Financial Technologies
Creating Markets. Unlocking Value™

May 05, 2014

Corporate Relations Dept., BSE Limited P. J. Towers, Dalal Street, Mumbai – 400 001	Listing Dept., National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051

Dear Sir,

Sub: Our response to the purported disclosure of modified/ edited/ redacted executive summary of PwC Special Audit Report

Please find attached herewith our reply sent to MCX with respect to the captioned subject.

You are requested to take the information on your record and acknowledge receipt for the same.

Thanking you,

Yours faithfully,
For Financial Technologies (India) Limited

Hariraj Chouhan
Vice-President and Company Secretary

CC:

Madras Stock Exchange Limited
Ahmedabad Stock Exchange Limited

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May 5, 2014

Managing Director
Multi Commodity Exchange of India Limited
Exchange Square, Suren Road,
Andheri (East),
Mumbai 400 093

Dear Sir,

Sub: Our response to your purported disclosure of modified/ edited/ redacted executive summary of PwC Special Audit Report

1. FTIL is shocked to see the *malafide* act of MCX in disclosing a half-baked disclosure to Bombay Stock Exchange, when it is not warranted under any law.

2. At the outset FTIL denies all the allegations contained in the purported executive summary of the report of the special audit as modified/ edited and redacted by you and furnished to the Bombay Stock Exchange (BSE) on April 29, 2014 ("Summary of Report").

3. We would like to place on record that the copy of the full report purportedly submitted by PwC (21st April 2014) was not furnished to us in spite of our repeated requests and you have deliberately chosen not to take our comments and clarifications on record though the substantial part of the report, as is understood by us from media, is adverse to us. Publication of such a half-baked report is uncalled for besides being unfair and unjust.

Financial Technologies (India) Ltd.
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▪ Tel.: +91-22-6686 8010 ▪ Fax: +91-22-6686 8050 ▪ Email: solutions@ftindia.com ▪ Website: www.ftindia.com
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4. We have noted that vide their letter dated 29th April 2014 addressed by PwC to you, which was duly acknowledged and countersigned by your MD & CEO, stated inter alia as under:

   4.1. You have told PwC that you were required under law to provide the said extracts to BSE in connection with the listing of MCX on BSE.

   4.2. You have also stated to PwC that you shall modify the Report at your end with certain redactions.

   4.3. The said report was addressed to Forward Markets Commission and was prepared in accordance with the instructions of FMC received by you.

   4.4. PWC stated clearly that you should point out to BSE that confidentiality of the extracts shall need to be maintained and accordingly the Extracts shall not be disclosed or made available by BSE to anyone else except to the extent such disclosure mandatorily required under applicable law or regulation.

   4.5. PwC clearly stated that the report remains addressed to FMC and it is a matter for you to decide whether the release is appropriate in the circumstances.

   4.6. PWC has further stated that in order to ensure that the BSE has a clear understanding of the terms under which the Extracts are being provided by you to them, a copy of their letter should accompany the extracts.

5. We have further noted and understood from your letter dated 29th April 2014 addressed to the BSE Ltd. as under:

   5.1. That you have stated that the Audit was conducted as directed by FMC.

   5.2. You have not yet verified the independently the contents of the Report.

5.3. You have decided to put in public domain the contents of the summary of the Report out of abundant caution and not towards any legal compliance,

5.4. You do not have any opinion on the report and you do not want to make any inference on the same since you have not verified the report.

5.5. You have stated that it is not intended for any person to trade in the shares of the Company on the basis of the report.

5.6. You have stated that the contents of the report are not even in the realm of allegations since they have yet to be proved against any person named therein and that due process of law will be followed in this regard.

5.7. You have not certified, endorsed the correctness, accuracy or completeness of the contents Summary report.

5.8. You have lastly instructed BSE to "disseminate the information" in the "Corporate Announcement" section.

6. In view of the above, it is clear that you have disclosed this Report to BSE out a malafide intention.

6.1. Firstly, you have clearly stated to PwC that there was a legal requirement to disclose and extracted their consent without informing them your real intent. Later, you have shifted your stand, and stated to BSE that the disclosure was out of abundant caution. You have not stated as to in whose favor you exercised this abundance in caution.

