

# NCEL GENERAL REGULATIONS

<b>Preamble</b>
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## **SCOPE, APPLICABILITY AND JURISDICTION**

The National Commodity Exchange Limited under the powers given to it under Section 34 of the Securities and Exchange Ordinance, 1969, hereby makes these Regulations to be known as the National Commodity Exchange Limited General Regulations (the “Regulations”) which shall upon approval by the Securities and Exchange Commission of Pakistan and notification in the official gazette come into force and replace the current Membership Rules and General Regulations of the National Commodity Exchange Limited.

These Regulations are applicable to all operations, processes, transactions of the National Commodity Exchange Limited (the “Exchange”) including Trading, Clearing and Settlement and any other matter incidental to the conduct or control of the business of the Exchange.

These Regulations apply to, *inter alia*, the Board of Directors, the employees of the Exchange, the Members of the Exchange, the Brokers of the Exchange, the employees of the Members and Brokers of the Exchange and any Client of the Brokers.

## **SEVERABILITY**

If any provision of these Regulations is rendered unlawful, void or unenforceable by reason of any statutory amendment, re-enactment, notification or any judicial decision or pronouncement by any competent court, tribunal or regulatory authority, such provision shall, to the extent required, be severed and rendered ineffective without in any way affecting the validity or enforceability of the rest of the provisions of these Regulations, which shall continue to apply with full force and effect.

## Chapter I: DEFINITIONS

In these Regulations, if not inconsistent with or repugnant to the subject or context hereof, the following words and expressions shall have the following meanings:

- a. **Arbitration** means the mechanism of settling disputes as specified under these Regulations.
- b. **Arbitrator** means a person appointed from the Panel of Arbitrators constituted under these Regulations, a Director chosen to the Board Committee, or the Managing Director when hearing an arbitration application, as the case may be.
- c. **Arbitration Committee** means a Committee, constituted by the Board from time to time under these Regulations.
- d. **Articles** mean the Articles of Association of the Exchange and include any modification or alteration thereof for the time being in force.
- e. **Assayer** means an **Exchange approved and appointed agency to conduct qualitative and quantitative analysis of commodities offered for delivery for settlement of a Commodity Futures Contract.**
- f. **Authorized Person** means a person employed by a Broker or a Client registered with a Broker and who has been authorized by the Broker to access the ETS of the Exchange.
- g. **Board** means the Board of Directors of the Exchange.
- h. **Books of Accounts** means such records and documents that are required to be maintained by these Regulations and include records maintained in a computer or in any electronic or other form of the Member or Broker of the Exchange.
- i. **Broker** means a Member who has been registered with the Commission and is allowed to trade on the Exchange.
- j. **Buyer** means and includes, unless the context indicates otherwise, the buying Exchange Broker acting either as an agent on behalf of the buying Client or buying on his own account.
- k. **Certified/Approved Warehouse/Vault** means a godown or Warehouse/Vault approved by the Exchange and designated as such for making deliveries to and taking delivery of commodities from in respect of contractual obligations arising out of Commodity Futures Contracts on the Exchange.
- l. **Certificate of Membership** means the Certificate evidencing the Membership of the Exchange of any person issued under these Regulations.
- m. **Chairman** means the Chairman of the Board as elected under the Articles.
- n. **Clearing Bank** means a bank that is designated or appointed to provide banking and other facilities to the Exchange, the Clearing House and Brokers of the Exchange to facilitate clearing and settlement functions.
- o. **Clearing House** means the clearing house of the Exchange and includes a place where and the system by which the claims and liabilities of Brokers in respect of

different Commodity Futures Contracts confirmed by the Exchange are received, adjusted, settled and paid and for the purposes of these Regulations it refers to the settlement system managed and operated by the Exchange.

- p. Client** means a person who is registered with a Broker and has executed an agreement with the Broker on the standardized account opening form specified by the Exchange, for dealing through such Brokers in Commodity Futures Contracts permitted on the Exchange.
- q. Closing Price** means the price of a Commodity Futures Contract at the end of a trading session, used for the purpose of determining the daily price fluctuation limit.
- r. Commission** means the Securities and Exchange Commission of Pakistan constituted by the Securities and Exchange Commission of Pakistan Act, 1997.
- s. Committee** means any committee constituted by the Board from time to time under these Regulations.
- t. Commodity Futures Contract shall have the same meanings as assigned to it under the Ordinance.**
- u. Contract Month** means the month in which Commodity Futures Contracts are permitted by the Exchange.
- v. Delivery** means the final settlement of a Commodity Futures Contract through the Clearing House in the manner specified by these Regulations.
- w. Delivery Centers** means the specified places with respect to each commodity at which the Brokers having net sale position shall be obliged to tender delivery.
- x. Delivery Period** means the period during which the commodities are tendered in terms of the Commodity Futures Contracts in fulfillment of the transactions executed under the Regulations, or under the orders issued pursuant to these Regulations and includes tender days as specified by the Exchange for different contract months.
- y. Delivery Unit** means such quantity of commodity that may be permitted for tender with such tolerance limit as may be specified with respect to each commodity from time to time.
- z. Directors** mean the Directors on the Board of the Exchange.
- aa. Due Date/Contract Expiry Day/Contract Maturity Day** means the maturity date on which a specific Commodity Futures Contract in a specific commodity expires and is not available for trading thereafter.
- bb. ETS** means the Electronic Trading System as may be approved by the Exchange for the purpose of automated trading, clearing and settlement, risk management, surveillance and back office systems in respect of Commodity Futures Contracts.
- cc. Exchange** means the National Commodity Exchange Limited.
- dd. Governing Law** means the laws of Pakistan as in force from time to time.
- ee. Initial Margin** means the amount to be deposited by the brokers or the Clients in their margin accounts with the Exchange before they can place orders to buy or sell

Commodity Futures Contracts. This must be maintained throughout the time their position is open and is returnable after delivery, or closing out.

- ff. Managing Director** means the Managing Director of the Exchange appointed by the Board after approval from the Commission and in accordance with the Articles who shall be responsible for, *inter alia*, looking after the management of the Exchange.
- gg. Margin** means a deposit or payment to create or maintain a position in the Commodity Futures Contract, which shall include mark-to-market, and delivery and additional margins or such other margins, which may be specified by the Exchange from time to time.
- hh. Member** means a person whether natural or juristic admitted by the Exchange as a member of the Exchange pursuant to the provisions of these Regulations but it does not denote a shareholder or equity holder of the Exchange.
- ii. Membership Dues** means amounts to be paid by a Member as per the provisions of these Regulations or any other Circular/Directives issued by the Exchange from time to time, in order to obtain Membership and for continuance thereof and shall also include administrative fines, dues towards the Exchange, and dues with respect to all other claims, etc. as may be raised against the concerned Member by the Exchange from time to time.
- jj. Memorandum** means Memorandum of Association of the Exchange.
- kk. Net Capital Balance** means excess of current assets over current liabilities determined in accordance with Rule 11(1)(n) of the Rules.
- ll. Net Worth:** Total Assets minus Total Liabilities, based on a computation as determined by the Exchange and approved by the Commission
- mm. Notice** means intimation in writing by the Exchange sent either through courier, telegram or through electronic media such as email, fax, computer messages, etc.
- nn. Open Interest** for any one Commodity Futures Contract maturity month means the number of Commodity Futures Contracts, which remain to be settled on a given day prior to the maturity. Open interest of a given running Commodity Futures Contract is equal to either the number of long Commodity Futures Contracts or the number of short Commodity Futures Contracts in the commodity for that particular contract month, outstanding as of any given day.
- oo. Open Position** means an interest in the market, either long (buy) or short (sell), in the form of one or more open Commodity Futures Contracts.
- pp. Ordinance** means the Securities and Exchange Ordinance, 1969.
- qq. Pay in** means Payment to the Exchange.
- rr. Pay out** means Payment made by the Exchange.
- ss. Place of Business** means the office address of a Member, which is registered with the Exchange.
- tt. Price-time priority** means that orders to buy and sell are executed at the best available price at the time the order is entered.

- uu. Quorum:** means the minimum number of Directors of the Board who must be present for the Board meeting to conduct business.
- vv. Regulations** mean these Regulations of the Exchange for the time being in force and include any modification or alteration thereof made by the Board from time to time with the prior approval of the Commission and any modifications made thereto by the Commission.
- ww. Rules** mean the Commodity Exchange and Futures Contract Rules, 2005.
- xx. Risk Management** includes the method of assessing, measuring and controlling risk using statistical techniques routinely used in other technical fields.
- yy. Seller** means and includes, unless the context indicates otherwise, the selling exchange Broker acting as an agent on behalf of the selling Client or selling on his own account.
- zz. Settlement Calendar** means the delivery period specified by the Exchange for every commodity.
- aaa. Settlement Guarantee Fund** means the fund established and maintained by the Exchange, in accordance with these Regulations, to strengthen the financial integrity of the Exchange and which shall be used in the manner specified by these Regulations.
- bbb. Settlement Price** for a Commodity Futures Contract and a contract month means the price of a Commodity Futures Contract for the purpose of payment of differences pertaining to all new and outstanding positions that remain to be settled. It shall be determined in accordance with these Regulations.
- ccc. Spot Rate** means the market rate of the day for ready delivery of a commodity.
- ddd. Supplemental Settlement Date** means the additional settlement date specified by the Exchange.
- eee. Trading Day** means a day on which the sale and purchase of Commodity Futures Contracts are permitted on the Exchange.
- fff. Variation Margin** means the payment made on a daily or intra-day basis to the Exchange based on the adverse price movement between the contractual monetary value of open positions and the monetary value of the open positions determined by the Settlement Price.
- ggg. Warehouse Receipt** is a document issued by a Certified Warehouse in the manner and form stipulated by the Exchange from time to time which serves as a conclusive proof as to the availability of deliverable commodities for apportionment as per the delivery orders released by the Clearing House in fulfillment of contractual obligations of the Commodity Futures Contract.
- hhh.** Words importing singular number shall include plural number and *vice versa*.
- iii.** Words importing masculine gender shall include feminine gender and *vice versa*.
- jjj.** The words and expressions used but not defined in these Regulations shall have the same meaning as are assigned to them in the Ordinance, the Securities and Exchange Commission of Pakistan Act, 1997, and the Companies Ordinance, 1984.

## Chapter II: GOVERNANCE

### 2.1 Governance of the Exchange

The overall management of the Exchange shall be vested in the Board. The Board may take all such actions, as it considers necessary in its discretion to protect the integrity of trading on the Exchange and organize, maintain, control, manage, regulate and facilitate the operations of the Exchange, including its clearing and settlement functions, and of Commodity Futures Contracts by its Brokers, subject to the provisions of the Ordinance, Rules, Regulations, Articles or any other order or direction given by the Commission.

The Board of the Exchange and the Management shall provide their services on best effort basis.

### 2.2 Managing Director's Powers

2.2.1 The Managing Director shall have the executive powers to run, supervise and effectuate the day to day operations, administration and management of the Exchange, implement decisions and directions of the Board, enforce the Articles of Association, the Rules and Regulations of the Exchange and exercise such other powers, functions and authority as may be delegated or entrusted to him by the Board from time to time. He shall also have the general charge and control over the employees of the Exchange.

Provided that Board shall not delegate it's authority relating to operational matters to any Director or Committee except the Managing Director.

2.2.2 Subject to directions of the Board, the Managing Director shall act as the authorized representative of the Exchange before the Commission and other governmental agencies and authorities, institutions, general public and outsiders on all matters and affairs of the Exchange.

2.2.3 The Managing Director shall also have the powers in the matter which concern disciplining of the trading members' activities under the Articles and Regulations of the Exchange including the imposition of any administrative fine, suspension and /or penalization, etc.

### 2.3 Emergency Powers of the Managing Director

When in the opinion of the Managing Director an emergency exists, the Managing Director, with the consent of the Board, may exercise any of the following powers:

(i) close the Exchange;

- (ii) suspend trading in any or all Commodity Futures Contracts, including trading and settlement of any existing Commodity Futures Contracts;
- (iii) prohibit trading in any or all Commodity Futures Contracts at prices above or below such limits as are specified by the Board;
- (iv) limiting trading to liquidation only, in whole or in part;
- (v) extending or shortening, as applicable, the Contract Expiry Date of any Commodity Futures Contract;
- (vi) extending the time of delivery, changing delivery points or the means of delivery;
- (viii) imposing or modifying position or price limits with respect to any Commodity Futures Contract;
- (ix) ordering the liquidation of Commodity Futures Contracts, the fixing of a Settlement Price or any reduction in positions;
- (x) ordering the transfer of Commodity Futures Contracts, and the money, securities, and property securing such Commodity Futures Contracts, held on behalf of Clients by any Broker to one or more other Brokers willing to assume such Commodity Futures Contracts or obligated to do so; or
- (xi) extending, limiting or changing hours of trading.

Further, the Managing Director, after exercising any of the above powers, shall also inform the Commission immediately of such exercise of the above powers.

- 2.4** The Managing Director may, from time to time, issue clarifications or circulars, as may be required from time to time, to remove any difficulty or ambiguity in implementing the provisions of any of these Regulations which shall have the same effect as the Regulations.
- 2.5** Managing Director's decisions and rulings in any matter shall be final and binding on all parties and shall not be questioned by any person bound by these Regulations. However the Commission may review the decisions and rulings of the Managing Director.

## **Chapter III: MEMBERSHIP OF THE EXCHANGE**

### **3.1 General**

Subject to the provisions of the Ordinance and the Companies Ordinance, 1984 the rights, privileges, duties and responsibilities of a Member shall be in accordance with these Regulations.

The Board shall have power to establish categories of Membership and to attach different rights, benefits, obligations and liabilities to each category established. Such categories may, for example, include:

- (a) specific commodity Membership which would authorize the Member to trade, upon registration as a Broker, only in the specific commodity underlying Commodity Futures Contracts authorized; or
- (b) universal commodity Membership which would entitle the Member to trade, upon registration as a Broker, in all commodities underlying Future Contracts on the Exchange.

The Board may, from time to time, determine different fees payable for different categories of membership and payable for processing applications and for such other matters as the Board may in its discretion consider appropriate. Subject to these Regulations, the Rules and the Ordinance, a Member is entitled, after his registration with the Commission as a Broker, to trade for himself or on behalf of his Clients on or through the facilities of the Exchange and to enjoy the other rights and benefits from time to time provided that he may only trade whether for himself or his clients only after he is registered with the Commission as a Broker.

### **3.2 Application for Membership**

Any person desirous of becoming a Member of the Exchange must first submit an application to the Exchange. Every application shall be presented to the Exchange which may accept or refuse such application. In addition to the requirements specified under the Ordinance and the Rules, the Exchange shall consider the applications of such candidates who fulfill the following criteria and procedures:

- (a) Members must be individuals or companies.
- (b) Every new applicant for Membership shall complete, sign and deliver to the Exchange an application in writing in such form as the Exchange may from time to time specify together with letters of reference and recommendation from two persons providing such information about the applicant as specified by the Exchange from time to time.
- (c) Every applicant must specify in his application the category of Membership under which he seeks to be registered.

