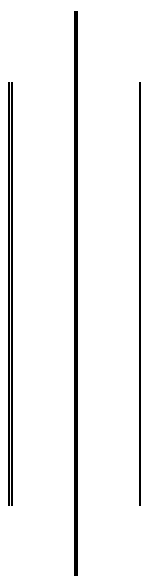




Mercantile Exchange Nepal Limited

— Where the Nation Trades —

AN ISO 9001:2015 CERTIFIED EXCHANGE



MEX

Rules of Trading, Clearing and Settlement

Mercantile Exchange Nepal Limited

Trading, Clearing & Settlement Rules

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Preamble

These rules shall be known as the Rules of Trading, Clearing and Settlement of the Mercantile Exchange Nepal Limited (hereinafter referred to as “this Rules”)

They shall come in to force and effective from 27th January, 2014 (“*Effective Date*”). These rules shall be read with Bye Laws, Membership Rules, any regulations, guidelines, directions, circulars and clarification issued by the Mercantile Exchange Nepal Limited (“the Exchange”) and amendments made to these Rules subsequent to the Effective Date.

1. DEFINITIONS: All words contained in these rules will have same meanings and definitions as given in the bye laws of the Exchange.

2. TRADING:

- i The Exchange is operating on all weekdays except Saturdays, Sundays and Exchange-specified National and International Holidays, however exchange may operate on Saturdays, Sundays and exchange specified national and international holidays for local products, if required. The Exchange shall notify members with a list of Holidays for each calendar year well in advance. The instruments dealt in the exchange are mainly in line with international markets; hence members and customers are directed to follow the working days and holidays list issued by Exchange from time to time.
- ii **Trading Hours:** The trading hours for each product shall be specified in the product specification issued by the Exchange to its Members and Customers. . Details of products and its trading hours shall be notified by the Exchange from time to time. Trading hours may vary from one product to another with each having its own break time for scheduled maintenance. However, there shall be a session halt for 30 seconds to 1 minute or for the time as specified by the Exchange during which order entry and modifications shall not be allowed. Trading in the Exchange shall be on the online trading platform namely Automated Trading System of the Exchange.
- iii **Trading Phase:**
 - a. **Pre-trading:** The pre-trading phase is the period during that listed market makers, clearing members and bulk traders may enter order and quotes or change, the orders.
 - b. **Trading:** During the trading phase, open orders and quotes are compared and order

matching takes place

- c. **Post-Trading:** During the post-trading phase, orders may be entered for the next trading day and existing orders which are valid for next trading period may be changed or deleted. Data inquiry functions are also available during post-trading.

3. MARGIN TYPES AND REQUIREMENTS:

- i **Types of Margin:** The exchange shall apply different types of margins based on market requirements. These will include but not be exclusive of:
- ii **Initial Margin:** Initial margin may be fixed by the Exchange based on each instrument and the Product Specification shall specify the fixed initial margin or % based initial margin of products to be applicable. The initial margin requirement of a member/customer is determined based on the notional value of a contract which is required to initiate any new position, either buy or sell, on listed and available contracts. It may be a fixed amount or percentage of the total contract value. A Member/Customer is required to pay margin separately on each of the contracts initiated by them.
- iii **Intraday Margin:** Intraday margin facilitates contracts to be traded from the daily opening of the contract till the day session close. It shall act equal to initial margin for the contract till the day session close.
- iv **Over Night:** It is the margin applicable to hold an open position overnight.
- v The above margins and other margins shall be applicable as per the Margin Rule Book of the Exchange and terms and conditions mentioned therein.
- vi The margins to be deposited by the member shall be governed by the Bye Laws and Rules of the Exchange. However, the Clearing member may grant margin leverage to its customers in the initial margin fixed by the Exchange. The leverage should be at a rate not exceeding that which is prescribed by the Exchange. The maximum leverage that can be provided to the customer by the clearing member shall be as fixed by the Exchange. However Exchange may change this leverage limit at its own discretion.

The Clearing Member shall inform its customers regarding the change in the level of initial margin before 3 working days of such change.

