

ASSUMPTIONS AND CONVENTIONS

The following assumptions have been made or conventions are used throughout the thesis:

The realized spot for converting the foreign currency to Indian rupees has been taken from the forex website www.xe.com with a difference of five paise. For exporters, the spot rate has been assumed to be five paise less than the one shown on the website and for importers, the spot rate is assumed to be five paise more than the rate on the website. The difference of five paise is taken based on the market practice of keeping five paise spread (from the interbank rates), by the forex dealers.

Mark-to-market gains and losses are assumed to be settled on the same day that they are incurred. The cost of funds for financing the margin requirement has been taken to be 12.5% p.a. based on the interaction with the concerned employee of an exporter.

The gain or loss on Futures and Option position is calculated based on the settlement rate provided by National Stock Exchange on its website. The settlement rate provided by NSE is treated as the rate at which the Futures or Options hedge is squared off.

For calculating the interest cost for financing the margin requirement, a year is taken to be of 365 days. The interest cost for financing the margin or premium is calculated, by prorating 12.5% p.a., for the number of days the funds remain blocked in a hedged transaction.

ACRONYMS, ABBREVIATIONS AND SYMBOLS USED

€	Euro
ATM	At-the-Money
BIS	Bank for International Settlements
BSE	Bombay Stock Exchange
CBOT	Chicago Board of Trade
CE	Call Option – European Style
CME	Chicago Mercantile Exchange
Df	Degrees of Freedom
E-	Exponent
EURINR	EURO to Indian Rupees
FEMA	Foreign Exchange Management Act
Forex	Foreign Exchange
FRA	Forward rate agreement
FUTCUR	Futures contract on Currency
FX	Foreign Exchange
GBPINR	Pound Sterling to Indian Rupees
INR	Indian Rupees
IRS	Interest Rate Swap
ITM	In-the-money
JPYINR	Japanese Yen to Indian Rupees

KIKO	Knock-In, Knock-Out
MCX-SX	Multi Commodity Exchange
MTM	Mark-to-market
N	Normal Market Type
NDF	Non Deliverable Forward
No.	Number
NSCCL	National Securities Clearing Corporation Limited
NSE	National Stock Exchange
OPTCUR	Option Contract on Currency
OTC	Over the Counter
OTM	Out-of-the-money
PE	Put Option – European Style
p-value	Probability Value
RBI	Reserve Bank of India
Rs.	Indian Rupees
SEBI	Securities and Exchange Board of India
SME	Small and Medium Enterprise
SMEs	Small and Medium Enterprises
SPAN	Standard Portfolio Analysis of Risk
Stat	Statistic
T+1	Trade Date plus one day
TARN	Targeted Accrual Redemption Note

U.S.	United States of America
US\$	U.S. Dollars
USDINR	U.S. Dollar to Indian Rupees
USE	United Stock Exchange