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Circular Name: Trading Regulations

National Commodity Exchange Ltd ("Exchange") will provide Pakistan's first marketplace for trading in commodity futures contracts. This circular explains general provisions with regards to trading on NCEL Electronic Trading System (ETS). Commodity-specific trading Regulations will be defined in relevant Product Notes before the commencement of trading in any new commodity futures contract.

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Contracts

Contract and Trading Parameters

All trading on the Exchange is for specific commodity futures contracts. Trading parameters for each commodity futures contract will be notified in advance by the Exchange. Exchange will specify full details of the quality standards, delivery procedures and other trading and settlement parameters relating to tick size, unit of trading, unit of delivery, delivery centers, minimum and maximum order size, etc.

All such details will be notified in the relevant Product Note, which shall be binding on all Brokers and their Clients trading on the Exchange.

Commodity Futures Trading Cycle

Generally, commodity futures contracts will have a predefined calendar of listing. For example, some contracts may be available for trading with expiries at three month intervals whereas others may be available with expiries at one month intervals. Trading cycle for each commodity futures contracts will be based on demand and nature of specific markets.

Contract Dates

Exchange will specify the contract commencement and expiry dates through relevant Product Notes issued for each individual commodity futures contract. In the event of a public holiday falling on the contract expiry date, the following Exchange business day will become the expiry date.

<u>Market hours</u>

The exchange will initially operate one normal trading session per day, with pre-open and pre-close sessions before and after, respectively. Trading hours will be extended in due course. Current market timings for Gold Futures Contract trading sessions are as follows:

Pre-Open Session:	2:15 pm to 2:28 pm Pakistan Standard Time (PST)
Open Call Session:	2:28 pm to 2:30 pm PST
Normal Trading Session:	2:30 pm to 7:15 pm PST
Pre-Close Session:	7:15 pm to 7:30 pm PST
Close Call Matching:	7:30 pm

There will be no Pre-Close session on the last trading day of a contract and Normal trading session will end at 5:00 pm.

Extension of market hours

Exchange may extend the trading hours on any day for any reason that it may deem fit and such decision will be intimated to the Brokers at least 15 minutes before the normal closing time of the market.

Trading holidays

The Exchange shall operate on all days except Saturdays, Sundays and Exchange specified holidays. A list of holidays for each calendar year will be notified by the Exchange in advance.

Sessions

Pre-Open session

The pre-open session is a period exclusively for order submissions only. Orders received in this period are matched simultaneously at the time of normal market opening, at a single equilibrium price. No trading takes place during the pre-open session. However, trades can be entered, amended and cancelled during the session.

Equilibrium price is the price at which the largest numbers of contracts are matched and executed at a single price. In the case of more than one eligible consensus price, additional criteria are employed to reach equilibrium price. These include minimum unfilled orders and smallest deviation from last settlement price.

All orders left unmatched at the end of pre-open session are automatically carried forward to the normal trading session.

Open Call Session

Open call session determines the opening price based on the maximum volume traded for orders entered during pre-open session. No new orders can be entered or altered during open call session. Opening price and contract volume are disseminated after matching during open/close call session.

The system will automatically move to continuous trading session, after open call session.

Normal Session

Trades are matched in the normal session on the basis of price and time priority, respectively. Highest bid and lowest offer gets priority in the market. More than one order at the same price are prioritized on the basis of the time they were input, with orders input earlier getting preference over those input later.

All orders left outstanding at the end of the normal session are carried forward to the pre-close session.

Pre-Close Session

Pre-close session is solely for determining the closing price which is then used as the daily settlement price. Pre-close session works on the same principle as the pre-open session. Orders can only be input, amended or cancelled during the pre-close session. At the end of the pre-close session, Exchange’s Electronic Trading System (ETS) will match bids and offers based on the algorithm which searches for the consensus price where the maximum number of contracts can be transacted, with secondary criteria to keep unmatched orders at a minimum and least deviation from last traded price.

Close Call Matching

Close call matching determines the closing price based on the maximum volume traded for orders entered during pre-close session. No new orders can be entered or altered during close call matching. Closing price and contract volume are disseminated after matching during close call matching.

All trades matched at the consensus price are executed at the end of the close call matching. Trades left unmatched at the end of the pre-close session are automatically cancelled by the ETS.