- vii **Margin Call:** Margin Call is a Notice issued to the customers/members to bring or

top up the margin deposit up to the required level. Margin Call in general shall be calculated based on the daily settlement price. The customers/members need to fulfill the margins as per the norms laid down by the exchange, non compliance of margin notice within specified time will lead to liquidation of any/all positions. Margin Call Liquidation time and price shall be as per specified by the exchange.

viii **Equity Hit:** Equity Hit is a condition during which the open orders of the customers/members shall be liquidated. Such liquidation shall be done at the prevailing market. The level at which the equity shall hit and liquidation of order will be considered shall be decided by the Exchange. Post Equity hit, the traders equity may also reach negative figures in a trading console depending upon various market conditions. The customers and members shall be liable to pay the negative deficit in their account.

The Equity hit level may be different for customers and members under the sole discretion of the Exchange.

4. TERMS IN CONTRACT SPECIFICATIONS:

- i **Trading unit** -The trading unit is the minimum quantity of a contract that can be traded (bought or sold) in the Exchange. Details of various trading units shall be notified by the Exchange from time to time.
- ii **Quotation/Base value:** Quotation/base value is the quantity for which prices are quoted for trading.
- iii **Tick Size** – Tick size is the minimum amount that the price of a commodity can fluctuate upward or downward.
- iv **DDR** -Due date rate is the final settlement price for a particular contract based on which the outstanding positions on expiry will be settled off.
- v **Trading System:** The Exchange functions on an Automated Trading System (ATS) which functions online and provides connectivity to members and customers terminals via internet. Such members and customers needs to acquire the Trading Console and other related software on payment from the Exchange designated software vendor to obtain connectivity to the ATS of the Exchange or as directed by the Exchange from time to time. Exchange may also provide such facility directly to the member and customers on usage basis upon payment of service charges.
- vi **Daily Price Limit:** Daily price limit is the maximum level that a price of any contract



can move for a particular day. Price Limits shall be applicable from 03:45 Hours to next day 02:45 Hours in summer and 04:45 hours to next day 03:45 in winter. If a price reaches the published price limit, the exchange may at its own discretion change the price limit without any prior information or may suspend the trading for certain time period or for the day.

- vii **High /Low:** The High for a given instrument is the highest price on that particular day and the Low is the lowest price on that particular day. Day High-Low of a contract shall be re-set at 00:00:00 hours. The High shall be the highest Ask price and Low shall be the Lowest Bid price displayed in the ATS.
- viii **Market Open Gap:** The price gap [difference] between two trade sessions is Market Open Gap. The Market Open Gap will affect the financial condition of the trader. Also under such circumstances, contingent orders placed with prices between two trade sessions, for any commodity gets triggered at the second session opening price.
- ix **Market Depth:** Market Depth will list the best five Bid and Ask quotes of Market Makers and which shall include the Limit orders placed by the trader as well.
- x **Membership Code:** The membership code is a unique serial code assigned to each Clearing Member and Market Maker of the Exchange.
- xi **Broker Code:** The Broker code is a unique code assigned to each broker registered under the Exchange.
- xii **Matching Principles:** As per the clearing and settlement rule, the Order matching takes place in the ATS by giving the highest priority to market orders entered in the order-matching process.
 - a. All orders and quotes shall remain anonymous in the central book system.
 - b. The Members/Customers shall act as counterparty for every trade.
 - c. Order matching takes place in different basis starting from price / time priority to pro rata matching to the auction principle.
 - d. The best bid would be the one with highest price and the best Ask would be the one with lowest price. The best Bid and Ask shall represent the prevailing market price for that contract.
 - e. A requested order can be executed at more than one price as per the matching rule.
- xiii **Mistrades:** If a trade is erroneously entered and deviates considerably from the market price (reference price) then it is considered as a “mistrade”. Upon final determination of a trade as a “mistrade” it shall be cancelled.



