

**DISCLOSURE DOCUMENT
FOR QUALIFIED U.S. PURCHASERS OF
NSE SECURITY FUTURES**

NATIONAL STOCK EXCHANGE OF INDIA

JULY 2018

National Stock Exchange of India Limited

GENERAL NOTICES

THIS DISCLOSURE DOCUMENT FOR NSE SECURITY FUTURES (“DISCLOSURE DOCUMENT”) IS PROVIDED TO YOU SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF AN INVESTMENT IN NSE SECURITY FUTURES (AS DEFINED BELOW). THE USE OF THIS DISCLOSURE DOCUMENT FOR ANY OTHER PURPOSE MIGHT INVOLVE SERIOUS LEGAL CONSEQUENCES. CONSEQUENTLY, THIS DISCLOSURE DOCUMENT MAY NOT BE REPRODUCED, IN WHOLE OR IN PART, AND MAY NOT BE DELIVERED TO ANY PERSON (OTHER THAN YOUR BROKER-DEALER REGISTERED UNDER SECTION 15 OF THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED) WITHOUT THE PRIOR WRITTEN CONSENT OF THE NATIONAL STOCK EXCHANGE OF INDIA (“NSE”).

THE OFFER OF NSE SECURITY FUTURES TO CERTAIN INVESTORS THAT ARE BOTH QUALIFIED INSTITUTIONAL BUYERS AND ELIGIBLE CONTRACT PARTICIPANTS (EACH, AS DEFINED BELOW) IS PURSUANT TO THE FOLLOWING CRITERIA: (I) THE OFFERING OF NSE SECURITY FUTURES IS EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”), AS INTERESTS ARE NOT OFFERED PUBLICLY IN THE UNITED STATES; (II) PURCHASERS OF NSE SECURITY FUTURES WILL BE LIMITED TO INVESTORS THAT ARE BOTH QUALIFIED INSTITUTIONAL BUYERS AND ELIGIBLE CONTRACT PARTICIPANTS AND THAT ARE CAPABLE OF EVALUATING THE MERITS AND RISKS OF AN INVESTMENT IN THE NSE SECURITY FUTURES AND WHO CAN BEAR THE ECONOMIC RISK OF THE LOSS OF THEIR ENTIRE INVESTMENT.

NO REPRESENTATIONS OR WARRANTIES OF ANY KIND ARE INTENDED OR SHOULD BE INFERRED WITH RESPECT TO THE ECONOMIC RETURN OR THE TAX CONSEQUENCES FROM AN INVESTMENT IN NSE SECURITY FUTURES. NO ASSURANCE CAN BE GIVEN THAT EXISTING LAWS WILL NOT BE CHANGED OR INTERPRETED ADVERSELY TO THE NSE OR PURCHASERS OF NSE SECURITY FUTURES. PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THIS DISCLOSURE DOCUMENT AS LEGAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR IN NSE SECURITY FUTURES SHOULD CONSULT ITS OWN U.S. COUNSEL AND ACCOUNTANTS FOR ADVICE CONCERNING THE VARIOUS LEGAL, TAX AND ECONOMIC CONSIDERATIONS RELATING TO ITS INVESTMENT.

A PROSPECTIVE INVESTOR SHOULD NOT SUBSCRIBE FOR NSE SECURITY FUTURES UNLESS SATISFIED THAT THE PROSPECTIVE INVESTOR ALONE OR TOGETHER WITH ITS INVESTMENT REPRESENTATIVE HAS ASKED FOR AND RECEIVED ALL INFORMATION WHICH WOULD ENABLE THE PROSPECTIVE INVESTOR OR BOTH OF THEM TO EVALUATE THE MERITS AND RISKS OF THE PROPOSED INVESTMENT. EACH PROSPECTIVE INVESTOR SHOULD READ CAREFULLY THE INFORMATION SET FORTH UNDER “RISK FACTORS” BEFORE MAKING ANY INVESTMENT DECISION.

NSE SECURITY FUTURES ARE SPECULATIVE AND INVOLVE SUBSTANTIAL RISK. INVESTORS COULD LOSE ALL OR SUBSTANTIALLY ALL OF THEIR INVESTMENT IN NSE SECURITY FUTURES.

U.S. SECURITIES LAW NOTICES
NOTICE TO ALL U.S. PROSPECTIVE INVESTORS

NSE SECURITY FUTURES HAVE NOT BEEN REGISTERED WITH OR APPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR BY ANY U.S. STATE SECURITIES COMMISSION OR AGENCY OR ANY OTHER REGULATORY AUTHORITY. THIS IS A PRIVATE OFFERING MADE ONLY PURSUANT TO EXEMPTIONS PROVIDED BY SECTION 4(a)(2) OF THE 1933 ACT AND APPLICABLE U.S. STATE SECURITIES LAW EXEMPTIONS (AS APPLICABLE).

WHEN MAKING AN INVESTMENT DECISION, PROSPECTIVE INVESTORS MUST RELY ON THEIR OWN EXAMINATIONS OF NSE AND THE TERMS OF NSE SECURITY FUTURES, INCLUDING THE MERITS AND RISKS INVOLVED. NSE SECURITY FUTURES HAVE NOT BEEN ENDORSED OR RECOMMENDED BY ANY U.S. FEDERAL OR U.S. STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, NONE OF THE FOREGOING AUTHORITIES HAS PASSED UPON, CONFIRMED THE ACCURACY OF, OR DETERMINED THE ADEQUACY OF THIS DISCLOSURE DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS DISCLOSURE DOCUMENT SHALL NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY OFFER, SOLICITATION OR SALE OF NSE SECURITY FUTURES IN ANY JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE IS NOT AUTHORIZED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE ANY SUCH OFFER, SOLICITATION OR SALE.

