

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.

## Put Seagull with Knock-in

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### STATEMENT OF DISCLAIMER

The Product Disclosure Statement in relation to this Put Seagull with Knock-in (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. Please use these details in conjunction with other applicable PDS for risks pertaining to transactions

## 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 USDINR exchange rate movements.

This Transaction is usually structured as a zero-cost hedging instrument, where the user is hedged against USDINR movements above and below two pre-determined Strike Rates, with a cap on the profit from the transaction below a pre-determined level (KI Barrier). The holder can participate in the USD INR market rate between the two Strike Rates but is partially exposed beyond the KI Barrier . This product can be analyzed as an underlying USDINR Vanilla Seagull with the overlay of a ‘barrier mechanism’ of Knock-In type.

A Knock-In barrier means the underlying derivative payout is activated only if the underlying asset reaches a predetermined barrier level during its life or at expiry.

This Transaction is suitable for users who wish to hedge their exposure on the underlying USDINR cashflows. Users will get better payoff than a vanilla Seagull but with an additional risk taken of losing the hedge or being unhedged in a range based on USDINR evolution beyond the barrier.

The user pays the premium upfront or at the expiry of the transaction, or on a deferred basis as a regular fixed coupon computed on the outstanding notional through the life of the transaction.

### Decomposition:

- Sell a USDINR FX Vanilla Put Option overlaid KI Mechanism
- Buy a USDINR FX Vanilla Put Option
- Sell a USDINR FX Vanilla Call Option

### By relative position of Fixing (or spot) w.r.t Barrier:

Down and In: Knock-In occurs when underlying FX moves down to the barrier and fixes (or trades in case of American) below the barrier.

### By barrier observation type:

- European: Barrier mechanism triggered by USDINR levels observed on Expiration Date
- American: Barrier mechanism triggered by USDINR levels observed through the life of the trade

## 2. Contract terms and conditions

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

<b>Party B:</b>	User
<b>Trade Date:</b>	[ ]
<b>Effective Date:</b>	[ ]
<b>Expiration Date:</b>	[ ]
<b>Settlement Date:</b>	[ ]
<b>USDINR Spot Reference:</b>	[ ]
<b>Notional Amount:</b>	USD [ ]
<b>Put Strike 1:</b>	[ ]
<b>Put Strike 2:</b>	[ ]
<b>Call Strike:</b>	[ ]
<b>Barrier Type:</b>	[KI]
<b>Currency Option Style:</b>	[European (or American)]
<b>Option Buyer</b>	[Party B]
<b>Calculation Agent:</b>	Party A (unless stated otherwise in ISDA (as defined below))
<b>Upfront Amount:</b>	-Nil- (in most cases)
<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 " <b>ISDA</b> ").

**Settlement Payments:**

If USDINR Fixing Rate is less than KI Barrier:

- Party B pays INR (Notional Amount \* Put Strike 1)
- Party B receives INR (Notional Amount \* Put Strike 2)

If USDINR Fixing Rate is greater than or equal to KI Barrier and less than or equal to Put Strike 2:

- Party B receives INR (Notional Amount \* Put Strike 2)
- Party B pays USD Notional Amount

If USDINR Fixing Rate is greater than Put Strike 2 and less than Call Strike :

- No Settlement

If USDINR Fixing Rate is greater than Call Strike:

- Party B receives INR (Notional Amount \* Call Strike)
- Party B pays USD Notional Amount

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

This Transaction potentially helps the user to hedge against adverse USDINR Fixing Rate movements, while still being able to participate in the market rates between Put Strike 2 and Call Strike. The user can hedge against adverse USD/INR movement using an FX Seagull payout, and take additional view on USDINR to avail more favorable payout compared to a Vanilla Seagull

**Illustration:****Example of protection via USDINR Call Spread with Knock-in (European)**

- Market maker is Party A, user is Party B
- Notional Amount: USD 1 million
- Effective Date: T+2
- Tenor: 1y
- Put Strike 1: 85.18
- KI Barrier: 83.46
- Put Strike 2: 87.42
- Call Strike: 88.29

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Case	S <sup>^</sup>	Payoff	Net Profit (loss) in INR	Effective Exchange Rate
Favorable	82	<ul style="list-style-type: none"> <li>• Party B receives INR 87.42 Mio</li> <li>• Party B pays INR 85.18 Mio</li> </ul>	USD 1mio * (87.42-85.18)= INR 2.24 Mio	84.24
Favorable	85	<ul style="list-style-type: none"> <li>• Party B receives INR 87.42 Mio</li> <li>• Party B pays USD 1 Mio</li> </ul>	USD 1mio * (87.42 – 85) = INR 2.42 Mio	87.42
Unhedged	88	<ul style="list-style-type: none"> <li>• No Settlement</li> </ul>	0	-
Unfavorable	89	<ul style="list-style-type: none"> <li>• Party B receives INR 88.29 Mio</li> <li>• Party B pays USD 1 Mio</li> </ul>	USD 1mio * (88.29-89) = INR (0.71) Mio	88.29

<sup>^</sup> S = USDINR Fixing Rate at Expiration Date

## 4. What are the risks involved?

There are significant risks associated with this Transaction including, but not limited to, foreign exchange risk, price risk, liquidity risk and credit risk. Counterparties 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 counterparty's particular circumstances. No counterparty should enter into the Transaction described above unless that counterparty 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 USDINR spot rate and forward exchange rates as illustrated below.

### 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.

### 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.

## **Asymmetric Payoff Risk**

This transaction is constructed by means of a combination of foreign exchange and/ or interest rate options (both vanilla and [exotic]). The potential downside resulting from the transaction could be significantly higher than the potential upside. Party B should be aware of and recognize the asymmetric nature of what it may receive and/or what it may pay before entering into this transaction.

## **Credit Risk**

This transaction carries the credit risk of Party A.

## **Ordinary Course of Business**

In the ordinary course of their business, JPMorgan 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 JPMorgan 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 JPMorgan 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:**

Put Strike 1: P1

Barrier: B

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Put Strike 2: P2

Call Strike: C

USDINR Spot Rate at Expiration Date: S

Option Type	On Expiration Date	Payoff (On Settlement Date)
Put Seagull with KI	$S < B$	<ul style="list-style-type: none"><li>• Party B receives INR amount = USD Notional x P2</li><li>• Party B pays INR amount = USD Notional x P1</li></ul>
	$B \leq S \leq P2$	<ul style="list-style-type: none"><li>• Party B receives INR amount = USD Notional x P2</li><li>• Party B pays USD Notional</li></ul>
	$P2 < S < C$	<ul style="list-style-type: none"><li>• No Settlement</li></ul>
	$C \leq S$	<ul style="list-style-type: none"><li>• Party B receives INR amount = USD Notional x C</li><li>• Party B pays USD Notional</li></ul>

## 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?

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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.