6.2. Secondly, you yourself stated that the investors should not rely upon this disclosure. You have further stated that you have not studied or understood the report and that you had no views on the report. It is therefore clear that it is not a disclosure requirement under the listing agreement. It is logical to conclude that the abundant caution disclosure is in fact a malafide act on your part.

6.3. When PwC clearly stated that this report should not be disclosed to public, you deliberately suppressed this letter from BSE and allowed them to upload the same for dissemination and later disclosed the letter of PWC to BSE. This does show further malafide intent on your part.

6.4. Under listing agreement you are required to disclose only that information which has a bearing on the performance/ operations of the Company as well as price sensitive information. This information you disclosed to the Exchange was neither of the above, as evident from the fact that you had not examined the report and you had admittedly no views on the same and you were admittedly not aware whether information contained in the Summary of Report is price sensitive or has a bearing on the performance/ operations of the Company.

6.5. It is also not clear as to on what basis you have deleted certain names and facts from the Summary of report and retained certain other names, especially the name of FTIL when you admittedly not aware whether information contained in the Summary of Report is price sensitive or has a bearing on the performance/ operations of the Company. Retaining only the name of FTIL, which is a listed company itself, is done with view only to destroy its share value and frustrate the sale transaction.

6.6. As you are aware, BSE listing agreement has a clause where in BSE can consider any confidentiality request. On the face of PwC request, you had instead of requesting BSE to keep it confidential, instructed BSE on your own to disseminate the same. This has been done obviously with an ulterior motive.

6.7. You are further aware that BSE is one of the bidders to buy the shares of MCX from FTIL, and your action to selectively disclose the same to BSE raises doubts on the integrity of corporate governance practices followed by you.

6.8. This especially in the light of the fact that your MD & CEO was an ex-senior employee of BSE. We have also noted that after this illegal disclosure to BSE, your MD & CEO resigned on frivolous health grounds.

7. We would also like to state here that we had vide our letter dated 23rd April, 2014 expressly requested you to refrain from finalizing the report without first taking our clarifications on any adverse comments against us in any of the finding of the PwC report. You have chosen not to heed to our request with a view only to put us under undue pressure and certainly out of ill-will and malefic intent. Your timing of the publicizing the report is also shows your intentions of causing damage to FTIL's interests.

8. In the light of the above, and without prejudice to the above, we hereby would like rebut point by point our clarification on the Summary report and reserve our rights to clarify our stand in detailed once we receive full text of the PwC Report dated 21st April 2014.

9. We also place on record that the intention behind not following to the processes in finalising the draft report, intentionally leaking of certain contents of the report and the timing of issue of report without adhering to the principle of natural justice when you were fully aware that divestment programme was on full swing and the update was provided to you by our merchant banker on time to time basis, is suspect and it appears to aimed at derailing the divestment process initiated by FTIL and may further be detrimental to the interest of the shareholders of both FTIL and MCX..

10. The only thing this illegal disclosure of the report has achieved is creating sensationalism that has led to uncertainty in the minds of all stakeholders of FTIL and MCX in general and the bidders in particular. It is also surprising that large financial numbers have been quoted in the Summary of report

disclosed but, again, conveniently, no review period is disclosed in the executive summary thereby giving a lop-sided and half-baked picture to the public at large.

11. Before, we give our detailed and pointed response to the limited information shared in the edited amd modified executive summary of the PwC report, it is important we put forward the contribution of FTIL in the creation, leadership and dominance of MCX and rationale behind some contracts that have been termed as 'one-sided' and favoring.

11.1. Until 2003, India did not have any actively functioning commodity futures exchange. The hedging and price discovery was inefficient and restricted to unorganized and *dabba* markets. The Government was deprived of revenue in form of taxes from such *dabba* trading while suffering from unorganized markets that led to inefficient price discovery, zero risk management.