NSE SECURITY FUTURES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT WITH THE CONSENT OF NSE AND AS PERMITTED UNDER THE 1933 ACT AND THE APPLICABLE U.S. STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM.

Introduction

This disclosure statement (“Disclosure Document”) discusses the characteristics and risks of cash-settled futures contracts based on (a) certain individual securities (“NSE Single Security Futures”), and (b) narrow-based security indices (“NSE Narrow-Based Security Index Futures”) traded on the National Stock Exchange of India, Ltd. (“NSE”) and issued and cleared by the National Securities Clearing Corporation Ltd. (“NSCCL”). NSE Single Stock Futures and NSE Narrow-Based Security Index Futures (collectively, “NSE Security Futures”) are based on underlying securities issued by corporate entities organized under the laws of the Republic of India, which are authorized under the Securities and Exchange Board of India Act, 1956, as amended, to offer such securities. At present, NSE is authorized by the Central Government of India and the Securities Exchange Board of India (“SEBI”) under relevant Indian rules and regulations governing the offering of securities and derivatives to list and offer NSE Security Futures.

NSE is the leading stock exchange in India and was the third largest exchange in the world by equity trading volume in 2017, according to the World Federation of Exchanges (“WFE”). NSE owns and manages the NIFTY 50 index, a leading benchmark for the Indian capital markets. NSE offers comprehensive coverage of the Indian capital markets across asset classes, including equity, fixed income and derivative securities. NSE has a fully-integrated business model comprising NSE exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE oversees compliance by NSE trading and clearing members and listed companies with the rules and regulations of its exchange. NSE ranked first among exchanges globally in terms of stock index option and currency option trading volumes in 2017, according to WFE. NSE also ranked second among exchanges globally in terms of single stock future contracts trading volume and currency future contracts trading volume in 2017, according to WFE.

NSE began operations in 1994 and ranked as the largest stock exchange in India in terms of total turnover and average daily turnover for equity shares every year since 1995, based on annual reports of SEBI. NSE has leading market shares by total turnover of 86.98% in equity cash trading, 100% in equity derivatives trading, 52.54% in currency derivatives trading, 58.90% in interest rate derivatives trading, 67.35% in exchange-traded funds trading for fiscal 2017.¹

General Regulatory Environment for NSE

Securities and derivative markets in India are overseen by SEBI for both financial products and futures on physical commodities. SEBI is an independent agency created in 1992. SEBI is also a member of the International Organisation of Securities Commission (“IOSCO”), and endorses and adheres to “Objectives and Principles of Securities Regulation” which were released by IOSCO in February 2002. NSE is regulated by SEBI.

The two main statutes governing the Indian securities market are the Securities and Exchange Board of India Act, 1992 (“SEBI Act”) and the Securities Contracts (Regulations) Act, 1956 (“SCRA”). The SEBI Act empowers SEBI with statutory powers to protect the interests of investors, promote the development of the securities market and regulate the securities market (all

¹ Financial information for NSE can be found at: https://www.nseindia.com/global/content/investor_rel/financials.htm.

derivatives traded on NSE are covered by the term “securities” under Section 2(1)(h) of the SCRA). The SCRA provides for direct and indirect control of virtually all aspects of securities and derivatives trading, including the operations of exchanges. It gives the SEBI jurisdiction over NSE and allows NSE to frame its own bylaws, rules and regulations in conformity with the criteria set out in the SCRA and by the various rules and regulations of SEBI adopted from time to time.

Before approving an exchange for trading futures contracts on a security index, SEBI must find that the exchange has rules which ensure, among other things, that the exchange has an online surveillance capability which monitors positions, prices and volume in real-time to deter market manipulation, that the exchange disseminates information about trades, quantities and quotes in real-time over at least two information vending networks that are accessible to investors, and that the exchange has a satisfactory record of monitoring its members, handling investor complaints and preventing irregularities in trading.²

As a result of amendments to the SEBI Act in 2002, SEBI’s powers were enhanced to detect and enforce the laws and regulations against insider trading, fraudulent and unfair trading practices and market manipulation, in order to protect investors. The SEBI Act empowers SEBI with statutory powers for (a) protecting the interests of investors in securities and derivatives (all derivatives transactions, including futures traded on NSE, are included in the definition of the term “securities” under the SCRA and are thus subject to its coverage), (b) promoting the development of the securities market, and (c) regulating the securities market. SEBI has authority over all intermediaries and persons associated with securities and derivatives markets, such as NSE and its members.³ SEBI can conduct inquiries, audits and inspections of all participants and adjudicate offences under the SEBI Act.⁴ It has powers to register and regulate all market intermediaries and derivatives markets and can impose civil remedies against them for violations of the provisions of the SEBI Act, and the rules and regulations adopted thereunder.⁵

Information Regarding the Offer and Sale of NSE Security Futures in the United States

Pursuant to regulatory guidelines issued by the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Commodity Futures Trading Commission (“CFTC”), foreign exchanges such as NSE, are authorized to offer foreign listed security futures products — whether on single securities or narrow-based indices of securities — to qualified institutional buyers⁶ (“QIBs”) that are also Eligible Contract Participants⁷ (“ECPs”); provided, however, that (1) any offer or sale is effected through a broker or dealer registered under Section 15(b) of the Securities Exchange Act of 1934, as amended (the “1934 Act”), and (2) the offer and sale is made in compliance with Section 4(a)(2) of the U.S. Securities Act of 1933, as amended (the “1933 Act”).

