RISK DISCLOSURE DOCUMENT – NSE (Derivatives Segment)

This document should be read by each & every prospective constitute before entering into derivatives trading & should be read in conjunction with Clause 4.3.3 of the NSE (National Stock Exchange of India) (Futures & Options) Trading Regulations of the National Stock Exchange of India Limited.

You must know and appreciate that investment in Equity shares, derivative or other instruments traded on the Stock Exchange(s), which have varying element of risk, is generally not an appropriate avenue for someone of limited resources/limited investment and/or trading experience and low risk tolerance. You should therefore carefully consider whether such trading is suitable for you in the light of your financial condition. In case you trade on NSE/BSE and suffer adverse consequences or loss, you shall be solely responsible for the same and NSE/BSE, its Clearing Corporation/Clearing House and/or SEBI shall not be responsible, in any manner whatsoever, for the same and it will not be open for you to take a plea that no adequate disclosure regarding the risks involved was made or that you were not explained the full risk involved by the concerned member. The constituent shall be solely responsible for the consequences and no contract can be rescinded on that account. You must acknowledge and accept that there can be no guarantee of profits or no exception from losses while executing orders for purchase and/or sale of a security or derivative being traded on NSE/BSE.

It must be clearly understood by you that your dealings on NSE/BSE through a member shall be subject to your fulfilling certain formalities set out by the member, which may interalia include your filling the know your client form, client registration form, execution of an agreement, etc., and are subject to the Rules, Byelaws and Regulations of NSE/BSE and its Clearing Corporation, guidelines prescribed by SEBI and in force from time to time and Circulars as may be issued by NSE/BSE or its Clearing Corporation/Clearing House and in force from time to time.

NSE/BSE has not passed the merits of participating in this trading segment nor has NSE/BSE passed the adequacy or accuracy of this disclosure document. This brief statement does not disclose all of the risks and other significant aspects of trading. In light of risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Risk of loss in trading in derivatives can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances. Derivatives trading thus require not only the necessary financial resources but also the financial and emotional temperament. In case of any consequences or loss in the Futures & Options segment, the constituent shall be solely responsible for such loss and the exchange or SEBI shall not be responsible for the same and it will not be open for any CLIENT to take the plea that no adequate disclosure was made or he was not explained the full risk involved by the member. The CLIENT will be solely responsible for the consequences and no contract can be rescinded on that account.

Any information contained in this document must not be construed as business advice/investment advice. No consideration to trade should be made without thoroughly understanding and reviewing the risks involved in such trading. If you are unsure, you must seek professional advice on the same. In considering whether to trade or authorize someone to trade for you, you should be aware of or must get acquainted with the following:-

RISKS INVOLVED IN TRADING IN Derivatives CONTRACTS

1. Effect of "Leverage" or "Gearing"

The amount of margin is small relative to the value of the derivatives contract so the transactions are "leveraged" or "geared".

Derivatives trading, which is conducted with a relatively small amount of margin, provides the possibility of great profit or loss in comparison with the principal investment amount. But transactions in derivatives carry a high degree of risk.

You should therefore completely understand the following statements before actually trading in derivatives trading and also trade with caution while taking into account one’s circumstances, financial resources, etc. If the futures prices move against you, you may lose a part of or whole margin equivalent to the principal investment amount in a relatively short period of time. Moreover, the loss may exceed the original margin amount.

A. Futures trading involve daily settlement of all positions. Everyday the open positions are marked to market based on the closing level of the index. If the index has moved against you, you will be required to deposit the amount loss (notional) resulting from such movement. This margin will have to be paid within a stipulated time frame, generally before commencement of trading next day.

B. If you fail to deposit the additional margin by the deadline or if an outstanding debt occurs in your account, the broker/member may liquidate a part of or the whole position or substitute securities. In this case, you will be liable for any losses incurred due to such close-outs.

C. Under certain market conditions, an investor may find it difficult or impossible to execute transactions. For example, this situation can occur due to factors such as illiquidity i.e. when there are insufficient bids or offers or suspensions of trading due to price limit or circuit breakers, etc.

D. In order to maintain market stability, the following steps may be adopted: changes in the margin rate, increases in the cash margin rate or others. These new measures may be applied to the existing open interests. In such conditions, you will be required to put up additional margins or reduce your positions. E. You must ask your broker to provide the full details of the derivatives contracts you plan to trade i.e. the contract specifications and the associated obligations.

Risk-reducing orders or strategies: The placing of certain orders (e.g., "stop – loss" orders, or "stop – limit" orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" positions, may be as risky as taking simple "long" or "short" positions.

2. Suspension or restriction of trading and pricing relationships

Market conditions (e.g., illiquidity) and/or the operation of the rules of certain markets (e.g., the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss due to inability to liquidate/offset positions.

3. Deposited cash and property

You should familiarize yourself with the protections accorded to the money or other property you deposit particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which has been specifically identifiable as your own will be pro-rated in the same manner as cash for purpose of distribution in the event of a shortfall. In case of any dispute with the member, the same shall be subject to arbitration as per the bye-laws/regulations of the exchange.

4. Risk of Option holders

A. An option holder runs the risk of losing the entire amount paid for the option in relatively short period of time. This risk reflects the nature of an option as a wasting asset which becomes worthless when it expires. An option holder who neither sells his option in the secondary market nor exercises it prior to its expiration will necessarily lose his entire investment in the option. If the price of the underlying does not change in the anticipated direction before the option expires to an extent sufficient to cover the cost of the option, the investor may lose all or a significant part of his investment in the option.

B. The Exchange may impose exercise restrictions and have authority to restrict the exercise of options at certain times in specified circumstances.

5. Risk of Option Writers

A. If the price movement of the underlying is not in the anticipated direction the option writer runs the risks of losing substantial amount.

B. The risk of being an option writer may be reduced by the purchase of other options on the same underlying interest-and thereby assuming a spread position-or by acquiring other types of hedging position in the options markets to other markets. However, even where the writer has assumed a spread or other hedging position, the risks may still be significant. A spread position is not necessarily less risky than a simple ‘long’ or ‘short’ position.

C. Transactions that involve buying and writing multiple options in combination, or buying or writing options in combination with buying or selling short the underlying interests, present additional risks to investors. Combination transactions, such as options spreads, are more complex than buying or writing a single option. And it should be further noted that, as in any area of investing, a complexity not well understood is, in itself, a risk factor. While this is not to suggest that combination strategies should not be considered, it is advisable, as is the case with all investments in options, to consult with someone who is experienced and knowledgeable with respect to the risks and potential rewards of combination transactions under various market circumstances.

6. Commission and other charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

7. Trading facilities

The Exchange offers electronic trading facilities, which are computer-based systems for order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the firm with which you deal for details in this respect.

This document does not disclose all of the risks and other significant aspects involved in trading on a derivative market. The CLIENT should therefore study derivatives trading carefully before becoming involved in it.