11.2. In 2003, the Government issued recognitions to MCX, NCDEX and NMCE. Under Forward Contracts (Regulation) Act, 1952. Subsequently ICEX promoted by Reliance ADAG and ACE promoted by Kotak Mahindra Group started operations in 2009 and 2010 respectively. With five exchanges in India, MCX is the only successful exchange which achieved the heights as world No. 1 exchange in several parameters.

11.3. In the next decade that followed, MCX emerged as a national asset and achieved the following for the country and put India on the world map, which made the country proud of:

- **World's 3rd largest:** In 10 years, MCX, promoted by FTIL competed with 4 other exchanges in India and emerged as the world's 3rd largest exchange. It put India in the global map by becoming world no 1 in gold and silver, world's no 2 in natural gas and world's no 3 in crude oil.

- **Contribution to GDP** : A study assessing the impact of the commodity futures market on Indian economy, conducted by Deloitte Touche Tohmatsu India Private Limited (DTTIPL) has found the development of commodity futures market as a "critical enabler to economic growth". The study, further, observes that contribution of the commodity futures market turnover to India's GDP was around 0.23% and that to the services sector GDP was 0.42% in 2010-11. These

  numbers are expected to increase to 0.33% of GDP and 0.61% of the service sector GDP by 2014-15. It notes that with the migration of unorganized trading to the exchange platform, the revenue contribution to GDP has a potential to increase further.
- **One million employment:** As per Tata Institute of Social Sciences in 10 years, MCX and created direct and indirect employment of over one million people.
- **Efficient Price Discovery and Hedging:** In 10 years, MCX brought efficient price discovery and risk management through hedging for India.
- **Penetration higher than equities:** In 10years, MCX penetrated deeper than equities markets and today has more members than NSE and BSE, exchanges that have been in existence for over 20+ years and 130+ years respectively.
- **Only listed exchange**: The IPO of FTIL promoted MCX was subscribed to the tune of US$7 billion for an issue size of US$135 million; it was 54 times oversubscribed with subscribers ranging across a broad spectrum of investors from both India and abroad; retail portion of the IPO was oversubscribed 24 times; Qualified Institutional Buyers (QIBs) segment was oversubscribed 49 times and HNI tranche was oversubscribed 150 times. MCX's listing added 300,000 more shareholders to the family, placing it among the top 50 companies in India in terms of shareholder base on the first day of listing.
- **Best Mid-Cap IPO**: Finance Asia Awards conferred MCX IPO as the "Best Midcap Equity Deal" in the Entire Asia Pacific for 2012.

- **Best-in class governance:** Exchange being a frontline regulator, MCX took a step which no other exchange in India had even considered. By making MCX a listed company, it takes it to the pinnacle of high standards in transparency and disclosure with greater scrutiny of its progress and performance by analysts and investors.
- **Exchange Ombudsman:** MCX is the first and the only exchange in India to appoint a former High Court judge as the Exchange Ombudsman.
- **Pedigree of Investors:** Investors in MCX consisted of such pedigree institutions as the State Bank of India, Bank of Baroda, Corporation Bank, GLG Financials Fund, Alexandra Mauritius Ltd., ICICI Lombard, General Insurance Company, Fidelity (FID Funds Mauritius Ltd.), Aginyx Enterprises Ltd., Intel Capital (Mauritius) Ltd., IGSB-STAD I, LLC, Euronext N.V., and Merrill Lynch Holdings (Mauritius).
- **Awards and Recognitions:** A select few awards and recognitions conferred on MCX for its outstanding performance are:
    - EMPI-Indian Express Indian Innovation Award 2006 (given by Shri A.P.J. Abdul Kalam, the then President of India).
    - Golden Peacock Eco-Innovation Award 2008 by the Institute of Directors.
    - Award for Agriculture & Rural Innovation 2009 by Sankalp Forum.
    - FICCI Socio Economic Development Foundation (SEDF) Corporate Responsibility Award – 2009 and 2010.
    - NASSCOM Foundation Social Innovation Honours 2010.
    - Indy's Award-Best in Corporate Social Responsibility Practices 2011.
    - Best Commodity Exchange of the Year (Bombay Bullion Association) (every year since 2008).
    - Selected as the Best Superbrand – 2010 and 2011.
- **Best-in class technology and risk management**: In 10 years, MCX has operated its exchange without any major technical error and trades for 13.5

