

# COMMODITY DERIVATIVES SEGMENT



# STRATEGIC FRAMEWORK BSE'S COMMODITY SEGMENT



Leverage on BSE's core strengths to develop the Commodity markets

KEY ELEMENTS	CURRENT STATE FOR BSE
<b>Brand name</b>	Trusted brand name with a presence of over 143 years
<b>Member Network</b>	Network of over 1,400 Members
<b>Technology</b>	Best in class with advanced trading system
<b>Human Capital</b>	Large employee base of over ~500 across multiple functions
<b>Clearing &amp; settlement</b>	Secure, capital-efficient counterparty risk management and post-trade services provided by ICCL
<b>Risk and surveillance</b>	Robust mechanism for the Equity and Currency segments

# BSE STRENGTHS



- **Best Surveillance and Risk Management systems and Practices**
  - Best in class BSE Surveillance systems with real time trade data along with Artificial Intelligence tools and Social media analytics
  - Real time margining and risk management with position limit monitoring
  - The same systems will be implemented in Commodity markets to create a robust system which will also be available to Regulators and Participants
  - This will ensure that NSEL type fiascos are prevented Strong association with Physical market participants
- **Best in class Clearing and Settlement system**
  - Managed by ICCL with (only CCP with AAA rating by 2 rating agencies)
  - Third Country CCP recognition by European Securities Market Authority
  - Can handle both physical and cash settlement
  - Connected to 20 major banks
  - Default insurance cover of USD 60 mn

# GLOBAL RANKING



Source: World Federation of Exchanges

Data as of June 2018

**Currency  
Options**

**1<sup>st</sup> in the world with 59 Million Contracts approx.**

**Currency  
Futures**

**2<sup>nd</sup> in the World with 46 Million contracts  
approx.**

**Electronic  
Book Trades**

**16<sup>th</sup> in the World in Equity shares with 19  
Million Electronic Book Trades approx.**

**Market  
Capitalisation**

**10<sup>th</sup> in the World with Market Capitalisation of  
2.12 USD Trillion approx.**

# MOU -SIGNED



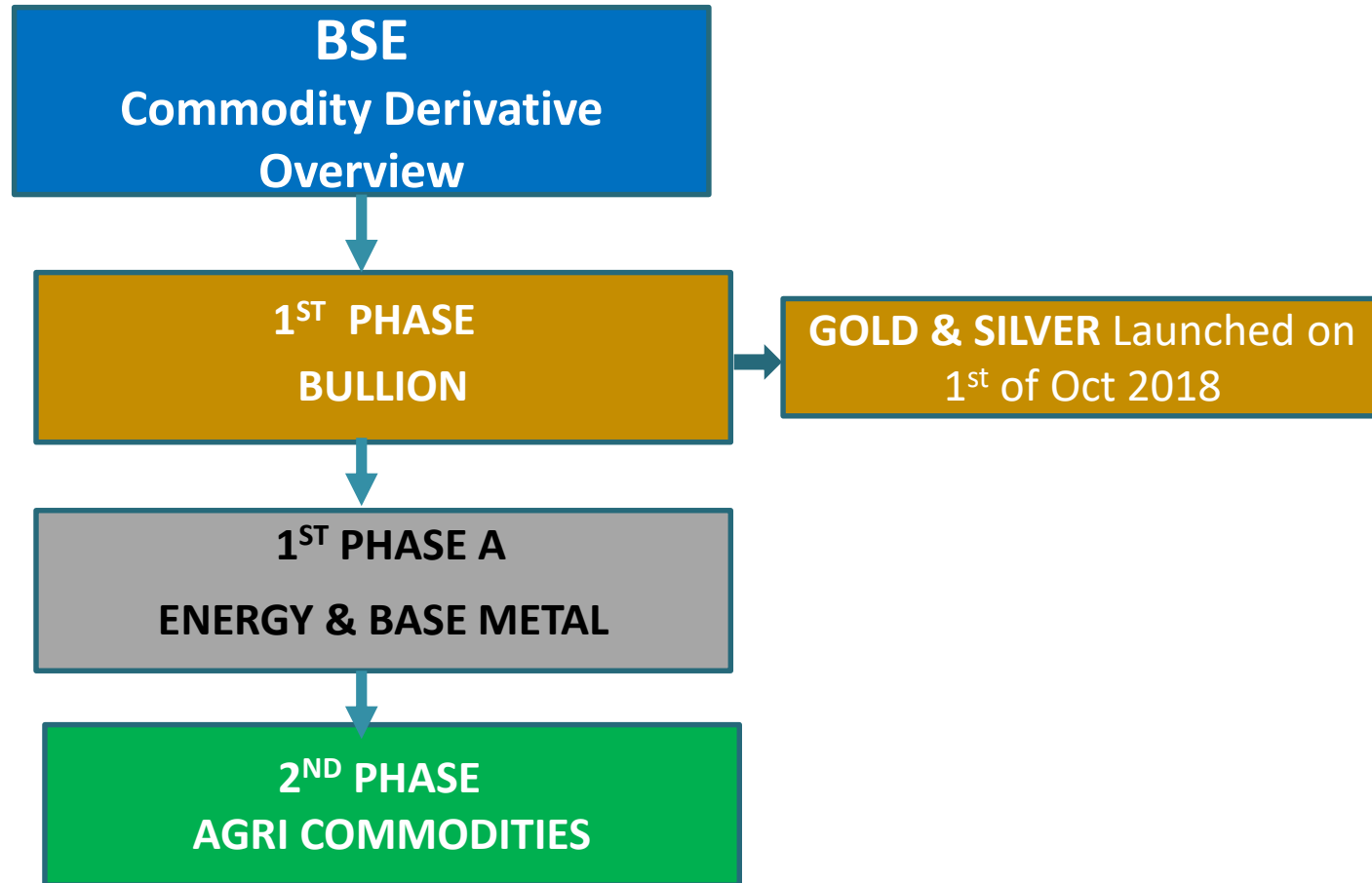
- **September 17th 2018:** BSE has signed a MoU with the Federation of Indian Export Organizations (FIEO) to create awareness about the benefits of commodity/derivatives market
- **5th September 2018: BSE signs MOU with Cotton Association Of India :** BSE entered into an agreement with Cotton Association Of India
- **1st August 2018: BSE signs MoU with Gems and Jewelry Council :** BSE entered into an agreement with Gems and Jewelry Council for the growth and systematic development of commodity derivatives markets in the Bullion complex.
- **30<sup>th</sup> June 2018: BSE signs MoU with Bombay Metal Exchange :** BSE entered into an agreement with Bombay Metal Exchange for the growth and systematic development of commodity derivatives markets in the **Non Ferrous Metals complex.**
- **24th May 2018 :BSE signs Memorandum of Understanding with Brink's India Pvt. Ltd :** BSE entered into an agreement with Brink's India Pvt. Ltd, supporting launch of bullion **(Gold & Silver) commodities trading.**
- **March 6,2018: BSE, FISS sign MoU to develop derivatives market for spices** for the growth and systematic development of the commodity derivatives markets in the spices segment.
- **February 22nd 2018: BSE signs an MOU with Soybean Processors Association of India (SOPA) :** BSE & SOPA have entered into a MOU for the growth and development of commodity markets and its value chain participants enabling them to manage price risk in a better manner in the **soybean oil complex.**
- **December 27,2017 : BSE signs MOU with Rajkot commodity Exchange.**

# COMMODITY DERIVATIVE OVERVIEW



- **First phase :Futures Contracts to be introduced- Bullion , Base Metal , Energy**
- **Market timings :10:00 AM to 11:30 PM / 11:55 pm**
- **India Clearing Corporation will carry out the Clearing and Settlement procedure of Commodity Derivative**
- **Existing infrastructure and all other trading features would be made available for Commodity derivative Segment.**
- **Trading facility available through Exchange provided Terminals BOLT, Hosted Solution- BOW & BEST**
- **Agri Commodities shall be introduced in the 2<sup>nd</sup> phase.**

# PRODUCTS – TO BE LAUNCHED



# PROPOSED PRODUCTS

**Gold**



**1 Kg**

**Silver**



**30 Kg**



# PROPOSED PRODUCTS AND PARTNERSHIP

## PRECIOUS METALS

Price Bench Mark-Spot Market

- GOLD
- SILVER

# CONTRACT SPECIFICATION - GOLD



<b>Trading Unit</b>	1 kg
<b>Quotation/ Base Value</b>	10 grams
<b>Price Quote</b>	Ex-Ahmedabad (inclusive of all taxes and levies relating to import duty, customs but excluding GST, any other additional tax as may be applicable)
<b>Tick Size</b>	Re. 1 per 10 grams
<b>Daily Price Limit</b>	Base price Limit will be 3% followed by 6%. Beyond this the price limit will be 9% after a cooling off period of 15 mins. In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% beyond the maximum permitted limit, and inform the Regulator immediately.
<b>Initial Margin</b>	SPAN based, subject to a minimum of 4%
<b>Extreme Loss Margin</b>	1%
<b>Maximum Allowable Open Position</b>	Individual Client : 5 MT or 5%      Member Collectively : 50 MT or 20% of the market wide open position whichever is higher, for all Gold contracts combined together
<b>Quality Specifications</b>	995 Purity. Seller will get a proportionate premium for 999 Purity calculated as Rate of Delivery * 999/995.
<b>Trading months</b>	February, April, June, August, October, December.

