

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

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CURRENCY FUTURES : FAQ's

Q What is foreign exchange market?

a The foreign exchange market is a marketplace where currencies are bought and sold against each other, also known as 'Forex' or 'FX' market. It is the largest financial market in the world, and includes trading between large banks, central banks (RBI), currency speculators, multinational corporations, retail investors and other financial markets and institutions. The average daily trade in the global Forex and related markets currently is over US\$ 3 trillion.



Q What is base currency and quote currency?

a The first currency in the currency pair is referred to as the base currency and second currency is called the quote currency. For example, in the USDINR currency pair, USD is the base currency and INR is the quote currency.

Q What is spot price in the forex market?

a Spot price or spot rate is the quote for buying/selling currency whereby a certain amount of one currency is received in exchange for a fixed amount of another currency.

Q What is bid price and ask price?

a Bid refers to the price at which the market is willing to buy a specific currency.

a Ask refers to the price at which the market is willing to sell a specific currency.

The difference between the bid and ask price is referred to as the bid-ask spread.

Q What is a forward contract?

a A forward contract is a contractual agreement between a buyer and a seller to exchange an underlying asset for a mutually negotiated price on a pre-determined future date. In India, these contracts are traded in the OTC markets which is the inter-bank market.

Forward Price = Spot Price +/- Forward Points.

Q What is a Currency Futures contract?

a A Currency Forward contract that is standardized, exchange-traded and guaranteed by the clearing corporation is called a Currency Futures contract.

Q Why should one trade in Currency Futures?

a You may trade in Currency Futures:

a • **To take advantage of the price movements** in USD/INR spot market. The price movement has been in the range 39.18 (Nov 07) to 52.17 (March 09) during the period of 18 months providing a return of 22 % annualized. The spot market is a very liquid market with US Dollar being traded on 24 X 7 provides an opportunity to anticipate the price movements and capture the returns. For example: If you expect all prices to rise and impact India's import bill, you would buy Currency Futures contract with a view of INR depreciating. Alternately if you believe that strong exports from the IT sector, combined with FII flows will translate to a stronger rupee you would sell Currency Futures contract.



- **To hedge the underlying exposure and protect the earnings from the volatility** of the market place. The volatility has been in the range of 5.37 to as high as 13.17 during Nov 07 to March 09. An importer would have paid higher price on account of the movement of the price and an exporter would have realized less on account of the movement. Thus if you are exposed to any currency risk and wish to hedge the same, Currency Futures can help do so.

For example: If you are importing goods from abroad, billed in US \$ now and payment to be made after 3 months, you may buy the Currency Future contract and have a liability fixed to the rate. Similarly an exporter can hedge future receivables by selling Currency Futures contract. Also students studying abroad, and have to pay fees in US \$ at a future date can hedge against dollar appreciation by buying Currency Futures contract.

- To arbitrage on the price movements between spot and futures market, near month and far month contracts by spread trading and between different exchanges.
- As it is available and easily accessible to all Indian residents.
- As there is a strong correlation that exchange rates have to interest rates, equity flows and commodity prices which translate to opportunities to trade Currency Futures in conjunction with equities, commodities.

Q What are the factors that affect USDINR exchange rate?

Demand and supply for USD in the domestic and international markets typically affects the USDINR exchange rate. The demand and supply dynamics is principally influenced by factors such as interest rates, inflation, money supply, trade balance, growth in imports, exports, capital flows, overall economic growth in the country, and global developments.

Events most likely to impact USD INR rate	* General Trend for Demand/Supply of USD	Impact on USD	Impact on INR
Increase in imports and/or decrease in exports leading to increase in trade deficit	Demand for USD increases/Supply decreases	Appreciates	Depreciates
Increase in domestic interest rates	Excess inflow of USD into the country	Depreciates	Appreciates
Supply constraints or increase in demand of commodities; global increase in prices for international commodities leading to inflation	Demand for USD increases due to costlier imports	Appreciates	Depreciates
The Central Bank is buying USD to absorb excess dollar due to forex inflows-to provide support for the USD	Absorption of excess USD liquidity	Appreciates	Depreciates

*It may be noted that the above-mentioned events and their impact are only indicative in nature and are based on observations from generic market trends in the past.

Which currency pairs are allowed to be traded on Indian exchanges?

Currently, USDINR currency pair is allowed for trading on Indian exchanges.

