

This product disclosure statement only highlights the key features and risks of this OTC derivative product (the “Product Disclosure Statement”). Counterparties/Users are advised to request, read and understand the Product Disclosure Statement and all other disclosure documents before deciding to transact.

## Vanilla FX Option

Date : [03 April 2023 ]

### STATEMENT OF DISCLAIMER

The Product Disclosure Statement in relation to this Vanilla FX Option (the “Transaction”), includes only indicative terms, conditions and risks (including all indications as to costs, returns and cash flows) associated with the Transaction and although the information set forth below is reflective of the terms, conditions and risks as of a specified date, and is based on current assumptions and market conditions under which JPMorgan believes the Transaction can be carried out, no assurance can be given by JPMorgan that the Transaction could in fact be executed and JPMorgan is not obliged to enter into the Transaction. Information herein is believed to be reliable but JPMorgan does not warrant its completeness or accuracy. This should also not be taken to indicate that JPMorgan recommends the Transaction. Opinions and estimates constitute JPMorgan’s judgment and are subject to change without notice. Examples shared are for illustrative purposes only and any past performance is not indicative of future results. Counterparty/User is advised to make an independent review and reach its own conclusion and judgment regarding whether the Transaction is appropriate and proper for it. Counterparty/User needs to consult its own advisors regarding the legal, credit, tax, accounting or any other aspects including suitability implications of the Transaction for its own particular circumstances. This Product Disclosure Statement is not intended as an offer or solicitation for the purchase or sale of any financial instrument. This Product Disclosure Statement has been prepared by JPMorgan Sales and Trading personnel and is not the product of JPMorgan’s Research Department. It is not a research report and is not intended as such. JPMorgan or a company or person connected or associated with it may be an underwriter or distributor of, or a market maker or otherwise hold a long or short position as a principal in, a security or financial instrument (or in options, futures, or other derivative instrument related thereto) connected with the Transaction described in this Product Disclosure Statement. JPMorgan is the marketing name for J.P. Morgan Chase & Co. and its subsidiaries and affiliates worldwide. Client should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This Product Disclosure Statement is provided on a confidential basis and may not be reproduced, redistributed or transmitted, in whole or in part, without the prior written consent of JPMorgan. Any unauthorized use is strictly prohibited.

For the purpose of the Product Disclosure Statement, the Transaction is described with USDINR as the underlying currency pair. The transaction description is also applicable for other currency pair underlyings.

## 1. What are the features of this product?

This is an FX linked over-the-counter (“**OTC**”) derivative product (the “**Transaction**”). This Transaction allows the user to hedge exposure from future USD cashflows against USD/INR exchange rate movements.

Upon purchase, the user pays the premium and holds the right but not the obligation to buy (sell) USD against INR at a pre agreed Strike Rate at the Settlement Date of the Transaction.

Upon purchase, the user usually pays the premium upfront. User may also pay the premium at the expiry of the transaction, or on a deferred basis as a regular fixed rate coupon computed on the outstanding notional at pre-determined frequency during the life of the transaction. Upon selling, user (seller in this case) receives the premium.

This Transaction is suitable for users looking to hedge exposure arising from future USD cash flows against adverse USD/INR movements and still be able to participate in favorable moves in USD/INR.

The user is relying on the creditworthiness of the market maker. On the Settlement Date, the contractual Settlement Payments shall take place between user and the market maker, provided that the market maker is solvent.

The market maker, JPMorgan Chase Bank, Mumbai branch, is a financial institution licensed by Reserve Bank of India.

### **Variation:**

#### **Based on Option Type:**

- **Call Option:** Option buyer holds the right but not the obligation to buy USD against INR at a Strike Rate at the Expiration Date of the Transaction, for settlement on the Settlement Date
- **Put Option:** Option buyer holds the right but not the obligation to buy USD against INR at a Strike Rate at the Expiration Date of the Transaction, for settlement on the Settlement Date

#### **Based on option exercise style:**

- **European Option:** Single pre-defined Settlement Date of the Transaction.
- **American Option:** Option buyer can choose to exercise on any Business Day during a pre-defined Exercise Period that consists of more than one day.