# CONTRACT SPECIFICATION - SILVER



<b>Trading Unit</b>	30 kg
<b>Quotation/ Base Value</b>	1 kg
<b>Price Quote</b>	Ex-Ahmedabad (inclusive of all taxes and levies relating to import duty, customs but excluding GST, any other additional tax as may be applicable)
<b>Tick Size</b>	Re. 1 per kg
<b>Daily Price Limit</b>	Base price Limit will be 4% followed by 6%. Beyond this the price limit will be 9% after a cooling off period of 15 mins. . In case price movement in international markets is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% beyond the maximum permitted limit, and inform the Regulator immediately.
<b>Initial Margin</b>	SPAN based, subject to a minimum of 4%
<b>Extreme Loss Margin</b>	1%
<b>Maximum Allowable Open Position</b>	Individual Client : 100 MT or 5%      Member Collectively : 1000 MT or 20% of the market wide open position whichever is higher, for all Silver contracts combined together
<b>Quality Specifications</b>	Grade: 999 and Fineness: 999 ( as per IS 2112: 2003), Less than 999 rejected
<b>Trading months</b>	March, May, July, September, December.

# Delivery & Settlement Procedure

# DEPOSIT PROCESS

- At the time of deposit, deposit request from the Clearing member would be submitted to the vault on behalf of Trading Member and Client
- Once the vault is satisfied with the details submitted by the Clearing Member and the other details like quality, refinery details, weight etc. of the Bullion, the commodity would be allowed to be deposited in the vault.
- Vault would issue the Acknowledgement Slip for acceptance of the commodity and provide the same to the depositor.
- Vault would enter the details in the system provided by ICCL for updating and accounting in electronic form.
- ICCL would verify the details captured in the system by vault on the basis of receipt copy provided by Vault
- Once it is confirmed by the ICCL, the commodity would reflect in the system where Clearing Member can view and select the purpose of commodity marking (Collateral, Early Pay-In, Delivery Pay-In and withdrawal).

## WITHDRAWAL PROCESS

- Market Participants desirous to take physical delivery of the commodities from the Vaults would be required to submit request through Clearing Member.
- The Clearing Member shall enter the details of commodity, trading member, client and authorized representatives in the ICCL System
- Based on the Clearing Member request, ICCL will verify the details and approve the request for releasing the stock to Vault.
- Vault will do the due diligence on the release order issued by ICCL and release the commodity in favor of the authorized representative of Clearing Member.

# DELIVERY SETTLEMENT PROCESS



- The tender period (intention marking) would start 5 days prior to the Contract Expiry Day. In case the day happens to be Saturday, Sunday or Exchange holiday, then the tender period would start from the next working day.
- Seller/buyer to mark an intention of giving/taking delivery on any day from start of the tender period till expiry of the contract.
- The intention of giving/taking delivery will be by 7.30 PM on every tender days.
- Seller can mark intention only against deposit of commodity in the vault or against the commodity already lying with the vaults in his/her account.
- For the tender date (T) pay-in and pay-out would take place on by T+1 working day.
- Open position on expiry of the contract would compulsorily result in delivery at Final Settlement Price (FSP) of the respective contracts. Pay-in and pay-out to be completed on E+1 working day.

# FUNDS AND DELIVERY SETTLEMENT PROCESS



- The settlement schedule will be issued by the Clearing Corporation to all the market participants specifying the date and timings for pay-in/ pay-out of funds and commodities, settlement of premium/discounts, penalties, settlement dues amount, etc. in advance.
- Seller Members to fulfill their delivery obligations and Buyer Member to fulfill their funds obligations as per the settlement schedule announced by the Clearing Corporation
- Buyer Member would be required to submit the invoice details to the seller member for raising the necessary invoice
- Seller Member would raise the invoice and send it directly to the Buyer Member
- Buyer Member may take the delivery of commodities from the Vault or alternatively can decide to keep commodities in the vault for reselling and delivering the same in subsequent derivatives contracts.



# ELECTRONIC SYSTEM FOR VARIOUS FUNCTIONS



- Single system to handle various deposit and delivery functions
  
- Electronic system with linkages to Vaults/ Banks/ Clearing Corporation for seamless delivery processing ,
  - Collateral marking,
  - Delivery intention,
  - Early Pay-In,
  - Delivery Pay-In ,
  - Withdrawal and submission of post allocation details.

# BSE COMMODITY DELIVERY INFRASTRUCTURE



**Bullion Delivery: We propose to use the vaulting services of;**

- ✓ Brink's India Private Limited
- ✓ Sequel Logistics Private Limited

[www.bseindia.com](http://www.bseindia.com)

Thank You

[bdm@bseindia.com](mailto:bdm@bseindia.com)  
22 - 22725173

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CURRENCY DERIVATIVES EXCHANGE

24 /7 Market

**Largest & Most Liquid**

Geographically Dispersed

Various factors affect exchange rates

Major Currencies: USD, EUR, GBP, YEN

Daily average turnover is around \$ 5.10 trillion

Participants : Banks, Corporates & Institutions

**Dominated Currency: US Dollar with 88% of all trades**

Over 50% of FX Volume is in **EURUSD, GBPUSD & USDJPY**

Major Trading Centers :London, NY, Tokyo, Singapore & Hong Kong

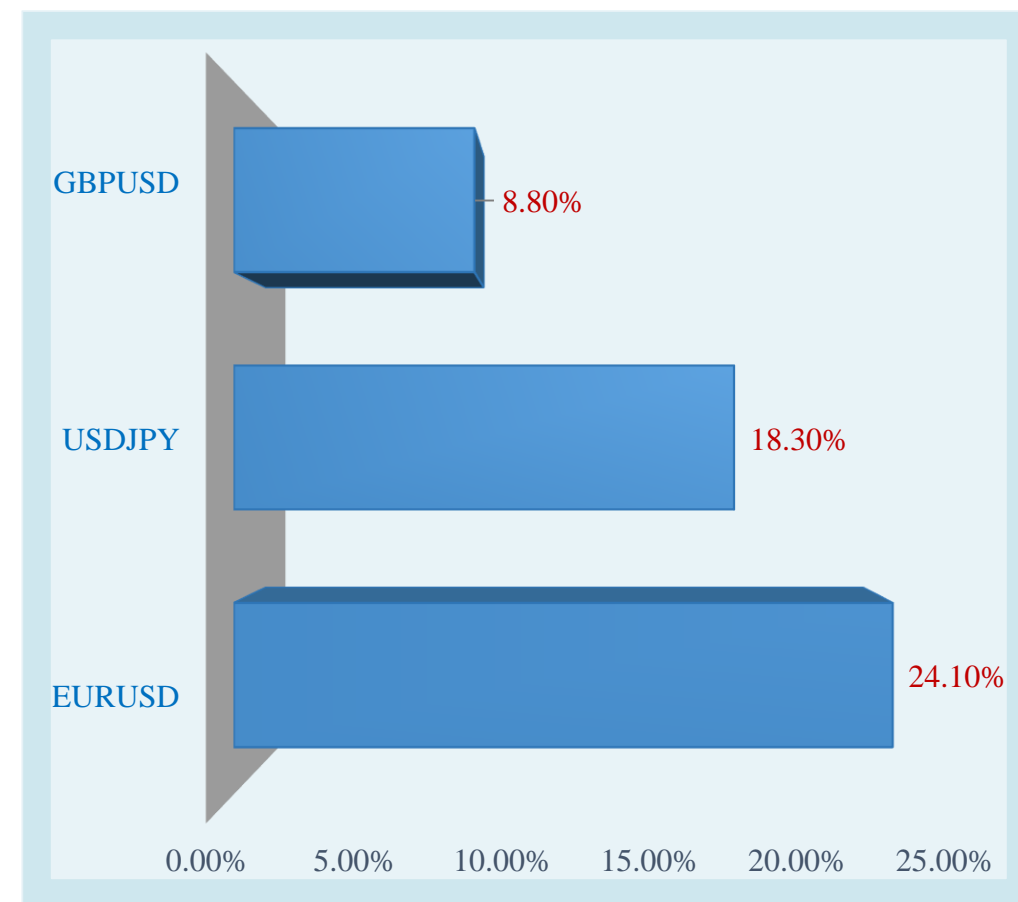
- USDINR**

  - Largest Traded Currency Pair Traded in India
  - Regular Spread is 1 – 2 ticks
  - Daily movement of 10 – 30 paise
- EURUSD**

