

GENERAL MANAGER
DERIVATIVES AND NEW PRODUCTS DEPARTMENT

SEBI/DNPD/Cir- 52 /2010

January 19, 2010

To,

Recognized Stock Exchanges
and their Clearing Corporations / Clearing Houses, Clearing Members and
Trading Members

SUB: Currency Futures on Additional Currency Pairs

This is in continuation of SEBI Circular No. SEBI/DNPD/Cir- 38 /2008 dated August 06, 2008 regarding Exchange Traded Currency Derivatives.

It has now been decided to permit eligible Stock Exchanges to introduce currency futures on Euro-INR, Pound Sterling-INR and Japanese Yen-INR. The details in terms of product design, margins and position limits for the three additional currency pairs are as given under Annexure I, II and III respectively.

Based on feedback received from Stock Exchanges, it has been decided to modify the calendar spread margin to be applied on the US Dollar-INR contract and the same is specified under Annexure IV.

This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the

Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

This circular is available on SEBI website at www.sebi.gov.in., under the category “Derivatives- Circulars”.

Yours faithfully,

SUJIT PRASAD

ANNEXURE I

PRODUCT DESIGN, MARGIN & POSITION LIMITS FOR EURO-INR CONTRACT

1. Underlying

Euro-Indian Rupee (EUR-INR)

2. Trading Hours

9 a.m. to 5 p.m

3 Size of the contract

The contract size would be Euro 1000.

4. Quotation

The contract would be quoted in rupee terms. However, the outstanding positions would be in Euro terms.

5. Tenor of the contract

The maximum maturity of the contract would be 12 months.

6. Available contracts

All monthly maturities from 1 to 12 months would be made available.

7. Settlement mechanism

The contract would be settled in cash in Indian Rupee.

8. Settlement price

The settlement price would be the Reserve Bank Reference Rate on the date of expiry.

9. Final settlement day

The contract would expire on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by FEDAI.

10. Initial Margin

The Initial Margin requirement would be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be fixed at 3.5 standard deviation. The initial margin so computed would be subject to a minimum of 2.80% on the first day of trading and 2% thereafter. The initial margin shall be deducted from the liquid networth of the clearing member on an online, real time basis.

11. Calendar spread margin

A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be at a value of Rs. 700 for a spread of 1 month; Rs 1000 for a spread of 2 months and Rs 1500 for a spread of 3 months or more. The benefit for a calendar spread would continue till expiry of the near month contract.

12. Extreme Loss margin

Extreme loss margin of 0.3% on the mark to market value of the gross open positions shall be deducted from the liquid assets of the clearing member on an on line, real time basis.

13. Position Limits

- a) Client Level: The gross open positions of the client across all contracts shall not exceed 6% of the total open interest or EUR 5 million whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.
- b) Trading Member Level: The gross open positions of the trading member across all contracts shall not exceed 15% of the total open interest or EUR 25 million whichever is higher.
- c) Bank: The gross open positions of the bank across all contracts shall not exceed 15% of the total open interest or EUR 50 million whichever is higher
- d) Clearing Member Level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

ANNEXURE II

PRODUCT DESIGN, MARGIN & POSITION LIMITS FOR POUND STERLING-INR CONTRACT

1. Underlying

Pound Sterling – Indian Rupee (GBP-INR)

2. Trading Hours

9 a.m. to 5 p.m

3. Size of the contract

The contract size would be Pound Sterling 1000.

4. Quotation

The contract would be quoted in rupee terms. However, the outstanding positions would be in Pound Sterling terms.

5. Tenor of the contract

The maximum maturity of the contract would be 12 months.

6. Available contracts

All monthly maturities from 1 to 12 months would be made available.

7. Settlement mechanism

The contract would be settled in cash in Indian Rupee.

8. Settlement price

Exchange rate published by the Reserve Bank in its Press Release captioned RBI Reference Rate for US\$ and Euro.

9. Final settlement day

The contract would expire on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by FEDAI.

10. Initial Margin

The Initial Margin requirement would be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be fixed at 3.5 standard deviation. The initial margin so computed would be subject to a minimum of 3.20% on the first day of trading and 2% thereafter. The initial margin shall be deducted from the liquid networth of the clearing member on an online, real time basis.