- (d) Every company which applies for Membership must show which individuals are the legal or beneficial owners of its share capital.
- (e) In applying for Membership or in applying to change the category of Membership under which such Member is registered, the applicant shall follow the procedures determined by the Board from time to time.
- (f) Every applicant for Membership must fulfill the following minimum requirements as at the date of making the application in order for his application to be entertained:
  - (i) he must be a graduate from a university or college acceptable to the Board or he must have experience of buying and selling or dealing in commodities or securities market for at least five years;
  - (ii) he must be at least 21 years of age and of sound mind;
  - (iii) he must be a citizen of and resident in Pakistan;
  - (iv) he must not be insolvent nor must he have compounded with his creditors;
  - (v) he must not have been convicted of any offence involving moral turpitude;
  - (vi) he must not be in violation of any requirement imposed by any Stock Exchange or other Commodity Exchange of which he has been or is a member;
  - (vii) he must have a National Tax Number;
  - (viii) he must have a minimum net worth as may be determined by the Board and approved by the Commission but which shall not be less than Rs. Twenty Million.
- (g) Every applicant which is a corporate entity shall have a Chief Executive Officer who shall satisfy the requirements set forth from 3.2(f)(i) to (vii) above and the applicant company must satisfy the requirement of 3.2(f)(viii).
- (h) In addition to the requirements set out in these Regulations, applicants seeking admission within a specific Membership category shall comply with any additional requirements applicable to such Membership category as may be determined by the Board from time to time.

### **3.3 Decision on Membership**

The Exchange shall decide on each application and may in its discretion require compliance with additional conditions.

The decision as to whether or not an applicant should be admitted as a Member is entirely at the discretion of the Exchange whose decision shall be final and conclusive. If the Exchange refuses an application for membership it shall communicate its decision in writing along with reasons for such refusal to the

applicant. The decision of the Exchange regarding acceptance or rejection of the application for Membership shall be final.

### **3.4 Conditions**

An applicant shall not be admitted as a Member unless and until he has:

- (a) paid in full all fees, as determined by the Board from time to time, including any non-refundable application processing fee;
- (b) executed in the specified form, an undertaking to be bound by these and any other Regulations and in the case of an applicant which is a company, delivered to the Company Secretary a certified copy of its board resolution authorizing a director to sign the undertaking on behalf of the company;
- (c) paid to the Exchange the requisite amount towards the Settlement Guarantee Fund;
- (d) satisfied the Exchange that there are no reasons why he should not be registered as a Member under the provisions of any applicable law in force and that he is in compliance with all the applicable laws and not a defaulter or an absconder under any applicable laws; and
- (e) fulfilled the financial requirements applicable to the category of Membership for which he has applied.

### **3.5 Approval**

Every applicant shall be informed in writing within 30 days after his application as to whether his application is approved or refused.

### **3.6 Notice of Becoming Member**

A person is deemed to have become a Member on the date on which notice of approval of his application is given by the Exchange and conveyed in writing provided that he has satisfied all the requirements of admission set out in these Regulations.

### **3.7 Consequence of misrepresentation in the Application**

Notwithstanding the provisions of these Regulations, the Board may suspend or cancel the Membership of a Member at any time, from the date of inception of his Membership if at the time of his application for Membership, he:

- (a) made any willful or material misrepresentation;
- (b) suppressed any material information required of him;

- (c) directly or indirectly gave false particulars or information or made a false declaration; or
- (d) suppressed information that he had been engaging in any activity that might have been prejudicial to the interest of the Exchange, and had been subject of any investigation that might bring him into disrepute in the eyes of the general public.

Provided that the Board prior to any decision in respect of such suspension or cancellation, as the case may be, shall give every Member an opportunity of a hearing.

### **3.8 Certificates**

As soon as practicable after the date on which an applicant becomes a Member, the Exchange shall issue to each applicant a Certificate of Membership signed by the Managing Director and the Company Secretary or any one or more persons authorized for this purpose by the Board. The Certificate shall be conclusive as to the date of admission as a Member, and as to the category of Membership to which a person is admitted.

Where it is proven to the satisfaction of the Exchange that a Certificate of Membership is defaced, lost or destroyed, a new Certificate of Membership may be issued on payment of specified fees, as determined by the Board, together with an application.

### **3.9 Registration with the Commission**

Every applicant who has been granted Membership of the Exchange and who is desirous of acting as a Broker for Clients shall register with the Commission under the Rules.

### **3.10 Transfer of Memberships**

No Member shall assign, sell, transfer, pledge, mortgage or create any trust, charge, lien or other encumbrance over its rights, benefits or privileges as a Member. The Exchange shall not be bound or compelled in any way to recognize (even when having notice thereof) any dealing or disposition made in contravention of this Regulation. Provided that notwithstanding the foregoing restriction, a Member may apply to the Exchange to transfer his Membership upon payment of such fee as may be specified by the Board and the Exchange may, in its discretion, approve such transfer subject to such conditions (including payment of any fees) that the Board may determine.

### **3.11 Financial Requirements**

The Board shall be entitled to specify minimum capital requirements from time to time with the approval of the Commission for each category of Membership by reference, *inter alia*, to the nature and category of Membership and may in relation to any particular Member, require that Member to comply with capital requirements higher than the minimum capital requirements applicable to the category of Membership under which he is registered.

Every Member shall:

- (a) comply with the minimum Net Capital Balance requirement as specified by the Board from time to time with the approval of the Commission.
- (b) maintain a minimum Net Worth of an amount specified by the Board from time to time with the approval of the Commission but which shall not be less than Rs. 20,000,000 (Rupees twenty million only).
- (c) maintain a minimum Net Capital Balance of an amount specified by the Board from time to time with the approval of the Commission but which shall not be less than Rs. 2.5 million. Further, the Member shall provide an undertaking that such minimum Net Capital Balance shall always be kept completely segregated from the Net Capital Balance required for any Stock Exchange or other Commodity Exchange of which the Member holds membership.

### **3.12 Record of Membership**

The Exchange shall keep an electronic and hard copy record of Membership containing the full names and addresses of each Member, particulars of the category of Membership under which each Member is registered, the date of admission of each Member and, if the Exchange has so determined in any particular case, a note of any disciplinary action to which any Member has been subject under the Ordinance, Rules, Regulations, Articles and such other information as specified by the Commission or required by any other law from time to time.

### **3.13 General Obligations of a Member / Broker**

All the existing Members would be required to apply to the Commission for registration of the Membership within six months of the commencement of the operations of the Exchange and all the new Members would be required to apply to the Commission for the registration of the Membership within six months of becoming a Member, except where the Commission grants an exemption.

The Broker is the primary obligor of the Exchange and would be responsible for all its own and its Clients liabilities to the Exchange.

Brokers shall, at all times, segregate for each of their clients, all monies, securities and property received to margin and to guarantee or secure the trades on Commodity Futures Contracts of their Clients, including for delivery obligations.

Brokers shall at all times have and maintain the necessary administrative and other systems, facilities, resources and expertise to ensure that;

- (i) the management of their own and Clients' funds is adequate and in accordance with the requirements set in this chapter relating to the management or segregation of funds or otherwise;
- (ii) an accurate record of their own and Clients' positions is kept at all times;
- (iii) their Clients' trades, cash balances and any other information relating to their positions are reported to their Clients in a timely manner; and
- (iv) they comply with all financial requirements pertaining to the relevant category of Membership

Each Broker shall adhere strictly to and be bound by the provisions of these Regulations and any conditions stipulated in the notice of approval of its Membership given under these Regulations and shall at all times comply with the decisions, directions, determinations, findings of fact and/or interpretation of the Board, the Managing Director and any other person or body of persons in the exercise or performance of any function, duty, obligation, power, right, privilege or discretion conferred on it by or pursuant to these Regulations for the purposes of or in connection with the application and administration thereof.

- 3.14** Each Broker will ensure that his Clients and Authorized Persons shall adhere to the provisions of the Ordinance, Rules, Regulations, Articles and any other additional condition stipulated by the Commission or the Board, from time to time. However the obligation of the Broker to the Exchange remains notwithstanding any non-compliance by their Clients and Authorized Persons. The Brokers are the ultimate obligors of the Exchange and all and any recourse would be made to the Brokers.
- 3.15** Each Broker must at all times remain in compliance with the applicable Regulations.
- 3.16** Each Broker shall provide any information in respect of any of its key employees as required by the Exchange. Each Broker shall also notify the Exchange in writing immediately upon any change in the particulars provided to the Exchange regarding any key personnel or any transfer or termination of employment and reasons thereof, of any key personnel. The term "key personnel" comprises the following employees of the Broker:
- (a) clearing and settlement principals (i.e. the employees responsible for the clearing and settlement operations of the Broker, by whatever title assigned);
  - (b) trading principals (i.e. the employees responsible for the trading operations of the Broker, by whatever title assigned);

- (c) risk management principals (i.e. the employees responsible for the risk management of the Broker, by whatever title assigned); and
  - (d) such other categories of employees as may from time to time be designated by the Exchange.
- 3.17** Each Broker shall pay to the Exchange contributions in respect of the Settlement Guarantee Fund as is determined by the Board from time to time.
- 3.18** Every Broker will ensure that his Authorized Persons and Clients follow and comply with all the provisions of the Ordinance, the Rules and these Regulations. Each Broker shall be liable for all the actions of its Authorized Persons and Clients and shall be liable to disciplinary action in respect of any act or omission of its Authorized Persons and Clients in any of the circumstances set out in these Regulations, the Ordinance or the Rules.
- 3.19** Each Broker would be an independent entity engaged in clearing and settlement of transactions entered into on the Exchange and shall indemnify and keep indemnified the Exchange from and against all harm, loss, damages, and injury suffered or incurred and all costs, charges and expenses incurred in instituting and/or carrying on and/or defending any suits, action, litigation, arbitration, disciplinary action, prosecution or any other legal proceedings suffered or incurred by the Exchange on account of or as a result of any act of commission or omission or violation in complying with any of the provisions of the Ordinance, these Regulations or the Rules framed under the Ordinance or due to any agreement, contract or transaction executed or made in pursuance thereof or on account of negligence or fraud on the part of any Member of the Exchange as aforesaid and their Authorized Persons.
- 3.20** No Member or Broker or any of their Authorized Persons or Clients shall be entitled to visit or inspect any premises of the Exchange, access where to is restricted, without the prior written permission of the Exchange or to require discovery of any information with respect to any activities of the Exchange or any matter which is or may be in the nature of a trade secret, mystery of trade, secret process or any other matter which may relate to the conduct of the business and which in the opinion of the Exchange may not be expedient in the interest of the Exchange to disclose.
- 3.21** **Obligation to notify the Exchange on the happening of certain events**
- A Member or Broker shall notify the Exchange in writing immediately upon the happening of any one or more of the following:
- (a) the discovery of a failure by it to comply with any of these Regulations or any of the conditions stipulated in the notice of approval of its Membership given pursuant to the Ordinance, Rules, Regulations, Articles or any other order or direction given by the Commission;

- (b) the passing of any resolutions, the initiation of any proceedings, or the making of any order which may result in the appointment of a receiver, provisional liquidator, liquidator or administrator or the winding-up, re-organization, reconstruction, amalgamation, dissolution or bankruptcy of the Member or Broker or any of its shareholders, or any change in the existing shareholding pattern, or the making of any receiving order or arrangement or composition with creditors;
- (c) the bankruptcy of any of its directors;
- (d) it becoming aware of any breach of the Ordinance, Rules, Regulations, Articles or any other order or direction given by the Commission, by any other Member or Broker;
- (e) it becoming aware of any matter required to be notified to the Exchange under these Regulations;
- (f) the exercise of any disciplinary measure against it by any regulatory or other chartered or trade body or the refusal, suspension or revocation of any regulatory license, consent or approval required in connection with its business;
- (g) attachment of Membership rights by any court or authority; and
- (h) any other events as the Board may from time to time specify.

### **3.22 Obligation to provide information**

A Member or Broker shall, upon the Board's or the Managing Director's direction, provide the Exchange with any information which may be required.

### **Change in Name and Constitution of the Members/Brokers**

**3.23** Where a Broker is a company, it shall carry on business in its registered company name only and notify the Exchange if there is any change in any status or structure of its board or any other change in the information supplied to the Exchange at the time of application for Membership.

**3.24** Where a Broker is an individual, he shall carry on business in Pakistan under his own name.

### **3.25 Termination of Membership:**

Any Member shall cease to be a Member of the Exchange, if one or more of the following apply;

- (a) by death, in cases of individual Members /Brokers where no nominee has been appointed;
  - (b) by surrender of Membership or transfer (this would be subject to approval of Board and the Board's Jurisdiction would still be applicable until all dues of the Membership are cleared);
  - (c) by the Board or the Managing Director, canceling the Membership in accordance with these Regulations;
  - (d) if the Member or Broker has failed to pay any dues payable to the Exchange; and
  - (e) upon insanity, bankruptcy, or appointment of a liquidator for a Member or Broker.
- 3.26** Notwithstanding the above, the Board may withdraw or revoke any Member's or Broker's Membership if in the opinion of the Board, the Member or Broker is not suitable to remain a Member of the Exchange.
- 3.27** The termination or revocation of Membership shall not in any way absolve the Member or Broker from any obligations and liabilities incurred by the Member or Broker prior to such termination or revocation.

**3.28** **Continued Admittance**

The Board shall from time to time specify conditions and requirements for continued admittance to the Membership. For Members and Brokers they must maintain at all times the minimum maintenance deposit and minimum Net Worth requirements as specified by the Exchange. For Brokers, they must also at all times maintain the minimum contribution to Settlement Guarantee Fund and Net Capital Balance.

Provided further that:

- (a) The Membership of any Broker who fails to meet the requirements of maintaining a minimum Net Capital Balance and contribution to the Settlement Guarantee Fund shall be liable for suspension.
- (b) The Membership of any Broker who fails to fulfill the minimum deposit and minimum Net Worth requirements as may be liable for termination.

**General Conduct in Business and Trading**

- 3.29** No Broker shall take part in, be concerned with or carry out, either directly or indirectly, any transaction or activity that has or may have or is intended or calculated to have the effect of creating an artificial price for a Commodity Futures Contract or for a commodity which is the subject of a Commodity Futures Contract.
- 3.30** No Broker shall create or cause to be created or do anything that is intended or calculated to create a false or misleading appearance of active dealing in Commodity

Futures Contracts or a false or misleading appearance with respect to the market for, or the price of dealings in, Commodity Futures Contracts.

- 3.31** No Broker shall, by any fictitious transaction or device, maintain, inflate, depress or cause fluctuations in the market price of any Commodity Futures Contract.
- 3.32** No Broker shall buy or sell any Commodity Futures Contract or attempt to do so or participate in a scheme or plan to do so for the purpose of unduly or improperly influencing the market price of any Commodity Futures Contract, or for the purpose of manipulating or attempting to manipulate prices or cornering or attempting to corner any market of any commodity, or creating a market or other situation including any action in the cash market which was designed to influence the futures market, and is detrimental to the Exchange.
- 3.33** Each Broker shall ensure that all Futures Business conducted by it relating to Commodity Futures Contracts shall be concluded on or through the facilities of the Exchange and that all Commodity Futures Contracts are reported and registered with the Clearing House in such manner as the Board shall from time to time specify, for clearing by the Clearing House.

