

19th April, 2014

The Dy. General Manager,
Corporate Relations & Services Department,
The BSE Limited
Phirojsha Jeejibhoy Towers,
Dalal Street, Mumbai 400 001.

Dear Sir,

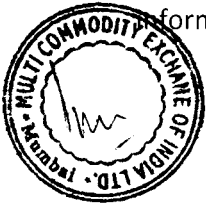
Sub: Disclosure of information for the Shareholders of Multi Commodity Exchange of India Limited (MCX)

Multi Commodity Exchange of India Limited (MCX), being a regulated entity operates within the regulatory framework of the Forward Contracts (Regulation) Act, 1952 and the Rules made thereunder.

MCX is given to understand that Financial Technologies (India) Ltd. (FTIL) has initiated the process of divestment of its holding in MCX and for the said purpose has appointed JM Financial Institutional Securities Private Limited (JM) to scout for investors willing to take the stake in MCX. As a part of due diligence, JM has sought certain information from MCX.

MCX proposes to share the following information with JM and as a prudent corporate practice also wish to make the same available to all the other shareholders of the Company by submitting the same to BSE Ltd. with a request to disseminate the same on its website under its Corporate Announcement Section.

It is clarified that the sole purpose of submitting the below mentioned information is to avoid a situation whereby some prospective investor(s)/shareholder(s) are privy to more information than the other shareholders of the Company.



The information shared is as under:

1. Transaction Fee Structure.

a) The Commodity-wise fee structure:

The Exchange Circular No. MCX/C&S/053/2014 dated February 26, 2014 on Transaction Charges, provides for the commodity-wise transaction charges effective from February 26, 2014.

Minimum Usage Fees, is as per the Exchange's Circular No MCX/MEM/277/2010 dated August 4, 2010.

b) Neither any volume discounts nor other incentives are being provided to brokers /clients on any specific commodity segment over and above the transaction fee structure given by the Exchange.

c) The Management has not approved any likely transaction fee for various option contracts which may be introduced in the future.

2. Certain Fixed Deposits of the Exchange are having a lien in favor of Banks to enable the Exchange to obtain temporary overdraft facility for its day to day operations.

3. As on 31st March, 2014 the Exchange had 276 full time employees on its rolls.

4. Concept of Unbilled Revenue

The Exchange follows an accrual system of accounting. The bills for providing the services to Trading Members during a month are raised in the subsequent month. Accordingly, bills for the month of March (the last month of the financial year) are raised in the month of April (i.e at the beginning of the next financial year). The amount recoverable for the month of March is shown as Unbilled Revenue and shown under Other Current Assets in the Financial Statements.

5. Certain expense items

- **Software support charges:** These are professional fees of a vendor for maintaining the Exchange platform of Trading, Surveillance, and Clearing & Settlement Systems. These services are availed in accordance with the Agreement entered with the vendor.



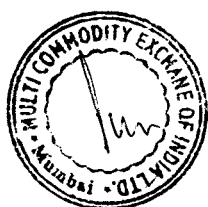
- **License fees:** These are license fees primarily paid to International Exchanges like Chicago Mercantile Exchange (CME), London Metal Exchange (LME), etc for availing services as per the agreements entered with them.
 - **Software license fees:** These are license costs incurred for Technology related support systems.
 - **Shared Business support charges:** Upto October 2013, the Exchange availed the services of a vendor for providing various services like Human Resources support services, Procurement, Infrastructure, Travel desk, etc. These charges relate to the above services.
 - Salary and related costs of all IT employees are included under Employee Benefits Expense.
 - There are no employees in the Exchange, who are on deputation from Financial Technologies (India) Ltd.
6. The contracts of the following commodities are settled using the prices of the International Exchanges (mentioned alongside) with whom MCX has signed a licensing agreement:

COMMODITY	INTERNATIONAL EXCHANGE
ALUMINIUM	LONDON METAL EXCHANGE
LEAD	LONDON METAL EXCHANGE
NICKEL	LONDON METAL EXCHANGE
ZINC	LONDON METAL EXCHANGE
CRUDEOIL	NEW YORK MERCANTILE EXCHANGE / CME Group
NATURALGAS	NEW YORK MERCANTILE EXCHANGE / CME Group