hours compared to 6.25 hours of equity trading, which also has issues of sun outages.

- **Strong financials:** In 10 years, MCX has around a cumulative income of ~Rs 3600 cr, expenses of ~Rs 1500 cr, PAT of ~Rs 1500 cr and paid income tax in excess of ~Rs 500 cr.
- **Dividend track record:** Since the very first year of its operations, MCX has been paying dividends.
- **Best in class auditors:** In 10 years, MCX has been audited by M/s Deloitte Haskins and Sells and B S R and Company.

12. The rationale behind the technology partnership (and not just a vendor-client relationship) between FTIL and MCX.

12.1. Unlike equities markets that existed for over 130 years and benefitted from the conversion from trading ring into electronic trading, commodities trading market did not exist since independence and required to be created from scratch and that too straight through electronic trading platform. More so the regulatory and legislative framework for commodities markets and the support spot and warehousing sector was yet to develop unlike the securities market in which everything was merely electronic, under one regulator and fairly well developed. All such changes would have impact on market structure and supporting technology.

12.2. Technology IPR for exchanges is a rare IP and has strategic and competitive issues as these differentiators are crucial for marketplace which depends totally on response time, accuracy, safety, security, bandwidth usage, support requirement, etc.. Even after decades of existence both NSE and BSE outsource this. MCX had a choice to either pay high capex upfront and take the technology when it was unsure of the future prospects and competed with other exchanges promoted by

NSE, Reliance ADAG, Kotak etc. or enter into a partnership with FTIL who opted to share the future risk of growth or lack of it with MCX. If MCX is successful, FTIL would get returns and if MCX failed to do well, FTIL would not get its due compensation. More so the technology had to manage changes in changing regulatory and legislative environment where technology based trading was happening for the first time in India in commodities market.

12.3. This arrangement is a critical reason behind MCX's phenomenal success and achievement since inception and including amongst others a dominant 85% market share, which at peak crossed 90%. For any trading platform, continuous availability of expertise and data integrity are the most important aspects. FTIL had an expertise and proven track record, to provide such large software solution with national level support which can cater to large number of real-time transactions.

12.4. These technology agreements were in public domain and subjected to lot of scrutiny as they were disclosed in the RHP and kept open for inspection during IPO. The amendments to these agreements post-IPO were cleared by the Directors' Committee of MCX where 3 out of 4 Directors were independent Directors, nominated/approved by FMC. They were also later cleared by the Board of MCX, which had majority independent Directors. All throughout, FTIL had only three nominee Directors on the Board of MCX out of 16.

12.5. All these years the accounts of MCX were audited by M/s Deloitte Haskins and Sells and B S R and Company and the same had no qualification whatsoever.

12.6. In such IPR agreements, there are strong deterrent clauses for exits to ensure the creator of IPR does not get short changed once the IPR has created value for the user. US FDA for instance gives 20 years exclusivity to pharma companies for spending time in creating pharma

IPR. Besides, the said agreements were approved by the Board of MCX, which had majority independent Directors.

12.7. The related party contracts being questioned and blown out-of-proportion by the PwC report should be read in conjunction with the above and the period of over 10 years for which the audit has been performed.

13. FTIL do not agree with and take strong umbrage to the PwC report on the following grounds, in addition to what has been stated above:

13.1. MCX and PWC overlooked the principles of natural justice by not giving FTIL an opportunity to give clarification despite being asked for at regular intervals, even during preparatory stage. The first letter was written by FTIL on27/02/2014 seeking the report of PwC and for being given an opportunity to provide its clarifications before any report is finalized.