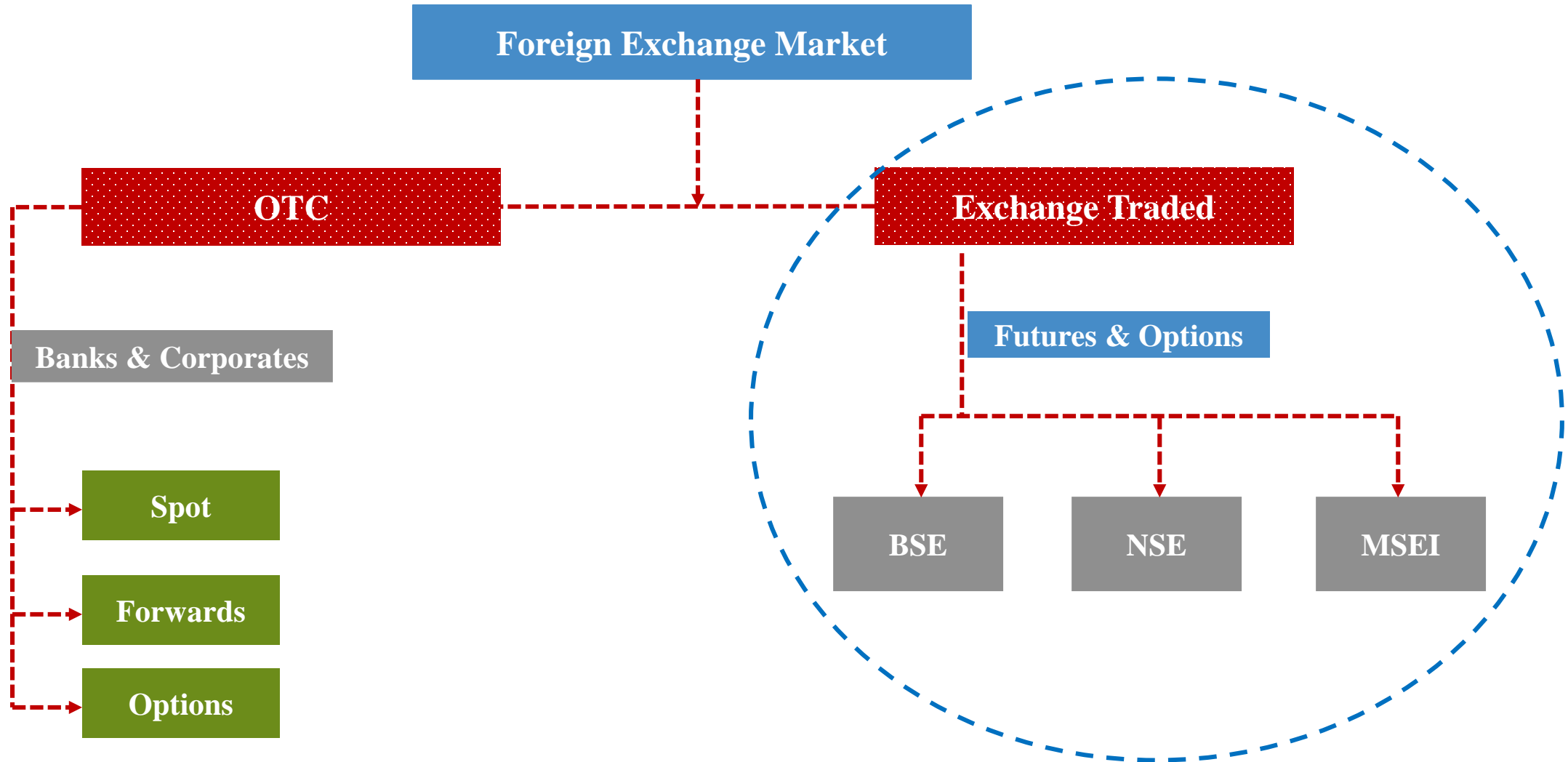
  - Largest Traded Currency Pair
  - Regular Spread is 1 – 3 pips
  - Daily movement of 30 – 120 pips
- GBPUSD**

  - Third Largest Traded Currency Pair
  - Regular Spread is 1 – 4 pips
  - Daily movement of 20 – 100 pips
- USDJPY**

  - Second Largest Traded Currency Pair
  - Regular Spread is 1 – 3 pips
  - Daily movement of 10 – 150 pips



(€) | (£) | (¥) Market Turnover



## Indian OTC Forex Market

- Indian currency market is 18<sup>th</sup> largest market in terms of daily turnover.
- Forex market turnover increases from approximately US\$ 8 billion in 2005 to nearly US\$ 58 billion in 2016.
- It is around 1.1% of Global Forex Market.
- OTC Forex Market in India is regulated by the Reserve Bank of India

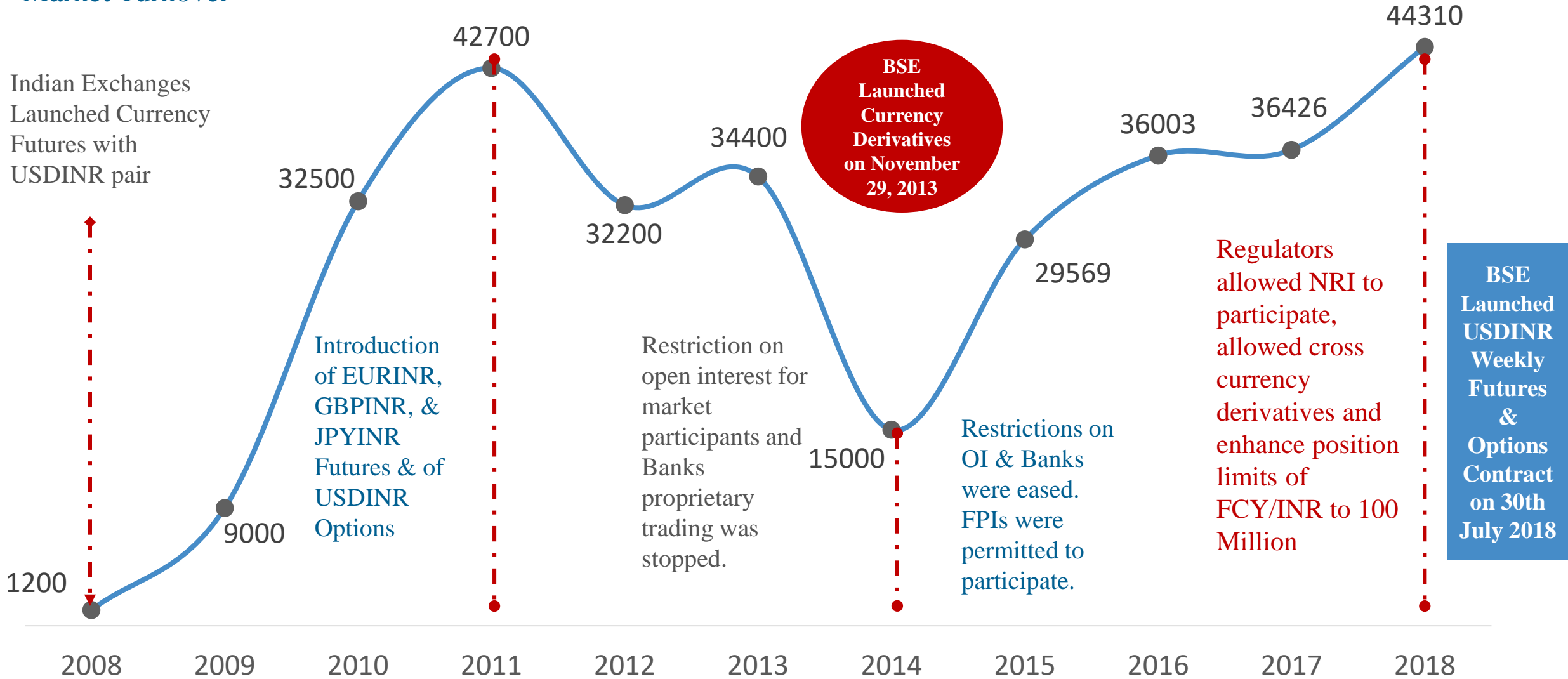
## Indian Exchange Traded Currency Market

- Trading started on exchanges in four currency pairs USDINR, EURINR, GBPINR & JPYINR in 2008 & 2010.
- The daily average market turnover increases from Rs. 1200 Crore in 2008 to Rs. 44310 Crore in 2018.
- Cross Currency Derivatives EURUSD, GBPUSD & USDJPY were Introduced in 2018.
- **BSE Launched USDINR Weekly Futures & Options Contract on 30<sup>th</sup> July 2018.**



# ₹ Exchange Traded Currency Derivatives - Market Growth

## Market Turnover



## Cross INR Currencies FCY/INR

- Cross INR trading refers to the forex transactions that include the domestic currency (Rupee, INR). When a currency quote is given with the rupee as one of its components, it is called as cross INR currency. An example of a cross INR rate is USDINR.

## Cross Currencies FCY/FCY

- Cross Currency trading refers to forex transactions that do not include the domestic currency (Rupee, INR). When a currency quote is given without the rupee as one of its components, it is called as cross currency. An example of a cross rate is EURUSD.

