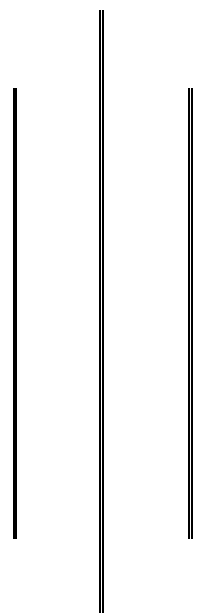Mercantile Exchange Nepal Limited
Where the Nation Trades
AN ISO 9001:2015 CERTIFIED EXCHANGE

Directives of Mercantile Exchange Nepal Ltd.

For Market Makers

DIRECTIVES FOR MARKET MAKERS

These directives are introduced in accordance with MEX Bye Laws and Rules. It is hoped that adherence of these directives would ensure ethical and disciplined business thereby confirming stability and liquidity in the market. All the Market Makers are responsible to comply with these directives.

1. PRICE QUOTING SYSTEM

1.1 Market Makers (MMs) will be quoting with the help of reference price which is termed as "Market Maker EPL Quote". The MMs have to choose the spread and quantity to show their intentions of Buy and Sell for different contracts.

1.2 The range of spread permitted by Exchange is from 0 to 5. Default spread will be 0, if MM doesn't choose from the given range. However, the maximum permitted spread may differ product wise and this shall be under the discretion of the Exchange. The quantity chosen will represent quantity of BID and ASK both.

1.3 If a MM chooses spread as 1 then, 1 tick will be added on EPL ASK Price and deducted from EPL BID Price; the same calculation will be applicable for other spread levels.

1.4 The quote with least spread will get the priority which will result in best available price. But if MMs have quoted with same spread, then time priority will be considered.

1.5 Validity for the matched intentions of MM will depend upon the matched order of the client.

2. MARKET DEPTH

2.1 The best 5 BID and ASK prices will be displayed in Market Depth. However the identification of any MM for any particular quote will be anonymous.

2.2 Clients' Limit orders will also be visible in the Market Depth, if the Limit prices fall within the best 5 BID and ASK quotes. Clients' Buy Limit order will be visible in BID side and Sell Limit in ASK side.

3. ORDER MATCHING PRINCIPLE

3.1 The orders will be matched based on Price- Time priority.

3.2 Orders can be matched at any level, client to client, client to MM & MM to MM. If no orders are matched within the MMs/Clients circle, the orders will be cleared at the Clearing House of the Exchange and it will be matched with the best available price.

3.3 All orders shall be routed to the Exchange's trading and clearing system. The orders received and matched shall be recorded in Exchange's Central Order Book.

4. EDITING/CANCELLATION OF MM QUOTES

4.1. MM can edit/cancel its quotes for the particular contract if no transaction has occurred against the intention showed. [No transactions in both BID and ASK side]

4.2 Regardless of point 4.1, if the quantity has matched from one side only i.e. either BID or ASK, the equal number of intentions will be blocked from the opposite side for the cancellation but will be allowed to edit it's spread till the MM has open position/s from first side. Nevertheless, if the intention gets matched from the other side too and MM has open positions for that particular contract, then the open position will be liquidated on FIFO basis.

4.3 Editing of quotes will add/remove equal number of BID and ASK quantities.

4.4 If the quotes are edited, the modification time will be effective for time priority.

5. RISK MANAGEMENT SYSTEM

5.1 MM can mitigate/transfer its risk by closing its open position/s. The open position will be matched with the available MM/s or Client/s with the best available quotes.

5.2 In consideration to point 5.1, MM needs to make sure that its intention is not in best for relevant BID/ASK side. If its intention is best in relevant side then MM can re-quote higher spread to give the priority to other MM/s or Clients for best BID/ASK or cancel their intention/s and then only close their open position.

5.3 If MM intention is best in relevant side and MM chooses to close its open position then it will force to self-matching.

