MCX-SX

India's New Stock Exchange

MARKET UPDATE

...envisaging 'Cohesive Financial Markets'

july - september 2012

Information Innovation Education Research

About MCX Stock Exchange

MCX Stock Exchange Limited (MCX-SX), India's new stock exchange, commenced operations in the Currency Derivatives (CD) segment on October 7, 2008 under the regulatory framework of Securities & Exchange Board of India (SEBI) and Reserve Bank of India (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 CCL).

MCX-SX, which had started operations in Currency Futures segment, has been witnessing a steady and significant growth in average daily turnover and open interest ever since its inception. The average daily turnover (ADT) of currency futures stood at Rs. 12,430.48 crore at the end of September 2012, a significant increase from an ADT of Rs. 324.78 crore in the first month of operations. Completing the spectrum of currency risk management products, MCX-SX recently introduced its first differentiated product in Currency Options with a smaller tick size of 10 bps.

The currency derivatives segment at MCX-SX is supported by a strong membership base and witnesses a nation-wide participation. At the end of September 2012, MCX-SX had 751 members and saw participation from 734 towns and cities across India. Adhering to its philosophy of **'Systematic Development of Markets through Information, Innovation, Education and Research,'** its mission has been to promote Financial-literacy-for-Financial Inclusion™, as is envisaged by the Government of India. MCX-SX till date has conducted more than 1,400 investor education programmes across the country, averaging almost one such programme per working day. The Exchange has partnered with media, educational institutions, trade bodies and international organisations to jointly conduct programmes on financial literacy & investor awareness and introduce best practices for development of India's financial markets.

MCX-SX 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.

In this Issue...

Appreciate your feedback at: yourviews@mcx-sx.com

Shareholders

MCX-SX's list of shareholders, which includes India's top private sector banks, top Indian financial institutions and top Indian Public sector financial institutions, reflect the changing perspective of India's capital markets.

In alphabetical order

MCX-SX Board of Directors & Expert Advisory Board

Board of Directors

- **Mr. S S Thakur – Public Interest Director**
  Former Chairman, Central Depository Services (India) Ltd.; Founder Chairman, HDFC Bank Ltd.
- **Mr. Jignesh Shah – Vice-Chairman (Shareholder Director)**
  Chairman & CEO, Financial Technologies (India) Ltd.
- **Mr. Ashok Jha, IAS (Retd.) – Shareholder Director**
  Former Finance Secretary; Former Secretary, Dept. of Economic Affairs and Dept. of Industrial Policy & Promotion
- **Mr. S U Kamdar – Public Interest Director**
  Former Judge of the Bombay High Court
- **Mr. C M Maniar – Public Interest Director**
  Senior Partner, Crawford Bayley & Co.
- **Mr. B D Sumitra – Shareholder Director**
  Former MD, CCIL; Former Deputy Managing Director, SBI
- **Mr. P R Barpande – Public Interest Director**
  Former Partner, Deloitte Haskins & Sells
- **Prof. (Mrs.) Ashima Goyal – Public Interest Director**
  Professor, Indira Gandhi Institute of Development Research
- **Mr. Joseph Massey – Managing Director & CEO**
  Chairman, South Asian Federation of Exchanges (SAFE); Former MD & CEO, Multi Commodity Exchange of India Ltd.
- **Mr. U Venkataraman - CEO- Currency Derivatives Segment & Whole Time Director (Shareholder Director)**
  Former Head-Treasury, IDBI Bank Ltd.

Expert Advisory Board

- **Mr. G N Bajpai**
  Former Chairman, SEBI & LIC
- **Mr. Venkat Chary, IAS (Retd.)**
  Former Chairman, FMC; Former Additional Chief Secretary, Maharashtra
- **Dr. L C Gupta**
  Director, SCMRD, and Former Member, SEBI
- **Mr. Jamal Mecklai**
  CEO, Mecklai Financial

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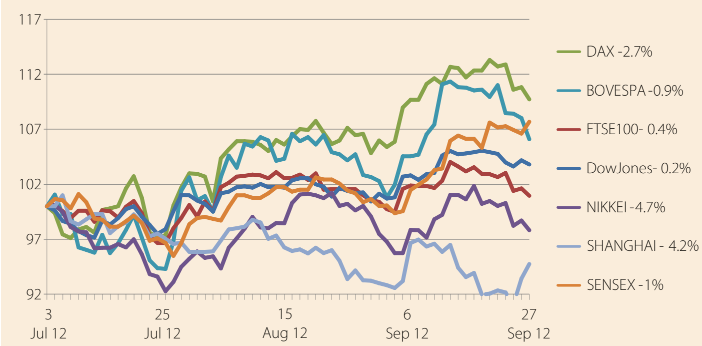
Global Economic Trends

