MCX-SX

— Investor Protection Fund —

CURRENCY DERIVATIVES SEGMENT TRUST

Currency Futures

Hedging against fluctuating currency rates

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About MCX Stock Exchange

MCX Stock Exchange (MCX-SX) commenced operations in the Currency Derivatives (CD) segment on October 7, 2008 under the regulatory framework of SEBI and RBI. The Exchange is recognised by SEBI under Section 4 of Securities Contracts (Regulation) Act, 1956. In line with global best practices and regulatory requirements, clearing and settlement is conducted through a separate clearing corporation, MCX-SX Clearing Corporation Ltd.

MCX-SX is the market leader in Currency Futures – the average daily turnover (ADT) of MCX-SX currency futures increased to Rs 13,595.14 crore at the end of October 2012 from Rs 324.78 crore in the first month of operations. Participation and membership base has also been growing steadily. In October 2012, MCX-SX saw participation from 745 towns and cities and it had 750 members on its platform.

MCX-SX relies on its unique strategy for systematic development of markets based on **'Information, Innovation, Education and Research'** and endeavours to ensure continuous innovation by introducing various products and services under the extant regulatory framework. The Exchange has received permissions to deal in Interest Rate Derivatives, Equity, Futures & Options on Equity and Wholesale Debt Segment, vide SEBI's letter dated July 10, 2012.

About MCX-SX Investor Protection Fund (IPF) Trust

As per the directives of Securities and Exchange Board of India (SEBI), every stock exchange in India is required to establish an Investor Protection Fund (IPF) in order to provide a mechanism for protection of investors' interest in the event of default or expulsion of a Trading Member.

MCX-SX has established an exclusive IPF Trust for its Currency Derivatives Segment in the interest of its investors and for meeting their genuine and bonafide claims.

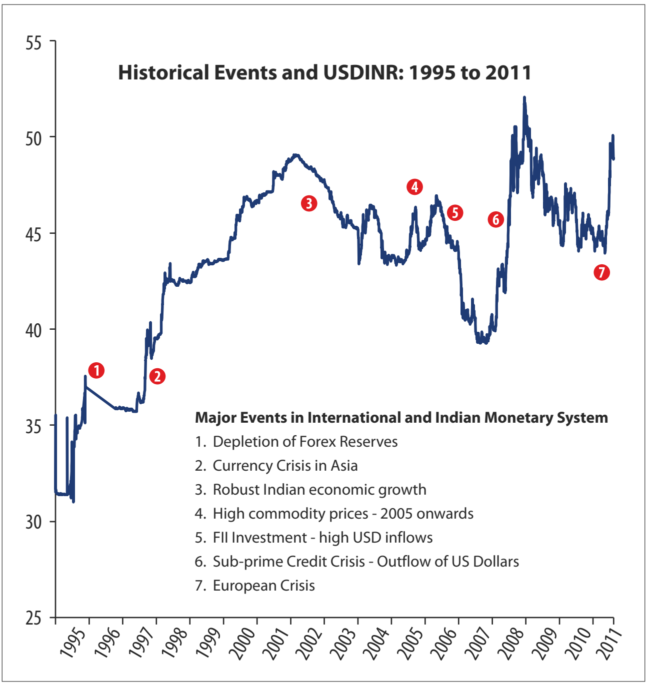
The Trust is set up under Bombay Public Trust Act, 1950 and managed by the trustees appointed by the Exchange, including a representative from a recognised Investor Association and a Public Interest Director. The Trust is funded by the amounts received from the operations and penalties by the exchange. Also, this fund has a well administered claim settlement mechanism.

The Corpus of IPF is used for compensating the investors for the loss, if any, suffered by them if the Trading Member becomes a defaulter. The interest income earned on the invested corpus of IPF may be used exclusively for imparting investor education, awareness and research.

Currency futures market: A perspective

Globalisation and integration of financial markets, coupled with progressive increase of cross-border flow of capital, have transformed the dynamics of the Indian financial markets. This has increased the need for dynamic currency risk management. The steady rise in India's foreign trade, along with liberalisation in foreign exchange regime, has led to large inflows of foreign currency into the system in the form of FDI and FII investments.