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- xiv **Type of Orders:** Various types of orders accepted by the Exchange are as follows:
- a. **Market Order:** A market order is an order which does not specify a price limit; rather market orders are matched to the best available contra-side bid or offer.
 - b. **Stop Order:** Stop orders are orders that create market orders when the specified stop price is reached (or triggered). Stop orders are often referred to as stop-loss orders since they are often used to protect a trader's position from deteriorating beyond a certain point and stopping further loss.
 - c. **Limit Order:** Limit Orders include a specified price limit, and may be executed at the specified price limit or better than the specified price limit.
 - d. **One Cancels Other (OCO) Order:** An OCO order consists of two orders: upon execution of one order the other immediately gets cancelled. This type of order is useful since the markets may move in both directions, up and down. By placing both a limit order and a stop order for an open position one can profit if the market moves in the trader's direction or restrict his loss if the market moves against the trader.
 - e. **Market on Close (MOC) Order:** A MOC order is an order which is to be executed as a market order in the closing minute of trading and as close to the closing price as possible. If not so executed, it is to be treated as cancelled.
 - f. **Market on Open (MOO) Order:** A MOO order is an order which is to be executed as a market order in the opening time of the trade and as close to the opening price as possible. If not so executed, it is to be treated as cancelled.
- xv **Market making:** The Members are permitted to do market making with the approval of the exchange and as per the policies, terms and conditions prescribed by the exchange. The members shall have the right and obligation to show intention/ quote both buy and sell price for an instrument to provide liquidity in the market. The exchange shall prescribe certain fees / charges for the trades executed against the intention of the market marker and during liquidation of the same. These charges may differ from one market maker to another depending upon the volume or type of market maker or any other condition as decided by the exchange. The Market marker shall also be allowed to trade on his/its own account as well. The Market making rules shall be as follows:
- The market maker shall be required to provide a 2-way quote in each contract as per the rules prescribed by the Exchange.
 - The market maker shall be eligible to modify quotes if no transaction has been executed at the displayed quote.

- A market maker shall actively offer to buy and sell at its intended price and quantity.
- The maximum quoted price for an instrument shall depend upon the daily price limits as prescribed by the exchange. However, during high market volatility, the exchange may change these price limits.
- Market makers can choose the spread (+/-) on given EPL Quotes and can show their two-way intentions for different contracts. However, maximum/minimum allowable spread will be as prescribed by the Exchange.
- Market makers must show the minimum intention for a contract as prescribed by the exchange; however execution of trades shall be subject to the available security deposit.
- In case of surrender or transfer or termination of membership, the security deposits of Members are refundable subject to settlement of all pending dues, claims and charges.
- The Market Maker shall need to start providing quotes within five trading days of receiving the membership certificate from the exchange.

5. ACCESS RESTRICTIONS:

- i Clearing Member shall suspend or terminate its Brokers or Customers online access if the Exchange instructs to do so or it is determined that their actions threaten the integrity or liquidity of any contract or violate any Exchange rule or byelaws, or if they fails to cooperate in an investigation.
- ii If a clearing member has received an actual or constructive notice of a violation of Exchange rules in connection with the use of the ATS by its Brokers or Customers for which it has authorized a direct connection and the clearing member fails to take appropriate action, the clearing member may be found to have committed an act detrimental to the interest or welfare of the Exchange.
- iii Each Member and Customer shall be supplied with a unique user ID by the Exchange to access the ATS. In no event may a person enter an order or permit the entry of an order by an individual using a user ID other than the individual's own unique user ID. Such orders shall be cancelled on detection and penalty shall be levied by the Exchange from such defaulters for permitting such wrong entries at their end.
- iv If any member or customer acts in violation of the Bye Laws and Rules and ethics of trade, Exchange shall terminate or suspend its member's or customer's online access

without any notice.