13.2. No representations were taken from FMC which regulates MCX and overlooks the running of the exchange, its risk management and surveillance efforts, especially, when an institution has to be created from a scratch in an uncertain and evolving business environment.

13.3. No clarification taken from the previous management that took these decisions.

13.4. The deletions and modifications and redactions were made with a malefic intent of exposing only FTIL.

13.5. The report has not even been shared with FTIL agaisnt whom baseless allegations have been made and surprisingly, neither PwC nor MCX takes responsibility of the said report.

13.6. The major intent and purpose of PwC report is nothing but to spread malice and to derail the divestment process transparently run by FTIL and erode the value of both FTIL and MCX shareholders.

14. DENIAL OF NATURAL JUSTICE TO FTIL AND THE BLATANT NEGLECT OF PROCESS FOLLOWED BY PWC IN THE SPECIAL AUDIT REPORT

Whether aggrieved party, FTIL was intimated on the commissioning of such report	✗
Whethere clarifications of allegation on FTIL were sought	✗
Whether FTIL requested for its views and comments and a copy of report to be shared	✓
Whether the report including interim report shared with FTIL	✗
Whether the report took views of any aggrieved party	✗
Whether the previous or current auditor views were taken	✗
Whether the previous management responsible for decisions were contacted and views taken	✗

14.1. PwC needs to clarify whether this is a standard process followed by PwC in such special audits whereby it does not talk to the people to whom they accuse, and if not, why this process was followed. PwC also needs to explain the timing of the report as to the reason for

coincidence in the report getting completed in the middle of a divestment process.

14.2. We also take strong objection to the timing of the report and the timing of the decision by the Board of MCX to inform the exchanges on the completion and sharing of the same. The timing is represented as below:

14.3.

Events	Date
FMC appoints PwC for an special audit of MCX	04/12/2013
FTIL Board constitutes Restructuring Committee for divestment of 24% stake in MCX	27/02/2014
FTIL appointment of JM Financial	7/03/2014
MCX Board to consider Preferential Allotment	31/03/2014
MCX Board to consider change in MOM and AOA to enable them to transfer FTIL shares into Escrow	03/04/2014
MCX Board defers Preferential Allotment	03/04/2014
MCX Board deciding not to go ahead with Preferential issue	09/04/2014
FTIL receipt ofNon-binding bids being intimated to exchanges	11/04/2014
FTIL Date for finalization of bidders of April 25, 2014 as intimated to stock exchanges	11/04/2014
First disclosure of Information asked by	11/04/2014

bidders through stock exchange notification	
Second disclosure of Information asked by bidders through stock exchange notification	19/04/2014
MCX intimation to stock exchanges of the PwC report being submitted and audit committee meeting on April 23, 2014 and Board Meeting the same on April 26, 2014 for the same	21/04/2014
MCX Board Meeting where it mentioned management to act on the PwC Report and to seek PwC approval for further action	26/04/2014
MCX shares executive summary with redactions through stock exchange	29/04/2014

14.4. You would notice that despite FTIL making best effort for divestment of 24% stake in MCX, you have hindered the process as under:

(i) Through the announcement of a preferential allotment issue which was aimed at diluting FTIL's property rights in respect of its 26% shareholding in MCX and despite MCX not requiring any capital without any firm offer from any shareholder and then within 72 hours deferring the same and within 9 days deciding not to go ahead, thereby injecting volatility in the stock price of both FTIL and MCX, something that SEBI should be investigating.

(ii) Through the PwC report intimation to exchanges on 23/04/2014 when the final bids were expected on 25/04/2014 and then it's

sharing despite our request to share through an NDA on 29/04/2014.

