

## **Q&A: The J.P. Morgan Indian Equity Futures Tracker**

### **What is the Tracker?**

The Tracker is part of a family of equity index futures tracker series created by J.P. Morgan. This specific tracker provides exposure to the front month futures contract of the SGX (Singapore Exchange) listed Nifty Index Futures.

### **What is a futures contract?**

A futures contract is an agreement where one person agrees to sell and another agrees to buy a specific quantity of a particular asset at some date in the future at a pre-agreed price. The SGX Nifty Index futures contracts are exchange-traded contracts. As the SGX Nifty Index futures are traded on an exchange, the terms of the contracts are generally standardised. There may be, however, some differences between contracts on different exchanges. In addition, the SGX Nifty futures contracts mature throughout the year and often have a duration of one month and are denominated in USD.

### **What is a "front month" futures contract?**

A front month futures contract is the futures contract of a particular asset with the nearest upcoming expiry date.

The Tracker also has exposure to a Spread Contract.

### **What is the Spread Contract?**

A Spread Contract is an agreement where one person agrees to pay the expected difference between the level of the two first (in time) to expire futures contracts on the date of the front month contract expiry. In practice, this amount may or may not equal the exact spread between these two contracts at such the time. The Spread Contract is used to negate or flatten the resulting price differentials which usually would arise due to the switching between different futures contracts.

### **Why do we have to roll the futures contract?**

In order to maintain exposure to the SGX Nifty Futures contract when the front month contract expires, it is necessary to switch the exposure to a new futures contract. This is known as "rolling" the futures contract. As such, the Tracker will periodically roll its exposures over a 3 day period (the "roll period") to new futures contracts, usually on a monthly basis.

### **Where does the level of the Tracker come from?**

The level of the Tracker is based on the daily closing level of the prevailing front month contract of the SGX Nifty Index futures. During the 3 day "roll period", however, the Tracker's level shall be based on a mix of front month and next front month contract proportionate to amount being rolled over.

### **What are the adjustments that are made to the level of the Tracker?**

Over the course of the 3 roll over days, a 0.10% will be subtracted from the level of the Tracker to mimic a cost incurred by investors performing the rollover of futures contract by themselves.

Additionally, the roll over is performed using a VWAP (Volume Weighted Average Price) methodology to reflect the assumption that futures will be rolled over at the implied average price relative to the volume traded over the course of the day.

**What is VWAP (Volume Weighted Average Price)?**

VWAP is often used as a trading benchmark by investors who aim to be as passive as possible in their execution. The aim of using a VWAP trading target is to ensure that the trader executing the order does so in-line with volume on the market. It is sometimes argued that such execution reduces transaction costs by minimizing market impact (the adverse effect of a trader's activities on the price of a security).

**What is difference between the level of the Tracker and that of the Nifty?**

The Tracker is based on the SGX listed Nifty Index Futures contract closing price determined by market supply and demand for the relevant futures contract on a given day. Such supply and demand does not necessarily equal to the change of day to day levels or the actual level of the S&P CNY Nifty Index (the "underlying index"). Additionally, the Tracker is denominated in USD whereas the underlying index is denominated in INR.

**Why track futures contracts as opposed to the Index directly?**

In order to track the Index directly, an investor will need to have the ability to replicate an investment in the onshore stock market with the exact same weighting of the underlying index. However, the SGX Nifty Index futures are more easily tradeable instruments for foreign investors seeking exposure to the underlying index.

**Is the level of the Tracker more volatile than the level of the Nifty itself?**

The level of the Tracker may or may not be more volatile than the level of the Nifty itself as these instruments are fundamentally different. The Tracker is constituted by the futures contracts traded on the SGX while the underlying index represents a basket of onshore Indian stocks and the relevant prices. If the futures contracts to which the tracker is synthetically exposed becomes thinly traded, it is likely that the tracker may become more volatile than the underlying index.

**What happens if the exchange on which the futures contracts are traded stops publishing the levels of the futures contracts for a few days or alternatively, indefinitely?**

If the exchange stops publishing the futures contracts for a few days, the calculation agent may either cease publishing the Tracker levels until the levels of the exchange has resumed its publication of levels of the futures contracts or may calculate its good faith estimate of the affected futures contract. If the exchange indefinitely suspends the publishing then the Tracker may be cancelled and its levels ceased to be published.

**What happens if a new exchange starts publishing a similar futures contract at the same time current exchange stops publishing it or the exchange merges with another exchange?**

The calculation agent may change the rules of the Tracker to treat the new futures contract and the new exchange as a successor tracker. However, any changes of the rules shall be available within one month following any such change taking place.

**What happens if the futures contract formula is materially changed so that the futures contract no longer is representative of the level of the Nifty anymore?**

The calculation agent will use its discretion to replace the constituents with representative underlyings that will continue to serve the objective of tracking an offshore investment towards Indian equities.