Global Economic Outlook – Financial Stability Concerns Still Prevail

According the to the recently released Global Financial Stability Report (GFSR) risks to financial stability have increased since the April 2012 GFSR. Confidence in the global financial system has become very fragile. Euro area crisis continues as a principal concern. GFSR warns that delays in resolving the crisis increases risk of shrinking bank assets. The combined forces of bank deleveraging and sovereign stress are generating very strong headwinds for the corporate sector in the Euro area. It finds that there is dire need for a leap to the implementation of complete policy scenario to restore confidence, reverse capital flight, and reintegrate the euro zone.

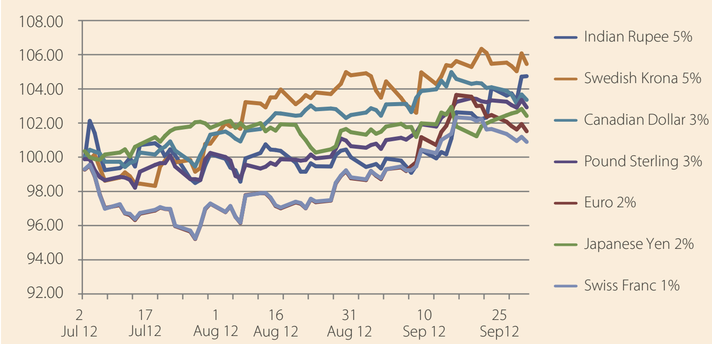
Performance of Global Equity Markets



Japan and US – Sovereign Debts of Medium Concern

The unfolding euro area crisis has generated capital flows to other jurisdictions, especially to that of United States and Japan. Although these flows have pushed government funding costs to historical lows, both continue to face significant fiscal challenges. Unsustainable debt dynamics in US remain the central concern. Japan faces increasing deficit levels along with the existing record sovereign debt levels, and interdependence between banks and the sovereign has been increasing.

Performance of Global Currencies against USD (Rebased, June 2012)



Emerging Nations – Need to Guard

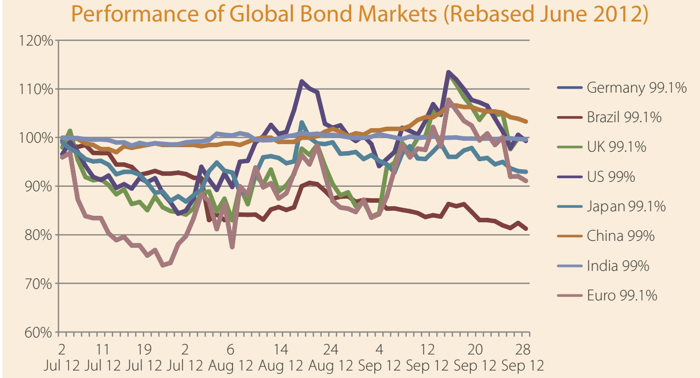
Emerging market economies have adeptly navigated through global shocks so far, but need to guard against potential further shockwaves. Growth would remains the potential dampener. Asia and Latin America are more resilient, but several key regional economies are still prone to risks being at the late phase of a credit cycle. Meanwhile, the scope to provide fresh policy stimulus is somewhat constrained in several economies, which underscores the need to deftly manage country specific challenges.

The Way Forward

The crisis has spurred a host of regulatory reforms to make the financial system safer—financial institutions and markets that are more transparent, less complex, and less leveraged. Recent GFSR points to some areas that still require attention:

1) Global discussion on ways to address the too-important-to-fail issue,
2) More attention to segments of the nonbank system that may be posing systemic risks, and
3) Further progress in recovery and resolution of large institutions with cross-border exposures

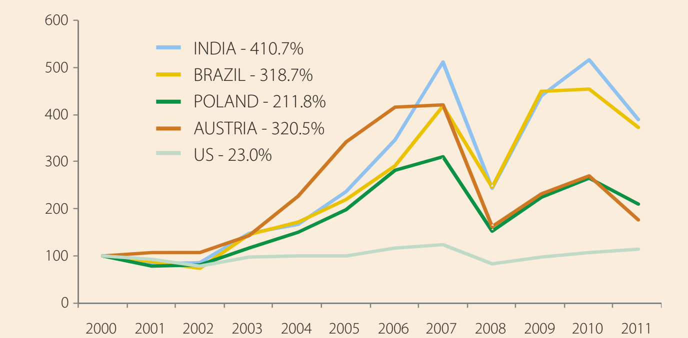
Performance of Global Bond Markets (Rebased June 2012)