Q How do I start trading in Currency Futures?

Currency Futures can be bought and sold through the trading members of National Stock Exchange.



To open an account with us you will be required to complete the KYC norms which include signing of member constituent agreement, constituent registration form and a risk disclosure document. We will allot you a unique client identification number.

To begin trading, you will be required to deposit cash or collateral (Approved Equity shares) with us as may be stipulated.

Send in an order to us exactly as you do in NSE Derivative / Future & Options to begin trading.

Q What is the contract specification of USDINR futures contract?

Trading hours	Monday to Friday: 9:00am to 5:00pm
Contract Months	12 near calendar months
Contract Size	USD 1000
Tick Size	0.25 paise or INR 0.0025 per 1 USD
Last trading day	Two working days prior to last business day of the expiry month at 12 noon
Final Settlement date	Last working day (excluding Saturdays) of the expiry month
Calendar spreads	Minimum Rs. 250/- per contract for all months of spread
Settlement	Daily settlement: T + 1 / Final settlement: T + 2
Daily settlement price	Weighted average price during last half hour of trading
Final settlement price	RBI reference rate on expiry date

Q What is the difference between long position and short position with reference to Currency Futures?

When one buys a Currency Futures, it is called 'long position' and when one sells a Currency Futures it is called 'short position'.

It may be noted that open long or short positions taken in Currency Futures can be offset (squared off) by taking the opposite position, before the contract expiry date or hold till expiry and settle the contract at Final Settlement Rate (RBI Reference Rate).

Q Is it possible to put a limit order and stop loss order?

Yes, it is possible to put a limit order and stop loss order. These orders will remain in the order book as open orders and once they are executed, they will become trades.

Q Is it possible to modify or cancel unexecuted orders?

Unexecuted orders can be modified or cancelled. After an order is executed into a trade, it is not possible to change the order parameters or cancel the same.

Q What is mark to market?

Marking to market of outstanding positions refers to the valuation of the outstanding long and short positions with the latest market price of the Currency Future Contract as compared to the value at which the open position has been taken. At the end of the trading session, all outstanding positions are repriced at the daily settlement price or closing price of that session.

Q How is margin money collected?

Margin money is collected in various forms, such as:

- Cash deposits.
- Approved Securities : Equity shares (Approved securities are accepted with applicable haircuts).

Q What is open interest?

Open interest refers to the outstanding long or short positions. For every long position taken, there is a short position created.

Q Who can participate in trading in exchange-traded currency futures market in India?

Any resident Indian entity, including importers, exporters, SMEs, 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.

Disclaimer:

"Low to Medium Risk Investment.

Foreign Exchange trading carries a high level of risk, and may not be suitable for all investors. The high degree of leverage can work against you as well as for you. Before deciding to trade Currency Futures you should carefully consider your investment objectives, level of experience, and risk appetite. The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all risks associated with Currency Futures trading, and seek advice from an independent financial advisor if you have any doubts."

Hedgers and Arbitrageurs, by the nature of their transaction, Underlying exposure/Offsetting deal, are covered from risk and therefore do not need this warning.

Institutional

Q.1. What are the benefits of exchange-traded Currency Futures over OTC forward contracts?

Attribute	Forward Contracts in OTC Market	Exchange-Traded Currency Futures Contracts
Accessibility	Interbank market accessed through telephone	Online electronic trading through leased line, VSAT, internet (investor client)
Price Transparency	High bid-ask spread due to high transaction cost owing to bank charges	Transparent online trading platform ensures uniform real-time price access for all market participants
Contract Size	Customized. Banks prefer forward contracts for at least USD 1 million	Standard futures contract lot size as low as USD 1,000
Credit Exposure	Counterparty default risk exists	No counterparty default risk as exchange clearing house guarantees settlement
Settlement	Settlement only on maturity date in case of profits from cancelled forward contracts. Loss to be paid immediately	Settlement only in INR based on mark-to-market T+1 day basis
Proof of underlying	Mandatory as per RBI guidelines.	Not required
Margin Deposits	Compensating bank balances or credit lines needed (such as FD, bank guarantee, etc.) Ranges from 5% to 10% depending on the credit profile of client	Margin is as low as 3% to 5% of total exposure. Tracked on real-time basis using Value-at-Risk (VaR) measures and SPAN™

Example: Risk mitigation by an importer.

