



...envisaging 'Cohesive Financial Markets'

october - december 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 has witnessed a steady and significant growth in currency futures' average daily turnover and open interest since its inception. Completing the spectrum of currency risk management products, the Exchange introduced its first differentiated product in Currency Options with a smaller tick size of 10 bps in August 2012. The average daily turnover of Currency futures and options at the end of December 2012 stood at Rs. 12,108.80 crore.

The currency derivatives segment at MCX-SX is supported by a strong membership base and witnesses nation-wide participation. At the end of December 2012, MCX-SX had 780 members and saw participation from 757 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 envisaged by the Government of India. MCX-SX till date has conducted 1,585 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.

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## Shareholders

Shareholders of MCX-SX include India's top public sector banks, private sector banks and Indian financial institutions.



## 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
- Mr. Ganesh Rao
   CEO, IBS Forex Ltd. and

   Former Chief Trader, FX, Bank of America



## Global Economic Trends

According to the recent World Economic Outlook, recovery has suffered new setbacks, and uncertainty weighs heavily on the outlook. Policies in the major advanced economies have not rebuilt confidence in medium-term prospects. Tail risks, such as those relating to the viability of the euro area or major US fiscal cliff, continue to preoccupy investors. Global growth is projected at 3.3 and 3.6 percent in 2012 and 2013

More Action needed to contain risks: Output is expected to remain sluggish in advanced economies compared with a relatively solid performance of many emerging markets and developing economies. The IMF forecasts that financial conditions will remain fragile. In advanced economies, injections of liquidity are having a positive impact on financial stability and output and employment but the impact is seen diminishing. In emerging market and developing economies. World economic outlook warns unless more action is taken soon, recent improvements in financial markets could prove fleeting.

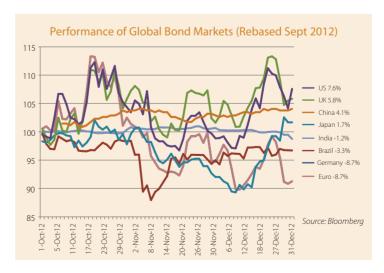
**Supportive reforms and adaptive monetary policy is the way to go:** Reducing the risks to the medium-term outlook impacted by the public debt overhang in the major advanced economies will require supportive monetary policies and appropriate structural reforms, as well as careful fiscal policy. United States urgently need to specify strong medium-term fiscal plans. Japan would have to increase in the public debt-to-GDP ratio.

In emerging economies, economic activity has slowed by policy tightening in response to capacity constraints, weaker demand abroad, and country-specific factors.

**External-internal demand adjustments:** More adjustment in external-deficit economies and more internal demand in external-surplus economies would contribute to a safer global economy and stronger growth.







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## **Indian Economic Trends**

**Less buoyant economic outlook:** The second quarter review of the central bank reveals that global risks have increased further and domestic risks have become accentuated by halted investment demand, and a slowdown in consumption spending.

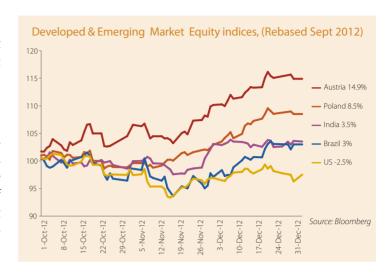
Industrial output outlook remains uncertain, going forward claims the review. Notwithstanding the improvement in rainfall, the first advance estimates of the 2012 kharif production are somewhat less buoyant compared with the previous year. The baseline projection of GDP growth for 2012-13 is revised in the second quarter review to 5.8 per cent.

**External threats count more:** Downside risks to growth emanating from the global macroeconomic environment are now adjudged to be more elevated due to weak growth momentum and policy uncertainties in the developed nations.

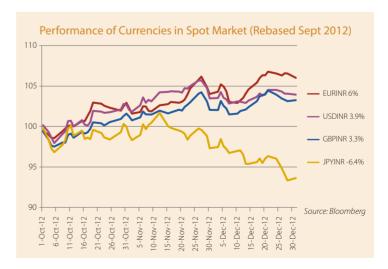
Spillovers to the Indian economy through trade, finance and confidence channels could impact our growth outlook. Domestically, a revival in investment activity, the key to stimulating growth would depend on how the recently announced reforms measures are converted into action.

