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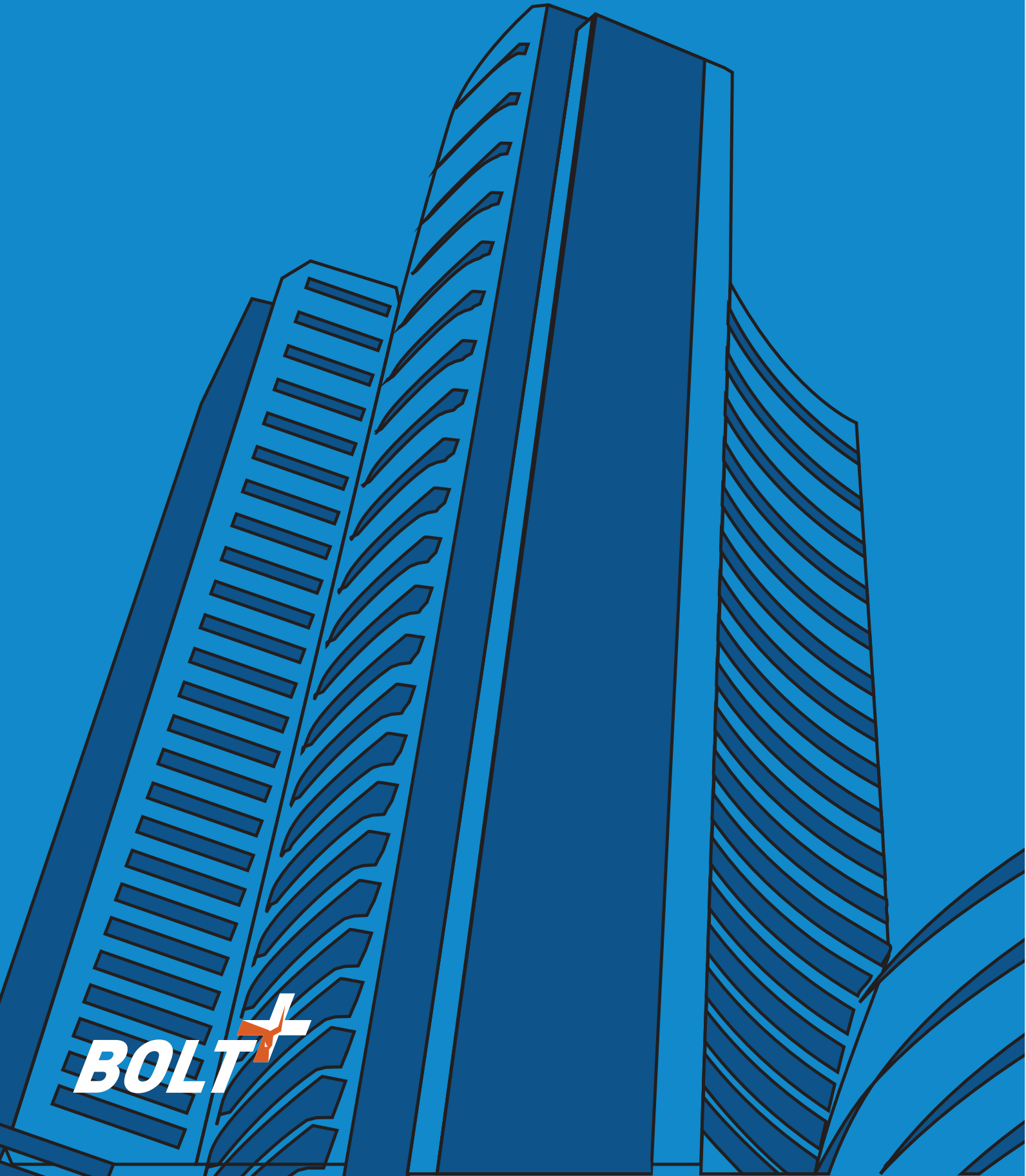
INTRODUCING

