## SBI FX Trade: Currency Future Trading

### About The Product

SBI FX TRADE is an online platform offered by State Bank of India to its customers to trade in the exchange traded Currency Futures. SBI offers its clients the opportunity to trade in four currency pairs namely; USD/INR, EURO/INR, GBP/INR and JPY/INR as permitted by Regulatory authorities SEBI & RBI. SBI FX TRADE is a secure, robust online platform linked to the customer's Bank account. The customer can take positions in these currencies from anywhere across the country, after transferring the required margins, through his online trading account.

### Features of SBI FX Trade

- Competitive brokerage rates.
- Integrated platform of Bank Account and Online Trading Account.
- Provision for lien marking. The money continues to remain in the customer's account until the deal is done, thus earning him interest.
- Secure and Robust online platform.
- Product from India's most trusted and transparent Bank.

### What is Currency Futures?

A currency futures contract is a standardized form of a forward contract that is traded on an exchange. It's an agreement to buy or sell a specified quantity of an underlying currency on a specified date at a specified price. In India, currently four currency pairs are traded (USD/INR, EURO/INR, GBP/INR and JPY/INR) with a lot size of 1000 units of the base currency, except JPY where the lot size is 100,000. Settlement for the customer is, however, done in Rupee terms and not in the foreign currency.

### Advantage of Currency Futures

- Transparent & Efficient price discovery
- Ease of trade
- No paperwork required at branch level unlike forward contracts
- Submitting proof of underlying is not a precondition

### Contract Specifications of Currency Futures

| S.No | Features | Details |
|---|---|---|
| a) | Symbol | USD/INR, EUR/INR, GBP/INR,JPY/INR |
| b) | Unit of trading | 1 (1 unit denotes 1000) except JPY (100,000) |

| | | |
|---|---|---|
| c) | Underlying | The exchange rate in INR for USD/EUR/GBP/ JPY |
| d) | Tick size | INR 0.0025 |
| e) | Trading hours | Monday to Friday (9.00 am to 5.00 pm) |
| f) | Contract trading cycle | 12 month trading cycle. |
| g) | Final settlement day | Last working day of the expiry month. |
| h) | Position limits | Clients (per exchange): 6% of total open interest or USD 10 mn, whichever is higher. |
| i) | Minimum-Initial margin | 8% of notional value of the contract. |
| j) | Extreme loss margin | 2% of notional value of the contract |
| k) | **MTM Adjustment** | **Daily debited/credited to the account** |
| m) | **Mode of settlement** | **Cash settled in INR** |
| n) | Daily settlement price (DSP) | Calculated on the basis of last half an hour weighted average price. |
| o) | Final settlement price (FSP) | RBI reference rate.(Last working day of the month) |

## How to Trade in Currency Futures Using SBI FX Trade?

**STEP 1: Opening SBI FX Trade Account**

Customers who are interested in participating in currency futures market have to necessarily open a SBI FX Trade trading account. The trading account will be linked to a Savings/ Current account specified by the customer in the account opening form. Currently, SBI offers the trading facility with National Stock Exchange of India (NSE).

The client can open the SBI FX Trade account at selected branches after completing the necessary KYC documentation specified by the Regulators SEBI and RBI.

After completion of the KYC documentation, the trading account of the client would be opened within a few days and an email would be sent to the client with the user name and password.

**STEP 2: Logging In & Upfront Allocation of Required Margins**.

To trade in a currency futures contract, the client needs to give the required margins upfront to the Bank. **The margin is fixed at 10% of the value of the contract** but can be modified by the Bank depending on the market volatility.

For example if a client buys a near month contract at Rs.46 (i.e. notional value of the contract: 46*1000=46,000), he needs to pay upfront a margin of 10% (approx.), which amounts to Rs.4600 (10% * 46,000)

**Logging In & Fund Transfer**

- The client has to visit www.nowonline.in/sbifxtrade, where he has to enter the required details and log in.
- After logging in, the client has to go to **'Fund Transfer',** enter the amount of lien to be marked and is redirected to www.onlinesbi.com, where he allocates the funds for the trade, by marking a lien. The updated lien amount can be seen on the onlinesbi homepage.

**STEP 3: Placing the Trade**

On the lines similar to equities, depending upon the perception of increase or decrease in value, the customer has to crystallize his views on the expected movement in the value of respective currencies. Customers can then buy or sell the currencies accordingly on the currency futures trading platform.