² Section 3 of the Securities Contracts (Regulation) Rules, 1957.

³ Section 11 of the SEBI Act.

⁴ Section 15 of the SEBI Act.

⁵ Section 24 of the SEBI Act.

⁶ Under Rule 144A of the 1933 Act, a QIB includes, among others: (i) a person which owns and invests a minimum of \$100 million in securities on a discretionary basis; and (ii) a broker or dealer registered under Section 15(b) of the 1934 Act, which owns or invests a minimum of \$10 million in securities on a discretionary basis.

⁷ As such term is defined in Section 1a(18) of the CEA.

In 2009, the SEC issued an order (the “SEC Order”) exempting certain persons from provisions of the 1934 Act that prohibit the offer and sale of foreign listed security futures to U.S. persons.⁸ Specifically, pursuant to the SEC Order, QIBs are permitted to purchase and sell foreign security futures products, such as NSE Security Futures, on the condition that the offer and sale of any foreign security futures products, including NSE Security Futures, must be effected through a broker or dealer registered under Section 15(b) of the 1934 Act or a registered futures commission merchant that qualifies and files as a “notice broker-dealer” with the SEC.⁹ The offer and sale of NSE Security Futures must also be conducted pursuant to Section 5 of the 1933 Act or an exemption from Section 5 of the 1933 Act. NSE has determined to rely on Section 4(a)(2) of the 1933 Act as an exemption from Section 5 of the 1933 Act. NSE Security Futures will therefore not be registered pursuant to Section 5 of the 1933 Act.

In 2010, the CFTC’s Division of Clearing and Intermediary Oversight issued an *Advisory Concerning the Offer and Sale of Foreign Security Futures Products to Customers in the United States*¹⁰ advising that foreign listed security futures products may be offered and sold to U.S. investors who are ECPs, as defined in Section 1a(18) of the Commodity Exchange Act (“CEA”) in addition to being QIBs. Under Rule 144A of the 1933 Act, persons who “in the aggregate own and invest on a discretionary basis at least \$100 million in securities of issuers” are considered QIBs. In comparison, a U.S. institutional investor is considered to be an ECP under Section 1a(18) of the CEA if it acts for its own account and is a financial institution; a state-regulated insurance company; a federally regulated investment company; a commodity pool whose total assets exceed \$5 million; or a business organization whose total assets exceed \$10 million.

Accordingly, NSE Security Futures may only be offered or sold pursuant to the following conditions: (1) such offer or sale of NSE Security Futures is made to an entity that is both a QIB and an ECP; (2) such offer or sale is effected through a broker or dealer registered under Section 15(b) of the 1934 Act; and (3) such offer or sale is made in compliance with Section 4(a)(2) of the 1933 Act.

Description of a Security Futures Contract

Shares of common stock represent a fractional ownership interest in the issuer of that security. Ownership of securities confers various rights that are not present with positions in NSE Security Futures. For example, persons owning a share of common stock may be entitled to vote in matters affecting the issuer’s corporate governance. They also may be entitled to receive dividends and corporate disclosure, such as annual and quarterly reports.

⁸ Order under Section 36 of the 1934 Act Granting an Exemption from 1934 Act Section 6(h)(1) for Certain Persons Effecting Transactions in Foreign Security Futures and under 1934 Act Section 15(a)(2) and Section 36 Granting Exemptions from 1934 Act Section 15(a)(1) and Certain Other Requirements. Release No. 34-60194; International Series Release No. 1311 (June 30, 2009). 74 F.R. 32200 (SEC, June 30, 2009).

⁹ SEC Order at 32202.

¹⁰ CFTC Division of Clearing and Intermediate Oversight, *Advisory Concerning the Offer and Sale of Foreign Security Futures Products to Customers in the United States* (June 2010), available at: <http://www.cftc.gov/idc/groups/public/@internationalaffairs/documents/ssproject/fsfpadvisory.pdf>.

NSE, on its platform, offers futures contract based upon underlying securities that are (i) cash settled and (ii) that result in physical delivery of underlying securities.¹¹ At no point will the purchaser of a cash-settled futures contract receive physical delivery of the underlying security. The purchaser of the NSE Security Future is not entitled to exercise any voting rights over the underlying security or securities and is not entitled to any dividends that may be paid by the issuer(s). Moreover, the purchaser of an NSE Security Future does not receive the corporate disclosures that are received by shareholders of the underlying security or securities, although such corporate disclosures must be made publicly available through the NSE website, which can be accessed at the web address contained in the following hyperlink and footnoted below: [Latest Announcements](#).¹² A list of all NSE Security Futures can be found at the following hyperlink and the web address is footnoted below: [NSE Security Futures](#).¹³ All purchases of NSE Security Futures are subject to the rules, regulations and byelaws of NSE, which can be found at the following hyperlink and the web address is footnoted below: [NSE Rules, Regulations and Byelaws](#).¹⁴

All NSE Security Futures are marked-to-market daily. The accounts of NSE members that are buyers and sellers are credited with the amount of any gain, or debited by the amount of any loss, on the NSE Security Future, based on the contract price established at the end of the day for settlement purposes (the “daily settlement price”). By contrast, the purchaser or seller of the underlying security or securities would not have the profit and loss from its investment credited or debited until the position in that instrument is closed out.