**The twin risks:** The large twin deficits, i.e., the current account deficit and the fiscal deficit pose significant risks to both growth and stability says the review. A large current account deficit poses challenges given the current global environment in financing it.

In a situation of volatile capital flows, the deficit could exacerbate downward pressures on the rupee, claims the report. The review mentions that liquidity pressures pose risks to credit availability for productive purposes and could affect overall investment and growth prospects adversely. On the other hand, excess liquidity could aggravate inflation risks.



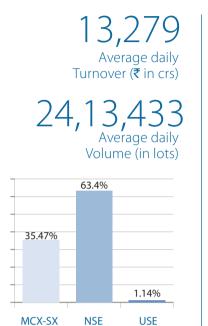






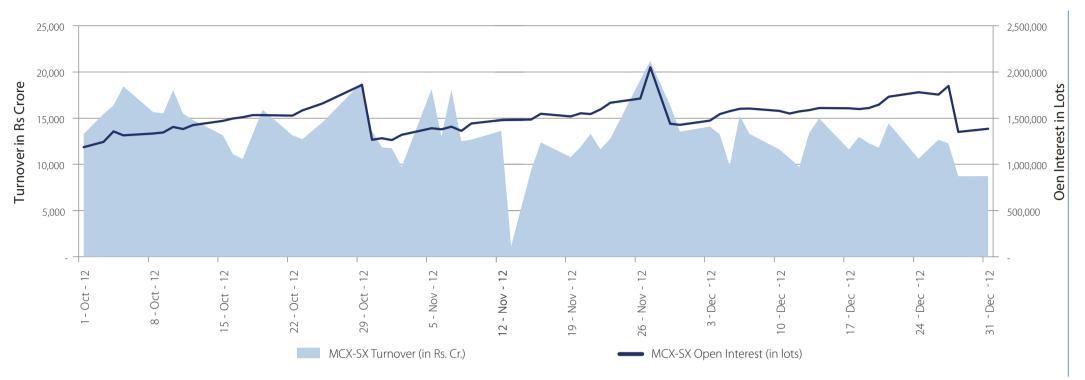
# **Exchange Arena**





(Currency futures and Options contracts)

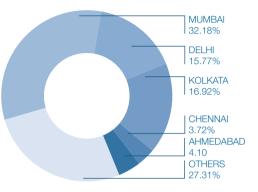
Period: October 2012 - December 2012



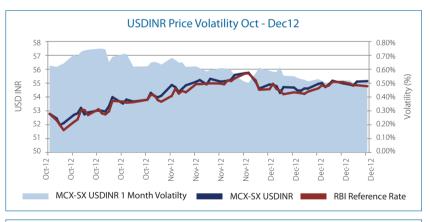
780 Number of Members

35.47%

Market Share



Member Geographical Spread



GBP INR Price Volatility Oct - Dec12

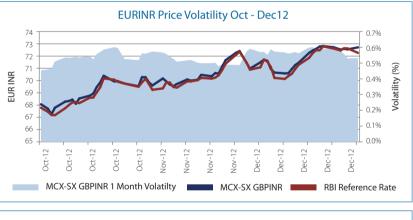
MCX-SX GBPINR 1 Month Volatilty MCX-SX GBPINR RBI Reference Rate

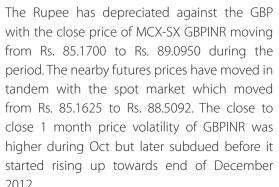
- 0.30%

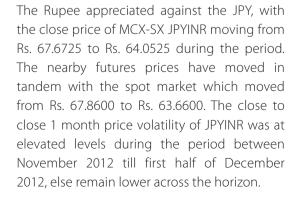
- 0 20%

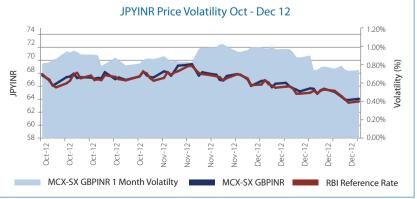
The Rupee depreciated against the USD, with the close price of MCX-SX USDINR moving from Rs. 52.7925 to Rs. 55.1500 during the period. The nearby futures prices have moved in tandem with the spot market which moved from Rs. 52.7845 to Rs. 54.7773. The close to close 1 month price volatility of USDINR was higher during October, however reduced by the end of Q3FY13.