Indian Economic Trends

The central bank had decided to keep the benchmark interest rate on hold for the time being in their recent monetary policy revision, primarily due to elevated inflation. While business leaders might argue that lackluster business situation warrant further easing of monetary conditions, inflationary pressures are still at uncomfortably high level claim analysts. This, along with the fact that there has not been much efforts in reducing the huge fiscal deficit, has been cited as the cause behind the central bank's decision to keep policy rates unchanged says the OPEC report. The latest inflation report shows that wholesale price rises, though still high, unexpectedly fell to 7.3% y-o-y in June on the back of global commodity prices.

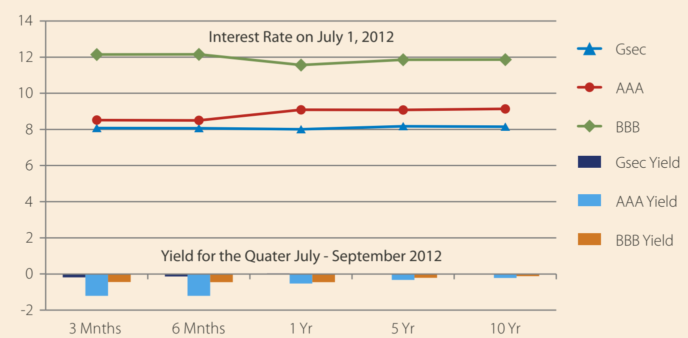
Developed & Emerging Market Equity indices, (Rebased, 2000 = 100)



Slowing Growth

Real GDP growth expectations for this year have continued to slide this month as witnessed from estimates from various institutions, for example recently the central bank reduced its GDP growth projection from 7.3% to 6.5%. OPEC had reduced its forecast of India's GDP growth in 2012 to 6.3% considering the economy's performance in first half of the year. Although annualized GDP growth picked up in the second quarter, sequential movement continues to fall. According to JP Morgan the sequential momentum of GDP growth has continued to moderate.

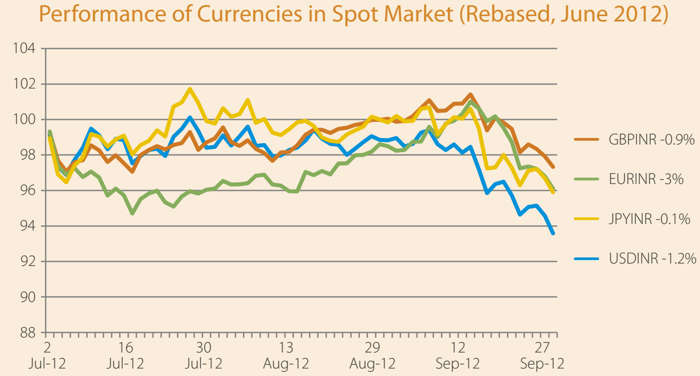
Indian Debt Markets



Fiscal Deficit and Forex Flows

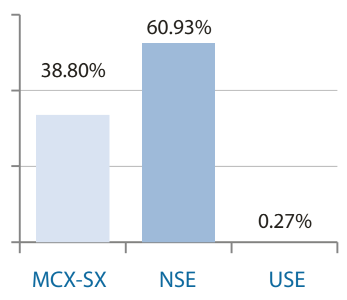
India's widening trade gap together with its fiscal deficit has put downward pressure on the rupee. Various analysts and reports expect Rupee to remain weak in the short-to-medium term considering the lack of any sign of improving external demand and stagnancy in foreign financial flows. The current account deficit is expected to widen from the equivalent of 3.2% of GDP in 2011 to 4.4% in 2012. In the first seven months of 2012 merchandise exports shrank by 4.1% on an annual basis, while imports grew by 1.9%. Inward capital flow is also expected to decrease, lowering the demand for the rupee. In the medium-to-longer term however, one can expect a stronger rupee, taking into account the relatively bright prospect for the economy claims a OPEC review. Budget deficit targeted to narrow to the equivalent of 5.1% of GDP in 2012-13, from an estimated 5.9% in 2011-12.