15. The impact on share price of FTIL and MCX

- Besides derailing the divestment process, the timing of the PwC report has affected the interest of the shareholders of both FTIL and MCX. Since the intimation by FTIL to stock exchanges on its divestment of stake in MCX and the progress thereon – 27/02/2014 to 21/04/2014 – the MCX share price has seen an appreciation of 14%.
- Subsequent to the announcement by MCX to the exchanges on the PwC report on 21/04/2014, the MCX stock price has fallen by 9%.
- During the same period, FTIL share price increased and decreased 8% and 16% respectively

15.1. FTIL questions the timing and the intent of the said report. From a transparency perspective, it is important that MCX shares with all its stakeholders the time of initiating the report, the timing on the changes in the scope of the report, the timing for the submission of the interim report and the action taken therein, any correspondence between MCX, FMC and PwC since FTIL divestment process started on 27/02/2104.

16. Now we would like to deal with the report as under, while reserving our right to give detail representation after receipt of the full report:

16.1. With regards to point no. 2.1.3, it is incorrect to state that trading turnover of MCX was decreased due to regulatory scrutiny by FMC. It is not fair to attribute the loss of business to FMC. We state that in fact the trading turnover was adversely impacted due to introduction of commodity transaction tax (CTT) during the budget and introduction of

base minimum capital by FMC. Before the implementation of CTT, in the previous 5 years (2008-09 to 2012-13) the volumes increased by 3.24 x at a CAGR of 34.2%. The impact on trading turnover was mainly due to CTT is evident from the following:

Month	Significance	ADV Rs. in cr	% change
June 2013	Pre-CTT	48180	
July 2013	Post-CTT	28745	-40%
August 2013	Post NSEL crisis	28704	No change

16.2. With regards to point no. 2.1.4, it is to be clarified that National Bulk Handling Corporation Ltd (NBHC) was carrying out its business and providing its services to various third party clients including to exchanges like MCX.

16.3. With regards to point no. 2.1.5, it is incorrect to reach to a conclusion that mere by providing few services like software, annual maintenance by FTIL & certain services by its group, that the operations of MCX appear to be significantly dependent on FTIL and its group. In fact the Board of MCX comprised of more independent & FMC nominee directors than nominee director of anchor investor. FTIL was contributing to the growth of MCX in its capacity as anchor investor and strategic technology partner.

16.4. With regards to point no. 2.2, we deny the allegation and on the contrary PwC confirms that the same has not been verified from FTIL representatives under the garb of lack of access to FTIL. The fact was that FTIL informed its readiness to cooperate with PWC . There are similar accusations and excuses with regards to key management personnel are no longer employed at MCX. During the period of special audit, most of the key employees were in employment with MCX and

could have been very well verified before drawing inference on the same. Besides, they did not approach FTIL for any clarification and in addition you are claiming lack of access to FTIL representatives which in itself is misleading.

16.5. With regards to point no. 2.3, first of all PwC should clarify on what basis they have defined related party in their report and for what objective. It seems that the definition of related party has been redefined by PwC otherwise than it is defined in the Companies Act, 1956 and/or Accounting Standard. All the related party transactions were disclosed appropriately by FTIL and FTIL is in compliance with Accounting Standards & Companies Act, 1956.

16.6. With regards to point no. 2.3.2 to 2.3.6, we shall provide you the appropriate detailed reply if it is related to FTIL upon receipt of the complete details on the same.

16.7. With regards to point no. 2.4.1, all the related party transactions by both FTIL and MCX have been duly and regularly disclosed in its annual report. Besides, during the time of MCX IPO, the same were disclosed in RHP including the summary terms of the material agreements. During the IPO period, all the agreements were also kept open for inspection. The same were reviewed and cleared by all bankers, investors and regulator FMC, SEBI etc. With regards to point no. 2.4.2, PwC has conveniently misguiding by stating that MCX incurred net expenditure of approximately INR 649 crs over the years for services rendered by FTIL under various agreement, however the break-up of revenue and capital expenditure were not given and also the total period covered for the services rendered was also not disclosed. First of all, we would like to state that all the transactions by FTIL with MCX was disclosed in the Annual Financial Statements of

both the Companies in all the years which were audited by the big top 4 audit international audit firms. All these transaction details are already there in the public domain which PWC claims to be audit findings. Further on the receipt of full details of the amount as stated in the report, we shall respond accordingly.