**Example A:**

For example, Rupee(USD/INR),one month is trading at Rs.47 and if one feels that Rupee would depreciate to Rs.49, he can enter into a 'long' position, by 'buying' a currency futures contract. If USD/INR for the same maturity period goes to Rs.49, he makes a gain of Rs.2 per dollar. So on a single contract of 1000$, he makes a gain of Rs.2000.

**Example B:**

Contrarily, he can 'sell' the contract if he sees appreciation of the Indian Rupee. For example, if the Rupee one month is trading at Rs.47 now and expects it to move to Rs.46, he can enter into a 'short' position by 'selling' a currency futures contract. If USD/INR rate for the same maturity period moves to Rs.46 he makes a gain of Rs.1 per dollar, on squaring off his position. He makes a gain of Rs.1000 on this contract. In case Rupee moves against his expectations and reaches Rs.49, then he loses Rs.2 per contract, i.e. Rs.2000 from the margin he has given up front. The customer can square off his positions at any time during the period of the contract.

Similar, long or short positions can be taken in EUR/INR, GBP/INR and JPY/INR if customers see any chances of fluctuation in the Indian currency against other currencies like Euro, Sterling Pound and Japanese Yen.

**Benefits of Trading in Currency Futures**

A wide range of financial market participants -hedgers (i.e. exporters, importers, corporates and banks), investors and arbitrageurs are benefitted by transparent price discovery and the ease of trade.

**Hedgers:** This product offers the platform for hedging against the effects of unfavorable fluctuations in foreign exchange rates. If you are an importer you can 'buy' a currency futures contract to "lock in" a price for your purchase of actual foreign currency at a future date. Thus you avoid the exchange rate risk that you would have otherwise faced. If you are an exporter, you can 'sell' currency futures on the exchange platform and lock in a sale price at a future date.

For example, consider that you are an exporter and USD/INR two month futures contract is currently trading at Rs.49 per dollar. You have an export receivable after two months and you find the current level very attractive. Then you can 'sell' a two months currency futures contract at the current price of Rs.49. So at the end of two months you get Rs.49 per dollar on the due date, irrespective of the level of the Rupee.

**Investors:** All those interested in taking a view on appreciation (or depreciation) of exchange rates in the short and medium term, can participate in the currency futures market. As per the Regulatory guidelines, all 'Resident Indians' including individuals, companies or financial institutions are allowed to participate in currency futures market. However, at present Non Resident Indians (NRIs) and Foreign Institutional Investors (FIIs) are not allowed to participate in currency futures market.

## FAQs ON CURRENCY FUTURES

1. **Where can I get the information about placing trades using the SBI FX Trade platform?**

The presentation about using the platform to place trades would be sent to the client via email after the opening of the SBI FX Trade account.

Client can also call **1800-220-052 (Toll free)/022-26567700,** for any doubts/queries on the trading platform.

**Contact List of Regional Treasury Marketing Units**

| S.No | RTMU Addresses | Phone No. | E mail |
|---|---|---|---|
| 1 | RTMU Delhi | 011/23350322, 23713695, 23716680, 23374756 | tmu.delhi@sbi.co.in |
| 2 | RTMU Kolkata | 033- 22883928/29 | tmu.kolkata@sbi.co.in |
| 3 | RTMU Mumbai | 022/22181796, 22184794, 22155583, 22155647 | tmu.mumbai@sbi.co.in |
| 4 | RTMU Hyderabad | 040/24750553, 24756010, 24750443 | tmu.hyderabad@sbi.co.in |
| 5 | RTMU Ahmedabad | 079-26421282 | rtmu.ahmedabad@sbi.co.in |
| 6 | RTMU Chennai | 044-25233904, 25271096, 25228863, 25224710 | tmu.chennai@sbi.co.in |
| 7 | RTMU Bengaluru | 080 2594 3184, 080 2594 3185 | tmu.banglore@sbi.co.in |
| 8 | CTMU, Mumbai | 22891501/02/03/04 | ctmu.mumbai@sbi.co.in |

In case of any other queries, the client can write to currency.futures@sbi.co.in

2. **What KYC documentation should one undertake for opening an SBI FX Trade A/c?**

The SBI FX Trade KYC booklet contains six documents specified by the market regulators and the Exchange. The KYC form collects the details of the customer, which would be kept confidential by the Bank. Account Opening Form captures the details for the trading account and of the bank account to which the trading account is to be linked to. The Investor Rights and Obligations document specifies the right and duties of the client who wishes to open a currency futures trading account. Risk disclosure document explains the various kinds of risks associated with the exchange traded currency futures. Guidance note details various do's and don'ts while trading on exchange. Policies and Procedures document details the policies set by SBI and the procedures it will follow pertaining to client's trading account. Tariff sheet specifies the various brokerage slabs in which the client can be classified into based on his monthly volumes.