# INTEREST RATE FUTURES (IRF)

NOW ON INDIA'S FASTEST EXCHANGE

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## INTEREST RATE DERIVATIVES NOW ON INDIA'S FASTEST EXCHANGE

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- BSE Ltd., Asia's first Stock Exchange and one of India's leading exchange groups, provides an efficient and transparent market for trading in equity, debt instruments, equity derivatives, SLB, mutual funds and small-and-medium enterprises (SME).
- BSE has decided to further enhance its wide range of product offerings by launching trading in Interest Rate Futures.
- BSE offers the following products for trading in Interest Rate Derivatives to its members (IRF Contract on 91 Day T Bill has been introduced wef Nov. 29, 2013):



## INTRODUCING BSE INTEREST RATE DERIVATIVES

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- Membership at no cost & no deposit
- Low transaction charges
- No transaction charges for first 6 months
- Opportunity for members to use the trading limits at a low cost
- Trading on New Technology BOLT Plus provided by Strategic partner Deutsche Boerse (Eurox)
- Minimum effect on the existing set up of members
- Clearing & Settlement by Central Counter Part ICCL (CCP) - ICCL
- Uniform risk management & margin framework



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# ACTIVATION OF MEMBERSHIP FOR IRF CONTRACTS

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## COST STRUCTURE FOR IRF TRADING

Exchange level cost structure for IRF dealing in CDX Segment:

Sr.	Nature of Charges/Deposits	Amount
1	Membership Deposit	NIL
2	Processing Fees	NIL
3	Annual Subscription Charges	NIL
4	Transaction Charges**	NIL

### Statutory Costs for IRF Trading in CDX Segment

- Monthly SEBI Turnover Charges @ Rs.2.5 per Crore.
- Stamp Duty as applicable in State.

No STT is applied on trading of debt products

\*\* For Trading Members only for first 6 months



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and agree to the

Signature

# CONTRACT SPECIFICATIONS

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## IRF CONTRACTS AT BSE – 10 YEAR GOVT BOND FUTURE

- To be available on BOLT Plus – New Trading Architecture, fastest currency derivative platform in India
- Contracts shall be available on Currency Derivative Platform on FOW as well as BOLT Plus
- Browser based application also available
- Display of yield and underlying securities prices
- Spread trading available
- No separate costs for back office set up
- Present risk management structure and system can be used seamlessly