6. RESPONSIBILITY FOR CUSTOMER ORDERS:

- i **Standard of Responsibility:** A Member shall exercise due diligence in the handling and execution of customer orders. Failure to act with due diligence shall constitute negligence. In the case of a dispute as to whether a Member has exercised due diligence, the appropriate arbitration or disciplinary committee is authorized to determine whether the Member was negligent and, if so, whether an adjustment is due to the customer. The committee may take into consideration the nature of the order and existing market conditions, at the time the Member acted or failed to act. However, no market condition nullifies a Member's responsibility to exercise due diligence.
- ii A Member is prohibited by the Exchange from directly or indirectly guaranteeing the execution of an order or any of its terms such as the quantity or price.
- iii A Member may only report an execution. This rule shall not be construed to prevent a Member from assuming or sharing in the losses resulting from an error or the mishandling of an order.
- iv **Liability for Negligence:** A Member may not adjust the price at which an order was executed or be held responsible for executing or failing to execute an order unless such Member was negligent or is settling a bona-fide dispute regarding negligence. A customer may not compel an adjustment from a Member in the absence of a bona-fide dispute regarding negligence. Clearing members shall document all adjustments. Clearing members shall make and retain a record of each adjustment, which contains the date the adjustment was received, the name of the Member making the adjustment, the account to which the adjustment was credited, the amount of the adjustment, the order number and the reason for the adjustment. Such records must be provided to the Clearing and Settlement Department of the Exchange upon request.

7. CLIENT SERVICE DESK (CSD):

- i **Client Service Desk:** The CSD provides customer support and problem management only to exchange members and customers in respect of day to day business matters. Trade assistance shall not be entertained as request at CSD. It provides customer support via a specified telephone number and Email address during specified working

hours. Services provided by CSD are supportive in nature and it shall not be used by members and customers to redeem contingency issues. This desk shall handle the members and customers grievances/ complaints as per the procedure prescribed by the Exchange.

8. PHANTOM ORDERS:

- i **Definition:** A phantom order is an order that:
 - a. is out of Bust Range
 - b. Quotes which was not authorized by any person but was caused by a failure, malfunction or negligent operation of the system, service or facility.
- ii An order in which terms (e.g., contract, contract month, quantity, price or direction) were changed without authorization of the person placing the order solely as a result of a failure, malfunction, or negligent operation of the system, service or facility.
- iii **Permissible Responses:** If the Exchange has reason to believe that phantom orders have been or are being entered into and/or executed on the system from a trading console by a member/customer, the Exchange shall be empowered to take appropriate action against the concerned member/customer with respect to any affected market, including without limitation, closing the market, deleting bids and offers, and/or suspending new bids and offers.
- iv The Exchange shall promptly give notice that all online transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices outside of the bust range, as described in the Exchange rules, shall be voided. The Exchange shall have no liability or responsibility to the parties to any transactions that are voided pursuant to this paragraph.
- v The Exchange shall also be empowered to void online transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices outside of bust range or phantom orders that were executed if the Exchange concludes that such transactions impair the integrity of the market. The Exchange shall also be empowered to make adjustments in the account of Members and Customers for such cases. The Exchange's liability for voiding transactions or making adjustments outside the bust range is limited as provided below.

9. LIMITATION OF LIABILITY:

Any liability of the Exchange for transactions voided or adjustments made by the Exchange that are outside the bust range shall be subject to the limitations and conditions of Exchange rules. If phantom order transactions executed on the system are not voided or adjustments not made, the person who traded opposite a phantom order shall have no recourse against the Exchange. The Exchange shall not be responsible for gain or loss on the liquidation of positions resulting from execution of such phantom orders or adjustments made therein. The Exchange shall promptly direct the member carrying such positions to liquidate them or make adjustments in a commercially reasonable manner. Such member shall liquidate such order within 30 minutes of such notification or within 30 minutes of the time it knew or should have known that it had been assigned transactions resulting from phantom orders, whichever is sooner. The Exchange do not hold any liability to such person and the trade will be treated as cancelled.