The undertaking for sending the contract notes electronically enables the clients to receive the contract notes and other statements electronically.

3. **What is the policy regarding inactive accounts?**

Accounts will be treated as inactive accounts if:

a. User has not logged in for more than a year
b. The contract notes/ Statement of account are undeliverable for more than 5 instances

In such cases:

a. If there is any credit available in client's deactivated margin account with the Bank, it would be refunded at the client's request.
b. To reactivate a deactivated account due to inactivity, the client has to send a written request through the respective home branch to Global Markets Department, Mumbai.

**4. What is lien marking and how is it different from normal upfront transfer?**

Lien marking is a unique facility offered by SBI for its clients. Through the lien marking facility offered by SBI, the client continues to receive interest on the lien amount till the actual deals are done. In the case where the margins are transferred upfront, the client looses the opportunity to earn interest till the deals are done.

**5. How can I see the lien marked status and the updated trading limits?**

- When the client marks a lien for placing the trades, the lien status is updated on a real time basis in the onlinesbi homepage of the client. It has to be noted that no separate entry would be passed in the account for lien marking/unmarking.
- The client can also see the updated limits on the www.nowonline.in platform on a real time basis. It is also available on POSITIONS-→RMS SUBLIMITS

Upon execution of the deal on the exchange, the lien amount is reduced and the debit entry is passed in the client's account at the End of the day.

**6. How is margin calculated on open position?**

It is arrived at by applying the Margin% on the value of net open position.

For example, you have an open buy position in FUT-USDINR-27-Aug-2010 for 1 lot of 1000 qty @ Rs.50 and IM % for USDINR is 10%. In that case, margin at position level would be 1 * 1000 * 50 * 10% = Rs.5000

**7. What is meant by calendar spread?**

Calendar spread means risk off-setting positions in contracts expiring on different dates in the same underlying taken simultaneously.

For example, you take 'Buy' position for 2 lots of 2000 qty in FUT-USDINR-27-Aug-2010 @ Rs.50 and 'Sell' position for 1 lot of 1000 qty in FUT-USDINR-28-Sep-2010 @ Rs.55. Then 1 lot Buy position in FUT-USDINR-27-Aug-2010 and 1 lot Sell position in FUT-USDINR-28-Sep-2010 form a spread against each other and hence are called "Spread Position". This spread position would be levied spread margin % for margin calculation instead of IM%. In this example, the balance 1 lot of 1000 qty buy position in FUT-USDINR-27-Aug-2010 would be non-spread position and would attract initial margin.

**8. How is the margin calculation done in case of calendar spread?**

The spread positions require lower margins specified by the Exchange, and the benefit of the lower margins, if any, would be passed on to the client.

**9. How can I view my open positions in Currency Futures?**

You can view all your open futures positions by clicking on “POSITIONS"→ POSITION TAB. You can see the positions on DAYWISE/NET WISE basis. ‘Day wise’ positions are those built during the day, while NETWISE include the carried forward positions also.

The futures positions table gives details such as contract details, buy/sell position, Lots (no. of contracts), quantity, Buy order lots, Sell order lots, Base price, Last Traded Price (LTP), total margin blocked on open position and order level margin at underlying-group level.

In addition, contract notes and daily statements will be sent to you according to the regulatory guidelines.

**10. Can I do anything to safeguard the positions from being squared off on account of margin shortfall?**

Yes, you can always voluntarily add Margin (increase lien marked)at the time of placing orders or allocate additional margin at any time. Having adequate margins can avoid forcible square off in case the market turns unfavorably volatile with respect to your position.

***It’s always advisable for the clients to keep an additional cushion over the required margin to reduce the possibility of a square off, on account of extreme market movements.***

For example, a client has given margins at 5% (Rs 2300). When the margins fall by 90% i.e. The market has moved unfavorably with respect to the client’s open position and the MTM obligation of the client has gone upto Rs 2070, the Bank reserves the right to square off the positions of the client.