Base Currency		Quote Currency	
EURUSD			
1.1256 / 1.1257			
SELL	0.0006	0.0007	BUY
EUR			EUR
Bid Price		Ask Price	

Buy Qty.	Buy Price	Sell Price	Sell Qty.
846	1.1256	1.1257	563
562	1.1255	1.1258	240
1,245	1.1254	1.1259	867
2,078	1.1252	1.1260	1,223
911	1.1250	1.1261	1,404
68,626	Total Quantity		56,712

USDINR

EURUSD

GBPUSD

USDJPY

\$

€

£

¥

1 Contract = USD 1000

1 Contract = EURO 1000

1 Contract = GBP 1000

1 Contract = USD 1000

<b>USDINR</b>	• 0.0025 - Equivalent to ₹ 2.5 per contract
<b>EURUSD</b>	• 0.0001 - Equivalent to USD 0.10 per contract = ₹ 6.5
<b>GBPUSD</b>	• 0.0001 - Equivalent to USD 0.10 per contract = ₹ 6.5
<b>USDJPY</b>	• 0.01 - Equivalent to JPY 10 per contract = ₹ 6.0

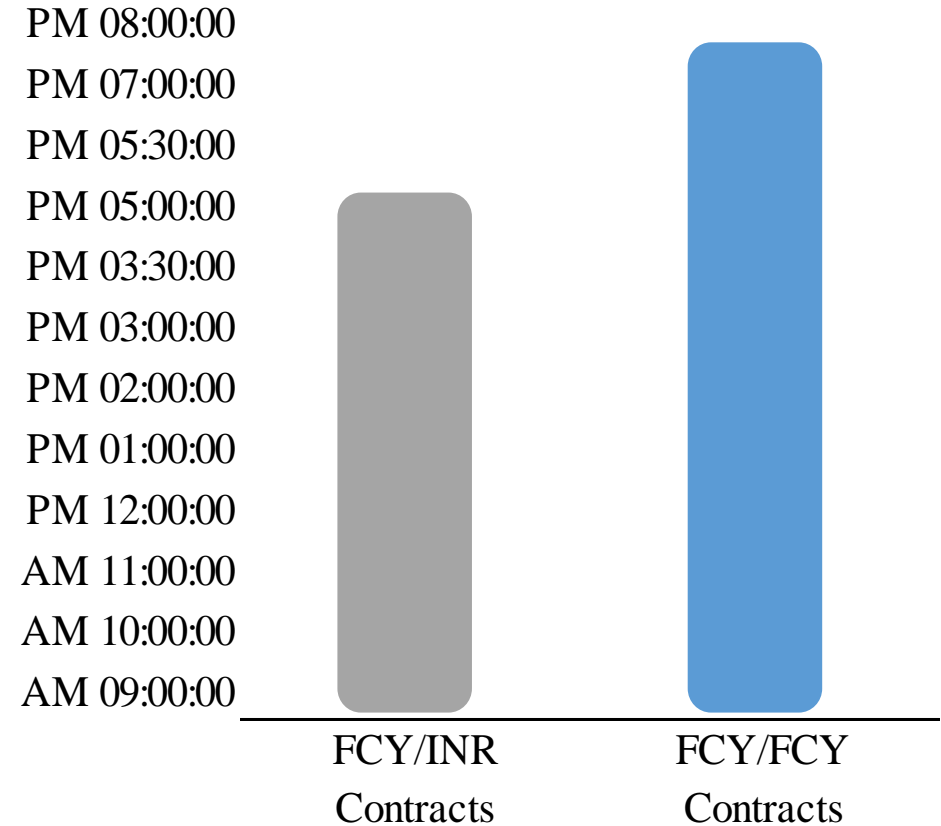
**USDINR**  
Tick  
Value

- 1 Tick = 0.0025
- How much is 1 tick ?
- 1 Lot USDINR = USD 1000
- $0.0025 * 1000 = ₹ 2.5$

**EURUSD**  
Tick  
Value

- 1 Tick = 0.0001
- How much is 1 tick ?
- 1 Lot EURUSD = EUR 1000
- $0.0001 * 1000 = \$ 0.10$
- $\$0.10 = \text{Rs. } 6.5 (65 * 0.10)$

	FCY/INR	FCY/FCY
Futures	12 Serial Monthly Contracts	12 Serial Monthly Contracts
Options	3 Serial Monthly Contracts followed by 1 Quarterly Contract	3 Serial Monthly Contracts followed by 3 Quarterly Contract



March 2018						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
5	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Contract	USDINR	EURUSD	GBPUSD	USDJPY
Strike Price Interval	0.25	0.0025	0.0025	0.25
Minimum Number of Strikes	3 In-the -money, 3 Out- the- money and 1 Near-the-money			
Example	64.50	1.0950	1.4450	111.50
	64.75	1.0975	1.4475	111.75
	65.00	1.1000	1.4500	112.00
	65.25	1.1025	1.4525	112.25
	65.50	1.1050	1.4550	112.50

	WEEKLY	MONTHLY						
Symbol	USDINR	USDINR	EURINR	GBPINR	JPYINR	EURUSD	GBPUSD	USDJPY
Contract Size	1,000 USD	1,000 USD	1,000 EURO	1,000 GBP	1,00,000 JPY	1,000 EURO	1,000 POUND	1,000 USD
Tick size	0.25 paisa or INR 0.0025					USD 0.0001 per EURO	USD 0.0001 per GBP	JPY 0.01 per USD
Price Quotation	INR per USD	INR per USD	INR per EUR	INR per GBP	INR per 100 JPY	USD per EUR	USD per GBP	JPY per USD
Trading hours	Monday to Friday - 9:00 a.m. to 5:00 p.m					Monday to Friday - 9:00 a.m. to 7:30 p.m.		
Contract Trading Cycle	11 weekly expiry contracts	12 monthly contract available for Futures & 3 serial monthly contracts followed by 1 quarterly contracts available for options						
Expiry Day	Every Friday of the week	Two working days prior to the last business day of the expiry month at 12:30 PM.						
Strike Price Intervals	INR 0.25					0.0025	0.0025	0.25
Strike price	12 In-the-money, 12 Out-of-the-money and 1 Near-the-money. (25 CE and 25 PE)					Minimum 3 In-the-money, 3 Out-of-the-money and 1 Near-the-money.		
Initial Margin	SPAN Based Margin							
Settlement	Daily settlement : T + 1   Final settlement : T + 2							
Mode Of Settlement	Cash settled in Indian Rupees							
Daily Settlement Price	Calculated on the basis of the last half an hour weighted average price.					Latest available RBI reference rate for USDINR shall be used.	Latest available RBI reference rate for USDINR shall be used.	Latest available RBI reference rate for JPYINR shall be used.
Final Settlement Price	RBI Reference Rate of last trading date					Derived from RBI Reference rate of USDINR & EURINR.	Derived from RBI Reference rate of USDINR & GBPINR.	Derived from RBI Reference rate of USDINR & JPYINR.

	Position limits for Clients and Category III FPIs	Free Position limits for Corporates & Category III FPIs
USDINR	Higher of 6% of OI or USD 10 million	Single limit of USD 100 million equivalent across all currency pairs involving INR, put together, and combined across all exchanges.
EURINR	Higher of 6% of OI or EUR 5 million	
GBPINR	Higher of 6% of OI or GBP 5 million	
JPYINR	Higher of 6% of OI or JPY 200 million	
EURUSD	Higher of 6% of OI or EUR 10 million	
GBPUSD	Higher of 6% of OI or GBP 10 million	
USDJPY	Higher of 6% of OI or USD 10 million	



- In line with global best practices and regulatory requirements, clearing and settlement is conducted through a separate clearing corporation, Indian Clearing Corporation Limited (ICCL).
- Cash / Collateral deposited against initial margin
  - 100% - Cash / Government Securities / Bank Guarantee / Fixed Deposits.
  - 50% - Equity / Mutual Funds Units / Corporate Bonds (with haircut)

Margins	Futures	Options
Initial Margin	SPAN Based Margin	SPAN Based Margin
Extreme Loss Margin	1% of MTM value of gross open position	1.5% of notional value of short open position
Assignment Margin	N.A.	100% of the net exercise settlement value

Particulars	Calendar Spread Margin			
	1 month and below	2 months	3 months	4 months and above
USDINR	INR 400	INR 500	INR 800	INR 1,000

Till 2 PM	Margins collected in INR based on previous day RBI rate
After 2 PM	Margins collected in INR based on same days RBI rate

Trade Time	Position	Trade Price EURUSD	Contract Size	RBI Reference Rate	Contract Value	Margin @ 3%
11.30 AM	BUY 1 LOT	1.2300	1000	64.5000	79,335	2380.05
2:30 PM	BUY 1 LOT	1.2300	1000	65.5000	80,565	2416.95

Spread Margin	USDINR	EURINR	GBPINR	JPYINR	EURUSD	GBPUSD	USDJPY
1 Month	400	700	1500	600	1500	1500	1500
2 Months	500	1000	1800	100	1800	1800	1800
3 Months	800	1500	2000	1500	2000	2000	2000
4 Months +	1000				2100	2100	2100

Settlement	Trade Date	Trade Time	Lot Size	Position	Trade Price	Close Price	MTM in USD	RBI Reference Rate	Contract Value	MTM in INR
Daily	23rd March	AM 9:30:00	1000	BUY 1 LOT	1.2300			65.0000	79950.00	
	23rd March	PM 4:30:00	1000	SELL 1 LOT	1.2375		0.0075	65.0000	80437.50	487.50
Daily	24 <sup>th</sup> March	AM 10:30:00	1000	BUY 1 LOT	1.2300			65.0000	79950.00	
	24 <sup>th</sup> March	PM 07:30:00	1000	CARRY		1.2350	0.0050	65.0000	80275.00	325.00
	25 <sup>th</sup> March	AM 7:30:00	1000	CARRY		1.2410	0.0060	65.5000	81285.50	393.00
	26 <sup>th</sup> March	PM 7:30:00	1000	CARRY		1.2330	-0.0080	64.9000	80021.70	-519.20
	27 <sup>th</sup> March	PM 7:30:00	1000	CARRY		1.2375	0.0045	65.6500	81241.88	295.42
Final	28 <sup>th</sup> March	PM 12:30:00	1000	SQUARE OFF		1.2403	0.0028	65.0000	80619.50	182.00
										<b>676.22</b>
Final Settlement	EURINR	80.00	USDINR	64.50	EURUSD = EURINR / USDINR = 80.00 / 64.50 = <b>1.2403</b>					