10. TRADE CANCELLATIONS:

- i **Clearing and Settlement Department trade cancellation authority:** The following policy shall be applied to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations that executed transactions will not be cancelled. The Exchange's trade cancellation policy authorizes the Clearing and Settlement Department (herein after termed as CD) to mitigate market-disrupting events caused by the improper or erroneous use of the system or by possible system defects or by adjusting trade prices or canceling trades. Notwithstanding any other provisions of this rule, the CD may also adjust trade prices or cancel any trade if the CD determines that failure to adjust the price or cancel the trade may have a material, adverse effect on the integrity of the market. The decision of the CD shall be final.
- ii **Review of Trades:** The CD may review a trade based on its analysis of market conditions or a request for review by the member/customer. A request for review must be made within 5 minutes of the trade occurring. The CD shall promptly determine whether the trade will be subject to review. In the case of illiquid contracts, the CD may initiate a review up to one hour after the trade occurred. Promptly after deciding to review a trade, the CD will issue an alert indicating that the trade is under review.
- iii **Trade Price Adjustment and Cancellation Process:** The CD will first determine



whether the trade price is outside the Bust Range for the contract. During fast market conditions, upon the release of significant news events, or in other circumstances in which the CD determines that it is appropriate, the CD may temporarily double the published Bust Range without prior notice. In applying the Bust Range, the CD shall determine the actual or implied market price for that contract immediately before the trade under review. The CD may consider any relevant information, including but not limited to the existing market conditions, the volatility of the market, the prices of related instruments in other markets, the last trade price on system, a better bid or offer price, a more recent price in a different contract month, theoretical value of an contract based on the current (most recent) implied volatility and any other factors that the CD deems relevant.

- iv **Trade Price Inside the Bust Range:** If the CD determines that the price of the trade is inside the Bust Range, the CD will promptly issue an alert indicating that the trade shall stand.
- v **Trade Price Outside the Bust Range:** If the CD determines that a trade price is outside the applicable Bust Range for an implied-eligible contract, either the trade price shall be adjusted to a price that equals the actual or implied market price for that contract at the time of the questioned trade, plus or minus the standard or doubled Bust Range, as may be applicable or shall bust the trade. The CD will promptly issue an alert indicating that the prices of the trades outside the Bust Range have been adjusted to the Bust Range limit.
- vi **Liability for Losses Resulting from a Price Adjustment or Trade Bust:**
 - a. **Adjusted Stop Orders:** A member or customer responsible for an order(s) that results in a trade price adjustment shall be liable for actual losses incurred by persons whose stop orders were elected as a result of the order(s). The compensable loss on each contract executed as part of a stop order shall be the difference between the adjusted prices, as determined by the CD.
 - b. **Other Transactions:** A party responsible for entering an order that results in a trade price adjustment shall not be liable for losses incurred by persons whose trade prices were adjusted, except as provided in the above circumstance.
 - c. **All Other Contracts:** A party responsible for an order that results in a trade bust may be liable for the reasonable out-of-pocket losses incurred by persons whose trades were busted or persons whose stop orders were elected and not busted. Issues

of liability in such cases will be determined by the CD based upon all relevant facts and circumstances, including the conduct of the respective parties. All claims in connection with such losses must be pursued under the Exchange applicable rules.

11. CLAIM PROCESS:

- i A claim for a loss pursuant to the above must be submitted to the Exchange, within five business days of the price adjustment or the election of the stop. The Exchange shall reject any claim that is not permitted by the above rules. Such decision shall be final. All claims, which are not rejected by the Exchange, shall be forwarded to the party responsible for the order(s) that results in a trade bust or a price adjustment and to the member through whom the trade was placed. Such party, or the member on behalf of the party, shall within ten business days of receipt of the claim admit or deny responsibility in whole or in part. The whole issue will be handled by CD with the help of Disciplinary Committee of the Exchange. Any decision in this issue by the CD shall be final. If any member or customer is aggrieved by such decision, they can file an appeal before the Board of Directors of the Exchange. The Exchange shall form a committee to review the decision by CD and such committee shall pass an award after due deliberations. Such awards shall be final. Exchange may also limit the liability for losses.
- ii To the extent that liability is admitted, payment shall be made within ten business days. If liability is admitted but the total claims exceed the claims limited by the Exchange, the claims shall be reduced pro rata so that the total payment does not exceed liability limited by the Exchange.