## CONTRACT SPECIFICATION & TRADING PARAMETERS

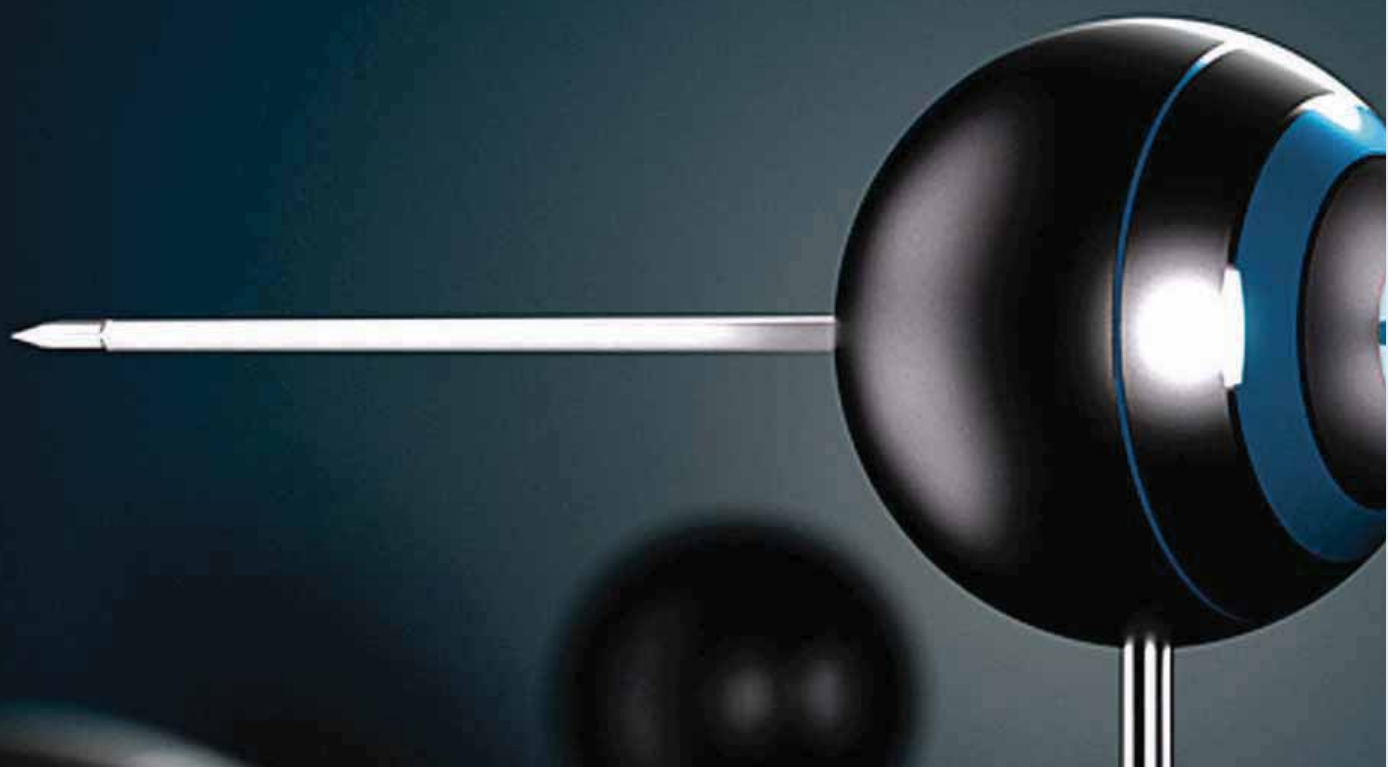
Underlying	8.83% GOI maturing on 25th Nov 2023	7.16% GOI maturing on 20th May 2023
Coupon	8.83%	7.16%
Instrument Type	—	FUTIRD
Symbol	10YGS883	10YGS716
Trading Hours	9:00 AM to 5:00 PM	
Trade modification and give-up timings	9:00 AM to 5:30 PM	
Contract trading cycle	Serial monthly contracts with maximum maturity of 3 months. To begin with 3 contracts for January 2014, February 2014 and March 2014 shall be enabled.	
Spread Contracts	Calendar spread facility shall be available for trading across 3 contract months at any time, corresponding to the current, near and far monthly futures instruments viz: Near – Mid, Mid – Far and Near – Far.	
Expiry/Last trading day	If any expiry day is a trading holiday, then the expiry / last trading day shall be the previous trading day. Trading in expiry day till 5.00 PM.	
Unit of Contract	1 contract: 1 contract = 2000 (No. of Bonds)* 100 (Face Value) = INR 200,000/-	
Quotation	In terms of Face Value; For instance 99.1876 . The spread contracts will be quoted on price difference.	
Contract Value	Quoted Price* 2000	
Tick Size	0.0025	
Maximum Quantity Limit	1250. Orders with a quantity more than 1250 will be rejected.	
Price Bands	Initial price band at 3% of the previous closing price.	
Settlement (Daily and Final Settlement) Mechanism	Settled contracts in INR on T + 1 day	

\* For detailed Trading parameters reference may be drawn to circular 20140111-1 dated January 11, 2014

## POSITION LIMITS

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- **Client Level:** The gross open positions of the Client across all contracts shall not exceed 3% of the total open interest or INR 200 crores, whichever is higher.
- **Trading Member Level:** The gross open positions of the Trading Member across all contracts shall not exceed 10% of the total open interest or INR 600 crores, whichever is higher.
- **Clearing Member Level:** No separate position limit is prescribed at the level of Clearing Member. However, the Clearing Member shall ensure that its own trading position and the position of each Trading Member clearing through it, is within the limits specified above.