An edible oil refiner imports soya beans worth USD 100,000. The importer places an order on July 15, 200X, with delivery and payment dates being three months ahead, in October 200X. If INR depreciates by October, this can result in loss for the importer. On the other hand, if the INR appreciates, this is favourable for the importer. The importer decides to hedge against USDINR volatility using exchange-traded Currency Futures.

On July 15, 200X

1. Spot rate of USDINR is 43.50
2. NSE Oct USDINR futures is trading at 44.00
3. Hedge Strategy: Buy 100 lots of NSE Oct USDINR futures contracts on July 15, 200X, @ 44

Spot rate	P/L on Exchange Traded Currency Futures	P/L in Cash Market for Purchase of USD	Net Profit/Loss
48	(48 - 44) * 100 lots * \$1000 = Profit of INR 4,00,000	(43.50 - 48) * 100 lots * \$1000 = Loss of INR 4,50,000	Net Loss of INR 50,000
40	(40 - 44) * 100 lots * \$1000 = Loss of INR 4,00,000	(43.50 - 40) * 100 lots * \$1000 = Profit of INR 3,50,000	Net Loss of INR 50,000

If the importer had not hedged, his maximum loss (when INR depreciates to 48 against USD), could have been as high as INR 4,50,000.

Example: Risk mitigation by an exporter

A diamond jewellery exporter has obtained an export order worth USD 250,000 on August 20, 200X, for the delivery of jewellery against payment in December 200X. If INR appreciates by December, this can result in loss for the exporter. On the other hand, if INR depreciates, this is favorable for the exporter. The exporter decides to hedge against USDINR volatility using exchange-traded Currency Futures.

On August 20, 200X

- Spot rate of USDINR is 45.50
NSE Dec USDINR futures is trading at 46.

Hedge Strategy: Sell 250 lots of NSE Dec USDINR Futures Contracts on July 15, 200X, @ 46.

Spot rate	P/L on Exchange Traded Currency Futures	P/L in Cash Market for Purchase of USD	Net Profit/Loss
43	(46 - 43) x 250 lots x \$1000 = Profit of INR 7,50,000	(43 - 45.50) x 250 lots x \$1000 = Loss of INR 6,25,000	Net Profit of INR 1,25,000
49	(46 - 49) x 250 lots x \$1000 = Loss of INR 7,50,000	(49 - 45.50) x 250 lots x \$1000 = Profit of INR 8,75,000	Net Profit of INR 1,25,000

If the exporter had not hedged, his loss (when INR appreciates to 43 against USD) could have been as high as INR 6,25,000

COMPANY HISTORY & BACKGROUND

Asit C. Mehta Investment Intermediates Ltd. (ACMIL) was established in the year 1986 with a view to offer a one-stop solution to Indian entities for their financial services needs. Over the last two decades, we have achieved the distinction of being amongst the most trusted and reputed brokerage houses in India. We provide a complete bouquet of products in Equity, Debt, Commodities, Forex, Depository, Derivatives, Currency Derivatives and allied services in India. The company is jointly promoted by noted stock market professionals Mr. Asit C. Mehta and Mrs. Deena A. Mehta, and is a part of the Mumbai-based Nucleus Group of Companies.



The other group companies are engaged in IT and IT-related services such as database development, back-office applications for banks, corporate document management solutions and Geographical Information Systems (GIS).

Vision, Mission & Quality

Envisioned to be a "Trusted Financial Intermediary", the group has etched out a very specific corporate purpose - "To reach appropriate financial products, services and solutions to every Indian entity."

Our Beliefs

- That every household can, should, and will need to participate in the financial markets directly or indirectly to protect their financial interests.
- That regulatory/legal compliance ensures economic sustainability.
- That transparency and fairness are the cornerstones of all dealings.
- That knowledge rather than capital is the key driver of this business.
- That product, process, and technology led innovations are necessary preconditions for continuously adding value for all our constituents.
- That given the environment every person will realise her/ his potential.
- That people are driven by causes.

The FIRSTS to our credit

- First limited liability Company to acquire membership on Bombay Stock Exchange (BSE).
- First multiple seat holder and multiple exchange members.
- First private VSAT network user.
- First to utilize the franchisee business model for Associates.
- First to achieve the ISO quality certification for business processes. Currently we are "ISO 9001:2008" certified company.
- First to receive a CRISIL grading for quality of operations and services. Currently we are at the highest broker quality grading "BQ1".
- Company Managing Director Mrs. Deena A. Mehta was the first lady to be elected to the governing board of the BSE and first and only lady to be the President of BSE.
- Mrs. Deena A. Mehta is also currently the First lady as the Trading Member in the BSE Governing Board (post corporatisation).