Performance of Currencies in Spot Market (Rebased, June 2012)



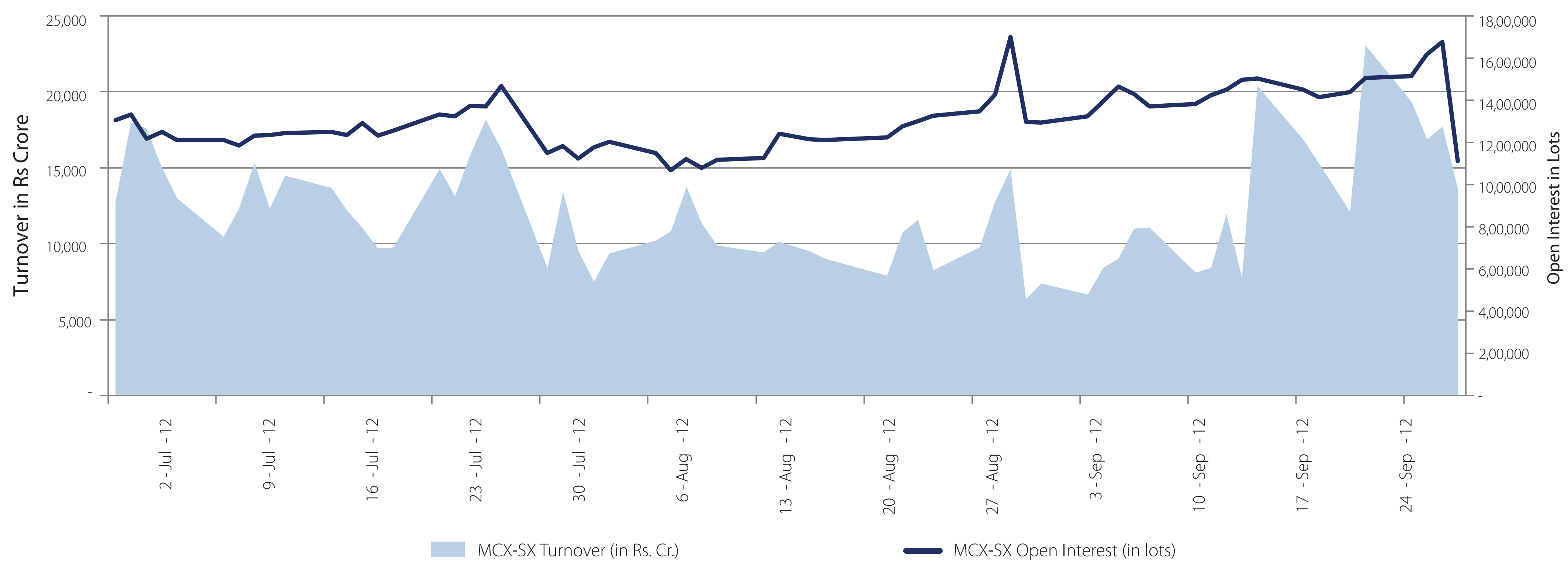
12,261.50
Average daily
Turnover (₹ in crs)

21,96,417
Average daily
Volume (in lots)



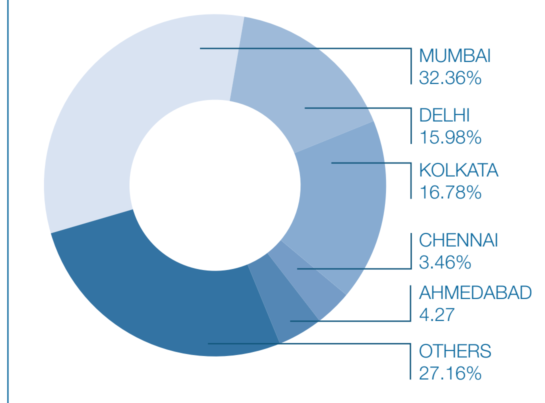
Market Share includes only
Currency futures and Options contracts

