



A guide to
**Offshore
Investments**

Index

Introduction to "Off-Shore Investments" - CFD	01
Product Features	02
Regulation	04
Some important concepts	05
Pricing	06
trading margins	07
spreads	08
rolling over of open positions	09
overnight lending rates	09
interest rate haircuts	10
open positions are marked to market	11
tax implications on off-shore trading	12
remitting money for trading	12
online demonstration	13
trading on-line	14

Off-Shore Investments

A world of new investment opportunities



Off-Shore Investments -
A world of new investment
opportunity

For the first time in the history of investments in India, traders now have a new world of off-shore investment opportunities. The product suite being discussed include contracts replicating the returns from US and UK Equities, Global Indices, Bullion, Crude and Metals traded on commodity exchanges across the globe, and Forex.

These synthetic contracts would enable you to generate returns as if you were trading on off-shore exchanges, Inter-bank markets, and OTC markets though you actually are not!

Product Range:



product features:

These Contracts under the name Contract for Difference (CFD) would mirror the performance of an instrument, such as Equity (e.g. A share of Microsoft), Commodity (e.g. A contract on December Crude from Nymex) or Treasury (e.g. 10 year Treasury bill offered by Federal Reserves, US), offering the benefits of trading these without having to physically own the underlying instrument itself.

The CFDs would provide active traders a number of benefits over and above that of other trading instruments.

Margin

Traders may trade by depositing as little as 1% of the contract value. That is a whopping 100 times leverage! For some equity contracts, the margin may range from 1% to 10%. Almost all Forex contracts and Indices are mostly available at just 1% margin.

Trade 24/5

All Forex contracts and most commodities (gold, silver, crude and all base-metals) can be traded round the clock 5 days a week. Contracts on Equities and Indices are available during the trading hours of the underlying market.

Competitive Spreads

Contracts being offered to individual trader have very narrow bid/ask spreads. That is, there is a potential for your positions turning profitable quickly.

Shorting of contracts possible

One of the major benefits of using these synthetic contracts is that you can place both long and short positions with equal ease. If you buy (go long) a contract, you can potentially profit if there is a rise in the underlying reference share price, and lose if the underlying reference share price falls.

Account Opening for as low as \$1000

When you open an account to trade in contracts on off-shore instruments, you need to deposit initial margin/commitment. Based on your deposit say e.g. US\$1,000, you can take positions worth up-to \$100,000 using this initial deposit.

Potential to remit up-to \$25,000 in one calendar year

Under current RBI regulations, you may remit up-to \$25000 per calendar year for off-shore transactions. There is no limit on how much profits you may generate and keep in your trading account abroad. There is no compulsion to bring the money sent for trading back in the same calendar year.

Instant settlement

The difference between your buying and selling price is instantaneously reflected in your trading account. There is no need to wait for the amount to be credited/debited to your account.

Research and Recommendations

Trading advice and research is available on the trading platform itself. Clients may also do technical analysis of their own using extremely easy to understand tools on the platform. News from some of the most authentic sources is available at a real time basis at no extra cost!

regulation

FSA is the universal regulator of the financial markets in UK. In UK, such contracts on underlying markets are known as CFDs or Contracts for Difference.

FSA has laid down adequate safety-nets for the protection of clients' funds utilized for trading through regulated entities.

Remittance of funds is governed by RBI Notification No. 64 dated Feb 04, 2004 permitting all Indian resident individuals to freely remit up to USD 25,000 per calendar year for any current or capital account transactions or a combination of both.

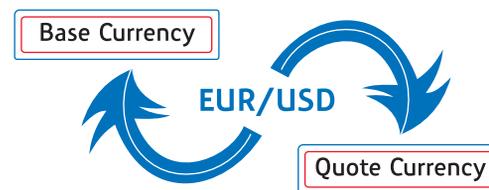
some important concepts

Understanding Currency quotes/Forex quotes

Currencies are always quoted & traded in pairs, for example. EUR/USD, USD/JPY, etc. The reason behind this convention is simple; a currency's value can only be expressed against another currency. For, example, EUR/USD implies the value or exchange rate of Euro against USD.

