchanges. This year's budget hiked the securities transaction tax (STT). The Securities and Exchange Board of India (Sebi) has been cautioning that almost all individuals in the derivatives market are losing money. Sebi has been raising entry barriers for traders in this part of the market.

At a policy level, we don't want excessive outflows of foreign exchange and we don't want unbridled speculation in derivatives. In this context, it is inexplicable why India allows derivatives trading by foreign players.

Currently, foreign entities are taking away huge amounts of cash as profits from purely speculative trades in derivatives. This is not just a drain of currency on the balance-of-payments account, but worse. The profits made by these entities are the other side of the same trade that results in massive losses made by Indians. This money is coming out of the pockets of individuals—the 91-93% who make losses, according to Sebi data.

According to Sebi's last study, Indian individuals lost ₹1.8 trillion from fiscal year 2021-22 to 2023-24—a considerable portion of that huge sum went straight overseas.

Such speculation by sophisticated foreign investors drains hard currency reserves that we can ill-afford to lose.

Second, this is not really investment flowing into the country under the definition of foreign direct investment (FDI) or foreign portfolio investment (FPI). Nobody is investing in India. It is short-run speculation, pure and simple.

Third, the consequence of this foreign exchange drain is felt in our balance of payments and exchange rate.

Fourth, by taking money literally out of the pockets of individual Indian investors, it strains both their precariously balanced household finances and India's lending sector, as many of these losses are financed through various forms of personal loans. The worst part is that not only are Indian individuals losing money in this zero-sum game, the Sebi study suggests that it is less-educated people, those who live outside the metros and those who earn less than ₹500,000 a year who lose more of it. Regardless of what various so-called trading courses tell you, there is no way an

individual trader can win against a sophisticated rival using high-end techniques and systems. The difference is stark.

To recount, not only are foreign players taking out large amounts of money, they are taking it from exactly the sort of individuals who cannot afford to lose it.

The negatives of India's policy of allowing foreign investors unbridled access to the speculative end of the market are clear. But are there any positives too?

The usual argument is that well-endowed foreign players provide the Indian market with liquidity. But the question is this: Do we at all need a derivatives market of this size?

India's derivatives-to-cash segment trading ratio is several times that of the world's most developed markets. This is not something that is required, or even desirable, for healthy markets. It would be fine if liquidity reduces and volumes in the derivatives segment shrink to what is considered normal across the globe.

The other argument is that foreign institutional investors should be allowed to hedge their equity exposures via derivatives. Sure.

But if an FPI investing in India wants to hedge, it could be restricted to just that. As I know first hand as a regular user of hedges on a stock portfolio, a portfolio management scheme can use derivatives for hedging only to the extent of its stock portfolio, but not more than that. Similar restrictions can be placed on FPIs.

One part of this story that is never explicitly talked about is that while we make noises about excessive speculation, there are many entities that profit from this gravy train.

This includes various brokers and stock-trading platforms that derive a major chunk of their income from this speculative activity. Stock exchanges also make considerable money from this, Sebi collects fees and the Union budget also benefits in some small way.

Commendably, Sebi has been placing restrictions on individual trading in derivatives. However, the other side of the trade deserves regulatory attention too.

We may require action by other regulators and government-level changes as well. We should review why we let foreigners operate in this purely speculative field that offers India no clear economic benefits.

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