Period: July 2012 - September 2012

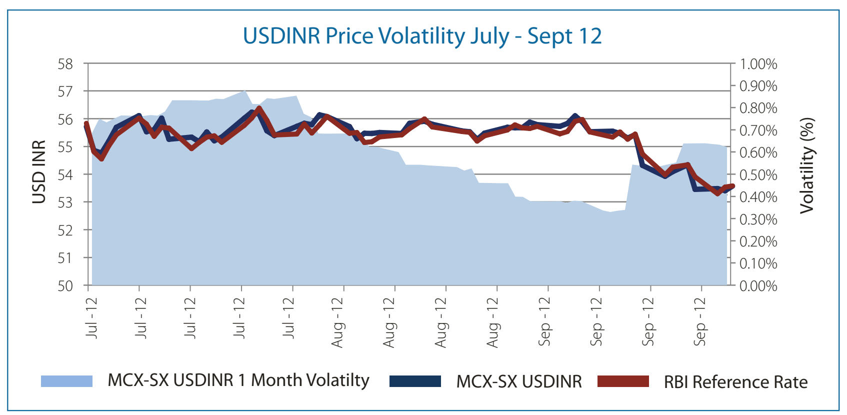


751
Number of Members

38.80%
Market Share

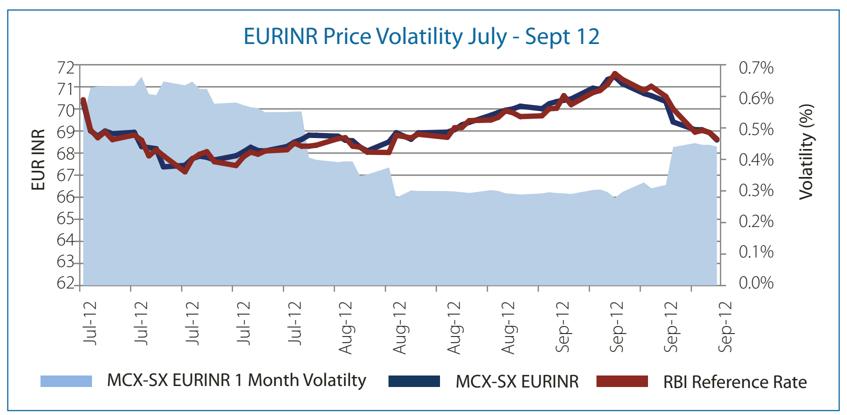


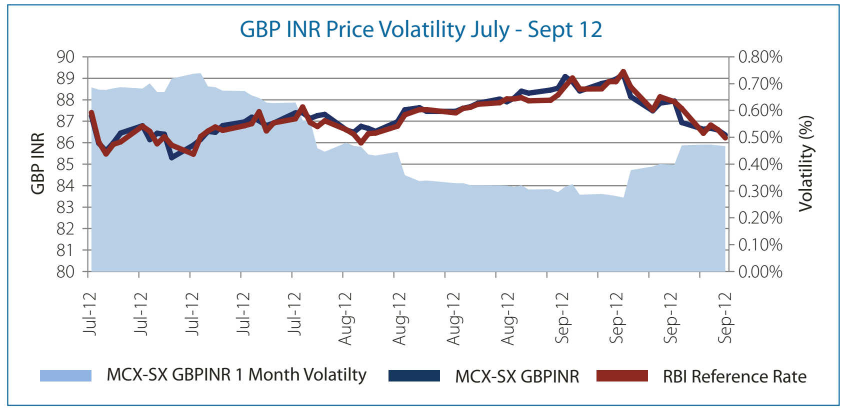
Member Geographical Spread



The Rupee appreciated against the USD, with the close price of MCX-SX USDINR moving from Rs 55.7100 to Rs 53.0525 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 55.8300 to Rs 52.6970. The close to close 1 month price volatility of USDINR was higher during July but later subdued before it started rising up towards end of Sept 2012.

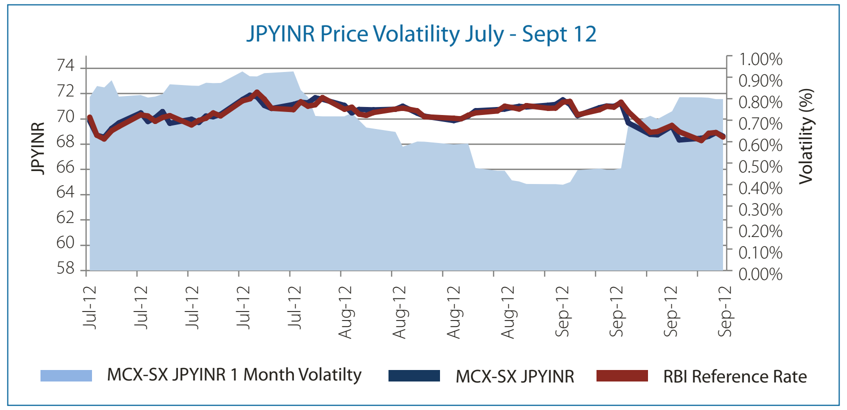
The Rupee appreciated against the EURO, with the close price of MCX-SX EURINR moving from Rs 70.2875 to Rs 68.5550 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 70.4295 to Rs 68.1485. The close to close 1 month price volatility of EURINR was higher during July but later subdued before it started rising up towards end of Sept 2012.