Naturally, as with any financial product, the value of NSE Security Futures and of the underlying security or securities may fluctuate. However, owning the underlying security or securities would not require an investor to settle its profits and losses daily. By contrast, as a result of the mark-to-market requirements discussed above, a holder of NSE Security Futures that is long may be required to deposit additional funds into its account with its broker as the price of the NSE Security Future decreases. Similarly, a holder of NSE Security Futures that is short may be required to deposit additional funds into its account as the price of the NSE Security Future increases.

Another significant difference is that NSE Security Futures expire on a specific date. Unlike an owner of the underlying security or securities, a holder of NSE Security Futures cannot hold a long position for an extended period of time in the hope that the price will go up. If you do not liquidate your NSE Security Future, you will be required to settle the contract when it expires.¹⁵

¹¹ On April 11, 2018, SEBI released Circular /CIR/P/2018/67 detailing the move from cash settlement to physical settlement for certain security futures contracts where the underlying security did not meet specific eligibility criteria. Pursuant to this circular, certain NSE security futures contracts will move to physical settlement. However, such contracts are outside the scope of this Disclosure Document. The SEBI Circular can be found at: https://www.sebi.gov.in/legal/circulars/apr-2018/review-of-framework-for-stocks-in-derivatives-segment_38629.html. NSE security futures contracts that are physically settled can be found in NSE Circular No. 37/2018 dated April 23, 2018, found at: <https://www.nseindia.com/content/circulars/FAOP37594.pdf>.

¹² The “Latest Announcements” page can be found at: <https://www.nseindia.com/corporates/corporateHome.html?id=allAnnouncements>.

¹³ A list of the NSE Security Futures can be found at: https://www.nseindia.com/products/content/derivatives/equities/fo_underlying_home.htm. This website also includes NSE futures on broad-based security indices. Said futures are not NSE Security Futures for purposes of this Disclosure Document.

¹⁴ NSE rules, regulations and byelaws can be found at: <https://www.nseindia.com/global/content/regulations/regulations.htm>.

¹⁵ More information regarding the settlement process can be found at: https://www.nseindia.com/products/content/derivatives/equities/settlement_mechanism.htm.

As a result, upon expiration, an investor in NSE Security Futures will not have any economic exposure in the security or securities underlying the NSE Security Future.

Narrow-Based Security Index Futures

NSE Narrow-Based Security Index Futures are NSE Security Futures that are offered on indices (rather than single securities) meeting the criteria for a narrow-based index. Generally, a “narrow-based security index,” as defined in the CEA and the 1934 Act, is an index that meets one of the following four criteria: (1) the index has nine or fewer component securities; (2) any component security of the index comprises more than 30 percent of the index’s weighting; (3) the five highest weighted component securities of the index in the aggregate comprise more than 60 percent of the index’s weighting; or (4) the lowest 25 percent weighted securities, in the aggregate, have a dollar value of average daily trading volume of less than \$50 million (or in the case of an index with 15 or more securities, \$30 million).¹⁶ The first three criteria are meant to evaluate the composition and weighting of securities in the index, while the fourth is meant to evaluate the liquidity of the index’s securities. Narrow-based security indices, unlike their broad-based counterparts, are subject to the U.S. securities laws and regulation by the SEC.

The NSE Security Futures offered on such indices as NIFTY Bank and NIFTY IT are considered to be NSE Narrow-Based Security Index Futures, as the underlying indices meet the criteria for being “narrow-based.”¹⁷ While NSE also offers futures on broad-based security indices, such futures are not offered pursuant to this Disclosure Document.

Margin and Leverage

When a broker lends a customer part of the funds needed to purchase a security such as common stock, the term “margin” refers to the amount of cash, or down payment, the customer is required to deposit. By contrast, an NSE Security Future is an obligation, not an asset. A security futures contract has no value as collateral for a loan. Because of the potential for a loss as a result of the daily marked-to-market process, a margin deposit is required of each party to a security futures contract. Minimum margin requirements for NSE’s/NSCCL members are set by NSE/NSCCL.¹⁸ Your margin requirement must be at least at the level set by NSE/NSCCL, but individual brokerage firms can require margin that is higher than the exchange/clearing corporation requirements. Additionally, margin requirements may vary from brokerage firm to brokerage firm. Furthermore, a brokerage firm can increase its margin requirements at any time without providing advance notice, and such increases could result in a margin call, which you may need to satisfy on very short notice. If you fail to satisfy the margin call, it is likely your broker will close out your positions. Brokerage firms may have special requirements as to how margin calls are to be met, such as requiring a wire transfer from a bank, or deposit of a certified or

¹⁶ “Narrow-based security index” is defined in Section 1a(25) of the CEA and Section 3(a)(55)(B) of the 1934 Act. In addition to the criteria mentioned above, there are several other criteria that may cause an index to be excluded from the definition of “narrow-based security index,” (i.e., to be treated as a broad-based security index).

¹⁷ More information regarding these indices can be found at: <http://www.niftyindices.com/home/> and https://www.nseindia.com/products/content/derivatives/equities/fo_underlying_home.htm.

¹⁸ More information regarding margin requirements can be found at: <https://nseindia.com/products/content/derivatives/equities/margins.htm>.

cashier's check. You should thoroughly read and understand the customer agreement with your brokerage firm before entering into any transactions in NSE Security Futures.