To make the understanding clearer, let's begin by enumerating the basic concepts:

- EURO, the currency, which appears first, is called the base currency.
- USD, the currency that appears second, is called the quote currency.
- The base currency can be bought or sold at the price in relation to the quote currency. In this case, the euro, which is the base currency, can be bought or sold in relation to its value vis-à-vis the USD, which is the quote currency.
- E.g. EUR/USD = 1.2001/1.2003, here if you want to buy the euro and sell USD, the price payable for buying the euro is quoted on the right hand side. In this case, it is 1.2003. Technically, this is called the offer or ask price ('ask').
- If you want to sell the euro and buy USD, the price payable for selling the euro is quoted on the left hand side. In this case, it is 1.2001. Technically, this is called the bid price ('bid').



pricing

CFDs are priced almost identically to their underlying instruments. They are typically quoted on a Spot basis. The prices move in real-time as the price of their underlying instruments move on the relevant exchanges, OTC markets, or the inter-bank market.

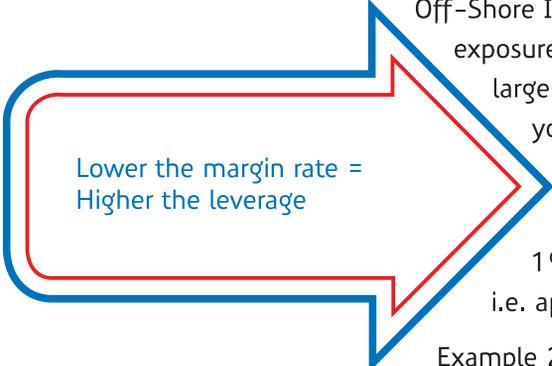
Example 1: The underlying instrument for gold is one troy ounce of gold. If gold is trading at \$649.98 – 650.03 on LOCO London (London Bullion Market), then you will be quoted a price for gold at or around this price, say, \$649.95 – \$650.05

To make the understanding clearer, let's begin by enumerating the basic concepts:



- If you want to buy Gold, the price payable for buying a Gold contract is quoted on the right side. In this case, it is \$650.03. Technically, this is called the offer or ask price ('ask').
- If you want to sell Gold, the price payable for selling a Gold contract is quoted on the left side. In this case, it is \$649.98. Technically, this is called the bid price ('bid').

trading margins



Lower the margin rate =
Higher the leverage

Off-Shore Investments through CFDs enable you to increase the amount of exposure to an instrument through leverage. This means you can trade a larger position than if you trade using simply the funds you placed in your account. Your level of leverage depends on the margin rate for each instrument.

Example 1: If the margin rate for Indices (such as the FTSE100) is 1%, then you will just need to deposit \$1 for a trade worth \$100, i.e. applicable gearing or leverage would be 100 times.

Example 2: If the margin rate for shares (such as Coca Cola) is 5%, then your leverage will be $(100\% / 5\%) = 20$ times.

spreads

Bid is the rate at which you can sell

Ask is the rate at which you can buy

The spread is also known as the dealing spread or the bid/offer. Spread is the difference between the prices at which you can buy and sell. You buy and sell CFDs on Off-shore instruments from a market maker who is the counter party to all your trades. The 'bid' is the market maker's buy price and the 'ask' is the market maker's sell price. The 'bid' is always less than the 'ask'. The difference between the two is called the 'spread'. The spread is the market maker's profit. The spread is the difference between the price that you can sell a commodity at (Bid) and the price you can buy commodity at (Ask).

The wider the spread, the costlier the trade is for you.



rolling over of open positions

All the transactions have a value date, i.e. the date on which the trades are to be settled. Since there is no delivery, the dealers automatically roll all open positions of the clients to the next value-date at the end of each trading day. Rollover involves interest charges. Interest is charged on the position that is bought and earned on the one that is sold.

Long positions incur financing charges when held overnight because you are effectively borrowing from your provider. Short positions generally earn* financing revenue when held overnight because you are effectively lending to your provider. Financing charges and revenues are based on the full position size of each position.

** Short positions may not receive financing revenues in some territories due to local market practices. Short positions will not receive financing revenues when the inter-bank offered rate of interest in the underlying currency of the asset class is less than the deposit holder's interest charge.*

The rollover gain or loss leads to a negligible gain or loss and is a really a small part of the overall risk on a transaction.

overnight lending rates

Financing interest rates are based on the official interbank offered rate (IBOR) – the overnight lending rate – in the currency of the underlying instrument of each asset class.