16.8. With regards to point no. 2.4.3 & 2.4.4, it is to be noted that there are different method / process is been adopted by different private organization. It is to be noted that MCX software / maintenance charges as % of transaction fee is 14.88% in FY 12 whereas of NSE is at 15.6% and BSE is at 21.5% for FY12. Just mere as per PwC a particular process is not followed as per their view does not mean that the company has not followed the process and therefore to allege on adequacy and robustness of price discovery mechanism does not arise and therefore PwC is unable to conclude that the transactions are conducted on arms-length basis is out of place. In fact from the above said comparison, it is clear that FTIL has provided services to MCX at lower price compared to peers. Besides, PwC should have checked with MCX statutory auditors for clarifications on the same.

16.9. With regards to point no. 2.4.4, we would like to state that as the business evolves and system evolves over the period of time due to end user requirements or due to regulatory requirements, various enhancement, modification may require and accordingly there may be amendment, modifications to the various terms and conditions of the agreement(s) more so MCX being regulated entity, it may require various changes in the software & therefore its maintenance. To arrive at a conclusion by PwC that due to modification, amendment in the agreement led to incremental cash out flow from MCX without any basis and it is absurd.

16.10. With regards to point no. 2.4.5, the terms of the agreements were commercially agreed by both the parties which were also approved by MCX committee/ Board which were in the best interest of the parties. MCX is getting uninterrupted services from FTIL.

16.11. With regards to point no. 2.4.6, we deny the allegation completely, however upon receipt of complete report of PwC, the Company will appropriately reply on the same.

16.12. With regards to point no. 2.4.7, some time, when any of the agreement is under negotiation, the business continuity must go on being a mission critical project and therefore in certain cases the agreement may have been entered from retrospective date, where services were rendered during the period. These are normal practice followed in any mission critical services with long term association. However upon receipt of complete report of PwC, the Company will appropriately reply on the same.

16.13. With regards to point no. 2.4.8, we would not privy to what has been said by the respective officials of MCX and under what context they have said and therefore we would not like to comment without understanding content of the same.

16.14. With regards to point no. 2.4.9, it appears that inspite of the process followed by MCX as stated in the report; still PwC raises issues on signatories etc. who are part of committee as well as part of key managerial person. It is the Board / committee appointed by the Board who authorizes to execute the agreement. All the related party agreements were approved by the Committee / Board of Directors.

16.15. With regards to point no. 2.4.10, only after getting full details, it can be known if this pertains to FTIL, FTIL will appropriately respond.

16.16. With regards to point no. 2.5.1, it has already been replied, pl. refer point no 1.10 and 1.11.

16.17. With regards to point no. 2.5.2, the objective to have fixed and variable revenue model was not to burden any venture at the start of its operations. As per the normal practice in software industry for products, post initial license fees, vendor charges customer AMC and also for specific enhancements requested by the customer. Further, in products where initial license cost is high and client business success depends on software, then it is practice to enter into transaction based variable fees based arrangement to keep initial capital cost low and pay based on future revenue. This works well for vendor as well as customer as vendor is able to add one customer and customer passes on some of the software cost based risk to vendor. It creates value to the enterprises. It is to be noted that the infrastructure cost is the key for such type of business.

16.18. In FY14, FTIL has received less revenue due to lower volumes due to CTT. This is the essence of a revenue share contract.

	Financial Year		
Quarter	2013-14	2012-13	***% change***
Q1	148,761,572	148,842,926	***0%***
Q2	96,980,443	157,987,828	***-39%***
Q3	65,404,911	149,956,744	***-56%***

16.19. It is also apparent from the figures as stated in point no. 1.11, that the amount charged and received towards performance of services is still lower than other exchanges including equity exchanges. The remaining

issues raised on the existing contractual terms, we have already replied, hence not repeating the same.