In order to provide a liquid, transparent and vibrant market for foreign exchange rate risk management, Securities & Exchange Board of India (SEBI) and Reserve Bank of India (RBI) have allowed trading in currency futures on stock exchanges for the first time in India, initially based on the USDINR exchange rate and subsequently on three other currency pairs – EURINR, GBPINR and JPYINR. This would give Indian businesses another tool for hedging their foreign exchange risks effectively and efficiently at transparent rates on an electronic trading platform. The primary purpose of exchange-traded currency derivatives is to provide a mechanism for price risk management and consequently provide price curve of expected future prices to enable the industry to protect its foreign currency exposure. The need for such instruments increases with increase of foreign exchange volatility.



Participants of MCX-SX currency futures

A host of benefits are available to a wide range of financial market participants, including hedgers (exporters, importers, corporates and Banks), investors and arbitrageurs on MCX-SX.

Hedgers: A high-liquidity platform for hedging against the effects of unfavourable fluctuations in the foreign exchange markets is available on this exchange. Banks, importers, exporters and corporate houses hedge on MCX-SX.

Investors: All those interested in taking a view on appreciation or depreciation of exchange rate in the long and short term can participate in the MCX-SX currency futures. For example, if one expects depreciation of the Indian Rupee against the US dollar, then one can hold on long (buy) position in USDINR contract for returns. Contrarily, one can sell the contract if one sees appreciation of the Indian Rupee.

Arbitrageurs: Arbitrageurs get the opportunity of trading in calendar spreads and inter currency spreads; on the existing contracts on the exchange.

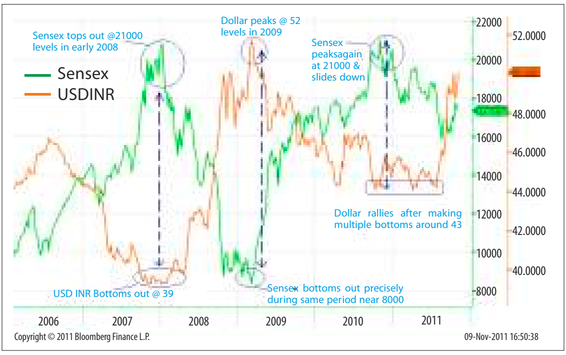
Factors influencing currency exchange rate

Currency exchange rates are typically affected by the supply and demand of a particular country's currency in the international foreign exchange market. The level of confidence in the economy of a particular country also influences the currency of that country.

Major factors influencing the currency market:

- Inflation rates
- Interest rates
- Trade balance
- Central bank intervention
- Global and domestic stock markets
- Global and domestic economic indicators
- Global currency movement
- Economic and political scenarios
- Crude oil price movement

USD INR vs SENSEX



USDINR vs SENSEX: An inverse correlation

If one wishes to use single indicator to gauge how the SENSEX is expected to move, the USDINR could be a good measure to track. When dollar falls against the Indian rupee, the SENSEX rises. The chart clearly highlights the inverse correlation as the major peaks and bottoms of the SENSEX and the USDINR have occurred simultaneously.

Currency futures vs commodities

Gold prices are quoted in dollar and generally move in opposite direction. On regular basis, one finds spread between domestic gold prices and international gold prices. This spreads is due to movement in domestic currency price.

Movement in currencies: What it means for domestic commodity prices?

Date	Domestic gold price	International gold price	Domestic USDINR price
Jan 2011 (average price)	16920	1110	45.40
Oct 2011 (average price)	26963	1671	49.39
Percentage price change	59.36%	50.54%	8.79%

One observes that gold in international markets rose from $1,110 to $1671 (approx. 50.54%), whereas domestic gold prices rose from ₹16,920 to ₹26,963 (approx. 59.36%) as rupee depreciated from ₹45.40 to ₹49.39 (around 8.79%)

Inference

Domestic gold % price change @International gold % price change + Domestic USDINR % price change