The Rupee depreciated against the EURO, with the close price of MCX-SX EURINR moving from Rs. 68.0675 to Rs. 72.7125 during the period. The nearby futures prices have moved in tandem with the spot market which moved from Rs. 67.7850 to Rs. 72.2605. The close to close 1 month price volatility of EURINR was higher during Oct but later subdued before it started rising up towards end of December 2012.









# **Regulatory Developments**

### **SEBI**

- Arbitration Mechanism in Stock Exchanges on November 7, 2012 (CIR/MRD/ICC/ 29 /2012)
   Stock exchanges are advised to make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision immediately
- Inventory Management for Market Makers of SME Exchange/ Platform on November 27, 2012 (CIR/MRD/DSA/31/2012)
  - Guidelines for market makers on stock exchange/trading platform by a recognized stock exchange having nationwide trading terminals for Small and Medium Enterprises (SMEs). To apply, limits on the upper side for market makers during market making process taking into consideration the issue size.
- Pre-trade Risk Control ON December 13, 2012 (CIR/MRD/DP/34/2012)
   To implement risk management in cash market and equity derivitatives segment. Stock exchanges have operationalised these measures by putting in place checks to be carried out at their end and by the stock brokers

#### **RBI**

- Urban Banks Department Know Your Customer (KYC)/Anti-Money Laundering (AML)/Combating of Financing of Terrorism (CFT) Guidelines - Unique Customer Identification Code (UCIC) for banks' customers in India, dated October 9th, 2012 (RBI/2012-2013/235)
  - The UCIC will help UCBs to identify customers, track the facilities availed, monitor financial transactions in a holistic manner and enable UCBs to have a better approach to risk profiling of customers. It would also smoothen banking operations for the customers.
- Foreign Exchange Department Foreign investment in NBFC Sector Amendment to the Foreign Direct Investment (FDI) Scheme All Category-I Authorized Dealer Banks, dated October 10th, 2012 (RBI/2012-2013/241) NBFCs (i) having foreign investment more than 75% and up to 100%, and (ii) with a minimum capitalisation of US\$ 50 million, can set up step down subsidiaries for specific NBFC activities, without any restriction on the number of operating subsidiaries and without bringing in additional capital
- Mid-Quarter Monetary Policy Review: December 2012 Monetary and Liquidity Measures

  On the basis of the current macroeconomic assessment, the cash reserve ratio of scheduled banks is unchanged at 4.25% of their net demand and time liabilities; and the policy repo rate under the liquidity adjustment facility (LAF) is unchanged at 8.0%. Consequently, the reverse repo rate under the LAF is unchanged at 7.0%, and the marginal standing facility (MSF) and the Bank Rate at 9.0%.

### **International Regulatory Developments**

- IOSCO publishes Policy Recommendations for Money Market Funds, dated October 9, 2012, which proposes recommendations to be the basis for common standards for the regulation and management of money market funds across jurisdictions. These are articulated around key principles for valuation, liquidity management, use of ratings, disclosure to investors, and repos.
- IOSCO publishes Global Developments in Securitisation Regulation on November 2012, aimed to develop securitised markets, on a sound and sustainable basis.
- CFTC issues Clearing Determination for certain Credit Default Swaps and Interest rate Swaps, on November 28th, 2012





# **Market Developments**

### **SEBI**

- Public Issues in electronic form and use of nationwide broker network of Stock Exchanges for submitting application forms, dated October 4th, 2012. (CIR/CFD/14/2012)
  - In order to simplify the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns, its mandatorily proposed for companies to issue IPOs of Rs. 10 crore and above in electronic form through nationwide broker network of stock exchanges"
- Debt Allocation Mechanism for FII on Nov 7, 2012 (CIR/IMD/FIIC/22/2012)
   Re-investment of up to two years from the date of the circular or to the extent of twice the size of the debt portfolio, to those FIIs and subaccounts that had already acquired limits and/or invested in debt in the manner prescribed in the said circular.
- Participation of mutual funds in Credit Default Swaps (CDS) Market as Users ("Protection Buyers") and in repo, in corporate debt securities, on November 15, 2012 (CIR/IMD/DF/23/2012)
- Requirement of Base Minimum Capital for stock broker and trading member on Dec 19, 2012 (CIR/MRD/DRMNP/36/2012)
  - Sebi has specified the BMC for stock brokers trading on the stock exchange. BMC is the deposit given by the member of the exchange against which no exposure for trades is allowed.

