



Mercantile Exchange Nepal Limited
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Mercantile Exchange Nepal Limited - Bye Laws

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1. PREAMBLE

These Bye-Laws shall be known as “the Bye-Laws of Mercantile Exchange Nepal Limited ”and for the sake of brevity and convenience hereinafter referred to as “these Bye-Laws” or “the Bye-Laws of the exchange”.

These Bye-Laws shall come into force on the date as the Board of Directors of Mercantile Exchange Nepal Limited (hereinafter referred to as “the Exchange”) may publish on that behalf.

2. DEFINITIONS

2.1. In these rules, unless the context otherwise requires:

1. “additional Margin” shall mean any additional margin deposit that is required from the contracting parties to maintain a position in a contract.
2. ‘Arbitrator’ shall mean an arbitrator selected from the panel of arbitrators appointed by the Exchange.
3. ‘Arbitral Tribunal’ shall mean one or more arbitrators constituting a tribunal to adjudicate a reference to arbitration.
4. “authorised representative of a Member” shall mean a person authorised by a Member to represent and act on behalf of that Member.
5. “Automated Trading System”(ATS) shall mean the computerised system provided over the internet by the exchange for trading in contracts permitted by the Exchange, access to which is provided to a member of the exchange by the Exchange , for use either by the member or by members authorised persons, participants, authorised users and clients, and which makes available, quotations in the contracts traded on the Exchange, facilitates trading in such contracts and disseminates information regarding trades effected, volumes transacted, other notifications, etc., as may be decided to be placed thereon by the Exchange.
6. ‘Bank’ shall mean any bank which is licensed to carry on banking business by the Central Bank of Nepal and designated by the Exchange.
7. ‘Board’ shall mean the Board of Directors of the ‘Mercantile Exchange Nepal Limited’
8. “Books of Accounts, Records and Documents” include books of accounts, records and other documents which are required to be maintained under the Bye-Laws, Rules and



Regulations of the Exchange and includes the records maintained in a computer or in any other electronic form.

9. "Buy Order" shall mean an order to buy a contract permitted for trading on the exchange.
10. "Buyer" shall mean a client who is buying a trading position or, the member of the exchange acting either as an agent on behalf of a client or buying through his own account.
11. "Bye-Laws, Rules and Regulations" mean the Bye-Laws, Rules and Regulations of the Exchange and these Byelaws includes any re-enactment, modification or alteration made thereof, as also circulars, orders and notices issued by the Board of Directors or any committee constituted by it and empowered to issue such circulars, orders and notices.
12. "Chairman" shall mean the Chairman of the meeting of the Board of Directors of the Exchange.
13. "Chief Executive Officer" shall mean the Chief Executive Officer of the Exchange appointed by the Board of directors of the Exchange.
14. "Circular Trading" shall mean and relates to trading by a Member or a client or a group of related members and/or their clients, normally through more than one exchange member and executing trades, with one or more entities of this group entering buy orders and on the other side one or more entities of the same group and/or with other unconnected entities in the market entering sell orders or vice versa with a design to manipulate the price of a contract and/or to create artificial volumes in a contract.
15. "Clearing department" shall mean the specified department of the Exchange, which is responsible for settling trading accounts, clearing trades, collecting and maintaining margin monies from Members and also responsible for reporting data.
16. "Clearing Member" shall mean a company duly registered under the Companies Act of Nepal admitted by the Exchange as a Clearing Member of Exchange conferring right to trade and clear through the Clearing department of the Exchange as a clearing member and who may be allowed to make deals for himself as well as on behalf of his clients and clear and settle such deals only.
17. "Client" shall mean an individual or an entity who has executed an agreement in the form prescribed by the Exchange with a Member of the Exchange for dealing through such member to trade in contracts permitted on the Exchange.



