



Mercantile Exchange Nepal Limited
— Where the Nation Trades —
AN ISO 9001:2015 CERTIFIED EXCHANGE

PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES
RULES

Of

MERCANTILE EXCHANGE NEPAL LIMITED

Preamble

The Rule is framed by the Mercantile Exchange Nepal Limited (“Exchange”) to assure members, brokers, sub brokers, clients, legislators and regulators of the government, the public and other market participants that its business activities are, and will continue to be, conducted with integrity. Exchange also give assurance that unlawful, unfair and unethical trading practices are not tolerated, that public disclosures of trading information are accurate, and every member, broker, sub broker ,clients and other market participants will abide by ethical standards and maintain sound trading practices. The conduct involving fraud and market manipulation poses a significant threat to the Commodity markets. Therefore, such intentional misconduct undermines the Exchange’s goal for providing efficient services as any losses imposed by such actions ultimately are passed on to farmers, manufacturers, producers and consumers. The Exchange framed these Rules to prohibit fraud, deceit, and manipulation in trade or any unfair trade practice adopted by members, customers and other market participants, where there is often significant gain to the violator or loss to the victims of the misconduct.



PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RULES

In exercise of the powers conferred under the Bye Laws of the Mercantile Exchange Nepal Limited, the Board of the Exchange hereby makes the following rules, namely:-

1. Short title and Commencement

- 1.1. These rules may be called the Prohibition of Fraudulent and Unfair Trade Practices Rules (hereinafter referred to as these “Rules”).
- 1.2. They shall come into force on the date of their publication by the Board.

2. Definitions

In these Rules, unless the context otherwise requires,

- 2.1. “Bye Laws” means the Bye Laws of the Mercantile Exchange Nepal Limited
- 2.2. “Circular trading” means a fraudulent trading scheme where sell orders are entered by a member or client, who knows that offsetting buy orders, the same number of contract in commodities at the same time and at the same price, either have been or will be entered.
- 2.3. “Client” means an individual or an entity, who is registered with a clearing member in accordance with the rules of the Exchange and thereby conferred with the right to trade in the Exchange.
- 2.4. "Commodity" means a Commodity permitted for trading on the Automated Trading System of the Exchange and it includes any and all contracts in commodities.
- 2.5. “Customers” means brokers, sub brokers and/or clients registered with the Clearing Member of the exchange.
- 2.6. "Dealing in commodities" means an act of buying, selling or subscribing any commodity or agreeing to buy, sell or subscribe to any commodity or otherwise transacting in any way in any commodity by any member or customer
- 2.7. "Fraud" includes any act, expression, omission or concealment committed by a member while dealing in commodities in order to attain any wrongful gain or avoidance of any loss, and shall also include:
 - (a) knowing misrepresentation of the truth or concealment of material fact;
 - (b) a suggestion as to a fact which is not true by one who does not believe it to be true;
 - (c) an active concealment of a fact by a member/customer having knowledge or belief of the fact;



- (d) a promise made without any intention of performing it;
 - (e) a representation made in a reckless and careless manner whether it be true or false;
 - (f) any such act or omission as any other law specifically declares to be fraudulent,
 - (g) deceptive behavior by a member depriving another of informed consent or full participation,
 - (h) a false statement made without reasonable ground for believing it to be true.
 - (i) the act of giving out misinformation that affects the market price of the commodity, resulting in market participant being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.
- 2.8. "Disciplinary Committee" means the Disciplinary Committee of the Exchange or any committee constituted by the Board to undertake the investigation under these Rules.
- 2.9. "Front running" means an illegal practice by a member/customer executing orders on a commodity for its own account while taking advantage of advance knowledge of pending orders from its clients. When orders previously submitted by its clients will predictably affect the price of the commodity, purchasing first for its own account gives the member/customer an unfair advantage, since it can expect to close out its position at a profit based on the new price level. Front running may involve either buying (where the member/customer buys for their account, before filling clients buy orders that drive up the price) or selling (where the member/customer sells for its own account, before filling clients sell orders that drive down the price).
- 2.10. "Market Participant" any person associated with the business of trading in the Exchange, its members, brokers, clients and sub broker, including their employees, representatives, sales persons or any other person acting on behalf of them.,
- 2.11. "Market Manipulation" means a deliberate attempt to interfere with the free and fair operation of the exchange and create artificial, false or misleading appearances with respect to the price of, or market for, a commodity and its contracts, and also include:
- (a) Transactions or orders to trade, which give, or are likely to give, false or misleading signals as to the supply, demand or price of commodities, or which secure, by one or more member or clients acting in collaboration, the price of one or several commodities at an abnormal or artificial level, or, any act or dealing in commodity by a member or customer which result



in wrongful gain to the member or its client or any person acting on behalf of the member, or which employ fictitious devices or any other form of deception or contrivance;

- (b) Dissemination of information through the media, including the Internet, or by any other means, which gives, or is likely to give, false or misleading signals as to the supply, demand or price of financial instruments, including the dissemination of rumors and false or misleading news.