12. TRADE CANCELLATION OR OFFSET PROCEDURES:

- i Upon determination by the CD that a trade shall be busted or that trade prices shall be adjusted, that decision will be implemented. The busted trade price and any price quotes that have been adjusted will be reflected as cancelled in the Exchange's official record of time and sales. Time and sales will reflect the trades at the adjusted price.
- ii Positions that result from a trade determined by the CD to be outside the Bust Range that cannot be busted because the trade was not reported within five minutes of the trade occurring may be transferred between the parties using the original trade price and quantity upon agreement of the parties. Any party may, but is not required to, include a

cash adjustment to another party to the trade.

- iii Trades determined by the CD to be inside the Bust Range may not be reversed or transferred as mentioned above. Additionally, if the trade is not busted, the parties may not reverse the trade by entering into a prearranged offsetting transaction.

13. ARBITRATION OF DISPUTES REGARDING SUCH TRANSFER:

- i If a party does not agree to transfer a position as stated above, any other party to the trade may file an arbitration claim against the member representing the other side of the trade. Written notice of such claim must be provided to the Exchange within five business days of the trade occurrence. Failure to file the claim within five business days shall be deemed a waiver of all claims. The arbitration claim will be dismissed by the Exchange if the owner of the account on the other side of the trade is not deemed a Member as defined by Exchange rules or a person otherwise subject to the Exchange's jurisdiction. If not dismissed, the arbitration claim will be conducted in accordance with the Arbitration proceedings of the Exchange.
- ii In deciding the claim, the Arbitrators may consider, among other factors, the reasonableness of the actions taken by each party and what action the party on the other side of the error trade took before being notified that the trade was being questioned.

14. VOLUNTARY ADJUSTMENT OF TRADE PRICE:

- i When a trade outside of the Bust Range is busted in accordance with this rule, the parties to the trade may agree voluntarily to reestablish the trade but to adjust its price and make cash adjustment provided that all of the following conditions are met:
- a. The CD approves the adjustment;
 - b. The quantity of the position being reestablished is the same as the quantity of the trade that was busted.
 - c. In the case of a trade below the actual or implied market price, the adjusted price must be the lowest price that traded at or about the time of the trade without being busted. In the case of a trade above the actual or implied market price, the adjusted price must be the highest price that traded at or about the time of the trade without being busted.
 - d. The parties to the adjusted trade must report that trade to the clearing and settlement

department not later than the close of business on the business day after the trade occurred.

15. BUSTING TRADES AFTER SYSTEM FREEZE:

In the event that the matching engine freezes with live orders in the queue waiting to be matched, such orders may be matched when the system is unfrozen and before the CD can restart the matching engine. The CD is authorized to bust trades resulting from such matches if the price of such trades is outside of the Bust Range at the time that a confirmation of the trades was sent.

16. SCHEDULE OF ADMINISTRATIVE FEES:

- i When CD busts a trade, the party responsible for entering the order into the system that gave rise to the trade bust shall pay an administrative fee to the Exchange. The administrative fee shall be decided depending upon the nature and impact of it on trade and upon the sole discretion of the exchange.
- ii If a customer responsible for entering an order into the system that results in a trade bust fails to pay the fee as decided by the exchange, the member or its Broker/Sub-Broker carrying the customer's account shall be responsible for payment of the fee.
- iii **Bust Range:** The Bust range shall differ from contract to contract.

17. CLEARING AND SETTLEMENT:

- i **Member Management:** The Exchange shall record the members' personal details along with their clearing and settlement statistics. Personal details include member code, member name, contact details and details of authorized persons. Clearing and settlement statistics include monthly aggregated settlement and clearing volume and margin details of members and customers
- ii **Order Matching:** One of the most important functions of the Exchange is the reduction of counterparty risk – the risk that the other side to any transaction will default on his obligations regarding that transaction. The Exchange accomplishes this by letting the Member to take the counter side of every trade done during the trading session: by

replacing the original buyer in a transaction with itself, and thus becoming the buyer to every seller, and by replacing the original seller in a transaction with itself, thereby becoming the seller to every buyer and vice versa.