The Rupee has appreciated against the GBP, with the close price of MCX-SX GBPINR moving from Rs 87.2500 to Rs 85.9050 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 87.4074 to Rs 85.7117. The close to close 1 month price volatility of GBPINR was higher during July but later subdued before it started rising up towards end of Sept 2012.

The Rupee appreciated against the JPY, with the close price of MCX-SX JPYINR moving from Rs 69.8275 to Rs 68.2875 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 70.15 to Rs 68.00. The close to close 1 month price volatility of JPYINR was higher during July but later subdued before it started rising up towards end of Sept 2012.



Regulatory Development

- **SEBI**:

  Application Supported by Blocked Amount (ASBA) ; dated Sept 25, 2012

  Post consultations and feedback received with Reserve Bank of India, Indian Banks'Association and other market participants, to explore the possibility of providingASBA facility at all branches of Self Certified Syndicate Banks (SCSBs) it has been decided to increase thenumber of branches designated for ASBA, in a phased manner

- **RBI**

  Foreign investment in Single–Brand Product Retail Trading/ Multi-Brand Retail Trading/ Civil Aviation Sector/ Broadcasting Sector/ Power Exchanges - Amendment to the Foreign Direct Investment Scheme (RD) ; dated Sept 21st, 2012

  - FDI up to 100 per cent is now permitted in Single–Brand Product Retail Trading by only one non-resident entity,
  - FDI up to 51 per cent is now permitted in Multi-Brand Retail Trading under the Government route Foreign airlines are permitted
  - FDI up to 49% in the capital of Indian companies in Civil Aviation Sector
  - FDI limits in companies engaged in providing Broadcasting Carriage Services under the automatic/Government route have been reviewed
  - FDI up to 49% is permitted in Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010, under the Government route

- **International Regulatory Developments**

  IOSCO Creates Board Level Task Force on Financial Market Benchmarks

  In light of the significant issues raised by investigations into attempted manipulation of benchmarks and related enforcement actions, in particular the recent incidents involving LIBOR, EURIBOR and TIBOR, the IOSCO develop global policy guidance and principles for benchmark-related activities of particular relevance to market regulators.

  IOSCO Consults on the Technological Challenges to Market Surveillance

  Published ON 22nd August a Consultation Report on the Technological Challenges to Effective Market Surveillance: Issues and Regulatory Tools, which seeks public comments on a series of proposed high-level recommendations aimed at helping Market Authorities improve market surveillance.

  German Government Adopts Draft Legislation to Regulate High Frequency Traders and Algorithmic Trading Strategies on German Trading Venues

  The German Government plans to curtail high frequency trading on German trading venues and to submit certain algorithmic trading strategies to regulatory supervision. In its cabinet meeting on September 26, 2012 the Federal Government adopted a revised draft legislation titled the "Act for the Prevention of Risks and the Abuse of High Frequency Trading"

  CFTC on October 23, 2012 proposes New Regulations and to Amend Existing Regulations to Enhance Protections for Customers and Customer Funds Held by Futures Commission Merchants and Derivatives Clearing Organizations

  FSB on 31st Oct releases report on implementation of OTC derivatives market reforms.

Market Developments

- SEBI takes steps to re-energies Mutual Fund Industry *dated Sept 13th, 2012 www.sebi.gov.in*

  Increase penetration of mutual fund products and to energies the distribution network while protecting the interest of investors, SEBI implemented certain key developmental changes

- RBI: StCBs/RRBs –CRR reduced (RD) *dated Sept 21st, 2012 www.rbi.org.in*

  The Reserve Bank has been decided to reduce the Cash Reserve Ratio (CRR) of Scheduled State Co-operative Banks/ Regional Rural Banks by 25 basis points from 4.75% to 4.50%. The Reserve Bank hereby notifies that the average Cash Reserve Ratio (CRR) required to be maintained by every Scheduled State Co-operative Bank/ Regional Rural Bank shall be 4.50% of its net demand and time liabilities from the fortnight beginning September 22, 2012.