MTM\* = { Today Close Price (C2) – Previous Close Price (C1) } \* Latest RBI Reference Rate (Today) \* Lot Size

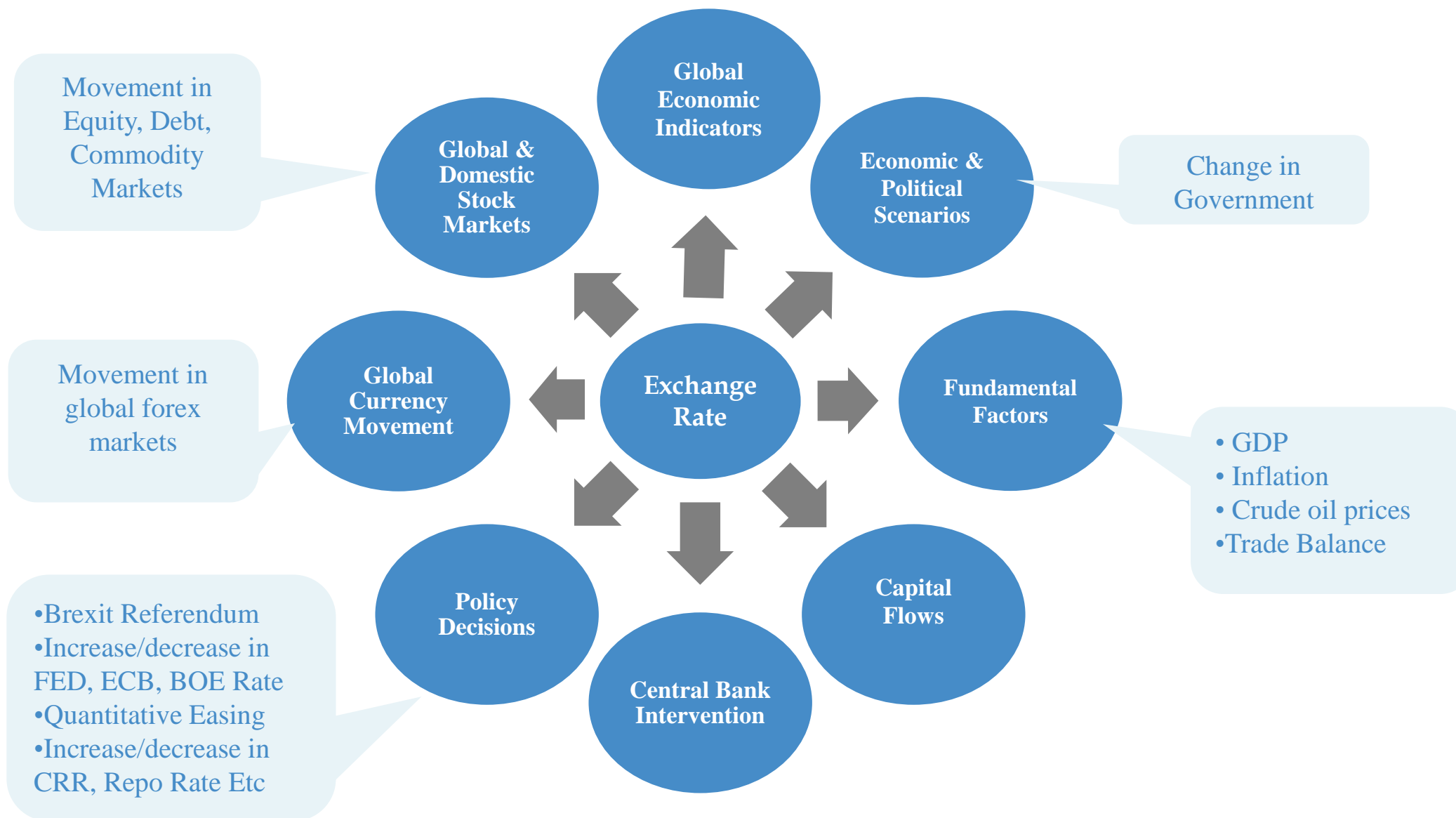
- The final settlement price of the cross currency shall be computed using the RBI reference rate of Cross INR on the last trading day of the contract.
- For arriving at the final settlement value in INR for cross currency contracts, the RBI reference rate for USDINR & JPYINR on the last trading day of the contract shall be used.

RBI Reference Rate	USDINR	EURINR	GBPINR	JPYINR
	1 \$ / ₹ 66.5105	1 € / ₹ 76.3807	1 £ / ₹ 96.5865	100 ¥ / ₹ 62.1500

Computed Reference Rate for Cross Currencies	EURUSD	GBPUSD	USDJPY
	EURINR / USDINR	GBPINR / USDINR	USDINR / JPYINR
	76.3807 / 66.5105	96.5865 / 66.5105	66.5105 / 0.6215
	1.14840	1.45220	107.02

- Final Settlement value per contract = RBI Reference Rate for EURUSD (computed value)\* RBI Reference Rate for USDINR in Indian Rupees\*1000

	Exchange Traded Currency Derivatives	OTC
Market Timing	09:00 Hours to 17:00 / 19:30 Hours	09:30 Hours to 16:30 Hours for forward booking.
Tick Size	Bid - Ask spread as low as 0.0025 INR	Bid - Ask spread are often as wide as 1 to 2 paisa
Price Transparency	Transactions are anonymous and are executed on a price time priority ensuring that the best price availability to all categories of market participants irrespective of their size.	Spot +/- Forwards +/- Banker's margin = Price ( bid/offer of around 3 paisa) .Very Low transparency – price varies across clients (card rates for small lots)
Accessibility	The online process on exchange ensures instant execution of trades on a matching system even for small amounts.	Lower accessibility - Need to call bank dealing room to transact
Transaction Cost	Low transaction cost Vs bid/ask spread offered by banks.	High Bid – Ask Spread
Liquidity	High – Daily Average Turnover around USD 6-7 Billion	High
Contract Size	Standardized - USD 1000 ( Small Corporates can Benefit )	Price discrimination – varies across clients (card rates for small lots)
Documentation / Underlying	Only one time KYC (know your Client) form to participate.	Underlying Documentation Mandatory
Entry & Exit	Quick entry and exit – No hassles of cancellation and rebooking. Contract can be closed (squared off) anytime during life cycle of the particular contract.	There is deduction in premium and penalty charges while closing or cancelling any contract. Limitation on rebooking of cancelled contracts
Mark to Market	<b>Inbuilt mechanism of paying/receiving the mark to market difference based on daily settlement price.</b>	Mark to market is periodical task and usually done on request
Option Contract	No Documentation and available to all participants	Stringent Documentation and lot of restrictions



Spot Rate – 64.20

BSE USDINR June Contract – 64.25

US Dollar Appreciation

Poor FII Flows  
(Equities Markets Going Down)

Investor / XYZ → INR ↓  
Corp

Buy June 2018 contract @ 64.25

Expiry Jan 2018 @ 65.50

Return - ₹.1250  
= 1000 x (65.50 – 64.25)  
= 1000 x 1.25  
= ₹ 1250

Spot Rate – 1.0910

BSE EURUSD June Contract – 1.0915

US Dollar Appreciation  
(Increase in FED Rate)

European Economy Slowdown

Investor / XYZ → EUR ↓  
Corp

Sell June Contract @ 1.0915

Expiry June @ 1.0815

Return - Rs.650  
= \$1000 x (1.0915 – 1.0815)  
= \$1000 x 0.0100  
= \$10  
= ₹ 650 (\$1 = Rs. 65)

### Comments

Unemployment rate in the Japan rose to the highest level in more than two years, according to official figures.
The euro zone recorded an record external trade deficit.
Spanish 10 year bond yield crosses 7%.
If European equity market crashes / EUROZONE Problems
QE Increases by BOJ
CPI ( inflation ) Figures in UK are at all time high
Fed increases interest rate by 25 basis points
Brexit Referendum – Voting in favour of exit

FCY/FCY	FCY/INR
BUY USDJPY	SELL JPYINR
SELL EURUSD	SELL EURINR
SELL EURUSD	BUY USDINR
SELL EURUSD	SELL EURINR
BUY USDJPY	SELL JPYINR
SELL GBPUSD	SELL GBPINR
SELL EURUSD	BUY USDINR
SELL GBPUSD	SELL GBPINR



	Leg 1	Leg2
Calendar Spread	Month 1	Month 2
Inter Currency Spread	Currency 1	Currency 2
Inter Market Spread II	ETCD	OTC
Actual Vs Derived Spread	Actual	Derived Quote
Actual Vs Spread Contracts	Actual	Spread Contracts

Exporter – Commitment of delivering goods worth US \$ 1,00,000

Is he carrying any risk regards to currency fluctuation?

Yes

He will hedge his risk by selling USDINR futures contracts or by buying Put Options on BSE.