Brokerage firms generally reserve the right to liquidate a customer's security futures contract positions or sell customer assets to meet a margin call at any time without contacting the customer. Brokerage firms may also enter into equivalent but opposite positions for your account in order to manage the risk created by a margin call. While most brokerage firms notify their customers of margin calls and allow some time for deposit of additional margin, they are not required to do so. Even if a brokerage firm has notified a customer of a margin call and set a specific due date for a margin deposit, the brokerage firm may still be able to take action as necessary to protect its financial interests, including the immediate liquidation of positions without advance notification to the customer.

Because the margin deposit required to open a security futures position is a fraction of the nominal value of the contracts being purchased or sold, security futures contracts are said to be highly leveraged. The smaller the margin requirement in relation to the underlying value of the security futures contract, the greater the leverage. Leverage allows exposure to a given quantity of an underlying asset for a fraction of the investment needed to purchase that quantity outright. In sum, buying (or selling) a security futures contract provides the same dollar and cents profit and loss outcomes as owning (or shorting) the underlying security. However, as a percentage of the margin deposit, the potential immediate exposure to profit or loss is much higher with a security futures contract than with the underlying security.

Settlement

The terms of the particular NSE Security Future dictate how cash settlement of the NSE Stock Future will operate. NSE and NSCCL establish the expiration of NSE Security Futures, which is a one-month trading cycle. On the expiration day of an NSE Security Future, such NSE Stock Future ceases to exist. Typically, the last trading day of NSE Security Futures will be last Thursday of the expiry month.

All NSE Security Futures are futures contract based upon underlying securities that are cash settled. Though NSE, on its platform, also offers security futures contract that are physically settled, such contracts are outside the scope of this Disclosure Document.¹⁹ No actual securities are delivered at the expiration of the NSE Security Futures contracts. Instead, you must settle any open positions by making or receiving a cash payment based on the difference between the final settlement price and the previous day's settlement price. The final settlement price for a cash-settled contract will reflect the closing price for the underlying security. Once this payment is made, neither the buyer nor the seller of the security futures contract has any further obligations on the contract. Additionally, the settlement process of any NSE Security Futures may also be impacted by certain corporate actions taken by the underlying issuer(s) of NSE Security Futures.²⁰

¹⁹ The SEC Order requires that the security future must not result in physical delivery in the U.S. of the securities underlying the contract. All NSE Security Futures offered pursuant to this Disclosure Document are cash-settled. Beginning in 2018, certain NSE security futures contracts will be physically settled. However, such futures contracts are *not* NSE Security Futures being offered pursuant to this Disclosure Document.

²⁰ More information regarding adjustments to the settlement process as a result of certain corporate actions can be found at: https://www.nseindia.com/products/content/derivatives/equities/adjust_in_case_corp.htm.

Notwithstanding the foregoing, any final payment in connection to an NSE Security Future may be subject to additional taxes levied by the Central Government of India and certain regulators. NSE is not providing any tax guidance with respect to the potential tax treatment of NSE Security Futures under Indian law or otherwise. All prospective investors in NSE Security Futures should consult their tax professionals prior to purchasing NSE Security Futures.

NSCCL

NSCCL, a wholly-owned subsidiary of NSE, provides clearing and settlement services for NSE's products, including NSE Security Futures. NSCCL was the first clearing corporation to be established in India when it was incorporated in 1995.²¹

In order to guarantee the settlement of trades, NSCCL maintains a Core Settlement Guarantee Fund (a "CSGF") for each of NSE's markets in accordance with SEBI regulations. The purpose of the fund is to ensure NSCCL has sufficient assets to fulfil its settlement obligations in the event of a party's default. However, NSCCL's measures and resources to offset counterparty default risk, including the CSGF, may be insufficient to protect against counterparty defaults or the adverse effects of those defaults. As a consequence, in the future, NSCCL may need access to, and NSE may be required to replenish, the CSGF.²²

Further, NSCCL is subject to liquidity risk when a clearing member defaults or is delayed in fulfilling its obligations or a clearing bank defaults or delays in facilitating the pay-out of funds. NSCCL is also subject to collateral risk where it is unable to access the collateral deposited by clearing members (including due to legal disputes or otherwise) or where changing market conditions result in a reduction in the liquidation value of the collateral compared to the obligation the collateral secures.

Risk Factors

Risks Related to Security Futures Contracts

Risks of Security Futures Transactions. Trading NSE Security Futures may not be suitable for all investors. You may lose a substantial amount of money in a very short period of time. The amount you may lose is potentially unlimited and can exceed the amount you originally deposit with your broker. This is because futures trading is highly leveraged, with a relatively small amount of money used to establish a position in assets having a much greater value. If you are uncomfortable with this level of risk, you should not invest in NSE Security Futures.

Trading NSE Security Futures involves risk and may result in potentially unlimited losses that are greater than the amount you deposited with your broker. As with any high risk financial product, you should not risk any funds that you cannot afford to lose.

²¹ More information regarding NSCCL can be found at: <https://www.nscclindia.com/>. Financial information for NSCCL can be found at: https://www.nscclindia.com/NSCCL/disclosures/nsccl_dis_financials.htm.

²² More information regarding CSGF can be found at: https://www.nscclindia.com/NSCCL/disclosures/nsccl_dis_core_sgf.htm.

Be cautious of claims that you can make large profits from trading NSE Security Futures. Although the high degree of leverage involved in certain NSE Security Futures can result in large and immediate gains, it can similarly result in large and immediate losses. As with any financial product, there is no such thing as a “sure winner.”