7. Risk Management Structure

Base Minimum Capital

Every member admitted to the Exchange is required to keep a pre-defined amount with the Exchange as Base Minimum Capital on which no exposure is given. Forward Markets Commission (FMC) has stipulated that all Members should have a minimum of Rs 10 lakhs maintained with the Exchange as Base Minimum Capital. Members who wish to avail of Algo trading will have to maintain Rs 50 lakhs as Base Minimum Capital.



Additional Capital

The member is also required to give additional deposits to the Exchange in order to have additional exposure limits. The deposits can be in the form of cash margin (debited through the settlement account maintained with the Clearing Bank), Fixed Deposit Receipts lien marked in favour of the Exchange, Bank Guarantees, specific securities pledged with the Exchange and commodities pledged with the Exchange. Bank Guarantees and Fixed deposit receipts are grouped under cash-equivalents whereas commodities and securities are grouped under non-cash collaterals. The ratio of the cash to cash-equivalents and the non-cash components also has been stipulated by the Exchange. Haircuts, fairly above the minimum rates prescribed by various agencies, have been prescribed for all the non-cash collaterals accepted by the Exchange. Such non-cash collaterals are subject to daily valuation.

Position Limits

Position limits at client and member level are prescribed so as to prevent any possible concentration of positions. It also helps in curbing possible default risk of members in an adverse market scenario. The Exchange uses the PAN of clients to check whether there are instances of clients trading through multiple members to try and circumvent position limits. Data on the top 10 clients on the long and short side in all contracts on a daily basis is collected. The KYC, directors and PAN details of the directors are collated to check for persons acting in concert. The Unique Client Code data which includes PAN and mobile number is used for the purpose. The system tracks instances of clients trying to breach position limits even in the case of clients which are mapped to be persons acting in concert.

Maximum Single Order Limits

Maximum single order limits are set at the Exchange as given in contracts specifications of the commodity. Additionally, Exchange has linked order size to the deposit of the member in order to avoid risk.

Daily Price Limits

Daily Price Range (DPR) is specified for every commodity at the time of finalizing the contracts specifications and duly approved by the Forward Markets Commission (FMC), the commodities market regulator in India. The DPR specifies the maximum range (upper side and lower side) of the movement for a particular day in relation to the previous days closing price.

Margins:

Exchange levies various types of margins under the head of initial, additional, special, and incremental/ tender and delivery margins. Initial, additional and special margins are market dynamic and flexible enough to incorporate the market volatility. Additional and special margins are levied by the Exchange over and above the minimum initial margins, as a risk management tool to cover the potential adverse price variations in the market.



The Risk management module of the Exchange is integrated with the Trading as well as the Clearing & Settlement system of the Exchange. Any change in the collaterals of the member by way of increase/decrease in margin deposits is updated on an online basis in the trading system. Member's deposit stands updated for any movement in the collaterals.

<u>Types of Margin</u>	<u>Description</u>
Initial Margin	Based on SPAN or Initial Margin whichever is higher. Levied on line and real time at client level.
Additional Margin	Online, real-time, system based margin levied over and above the initial margins Such margins are levied at commodity level.
Special Margin	Online, real-time, system based margin levied as an Exchange / Regulatory decision Such margins may either be on long or short open position
Incremental/ Tender Margin	Online margins levied during the tender period of the contract on all the open positions till the time of expiry of the contract
Delivery Margin	Margins levied on all the open positions marked for delivery

Based on the deposits placed by the members with the Exchange, members can trade and take positions. All the above mentioned margins (except delivery margin) which are levied on contracts traded on the Exchange are charged / levied on an online, real-time basis and are computed by the system automatically. Margins are levied at end client level on net open positions. Netting off of positions across clients is not permitted for the purpose of margin calculations.