Importer – Commitment of receiving goods worth US \$ 1,00,000

Is he carrying any risk regards to currency fluctuation?

Yes

He will hedge his risk by buying USDINR futures contracts or by buying Call Options on BSE.

Same applies with EURO, POUND & YEN

**Transaction:** An exporter executes an export order on 1<sup>st</sup> July 2018 & has inflows of \$1,00,000 to be received on 26th Sept. 2018.

**Spot Rate** of USDINR as on 01/07/18 is Rs. 67.00/-

**Exporters Risk:** Rupee may appreciate & export proceeds of USD 1, 00,000 will be converted at a rate lower than 67.00

			Scenario 1	Scenario 2	Scenario 3
No Hedge	Bank Spot Rate	01/07/18	67	67	67
		26/09/18	65	67	69
	Net Gain / Loss		-2	0	2
	% Change		-3.0%	0.00%	3.0%

**Unprotected Transaction:** IF exporter is not hedging his currency risk, his business fortunes are totally dependent on currency fluctuations and may have major impact on profit margins.

**Hedging Strategy:** The Exporter takes short position of 100 lots ( 1 lot = \$1000) on 01/07/18 of BSE USDINR 26/09/2018 Futures contract say at Rs. 68/- instead of OTC market.

**On USD Receipt Day (26/09/18) :** Exporter squares up (BUY) 100 lots of Future Contract and simultaneously sell USD to INR on spot rate at bank.

			Scenario 1	Scenario 2	Scenario 3
<b>Hedging</b>	Bank Spot Rate	ON 01/07/18	67	67	67
	BSE USDINR 26/09/18 Contract	ON 01/07/18	68	68	68
	*Bank Spot Rate & BSE USDINR 26/09/18 Future Contract	ON 26/09/18	65	67	69
	Net Gain / Loss		1	1	1
	% change		1.5%	1.5%	1.5%

\* Future and Spot price is almost same at the time of expiry

**Observation:** Overall exporter is gaining Re. 1/- in all scenarios and protecting his fixed margins.

**Conclusion:** Corporate can focus on their main business and minimize risks arising from currency fluctuations by buying INSURANCE ie hedging on currency futures platform (BSE).

**Transaction:** An importer executes an export order on 1<sup>st</sup> July 2018 & has outflows of \$1,00,000 to be made on 26th Sept. 2018

**Spot Rate** of USDINR as on 01/07/18 is Rs. 67.00/-

**Importers Risk:** Rupee may depreciate & import payment of USD 1, 00,000 will be made at a rate higher than 67.00

			Scenario 1	Scenario 2	Scenario 3
<b>No Hedge</b>	Bank Spot Rate	01/07/18	67	67	67
		26/09/18	65	67	69
	Net Gain / Loss		-2	0	2
	% Change		-3.0%	0.00%	3.0%

**Unprotected Transaction:** IF importer is not hedging his currency risk, his business fortunes are totally dependent on currency fluctuations and may have major impact on profit margins.

**Hedging Strategy:** The Importer takes long position of 100 lots ( 1 lot = \$1000) on 01/07/18 of BSE USDINR 26/09/18 Futures contract say at Rs. 68/- instead of OTC market.

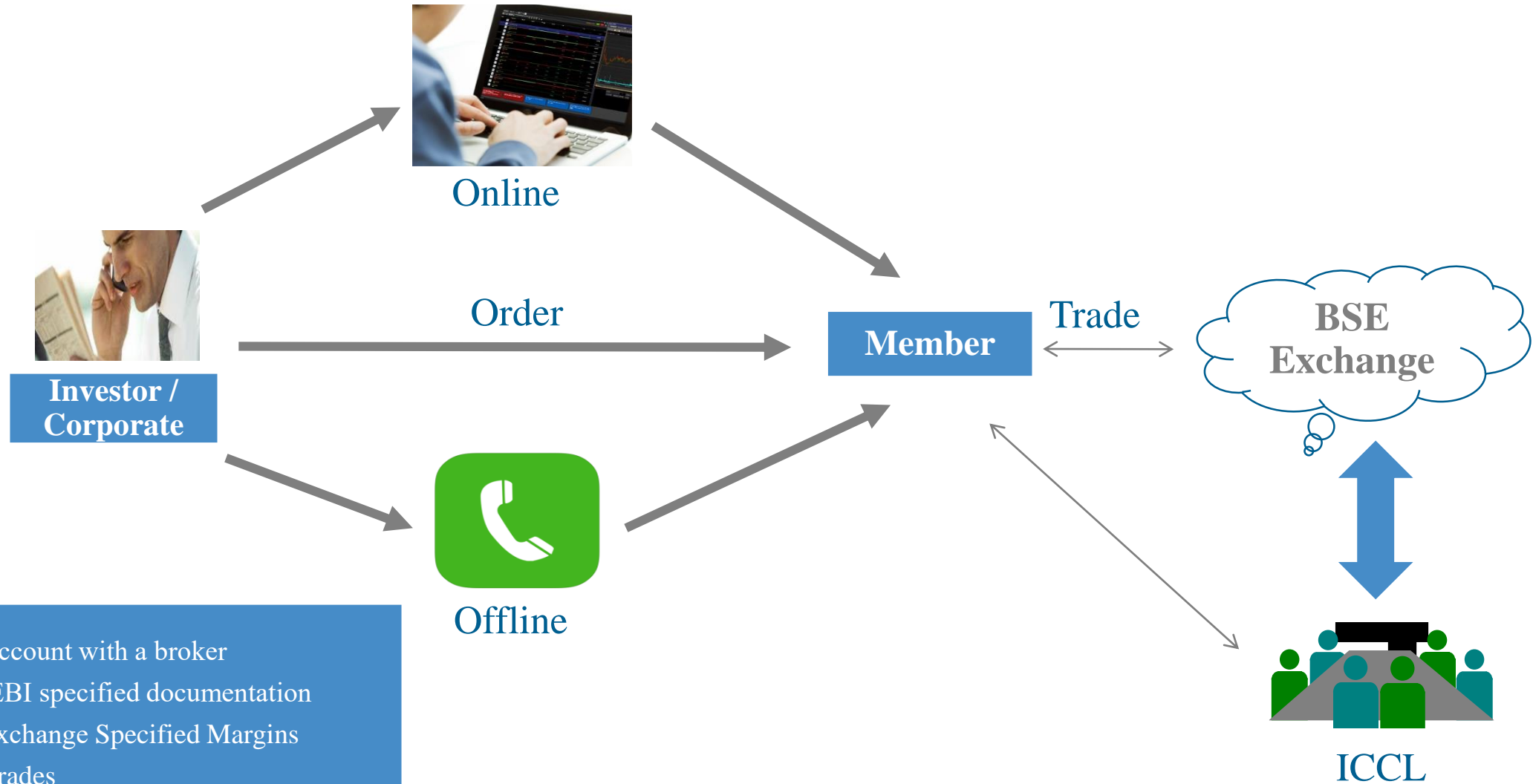
**On USD Receipt Day (26/09/18) :** Importer squares up (SELL) 100 lots of Future Contract and simultaneously BUY USD to INR on spot rate at bank.

			Scenario 1	Scenario 2	Scenario 3
<b>Hedging</b>	Bank Spot Rate	ON 01/07/18	67	67	67
	BSE USDINR 26/09/18 Contract	ON 01/07/18	68	68	68
	*Bank Spot Rate & BSE USDINR 26/09/18 Future Contract	ON 26/09/18	65	67	69
	Net Gain / Loss		-1	-1	-1
	% change		1.5%	1.5%	1.5%

\* Future and Spot price is almost same at the time of expiry

**Observation:** In all scenarios, he is spending Re. 1/- as an insurance cost to protect his fixed margins. But by paying Re. 1/-, he is buying peace of mind. In times of extreme volatility he has safe-guarded his margins.

**Conclusion:** Corporate can focus on their main business and minimize risks arising from currency fluctuations by buying INSURANCE ie hedging on currency futures platform (BSE).