Because of the leverage involved and the nature of certain NSE Security Future transactions, you may feel the effects of your losses immediately. Gains and losses in security futures contracts, including NSE Security Futures, are credited or debited to your account with your broker, at a minimum, on a daily basis. If movements in the markets for NSE Security Futures or the underlying security or securities decrease the value of your positions in NSE Security Futures, you may be required to have or make additional funds available to your carrying firm as margin. If your account is under the minimum margin requirements set by the exchange or the brokerage firm, your position may be liquidated at a loss, and you will be liable for the deficit, if any, in your account.

Under certain market conditions, it may be difficult or impossible to liquidate a position. Generally, you must enter into an offsetting transaction in order to liquidate a position in an NSE Security Futures contract. If you cannot liquidate your position in an NSE Security Future, you may not be able to realize a gain in the value of your position or prevent losses from mounting. This inability to liquidate could occur, for example, if trading is halted due to unusual trading activity in either the NSE Security Future or the underlying security or securities; if trading is halted due to recent news events involving the issuer of the underlying security; if systems failures occur on an exchange or at the firm carrying your position; or if the position is on an illiquid market. Even if you can liquidate your position, you may be forced to do so at a price that involves a large loss.

Under certain market conditions, it may also be difficult or impossible to manage your risk from open NSE Security Future positions by entering into an equivalent but opposite position in another contract month, on another market, or in the underlying security or securities. This inability to take positions to limit your risk could occur, for example, if trading is halted across markets due to unusual trading activity in the particular NSE Security Future or the underlying security or due to recent news events involving the issuer of the underlying security.

Under certain market conditions, the prices of NSE Security Futures may not maintain their customary or anticipated relationships to the prices of the underlying security or index. These pricing disparities could occur, for example, when the market for the NSE Security Future is illiquid, when the primary market for the underlying security is closed, or when the reporting of transactions in the underlying security has been delayed. For index products, it could also occur when trading is delayed or halted in some or all of the securities that make up the index.

You may experience losses due to systems failures. Although NSE maintains a business continuity protocol (“BCP”) to handle both natural disasters and human errors, there can be no assurance that the BCP will be effective in all instances. As such, as with any financial transaction, you may experience losses if your orders for NSE Security Futures cannot be executed normally due to systems failures at NSE or at the brokerage firm carrying your position. Your losses may be greater if the brokerage firm carrying your position does not have adequate back-up systems or procedures.

Furthermore, there is no guarantee that either NSE or NSCCL will not suffer a major breakdown of its technological infrastructure causing significant delays in trading or a complete halt to trading. The occurrence of either a delay or a halt in trading of NSE Security Futures could result in losses for an investor's position in any given NSE Security Future.

All NSE Security Futures involve risk, and there is no trading strategy that can eliminate it. Strategies using combinations of positions, such as spreads, may be as risky as outright long or short positions. Trading in NSE Security Futures requires knowledge of both the securities and the futures markets.

Placing contingent orders, if permitted, such as "stop-loss" or "stop-limit" orders, will not necessarily limit your losses to the intended amount. Your broker may permit you to enter into stop-loss or stop-limit orders for NSE Security Futures, which are intended to limit your exposure to losses due to market fluctuations. However, market conditions may make it impossible to execute the order or to get the stop price.

You should thoroughly understand the regulatory protections available to your funds and positions in the event of the failure of your brokerage firm. The regulatory protections available to your funds and positions in the event of the failure of your brokerage firm may vary depending on the broker and account.

SEBI Investigation into NSE Co-Location Practices.

SEBI received certain complaints against NSE's co-location facility including, among others, allegations that NSE had provided unfair access to the co-location facility to select trading members. Co-location is the practice of exchanges establishing large data centers where traders, members and non-members alike, can place computers containing their trading algorithms next to an exchange's matching engine, which matches "buy" and "sell" orders. This "co-location" shaves crucial milliseconds from the time it takes to complete a trade and provide an advantage to certain traders who benefit from faster execution times. SEBI forwarded the complaints to NSE in early 2015 and advised NSE to examine the issues highlighted and furnish a report to SEBI after placing the same before the NSE's standing committee on technology. NSE undertook the exercise and submitted the report to SEBI. Subsequently, on December 29, 2015, SEBI assigned the task of comprehensive examination of complaints to a team headed by professors of the Indian Institute of Technology, Bombay and advised NSE to extend all cooperation to the team. Subsequently, by its letter dated March 29, 2016, SEBI forwarded the interim observations of the team under the report, or the "CFT/IIT Interim Report," to NSE and required NSE to submit responses to the observations of the CFT/IIT Interim Report. The CFT/IIT Interim Report observed, among other things, that NSE co-location facilities and tick-by-tick ("TBT"), architecture were vulnerable to manipulation and abuse, violated norms of fair access and compromised market fairness and integrity, as certain select trading members who availed of NSE co-location facilities were able to gain materially from the exploitation of NSE market feed dissemination architecture to receive market data more quickly than other trading members. NSE submitted its response, wherein it disputed the observations in the CFT/IIT Interim Report.