2.12. “Member” means registered Members of the Exchange namely Clearing Member and/or Market Maker.

2.13. ‘Person’ means a member or a customer in the Exchange or any other market participant and any person acting on behalf of a member, customer, or authorized representatives.

2.14. “Wash Trade” means selling and repurchasing the same or substantially the same commodity for the purpose of generating activity and increasing the price.

2.15. Words and expressions used and not defined in these Rules, but defined in the Bye Laws, shall have the meanings respectively assigned to them in the Bye Laws or circulars or notification made there under, as the case may be.

3. Prohibition of certain dealings in commodities

No member or its customer shall directly or indirectly-

- (a) buy, sell or otherwise deal in commodities in a fraudulent manner or by unethical means;
- (b) engage in market manipulation;
- (c) use or employ, in connection with purchase or sale of any commodity listed in the exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Bye Laws or the rules or the regulations made there under;
- (d) employ any device, scheme or artifice to defraud in connection with dealing in commodities;
- (e) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in commodities in contravention of the provisions of the Bye Laws or the rules and the regulations made there under;
- (f) engage in any act to deceive the beneficiaries of the Exchange, including farmers and market participant by engaging in a manipulative or fraudulent trade in collusion or participation with other Exchanges or institutions.



4. Prohibition of manipulative, fraudulent and unfair trade practices

- 4.1. Without prejudice to the provisions of Rules 3, no member, customer or any market participant shall indulge in a fraudulent or an unfair trade practice;
- 4.2. Dealing in commodities and commodity contracts shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud or may include all or any of the following, namely:
- (a) indulging in an act which creates false or misleading appearance of trading in the Exchange;
 - (b) dealing in a commodities with intention to operate only as a device to inflate, depress or cause fluctuations in the price of such commodity for wrongful gain or avoidance of loss;
 - (c) paying, offering or agreeing to pay or offer, directly or indirectly, to any person any money for inducing such person for dealing in any commodity with the object of inflating, depressing, maintaining or causing fluctuation in the price of such commodity;
 - (d) any act or omission amounting to manipulation of the price of a commodity;
 - (e) publishing or causing to publish or reporting or causing to report by a person dealing in commodities any information which is not true or which he does not believe to be true prior to or in the course of dealing in commodities;
 - (f) a member or its customer promising a certain price in respect of buying or selling of a commodity to a client and waiting till a discrepancy arises in the price of such commodity and retaining the difference in prices as profit for itself;
 - (g) a member or its customer providing its clients with such information relating to a commodity as cannot be verified by the clients before their dealing in such commodity;
 - (h) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of dealing in commodities and market participants;
 - (i) a member or its customer reporting trading transactions to its clients in an inflated manner in order to increase its commission and brokerage;
 - (j) a member or its customer not disclosing to its client transactions entered into on its behalf including taking a position;



- (k) transactions in respect of a commodity in order to provide a false appearance of trading in such commodity or to inflate, depress or cause fluctuations in the price of such commodity;
- (l) encouraging the clients by a member or customer to deal in commodities solely with the object of enhancing its brokerage or commission.
- (m) a member or customer buying or selling commodities in advance of a substantial client order or whereby a futures position is taken about an impending transaction in the same or related commodities contract.
- (n) publishing false or misleading news which may induce sale or purchase of commodities.
- (o) a Member or Customer conducting its business or engage in any dealing intended to boost revenues or volumes artificially, or intended to manipulate market prices.
- (p) a member or customer colluding with other market participants to affect the price or supply of any commodity, allocate territories, customers or products, or otherwise unlawfully restrain competition.
- (q) a member or customer arranging and executing simultaneous offsetting buy and sell trades, i.e. with the same counterparty and price, commodity, location and quantity terms, with an intent to artificially affect reported revenues, trading volumes, or prices.
- (r) two or more members or customers trading in a commodity contract back and forth to rack up commissions and give the impression of trading volume.
- (s) a member or customer in an attempt to make a short-term profit, confirms an order to a client without actually executing it.
- (t) a member or customer engage in circular trading, wash trading, front running or any other act which in the opinion of the Board is detrimental to the business of the Exchange.