Once an order is executed, the deposit amount of the member stands utilised to the extent of margin applicable on the outstanding position and the balance amount of deposit is left with the member for further trading. An alert is provided to the member on utilization of 60%, 75% and 90% of his total eligible deposit amount. Once the utilization level is breached the member is automatically shifted to square-off mode by the system. In such a scenario, the member can either reduce his positions or provide additional deposits to increase his exposure limits. Margins for active members are computed on post trade basis and in case of members in square-off mode on a potential trade basis.

Following are the scenarios under which a member is shifted to square-off mode:

Breach/Over-utilisation of deposits:

The member's deposits are marked against the margin due on the open position of the member on an online basis. The system tracks the margin utilisation and sends alerts to the member at 60%, 75% and 90% utilisation levels. Once the margin requirement



exceeds the margin deposit, the member is automatically shifted to square-off mode. Under square-off mode, the member can only place orders that off-set the existing open position. Alternatively, the Member may deposit additional capital to ensure further trading.

Breach of Mark To Market (MTM) limit:

The member is also governed by the MTM loss limit. The system tracks the MTM loss against the loss limit and sends alerts to the member at 60%, 75% and 90% loss levels. If at any point of time the member's online MTM losses breach 75% of the member's deposit limit, the member is shifted to square-off mode. The Exchange decides to square off positions once the MTM loss exceeds 80-85% of the deposits maintained with the Exchange.

On being shifted to the square-off mode, all the pending orders for the member are automatically cancelled by the system. Margins for active members are computed on post trade basis and not on potential trade. But in case of members in square off mode, due to over utilisation of deposits, any order that increases the margin utilisation is automatically rejected by the system. In other words, only orders that have the effect of offsetting the existing open position are accepted by the system. No fresh positions can be taken by the member in the square-off mode. Auto square off mode in fact enables Exchange to have control over the clearing member's intraday exposures.

Daily Settlement

Exchange determines the closing price of every contract, at the end of the trading session, on a daily basis based on weighted average price of trades executed during the last half an hour. Positions across the market are marked to such closing prices to arrive at the MTM gain/loss. Such closing price forms the base price for the subsequent trade day.

Daily Settlement implies the settlement of MTM profit / loss for a "T" trade day on a "T+1" basis.

Exchange computes the MTM profit/ loss for the day for all the members. MTM is calculated separately for the proprietary and end client accounts at contract level and then summed up to arrive at the member's obligation.

Exchange sends debit/ credit instructions to the member's settlement account * with the clearing banks for MTM pay-in / pay-out obligation on T+1 basis.

The summed up (consolidated) amount consisting of proprietary and end clients is sent for debit.

Final Settlement

Final Settlement implies settlement at the expiry of a contract where positions either culminate into delivery or are cash settled at Due Date Rate (DDR).



The final settlement is based on the delivery logic applicable to the expiring contract. Based on the delivery logic applicable, the open positions are marked for delivery in deliverable lots at the DDR.

Balance open positions on expiry, if any, are cash settled at DDR. The invoices are collected from the sellers

There is a provision for supplementary settlement for the purpose of taxes, premium, discount for various quality and quantity parameters of the commodities actually delivered.

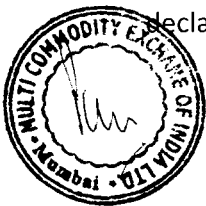
* Settlement account is the designated bank account opened by the member with the clearing bank wherein all debit/credit instructions sent by the Clearing House for that member takes place. It can't have any other banking transactions and the member is required to transfer funds from this account to the Client's accounts (for transferring funds to the clients) and to the proprietary account (for transferring funds pertaining to proprietary positions).

8. As per the current practice being followed by the Exchange, all the related party transactions are placed before the Audit Committee. On the recommendation of the Audit Committee the same are placed before the Board of Directors for their approval.