**3.34** **Clearing Privileges**

In order to clear trades at the Exchange, a Broker must be granted Clearing Privileges by the Board. The Board may revoke the said Clearing Privileges at any time.

Clearing Privileges may be granted and retained only if and when the terms and conditions set forth below have been met.

A Broker must deposit the minimum security deposit amounts for obtaining the clearing privileges and in such manner as may be determined by the Exchange and any other requirements that are deemed fit by the Board from time to time.

The Board may impose any other requirement that it deems appropriate.

**3.35** **Audits conducted by the Exchange**

Designated Exchange staff and any other person including a Chartered Accountant appointed by the Exchange for this purpose may from time to time inspect all of the books, records, accounts and documents maintained or required to be maintained by each Member and Broker in relation to his own business and his own financial position as well as the books, records, accounts, telephone recordings and documents maintained by the Broker representing the Broker's Clients activities, as required to be maintained by the Exchange, from time to time or as directed by the Commission.

Such staff and other persons duly authorized by the Managing Director shall, for reasons, to be recorded in writing, have the right of access during normal business

hours, with or without prior notice, the premises of any Member or Broker, and such Member or Broker, shall fully co-operate and make available to them all information, books and records as and when required.

Designated Exchange staff and any other persons appointed by the Exchange for the purpose shall be entitled to interview and request confirmation from any Authorized Person, or other person dealing with a Broker, of any balance or any other matter relating to the compliance by any Member or Broker with these Regulations.

Each Member or Broker, and where applicable, any associated companies of a Member or Broker, shall allow the designated Exchange staff and any other persons appointed by the Exchange for the purpose to make notes from any of the records of a Member or Broker, and each Member or Broker is required to supply them, free of charge, copies of any or all documents which in their opinion are necessary to be given to the Exchange in order to facilitate any inspection of a Member's or Broker's books and records.

Any notes or copies taken pursuant to this Regulation shall become the property of the Exchange.

### **3.36 Confidentiality**

Any information obtained by the Member or Broker or his Authorized Persons in the course of his Membership in relation to the Exchange shall remain confidential except that:

- (i) those persons may disclose such information to their immediate senior officer of the Exchange or to the Managing Director for the time being appointed or, as the context may require, their designees;
- (ii) such information may be disclosed to any officer or employee of the Exchange, and to any person engaged by the Exchange, who in the opinion of the Managing Director needs to know the information;
- (iii) such information may be disclosed to any officer or employee of the Commission;
- (iv) the Exchange may disclose any information at any time:
  - (1) to the Commission;
  - (2) to any other Exchange, with whom the Exchange has entered into an information sharing arrangement or any other agreement;
- (v) no breach of confidentiality shall arise by reason only that information shall appear in any registers and records maintained by the Exchange pursuant to these Regulations.

Notwithstanding the above, disclosure at the direction of the Federal Government of Pakistan, or any other Government Agency, or under the direction of the High Courts of Pakistan must be permissible.

### **3.37 Relations with Clients**

Every Broker shall enter into an agreement with each of his Clients, before accepting or placing orders on the Client's behalf. Such agreement shall specify the minimum conditions to be specified by the Board.

Broker shall make the Client aware of the precise nature of the Broker's liability for business to be conducted, including any limitations on that liability and the capacity in which the Broker acts and the Clients' liability thereon.

The Broker shall make the Client aware of the risk associated with the business in Futures Trading including any limitations on the liability and the capacity in which the Broker acts and the Client's liability thereon by issuing to the Client a copy of the Risk Disclosure Document as specified by the Exchange at the time of the opening of an account. The Risk Disclosure Document shall be duly signed by the Client and maintained and retained by the Broker.

### **Disciplinary Matters and Violations**

**3.38** Disciplinary Jurisdiction: The Exchange may exercise any power including but not limited to expulsion or suspension and/or imposition of any Administrative fine and/or penalization under censure and/or withdrawal all or any of the Membership rights of a Member or Broker if he is guilty of any acts of violation mentioned hereunder but not limited to the same except in cases of non-financial violations where the power rests with the Board.

**3.39** Circumstances giving rise to violations: Any of the following would be deemed a violation by the Exchange and the Member or Broker participating in the same shall be deemed a violator:

- (a) contravening, disobeying, disregarding or willfully evading of any of these Regulations or Ordinance, Rules, Articles or the Laws made by the Commission, or any other order or direction given by the Commission. or any resolutions, orders, notices, directions, decisions or rulings of the Board, the directions, decisions, orders, notices of the Managing Director or any officer of the Exchange or for any disreputable or fraudulent transactions or dealings or method of business which the Board of Directors or the Managing Director deems unbecoming a Member of the Exchange or inconsistent with just and equitable principles.
- (b) misconduct, un-businesslike conduct or unprofessional conduct as provided herein.

**Misconduct:**

- (a) Conduct of business without registration: If without registration as a broker the member transacts any business on the Exchanges;
- (b) Fraud: If he is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the Board or the Managing Director renders him unfit to be a Member or Broker;
- (c) Improper Conduct: If in the opinion of the Board or the Managing Director he is guilty of dishonorable or disgraceful or disorderly or improper conduct on the Exchange or of willfully obstructing the business of the Exchange, or of coercing, harassing or influencing by means of bribery, any employee of the Exchange;
- (d) Breach of Regulations: If he shields or assists or omits to report any Member or Broker whom he has known to have committed a breach or evasion of any Regulation or of any resolution, order, notice or direction thereunder of the Board or the Managing Director of the Exchange authorized in that behalf;
- (e) Failure to comply with Resolutions: If he contravenes or refuses or fails to comply with or abide by any resolution, order, notice, direction, decision or ruling of the Board or the Managing Director of the Exchange or other person authorized in that behalf under the Regulations;
- (f) Failure to testify or give information: If he neglects or fails or refuses to submit to the Commission or the Board or the Managing Director or an officer of the Commission or the Exchange authorized in that behalf, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appear and testify before or cause any of its, attorneys, agents, authorized representatives or employees to appear and testify before the Commission or the Board or the Managing Director or officer of the Commission or the Exchange or other person authorized in that behalf;
- (g) Failure to submit Returns: If he neglects or fails or refuses to submit to the Board or the Managing Director or to the officer so authorized by it, within the time notified in that behalf special returns in such form as the Exchange may from time to time specify, together with such other information as it may require whenever circumstances arise which in the Exchange's opinion make it desirable that such special returns or information should be furnished by any or all the Members;
- (h) Failure to submit Audited Accounts: If the Broker neglects or fails or refuses to submit its Audited Accounts to the Exchange within such time as may be specified by the Exchange and the Commission from time to time;

- (i) False or misleading Returns: If the Broker neglects or fails or refuses to submit or makes any false or misleading statement in his clearing forms or returns required to be submitted to Exchange under these Regulations;
- (j) Vexatious complaints: If the Broker or his Authorized person brings before the Board or the Managing Director or an officer of the Exchange or other person authorized in that behalf a charge, complaint or suit which in the opinion of the Exchange is frivolous, vexatious or malicious;
- (k) Failure to pay dues and fees: If he fails to pay his subscription, fees, arbitration charges or any other money which may be due by it or any fine imposed on him.
- (l) Call for information; Failure to provide any information, as requested by the Exchange for any purpose under these Regulations.

**Un-businesslike Conduct:**

A Broker shall be deemed guilty of un-businesslike conduct for any of the following or similar acts or omissions namely:

- (i) Fictitious Names: If he transacts his own business or the business of his Client in fictitious names or if he carries on business in the Exchange under fictitious names;
- (ii) Circulation of rumours: If he, in any manner, circulates or causes to be circulated, any rumours;
- (iii) Unwarrantable Business: If he engages in reckless or unwarrantable or un-businesslike dealings in the market or effects purchases or sales for his Client's account or for any account in which he is directly or indirectly interested which purchases or sales are excessive in view of his Client's or his own means and financial resources or in view of the market for such security;
- (iv) Compromise: If he connives at a private failure of another Broker or accepts less than full and bona fide money payment in settlement of a debit due by a Broker arising out of a deal in Future Contracts or securities;
- (v) Dishonoured Cheque: If he issues to any other Broker or to its Clients or to the Exchange a cheque which is dishonoured on presentation for whatever reasons;
- (vi) Failure to carry out transactions with Clients: If he fails in the opinion of the Board to carry out its committed transactions with its Clients;

### **Unprofessional Conduct**

A Broker shall be deemed guilty of unprofessional conduct for any of the following or similar acts or omissions namely:

- (i) Business for defaulting Clients: If he deals or transacts business directly or indirectly or executes an order for a Client who has within his knowledge failed to carry out engagements relating to Future Contracts and is in violation to another Broker unless such Client shall have made a satisfactory arrangement with the Broker who is his creditor;
- (ii) Business without permission when under suspension: If without the permission of the Board he does business on his own account or on account of a principal with or through a Broker during the period he is required by the Board to suspend business on the Exchange;
- (iii) Business for or with suspended, expelled and defaulter Brokers: If without the special permission of the Commission he shares brokerage with or carries on business or makes any deal for or with any Broker who has been suspended, expelled or declared a defaulter;
- (iv) Business for Employees of other Brokers: If he transacts business directly or indirectly for or with or executes a deal for an Authorized Person of another Broker without the written consent of such employing Broker;
- (v) Evasion of Margin Requirements: If he willfully evades or attempts to evade or assists in evading the margin requirements specified in these Regulations;
- (vi) Clearing Fees: If he willfully evades or attempts to evade or assists in evading the Regulations relating to clearing fees.
- (vii) Advertisement: If he advertises for business purposes or issues regularly circular or other business communication to persons other than his own Clients, without the inclusion of the Exchange specified disclaimer, as specified by the Exchange from time to time.

**3.40** Notwithstanding the above, the Managing Director, the Board, or the Commission may term any other act as a violation.

The Managing Director, the Board or the Commission, after declaring a Member or Broker a violator by due notice and after giving him an opportunity of hearing, may suspend a Member or Broker and/or require a Broker to suspend his business, or expel the Member or Broker or withdraw any or all of the Membership rights and privileges, or impose any fines for any act of the Member or Broker which would be deemed a violation by the Exchange or under these Regulations or any other law administered by the Commission.

- 3.41** (a) A Broker whose rights are suspended in full or in part for any reason:
- (i) shall remain liable for any payments, fees and charges owing or due by the Broker to the Exchange under these Regulations, as if the suspension had not occurred;
  - (ii) subject to these regulations, shall be prohibited from trading in any or all Markets, handling Client orders and transacting Futures Business on behalf of a Client, except as may otherwise be permitted by the Exchange;
  - (iii) shall be barred from access to and/or using any or all of the Exchange's facilities, except as may otherwise be permitted by the Exchange;
  - (iv) shall remain liable for any agreement, transaction or arrangement in relation to any Commodity Futures Contracts held by the Broker before suspension;
  - (v) shall, in accordance with the directions of the Exchange, instruct and appoint another Broker to close out any open positions held by the Broker on its own account or on behalf of its Clients at the date of suspension or to effect the transfer to another Broker of all open positions of any Client together with the money or security standing to the credit of that Client's account in respect of those open positions and shall notify the Exchange in writing of such appointment or transfer immediately; and
  - (vi) shall remain bound by the Ordinance, Rules, Regulations, Articles or any other order or direction given by the Commission.
- (b) Where a Broker is required by the Exchange to close out or transfer any open positions held by the Broker, the Exchange shall be entitled to close out or transfer, on behalf of the Broker, such open positions. Such Broker shall indemnify and hold the Exchange harmless in respect of any costs or other expenses arising by reason of such closing out or transfer and shall indemnify the Exchange in respect of any loss suffered by the Exchange in respect of such closing out or transfer.
- (c) A Broker whose rights are suspended may at any time thereafter apply to the person or body which imposed the suspension for the lifting of such suspension by submitting to such person or body such information including any information as to the financial condition of the Broker as such person or body may require in order for it to be satisfied that it is proper in all the circumstances to lift the suspension. Any suspension of a Broker's rights may be lifted conditionally or unconditionally by the Exchange.

- 3.42** (a) Upon declaration of a violation, the Compliance Department of the Exchange would prepare a report (“Report”) outlining the circumstances of the violation of the Member or Broker and shall provide a copy of this Report to the Member or Broker as well as to the Board, and the Commission as required.
- (b) Upon receipt by the Member or Broker of the Report, the Member or Broker may, within such period as may be specified in the Report, make any submissions and provide documentary evidence to the Exchange in respect of the matter(s) specified in the Report.
- (c) The Exchange may at any time request the production of such documents as the Exchange deems appropriate to any paper or oral hearing.
- (d) The Exchange shall adjudicate the disciplinary matter on the basis of the Report.
- (e) At any paper or oral hearing, a legal counsel of the Exchange may attend for the purpose of giving legal advice to the Exchange.
- (f) If the Exchange decides that it is inappropriate for a disciplinary matter to be adjudicated by way of a paper hearing, the Exchange shall fix a date and time for an oral hearing and notify the Compliance Department and the Member or Broker of the date and time of the hearing.
- At any oral hearing, the Member or Broker and anyone authorized to represent the Exchange, an officer of the Compliance Department, shall have the right to attend and make submissions.
- (g) The Exchange may at any time request the attendance of such persons as the Exchange deems appropriate at any oral hearing.
- (h) If the Member or Broker or any other person(s) requested by the Exchange to attend an oral hearing fails to appear at the oral hearing, the Exchange may, upon proof of service on the Member or Broker or the other person of the notice of the hearing, proceed to hear and determine the proceedings in its/his absence.
- (i) The Exchange shall, on the basis of the Report, or any further submissions or documentary evidence which may be provided by the Member or Broker, any other documents which may be requested to be produced by the Exchange and any evidence as may be given by any persons whom may be requested to attend an oral hearing by the Exchange, adjudicate the matter(s) specified in the Report and recommend such sanctions on the Member or Broker as it considers appropriate provided that no Member of the Exchange shall participate in the adjudication of the matter(s) if he has a personal or financial interest in the case or is materially interested in the outcome of the case.

The Exchange shall submit its findings to the Board with its recommendations which may specify any sanction to be imposed on the Member or Broker. The Board shall, after receipt of the recommendation of the Exchange, notify the Member or Broker in writing of the Exchange's decision.

**3.43 Co-operation**

During the course of any disciplinary proceedings or appeals, the Member or Broker concerned shall offer its fullest co-operation to the Exchange.

**3.44 Settlement**

At any time prior to the issuance of a decision by the Exchange, the Member or Broker that is the subject of the disciplinary matter may submit an offer of settlement to the Exchange. If the Exchange accepts the offer of settlement, it shall forward the case to the Board.