59.36% @50.54% + 8.79%

59.36% @59.33%

Product specification

Symbol	USDINR ($)	EURINR (€)	GBPINR (£)	JPYINR (¥)
Unit of trading	1 (1 unit denotes 1000 USD)	1 (1 unit denotes 1000 EURO)	1 (1 unit denotes 1000 POUND STERLING)	1 (1 unit denotes 100000 YEN)
Underlying	USD The exchange rate in Indian Rupees for a US Dollar	EURO The exchange rate in Indian Rupees for an EURO	POUND STERLING The exchange rate in Indian Rupees for a POUND STERLING	JPY The exchange rate in Indian Rupees for a 100 JPY
Tick size	0.25 paise or INR 0.0025			
Trading hours	Monday to Friday - 9:00 a.m. to 5:00 p.m.			
Contract trading cycle	12 month trading cycle			
Last trading day	Two working days prior to the last business day of the expiry month at 12:15 noon			
Final settlement day	Last working day (excluding Saturdays) of the expiry month The last working day will be the same as that for Interbank Settlements in Mumbai			
Position limits				
Client	Higher of 6% of total open interest or USD 10 million	Higher of 6% of total open interest or EUR 5 million	Higher of 6% of total open interest or GBP 5 million	Higher of 6% of total open interest or JPY 200 million
Trading Member (other than banks)	Higher of 15% of the total open interest or USD 50 million	Higher of 15% of the total open interest or EUR 25 million	Higher of 15% of the total open interest or GBP 25 million	Higher of 15% of the total open interest or JPY 1000 million
Banks	15% of the total open interest or USD 100 million whichever is lower	Higher of 15% of the total open interest or EUR 50 million	Higher of 15% of the total open interest or GBP 50 million	Higher of 15% of the total open interest or JPY 2000 million
Minimum initial margin	1.75% on the first day and 1% thereafter	2.8% on the first day and 2% thereafter	3.2% on the first day and 2% thereafter	4.50% on the first day and 2.30% thereafter
Calendar spreads	₹ 400 for a spread of 1 month, ₹ 500 for a spread of 2 months, ₹ 800 for a spread of 3 months & ₹ 1,000 for a spread of 4 months or more	₹ 700 for a spread of 1 month, ₹ 1,000 for a spread of 2 months, ₹ 1,500 for a spread of 3 months or more	₹ 1,500 for a spread of 1 month, ₹ 1,800 for a spread of 2 months, ₹ 2,000 for a spread of 3 months or more	₹ 600 for a spread of 1 month; ₹ 1,000 for a spread of 2 months and ₹ 1,500 for a spread of 3 months or more
Settlement	Daily settlement: T+1, Final settlement: T+2			
Mode of settlement	Cash settled in Indian Rupees			
Daily settlement price (DSP)	DSP shall be calculated on the basis of the last half an hour weighted average price of such contract or such other price as may be decided by the relevant authority from time to time			
Final settlement price (FSP)	RBI reference rate		Exchange rate published by the Reserve Bank in its press release captioned 'RBI Reference Rate for US$ and Euro'	

FAQs

- **What is currency trading?**
  While trade is international, currencies are national. As international transactions are settled in global currencies, usually they are bought/sold for one another and this constitutes 'currency trading'.

- **What are the factors that affect the exchange rate of a currency?**
  Currency exchange rates are typically affected by the supply and demand scenario of a particular country's currency in the international foreign exchange market. The demand and supply dynamics is principally influenced by factors like interest rates, inflation, trade balance and economic & political scenarios in the country. The level of confidence in the economy of a particular country also influences the currency of that country.

- **How and why does the demand and supply of a currency increase and decrease?**
  There are several reasons. A rise in export earnings of a country increases foreign exchange supply. A rise in imports increases demand. These are the objective reasons, but there are many subjective reasons too. Some of the subjective reasons are directional viewpoints of market participants, expectations of national economic performance, confidence in a country's economy and so on.

- **What is a currency futures contract?**
  A currency futures contract is a standardised version of a forward contract that is traded on a regulated stock exchange. It is an agreement to buy or sell a specified quantity of an underlying currency on a specified date in future at a specified rate (e.g., USD 1 = INR 51.00).
  (Note: USD is abbreviation for the US dollar and INR for the Indian rupee).

- **What is the need of currency futures?**
  Currency futures are needed if your business is influenced by fluctuations in currency exchange rates. If you are in India and are importing something, you have done the costing of your imports on the basis of a certain exchange rate between the Indian Rupee and the relevant foreign currency. By the time you actually import, the value of the Indian

Rupee may depreciate and you may lose out on your income in terms of Indian rupees by paying higher. On the contrary, if you are exporting something and the value of the Indian Rupee may appreciate, you earn less in terms of Rupees than you had anticipated. Currency futures help you hedge against these exchange rate risks.

Why exchange-traded futures?

The exchange-traded futures, as compared to OTC forwards, serve the same economic purpose, yet differ in fundamental ways. Exchange-traded contracts are standardised. In an exchange-traded scenario where the market lot is fixed at a much lesser size than the OTC market, equitable opportunity is provided to all classes of investors, whether large or small, to participate in the futures market. The other advantages of an Exchange traded market would be greater transparency, efficiency and accessibility.