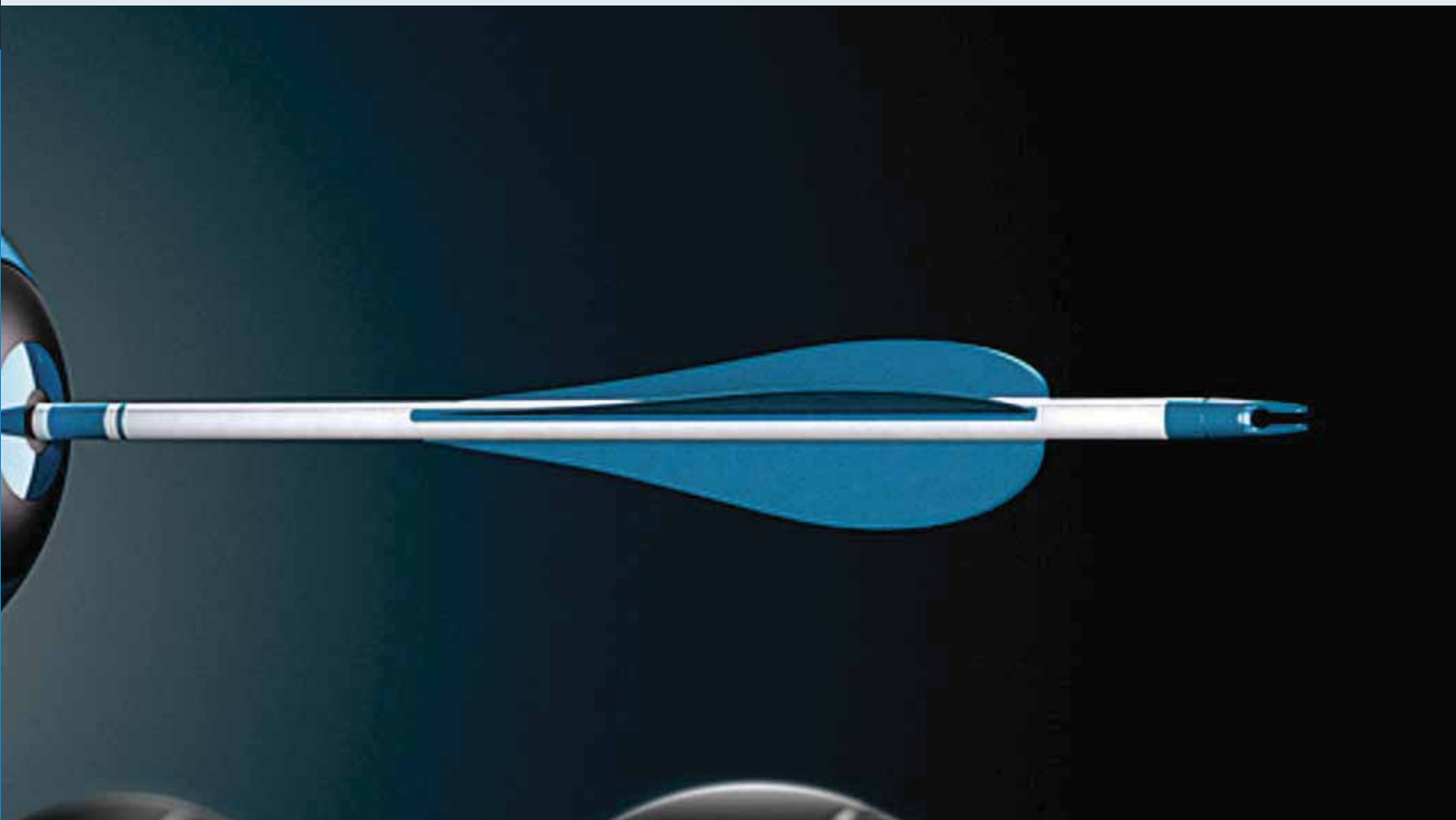


- **FII's:** The gross open positions of the FII across all contracts shall not exceed 10% of the total open interest or INR 600 crores, whichever is higher. The total gross short (sold) position of each FII in IRF shall not exceed its long position in government securities and in IRF, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FIIs, shall not exceed the aggregate permissible limit for investment in government securities for FIIs. Exchange Level Overall Position Limit: The following limits shall be applicable on the overall open interest on derivatives contracts of IRF in GOI Security: INR 25,000 crore or 25% of the outstanding of underlying GOI security, whichever is higher.