### RBI

 Corporate Bond Market – Permission to banks for membership in SEBI approved Stock Exchanges (RBI/2012-2013/277)

RBI has taken initiative measures to impart liquidity by permitting repo transactions in corporate bonds, increase transparency by capturing information related to trading in corporate bonds including repo transactions through the authorised reporting platforms and mandatory settlement of all trades in corporate bonds through the clearing corporations and facilitating risk transfers by introduction of CDS.



### FII investments for December 2012

(source: SEBI)

| Route  | Investment<br>Route                         | Net Investment<br>(Rs. Crs) | Net Investment<br>(USD Mn) |
|--------|---|-----------------------------|----------------------------|
| Equity | Stock Exchange<br>Primary Market &<br>Other | 16948.6<br>8139             | 3105.99<br>1485.79         |
| Debt   | Stock Exchange<br>Primary Market &<br>Other | (369)<br>2073               | (64.9)<br>378.05           |
|        | Total                                       | 26792.9                     | 4904.95                    |

### DII Activity for October -December 2012

(source: SEBI Bulletin)





# **Exchange Highlights**

### **Past events**



Mr. Joseph Massey (extreme left), MD and CEO, MCX-SX, delivers his address at the CII 4th Capital Markets Summit held in Mumbai on December 12, 2012. Seated (from left) are Mr. Ashishkumar Chauhan, MD & CEO, BSE; Ms. Chitra Ramkrishna, Joint MD, NSE; and Mr. Rajeev Kumar Agarwal, Whole Time Member, SEBI.



(From left) Mr. Joseph Massey, MD & CEO, MCX-SX; Mr Ravi Narain, MD & CEO, NSE; Mr. S Ramann, Executive Director, SEBI; Mr. David Lynch, Australian Financial Markets Association; and Mr. Ashishkumar Chauhan, MD &CEO, BSE at the 17th, AGM of the Asia Securities Forum 2012 hosted by ANMI in Mumbai on Nov 22-Nov 24, 2012.



(From left) Mr. Alok Kshirsagar, Director, McKinsey India; Mr. Neeraj Bharadwaj, MD, Carlyle India Advisors; Mr. Joseph Massey, MD &CEO, MCX-SX, Mr. Vasant M Prabhu, Vice-Chairman & CEO, Starwood Hotels and Resorts; and Mr. N V Tyagarajan, President & CEO, Genpact at a panel discussion during the WEF – India Economic Summit, held in Gurgaon on Nov 6-8, 2012.



(From left) Mr. David Rule, Director, International UK Banks, Financial Services Authority; Mr. Joseph Massey, MD & CEO, MCX-SX; Mr. Sanjay Sharma, MD, Head, Equity Capital Markets-India, Deutsche Equities; Ms.. Zia Mody, Founder & Senior Partner, AZB & Partners; Mr. Shachindra Nath, Group CEO, Religare Enterprises Ltd. and Mr. Prithvi Haldea, Founder Chairman & MD, PRIME Database at the FICCI – 9th Annual Capital Markets Conference, organised in Mumbai on Oct 12, 2012.

### **Upcoming events**

### 12 January 2013

SCMHRD - Financial Summit on Foreign Exchange, Mumbai

### 15-17 January 2013

Assocham - Bengal Leads' an Investment Promotion Exhibition cum Business Summit, Haldia, West Bengal

### 23 January 2013

Assocham - 6th SME Sammelan - Driving SMEs to Growth, Mumbai

### 25 January 2013

IIMB - 10th edition of Yamini, IIM, Bangalore

### 2 February 2013

FIMMDA - 14th FIMMDA- PDAI Annual Conference, Colombo, Sri Lanka

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# **Key Exchange Initiatives**

### Mock testing session of Capital Market segment held on auspicious occasion of 'Chhat'

MCX Stock Exchange (MCX-SX) conducted mock testing session for its Capital Market segment on November 19, 2012 in order to familiarise participants with this new trading platform of MCX-SX. The mock testing session coincided with the auspicious 'Chhat' puja.