For example, Microsoft is a US equity and therefore MSFT are subject to the US\$ LIBOR rate. The FTSE100 index, however, is a UK index and therefore FTSE100 are subject to Sterling LIBOR, the Sterling London Interbank Offered Rate.

interest rate haircuts

The dealer applies an interest rate haircut to the official interbank offered rate and uses the resulting rate to calculate financing charges. Financing charges are based on a rate of $IBOR + \%haircut$. Financing income to the client for short positions is based on a rate of $IBOR - \%haircut$.

For example, if LIBOR is 5%, the interest rate haircut is 3%, and you buy FTSE, then you will pay financing charges of 8% pa. Had you sold FTSE instead, you would have received financing revenues of 2% pa.

For each business day, there would generally be a difference between the opening rate and the closing rate of a transaction. On some days, the difference is small on other days the difference could be large. This difference in price inevitably leads to a gain or loss every day, called Marked to Market (MTM) gain or loss.

Since profit and loss on all outstanding client positions is effectively booked in this manner without fail, before taking the position into the next day, this helps bring down the risk on all outstanding trades from the perspective of the market maker as well as for you. This adjustment occurs each day until the position is finally closed out.

open positions are marked to market

auto liquidation
protects your principal
against complete erosion.

Once a trade is executed, the trade is then considered as an open position. All open positions are constantly revalued against the current market price. This process of revaluing the open position to the current market price is called "Mark-To-Market" (MTM). If the price movement is in favor of the client's open position, then the MTM is a profit. If the price movement goes against the clients open position then this would result in an MTM loss.



Profits

- Buy at one price then sell at a Higher price
- Sell at one price then buy at a Lower price



Losses

- Buy at one price then sell at a lower price
- Sell at one price then buy at a higher price

margin calls and position liquidation

In case of running losses on open positions, your account valuation may fall below the margin required. In such cases, the trading system sends you margin calls so that you may deposit adequate funds to support your open positions/exposure.

In case, you are unable to deposit sufficient funds, or close your open positions in the event of margin calls, the system automatically closes your positions in case your account valuation reduces to a certain %age (say 50% or 25%) of your margin requirement.

tax implications on off-shore trading

Profit earned from off-shore trading is considered "Income from other sources" and the tax rate applicable to your total income will apply. There are no tax implications off shore.

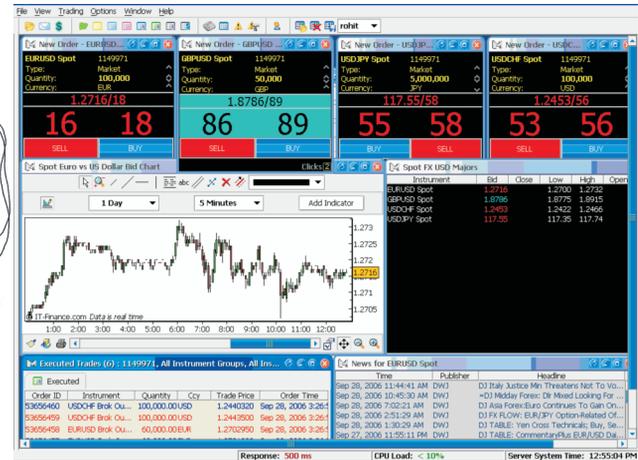
remitting money for trading

In order to begin trading, you must first remit funds to your dealer. To remit funds to trading account, take the following steps:

- Instruct your bank to remit funds from your bank account to your dealer's account abroad (your dealer/bank will help you fulfill the required formalities for this).
- Once your dealer receives the amount, you will be intimated via email that you can start trading.