Outstanding issue size of the instruments as on Jan 06, 2014:

**8.83%** GOI maturing on 25<sup>th</sup> November 2023 : Rs. 21,000 crores

**7.16%** GOI maturing on 20<sup>th</sup> May 2023 : Rs. 77,000 crores



## INTERNATIONAL TREND IN IRF CONTRACTS TRADING

Outstanding Contracts					
	As on Dec 2011	As on Dec 2012	As on Mar 2013	As on Jun 2013	As on Sep 2013
Open Interest (Notional principal in billions of US dollars)	21,719	22,641	24,630	23,804	23,403
Number of contracts (In millions)	65	55	58	58	54

Turnover					
	2011	2012	March 2013 Quarter	June 2013 Quarter	Sep 2013 Quarter
Turnover (Notional principal in billions of US dollars)	13,59,130	10,26,135	3,12,538	3,50,565	3,00,648
Number of contracts (In millions)	2,840	2,400	697	827	664

Source : Trading in Interest Rate in All Markets viz: North America, Europe, Asia and Pacific and others as per BIS Quarterly Review Dec 2013.



## MARKET POTENTIAL FOR GOI BOND FUTURES

- Total outstanding securities between 9-11 years : 8 instruments with outstanding issue size of Rs. 3,33,688 crores
- The banks SLR portfolio consists of Rs. 22,978 billion as on Dec 2013.
- FII's are permitted to hold G-Secs. The current limit of FII Investment in G-Sec is Rs.1,550 billions. FIIs are permitted to hedge.
- Government securities trading on NDS - OM.

Year	Total G-Sec Volume (Rs. In crores)	Average Daily volume (Rs. In crores)	% growth in average daily volume
2011-12	30,99,108	13,021	
2012-13	59,20,929	24,568	89%
2013-14* (Till Dec)	71,15,471	38,882	58%

\*Source CCIL

- Average daily volume for the past 12 months as on December 2013 in NDS - OM 8.83% 2023 Rs. 7070 crore & 7.16% 2023 Rs. 7908 crore.
- In Dec 2013 volume for 8.83% 2023 is Rs. 1,06,640 crore.
- Derivatives trade in multiple of underlying cash market.
- Lot of impetus on Interest Rate Derivative products as per recent RBI announcements.
- Institutional participation from Banks, Primary Dealers to further augment liquidity.



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# BUSINESS BENEFITS TO MEMBERS

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## USAGE BY DIFFERENT CATEGORY OF MARKET PARTICIPANTS

INDIVIDUALS	TRADING MEMBERS	CORPORATES	FIIS	BANKS	PRIMARY DEALER	MUTUAL FUNDS	INSURANCE COMPANIES	NBFCs
Hedging		Hedging	Hedging	Hedging	Hedging	Hedging	Hedging	Hedging
			Arbitrage	Arbitrage	Arbitrage			Arbitrage
View based trading	View based trading	View based trading	View based trading	View based trading	View based trading			View based trading
				Changing duration of portfolio	Changing duration of portfolio	Changing duration of portfolio	Changing duration of portfolio	Changing duration of portfolio
	Calender spread		Calender spread	Calender spread	Calender spread			Calender spread
Lock-in-of yield	Lock-in-of yield		Lock-in-of yield	Lock-in-of yield	Lock-in-of yield		Lock-in-of yield	Lock-in-of yield

## ILLUSTRATION OF BENEFIT OF TRADING IN 10-YEAR G-SEC FUTURES

Market expectation for long term is the rising interest rate, a participant trader hence sells a 10-Year G-Sec Future contract in 8.83% GOI 2023 anticipating to earn a profit due to falling prices.