OUR SERVICES

Equity and Derivatives Trading: Equity trading is offered to retail clients through different channels in the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), for the cash and the derivatives segments. Investors are serviced through a pan-India network of over of 410 franchisees, 82 company-owned branches, 205 marketing agents, and 1755 independent financial advisors (as of October 2009).

Online Trading: www.investmentz.com is our online trading portal that offers execution and advisory services to investors in the BSE and NSE cash and derivatives segments. The investors can trade through multiple channels: a browser-based interface, a streamer-based solution called Live eXchange and a toll-free number. The company has tied up with leading nationalized, private and co-operative banks to offer share trading services to the bank's customers. A seamless gateway has been established between the banking and depository software of the banks.

Institutional Desk: We provide equity and derivatives trade execution services to both domestic and foreign institutional investors. Research and market information is provided to clients to support them in making investment decisions. These services are provided with seamless connectivity to custodians.

Portfolio Advisory Service: ACMIL holds a Portfolio Management license issued by SEBI. This service is available to both Resident and Non-Resident Indians (NRI).

Investment Banking: ACMIL has been granted a Category I Merchant Banking license by SEBI. We offer a full gamut of investment banking services, including mergers, amalgamations, private equity and public offerings.

Commodity Trading: Commodity services are enabled through our associate company, Asit C. Mehta Commodity Services Pvt. Ltd. The company is a member of India's premier commodity exchanges: the Multi Commodity Exchange of India Ltd. (MCX), the National Commodity & Derivatives Exchange, India (NCDEX) and the East India Cotton Exchange Association (EICA). The online trading portal also provides trading services on NCDEX. One of the group company is also the member of the Dubai Gold & Commodity Exchange (DGCX).

Mutual Fund and IPO: These services are provided to retail investors directly and indirectly through our branch and business associate network. Seminars are conducted regularly to highlight the importance of investment in mutual funds, especially through Systemic Income Plans (SIP). Advice is provided on initial public offerings and only public issues that have merit are marketed to retail investors.

Debt Market Desk: We are members of the Wholesale Debt Market (WDM) segment of the National Stock Exchange of India (NSE). The service involves providing quotes and executing trades in government securities (G-Sec), treasury bills and other state-guaranteed bonds. We are impaneled with most nationalized, foreign, private and major co-operative banks, and with most primary dealers, mutual funds, insurance companies and institutions for the trading of debt market instruments.

Inter-Bank Forex Desk: Our associate company, Asit C. Mehta Forex Pvt. Ltd., undertakes inter-bank forex order execution. Accredited by the Foreign Exchange Dealers' Association of India (FEDAI), the company is impaneled with authorized dealers and banks and has a reasonable presence in the market.

Depository Services: The Company is a depository participant with the Central Depository Service of India Ltd. (CDSL). We are also authorized to provide depository services for commodity trades.

Currency Derivatives Trading: We offer services in currency futures trading to investors as members of Currency Derivatives segment (CDS) of the National Stock Exchange of India (NSE). Online trading facility is also available to investors through browser-based interface.

Asit C. Mehta Investment Intermediates Ltd.

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SEBI Registration No:

BSE CM: INB 010607233 & Derivatives: INF 010607233 • NSE CM: INB 230607239 & Derivatives: INF 230607239 • WDM: INB 230607239 • NSE CURRENCY Derivatives: INE 230607239 • PMS: INP000001920 • Merchant Banking: INM000010973 • Depository (CM & Derivatives): IN-DP-CDSL-28-99; Depository (Commodity) DP-CDSL 12013200

Management:

Managing Director: Mrs. Deena Asit Mehta • Whole-time Director : Mr. Kirit H. Vora

Membership:

NSE: Cash, Derivatives, Debt & Currency Derivatives • BSE: Cash & Derivatives • FEDAI: Foreign Exchange • SEBI: PMS & Merchant Banking Category 1
Commodities: NCDEX MCX, DGCX, & EAST INDIA COTTON • CDSL: Depository • Clearing Bank: State Bank of India