Chhat is one of the most important festivals during the Diwali period, having a great significance especially among traders and businessmen as it stands for prosperity and well-being. Thus, MCX-SX commencing its journey to create a new history in India's financial markets assumes a greater importance with the mock testing coinciding with this pious festive season.

### MCX-SX joins the United Nation's Sustainable Stock Exchanges (SSE) initiative

MCX Stock Exchange (MCX-SX) has signed the voluntary commitment to the United Nation's Sustainable Stock Exchanges (SSE) initiative to promote long-term sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on its exchange. With this, MCX-SX has joined the global league of six other exchanges that have committed to the UN SSE initiative. This move by MCX-SX is in keeping with its broader agenda of market development, inclusive growth and enhancing transparency in stock exchanges.

### MCX-SX receives 'Commencement Certificate' from SEBI

MCX Stock Exchange (MCX-SX) has received the final go-ahead from the financial markets regulator Securities and Exchange Board of India (SEBI) for going live in new product segments such as equity, wholesale debt (bonds) and interest rate derivatives. The "commencement certificate" from SEBI, dated December 19, 2012, came after completion of documentation process and SEBI's site inspection.

Meanwhile, MCX-SX has already initiated connectivity of members with the exchange and had earlier announced that the new segment would be made live as soon as the critical mass of registering and connectivity is achieved. MCX-SX received 700 applications for new membership in the aforesaid segments.

### Govt grants "recognized stock exchange" status to MCX-SX

The Ministry of Corporate Affairs (MCA), Govt of India, has by its notification dated December 21, 2012, granted MCX-SX the status of a "recognized stock exchange". With this recognition, companies coming out with their initial public offerings will be able to list their securities exclusively on MCX-SX and/or choose MCX-SX as their 'designated stock exchange'. Moreover, public sector companies, who can list their securities only on a "recognised stock exchange", can now opt for MCX-SX listing. Companies so listed on MCX-SX will be entitled to all benefits available to 'listed companies' under the Companies Act, 1956. This development comes closely on the heels of MCX-SX receiving "commencement certificate" from Securities and Exchange Board of India (SEBI) on December 19, 2012 for going live in new product segments such as equity, wholesale debt (bonds) and interest rate derivatives.



## MCX-SX Offices

HEAD OFFICE: Exchange Square, Suren Road, Chakala, Andheri (E), Mumbai - 400 093. Tel.: +91-22-6731 9000, Fax: +91-22-6731 9004 Mr. Arvind Sharma - Mobile: +91-99302 68748, E-mail: info@mcx-sx.com, Url: www.mcx-sx.com

Ahmedabad: Tel: +91-79- 6661 5888/6661 9888, Mr. Jay Deliwala - Mobile: +91-99241 23996

Bangalore: Tel: +91-80-3296 2066, Fax: +91-80-4167 3707; Mr. B Sreenivasulu - Mobile: +91-99164 62299

Chennai: Tel: +91-44-4395 0850, Fax No: +91-44-4395 0899 Mr. M Aravind - Mobile: +91-91766 86200

Hyderabad: Tele/Fax: +91-40-4007 5037, Mr. Ramesh Varakhedkar - Mobile: +91-96427 04619

Indore: Tel: +91-731-3206 669, Fax: +91-731-2524 206 Mr. Aditya Chopra - Mobile: +91-9981157676

Jaipur: Tel: +91-141-4011 930, Fax: +91-141-4011 930; Mr. Ravi Bhattar - Mobile: +91-97993 54321

Kolkata: Tel: +91-33-2231 7253/54, Fax: +91-33-2231 7254; Mr. Arindam Saha - Mobile: +91-90514 98807

Kanpur: Tel: +91-512-2533 079; Mr. Sanjeev Kumar - Mobile: +91-99354 84871

Ludhiana: Tel: +91-161-3206 872. Mr. Pritpal Singh - Mobile: +91-98884 06364

New Delhi: Tel: +91-11-4300 3000, Fax: +91-11-4300 3030; Mr. K S Mahesh - Mobile: +91-96541 25166

