Indian Economy · GS - III

What is the significance of SEBI's decision to reintroduce the Volume Weighted Average Price (VWAP) method for derivatives expiry-day settlements? Discuss its implications for market stability, price discovery and investor protection.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 16/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

VWAP mechanism, derivatives market, expiry-day volatility, price discovery, settlement fairness, investor confidence, SEBI's regulatory role, limitations of volume-weighted pricing.

Model Answer

Introduction

The Securities and Exchange Board of India (SEBI) regulates India's securities market and protects investor interests. Its decision to reintroduce the Volume Weighted Average Price (VWAP) method aims to reduce volatility during derivatives expiry.

Significance of VWAP

1. Market Stability: VWAP uses volume-weighted prices over the specified period, reducing the influence of sudden price fluctuations.

2. Fair Price Discovery: It considers both traded prices and volumes, providing a representative settlement benchmark.

3. Investor Protection: It may reduce unexpected settlement losses caused by sharp expiry-day price movements.

4. Regulatory Responsiveness: The decision reflects SEBI's willingness to revise market mechanisms based on their observed impact.

Challenges

VWAP cannot eliminate market manipulation or volatility arising from speculation, global events and changing investor sentiment.

Way Forward

SEBI should strengthen market surveillance, periodically review settlement mechanisms and improve investor awareness regarding derivatives risks.

Conclusion

Reintroducing VWAP is a step towards a more stable, transparent and fair derivatives market. Its effectiveness will depend on robust monitoring and evidence-based regulation.

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