- Open an account with a broker
- Submit SEBI specified documentation
- Deposit Exchange Specified Margins
- Execute Trades
- Daily MTM Settlement

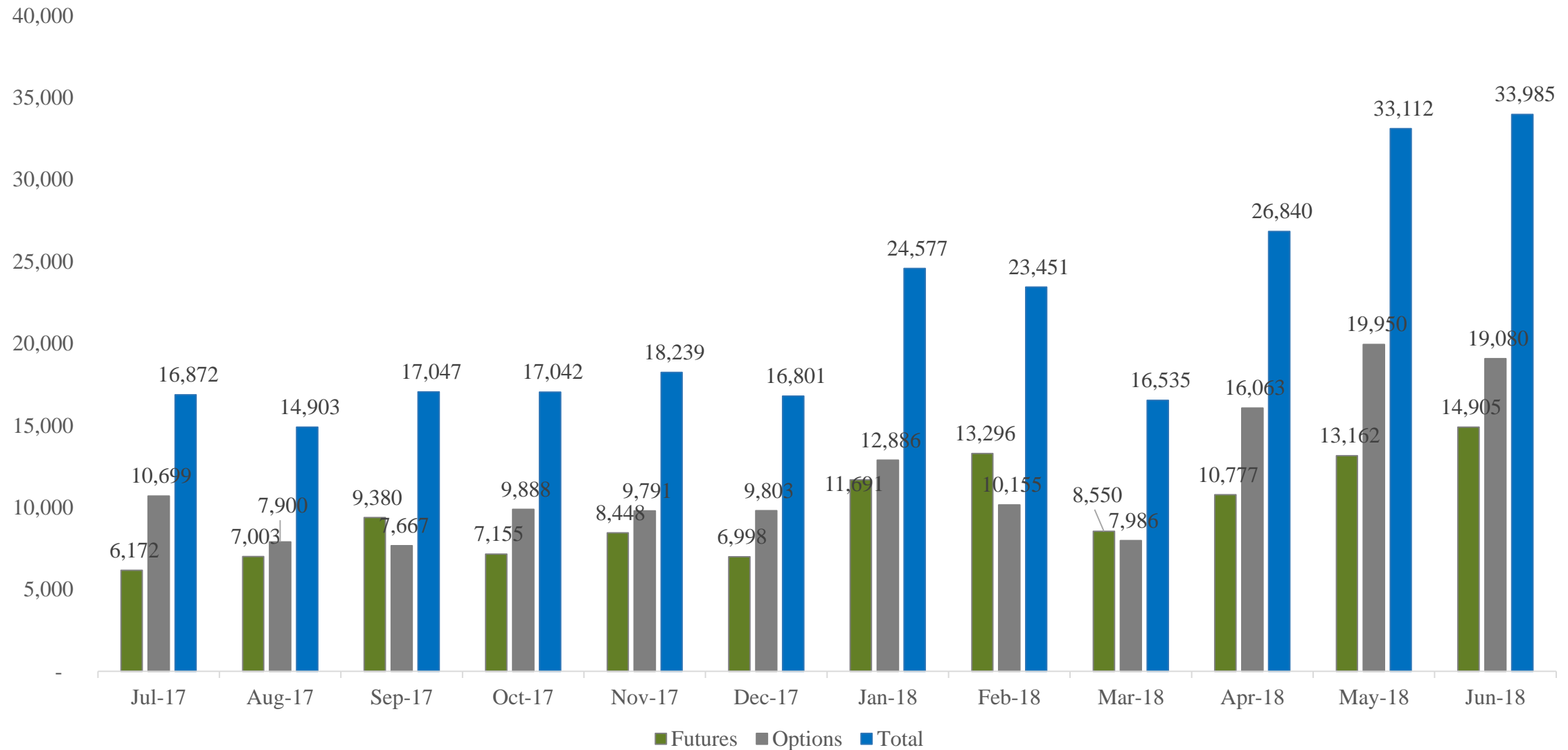
B\$€ CUR₹₹€NCY¥ DERIVATIVES\$ €XCHANGE€



- BSE launched Currency Derivatives on November 29, 2013.
- The daily average turnover of is around **33,985** crore in FY2018/19 from 550 crore in the first year of operations.
- BSE Currency Derivative Market Share is around **54%**.
- **BSE Launched USDINR Weekly Futures & options Contracts on 30<sup>th</sup> July 2018.**
- BSE is the most cost effective exchange for currency derivatives in India.
- BSE Currency Segment product offerings:

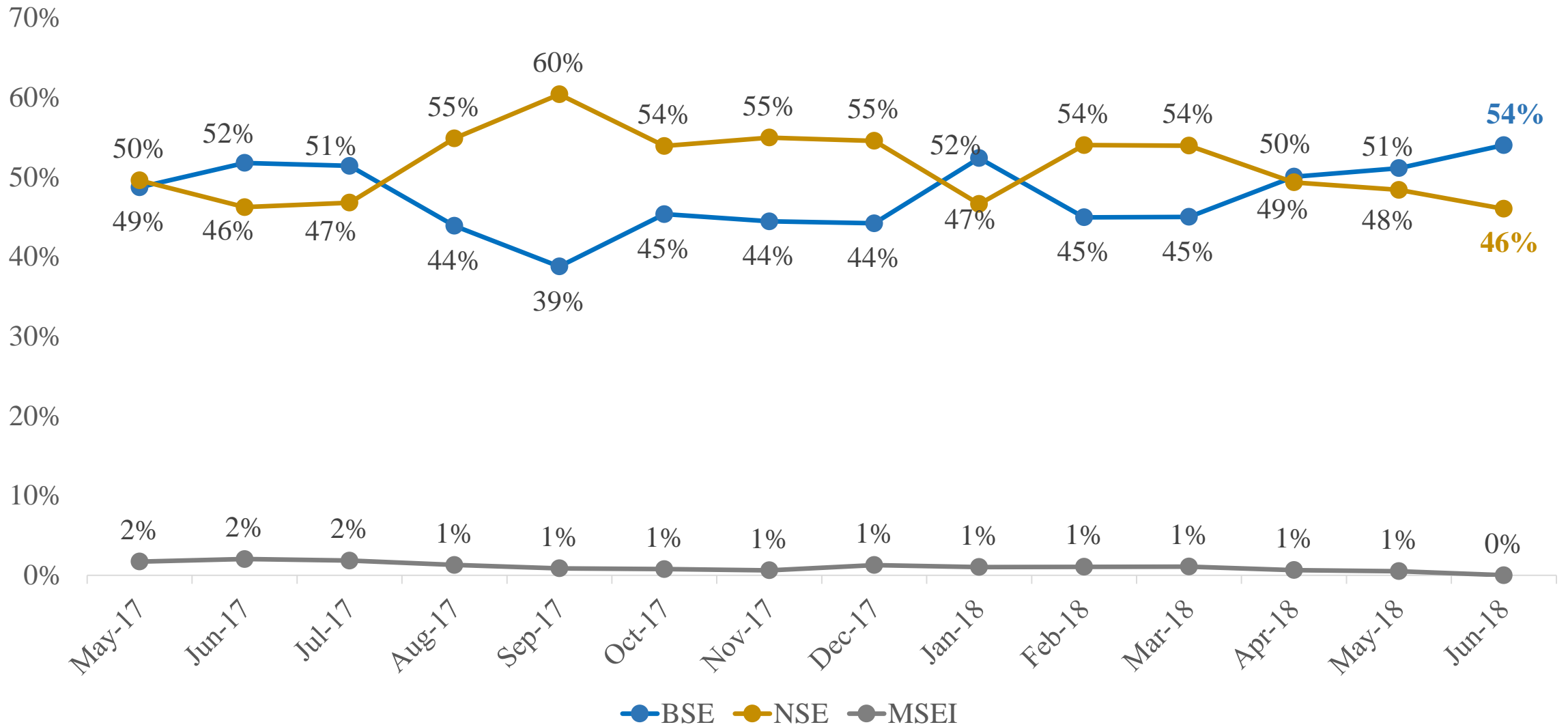
FCY – INR Futures & Options Contracts	FCY – FCY Futures & Options Contracts	FCY – INR Weekly Futures & Options Contracts
USDINR	EURUSD	USDINR
EURINR	GBPUSD	
GBPINR	USDJPY	
JPYINR		