5. Power of the Board to order investigation

Where the Board, the Chief Executive Officer, Disciplinary Committee of the Exchange or any other authority established by the Exchange has reasonable ground to believe that

- (a) the transactions in commodities are being dealt with in a manner detrimental to the Exchange, members, customers, market participants or the commodity market or the beneficiaries of the Exchange including farmers, producers, manufactures, traders or consumers in violation of these Rules;
- (b) any member, customers, market participants or any person associated with the Exchange has violated any of the provisions of these Rules including Rules 3



and 4; it may, at any time by order in writing, direct the Disciplinary Committee to investigate the affairs of such member, customers or market participant and to report thereon to the Board.

6. Powers of Disciplinary Committee

The Disciplinary Committee shall have the following powers for the conduct of investigation against whom an investigation is ordered under Rule 3, namely:

- (a) to call for information or records;
- (b) to undertake inspection of any book, or register, or other document or record, which provide evidence on any manipulation or fraud in dealing in commodities listed in the Mercantile Exchange Nepal Limited or any dealing commodities in other Exchange worldwide with an intention to commit fraud or manipulation of trade in Mercantile Exchange Nepal Limited;
- (c) to direct to furnish such information to, or produce such books, or registers, or other documents, or record before it or any person authorized by it in this behalf as consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of the investigation;
- (d) to keep in his custody any books, registers, other documents and record produced under this regulation for a maximum period of one month which may be extended up to a period of six months by the Board. Provided that the Disciplinary Committee may call for any book, register, other document or record if the same is needed again;
- (e) to examine orally and to record the statement and to take notes of such oral examination to be used as an evidence.

7. It shall be the duty of every person in respect of whom an investigation has been ordered:

- (a) to produce to the Disciplinary Committee or any person authorized by it such books, accounts and other documents and record in its custody or control and to furnish such statements and information as the Disciplinary Committee may reasonably require for the purposes of the investigation;
- (b) to appear before the Disciplinary Committee personally when required to do so to answer any question which is put to him by the Disciplinary Committee;
- (c) allow the Disciplinary Committee to have access to the premises occupied by such person at all reasonable times for the purpose of investigation;



- (d) provide to Disciplinary Committee any such books, accounts and records which, in the opinion of the Disciplinary Committee, are relevant to the investigation or, as the case may be, allow him to take out computer out-prints thereof.
8. The Disciplinary Committee shall, on completion of investigation, after taking into account all relevant facts, submit a report to the Board; provided that the Disciplinary Committee may submit an interim report pending completion of investigations if it considers necessary and the Exchange or as directed by the Board.
9. The Board may, after consideration of the report referred to in rule 8, if satisfied that there is a violation of these Rules and after giving a reasonable opportunity of hearing to the person concerned, issue such directions or take such action as mentioned in Rule 10; provided that the Board may, in the interest of the Exchange, market participants and the commodity market, pending the receipt of the report of Disciplinary Committee referred to in Rule 8,
- (a) issue a warning or censure,
 - (b) suspend the membership or registration of the member, customer or market participant or
 - (c) cancel the membership or registration of the member, customer or market participant.

Provided further that the Board may, in the interest of Exchange, market participants and the commodity market, dispense with the opportunity of pre-decisional hearing by recording reasons in writing and shall give an opportunity of post-decisional hearing to the persons concerned as expeditiously as possible.

10. The Board may by an order, for reasons to be recorded in writing, issue or take any one or more of the following actions or directions, either pending investigation or enquiry or on completion of such investigation or enquiry, namely:
- (a) suspend the trading in commodity found to be or prima-facie found to be involved in fraudulent and unfair trade practice in the exchange;
 - (b) restrain member or its customers from accessing the Automated Trading System of the Exchange and prohibit any member or its customers associated to buy, sell or deal in any commodities and its contracts;
 - (c) impound and retain the proceeds of commodities contracts which is in violation



or prima facie in violation of these rules;

- (d) direct any member, customer or any market participant with the dealing in commodities in the Exchange in any manner and not to dispose of or alienate an asset forming part of a fraudulent and unfair transaction;
- (e) require the member, customer or person concerned to refrain from dealing in commodities in any particular manner;
- (f) prohibit the member or customer concerned from disposing of any of the commodities acquired in contravention of these rules;
- (g) direct the person concerned to dispose of any such commodities acquired in contravention of these rules, in such manner as the Board may deem fit, for restoring the status-quo ante;
- (h) recover the funds withdrawn by a member or the customer in a fraudulent manner or by adopting unfair trade practice;
- (i) suspend or cancel the membership of the member and registration of the customer;
- (j) suspend or cancel the employment, assignment, job, registration or any market participant or person engaged in the business of the Exchange.