SEBI while reiterating the observations of the CFT/IIT Interim Report through its letter dated September 9, 2016 (the “Observation Letter”), among other things, observed (i) that the architecture of NSE with respect to dissemination of TBT data through transmission control protocol was prone to manipulation and market abuse; (ii) preferential access was given to certain stock brokers; (iii) NSE violated its policies by permitting entities that are not internet service providers to lay fiber at NSE co-location facility for various stock brokers; and (iv) the possibility of collusion between NSE officials and stock brokers. Further, SEBI advised the NSE Board of Directors (the “NSE Board”) to (i) initiate an independent examination (including forensic examination by an external agency) of the concerns highlighted in the CFT/IIT Interim Report, including lack of processes and collusion, if any and fix accountability for the breaches; (ii) as an interim measure pending investigation place all revenues generated from the co-location facility in a separate bank account; and (iii) submit a comprehensive report to SEBI within a period of three months from the date of the Observation Letter. The NSE Board appointed an independent agency (the “Independent Agency”) to conduct an examination of all the concerns highlighted in the CFT/IIT Interim Report, including, particularly whether norms of fair access were breached, whether some brokers unduly benefitted and if there were was any collusion or misconduct by NSE employees.

Subsequently, SEBI, through its letter dated November 28, 2016, among other things, (i) observed that NSE has not complied with certain observations as indicated in the Observation Letter, including the transfer of all revenues emanating from the co-location facility, including those generated from the trading activity; and (ii) granted an extension until December 31, 2016 to the NSE Board to submit its report pursuant to the independent examination of the matter. The NSE Board in its meeting held on November 29, 2016 took note of the same and decided to comply with SEBI’s letter and deposit in the separate bank account not only the rack charges (that is the rental for rack space) and connectivity charges in respect to the co-location facility but also the transaction charges resulting from the trading activity at the co-location facility. Accordingly, in addition to the rack charges and connectivity charges, an amount of ₹ 11972.5 million, representing the transaction charges on trade orders placed through NSE co-location facility from September 2016 to March 2018, has been transferred to the separate bank account. NSE intends to deposit the rack charges, connectivity charges and transaction charges to the separate bank account, for each month going forward until SEBI directs NSE to do otherwise.

In its meeting held on December 19, 2016, the NSE Board took the report on record and decided to initiate a review of the Multicast TBT systems of NSE, including the processes and procedures, data retention, job rotation, mandatory leave and segregation of duties. NSE forwarded the report to SEBI on December 23, 2016. Post-receipt of the report, SEBI, via its letter dated February 27, 2017, directed the Board of NSE to undertake certain steps to examine the role played by employees to determine if conduct of employees and stock brokers would amount to collusion. These steps included initiating similar forensic audits in other segments for the period between 2010 and 2015 in order to examine the conduct of stock brokers who had been alleged to have received preferential treatment, unauthorized access and unfair gains (including collusion with certain NSE employees).

Thereafter, SEBI issued a Show Cause Notice dated May 22, 2017 alleging that NSE had failed to ensure trading in a transparent, fair and open manner and had therefore failed to fulfill the main

object for which it was incorporated. Accordingly, it was alleged that NSE was in violation of the conditions of its recognition under Section 4 of the SCRA and had failed to comply with Regulations 41(2) and 48 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012. In the interest of the securities market, NSE was required to show cause as to why appropriate directions under Section 12A of the SCRA (read with Sections 11(1), 11(2)(a), 11(2)(j) and 11B of the Securities and Exchange Board of India Act, 1992) should not be issued against it.

On July 20, 2017, NSE consented to a settlement (the “Application”) without admitting or denying any guilt or demonstration of innocence and without prejudice to the explanations that may be offered by NSE in the proceedings, if any. In the Application, NSE stated that it was willing to engage with SEBI and pay a fair sum based on mutual discussion, in line with the principles set out in the Securities and Exchange Board of India (Settlement of Administrative and Civil Proceedings) Regulations, 2014 (the “Settlement Regulations”), which also takes into account the remedial measures taken by NSE.

In a subsequent letter dated February 26, 2018, SEBI stated that the Application would be returned, as there were other investigations pending for the same cause of action and, in accordance with Regulation 5(1)(d), no application shall be considered if any investigation was not complete, the Application would be returned, though a new one could be filed once all investigations were complete. Further, the letter stated, only one settlement application should be filed for all proceedings that have been or may be initiated for the same cause of action as per 3(4) of the Settlement Regulations. As a result, SEBI returned the Application with liberty to file a new application once all investigations were complete.

Until receipt of final findings by SEBI or directed otherwise, NSE will not have access to such revenues. NSE cannot guarantee that NSE will have access to such revenues in the future. Further, any adverse finding by SEBI (irrespective of the examination report of the Independent Agency) may materially adversely affect NSE’s business, in particular its co-location business, its reputation and results of its operations.

Risks Related to Investments in India

Indian Investments as Compared to Investments in other Jurisdictions. The underlying securities of NSE Security Futures are issued by issuers organized and regulated under the laws of the Republic of India. As such, NSE Security Futures may present a variety of risks not presented by investments associated with security futures contracts with underlying issuers from other developed jurisdictions, including risks associated with: (i) fluctuating currency and foreign exchange rates and limitations on currency exchange or the transfer of capital/profits across international boundaries; (ii) different accounting standards; (iii) less developed/sophisticated securities markets; (iv) unusual regulatory burdens; (v) different legal protections for investors and, in particular, non-resident Indian investors; and (vi) political, economic or social instability.