6. INTENTIONS & FUND AVAILABILITY

6.1 MM can show its intentions in multiple times as per the available fund. That is suppose, a MM's available fund is NPR 200,000 and Margin for Regular Gold contract is 40000, then it can show 5 quantity intention in Gold at one time and again can show different intention with 5 quantity . Likewise it can show its intention for multiple times in same /different contracts.

6.2 If the intentions with insufficient fund are matched, remaining intentions with insufficient fund for that particular contract will be cancelled. In this scenario, for the matched intentions with insufficient fund, MM will get the open position but it will be closed at the same time in market.

6.3 At the time of cancellation of remaining intentions of MM, intentions from both BID and ASK sides will be cancelled for the particular contract except the opposite intentions of his open position [Excluding Open Position of Self Trade] but the time priority will be changed to the current time.

7. MARGIN REQUIREMENT & MARGIN CALL

7.1 MM margin requirement for execution of orders is 50% of Products Margin.

7.2 MM's account with short of Margin [negative 'Available Margin'] at EOD shall be issued a Call Margin to fulfill the margin to 100%. Such margin needs to be brought on the next trade day at the earliest or by 3 PM, else the position in excess to the margin available at 4 PM shall be liquidated at prevailing price.

7.3 Margin Call Liquidation will be done based on FIFO Method [First In First Out].

7.4 If MM's intention is in best for the open position/s which is considered for Margin Call liquidation, the same rule shall be applicable as insufficient fund [point 6.2].

8. MARK TO MARKET SETTLEMENT

8.1 Exchange shall calculate Daily Settlement Price at 23:59:00 hrs and MTM will be processed based on the same. All the floating P/L and financial adjustments will be done on Mark to Market (MTM) basis i.e. floating P/L along with settled positions' P/L will be realized in concerned accounts every trading day. Margin and Storage cost also will be transferred accordingly.

8.2 At every MTM, the used margin shall be transferred from MM trading a/c to Clearing House's Segregate a/c. When the open position/s is settled, its margin shall be released and transferred to MM Trading a/c and as per the profit/ loss, the amount shall be moved to/from MM trading & CH Segregate a/c.

9. EQUITY HIT

9.1 If Equity in MM's trading console falls to 15% of 'Used Margin'+ Commission [remaining one side], then equity hit will be considered.

9.2 During Equity Hit, first all the MM's intentions and pending contingent orders will get cancelled and then all the open position will be liquidated at prevailing market price.

10. TRANSACTION FEE (COMMISSION) & TDS

10.1 For every trade executed in the trading account [open position as well as settled position], MMs will be charged transaction fee [commission]. The fee shall be 30%+ VAT of the maximum allowable commission prescribed by the Exchange. For example, if maximum commission for a contract is NPR 1200+VAT, then the MM will be charged NPR 360+ VAT.

10.2 TDS of 10% is applicable to MM's net profit trades [excluding transaction fee / Charges]. TDS shall be paid to Inland Revenue Dept in the name of MM and the statement/receipt shall be provided on monthly basis to the MM.

11. DEPOSIT & WITHDRAWAL

11.1 The minimum deposit in MM Trading Account is NPR 300,000, apart from Bank's minimum deposit to open current account. MM can show the intention from MEX prescribed minimum deposit.

11.2 MM shall be allowed to withdraw only the amount in excess to the MEX prescribed minimum deposit.

11.3 The deposits made by MM is refundable on surrender/transfer/termination of membership subject to settlement of all pending dues, claims or charges, if any.

12. OTHER NORMS, PROCEDURES AND POLICIES

These directives may not contain all the possible norms, policies and procedures to be followed by a Market Maker. In such situation, MM shall follow the same norms, policies and procedures as exchange has prescribed for its registered clients.

13. AMENDMENT TO THESE DIRECTIVES

Exchange may at its own discretion amend these directives from time to time by giving 5 days prior notice from the date of its application.