- iii All orders placed shall be routed to the Exchange's trading and clearing system. These orders shall be matched based on price and time priority.
- iv **Pooling Resources:** Exchange pools the financial resources of all the members in the case that any one member might get into financial difficulties. To accomplish this, every member must meet certain minimum capital requirements. The sum total of the financial resources presents a much stronger entity than any one individual member would be.
- v **Margin Structure:** The Exchange shall have right to impose clearing and settlement margin as well as delivery margin. The Exchange shall amend the margin types and margin requirements from time to time based on the prevailing situations.

18. CLEARING AND SETTLEMENT PROCEDURE:

- i **Mark to Market (MTM):** MTM is the process of settling all open positions for the day, based on the daily settlement price of the respective contract. This will determine the floating loss or profit on every position, which shall be communicated to the members of the Exchange and its customers. MTM is also known as end-of-the-day settlement. For the purpose of MTM settlement, the closing price shall be derived by the Exchange in its sole discretion.
- ii **Daily Settlement Price:** The daily settlement price shall be the last Bid price at 23:59:30 of that day's trading session and this calculation methodology may be changed by the Exchange by giving prior notice about the change.
- iii **Final Settlement Price:** The final settlement price shall be last bid price at 23:00 hrs of the last day of trading for that future contract. Final settlement shall take place on the expiry of the futures contracts, where all open positions for that contract shall be settled. This calculation methodology may be changed by the Exchange by giving prior notice about the change.

19. DETERMINATION OF OBLIGATIONS:

- i Following the closing of trading, the Exchange will determine the following obligations for each member:



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- a. Obligations regarding variation margin;
 - b. Obligations regarding clearing and settlement fees;
 - c. Obligations regarding the additional paying in/recovering of the deposit margin.
 - d. Obligations are determined for each member based on his own transactions and positions and also based on the transactions and positions of customers for whom the clearing member provides clearing service.
- ii **Obligation defined:** An obligation regarding variation margin is defined as the change of the value of a member's positions, that were open at the beginning of the trading session, or were put on during the trading session, as a result of their mark-to-market correction – the gain or loss in that position as determined by the difference between the previous session's settlement price and the current session's settlement price, or between the price at which the trade was executed during the current trading session and that session's settlement price.
 - iii A clearing fee and settlement fee is charged for each transaction, depending on the number of contracts in a particular order. The rate of the exchange fee is a constant value and does not depend on the price of the transaction.
 - iv The margin deposit required is based on the rate of the margin deposit and the number of open positions in each trading account.
 - v The rate of the deposit margin, in its turn, depends on the price change limit and is set by the Exchange.
 - vi The Exchange will inform members, regarding their obligations, on every trading day on a time prescribed by the Exchange. Members that have online trading facilities may receive reports electronically. The list and format of electronic documents sent to members are regulated and governed by the Exchange.

20. PAY-INS AND PAY-OUTS:

- i The pay-in/pay-out for settlement shall be by way of debit and credit to the buyer and seller, based on whether their positions show a gain or loss.
- ii Payments will be made to the buyer's and/or seller's relevant clearing member's account on T+1 day where T stands for date of allocation of settlement.

21. REPORTS:

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- i **Obligation Reports:** The Obligation Report shall be available for the concerned member as determined by the Exchange as mentioned above.
 - ii **Settlement Reports:** On completion of daily MTM settlement or final MTM settlement, Settlement Reports shall be delivered to every concerned member accordingly.
 - iii **Margin Account Reports:** Members shall receive their Margin account reports as per the frequencies set by the Exchange from time to time.

22. ACTION AGAINST DEFAULT OR FRAUD:

- i **Compensation Action:** A defaulting member or its customer, based on the nature of the default, shall be levied with a penalty not exceeding ten times the defaulted amount. Further, the Exchange shall also take disciplinary proceedings against such defaulting member and its customers in accordance with the Bye Laws and Rules of the Exchange.
- ii **Penal Action:** Exchange may take criminal action against any member or customer, who commits any fraud, misrepresentation or cheating during trading, clearing and settlement on the Exchange in accordance with the prevailing laws of Nepal.