16.20. With regards to point no. 2.5.3, 2.5.4, being an IP company, the Company has rights to protect its rights as there are lot of resources is been invested to create and maintain a world class IP. It is incorrect to state that MCX has no right to terminate the contract. They have right to terminate subject to financial obligation.

16.21. With regards to point no. 2.5.5, it is not pertaining to FTIL, hence we have no comments on the same.

16.22. With regards to point no. 2.5.6, we would not like to comment on the due diligence conducted on MCX by ex-potential investor. In fact there are few leading global stock exchange that have bid for stake in MCX and expressed their desire to acquire 24% if it is been permitted.

16.23. With reference to point no. 2.5.7 & 2.5.8, FTIL has supplied the software / provided the services on fixed price basis and also certain services like for ESG, web development, IT maintenance etc. on time and material basis for which all the details are annexed with the respective invoices.

16.24. With regards to point no. 2.5.9, FTIL assisted MCX on shortlisting of vendor, identifying right type of infrastructure and hardware requirements commensurate with the other infrastructure environment and from time to time advising on the installation and providing training on the said infrastructure etc.

16.25. With regards to point no. 2.6 & 2.7, it is not pertaining to FTIL, hence we have no comments on the same.

16.26. In respect to Section 2.8 "Review of trading transactions" and 2.9 "Risk Management Systems", it is important to note that system deployed at MCX from time to time were as per the requirements of MCX and/or after required sign-off from MCX. FTIL's exchange system is one of the best in market and are used by many exchanges in India and globally. Over the years, it has passed through numerous rounds of User Acceptance Testing, System Audits, Regulatory Inspections / Audits and above all, by the market participants in form of actual usage. It is to be noted that the surveillance system was provided by FTIL and Surveillance process was also in place however it appears that PwC have not understood the system control completely & it appears on specific query raised by PwC, they have reached the conclusion which can be revisited after understanding the complete process. On issue regarding alert management system installed by MCX which was not enabled or mechanism to share information on related parties between the membership department & secretarial department, we would not like to comment, being an internal matter. With regards to point no. 2.8.5, the system has facility to define certain group of entities as constituents and also automatically creates constituent for same PAN number including detecting transactions by constituents. With regards to point no. 2.8.6 to 2.8.9 the facility have been available. With regards to point no. 2.8.10 and 2.8.11, it is not pertaining to FTIL; hence we would not like to comment on the same.

17. RISK MANAGEMENT:

17.1. Without looking at micro issues raised in the report, MCX managed to run a world-class exchange with adequate risk management in one of the most volatile periods in the history of commodity exchanges globally. Risk Management is a vast subject and the report has chosen

only to highlight a few aspects whereas refusing to comments on the big picture, achievements and that MCX has run the exchange without any major technical glitch or risk. FTIL developed systems much beyond the regulatory requirements to include dynamic risk management etc. There are many firsts to MCX credit which other exchanges have followed.

17.2. With regards to point no. 2.10, we would like to inform you that the Board of MCX comprised of majority independent Directors, which were nominated/approved by FMC and as stated in the report that the Board has appointed various committees to take decisions on various matters related to the business of the Company as well as to oversee the operations as a commodity exchange and the report is raising question mark on conflict of interest for members of MCX BoD and its committees from time to time or discretion having been applied by its BoD on consulting the supporting committees in various decisions without any basis. It is further to be noted that when PwC is unable to establish during the review whether meetings represented to have been attended by top management officials may necessarily evidence complete attendance in person, in such case why PwC is stating the same in report? It is inappropriate on the part of PwC to raise doubt on corporate governance and the capability of Board of Directors where maximum directors are independent.

Thanking you,

Yours faithfully,
For Financial Technologies (India) Limited

Authorised Signatory