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**MCX<sup>®</sup>SX**

India's New Stock Exchange

# CURRENCY FUTURES

## Benefits of Exchange-Traded over OTC

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## Comparison between OTC market and MCX-SX Currency Futures

No	Attributes	OTC	MCX-SX
1	Contract Size	Very large, generally, minimum size is US\$ 1 million. Smaller contracts are available at higher costs	Small contract size, market lot is US\$ 1,000
2	Transaction Cost	Transaction costs in terms of spreads are relatively higher and unregulated. It largely depends on the potential and credit-worthiness of the client on one side and the volume of the business on the other	Brokerage in this market is relatively low and regulated. With increase of liquidity, impact cost is expected to reduce further in this market
3	Contracts Specification	Contracts are customized and tailor-made to the requirements of the parties	Contracts are standardized, which adds to the liquidity
4	Transparency	OTC market suffers from lack of transparency and differential pricing. Generally, the price quoted varies from party to party and also different from the prevailing inter-bank rate	Complete price transparency
5	Underlying	It is mandatory to have underlying exposure to trade in this market	It is not necessary to have underlying exposure to trade in this market
6	Purpose	Permits participation only for hedging purpose (highly restricted for investment purpose)	Permits participation for investment, hedging, and arbitrage purposes
7	Participants	Inter-bank market. Corporates can come through Authorised Dealers (banks)	It is a retail market. Even banks are permitted to be members of the Exchange. Except NRIs and FIIs, all other participants are allowed to trade in this market
8	Default Risk	There is no settlement guarantee. Counter-party default risk exists	Guarantees settlement of transaction. No counter-party risk as the Clearing House becomes counter-party to the trade
9	Margin	No margin system exists here. However, banks often ask margin as high as 20% from small players to manage their risk	Detailed margin system exists as a part of the Exchange risk management
10	Cancellation	Terminating a contract before the expiry is burdensome as the bank will charge the spreads again, which adds to the cost, and if the party is in the profit, the money will be rendered to him only after the expiry date	Terminating the contract is as simple as creating a new one
11	Regulatory Oversight	Relatively less regulated as it is inter-bank market and retail participation is not allowed	Highly regulated through the Exchange as retail participation is allowed and offers guarantee for trade settlement
12	Mark to Market	OTC contracts are not daily marked to market. They often do it periodically, say, quarterly, and hence incentive to default by the party incurring loss increases	Contracts are daily marked to market. Hence the size of loss is restricted to only one-day unfavourable movement against cumulative periodic movement as in the case of OTC contracts

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