## Chapter IV: CONTRACTS

### 4.1 Contract Specification

The Exchange shall have the right to determine, specify and modify the basis variety for the Commodity Futures Contracts in a particular commodity or group of commodities from time to time with the approval of the Board and the Commission. The Exchange shall determine and finalize the contract specifications and modifications in respect of Commodity Future Contracts with the prior approval of the Board and the Commission. Provided further that no Commodity Future Contract shall be listed on the Exchange without being approved by the Commission in writing.

- 4.2 The number, and the commencement and expiration cycles of all Commodity Futures Contracts in commodities and other contracts shall have the approval of the Exchange.
- 4.3 The Board shall have the right to determine, specify and modify the position limits with respect to the Commodity Futures Contracts permitted on the Exchange, subject to the approval of the Commission. Such position limits could differ for Membership categories and/or differ from Broker to Broker and/or Clients; and exceptions may be provided by the Board. Any increase in Position limits would require special approval from the Commission. Position limits and exceptions will be specified by the Exchange for each underlying commodity and contract month from time to time.
- 4.4 The Exchange shall have the right to determine, specify and modify the price limits with respect to the Commodity Futures Contracts permitted on the Exchange with the approval of the Board. Such price limits may include floor and ceiling price for a day or for a specific period.
- 4.5 The Exchange shall have the right to specify and charge Trading fee, Clearing fee, Delivery fee or any other fee from the Broker subject to the approval of the Board. The Exchange may specify the maximum and minimum fees a Broker may charge from their Clients.
- 4.6 Brokers of the Exchange shall execute and clear transactions in only such Commodity Futures Contracts as specified by the Board and approved by the Commission.
- 4.7 All transactions in Commodity Futures Contracts permitted on the Exchange shall be made only in the manner approved by the Exchange.
- 4.8 While entering an order in the system, the Broker shall specify whether such order is on his own account or it is on account of his Client. If the order is for and on behalf of a Client, the Broker must enter the respective Trader Account

Identification Code provided by the Exchange at the time of setting up of the account.

- 4.9** Prior to the Broker and the Client entering into any transactions, or the Broker allowing the Client to trade on the Exchange, the Client shall be required to enter into an agreement with the Broker in the format specified by the Exchange which would include an Account Opening Form and a Risk Disclosure Document and the Client shall acknowledge and accept that he has read and understood the risk disclosure document and any other documents specified by the Exchange from time to time.
- 4.10** All transactions in Commodity Futures Contracts permitted on the Exchange shall be cleared, registered and settled by the Clearing House and shall be subject to these Regulations. The Clearing House shall clear, register and settle the financial performance of the Commodity Futures Contracts entered into the Exchange.
- 4.11** In case a Broker does an online transaction on behalf of a Client, the Broker shall be required to issue trade confirmations for each and every single transaction undertaken by him for that Client within 24 hours in the format specified by the Exchange and the Broker shall ensure that he receives the acknowledgment thereof.

**4.12** **Executed Contracts**

In respect of all Commodity Futures Contracts executed by the Brokers, it shall be the responsibility of the respective Broker to pay all applicable statutory fee, stamp duty, service tax, taxes and levies, in respect of all deliveries as well as Commodity Futures Contracts directly to the concerned Government Departments. These will be recoverable from their Clients other than withholding tax.

**4.13** **Settlement**

All transactions in Commodity Futures Contracts permitted on the Exchange shall be settled through the Clearing House; Brokers authorized to clear shall alone be eligible and qualified to obtain directly the clearing, settlement and guaranteeing services of the Clearing House.

- 4.14** Only transactions in Commodity Futures Contracts for trading on the Exchange will be recognized as valid, provided the Broker has paid to the Clearing House adequate Clearing deposit and margins as determined by the Exchange. Brokers who clear Commodity Futures Contracts shall pay the determined margins including variation margins for their respective outstanding transactions at all times.
- 4.15** Rates and/or prices for the Commodity Futures Contracts permitted for trading on the Exchange shall be quoted by the Exchange in accordance with any Circulars

and Regulations specified for that and they shall be for the basis variety of the underlying commodity of that Commodity Futures Contract and for the base centre/place determined in the clauses specified in such Circulars and Regulations of that Commodity Futures Contract.

**4.16** Unless otherwise specified in the Ordinance or the Rules:

(a) All outstanding transactions in Commodity Futures Contracts at expiration of the Commodity Futures Contract shall in general be for delivery, at any one or more delivery centers and/or warehouses approved, certified and designated by the Board.

(b) All outstanding Commodity Futures Contracts not settled by giving or receiving deliveries shall be closed at the final settlement price fixed together with a fine as determined by the Exchange for those failing to give or receive delivery.

**4.17** The Board shall have the right to determine, specify and modify the terms and manner of delivery of that commodity or group of commodities resulting from outstanding transactions in Commodity Futures Contracts in that commodity or group of commodities.

**4.18** The Board shall have the right to determine, specify and modify the terms regarding quantity, packing, place of delivery, discounts and premiums in terms of quality and delivery centers, tender period, certification and quotation for bids and offers.

**4.19** (a) Brokers may deal only in such Commodity Futures Contracts which have been registered by the Commission under the Rules;

(b) Brokers shall enter into Commodity Futures Contracts only on the terms and conditions determined under these Regulations and the circulars and notices issued hereunder.

(c) No Broker shall enter into a Commodity Futures Contract before trading therein has been commenced/after trading therein has ended in accordance with the Regulations.

**4.20** Any Broker transacting in any Commodity Futures Contract and basis varieties that are not specified by the Exchange shall be in contravention of these Regulations and shall be subject to a disciplinary action by the Exchange.

**4.21** Brokers shall maintain a record of all their transactions in all Commodity Futures Contracts permitted by the Exchange for five years. Brokers shall have separate records of all their proprietary account transactions and those of their Clients, including orders from Clients for execution of transactions in Future Contracts as well as acknowledgments thereof.

For the Clients on whose behalf orders are executed by the Brokers, Brokers shall preserve the records of orders for transactions for such Client separately with the time and date of receipt of order, details of executed transactions and books of accounts relating to the same, for a period of five years for production whenever required by the Client, by the Exchange or the Commission.

- 4.22** Transactions for Commodity Futures Contracts that are not registered by the Commission are prohibited. Any Broker who infringes or attempts to infringe or who assists in any infringement or attempted infringement of this Regulation shall be liable to suspension and/or expulsion from membership of the Exchange or any other action that the Exchange may take under its Regulations.
- 4.23** The death of any party to a Commodity Futures Contract made subject to the Regulations of the Exchange shall not discharge the legal representatives of the deceased from fulfilling the obligations under such Commodity Futures Contracts and shall not in anyway affect the right of any other party to such contract or legal representatives of the deceased to refer any dispute or differences to Arbitration under these Regulations and, in such event, the right to refer any dispute or differences to Arbitration shall be exercised by or against the legal representative of the deceased.
- 4.24** Every Broker shall segregate trading by him on his own account from that of his Clients in such manner as the Exchange may provide.
- 4.25** For the purpose of these Regulations, for transactions entered into on behalf of the Director or an employee of the Broker or for transactions in which the Director or employee has beneficial interest, such director or employee shall be considered as propriety trades of the Broker and margins shall be collected for each such transactions, separately.
- 4.26** The Broker cannot utilize the funds and commodities of one Client for and on behalf of another Client or for his own account.
- 4.27** The Exchange may, at any time restrict conditionally or unconditionally, a Broker from trading in a specified Commodity Futures Contract.
- 4.28** The Broker shall continue to be liable for all trades executed on the system for orders entered into the ETS on his behalf. The Broker shall also be responsible for all the actions of their Authorized Persons.
- 4.29** Prices quoted on the Exchange shall be basis delivery location exclusive of any applicable taxes.

## **Chapter V: TRADING ON THE EXCHANGE**

### **5.1 Trading Days**

The Exchange shall be open on all days except on such holidays as the Exchange may declare in advance, at any time, or as may be specified by Federal Government or the Commission at any time or in a state of emergency as declared by the Exchange.

### **5.2 Trading Sessions**

The Board may determine different trading sessions for different trading segments on the ETS of the Exchange, and may also decide on the timings and operational requirements for the same, as may be provided in the relevant Regulations of the Exchange from time to time.

### **5.3 Trading with Good Decorum**

A person allowed to trade on the ETS shall be bound to observe the provisions contained in the Ordinance, Rules, Regulations, Articles or any other order or direction given by the Commission and maintain proper decorum in his behaviour. The Exchange may, in its absolute discretion, refuse any person to trade on the ETS and may, at any time, withdraw or terminate the right of trading of any such person without assigning any reason whatever.

### **5.4 Management of the ETS**

The management of the ETS shall be under the charge of the Management of the Exchange.

### **5.5 Prices**

Prices of the Commodity Futures Contracts dealt in on the ETS shall be recorded in the manner, as may be determined by the Exchange from time to time. No prices shall be recorded for any transaction done on the Exchange, unless it is made in the regular course of trading on the ETS or any other approved trading system of the Exchange.

### **5.6 Daily Official List**

A daily official list of prices shall be issued by or under the authority of the Exchange. Such daily official list of prices may be published or provided in such media, as may be decided by the Exchange from time to time, or be made available on the official website of the Exchange.

## **5.7 Trading Facility**

- 5.7.1** Transactions in the ETS may be effected through order driven, quote driven or such other system as the Exchange may provide for trading in specified commodities and as specified by the Exchange through circulars and notices issued hereunder from time to time.
- 5.7.2** No Exchange Member or Broker shall have any title, right or interest in the ETS or any other trading system of the Exchange, its facilities, and software and the information provided on the ETS, and no such claim shall lie against the Exchange at any time.
- 5.7.3** The permission to use the ETS may be given to a Broker, subject to compliance with such terms and conditions as the Exchange may determine from time to time, which may, *inter alia*, include payment of such deposits and/or charges, as may be provided in the Regulations and circulars and notices issued hereunder from time to time.
- 5.7.4** The Direct Feed (from the trading System) may not be marketed by any Broker or their employees or employees of the Exchange to any person for any financial consideration or otherwise.

## **5.8 Registration and De-Registration of Approved Persons**

- 5.8.1** Brokers shall allow only their Authorized Persons to operate the ETS, subject to the following conditions:
- (a) The appointment of Authorized Person shall be subject to such terms and conditions and submission of application in such form as the Exchange may determine from time to time in the Regulations of the Exchange, or orders and notices issued thereunder.
  - (b) The Exchange may, at its discretion, deregister any Authorized Person of a Broker for failure to comply with the applicable provisions of the Regulations and/or Circulars and Notices issued thereunder; but the Broker concerned shall continue to be liable for acts of commission and/or omission prior to de-registration by the Exchange and/or loss /damage consequent to the de-registration.

## **5.9 Operational Parameters for Trading**

The Exchange may determine from time to time the operational parameters regarding transactions in Commodity Futures Contracts traded on the ETS. Such operational parameters may include:

- (a) determination of functional details of the ETS, including the system design, user infrastructure, user interface and system operation.

- (b) determination of the procedure and norms for trading.
- (c) limits on trading and open positions mark to market losses, exposure, concentration and on the spread between bid and offer rates.
- (d) fixation of units of trading and/or minimum and/or maximum quantity of Commodity Futures Contracts or order which may be offered to be bought or sold or the limits on price fluctuations permitted in a day or period.
- (e) fixation of tick sizes and levels for providing alerts.
- (f) determination of the types of trades permitted for a Broker and for a Commodity Futures Contract.
- (g) specifications of different order books, types of orders, order conditions and other details related to orders and trades.
- (h) maintenance of recording of transactions executed and the manner of reporting transactions in the determined forms to the Exchange and Commission.
- (i) other matters, which may affect smooth operation of trading in Commodity Futures Contracts permitted on the Exchange. All the parameters shall be strictly adhered to by the Brokers. The parameters, however, may vary for commodities and for different centers of delivery.
- (j) whatever the trading system allows will be in conjunction with or in accordance with the Chapter 4.

#### **5.10 Loss of Access to ETS**

The Exchange shall provide its services on a best effort basis. However the Exchange shall not be liable for failure or malfunctioning of the ETS or any other support systems and for any loss, damage, or other costs arising thereupon and/or in any way out of:

- (a) failure of telecom network or systems including failure of ancillary or associated systems, or fluctuation of power, or other environmental conditions; or
- (b) accident, transportation, neglect, misuse, errors, fraud of the Broker or its Authorized Persons or any third party; or
- (c) any fault in any attachments, system or equipments (either supplied by the Exchange or approved by the Exchange) which forms or does not form part of the trading workstation installation; or

- (d) act of God, fire, flood, war, act of violence, or any other similar occurrence or for any reason beyond the control of Exchange; or
- (e) any incidental, special or consequential damages.

However, in the event of a failure or malfunctioning of and/or loss of access to the ETS, the Exchange will specify the appropriate measures to be taken by the Broker.

#### **5.11 Closing-out Exchange Brokers Responsibility**

The Broker shall be fully accountable for the closing out of transactions effected by the Exchange on his behalf and shall indemnify the Exchange against any loss or cost arising out of or incidental to such close-out of transactions either directly or indirectly.

#### **5.12 Order Management**

The conditions and procedures to be followed by a Broker or his Authorized Persons for entering, amending or canceling orders on the ETS shall be as specified by Exchange in these Regulations or from time to time, which may, *inter alia*, specify details to be entered compulsorily at the time of order entry, such as, Client code, type of order, symbol or Commodity Futures Contract code, etc. Similar procedures and conditions shall be specified for trading on any other approved trading system of the Exchange, and must be followed by a Broker, or his authorized Person.

#### **5.13 Trade Management**

Trading shall be allowed on the ETS in such Commodity Futures Contracts as may be admitted to dealings on the Exchange and for such categories of Memberships of the Exchange, trade types, market types, settlement periods and for such trading hours as the Board may specify from time to time or as may be provided in the Rules and Regulations and Circulars and Notices issued hereunder, from time to time.

#### **5.14 Liability of Brokers**

A Broker shall be liable for all the trades executed on the ETS, arising out of orders entered into the system by him and his Authorized Persons. The Broker shall be solely responsible for all the acts of commission and/or omission of Authorized Persons, employees and other persons deployed by such Broker, in relation to performance of obligations arising there from, connected therewith and incidental to such acts of commission and/or omission. A Broker or its Authorized Persons shall maintain complete secrecy of their passwords/pincodes. Any trade

or transaction done by use of any of Authorized Persons of the Broker shall be binding on such Broker.

#### **5.15 Protection from misuse of the system**

No Broker shall permit itself or any other person(s) to:

- (a) Use the software provided by the Exchange for any purpose other than as approved and specified by the Exchange;
- (b) Copy, alter, modify or make available to any other person the software provided by the Exchange;
- (c) Use the software in any manner other than the manner specified by the Exchange; and
- (d) Attempt directly or indirectly to de-compile, disassemble or reverse engineer the same.

#### **5.16 Order Validation**

Orders on the ETS shall be subject to such validation checks relating to quantity, price, value etc., as may be determined by the Exchange and Circulars and Notices issued hereunder, from time to time.