Date of trade: **28/1/2014**

Contract: **10YGS88314FEBFUT** (February Futures Contract in 8.83% GOI 2023)

Date of expiry of Contract: **26 Feb 2014**

The participant trader sells 100 contracts on Jan 28,2014 at Rs. 101.90

Assuming the participant trader closes out his position on 31/1/2014, the Daily Mark to Market in the futures price will be:

Date	Daily Settlement price	Calculation of MTM	MTM
28/1/2014	102	$100 * 2000 * (101.9 - 102)$	-20000
29/1/2014	101.8	$100 * 2000 * (102 - 101.8)$	-40000
30/1/2014	101.6	$100 * 2000 * (101.8 - 101.6)$	40000
31/1/2014	101.25	$100 * 2000 * (101.6 - 101.25)$	70000
			130000

Net gain of Rs.1,30,000/-.

Futures price on 31/1/2014 is Rs. 101.125

The participant purchases and squares off 100 contracts on 31/1/2014 and net gain is  $(100 * 2000 * (101.25 - 101.125)) = \text{Rs. } 25,000$

Hence his net gain on both transactions is  $\text{Rs. } 1,30,000 + \text{Rs. } 25,000 = \text{Rs. } 1,55,000$



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# LAUNCH OF BSE'S NEW TRADING SYSTEM

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## LAUNCH OF BSE'S NEW TRADING SYSTEM

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- Interest Rate Derivatives will be launched in the BSE New Trading System, BOLT Plus, developed in collaboration with Deutsche Boerse Group. One of the key features of the new system is a response time of approximately **200 micro seconds** making it the fastest trading platform in the country today.
- This technology is already implemented and running at International Securities Exchange (ISE), USA and Eurex, and will bring to BSE state-of-the-art levels of capacity and latency.