## 2. Contract terms and conditions

**Party A:** JPMorgan Chase Bank, Mumbai branch

**Party B:** User

<b>Trade Date:</b>	[ ]
<b>Effective Date:</b>	[ ]
<b>Settlement Date:</b>	[ ]
<b>USDINR Spot Reference:</b>	[ ]
<b>Notional Amount:</b>	[ ]
<b>Strike Rate:</b>	[ ]
<b>Currency Option Style:</b>	[European / American]
<b>Currency option Type:</b>	[Call (Put)]
<b>Option Buyer</b>	[Party B]
<b>Calculation Agent:</b>	Party A
<b>Upfront Amount:</b>	[ ]
<b>Settlement:</b>	Physically settled
<b>Documentation:</b>	The Transaction will governed by and subject to the ISDA Master Agreement (including the Schedule, any Credit Support Annex, individual Confirmation for this Transaction and any amendments to the foregoing documents) executed between Party A and Party B (the “ISDA”).
<b>Exercise Period:</b>	<b>For American Option:</b> On any Business Day from and including Effective Date to and including the Settlement Date.
<b>Settlement Payments:</b>	<b>For Call (Put) Option:</b> If USDINR Spot Rate on Settlement Date is greater (lesser) than Strike Party B receives (pays) Notional Amount Party B pays (receives) Notional Amount * Strike Rate

### 3. What are the benefits of this product for the user / Party B?

This Transaction potentially helps the user to hedge against adverse USD/INR movement, while still being able to participate in favorable movement in relation to a pre-determined Strike Rate.

- **Buy USDINR Call (Put):** Users with an underlying short (long) position in USDINR can hedge their exposure against INR depreciation (appreciation) above (below) Strike Rate, and can still participate in favorable movements below (above) Strike Rate.

- **Sell USDINR Put (Call):** Users (seller in this case) with an underlying short (long) position in USDINR are hedged against INR appreciation (depreciation) below (above) Strike Rate, and are compensated through premium. Users are not hedged against INR depreciation in this case.

**Illustration:**

**Example of hedging via USDINR Vanilla Call Option (European)**

- Market maker is Party A, user is Party B
- Notional Amount: USD 1 million
- Effective Date: 03 April 2023
- Settlement Date: 28 March 2024 (1y)
- Strike Rate: 84.00
- Currency Option Type: USDINR Call
- User buys the option, and pays Premium (Upfront Amount) on Effective Date

Case	S <sup>^</sup>	Payoff	Net Profit (loss) in INR	Effective Exchange Rate
Hedged	90	<ul style="list-style-type: none"> <li>• Party B receives USD 1 Mio</li> <li>• Party B pays INR 84 Mio</li> </ul>	USD 1mio * (90 – 84) = INR 6 Mio	84
Favorable FX movement	70	<ul style="list-style-type: none"> <li>• No Settlement</li> </ul>	0	70

^ S = USDINR Fixing Rate at Settlement Date

**Example of protection via USDINR Vanilla Put Option (European)**

- Market maker is Party A, user is Party B
- Notional Amount USD 1 million
- Effective Date: 03 April 2023
- Settlement Date: 28 March 2024 (1y)
- Strike Rate: 84.00
- Currency Option Type: USDINR Put
- User buys the option and pays Premium (Upfront Amount) on Effective Date

Case	S <sup>^</sup>	Payoff	Net Profit (loss) in INR	Effective Exchange Rate
Hedged	60	<ul style="list-style-type: none"> <li>• Party B pays USD 1 Mio</li> <li>• Party B receives INR 84 Mio</li> </ul>	USD 1mio * (84 – 60) = INR 24 mio	84
Favorable FX movement	90	<ul style="list-style-type: none"> <li>• No Settlement</li> </ul>	0	90

^ S = USDINR Fixing Rate at Settlement Date

#### **4. What are the risks involved?**

There are risks associated with this Transaction including, but not limited to, foreign exchange risk, price risk, liquidity risk and credit risk. Users should consult their own financial, legal, accounting, and tax advisors about the risk associated with this Transaction, the appropriate tools to analyze the Transaction, and the suitability of the Transaction in each user's particular circumstances. No user should enter into the Transaction described above unless that user understands and has sufficient financial resources to bear the price, foreign exchange, market, liquidity, structure, and other risks associated with the Transaction.

##### **Foreign Exchange Risk:**

This Transaction is exposed to movements in USD/INR spot rate and the mark to market value of the Buy Call / Sell Put (Buy Put / Sell Call) for Party B shall be adversely affected if INR appreciates (depreciates) against USD.

##### **Volatility Risk:**

This Transaction is exposed to movements in volatility. If volatility changes from its current position, there is a risk that the mark to market value of the Transaction for Party B will be adversely affected.

##### **Interest Rate Risk:**

If USD or INR interest rates move from their current positions, the mark-to-market value of the transaction may be adversely affected from Party B's perspective.

##### **Liquidity Risk:**

This Transaction is not a readily liquid instrument. There may exist a time when there is a lack of liquidity or low trading volume in the market for the Transaction, and this potential illiquidity could significantly decrease the market value of the Transaction for Party B.

##### **Credit Risk:**

This transaction carries the credit risk of the market-maker i.e. Party A when user is purchasing the options.