The counterparty risk (credit risk) in a futures contract is eliminated by the presence of a clearing house/corporation, which by assuming counterparty guarantee, eliminates default risk. Thus, introduction of exchange-traded futures help in overall development of the forex market in the country.

Who can participate in a currency futures market?

Any resident Indian or company, including Banks and financial institutions, can participate in the futures market. However, at present, Foreign Institutional Investors (FIIs) and Non-Resident Indians (NRIs) are not permitted to participate in currency futures market.

Can currency futures help small traders?

Yes. The minimum size of the USDINR futures contract is USD 1,000. Similarly EURINR future contract is EURO 1000, GBPINR future contract is GBP 1000 and JPYINR future contract is YEN 1,00,000. These are well within the reach of most small traders. All transactions on the Exchange are anonymous and are executed on a price time priority ensuring that the best price is available to all categories of market participants irrespective of their size. As the profits or losses in the futures market are also paid/collected on a daily basis, the scope of accumulation of losses for participants gets limited.

If I am an individual with no exposure to foreign exchange risks, does a currency futures exchange mean anything to me?

Yes, it does provided you are not an NRI, if you want to invest purely as an investor. You can benefit from exchange rate fluctuations just as you can benefit by investing in equities in the stock market. However, as in the stock markets, you also stand to lose money if the price movements are not in keeping with what you had anticipated. Participating in a currency futures exchange is risky, just as the stock market is. You should, therefore, be knowledgeable about the currency market if you want to participate as an investor.

How do exchange-traded currency futures enable hedging against currency risk?

On a currency exchange platform, you can buy or sell currency futures. If you are an importer, you can buy futures to "lock in" a price for your purchase of actual foreign currency at a future date. You thus avoid exchange rate risk that you would otherwise have faced. On the other hand, if you are an exporter, you sell currency futures on the exchange platform and "lock in" a sale price at a future date. However, it may be noted that the contract will be marked to market at the daily settlement price and profit or loss will be paid/collected on a daily basis.

What are the risks involved in currency futures market?

Risks in currency futures pertain to movements in the currency exchange rate. There is no rule of thumb to determine whether a currency rate will rise or fall or remain unchanged. A judgement on this will depend on the knowledge and understanding of the variables that affect currency rates.

Can currency futures help small and medium size corporates?

Yes. The minimum size of the USDINR futures contract is USD 1,000. This is within the reach of most small and medium size corporates. All transactions on the Exchange are anonymous and are executed on a price time priority ensuring that the best price is available to all categories of market participants irrespective of their size. As the profits or losses in the futures market are also paid/collected on a daily basis, the scope of accumulation of losses for participants gets limited.

What are the documents required to trade or hedge in exchange-traded currency future platform?

Except for the know-your-client document (KYC), no other document is required to be submitted at the exchange. Corporates are not required to give any proof of underlying exposure at exchange.

Which are the global exchanges that provide trading in currency futures?

Internationally, exchanges such as Chicago Mercantile

Exchange (CME), Johannesburg Stock Exchange, Euronext.liffe, BM&FBOVESPA and Tokyo Financial Exchange offer trading in currency futures.

What is the minimum trading unit (i.e. contract size) and tenure of the USDINR, EURINR, GBPINR and JPYINR futures contract?

The contract size of the USDINR futures contract is USD 1,000; EURINR future contract is EURO 1,000; GBPINR future contract is GBP 1,000 and JPYINR future contract is YEN 1,00,000. The contracts have a maximum maturity of 12 months. All monthly maturities from 1 to 12 months are available.

What is the last trading day of these currency futures contract?

The last trading day of a futures contract on MCX-SX shall be two working days prior to the last working day (excluding Saturdays) of the month. The settlement price is the Reserve Bank of India's reference rate on the last trading day.

In which currency are the currency futures contracts settled?

They are settled in cash in Indian Rupees.

What are the various types of margins that are levied to manage the risk?

The trading of currency futures is subject to maintenance of initial, extreme loss, and calendar spread margins with the clearing house/corporation. The details of the margins levied are mentioned in the respective product specifications.

What are the currencies traded on MCX-SX?

MCX-SX facilitates futures trading in four major currency pairs – USDINR, EURINR, GBPINR and JPYINR.

What are the trading hours on MCX-SX?

Trading in currency futures is on all working days from Monday to Friday and is between 9:00 am and 5:00 pm.

Shareholders

All logos are in alphabetical order

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