## BSE's Roll Out Plan for the New Trading System

### Phase I

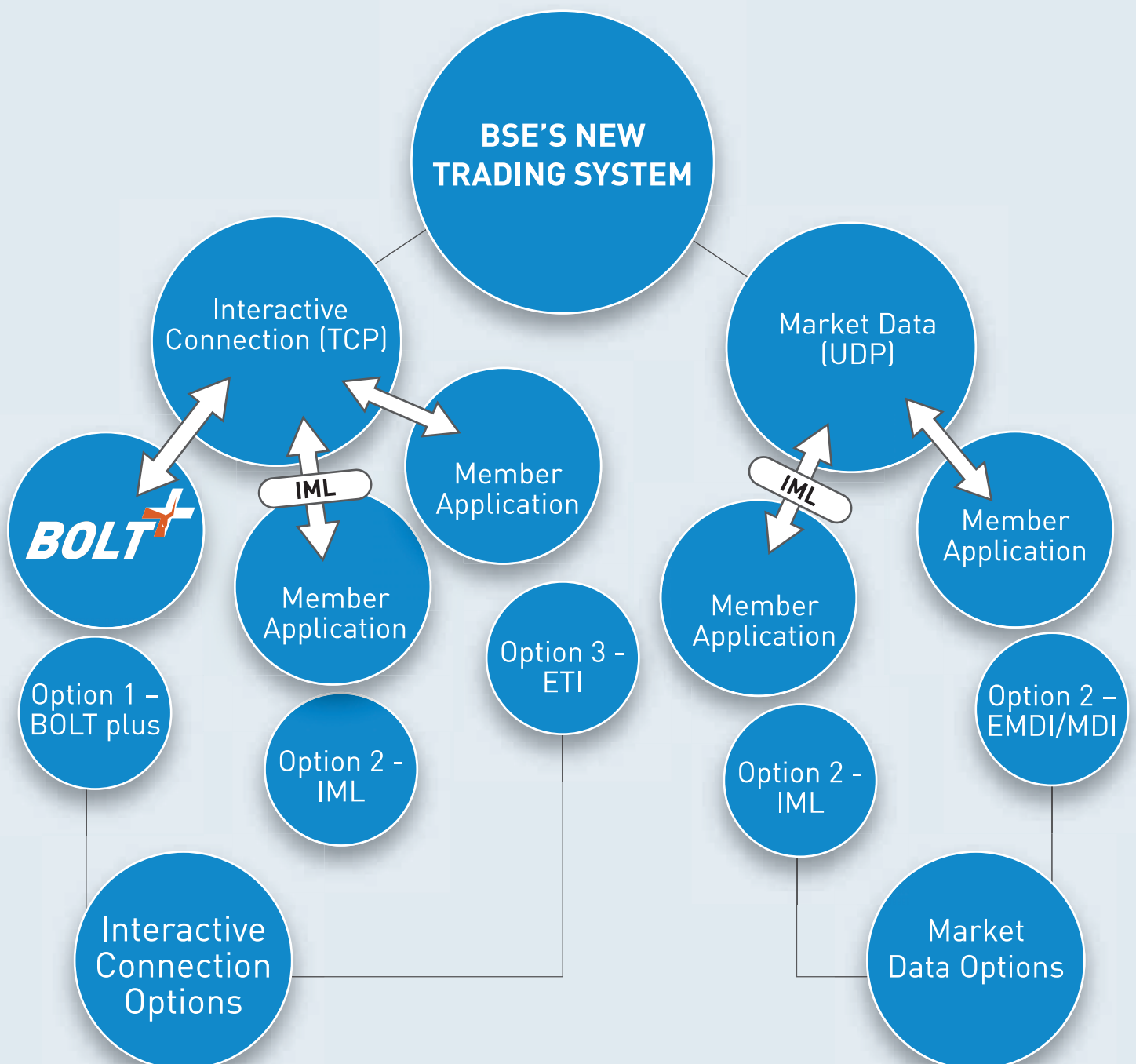
Segment	Expected Roll Out	BSE New Trading System
Equity Derivatives	Feb 2014	✓
Equities	Mar-Apr 2014	✓



## HOW CAN MEMBERS CONNECT?

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- Members need to acquire membership of the BSE Currency Derivatives Segment by complying with the membership rules of the exchange.
- Members can use their Third Party Systems / TWS to connect through IML.
- Members can connect to the BSE New Trading System through.
  - a) BOLT Plus.
  - b) Existing IML based applications.
  - c) ETI interface (direct connection to BSE New Trading System).





# ICCL & POST TRADE ACTIVITIES



## CLEARING AND SETTLEMENT FOR IRF CONTRACTS

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- ICCL shall act as the Clearing Corporation for the IRF trades executed on BSE platform and provide full novation.
- ICCL has been deemed as Qualified Central Counterparty by SEBI.
- ICCL has applied for recognition to ESMA, acknowledgement published on ESMA website.
- ICCL has been rated long term “AAA” by India Ratings and Care Ratings.
- BSE Interest Rate Derivatives Contracts to be settled in INR cash.
- Clearing Members to maintain separate settlement account with any one of the empanelled clearing banks of ICCL.
- Refer circular of ICCL : 20140113-1 issued on January 13, 2014.
- Daily Mark to Market (MTM) of futures contracts on T+1 day before start of market hours.
- Final settlement of Interest Rate Derivatives Contracts on T+1 day.
- The expiry / last trading day will be the last Thursday of the expiry month. If any expiry day is a trading holiday, then the expiry / last trading day shall be the previous trading day.
- Final settlement price will be Weighted Average Price of the Underlying Bond based on the price during the last two hours of the trading on NDS-OM. If less than 5 trades are executed in underlying bond during the last two hours of trading, then FIMMDA prices shall be used for Final Settlement.

## CONTACT US

### BUSINESS DEVELOPMENT TEAM

BUSINESS DEVELOPMENT TEAM		
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