#### **5.17 Matching Methodology**

The Exchange may from time to time specify the methodology to be applied for matching orders on the ETS, which may vary for different order books. Unless other-wise specified, the orders shall be matched on price-time priority.

#### **5.18 Use of Technology**

The Exchange shall from time to time provide the necessary norms and requirements relating to the use of technology, which may include equipment, software, network, etc., to ensure safety, security and integrity of the ETS or any other trading system provided by the Exchange so as not to endanger or harm in any way the public interest and / or the interest of the Exchange. These norms shall be binding on the Brokers of the Exchange.

#### **5.19 Appointment of Authorized Person by more than one Broker**

No person shall be appointed at any time as an Authorized Person by more than one Broker, other than clients of Brokers.

Provided that no Broker shall hire the services of any person who was an employee of another Broker and was terminated on account of any fraud or misconduct.

## Chapter VI: TRADING SYSTEM

### 6.1 Access to Trading

- 6.1.1** The Exchange shall provide an ETS, to the Brokers and their Clients to access and conduct trading in the Commodity Futures Contracts admitted for trading on the Exchange.
- 6.1.2** The ETS as may be provided by the Exchange shall be called NCEL Trading System or any other name, as determined by the Exchange.
- 6.1.3** The ETS shall be available for facilitating trading in the Commodity Futures Contracts for specified commodities permitted for trading on the Exchange and also for trading in such other Commodity Futures Contracts, which may be allowed by the Exchange with prior approval of the Commission.
- 6.1.4** The Exchange may provide the architecture and the infrastructure related thereto, to the extent possible, to facilitate the Brokers and their Clients to establish connectivity with the ETS or any other trading system of the Exchange. The Exchange shall have absolute right to specify the maximum number of ports to access the ETS that may be allotted to a Broker at the absolute discretion of the Exchange and the conditions for such allotment. The Exchange shall also have the absolute right to restrict the installation of ports in any place.
- 6.1.5** The Exchange may determine the specifications/descriptions of hardware, software and equipment and the specifications to carry out the required testing thereof in such manner and time as may be specified by the Exchange from time to time, which a Broker shall be required to strictly adhere to have connectivity with, or use of the ETS or any other trading system of the Exchange, to ensure compatibility and minimize/avoid technical issues arising out of incompatibility of hardware, software and equipment.
- 6.1.6** A Broker may be authorized to appoint such number of persons as Authorized Persons, as may be allowed by the Exchange.
- 6.1.7** The Exchange shall have the power to provide for:
- (a) the procedure for registration and cancellation of the registration of a person as an Authorized Person or Client;
  - (b) the conditions required to be fulfilled before a person can be registered as an Authorized Person or Client;
  - (c) the conditions required to be fulfilled before an Authorized Person or Client may have access to the ETS;

- (d) the maximum number of persons who may be allowed to have access to the ETS on behalf of a Broker;
- (e) the procedure for provision and modification of a password/pin-code used by an Authorized Person or Client to access the ETS; and
- (f) the circumstances in which the Exchange may refuse and/or withdraw and/or cancel the permission to an Authorized Person or Client to have access to the ETS, either indefinitely or for a specified period or until the fulfillment of conditions, as may be specified by the Exchange from time to time.

**6.1.8** All the orders for purchase or sale of Commodity Futures Contracts by a Broker shall be required to be entered only through the ETS.

**6.2 Surveillance, Market Monitoring System, Investigation and Members/Broker Database**

The provisions relating to surveillance, market monitoring system, investigation, any other market related activities and Members/Brokers database shall be specified from time to time through Circulars and Notices issued hereunder.

**6.3 Appropriation of the Clients Order**

No Broker of the Exchange shall, in respect of any Commodity Futures Contract permitted for trading on the Exchange, enter into any Commodity Futures Contract on his own account, with his Client, or with another Broker of the Exchange. Any contract entered into in violation of these Regulations shall entail disciplinary action by the Exchange. For any such contract, the Exchange shall not act as a legal counterparty under these Regulations even if the contract is settled through the Clearing House.

**6.4 Brokers prevented from using funds of Clients.**

No Broker can utilize the funds of one Client for and on behalf of another Client or himself.

**6.5 Brokers liable for all Trades**

The Broker shall continue to be liable for all trades executed on the ETS for orders entered into the ETS on behalf of his Clients. Broker shall be responsible for all the actions of their Authorized Persons and their Clients.

**6.6 Broker disclosing to Exchange:**

The Broker shall disclose to the Exchange through the System at the time of order entry that the order is on his own account or on behalf of Clients. The Client may allow a Broker to trade on his behalf, provided that he fully understands the risk associated with the same.

**6.7 Procedure for cancellation of order**

The procedures and conditions for amendment or cancellation of orders shall be subject to such conditions as specified by the Exchange from time to time. Brokers shall be solely responsible for the accuracy of details of orders entered into the ETS including orders entered on behalf of his Clients.

**6.8 Positions Limits**

An order shall be subject to validation of position limits. A position limit refers to the maximum value of trades that a Broker and his Clients will be permitted to execute on the ETS. The Exchange may specify from time to time the manner in which all position limits shall apply.

**6.9 Trades on the system**

Trades generated on the system are irrevocable and 'locked in'. The Exchange may specify from time to time the Market Types and the manner if any, in which trade cancellation can be effected.

**6.10 The Exchange's right to provide access**

The Exchange reserves the right to terminate the system access of a Broker or a Client from the ETS at any time at its full discretion and will provide periodical reports thereof to the Board and the Commission.

## **Chapter VII: CLEARING HOUSE OF THE EXCHANGE**

### **7.1 Clearing and Settlement**

All Future Contracts transacted on the Exchange shall be cleared and settled by the Clearing House, and whenever required, closed out in accordance with these Regulations.

All Commodity Futures Contracts transacted on the Exchange will be made available by the Exchange to the Brokers for settlement in the manner specified by the Exchange through Circulars and Notices issued hereunder.

### **7.2 Brokers and Clients**

A Broker may at its discretion discontinue clearing or settling services after closing out of outstanding Commodity Futures Contracts of any Client with whom the Broker has an agreement to provide clearing and settlement services. The Broker shall communicate the reasons for discontinuing the services in writing to the Client and also to the Exchange, affirmatively indicating if such a discontinuance of service is the result of the Broker being aware of the Client breaching the Exchange Regulations.

### **7.3 Exchange Guarantee for Settlement**

In respect of Commodity Futures Contracts, traded and cleared by the Clearing House in the manner specified in these Regulations, the Exchange shall be deemed to guarantee the settlement.

### **7.4 Provisions in respect of Contracts being Cleared**

The following provisions shall apply in respect of Commodity Futures Contracts that are transacted in the Exchange and then cleared, settled and closed out by the Clearing House in the manner specified by these Regulations:

**7.4.1** Every Broker shall be fully responsible for all his commitments to the Exchange and his Clients irrespective of whether one or more Clients with whom he has dealings have defaulted. Default of any one or more Clients shall not affect the rights of other Clients with whom the Broker has dealings but who are not in default;

**7.4.2** A Broker carrying an account of a Client that is required to make or accept delivery, agrees to guarantee and assume complete responsibility for the performance of all delivery requirements set forth in these Regulations. In a delivery default, the Clearing House shall seek to ensure the financial performance with respect to the delivery. In this regard, the Clearing House

powers will include, but will not be limited to, the right to sell or liquidate the commodity subject to delivery and to distribute the proceeds as appropriate.

- 7.4.3** No Broker shall fail to affect clearance, settlement or payment of margin in the manner specified by the Clearing House or, fail to pay damages to the Clearing House or, fail to effect or accept delivery merely on the ground of default of others including his Clients. In a delivery default, the Clearing House shall seek to ensure the financial performance with respect to the delivery;
- 7.4.4** The Exchange shall be responsible for its commitments to each Broker whether the remaining Brokers with whom it has dealings have defaulted except under circumstances where improper trades not covered under the Settlement Guarantee Fund are the cause for default. Default of any one or more Brokers shall not affect the rights of the remaining Brokers who are not in default.
- 7.4.5** The Exchange shall not be responsible for the commitments of a defaulting Broker to his/its Clients, with whom the Broker has an agreement as per these Regulations.

**7.5 Clearing House**

The Clearing House shall, in the manner specified by the Board, have the responsibility of receiving and maintaining margin payments in completely segregated accounts, monitoring open positions and margins, and transmission of documents, payments and Certified Vault and Warehouse Receipts amongst the Brokers of the Exchange.

- 7.5.1** Commodity Futures contracts for specified commodities as may be determined by the Exchange from time to time, and traded and cleared by the Exchange in the manner specified in these Regulations, the Clearing House shall be deemed to guarantee the net outstanding financial obligations to Brokers.
- 7.5.2** The Exchange shall not be deemed to guarantee the financial obligations of a defaulting Broker to his Clients, who are clearing and settling through him nor shall he be liable to accept deliveries or make deliveries.
- 7.5.3** The Exchange shall not be deemed to guarantee the financial obligations of any Broker of the Exchange to his/its Clients and nor shall be liable to accept deliveries or make deliveries.
- 7.5.4** The Exchange shall not be deemed to guarantee the delivery, the title, genuineness, quality or validity of any goods or any documents passing through the Clearing House.
- 7.5.5** The Exchange shall not be liable for obligations of a Client of a Broker nor shall the Clearing House become liable to make deliveries to or accept deliveries from a Client of a Broker.

**7.5.6** If a Broker fails to fulfill its delivery obligations as specified in these Regulations, the Exchange's sole obligation shall be to pay reasonable damages proximately caused by the default, but in no event shall the Exchange be obligated to pay any damages greater than the difference of the delivery price of the specific commodity and the reasonable market price of such commodity at the time delivery is required to be made in accordance with these Regulations.

**7.6 Designated Clearing Banks**

The Exchange may designate one or more scheduled commercial bank(s) as the designated clearing bank(s) of the Exchange for providing and facilitating the collection of funds, transfer of funds, sharing of information and other value added services pursuant to these Regulations, subject to the criteria specified by the Board.

## Chapter VIII: MARGINS

### 8.1 Initial Margin

In respect of Commodity Futures Contracts that are transacted on the Exchange, all buyers and sellers shall post such amount as initial margin, including special, variation and additional margin, as may be specified by the Exchange and approved by the Board from time to time.

### 8.2 Margin provisions

The following margin provisions, subject to margin requirements determined by applying any methodology specified by the Exchange and approved by the Board and the Commission, from time to time, shall apply in respect of Commodity Futures Contracts that are transacted on the Exchange and then cleared and settled by the Clearing House:

8.2.1 Every Broker shall pay the appropriate margin amount to the Clearing House against the aggregate open positions cleared by the Broker:

- (i) for the Brokers' own account where applicable; and
- (ii) for each of his Clients, where applicable

8.2.2 Every Broker executing transactions on behalf of Clients shall collect from the Clients not less than the margins specified by the Exchange from time to time, against their open positions within such time as may be specified by the Exchange;

8.2.3 The margin to be paid shall be calculated, based on the methodology specified by the Exchange through Circulars and Notices issues hereunder, which may be on gross position basis, net position basis, or in other manner, as may be decided by the Exchange with the approval of the Board and Commission.

### 8.3 Variation Margin

Margin accounts of all Brokers and their Clients shall be marked to market daily by the Clearing House and the Brokers and their Clients shall be required to pay the same as may be specified by the Clearing House.

### 8.4 Margin from Brokers

Brokers shall deposit initial margin in cash or securities as may be specified by the Exchange from time to time to fulfill the initial margin requirements in respect of open positions. Variation margin shall be paid in cash only form and transferred electronically by the Brokers from their accounts maintained by the Exchange designated Clearing Bank.

The Exchange may specify the type/quantum of margin and the applicability of the same from time to time. Such margin may vary between different types of Commodity Futures Contracts and for different contract months.

The Exchange may close out the cleared open positions of a Broker and his Clients, or take any other action the Exchange may deem fit, when the call for variation margin or any other payment due is not complied with.

#### **8.5 Failure to Pay Variation Margin**

Failure to pay variation margin by a Client would lead to his open position being transferred to the Broker and his account being deactivated/suspended. Failure to pay variation margin by a Broker may lead to the Broker being deactivated/suspended and declared as a defaulter by the Exchange. The Exchange may also take such other measures including disciplinary actions, against the defaulting Brokers or their Clients, as it may deem fit.

No Broker shall directly or indirectly enter into any arrangement or adopt any procedure for the purpose of evading or assisting in the evasion of the margin requirements specified under these Regulations or any orders issued hereunder by the Exchange;

#### **8.6 Margin from Clients**

Margin deposits received by Brokers from their Clients in any form as specified by the Exchange shall be accounted for and maintained separately in completely segregated accounts without any commingling between his own funds and his Clients' funds, or between any of his Client's, and shall be used solely for the benefit of the respective Client's positions.

Margin accounts of Clients shall be marked to market daily by the Exchange and further margin shall be collected when necessary to maintain the appropriate margin.

Brokers of the Exchange shall post and accept margin deposits only in such form as may be permitted by the Exchange.

The margin account of Clients shall be utilized by Brokers only for settling the dues to the Broker/Exchange upon marking to market or for fulfilling the obligations resulting from their open positions.

Brokers shall furnish to their Clients in writing such reports and at such intervals as may be specified by the Exchange.

A Broker may close out an open position of a Client when a margin call or any other payment due is not complied with by the Client **within the time period specified by the Exchange.**

**8.7 Brokers maintaining arrangement with Clearing Bank**

Brokers shall maintain such banking arrangements with the designated Clearing Bank(s) as specified by the Exchange so as to permit the transfer of funds and to maintain funds in a segregated manner between his own funds and the funds of his Clients.

Each Broker shall deposit initial, variation, or any additional margin or deposits with the Clearing House through the designated Clearing Bank(s), as directed by the Exchange, within the specified time and in the specified manner.

**8.8 Additional Margin**

The Exchange may specify such additional or special margins including delivery margins as may be considered necessary during the delivery period and emergencies.

The Exchange may from time to time, impose upon any particular Broker, special or other margin requirement.

**8.9 Lien on Margin**

The monies paid by way of margin or other securities or assets pledged or hypothecated by a Broker or on behalf of their Clients in lieu of margin under the provisions of the Regulations shall be subject to a first and paramount lien for all sums due to the Clearing House. Margin shall be available in preference to all other claims against the Broker and/or Client for the due fulfillment of his obligations and liabilities arising out of or incidental to any deals made subject to these Regulations.

**8.10 Release of Margin**

The Clearing House would release all margins after the payout upon receipt of Brokers' request, subject to all outstanding dues and payments being settled.

## **Chapter IX: CLEARING AND SETTLEMENT**

### **9.1 Clearing House**

The Clearing House shall function in respect of trading in Commodity Futures Contracts permitted on the Exchange so as to provide clearing and settlement services for the transactions.

### **9.2 Brokers to open segregated accounts with designated Clearing Banks**

In order to facilitate smooth clearing and settlement, all Brokers participating in futures trading shall be required to open such number of bank accounts with designated Clearing Banks as may be specified by the Exchange. All such Brokers shall be required to strictly follow instructions of the Exchange in respect of maintenance of such bank accounts, minimum balance, segregation etc. as may be required by the Exchange.

