<u>FAQs on CDS</u>

1. **What is hedging?**

   Hedging refers to an investment made in order to reduce the risk of adverse price movements in a security, by taking an offsetting position in a related security, such as an option or a short sale.

2. **What are the different ways of hedging?**

   - Bank forwards(OTC markets)
   - Currency Futures
   - Swaps
   - Options

3. **What is Currency Futures?**

   Currency futures are standardized contracts used by international traders to hedge against currency risk. This is a contract to exchange a certain amount of a particular currency, at a specific exchange rate on a specified date.

4. **What are the differences between Currency Futures and bank forwards?**

FACTORS	FORWARDS	FUTURES
Size of Contacts	Tailored to individual needs	Standardized
Delivery date	Tailored to individual needs	Standardized
Contract prices	Established by bank or broker	Fully market determined i.e. by open auctions amongst buyers & sellers
Participants	Banks, brokers, MNC's, FIIs etc.	Banks, Brokers, MNC's, FIIs, small traders, HNI's, speculators etc.
Commissions	Set by spread between dealer's buy and sell price	Published brokerage fees by the regulatory authorities
Margins	None but compensating bank balances are required e.g. FDs	Margin deposit is required
Clearing operations	Counter party risk due to the absence of separate clearing house	Handled by exchange clearing house so absolutely zero counter party risk
Market place	Over the telephone	Central exchange floor with worldwide communication
Regulation	Self- regulating	Self- regulating & also by SEBI
Frequency of delivery	Settled by physical delivery	Absence of any physical delivery ; Cash settled in nature
Price fluctuations	No daily limit	Daily limit specified by exchange
Price transparency	Limited transparency	Complete transparency with access to live trading platform

5. **What are the advantages of Currency Futures?**
    - Most liquid market
    - No underlying exposure required
    - Absolutely zero counterparty risk
    - Complete price transparency
    - Very small orders (1 Lot = 1000USD)
    - Standardized Contact size and settlement cycles
    - Narrow spread minimizing risk

6. **Who are the players in Currency Futures market?**
    - Banks
    - Corporates
    - Retail investors
    - Securities firms
    - Hedge funds
    - Institutional investors
    - Retail investors
    - HNI's

7. **Am I eligible to trade in the Currency futures?**

    Yes, anyone can participate in this market (except NRI's) with or without any underlying exposure.

8. **How to start Currency futures trading with PCS?**

    - **New Client**

      The new clients have to fill the Client registration form and submit the following details to start trading:

        - Copy of PAN Card
        - Copy of address Proof
        - Copy of bank statement
        - ECN confirmation mail
        - A passport size photograph

    - **Existing Client**

      If you are an existing client of PCS you can complete the documentation under CDS for a currencies account and start trading.

- **Corporate Client**

  For exporters and importers the booking of futures contract requires the following documents (in specific formats) along with completely filled the registration form:

  - MOA and AOA
  - PAN Card of Company
  - Bank Statement of Company
  - Last 2 years Audited Financials
  - Address Proof of Company
  - Board Resolution of Company
  - List of directors and shareholders
  - ID Proof and address proofs of all Authorized Signatories
  - Signature and photograph attestation letter by banker
  - ECN Confirmation mail
  - 1 photograph of authorized signatory

9. What are the contract specifications for Currency Futures?

Presently, USD/INR, EUR/INR, GBP/INR and JYP/INR pairs are available for trading.

10. What are the factors affecting Currency Futures market?

The fundamental factors affecting the exchange rate fluctuations (in India) are:

- Economic indicators like inflation, interest rates, GDP, trade balances etc.
- Foreign Currency reserve with RBI
- Socio-political conditions
- Investment flows
- Movements in equity market
- Dollar index
- Prices of commodities like Gold, Crude oil etc.
- Global currency movements
- RBI reference rate

11. What are the risks involved in speculating in Currency Futures?

The risk involved refers to the fluctuation of the currency exchange rates. There are no strict methods to correctly predict the movements in the rates. In depth study of fundamental & technical aspects can only provide a direction and an effective range of the movement.