Consensus price calculated at the end of the pre-close session will be used as the daily settlement price. The Exchange can, at its own discretion and without any prior notification, use an alternate settlement price if it feels that the pre-close session was not reasonably liquid and if there existed an environment where price manipulation could have affected the pre-close consensus price. Methods of alternate price calculation include, but are not restricted to, *volume weighted average price* and *theoretical futures price*. Criteria for selection of daily settlement price are laid out in the relevant Product Notes.

Orders

Good for The Day (GTD) Orders

All order types entered in NCEL ETS are Good for The Day (GTD) Orders by default. They will stand as working orders in the market till the end of trading on the same day, unless filled or cancelled earlier. At the end of trading, NCEL ETS will cancel all unfilled orders and hence these will not be available in the market at the start of trading next day.

Current Order types available in the system are:

Limit Orders

Limit orders specify the exact price at which a trader is willing to trade. Limit orders will not get filled at a price worse than that specified in the order. However, it is possible for a limit order to get filled at a better price than the limit price if there are such contrary orders available in the market. Limit orders can get filled partially and in stages if there are not enough orders in the market to complete trades in one fill.

Limit Fill-And-Kill (FAK) Orders

Limit FAK orders will get filled at the limit price only for the size available in the market for one trade. The unfilled part of the order will be cancelled. For example, if there is a limit FAK buy order for 10 lots and there are only 5 lots on offer at the same price, ETS will fill 5 lots of the Limit FAK buy order and cancel the remaining order of 5 buys. Limit FAK orders do not stand as working orders in the market for any length of time. They get completely or partially filled immediately and the remaining size gets cancelled.

Limit Fill-Or-Kill (FOK) Orders

Limit FOK orders only get executed at the limit price if the complete order size can be filled in the market in one go. For Example, a limit FOK buy order for 10 lots will either be filled if 10 lots are on offer in the market for that price at the same time, or else the order will be cancelled. Limit FOK orders do not stand as in the market as working orders for any length of time. They either get completely filled immediately or are cancelled.

Market Orders

Market orders get filled immediately at the best prices available in the market. A market buy order will work through all the offers in the market till the order size is filled. This implies that very often a market order will get filled at different prices. A market order, by default is also a market FAK order. Only that size of the market order will get filled for which there are offers available in the market immediately. Any unfilled part of a market order is cancelled immediately. Market orders do not stand in the market for any length of time, except during pre-open and pre-close sessions.

Market FOK Orders

Market FOK Orders are only executed if the whole order size can be immediately filled in the market. Otherwise, the order is cancelled. For example, a market FOK buy order for 10 lots will only be executed if at least 10 lots are offered in the market. If only 9 lots are on offer, the order will not even get filled partially and will be cancelled completely.

Stop-Loss Orders

Stop-Loss orders are market orders which are activated only when the market trades at specific prices. Stop-Loss Orders can be Buy or Sell. Stop-Buy orders are market orders to buy when the market trades at a specified higher price than the current market at the time of entering the trade. Similarly, Stop-Sell orders are market orders to sell when the market trades at a specified price which is lower than the current market price at the time of entering the trade. Stop-Loss Orders are by default, FAK orders. Only that size of the order gets executed immediately upon activation for which there are contrary orders available in the market. Stop-Loss orders are not visible to any other market participant and are activated as market orders only when a certain pre-specified trigger price is traded.

Stop Limit Orders

Stop Limit Orders are Limit Orders which are activated when a predefined trigger price is traded in the market. As soon as the predefined trigger price is activated, the Stop Limit Order will be converted to a Limit Order and will stay in the market till executed or cancelled. Stop Limit orders are not visible to the market. They become visible to the market as Limit Orders only upon activation at the stop level.

One Cancels Other (OCO) Orders

One Cancels Other (OCO) Orders are two linked orders, of which only one gets executed while the other is automatically cancelled when the first one is executed. Currently, both orders can only be Limit orders.

Illegal Practices

NCEL espouses to the highest standards of integrity and market fairness. To follow well-established international best practices, the Exchange has stipulated certain trading activities as illegal. The Exchange will continuously monitor all trading activity at Broker and Client level in order to ensure that the market is free from all restrictive, manipulative and illegal practices.

