

CURRENCY DERIVATIVES SEGMENT (CDS)

Indian investor can now add one more 'investment option' in their portfolio – currency derivatives. Regulatory approval from RBI and SEBI was recently made available (Aug 2008) and this allows exchanges in India to launch currency derivatives for trading, similar to equity / commodities derivatives trading

With the launch of currency derivatives in India through stock exchanges, there has been a dynamic shift in currency trading and hedging. An Indian entity would be able to take positions on the external value of the rupee without having an underlying foreign currency exposure. It would enhance overall efficiency of the currency market via transparency in pricing, increased investor base and categories, enhancing opportunities to invest and eliminate counter-party risk.

An FAQ to explain some of the basics about this market has been put forth

Q) Who can use / participate in the currency derivatives trading ?

A) As per current regulation, following entity can participate in this market

1. Indian Resident,
2. Corporates registered in India (particularly those to an involve in foreign currency due to their business nature),
3. Domestic / Indian Financial Institutions and Banks

As of now, the regulation does not allows Foreign Institutional Investors (FII) and Non-Resident Indian (NRI) to participate in this market.

Q) Which are the currency pairs available in NSE'S CDS?

A) At the moment the following 4 pairs are available:

- (1) USDINR (2) GBPINR (3) EURINR (4) JPYINR

Q) What are the contract size / specification?

USDINR example sited here, for other pair details, refer www.nseindia.com (Forex Tracker)

A) Contract will have following basic specification

1. Size - US Dollar 1,000.
2. Minimum price fluctuation / tick size – Rupee 0.0025 or Paise 0.25
3. Period / term of contract – for 12 near calendar months
4. Expire date & time – last business day of the month

Q) What are the market timings for trading in currency derivatives?

A) Market time would be from IST 9 am to IST 5 pm.

Q) How will be the order placement mechanism work?

A) Order will be market driven such like in equity market (prioritized on time & rate basis).

Q) How would the Risk Management System work in currency derivatives trading for a client?

A) Client would need to have adequate margin for any order / trade. Basic margin requirement calculation will take into account

Standardized Portfolio Analysis of Risk (SPAN),

Initial margin

1. Minimum Initial margin of 1.75% on day of trade and thereafter 1%

2. Calendar spread margin defined by exchange(s) at Rs 250/-

3. Any additional margin, if & as notified by the exchange

Extreme Loss Margin

1. 1% of value of gross open positions

2. Any additional margin, if & as notified by the exchange

Position Limits

1. 6% of total open interest or US Dollar 5 million, whichever is higher

Member-broker specified margin

1. As per any requirement of the member-broker, client to need to have additional margin as specified by the member-broker

Q) How will daily billing be done?

A) Based on his trades and open position, financial ledger of client account for mark-to-market (MTM) loss / profit along with margin requirements (similar to equity derivatives). Client would have to make up for such requirements upfront or by the day end (of each billing cycle) as per specification of the member-broker. The daily clearing and settlement process would take into account – daily trades, position computation, daily settlement price for outstanding position contract(s) and MTM.

Q) How will settlement of the contract take place?

A) Open contract will be settled on the relevant expiry date (as per contract specification) in cash (in Indian rupee) at the relevant RBI reference rate. The final / expiry day clearing and settlement process would take into account final day settlement price for outstanding position contract(s).

C register for trading in currency derivatives in India?

A) The eligible participant will have to register with member-broker who is registered on Indian Stock Exchange and allowed to register clients for trading in currency derivatives. Registration process of the member-broker would need to be followed by the participant and adhere to relevant trading terms of the member-broker and the stock exchange.

Q) What makes [Manashvi Securities Ltd](#) online Currency Derivatives special?

A) Our expertise, effective guidance and very competitive fees will ensure your enjoyment of a hassle free online currency derivatives trading experience.

Backed by our years of expertise in online trading, we provide advanced online Currency Derivatives facilities in a simple way that is convenient to use.