9. FMC's Order on Fit & Proper Person:

In view of the happenings in National Spot Exchange Limited (NSEL) the regulator of the Exchange i.e. Forward Markets Commission (FMC) initiated an enquiry and issued show cause notice to FTIL and certain individuals as to why they should not be declared as "not fit and proper persons" to hold 2% or more of the paid up equity share capital of the Company. The FMC on the conclusion of its enquiry proceedings declared FTIL and certain individuals as "not fit and proper persons" to hold 2% or more of the paid up equity share capital of the Company. Accordingly, the FMC passed Order No. 4/5/2013-MKT-I/B dated 17th December, 2013.

Ever since the FMC passed the order dated 17.12.2013 declaring FTIL as not 'fit and proper' to continue to be a shareholder of MCX and directed that its shareholding must be brought down to 2% or below, MCX has been most scrupulously and diligently taking a series of actions to give effect to this order. The Board had decided that any exercise of the voting rights on the shares held by FTIL in excess of 2% or more of the paid up equity share capital of MCX would not be taken into consideration. Further, the Board has asked FTIL to transfer the equity shares held by them in excess of the above mentioned limit to an Escrow account to be opened and operated by MCX. The Board of Directors of the Company has recommended to the shareholders an amendment in the Articles of Association to include the rules and process for limiting the voting rights, as well as, the divestment of shareholding with respect to a shareholder of the Company declared as not "fit and proper" by virtue of an order of any Regulatory Authority etc.



MCX has also requested the Ministry of Finance to pass orders under FCRA for making similar rules. The MCX has kept the FMC informed at every stage about the actions it has been taking.

MCX as a Company can act on the above matters only to the extent it is empowered under the relevant laws and its Articles of Association. FTIL has 26% of MCX's shareholding, 74% being held by others, many of which are institutional shareholders, both domestic and foreign. While it is imperative to comply with the orders of the FMC to uphold the majesty of law and the integrity of MCX as a Company and an Exchange by not having a shareholder found not fit and proper, all the ensuing actions must also protect the interests of the majority shareholders.

Because of the intense pressure built by MCX in these months and the steadfast stand taken by the FMC, the FTIL has been forced to take steps to divest its shareholding. In its communication dated April 3, 2014 FTIL has stated that it is confident of completing the divestment process possibly by month end and latest by May 15, 2014.

At present, FTIL, the erstwhile Anchor Investor of the Exchange continues to hold 26% of the paid up equity share capital of the Company.

FMC, the regulator of the Commodities market given the inordinate delay in implementation of its order has shown its dis-pleasure and indicated taking stern action against the regulated entity i.e. the Exchange. They have stated that:

'You are directed that, the order of the Commission dated 17th December, 2013 and the aforesaid directives should be implemented on or before 30th April, 2014, failing which, you will be held responsible for the same as per the above guidelines. The Commission would also take other appropriate measures in this regard as per the provisions of FCRA including not allowing launch of contracts w.e.f. 1st May, 2014, to ensure compliance of its orders and directions.'

MCX realises that it exists because of the recognition accorded by the FMC and its existence depends on the continued compliance of the FMC orders and, therefore, has most humbly assured the FMC that it holds it in highest regard and would do all it can to implement those orders within the given legal frame work . But it is also equally true that MCX has very limited powers under the laws to enforce the FMC orders.

In the light of the above, the FMC has been humbly requested to continue guide MCX to enable it to comply with its orders and not to take action against MCX for non-compliance by FTIL of its order.



10. Pricewaterhouse Coopers (PwC) Special Audit:

MCX appointed PwC to conduct special audit as directed by FMC covering certain aspects related to accounting policies, risk management systems, regulatory compliances and corporate governance issues. The scope of the work inter alia includes:

- Examination of trading data relating to trading done on MCX by related party entities;
- Review of Risk management systems;
- Examination of all related party transactions;
- All major financial transactions above Rs. 25 lacs.

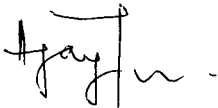
PwC has already submitted their interim report and expected to shortly submit their final report.

The contents of the final report would be known to MCX only when it receives the final report.

Thanking you,

Yours' faithfully,

For **Multi Commodity Exchange of India Limited**


Ajay Puri

Company Secretary & Chief Compliance Officer