The Exchange reserves the right to impose any penalty on Brokers found in breach of trading Regulations. Brokers are also responsible for violations by their Clients.

Front Running

Under the regulations of the Exchange, front running is not allowed. For the purpose of Exchange monitoring, front running is defined as the practice where a Broker takes a position in a contract in advance of an order that his Client has asked him to execute, and which will move the price in a predictable fashion. A Broker thus aims to profit for his own account by placing own orders before known Client orders. An example of front running is:

- A Client places a market buy order with a Broker. The Broker aims to benefit from this knowledge of a buy order that will come to the market by placing a market buy order of his own before entering his Client's buy order. This is likely to result in a profit for the Broker as the market will trade higher with two consecutive market buys, with the Broker getting the better price as his order was filled first. The Client, on the other hand, has been forced to accept a price worse than he would have paid if his own Broker had not acted in this unlawful way.

Exchange will monitor all orders of Clients and Brokers to ensure compliance with this requirement. In order to avoid front running, Brokers must wait ***5*** seconds after inputting a Client order if they wish to trade the same contract on their own account. A Client order *must* get a chance to stand in the market before the Broker inputs his proprietary trade.

Brokers found in violation of Exchange Regulations will be liable to be fined and disciplinary action. In order to be found in breach of front running Regulations of the Exchange, it is not necessary for the Broker to have profited from a particular transaction or the particular order to have been executed.

Wash Trading

Under the Regulations of the Exchange, wash trading is not allowed. Wash trading is defined as entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position. Wash trading aims to artificially distort market size and volume and hence present a misleading picture of the market. For the purpose of Exchange monitoring, wash trading involves buy and sell orders originating from the same account. However, the Exchange can broaden the scope of investigation if it suspects that collusion between market participants is having the same effect on the market as wash trading.

Cross Trades

NCEL offers a unique platform of complete segregation of trades, cash and margins for each individual Client. To preserve this unique feature, the Exchange does not allow any cross trades between individual trading accounts. It is not possible to designate on the ETS a specific counterparty to any trade. All trades are executed on the basis of complete anonymity. The

Exchange will not recognize any trade which has not been matched on the ETS. All trades must be entered and matched on the Exchange's ETS. No trades outside this environment are recognized by the Exchange. Unlike some other exchanges, no facility exists at NCEL for moving trades from one trading account to another specific account.

Exchange will monitor all orders of Clients and Brokers to ensure compliance with this requirement. In order to avoid cross trades, Brokers must wait ***5*** seconds after inputting a Client order if they wish to trade the same contract for their own account. A Client order *must* get a chance to stand in the market before the Broker inputs his proprietary trade.

Brokers found in violation of Exchange Regulations will be liable to be fined and disciplinary action. In order to be found in breach of front running Regulations of the Exchange, it is not necessary for the Broker to have profited from a particular transaction or the particular order to have been executed.

Suspension of Trading

The Exchange may suspend or restrict trading in any or all commodities. It may do so for one or more trading sessions or any part of a trading session, in any of the following circumstances or as it may deem fit:

(1) in the Exchange's opinion, the market is not orderly, informed or fair or circumstances are about to occur that may result in market not being orderly, informed or fair;

(2) functions of the Exchange are, or threatened to be severely and adversely affected by a physical emergency such as fire, terrorist activities, power failures, communication breakdowns, or computer malfunctions etc.

(3) in the Exchange's opinion, it is in the public interest.

(4) if a significant number of users are unable to trade or access the trading system for reasons beyond their control.

The Exchange will publish suspension details on its website

A suspension may be lifted by the Exchange at any time. The Exchange will publish announcements on its website prior to the resumption of trading session .The Exchange may extend a trading session (generally, or for a particular commodity) if trading recommences after a suspension.

Trading Related Communications

Exchange will communicate any trading related information through its website as well as by messages to traders logged-on to J-Trader at the time of messaging. In addition, the Exchange will also communicate by e-mail to Broker nominated NCEL Key Contact. It is the responsibility of the Brokers to check notices on the website, messages received on their terminal and e-mails sent to their specific NCEL Key Contact. A user not logged on to ETS will not be able to see past messages from the Exchange.