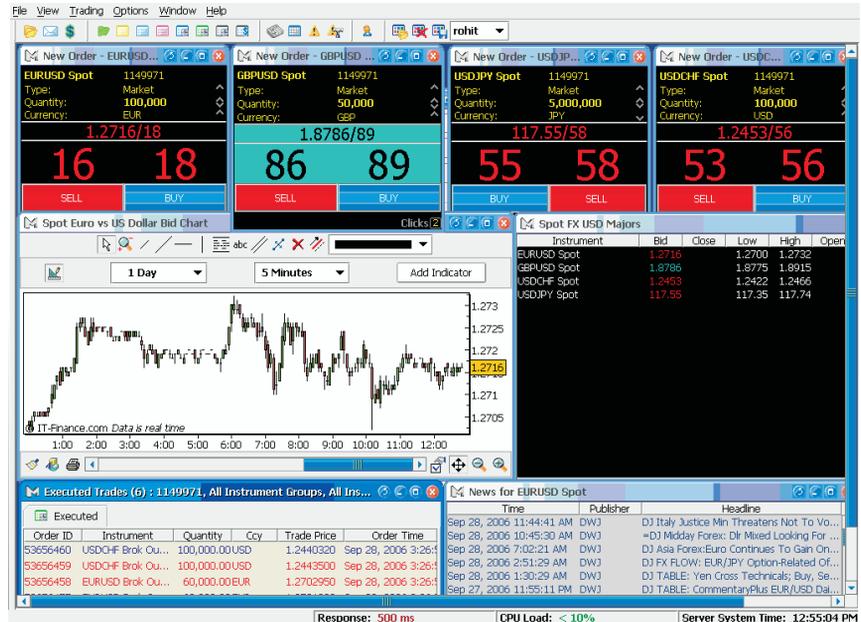
online demonstration

Most of the dealers provide their clients with an option to practice trading on their Demo trading platform where clients can get a feel of how the market works. It is always advisable to avail of the demo facility before putting actual trades on your dealer's trading platform



trading on-line

When you log on to your dealer's trading platform, to transact, you will simply need to enter your username and password and then submit details of your transaction to be undertaken i.e. Gold, buy/sell quantity, buy/sell price (at the current bid or offer price) Since you are trying to transact online at the live prices, trade-confirmations are almost instantaneous. Since the prices are ever changing, a trade may get executed at a marginally higher or lower price than the price on which you have clicked.



disclaimer

The information set out in this booklet has been prepared by Reliance Money Limited (RML) based upon information available to it and/or made available to it and/or from information available in the public domain. No independent verification has been made of such information or sources. This booklet is for information purposes only. It has not been prepared with regard to the specific investment objectives, financial situations and/or particular needs of any specific person who may receive this booklet. Investors should seek advice from Financial Advisors/Certified Financial Planners/Financial Experts before investing their funds or acting on any investment strategies that may have been discussed or recommended in this booklet. No reliance may be placed for any purpose whatsoever on the information contained in this booklet or on its completeness. Readers should make appropriate enquiries before investing in any product or services.

RML or any of its associate companies (collectively referred to as "Reliance Money") do not guarantee the accuracy or correctness of the information provided in this booklet or that any forecasts or projections made in this booklet will be realised. Reliance Money does not accept any responsibility for any errors whether caused by negligence or otherwise or for any loss or damage incurred by anyone in reliance, on anything that is included in this booklet. The recipient shall solely be responsible for losses, damages, costs and other consequences resulting directly or indirectly from using any information made available in this booklet. Reliance Money shall not be responsible for any acts of omission or commission made by readers or investors based on reliance upon the contents of this booklet.

This booklet does not constitute nor is it intended to constitute an offer to buy or sell or a solicitation to an offer to buy or sell securities or derivatives or commodities or commodity derivatives or forex derivatives or mutual fund units or any financial products, or an attempt to influence the opinion or behaviour of investors or recipients. The views expressed herein may not necessarily be the views of Reliance Money, its directors, officers, or employees.

Neither this booklet nor Reliance Money has been registered in any jurisdiction. The distribution of this booklet in certain jurisdictions may be restricted or prohibited and accordingly, persons who come into possession of this booklet are required to inform themselves about, and to observe, any such restrictions. Mutual fund investments are subject to market risks. Please read the offer documents carefully before investing.

The information in this booklet reflects prevailing conditions as of date of publication and is subject to change from time to time. Any facts or figures mentioned in this booklet are merely indicative and readers/investors should obtain correct facts and figures before making any investment decisions.

The information contained in this booklet is strictly confidential and meant solely for the selected recipient and may not be transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of RML.

RELIANCE Money

Anil Dhirubhai Ambani Group

Reliance Money Limited

Reliance Money House, 250-A/1 Baburao Pendharkar Marg,
off Dr Annie Besant Road, Worli, Mumbai 400 025. www.reliancemoney.com