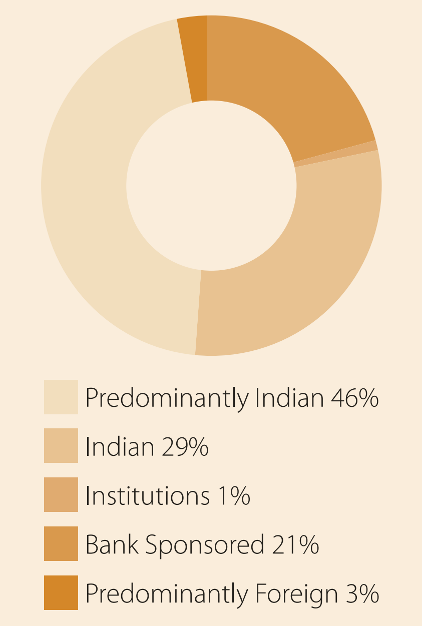
- RBI: New Capital Adequacy Framework (NCAF) - Eligible Credit Rating Agencies – SMERA *dated Sept 13th, 2012 www.rbi.org.in*

  Five domestic credit rating agencies viz. CARE, CRISIL, FITCH India, ICRA and Brickwork have been accredited for the purpose of risk weighting the banks' claims for capital adequacy purposes. The long term and short term ratings issued by these domestic credit rating agencies have been mapped to the appropriate risk weights applicable as per the Standardized Approach under the Basel II Framework.

  Also it's decided that banks may also use the ratings of the SME Rating Agency of India Ltd. (SMERA)for the purpose of risk weighting their claims for capital adequacy purposes in addition to the existing five domestic credit rating agencies.

- **Assets under Management** as on 30th September, 2012 is at Rs 6,86,511 crore. (source: www.mutualfundsindia.com)

- **No. of demat accounts** as on 30th Sept 2012, 20.53 million on both the depositories. (CDSL+NSDL) (source: data disseminated by CDSL &NSDL)



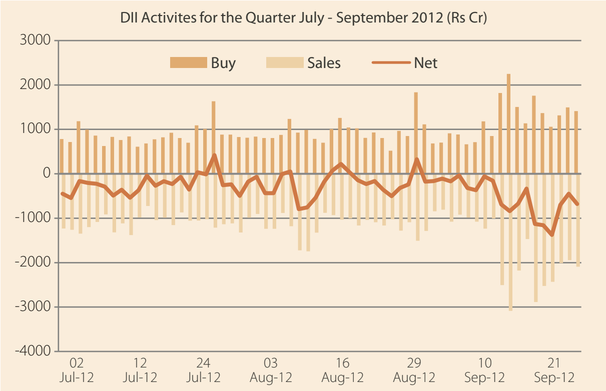
FII investments for September 2012

(source: SEBI)

Route	Investment Route	Net Investment (Rs. Crs)	Net Investment (USD Mn)
Equity	Stock Exchange Primary Market & Other	19,035.1 226.4	3,519.69 40.88
Debt	Stock Exchange Primary Market & Other	(596.50) 1,218.8	(102.95) 224.27
	Total	19,883.80	3,681.89

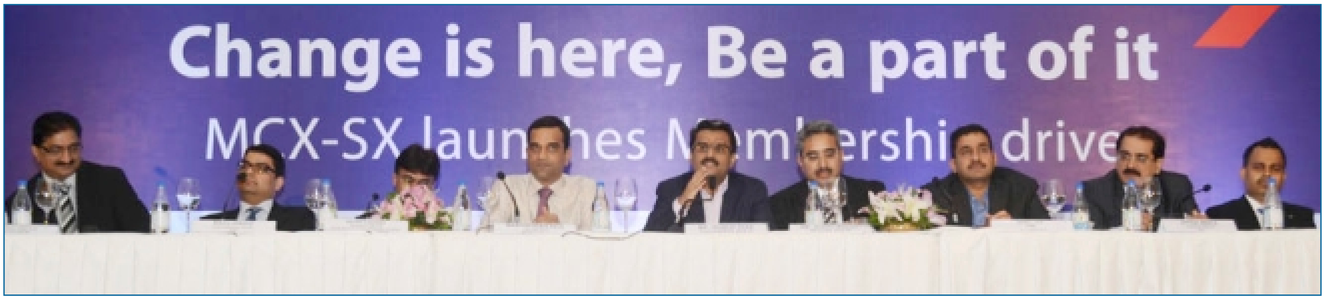
DII Activity for July – September 2012

(source: SEBI Bulletin)



Exchange Highlights

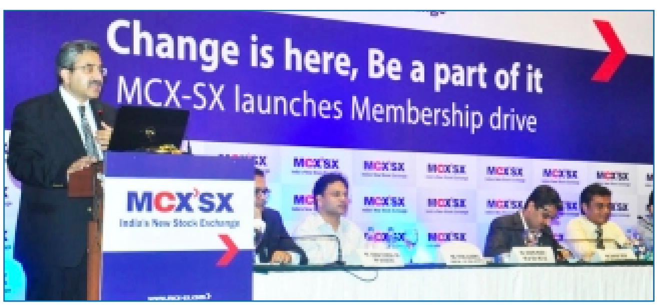
Past events



Mr. Jignesh Shah, Vice-Chairman, MCX-SX, with an eminent panel of speakers from the industry at the Mumbai roadshow on September 10, 2012

One of the speakers addressing the gathering at the Ahmedabad roadshow on September 12, 2012

The New Delhi roadshow on September 12, 2012 saw an overwhelming industry participation.