**9.3** The Clearing House shall process all transactions submitted to the Clearing House.

### **9.4 After placement of Order:**

Once an Order is placed in the System, it must match on the following:

- (i) Commodity Futures Contract;
- (ii) Contract month;
- (iii) Quantity; and
- (iv) Contract price.

Once it is so matched, the Exchange assumes the position of a buyer to every seller and a seller to every buyer in respect of such transactions. The daily or final settlement price shall be considered as the contract price as applicable.

**9.5** All outstanding transactions shall be binding upon the original contracting parties, that is, the Brokers of the Exchange who have cleared transactions until liquidated by offset or issue of delivery notice or delivery order or payment for delivery, as the case may be as specified under these Regulations.

### **9.6 Trades and Settlement**

**9.6.1** Each trading day shall be a settlement day, unless it is declared otherwise by the Exchange.

- 9.6.2** All transactions in Commodity Futures Contracts permitted on the Exchange shall be subject to marking to market and settlement through the Clearing House, at intervals specified by the Exchange under the Regulations. The Exchange shall have the right to effect marking to market and settlements through the Clearing House more than once during the course of a working day, if deemed fit on account of the market risk and other parameters; and
- 9.6.3** Settlement of differences, if due to marking to market of outstanding transactions, shall be made by the Brokers through the Clearing House.
- 9.7** **Settlement Price**
- 9.7.1** There shall be a daily settlement price in respect of each contract month and for each Commodity Futures Contract.
- 9.7.2** Settlement price shall be determined by the Exchange based on price quotations of transactions executed in accordance with the Regulations and other information available on the daily official list or in such other manner, as may be determined by the Exchange.
- 9.7.3** All transactions, after a mark to market settlement, cleared by the Clearing House shall be included in the succeeding marked-to-market settlement till the expiration of the Commodity Futures Contract.
- 9.8** In case of contracts coming under settlement for the first time, the difference shall be calculated between the contract rate and the settlement price. In the case of contracts coming under subsequent settlements, difference shall be calculated between the settlement prices arrived at by marking to market all open positions.

## **Chapter X: DELIVERY**

### **10.1 Through Clearing House**

After the trading hours on the expiry date, based on the available information, the matching for deliveries would take place by the Clearing House on a random basis, keeping in view the factors such as available capacity of the vault/warehouse, commodities already deposited and offered for delivery and any other factor as may be specified by the Exchange from time to time. Matching done by the process set out by the Exchange, from time to time, shall be binding on the Brokers provided that the Exchange would have already specified the marketable and non marketable and deliverable lot and all product notes would specify the amount that would be delivered and anything less than the amount specified would be subject to cash settlement. After completion of the matching process, Brokers would be informed of the deliverable/receivable positions and the unmatched positions.

Unmatched positions or odd lots shall have to be settled in cash.

The cash settlement would be only for the incremental gain / loss as determined on the basis of final Settlement Price as specified by the Exchange.

All matched and unmatched positions shall be settled in accordance with the applicable Settlement Calendar and as specified under these Regulations. However the Exchange reserves the right to allocate deliveries as it deems fit.

### **10.2 Duties of a Broker**

Prior to the last day of trading, each Broker shall request evidence from the Client for each account of the Client on the Broker's books that all open positions which will not be offset on the last day of trading will be completed by delivery. If any Client is unwilling or unable to provide such evidence, then the Broker must liquidate the position on or before the last day of trading.

### **10.3 Early Pay-In**

The Brokers may be allowed to deliver their obligations before the Pay-in date as applicable under the Settlement Calendar.

### **10.4 Additional Credit/Debits**

The Exchange may specify the parameters and methodology for premium / discount, as the case may be, from time to time for the quality/quantity differential, sales tax, taxes, government levies/fees if any. Pay in/Pay out for such additional obligations may be settled on the supplemental Settlement Date as specified in the Settlement Calendar.

#### **10.5 Prices quoted on the Exchange**

Prices quoted on the Exchange shall be basis delivery location, exclusive of sales tax and any other tax but inclusive of any applicable customs duty. The parties to the transaction shall be responsible for the payment of applicable sales tax and any other taxes applicable under the laws of the Country.

#### **10.6 Fines for Defaults**

In the event of a default by the seller or the buyer in delivery of commodities or payment of the price, the Exchange may close out the Commodity Futures Contracts or take any other action as the Exchange deems fit and would impose fines on the defaulting Buyer or Seller, as the case may be, and also use the margins deposited by such Broker to recover the loss. The settlement for the defaults in delivery would be in cash within the period as specified by the Exchange together with the mark up thereon as may be decided by the Exchange from time to time.

#### **10.7 Contracts Subject to Change in Settlement Procedure**

In an emergency situation, the Exchange may at any time through an adequate notice amend the settlement procedure or the clearing process.

#### **10.8 Clearing Days and Schedule Times**

The Exchange shall from time to time fix the various clearing days, the Pay-in and Pay-out days and the scheduled time to be observed in connection with the clearing and settlement operations of trades in Commodity Futures Contracts. The Exchange may specify different schedules for any or all Brokers from time to time. The Exchange may at any time curtail, extend, alter or postpone to any other date or dates, the entire Clearing or any or all of the various clearing days, in respect of any or all Commodity Futures Contracts.

#### **10.9 Clearing and Settlement Process**

The Exchange shall specify the process from time to time for the functioning and operations of the Clearing House and to regulate the functioning and operations of the Clearing House, which shall be deemed to form a part of any settlement process so provided. The Exchange may specify different process and procedures for clearing and settlement for any or all Brokers from time to time.

#### **10.10 Settlement Obligations Statements for Brokers**

ETS shall provide to each Broker, settlement obligations statements showing the quantities of the different kinds of commodities for which delivery/ deliveries is/ are to be given and/or taken and the funds payable or receivable by him in his

capacity as a Broker for trades made by him for which the said Broker has confirmed acceptance to settle.

#### **10.11 Delivery and Receipt Statements**

Based on the settlement obligations statements, the ETS shall provide delivery statement and receipt statement for each Broker. The delivery and receipt statement shall contain details of commodities to be delivered to and received from other Brokers, the details of the corresponding buying / selling Client and such other details as may be specified by the Board.

#### **10.12 Death of a Broker**

In case of death of a Broker on or before the Pay-in day, the procedure to be followed in clearing and settling of the account of such Broker shall be the procedure specified for clearing and settling the account of a defaulter, provided that with the permission of the Exchange the heirs or legal representatives of such deceased Broker may receive and deliver commodities and make and receive payment on account of such deceased Broker or any Broker of whom the Exchange approves, may deliver commodities and make payment on account of such deceased Broker.

#### **10.13 Commodity Futures Contract Specification**

The following specifications shall be specified in the standardized Product Note approved by the Board and the Commission:

##### **Specified Delivery Units**

The Exchange may specify from time to time the delivery units for all commodities admitted for trading on the Exchange. The Exchange may also specify from time to time the variations permissible in delivery units as per those stated in the contract specifications.

##### **Deliverable Grades**

Deliverable grades shall be those stated in the contract specifications as specified from time to time by the Exchange

##### **Assayer Certificates**

The Exchange shall notify list of approved Assayers for the purpose of certification of quality, grade and any other specification pertaining to each of the commodities/Warehouses/Vaults.

Brokers shall ensure that the Brokers and their Clients shall avail the services of approved Assayers for the purpose of certifications of the commodities as required under these Regulations and avail the services of Assayers or Warehouse or Vaults as may be specified by the Exchange for quantity and quality certification.

**10.14 Delivery in Part**

The receiving Broker shall accept such portion of the commodities as may be in order provided it is in lots of delivery unit.

**10.15 Closing Out**

If the delivering Broker fails to deliver within the period determined by the Exchange, the Exchange shall close out the said delivery at closing price or any other price as decided from time to time by the Exchange against the delivering Broker in accordance with the Regulations relating to closing-out.

**10.16 Delivering Broker Debited**

Without prejudice to the provisions contained elsewhere in this regard, the Exchange shall be entitled to debit the delivering Broker responsible for the documents which are not good delivery or are disputed deliveries by an amount equivalent to the said deliveries valued at such valuation price as the Exchange may specify from time to time in this regard.

**10.17 Fines for Bad Delivery**

The Exchange may impose a fine on a delivering Broker responsible for the delivery of commodities on his own behalf or on behalf of his Clients, which are not good delivery and such fines and other charges shall be in addition to any loss such Broker may suffer on account of closing-out.

**10.18 Delivery Default**

Notwithstanding any of the above provisions of this Chapter, the Exchange reserves the right to take any other action it deems fit, to preserve the integrity of the Market, and its Clearing House.

## **Chapter XI: CLOSING-OUT OF CONTRACTS**

### **11.1 Closing out**

Any transaction made subject to the Regulations of the Exchange may be closed-out against a Broker and his Client on his failure to comply with any of the provisions relating to delivery, payment and settlement of transactions or on any failure to fulfill the terms and conditions subject to which the transaction has been made. For the purpose of this Chapter a Broker who has failed to comply with any of the provisions relating to delivery, payment and settlement of trades or on any failure to fulfill the terms and conditions subject to which the trade has been made shall be referred to as “defaulting Broker”.

### **11.2 Closing Against a Broker**

In respect of outstanding transactions, the Exchange shall be entitled to closing out against the defaulting Broker and his Client for the benefit of the receiving/delivering Broker or itself, as the case may be. In such cases no notice of closing-out shall be given to the Broker against whom the closing-out is to be effected.

### **11.3 Death of a Broker**

On the death of a Broker, having transactions outstanding in the market in any Commodity Futures Contract, the Exchange may at its discretion give permission to his heirs or legal representatives to settle such transactions according to the terms thereof. In the event of such permission not being applied for or not being granted, the Exchange shall forthwith determine all outstanding obligations by closing out against the deceased Broker. The loss, if any, on such closing-out shall be claimed from the heirs or legal representatives of the deceased Broker and the profit, if any, shall be paid to them with the prior approval of the Exchange. If the heirs or legal representatives of the deceased Broker fail to pay the amount claimed from them, it shall be deemed that such deceased Broker has been declared a defaulter and in that event Regulations relating to default shall apply.

### **11.4 Manner of Closing out**

The Exchange shall affect closing out against the Broker in any manner as determined by the Exchange from time to time.

**11.5** Save as otherwise provided, the Broker against whom the closing-out is effected by the Exchange, shall be responsible for the transaction made and no liability or responsibility shall be attached to the Exchange, its directors, representatives or its employees for any trades made in pursuance of such closing-out.

- 11.6** The Exchange may defer closing-out in any particular case if in its opinion a fair market to close-out is not available or if it determines that the default is due to the existence of a special situation, but no such deferment shall relieve the Broker in default of the obligation to pay for any resulting damages or fees to the intermediate parties of their liabilities. In such a situation the Board and the Commission shall be informed in writing.
- 11.7** The Exchange may suspend or postpone closing-out in respect of any transaction and from time to time may extend or postpone the period of such suspension or postponement when circumstances appear in the Exchange's view to make such suspension or postponement desirable in the general interest. The liability of intermediaries in respect of transactions in such commodities settled through the Clearing House, as the case may be, shall continue during the period of such suspension or postponement. In such a situation the Board and the Commission shall be informed in writing.
- 11.8** **After Closing Out**
- When closing-out is effected as provided above and the Broker concerned is declared a defaulter, the difference arising from closing-out shall be recovered from the said Broker and distributed in accordance with the Regulations relating to default.
- 11.9** When closing-out is affected on the advice of the Exchange, the Broker against whom the closing-out takes place shall pay to the Exchange such closing out charges as the Exchange may determine, from time to time.
- 11.10** When closing-out is effected on the advice of the Exchange against a Broker failing to give or take delivery of all or any of the commodities or funds according to his obligation, the resulting difference (between the monetary value of commodities at the market price determined by the Exchange and the closing out price) due by such Broker shall be paid by the Broker forthwith to the Exchange.
- 11.11** When closing-out is effected on the advice of the Exchange against a Broker failing to give or take delivery of all or any of the commodities or funds according to his obligation, any profit (between the monetary value of commodities at the market price determined by the Exchange and the closing out price) shall be credited to the account of the Settlement Guarantee Fund or such other funds as may be set up by the Exchange from time to time to be held by the Exchange for such purposes as may be determined by it.
- 11.12** If any Broker against whom a trade is closed-out under the provisions of these Regulations, and the Broker fails to make payment of the loss arising out of the closing -out and of the damages, if any, within such time as may be stipulated by the Exchange from time to time, he may be declared a defaulting Broker by the Exchange.

## **Chapter XII: SETTLEMENT GUARANTEE FUND**

### **12.1 The Exchange to maintain Settlement Guarantee Fund**

- 12.1.1** The Exchange shall maintain a Settlement Guarantee Fund, either separately or jointly, in respect of different Commodity Futures Contracts of the Exchange for such purposes, as may be determined by the Board, from time to time.
- 12.1.2** The Board may determine from time to time the norms, procedures, terms and conditions governing each Settlement Guarantee Fund which may, *inter-alia*, specify the amount of deposit or contribution to be made by each Broker to the relevant Settlement Guarantee Fund, the terms, manner and mode of deposit or contributions, conditions of repayment of deposit or withdrawal of contribution from the Settlement Guarantee Fund, coverage and exclusion of Settlement Guarantee Fund, charges for utilization, fines and disciplinary actions for non-performance thereof.
- 12.1.3** The minimum amount of the Settlement Guarantee Fund to be ensured before commencement of trading will be Rs.100 million, which will be suitably increased from time to time, as the Board may decide.

### **12.2 Contribution to and Deposits With Settlement Guarantee Fund**

- 12.2.1** Each Broker shall be required to contribute to and provide a minimum security deposit, as may be determined by the Board from time to time, to the Settlement Guarantee Fund. The Settlement Guarantee Fund shall be held by the Exchange. The money in the Settlement Guarantee Fund shall be applied in the manner, as may be provided in these Regulations and notices and orders issued hereunder from time to time by the Board.
- 12.2.2** The Board may specify the amount of additional contribution or deposit to be made by each Broker and/or category of Brokers, which may, *inter alia*, include the minimum amount to be provided by each Broker.
- 12.2.3** The total amount of security deposit, margins and additional deposits, deposited and maintained by the Broker with the Clearing House, in any form as specified herein, shall form part of the Settlement Guarantee Fund.
- 12.2.4** The amount deposited by any Broker towards the security deposit shall be refundable, subject to such terms and conditions as may be specified by the Board from time to time. Any amount deposited or paid by the Broker may be refunded provided further that such amount is in surplus and there is no actual / crystallized or contingent liability or a claim from any Client or the Exchange to be discharged by the Broker.

### **12.3 Form of Contribution or Deposit**

The Exchange may, in its discretion, permit a Broker to contribute to or provide the deposit to be maintained with the Settlement Guarantee Fund, in the form of either cash, bank guarantees or in such other form or method, and subject to such terms and conditions, as may be specified by the Board, from time to time.