##### **Ordinary Course of Business:**

In the ordinary course of their business, Party A or any of its affiliates or subsidiaries may affect transactions for their own account or for the account of their customers. In conducting such business neither Party A nor any of its affiliates or subsidiaries is obliged to take into account the circumstances of the parties to the Transaction or act in a manner which is favorable to them. Such activity may, or may not affect the value of the Transaction, but potential investors should be aware that a conflict may arise.

**Potential Conflicts of Interest:**

Potential conflicts of interest may exist in the structure and operation of the strategy and the course of the normal business activities of Party A or any of its affiliates or subsidiaries or their respective directors, officers, employees, representatives, delegates or agents of their normal business activities.

Party A has priced, executed and will manage the risks associated with this Transaction in a principal capacity and at arm's length. Party A is not acting as your fiduciary, agent or advisor in relation to the execution of this Transaction and management of the associated risks. Party A has made no representation or warranty to you concerning the performance of this Transaction or Party A's other activities and/or competing interests that could conflict with this Transaction at any point during the term of the Transaction.

**5. How does the payoff profile look like?**

**Payoff of the transaction:**

Call Strike:  $C_K$

Put Strike:  $P_K$

USDINR Spot Rate at Settlement Date:  $S$

For Buy Call / Put Option: On Effective Date, Party B Pays Premium (Upfront Amount)

For Sell Call / Put Option On Effective Date, Party B Receives Premium (Upfront Amount)

Option Type	On Expiration Date	Payoff (On Settlement Date)
Buy Call	Party B exercises the option ( $S \geq C_K$ )	<ul style="list-style-type: none"> <li>Party B receives USD Notional</li> <li>Party B pays INR amount = USD Notional x <math>C_K</math></li> </ul>
	Party B does NOT exercise the option ( $S < C_K$ )	<ul style="list-style-type: none"> <li>No Settlement</li> </ul>
Buy Put	Party B choses to exercise the option ( $S \leq P_K$ )	<ul style="list-style-type: none"> <li>Party B pays USD Notional</li> <li>Party B Receives INR amount = USD Notional x <math>P_K</math></li> </ul>

	Party B does NOT exercise the option ( $S > P_K$ )	No Settlement
Sell Call	Party A choses to exercise the option ( $S \geq C_K$ )	<ul style="list-style-type: none"> <li>• Party B pays USD Notional</li> <li>• Party B Receives INR amount = USD Notional x <math>C_K</math></li> </ul>
	Party A does NOT exercise the option ( $S < C_K$ )	No Settlement
Sell Put	Party A choses to exercise the option ( $S \leq P_K$ )	<ul style="list-style-type: none"> <li>• Party B receives USD Notional</li> <li>• Party B pays INR amount = USD Notional x <math>P_K</math></li> </ul>
	Party A does NOT exercise the option ( $S > P_K$ )	No Settlement

**6. What are the fees and charges the user will have to pay?**

Unless stated otherwise in the termsheet or trade confirmation of the Transaction agreed with the user, the price that Party A quotes to its users is inclusive of any charges, costs etc. that Party A needs to bear in order to offer the Transaction to the user.

**7. How often valuation statements will be available for user/Party B?**

Valuation statements in relation to all Transactions executed between parties, which is updated on daily basis, will be made available to Party B on the “Optimize” application present on Party A’s online platform, J.P.Morgan Markets (“Optimize Platform”). Party B will be able to view and download such valuation statements from the Optimize Platform for a specific period of time as notified by Party A, from time to time. To the extent Party B wishes to receive any particular valuation statement via email or any other mode of communication, it should reach out to its representative at Party A and make a request in writing to receive such valuation statement via email or any other mode of communication as agreed between the parties. Party A shall consider Party B’s request and if reasonable and operationally practicable, it will share the particular valuation statement requested via email or any alternative mode of communication with Party B.

**8. How can the user/Party B exit from this Transaction and what are the costs involved?**

Similar to any OTC derivative transaction in case Party B wishes to terminate this Transaction, either in part or in full, prior to the scheduled termination date on any business day, Party B can

request Party A to provide an early termination quote, which shall take into account the mid mark to market value of this Transaction from Party A's perspective minus applicable costs which include without limitation, unwind cost, hedging cost, cost of funding, and/or other expenses.

Early termination quote will take into account, among other factors, prevailing market rates, liquidity, price factors, Party A's hedging obligations and such other factors deemed relevant by Calculation Agent in its sole and absolute discretion.

Party B shall communicate to Party A whether they would like to proceed with the early termination/unwind and that early termination quote is accepted by Party B.

- a. If the early termination quote is greater than zero, Party B shall pay such amount to Party A.
- b. Else, Party A shall pay to counterparty the absolute value of the early termination quote.

For avoidance of doubt, upon the payment of early termination quote, this Transaction shall terminate and no further amounts payable by either parties.