11. Calendar spread margin

A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be at a value of Rs. 1500 for a spread of 1 month; Rs 1800 for a spread of 2 months and Rs 2000 for a spread of 3 months or more. The benefit for a calendar spread would continue till expiry of the near month contract.

12. Extreme Loss margin

Extreme loss margin of 0.5% on the mark to market value of the gross open positions shall be deducted from the liquid assets of the clearing member on an on line, real time basis.

13. Position Limits

- a) Client Level: The gross open positions of the client across all contracts shall not exceed 6% of the total open interest or GBP 5 million whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.
- b) Trading Member Level: The gross open positions of the trading member across all contracts shall not exceed 15% of the total open interest or GBP 25 million whichever is higher.
- c) Bank: The gross open positions of the bank across all contracts shall not exceed 15% of the total open interest or GBP 50 million whichever is higher.
- d) Clearing Member Level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

ANNEXURE III

PRODUCT DESIGN, MARGIN & POSITION LIMITS FOR JAPANESE YEN-INR CURRENCY PAIR

1. Underlying

Japanese Yen – Indian Rupee (JPY-INR)

2. Trading Hours

9 a.m. to 5 p.m

3. Size of the contract

The contract size would be Japanese Yen 1,00,000

4. Quotation

The contract would be quoted in rupee terms. However, the outstanding positions would be in Japanese Yen terms.

5. Tenor of the contract

The maximum maturity of the contract would be 12 months.

6. Available contracts

All monthly maturities from 1 to 12 months would be made available.

7. Settlement mechanism

The contract would be settled in cash in Indian Rupee.

8. Settlement price

Exchange rate published by the Reserve Bank in its Press Release captioned RBI Reference Rate for US\$ and Euro.

9. Final settlement day

The contract would expire on the last working day (excluding Saturdays) of the month. The last working day would be taken to be the same as that for Interbank Settlements in Mumbai. The rules for Interbank Settlements, including those for 'known holidays' and 'subsequently declared holiday' would be those as laid down by FEDAI.

10. Initial Margin

The Initial Margin requirement would be based on a worst case loss of a portfolio of an individual client across various scenarios of price changes. The various scenarios of price changes would be so computed so as to cover a 99% VaR over a one day horizon. In order to achieve this, the price scan range shall be fixed at 3.5 standard deviation. The initial margin so computed would be subject to a minimum of 4.50% on the first day of trading and 2.30% thereafter. The initial margin shall be deducted from the liquid networth of the clearing member on an online, real time basis.

11. Calendar spread margin

A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be at a value of Rs. 600 for a spread of 1 month; Rs 1000 for a spread of 2 months and Rs 1500 for a spread of 3 months or more. The benefit for a calendar spread would continue till expiry of the near month contract.

12. Extreme Loss margin

Extreme loss margin of 0.7% on the mark to market value of the gross open positions shall be deducted from the liquid assets of the clearing member on an on line, real time basis.

13. Position Limits

- a) Client Level: The gross open positions of the client across all contracts shall not exceed 6% of the total open interest or JPY 200 million whichever is higher. The Exchange will disseminate alerts whenever the gross open position of the client exceeds 3% of the total open interest at the end of the previous day's trade.
- b) Trading Member Level: The gross open positions of the trading member across all contracts shall not exceed 15% of the total open interest or JPY 1000 million whichever is higher.
- c) Bank: The gross open positions of the trading member across all contracts shall not exceed 15% of the total open interest or JPY 2000 million whichever is higher.
- d) Clearing Member Level: No separate position limit is prescribed at the level of clearing member. However, the clearing member shall ensure that his own trading position and the positions of each trading member clearing through him is within the limits specified above.

Annexure IV

Calendar Spread Margin for USD-INR Contract

A currency futures position at one maturity which is hedged by an offsetting position at a different maturity would be treated as a calendar spread. The calendar spread margin shall be at a value of Rs. 400 for a spread of 1 month; Rs 500 for a spread of 2 months, Rs 800 for a spread of 3 months and Rs 1000 for a spread of 4 months or more. The benefit for a calendar spread would continue till expiry of the near month contract.