### **12.4 Replacement of Deposit**

By giving a suitable notice to the Exchange and subject to such conditions, as may be specified by the Exchange, from time to time, a Broker may withdraw bank guarantees given to the Exchange, representing the Brokers contribution or deposit towards the Settlement Guarantee Fund, provided that the Broker prior to such withdrawal, has deposited cash or bank guarantees with the Exchange or made contribution through such other mode, as approved by the Board from time to time, to meet his required contribution or deposit.

### **12.5 Investment of Settlement Guarantee Fund**

Funds in the Settlement Guarantee Fund may be invested in approved highly liquid securities and/or other avenues of investments, as may be provided for by the Board from time to time. The income on such investments will also become part of the Settlement Guarantee Fund.

### **12.6 Administration and Utilization of Settlement Guarantee Fund**

**12.6.1** The Settlement Guarantee Fund may be utilized for such purposes, as may be provided in these Regulations, which include:

- (i) defraying the expenses of creation and maintenance of Settlement Guarantee Fund;
- (ii) temporary application of Settlement Guarantee Fund to meet shortfalls and deficiencies arising out of the clearing and settlement obligations of Brokers in respect of such transactions, as provided in these Regulations;
- (iii) meeting any loss or liability of the Exchange arising out of clearing and settlement operations of such transactions, as provided in these Regulations;
- (iv) repayment of the balance amount to the Broker pursuant to the provisions regarding the repayment of deposit after meeting all obligations under the Regulations of the Exchange, when such Broker ceases to be a Broker; and
- (v) any other purpose, as may be specified by the Board with the approval of the Commission, from time to time.

**12.6.2** The Exchange shall have full power and authority to pledge, re-pledge, hypothecate, transfer, create a security interest in, or assign any or all of the (a) cash of the Settlement Guarantee Fund (b) securities or other instruments in which the cash amount of Settlement Guarantee Fund is invested, and (c) bank guarantees or any other instrument issued on behalf of a Broker in favour of the Exchange towards their deposit to the Settlement Guarantee Fund.

**12.7 Utilization for Failure to Meet Obligations**

Whenever a Broker fails to meet his settlement of obligations to the Exchange arising out of his clearing and settlement operations in respect of his transactions, as provided in these Regulations, the Exchange may utilize the Settlement Guarantee Fund and other monies lying to the credit of the said Broker to the extent necessary to fulfill his obligations under such terms and conditions, as the Board may specify from time to time.

**12.8 Utilization in Case of Failure to Meet Settlement Obligations or on Declaration of Defaulter**

Whenever a Broker fails to meet his settlement obligations to the Exchange arising out of the transactions, or whenever a Broker is declared a defaulter, the Exchange may utilize the Settlement Guarantee Fund and other monies of the Broker to the extent necessary to fulfill his obligations in the following order:

- 12.8.1** any amount that may have been paid by the defaulter Broker in the form of margin or any other money, other than bank guarantees or, deposits with or retained by the Exchange for the purpose of meeting the clearing and settlement obligations;
- 12.8.2** the proceeds, if any, recovered from disposal of any security deposited by the defaulter Broker, other than those deposited towards security deposit and/or additional deposit by the Broker with the Exchange,
- 12.8.3** any contribution or deposit made by the defaulter Broker towards additional deposit to the Settlement Guarantee Fund, in the form of cash or bank guarantee;
- 12.8.4** any amount that may have been paid by the defaulter Broker towards margin in the form of bank guarantees or deposited with the Exchange;
- 12.8.5** any amount that may have been deposited by the defaulter Broker towards additional deposit in the form of bank guarantees or with the Exchange;
- 12.8.6** any amount that may have been deposited by the defaulter Broker towards security deposit in the form, other than bank guarantees, with the Exchange;

- 12.8.7** any amount that may have been deposited by the defaulter Broker towards security deposit in the form of bank guarantees with the Exchange;
- 12.8.8** the amount lying to the credit of the defaulter with the Exchange to the extent not appropriated by the Exchange towards the obligations of the defaulter to it;
- 12.8.9** the proceeds, if any, recovered from auctioning or disposing of the exchange membership right vested in the Exchange, subject to deduction of the expenses relating or incidental to the auction or disposal, as the case may be;
- 12.8.10** Income, if any, earned by investment or disinvestments of the Settlement Guarantee Fund that form part of the Settlement Guarantee Fund.
- 12.8.11** the profits available for appropriation in the Settlement Guarantee Fund in the year in which the Broker is declared a defaulter;
- 12.9** If the cumulative amount under all the above heads is not sufficient, the balance obligations shall be assessed against all the Brokers on the basis of the extent of their deposit in the Settlement Guarantee Fund at the time of utilization and Brokers shall be required to contribute or deposit the amount in the Settlement Guarantee Fund within such time, as the Exchange may specify from time to time.

**12.10 Obligation to Bring in Additional Contribution or Deposit**

**12.10.1** If a pro-rata charge is made against a Broker's actual contribution or deposit, and as a consequence, the Broker's remaining contribution and deposit towards the Settlement Guarantee Fund falls below his required contribution and deposit, the Broker shall contribute or deposit towards the shortfall in the Settlement Guarantee Fund within such time as the Exchange may specify.

**12.10.2** Where any Broker, who is required to contribute or deposit, as specified in Regulation 12.10.1, fails to do so, the Exchange may charge such rate of interest on the shortfall, as it may determine from time to time and also take suitable disciplinary action, including imposition of fines against the Broker. Any disciplinary action which the Exchange may take pursuant to the above provisions shall not affect the obligations of the Broker to the Exchange or his Clients.

**12.11 Allocation of the Contribution or Deposit**

Each Broker's contribution and deposit towards the Settlement Guarantee Fund shall be allocated by the Exchange among the various segments of trading, which are designated as such by the Exchange and in which the Broker may participate, in such proportion as the Exchange may decide from time to time.

## **12.12 Repayment to the Broker on His Cessation**

**12.12.1** A Broker shall be entitled to repayment of the actual amount of deposit made by him to the Settlement Guarantee Fund provided it is not part of the application fee after-

- (a) the Broker ceases to be an Exchange Broker on account of any reason whatsoever;
- (b) all pending transactions at the time the Broker ceases to be an Exchange Broker, which may result in a charge to the Settlement Guarantee Fund, have been closed and settled;
- (c) all obligations of the Broker towards the Exchange have been satisfied, or at the discretion of the Exchange, have been settled by the Exchange from the Broker's actual deposit;
- (d) all obligations of the Broker towards other Brokers by his clients have been satisfied;
- (e) a suitable amount, as may be determined by the Exchange at its discretion, has been set aside for taking care of any loss/liability/obligation arising out of his past transactions; and
- (f) a suitable amount, as may be determined by the Exchange at its discretion, has been set aside by the Exchange towards such other obligations, as may be perceived by the Exchange to exist or be perceived by the Exchange to arise in future.

**12.12.2** The Exchange may specify norms for repayment of deposit including the manner, amount and period within which it may be re-paid. The repayment amount, at no point of time, shall exceed the actual deposit available to the credit of the Broker after deducting the necessary dues or charges payable by such Broker.

**12.12.3** Any obligation of a Broker to the Exchange, remaining unsatisfied at the time he ceases to be a Broker, shall not be affected by the cessation of the Broker's membership, and the Exchange shall have a remedy as provided in Regulation 12.10.2.

## **12.13 Recovery of Loss and Re-distribution**

If a loss charged pro-rata to Brokers is afterwards recovered by the Exchange from the assets of the defaulter or the expelled Broker, whether directly or otherwise, other than through insurance, the net amount of recovery shall first be credited to the Brokers from whom the loss was charged in proportion to the amounts actually charged. The amount of recovery made through insurance shall

be dealt with in accordance with the terms and conditions of the insurance cover obtained by the Exchange, from time to time.

**12.14 Limitation of Liability**

The liability of the Exchange resulting from the deemed Commodity Futures Contracts of Brokers shall be limited to the extent of the contributions made by the Broker to the Settlement Guarantee Fund.

The Settlement Guarantee Fund of the Exchange shall not be available for obligations of non-Brokers, obligations of a Broker to his Client and losses incidental thereto, obligations of a Broker to another Broker, in respect of transactions to which the Exchange is not a counterparty or where the Exchange withdraws as a counterparty on account of fraud or fraudulent transactions.

**12.15 Lien over Certain Property**

The Exchange shall have a lien over the following amounts:

- (a) Margins as specified under Regulation 8.9,
- (b) All amounts deposited by the Broker towards security deposit,
- (c) All contributions made by the Broker to the Settlement Guarantee Fund,
- (d) The proceeds from the sale of the membership rights sold under Regulation 12.8.9,
- (e) Any other amounts lying with the Exchange or the Settlement Guarantee Fund.

### **Chapter XIII: CLEARING LIMITS**

- 13.1** The Exchange may specify the limits of open positions available to the Brokers based on the deposits made by them to the Settlement Guarantee Fund or any other fund established by the Exchange.
- 13.2** The aggregate monetary value of each Commodity Futures Contracts shall be determined on the basis of (i) the gross open positions in each of the contract months for each underlying commodity for which transactions have been cleared by the Broker and (ii) their respective settlement prices.
- 13.3** The maximum aggregate monetary value of all the open positions in respect of all contract months that each Broker may clear and settle shall be related to the sum of the Broker's contributions to the Settlement Guarantee Fund of the Exchange or any other fund specified by the Exchange.
- 13.4** The Exchange may specify different clearing limits for Commodity Futures Contracts in different commodities.
- 13.5** The minimum Clearing Deposit required to be maintained by the Brokers at any point of time shall be specified by the Board. The minimum Clearing Deposit shall be paid in the form of cash only.
- 13.6** Brokers may enhance their clearing limits. In order to enhance they shall make additional deposits to the Settlement Guarantee Fund or to the fund specified by the Exchange.
- 13.7** The gross open position of the Broker and the monetary value thereof in respect of each contract month shall be computed by the Exchange and then aggregated to determine the aggregate monetary value of the gross open positions of the Broker.
- 13.8** When gross open position and the monetary value of a Broker reaches the clearing limit, the Exchange shall notify the Broker immediately. After receipt of notification the Broker shall not present or cause to present any further transactions that would increase the aggregate monetary value of gross open positions until he has paid additional monies to enhance his limit.
- 13.9** The Exchange shall close-out the positions of a Broker who has failed to comply with the notification issued under Regulation 13.8 and shall be subject to any fine that may be imposed upon him by the Exchange.

## Chapter XIV: DEFAULT

### 14.1 Declaration of Default

A Broker may be declared as a defaulter by direction / circular / intimation of the Exchange if the Broker:

- (a) is unable to fulfill his obligations; or
- (b) admits or discloses his inability to fulfill or discharge his duties, obligations and liabilities; or
- (c) fails or is unable to pay within the specified time the damages and the money differences due on a closing-out affected against him under these Regulations; or
- (d) fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receipt orders, statement of differences and commodities, balance sheet and such other clearing forms and other statements as may be required under these Regulations; or
- (e) fails to pay or deliver to the Exchange all monies within such time as the Exchange may specify; or
- (f) fails to abide by the arbitration proceedings as laid down under these Regulations; or
- (g) has failed to pay any margins, deposits, fines and fees or any other applicable dues to the Exchange or any other Broker as the case may be; or
- (h) has failed to effect delivery as specified under these Regulations.

Notwithstanding the above provisions, the Exchange may declare a Broker a defaulter in any other instance as it deems appropriate. Such Broker would be referred to as a Broker in Default or a defaulting Broker.

### 14.2 Failure to Fulfill Obligations

The Exchange may order a Broker to be declared a defaulter if he fails to meet an obligation to another Broker or Client arising out of Exchange transactions.

### **14.3 Broker's Obligation to Inform**

A Broker shall be bound to notify the Exchange immediately if there is a failure by himself, or his clients or any other Broker to discharge their liabilities in full.

### **14.4 Notice of Default to the Exchange Brokers and Participants**

On a Broker being declared a defaulter a notice to that effect shall be placed forthwith on the trading system of the Exchange.

### **14.5 Fine for Default**

a) A Broker who has been declared a defaulter shall not be able to trade on the Exchange.

b) Insolvent Defaulters: Broker, who has been adjudicated as insolvent, shall be declared a defaulter and shall not be able to trade on the Exchange.

### **14.6 Defaulter's Books of Accounts**

When a Broker has been declared a defaulter, the Exchange shall take charge of all his books of accounts, documents, papers and vouchers to ascertain the state of his affairs and the defaulter shall hand over such books, documents, papers and vouchers to the Exchange.

### **14.7 Enquiry**

The Exchange shall conduct a strict enquiry into the defaulter Broker's accounts and into his dealings in the market.

### **14.8 Disposal of Defaulter's Assets under Lien or Pledge**

The Exchange shall dispose of all the assets of the defaulter that are under lien or pledge with the Exchange and apply the proceeds to the amounts payable by the defaulter to the Exchange, after deducting there from all costs, charges and expenses incurred for collection or disposal.

### **14.9 Scale of Charges**

The Scale of Charges to be paid to the Exchange on the assets realized shall be as follows:

- (a) 5 percent on the first Rs. 5,000 collected or part thereof.
- (b) 2 percent on any sum in excess of Rs. 5,000

## Chapter XV: ARBITRATION

### 15.1 Arbitration Subject to the Arbitration Act, 1940

All arbitration under these Regulations shall be subject to the provisions of the Arbitration Act, 1940 (the “Act”). The provisions not included in these Regulations but included in the Act shall be applicable as if they were included in these Regulations.

### 15.2 The Arbitration Committee

The Board shall constitute a Panel of Arbitrators every year. The Panel of Arbitrators shall consist of neither less than 10 nor more than 15 members, at least 50% of whom shall be futures trading professionals conversant with the trading at a commodity exchange and its rules and regulations, or having expertise in such areas like law or commodity economics, finance, commodity services and appraisal, commodity physical trade, etc. These members of the Panel of Arbitrators may include management staff of the Exchange and shall also have representation from the non-Broker directors of the Exchange.

The Board shall constitute an Arbitration Committee consisting of 3 members chosen from amongst the members of the Panel of Arbitrators. The Board may also constitute additional Arbitration Committees as and when required.

### 15.3 Reference to Arbitration

Whenever any dispute arises between Brokers *inter se*, or between any Broker and his Client or between Brokers and their Authorized Representatives, or between any Broker’s Authorized Representative and the Brokers’ Client in connection with their trading or transactions subject to these Regulations which are otherwise not settled amicably, it shall be referred to Arbitration and shall be dealt with in the following manner:

- (a) All claims/disputes upto Rs. 1 million shall be referred for arbitration to the Managing Director of the Exchange who will either himself enter upon the reference or appoint a nominee for this purpose.
- (b) All claims/disputes over Rs. 1 million shall be referred to the Arbitration Committee of the Exchange for their resolution/decision.