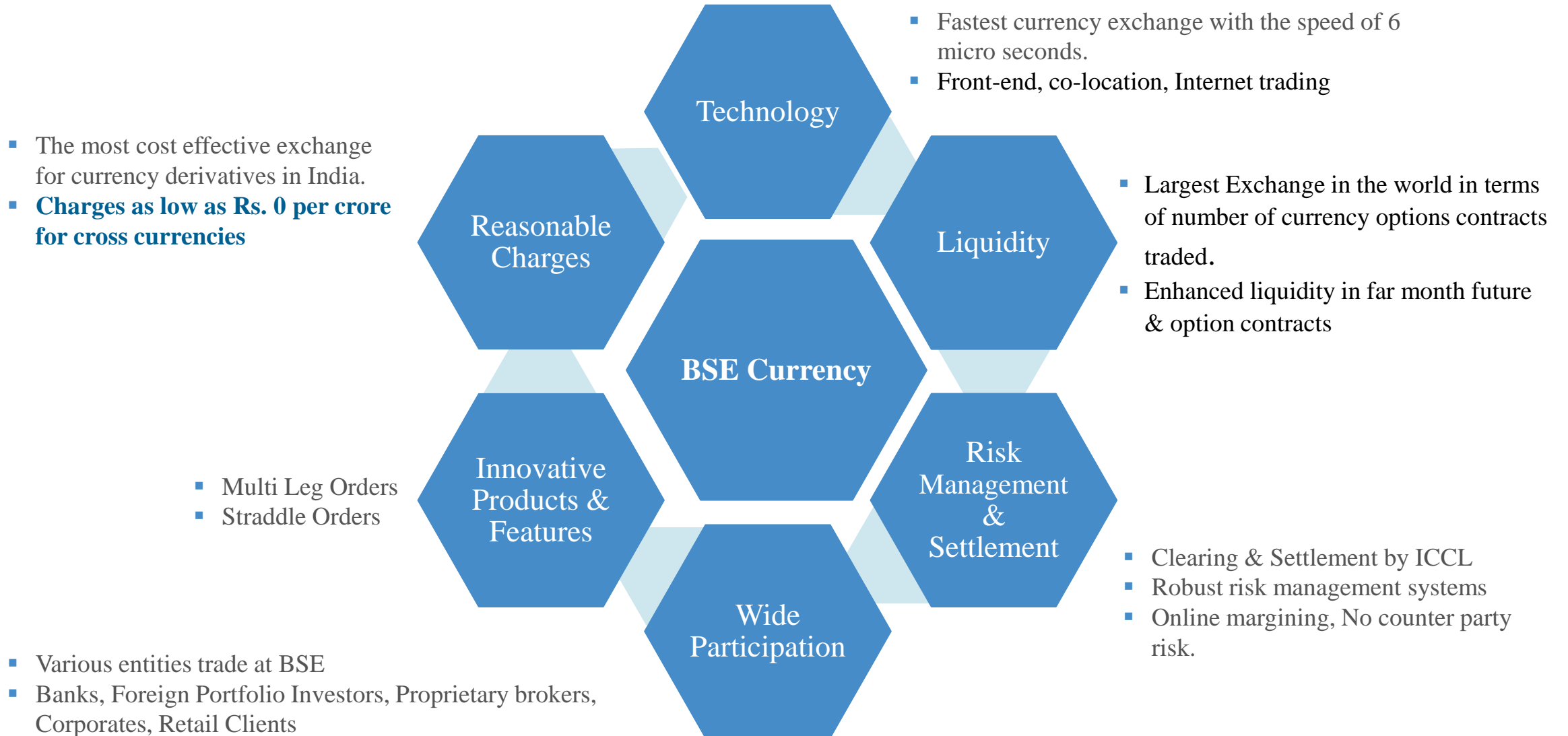
# ₹ BSE Currency Derivative Turnover



Turnover (In Crore)







		BSE	NSE	MSE
FCY/INR	Futures (per crore)	₹ 22	₹ 90	₹ 90
	Options (per crore on premium value)	₹ 100	₹ 2,000	₹ 2,500

FCY/FCY	Futures (per crore)	NIL
	Options (per crore on premium value)	

### What is Currency Trading?

Currency Trading is the act of buying and selling (trading) different currencies. The Foreign Exchange (or Forex) is the market that allows you to trade currencies. A currency trader – whether bank, corporates, or individual – must be well acquainted and skilled in the ways of the forex market, monitoring and acting on the subtle changes that indicate the potential for profit.

### What are Currency Derivatives?

Currency Derivatives are Future and Options contracts which you can buy or sell specific quantity of a particular currency pair at a future date. It is similar to the stock or commodity futures and options but the underlying happens to be currency pair (i.e. USDINR, EURINR, GBPINR, JPYINR, EURUSD, GBPUSD & USDJPY) instead of stocks or commodity.

### What is a Currency Futures Contract?

A currency futures contract is a standardized 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.

### What is a Currency Option Contract?

Currency options are contracts that grant the buyer of the option the right, but not the obligation, to buy or sell underlying currency at a specified exchange rate during a specified period of time. For this right, the buyer pays premium to the seller of the option.

### What is Cross Currency Trading?

Cross currency trading refers to forex transactions that do not include the domestic currency (Rupee, INR). When a currency quote is given without the INR as one of its components, this is called a cross currency. An example of a cross rate is EURUSD, in which the two currencies being traded are the EURO and US Dollar.

## ₹ Frequently Asked Questions (FAQ)

### Which Currencies are traded on BSE?

BSE facilitates futures & options trading in seven currency pairs.

\* Cross INR Pairs: USDINR, EURINR, GBPINR and JPYINR. \* Cross Currency Pairs: EURUSD, GBPUSD and USDJPY.

### What are the trading hours of Currency Derivatives on BSE?

BSE facilitates currency futures & options trading from Monday to Friday in seven currency pairs.

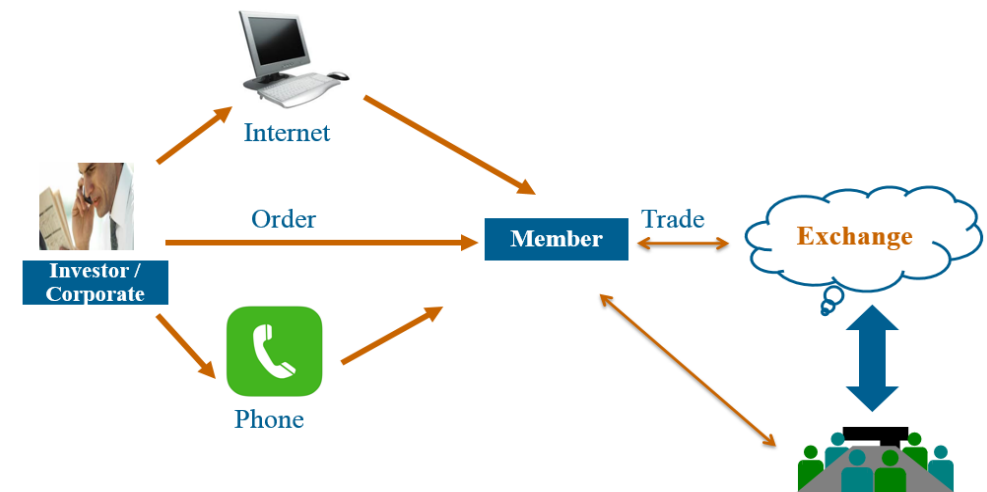
\* Cross INR Pairs: 09:00 hours to 17:00 hours. \* Cross Currency Pairs: 09:00 hours to 19:30 hours

### Who can trade in Currency Contracts on BSE?

Any Resident Indian, Corporates, Banks, Institutions, FPIs and NRIs can participate in the currency derivatives on BSE.

### How to participate in exchange traded currency derivatives?

- All trades at BSE take place through a nationwide electronic trading platform that can be accessed from terminals located with members of BSE.
- Participants can trade through trading members of BSE. Participants need to open a trading account with a trading member.
- To move out of a trade (buy), one can offset the trade with a counter side trade (sell). Contracts can be squared off at any time during the exchange's working hours and during the life of the contract.
- All contracts that are open on expiry will be settled in Indian Rupees in cash at the reference rate specified by the RBI



### What is currency risk and how it is managed?

Whether you are an individual looking to travel abroad or planning to send money to your loved ones overseas, you will be affected by currency movement. Similarly, if you are into the business of import-export of goods and services, you will either receive or transfer money that will be affected by currency fluctuations. Large movements in a currency can often result in big losses for companies that have not considered hedging of their foreign currency risk exposure. Technically, currency risk is the variability in the value of an exposure caused by uncertainty in movements of exchange rates. Currency risk essentially comes from the movement in the exchange rate between two currencies. The price at which you will be able to buy or sell currencies will be affected by the currency movement. Hedging is the tool that can be used by businesses and individuals to mitigate their foreign currency risks.

### What is the Last Trading Day for Currency Contract?

The last trading day for the currency contracts would be two working days prior to the last working day of the expiry month at 12:30 p.m. If any last trading day is a trading holiday, then last trading day shall be the previous trading day.

### How are margin charged in currency future and option contracts?

Generally, currency futures contracts require a margin percentage of the contract value, i.e. defined by exchange. The exchange also requires the daily profits and losses to be paid in/out on open positions (Mark to Market or MTM) so that the buyers and sellers do not carry a risk for not more than one day.

### What is the Cost of Transaction?

BSE is the most cost effective exchange for currency derivatives in India.



## Why exchange traded currency derivatives?

The exchange traded currency derivatives, as compared to OTC forwards, serve the same economic purpose, yet differ in fundamental ways. Exchange traded contracts are standardized. 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. The other advantages of an Exchange traded market is 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, exchange traded currency derivatives help in overall development of the forex market in the country.

## What are the Risks involved in Trading Cross Currency Contracts?

Risks in currency contracts 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.

## Where can one get Quotes for Exchange Traded Cross Currency Derivatives?

Quotes are available on BSE website: [www.bseindia.com](http://www.bseindia.com). Live quotes are also available at several exchange members trading terminals.

Exchange	Symbol	Market	Upper Ckt	Bid Qty	Bid Price	Ask Price	Ask Qty	LTP	Change	Change %	Tot Trd Qty	Tot Trd Val (Rs Lakhs)	Open Interest	No of Trades	Open Price	Hi Price	Lo Price	Clos
BSE	REUTERS:US	Currency	0.0000	0	65.1000	65.1300	0	0.0000	0.0000	0.00	0	0.0000	0	0	0.0000	0.0000	0.0000	0.
BSE	USDINR18MA	Currency	67.0800	3730	65.1250	65.	1518	65.1250	-0.0050	0.00	789456	514283.00	583923	9983	65.2150	65.2275	65.1000	65.
BSE	EURINR18MA	Currency	82.6300	47	80.2475	80.2525	33	80.2500	0.0225	0.02	4482	3601.0000	14245	489	80.4425	80.4925	80.2000	80.
BSE	GBPINR18MA	Currency	94.9100	1	91.7725	91.7875	10	91.7725	-0.3750	-0.40	511	469.0000	4163	99	92.0375	92.0375	91.7675	92.
BSE	JPYINR18MA	Currency	63.5000	1	61.9775	61.9925	27	61.9900	0.3375	0.54	2053	1275.0000	5371	268	62.1600	62.1925	61.9900	61.

[www.bseindia.com](http://www.bseindia.com)

Thank You

[bdm@bseindia.com](mailto:bdm@bseindia.com)  
022 - 22725173

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