**11. What is meant by EOD MTM (End of Day - Mark to Market) process?**

- Daily EOD MTM is a mandatory feature of Currency futures Settlement Process, mandated by the regulators. Every day the settlement of open Currency futures position takes place at the Settlement Price declared by the exchanges for that day.

- The Base price is compared with the Settlement price and difference is cash settled. In case of profit/loss in EOD MTM, the account is respectively credited/debited. The position is carried forward to the Next day at the previous trading day's Settlement price at which last EOD MTM was run.

- The daily Profit/Loss on account of the MTM would be credited/debited to the customer’s account on the next day.

**12. What are my settlement obligations in currency futures**?

You can have following two Settlement obligations in Currency futures market:

**I. Daily Settlement Obligations: (Entries to be passed in the customer account on T+1 basis)**

1. Payout/PayIn due to MTM Profit and loss.
2. Payout/PayIn due to margin requirement of 10%.
   <u>(Excess margin over 10%, would be credited to customer’s account, while shortfall below 10%, would be debited from the customer’s account</u>)
3. PayIn due to Brokerage, applicable taxes and statutory levies

**II. Final Settlement Obligations:**

1. Payout/PayIn due to Profit and loss on close out.
2. PayIn due to Brokerage and statutory levies on close out
3. PayIn due to applicable Taxes
4. Payout due to return of margin collected

**11. Is it compulsory to square off the position within the life of contract?**

No. Exchange would automatically square off your position on the last day of the contract expiry. Your position would be closed at the final settlement price as per the current regulations. The Final Settlement price shall be the Reserve Bank Reference Rate on the last trading day.

### 12. When is the obligation amount debited or credited in my bank account?

All Currency futures daily obligations are settled by exchange on T+1 basis and Final settlement obligations are settled by exchange on T+2 basis.

**Daily Settlement Obligations at Bank:** This means that any daily obligation arising out of transactions in futures or EOD MTM on day (T) is settled on the immediate next trading day. This further means that if you have a debit obligation on day (T), the payment will have to be made on day (T) itself. Whereas, if there is a credit obligation, amount would be credited in your account on T+1 day. If T+1 day is a holiday, credit would be given to your account on the next working day.

**Final Settlement Obligations at Bank:** Your final settlement obligation will be settled in the same manner as the daily obligations except that your credit obligation will be credited to your account on T+2 day or on a subsequent working day, if T+2 is a holiday.

### 13. How can I unmark the lien and release the amount?

The client can request for unmark of the lien at any time. The following has to be noted in this regard.

- For unmarking the lien, client should go to the REQUESTS page on his onlinesbi home page and choose SBI FX TRADE and enter the amount to be unmarked.
- The unmark requests placed before 5 PM, would be unmarked during the same day, after the market hours.
- The requests placed after 5 PM would be processed only at the end of next day's trading hours.
- Therefore the <u>client is expected not to use the amount</u>, for which the unmark request was made, till the lien is released. In case the client uses this amount on the next trading day, the unmark request would be rejected.
- **Similar to the case of lien marking, when an unmark lien is undertaken; no entry would be passed in the account of the client. Only the lien amount would be reduced by the unmarked amount.**

### 14. What are the applicable brokerage rates for SBI FX TRADE?

We offer volume based incremental brokerage rates to suit various segments of the customers. Our brokerage rates are straight forward and don't carry any hidden charges.

| S.No | SLAB CODE | CRITERION ( Monthly Volume) | BROKERAGE (BUY/SELL) |
|---|---|---|---|
| | | | |
| **1** | **PLATINUM** | **=> 5Crore** | **Rs 5 per lot.** |
| **2** | **DIAMOND** | **=>1crore < 5crore** | **Rs 7.5 per lot.** |
| **3** | **GOLD** | **>25 lakhs < 1 crore** | **Rs 10 per lot.** |
| **4** | **SILVER** | **Up to 25 lakhs** | **Rs 12.5 per lot.** |
| | **MAXI-GAIN (Intra- day settlement )** | | • **Rs 2.5 per lot for Platinum Customers.**<br>• **Rs 5 per lot for others.** |

**<u>Note:</u>**

- All the customers would be initially assigned to one of the slab on the basis of the expected volume from the customer at the time of opening the account.
- The actual performance of the customer would be verified against the category volumes at regular intervals and the brokerage category would be modified accordingly.
- Applicable taxes would be charged to the customer.
- The above rates can be changed anytime at the discretion of the Bank.
- Annual maintenance charges are waived for the first year.