### 15.4 Application for Arbitration

15.4.1 An Applicant who wants to refer the dispute for arbitration shall:

- (a) pay a fee of Rupees Five Thousand as institution fee and cost of the Stamp Paper for drawing the award. The Board may from time to time revise the institution fee;
- (b) in case where he is not a Broker of the Exchange, give an Undertaking to abide by all the Regulations of the Exchange and shall furnish a guarantee or Security for the due performance of the Award as may be asked for by the Arbitration Committee.

**15.4.2** The application for arbitration may be rejected or dismissed if:

- (a) the applicant refuses, neglects or fails to comply with the provisions of any Rules or Regulations; or
- (b) the applicant refuses, neglects or fail to carry out any direction issued by the Arbitration Committee or the Managing Director; or
- (c) the application is not otherwise complying with the Regulations of the Exchange; or
- (d) the subject in the dispute has arisen from a non Exchange transaction or the transaction is otherwise illegal and not according to law; or
- (e) the claim is received six months after the event.

## **15.5 Arbitration Procedure**

**15.5.1** An application for arbitration shall be filed with the Company Secretary. The Company Secretary shall scrutinize the application to check whether or not it is complete in all respects and acceptable for arbitration. The Company Secretary shall forward the application to the Managing Director or the Arbitration Committee, as the case may be. The Company Secretary shall give both parties to the dispute not less than two days notice of the time and the place appointed for the arbitration proceedings.

**15.5.2** Both Parties Present: If both parties to the dispute are present at the appointed time and place, the Managing Director or the Arbitration Committee shall proceed to hear the reference and to give the Award.

**15.5.3** "Ex-Parte" decision on the summary disposal: If the party against whom complaint is made is not present at the appointed time and place, the Arbitrators may hear and decide the dispute ex-parte, and if the party making the complaint is not present the Arbitrators may dismiss the reference summarily.

**15.5.4** Remedies at Law: The Committee may decline to hear the dispute or may dismiss any case and refer the parties to their remedies at law.

**15.5.5** All claims/disputes referred to the Arbitration Committee shall be resolved/decided by majority and such decision shall be deemed to be the award in the arbitration.

**15.5.6** A party to the dispute who is a member of the Arbitration Committee or the Board shall not be present at the meeting of the said Committee, or the Board, as the case may be, during the enquiry into the dispute or hearing of the appeal.

**15.6 Appeal against Arbitration Award.**

**15.6.1** A party to the dispute who is dissatisfied with the award of the Managing Director or the Arbitration Committee, as the case may be, may within 30 days of the announcement of the award file an appeal against that award.

**15.6.2** An appeal against the award of Managing Director or the Arbitration Committee, as the case may be, shall lie to the Board Committee. The Board Committee shall be constituted by the Board by choosing any 3 of its Directors.

**15.5.3** Any Director who participated or was concerned with the award appealed against shall not be included in the Board Committee hearing that appeal.

**15.6.4** The Appellant shall deposit full amount of the Award, if any, before his appeal is accepted for hearing by the Board Committee.

**15.7 Summary Dismissal and Ex-Parte Decision:**

If any party to a dispute who has appealed against any award/decision of the Managing Director or the Arbitration Committee as the case may be is not present at the time fixed for hearing the appeal, the Board Committee may dismiss the appeal summarily if the appellant is absent or may proceed with the appeal *ex-parte* if the Respondent is not present.

The Board Committee may set aside its *ex-parte* decision if sufficient cause is shown by a party within 7 days of the receipt of the *ex-parte* award.

**15.8 Expulsion of Broker**

Brokers who fail or refuse to submit to or abide by or carry out any award of the Managing Director, Arbitration Committee, or the Board Committee as the case may be, may be expelled from the Exchange by a resolution of the Board.

An Exchange Broker, who fails or refuses to submit to or abide by or comply with any award in arbitration between Brokers of the Exchange or between an exchange Broker and a Client, as may be provided in these Regulations shall be

declared a defaulter or expelled by the Exchange, and thereupon the other party shall be entitled to institute legal proceedings to enforce the award under the Civil Procedure Code, 1908 in the same manner as if it is a decree of the court.

#### **15.9 Fees and Charges**

Apart from any amounts mentioned above, the fees for arbitration and the charges for submitting to and for regulating the proceedings of the reference shall be specified by the Board from time to time and shall be payable in advance and when there is a failure, neglect or refusal on the part of a party or parties to pay accordingly, the other party shall be responsible for making such payment in advance without prejudice, however, to its right, if any, to recover the same from such party or parties failing, neglecting or refusing to pay. It shall be a condition precedent to the hearing of any reference that the specified fees and charges shall have been paid in advance to the Exchange by the party or parties to the reference.

#### **15.10 Jurisdiction**

All parties to a reference to arbitration under these Rules and Regulations and the persons, if any, submitting claims under them, shall be deemed to have submitted to the exclusive jurisdiction of a civil court as defined in the Act.

## Chapter XVI: REPORTS

- 16.1** In respect of all trades executed by the Brokers and their Clients, the Exchange will electronically make available reports to the respective Brokers, including settlement obligations relating thereto.
- 16.2** The Brokers shall provide the Exchange with such reports that the Exchange or the Commission may seek from the Brokers from time to time. Details of such reports will be provided in the Rules and Regulations of the Exchange and through Circulars and Notices issued by the Exchange or the Commission from time to time.
- 16.3** The Brokers of the Exchange shall provide such reports, as the Exchange, or Commission may specify.
- 16.4** A Broker shall notify the Exchange of any incident, which may endanger the Brokers' financial soundness or interfere with the Brokers ability to conduct its business in the best interest of the Exchange.
- 16.5** All Brokers of the Exchange shall be required to maintain such Books of Accounts, Registers, Statements and other Records, in physical form or electronically, as may be specified by the Exchange, or the Commission. All such documents and records shall be kept in good order and preserved at least for such period, as may be specified by the Commission. All such documents and records shall be made available to the Exchange or the Commission for inspection, whenever required.
- 16.6** Each Broker of the Exchange shall submit itself to audit and investigation and furnish all books, records, files and such other information as required upon the direction of the Exchange or the Commission.
- 16.7** In case of any dispute or difference of opinion originating from or pertaining to orders or trades due to a mismatch between the Brokers report and the Exchange's report, the report as per records of the Exchange shall be final, conclusive and binding on the Brokers.

## **Chapter XVII: INVESTOR PROTECTION FUND**

### **17.1 Establishment of Fund**

The Board shall establish a fund to be called an Investor Protection Fund (“Fund”) with contributions as follows:

- (a) A percentage of the Clearing House charges as decided by the Board, from time to time, must be paid by the Brokers and would be allocated to the Fund every year until the total amount of Fund is raised to an amount decided by the Board in consultation with the Commission, from time to time.

Provided that on the direction of the Commission, the Fund shall cease to exist upon the creation of a National Fund for the protection of investors through appropriate legislation.

### **17.2 Eligibility of Claims**

All claims of a Client arising out of transactions entered into as per the Regulations or Circulars of the Exchange and approved by the Arbitration Committee of the Exchange would be eligible for consideration.

### **17.3 Procedure for Settlement**

- (a) In the event of default of a Broker, in addition to any surplus after distribution of losses as per the procedure set out by the Exchange for recovery from a Broker in cases of default, an amount as decided by the Trustees of the Investor Protection Fund from time to time, shall be set aside out of the Fund to satisfy the claims of the Clients against the defaulting Broker.
- (b) In cases where eligible claims of Clients determined against the defaulting Broker exceed the amount available for settlement; such claims of Clients shall be satisfied on pro-rata basis.

### **17.4 Management of the Fund.**

The Management of the Fund shall be vested in a Trust which is separate to the Board of the Exchange.

## **CHAPTER XVIII: FIT AND PROPER CRITERIA FOR DIRECTORS OF NATIONAL COMMODITY EXCHANGE LIMITED:**

18 Any person desiring to act as Director on the Board of Directors of the National Commodity Exchange Limited (“NCEL”) shall be judged on the basis of following criteria, which shall be in addition to meeting requirements stipulated under the Companies Ordinance, 1984 relating to eligibility of a director:

- (a) Integrity, Honesty and Reputation
- (b) Experience, Qualification and Management Acumen
- (c) Solvency and Financial Integrity
- (d) Others

The Fit & Proper Criteria is perpetual in nature and NCEL shall ensure compliance with the provisions of the Fit & Proper Criteria.

All persons subject to Fit & Proper Criteria must submit any change in the submitted information through the Exchange to the SECP.

### **18.1:- Integrity, Honesty and Reputation**

18.1.1. Has not been convicted in any criminal offence or directly involved in any settlement in civil/criminal proceedings in a court of law, particularly with regard to investments, financial/business misconduct, fraud/forgery, breach of trust, financial crime etc. and has not been associated with any unauthorized financial activity including illegal brokerage business.

18.1.2. He or any company in which he was a director during last three years has not been suspended from its membership or registration by the Commission, any other regulatory authority, any professional body or association or any stock or commodity exchange, depository company, clearing company (referred individually as “relevant entity” and collectively as “relevant entities”).

Provided that prior clearance may be obtained from any such organization/ relevant entity/ association that suspended such membership or registration.

18.1.3. Has not been disqualified/ removed from the post of Chief Executive, Chairman, Director, and CFO or from any other key management position of a company by the Commission or any other regulatory body.

18.1.4. No investigation/ enquiry, conducted under Section 29 of the Securities and Exchange Commission of Pakistan Act, 1997, Section 21 of the Securities and Exchange Ordinance, 1969, Section 263 or Section 265 of the Companies Ordinance, 1984, has been concluded against him by the Commission, with any adverse findings, either in personal capacity or as director of a company during the past three years.

18.1.5. An order restraining, prohibiting or debarring him from dealing in securities in the capital market or from accessing the capital market has been passed or penalty of Rs.500, 000/- or more, has been imposed by the Commission, in respect of any laws administered by

the Commission, and a period of at least three years from the date of the expiry of the period specified in the order has not elapsed.

18.1.6. Has not provided false or misleading information either to the Commission or to any of the relevant entities.

### **18.2 Experience, Qualification and Management**

18.2.1. Should have management/ business experience of at least 5 years at senior level position.

18.2.2. Should have at least three years experience in the field of capital markets, banking, mutual fund industry, financial services or any other field ancillary to the capital markets.

18.2.3. Holds professional qualification and/ or at least graduation from a university duly recognized by Higher Education Commission of Pakistan or foreign qualification of equivalent level. Provided that where a person possesses 15 years of experience and knowledge of the capital markets, depositories, commodities market, or in the areas relating to corporate governance, law, information technology, business and industrial concerns or other closely related discipline, the minimum qualification limit may be relaxed on case to case basis with prior approval of the Commission.

### **18.3 Solvency and Financial Integrity**

18.3.1. Has not been adjudged as insolvent or suspended payment of debts or has compounded with his creditors;

18.3.2. Has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan to a financial institution including banking company, a Development Financial Institution or a Non-Banking Financial Institution.

18.3.3. It has been established that he, in his individual capacity or as director of a company has not been in default of payment of dues owed to any investor.

### **18.4 Others**

18.4.1. He is not simultaneously serving as a Director on the Board of more than ten listed companies.

18.4.2. His name is borne on the Register of National Tax Payers.

### **18.5 Additional Criteria for Non-Executive Directors Appointed by the Commission**

18.5.1. He has no relationship with the organization that would interfere in him exercising independent professional judgment as a Director and he can be reasonably perceived as being able to exercise independent business judgment without being subservient to any apparent form of interference.

When assessing a person's relationships and interests, the issue shall not merely be considered from the stand point of the person, but also from the standpoint of persons or organization with which the person is affiliated or associated.

18.5.2. He has/ shall not during his term have any personal or business interest in the organization or with any business partner of the organization, including that of immediate family members\*.

18.5.3. He or his immediate family member\* is not a Member or a director, officer, sponsor, shareholder of any corporate Member of any Stock or Commodity Exchange in Pakistan.

18.5.4. He has no personal services contract(s) with the Exchange or is not currently serving as an employee of the Exchange and has not been employed at any position of the Exchange within the past two years.

\*Immediate family member wherever referred in these criteria means spouse, children, siblings and parents.

Words importing the “masculine gender” shall include the “feminine gender”.

Any person desiring to act as Director on the Board of the Exchange shall submit duly filled Form and Undertaking attached as Annexure “A” and “B” respectively.

## Annexure "A"

**Information to be provide by person Desiring Prospective Directorship on the Board of the National Commodity Exchange Limited**

1.	Curriculum vitae/Resume containing:
(a)	Name:
(b)	Father's or Husband Name:
(c)	C.N.I.C No (attached Copy)
(d)	Latest Photograph
(e)	Nationality:
(f)	Age:
(g)	Contact detail:
	i)Residential address:
	ii)Business address:
	iii)Tel
	iv)Mobile:
	v)Fax:
	vi)E-mail:
(h)	National Tax Number
(I)	Present occupation
(j)	Qualification(s):
	1)Academic:
	2)Professional:
(k)	Experience (Position held during the last 10 years along with name and address of company /institution)
(2)	1)Nature of Directorship: <input type="checkbox"/> Executive <input type="checkbox"/> Non Executive  2)Status of Directorship: <input type="checkbox"/> Nominee director <input type="checkbox"/> Elected Director  Number of shares subscribed or held _____ Nominated by _____ (name of shareholder /nominating entity _____)
(3)	Name of companies, firms and other organization of which the proposed person is a director, partner, office holder or major shareholder (pleased specify the position held in each company)
(4)	In the case of nomination of director the date of board of director's meeting in which the nomination of proposed director was approved. (Attach copy of the minutes of the meeting of the board of directors)

(5)	Names of persons on the board of the National Commodity Exchange Limited who are related to the applicant.
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Signature \_\_\_\_\_  
(Use additional sheet if required)

**AFFIDAVIT**

**(on stamp paper of appropriate value)**

**Before the Securities & Exchange Commission of Pakistan/National  
Commodity Exchange Limited**

I, \_\_\_\_\_ son/daughter /wife of \_\_\_\_\_ adult  
resident of \_\_\_\_\_ and  
holding CNIC/ passport No \_\_\_\_\_ do hereby state on solemn  
affirmation as under

1. That I am eligible for the position of Director according to the Fit and Proper criteria prescribed for the position of Directors, as per the General Regulations of the National Commodity Exchange Limited.
2. That I hereby confirm that the statements made and the information given by me is correct and that there are no facts which have been concealed.
3. That I have no objection if the National Commodity Exchange Limited requests or obtains information about me from any third party.
4. that I undertake to bring to the attention of the National Commodity Exchange Limited any matter which may potentially affect my status for the position of Director as per the Fit and Proper Criteria specified by the National Commodity Exchange Limited in its General Regulations.
5. That all the documents provided to National Commodity Exchange Limited are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.

\_\_\_\_\_  
DEPONENT

The deponent is identified by me:-

Signature \_\_\_\_\_  
ADVOCATE  
(Name and Seal)

Solemnly affirmed before me on this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ by  
the Deponent above named who is identified to me by \_\_\_\_\_ Advocate, who is  
known to me personally.

SIGNATURE \_\_\_\_\_  
Oath Commissioner for taking Affidavit  
(Name and Seal)