Mr. Joseph Massey, MD & CEO, MCX-SX, delivering his address at the Kolkata roadshow on September 13, 2012

Mr. U Venkataraman, ED, MCX-SX, delivering his address at the Chennai roadshow on September 14, 2012

Upcoming events

6-8 Nov 2012
World Economic Forum (WEF) – India Economic Summit, Hotel Leela, Delhi

22-24 Nov 2012
ANMI – 17th AGM of Asia Securities Forum (ASF), Hotel Trident, Mumbai

26-27 Nov 2012
FICCI & BOAO – Asia Finance Conference, Hotel Trident, Mumbai

12 Dec 2012
CII– 4th Capital Markets Summit, Taj President, Mumbai

15 Dec 2012
FICCI – 85th Annual General Meeting, FICCI Federation House , New Delhi

19-21 Dec 2012
Indian Institute of Management Calcutta (IIMC) – India Finance Conference 2012, IIM Kolkata, Kolkata

Key Exchange Inititatives

Actions speak louder than words, it is said. At MCX Stock Exchange (MCX-SX), we share exactly the same sentiment. With a series of concrete initiatives, we have now begun to follow up on our commitment towards systematic development of India's financial market across all asset classes i.e equity, bond, currency and SME segment. Here are a few key initiatives that we have unveiled in a series of roadshows across India over the last few weeks:

Optimum transaction fee structure and membership costs to foster inclusive growth

Mumbai, Sept 10, 2012: We announced an optimum transaction fee structure and an optimal membership cost structure to lower entry barriers to the capital market, thereby fostering inclusive growth. The revised membership cost structure in line with SEBI prescribed norms frees up huge capital for members that would otherwise be blocked in exchanges. Members can now utilise these funds towards client acquisition, training of staff and business expansion. (Visit: www.mcx-sx.com/optimumcharges.pdf)

Appoint state-level advisory boards to identify concerns, provide solutions and promote financial literacy

Ahmedabad, Sept 11, 2012: We announced appointing state-level advisory boards, comprising of all stakeholders of the capital market, in each state. The objective is to gather feedback from the grass-roots level, identify concerns and issues of stakeholders / members and provide solutions for resolving them. The board will also identify opportunities for these stakeholders and undertake activities related to financial literacy to ensure inclusive growth. (Visit: www.mcx-sx.com/stateadvisoryboard.pdf)

Unveiling of flagship index 'SX-40' and develop indices with Indian Statistical Institute, FTSE - London and FTKMC

New Delhi, Sept 12, 2012: We announced our flagship index 'SX-40' - a well-balanced and growth oriented index of stocks representing large market-cap companies amongst most important sectors of the Indian industry. This index captures the essence of investment opportunity in India and also reflects the growth potential. Further, partnership with Indian Statistical Institute, FTSE – London and FTKMC will enable developing additional domestic and global indices. (Visit: www.mcx-sx.com/SX40.pdf)

Conduct 1000 training programmes with first 500 members for capacity building and skill development of stakeholders

Kolkata, Sept 13, 2012: We announced to conduct 1,000 in-depth education and training programmes, two per member for the first 500 members who will go live on the exchange. These programmes are designed to promote financial literacy amongst investors and skill development amongst staff of the members and will cause development of a broad-based and deep market. Details of the scheme are available on our website. (Visit: www.mcx-sx.com/trainingprog.pdf)

Largest city-wise footprint of 'Point of Presence' network, enabling superior bandwidth and better network management

Chennai, Sept 14, 2012: We announced to establish the largest Point of Presence (PoP) network in India. This will enable lower latency, cost-effective connectivity, superior bandwidth and an efficient network management for members of the exchange. Such a network enhances broad-based participation and contributes to inclusive growth. (Visit: www.mcx-sx.com/PoP.pdf)

The country's finest stock exchange is taking shape even as you read this. In days to come, we will be sharing more such initiatives that will help you understand what makes MCX-SX the Exchange of choice for the informed investor and member.

MCX-SX Offices

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An Initiative by MCX Stock Exchange Research & Product Development and Communications Teams

MCX SX
India's New Stock Exchange

MCX-SX/MUB/OCT2012