Foreign Accounting Disclosure and Regulatory Standards. Accounting, auditing, financial and other reporting standards, practices and disclosure requirements in India differ from those in developed countries and in some respects may be less stringent. Accordingly, less information

may be available with respect to the securities underlying NSE Security Futures. Indian regulations under which foreign investors may invest in local securities are new and evolving. The securities laws, corporate laws, and accounting laws and standards in India are changing, and the ability of regulators to promulgate and enforce rules regulating market practices is uncertain. There can be no assurance that regulations promulgated in the future will not adversely affect an investment in NSE Security Futures.

Corporate Governance. Corporate governance and accounting standards in India, particularly for listed companies, have gained increased attention in recent years and have been made more stringent in respect of disclosures, segmental reporting and consolidation of financial statements. Corporate governance standards for listed companies are specified in Clause 49 of the listing agreement that each listed company enters into with the relevant stock exchanges at the time of the listing of its securities. In addition, the (Indian) Companies Act, 2013 also contains certain provisions relating to corporate governance, which apply regardless of whether the company is listed or not, but vary depending on whether the company is public or private. The SEBI has also finalized the implementation of its Listing Obligations and Disclosure Requirements) Regulations, 2014, which must be followed by all listed companies, as also for listing of debentures, bonds and mutual funds on stock exchanges. This new set of norms requires greater disclosures by the companies. Nevertheless, disclosure and corporate governance standards in India are different than those in more developed countries and accounting, financial and other reporting standards in India are not on par with those in more developed countries.

Regulatory framework. The value and marketability of NSE Security Futures may be affected by changes or developments in the legal and regulatory climate in India. SEBI regulates the securities market in India and legislates from time to time on matters affecting the stock market. Further, securities laws in India are constantly evolving and accordingly, the ability of SEBI to promulgate and enforce rules regulating market practices is uncertain and may negatively impact the performance of NSE Security Futures. SEBI has issued regulations that affect investment in India, including regulations on takeovers, preferential allotments of shares and insider dealing. The regulations affect the pricing, the cost of a transaction and the ability to conduct due diligence.

Shareholder rights and remedies. As an investor in NSE Security Futures, an investor will not enjoy any rights whatsoever that are comparable to those of actual shareholders of the securities underlying NSE Security Futures. As a result, an investor in NSE Security Futures enjoys no protection or remedies available under Indian law for any violation of rights usually associated with being a shareholder in a company (and any additional shareholder rights that might be created in an Indian company's constitution or by-laws or by contract).

Political, Economic and Social Factors. Political, economic and social factors, changes in Indian law or regulations and the status of India's relations with other countries may adversely affect the value of NSE Security Futures. In addition, the economy of India may differ favorably or unfavorably from other economies in several respects, including the rate of growth of the gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments position. Actions of the Republic of India or respective Indian state governments in the future could have a significant effect on the Indian economy, which could affect private sector companies and, as a result, NSE Security Futures, as well as market conditions and prices and

yields of the securities of companies underlying certain NSE Security Futures. In addition to any changes in policy or legislative framework by the Republic of India, there may be policy or legislative changes in other countries, which may adversely impact the businesses of the underlying companies associated with any NSE Security Futures. Any such political action or change in legislative framework may affect the performance of NSE Security Futures. Certain developments are beyond the control of the investor in NSE Security Futures, such as the possibility of nationalization, expropriations, confiscatory taxation, political changes, government regulation, social instability, terrorist activities, diplomatic disputes or other similar developments, could adversely affect the value of such NSE Security Futures.

Counterparty Risk. Counterparty risk is the risk of loss due to a counterparty's default. NSCCL is the counterparty to every buying and selling member of NSE with respect to NSE Security Futures. Although NSCCL maintains robust risk containment mechanisms, it is possible that such mechanism may be inadequate to prevent NSCCL from defaulting on its obligations to its members. If NSCCL defaults on its obligations to its members, such members may no longer be able to perform the underlying contracts. Furthermore, any U.S. purchaser of NSE Security Futures through a registered broker-dealer will also be subject to default risk with respect to its broker-dealer and with respect to any NSE member through which the U.S. broker-dealer purchases NSE Security Futures on your behalf. For more information regarding NSE policies and procedures with respect to the default of NSE members, prospective investors should consult NSE Byelaws Chapter XII.

Risks of Investing in India. Countries in the India region are typically considered emerging market countries. The securities markets in the India region are substantially smaller, less liquid and more volatile than the major securities markets in the United States, and are undergoing a period of growth and change, which may result in trading or price volatility and difficulties in the settlement and recording of transactions, and in interpreting and applying relevant laws and regulations. The securities markets in these countries are comparatively underdeveloped and may be concentrated in certain sectors. In addition, governmental actions, including tax regulations, can have a significant effect on the economic conditions in the India region, which could adversely affect the value and liquidity of investments.

Derivatives Risk. The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of a counterparty or due to tax or regulatory constraints. Derivatives may create economic leverage, which represents a noncash exposure to the underlying asset, index, rate or instrument. Leverage can increase both the risk and return potential of NSE Security Futures. Derivatives risk may be more significant when derivatives are used to enhance return or as a substitute for a cash investment position, rather than solely to hedge the risk of a position held by an investor. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. The loss on derivative transactions may substantially exceed the initial investment.

IN ADDITION TO THE FOREGOING RISKS, YOU SHOULD THOROUGHLY READ AND UNDERSTAND THE CUSTOMER ACCOUNT AGREEMENT WITH YOUR BROKERAGE FIRM BEFORE ENTERING INTO ANY TRANSACTIONS FOR NSE SECURITY FUTURES.

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If you have questions about this Disclosure Document, please contact your U.S. registered broker-dealer.

National Stock Exchange of India Limited