18. "Committee" shall mean any committee appointed by the Board of Directors empowering it to perform such functions as the Board may determine from time to time, including framing of Rules and Regulations.
19. 'Conciliator' shall mean either sole conciliator or a bench of three conciliators as agreed between the parties.
20. "Contract period" shall mean the period in which contractual obligations in respect of a contract is due for fulfillment by the parties to the contract.

Explanation: Contract Months shall be referred as 'contracts' in these Bye-Laws. For example, a futures contract for settlement in the month of December shall be referred to as December Contract.
21. "Contracts" shall mean and include all types of contracts in any instruments permitted for trading on the exchange specifically approved by the Board of the Exchange.
22. "Daily price List" shall mean the publication in whatever be the mode, including an electronic mode, issued by or under the authority of the Exchange, which contains details of prices and number of contracts traded on any given day in the Exchange, and any other relevant information.
23. "Derivatives" shall mean a contract, which derives its value from the prices, or index of prices, of underlying instrument, the trading of which is carried out in such manner as provided under these Bye-Laws, Rules and Regulations of the Exchange.
24. "Directors" shall mean the Directors of Mercantile Exchange Nepal Limited.
25. "Due Date/Contract Expiry Day/Contract Maturity Day" shall mean the maturity date (last day) on which a specific contract expires and is not available for trading in the Exchange thereafter.
26. "Due Date Rate" shall mean the settlement price fixed by the Exchange for squaring up (closing out) of all the outstanding contracts in a contract month on the due date.
27. "Exchange" shall mean Mercantile Exchange Nepal Limited and also denotes its premises, Board of Directors, committees of Exchange, Management body or staff of the Exchange where ever the context so requires and means.



28. "Member- Client Agreement" shall mean an agreement in a specified form, which is executed between a Member of the Exchange and his/its client, in the form and manner prescribed by the Exchange.
29. "Financial year" shall mean the fiscal year followed by the Government of Nepal.
30. "Individual" refers to a person admitted by the Exchange as a Non Clearing Member, who may be allowed to trade in the Exchange and shall be eligible to trade only for himself and not on behalf of others.
31. "Instruments" shall mean any tradable asset or negotiable item as permitted by the Board of the Exchange to trade in the Exchange, which includes but not limited to security, commodity, derivative or index.
32. "Institution" refers to an institution admitted by the Exchange as a Non Clearing Member, who may be allowed to trade for themselves as well as on behalf of their clients. The institution includes partnership firm, companies, trust, banking and financial institutions or any other entity admitted by the board in the category of institution.
33. "Last day of trading Day" shall mean the day on which trading ceases for a particular contract period in a specific instrument and after which trading is not permitted.
34. "Limit Order Book" is a document maintained on the Automated Trading System (herein after mentioned as ATS) or any other trading system specified by the Exchange, which stores unmatched limit orders on the day of entry of the order.
35. "Limit - Buy Order" shall mean the rate at or below which the order may be matched on the ATS or any other trading system and "Limit-Sell Order" shall mean the rate at or above which the order may be matched on the ATS or any other trading system specified by the Exchange.
36. "Long Position" shall mean the outstanding purchase obligations of a Member, in respect of his transactions in a contract month for an instrument or its price index at any given point of time, whose settlement is yet to be effected.
37. "Chief Executive Officer" shall mean an officer of the Exchange entrusted with the running of the day to day affairs and business of the Exchange in general with the assistance of various committees of the Exchange and who is answerable only to the board of directors.



38. 'Margin' shall mean a deposit or payment in cash or other specified assets or negotiable instruments to establish or to maintain a position in a contract and includes initial margin or any other type of margin as may be specified by the Exchange from time to time.
39. "Market Order" shall mean an order for a specified quantity of a contract to be bought or sold at the best available quote prevailing on the trading system(s) of the Exchange at the time of entry in of the order in to the Order Book.
40. 'Market' shall mean and refers to the different instruments in which trading is allowed on the ATS or any other trading system of the Exchange.
41. 'Member' or 'Member of the Exchange' shall mean, an individual, professional, institution, registered company or a corporate body or any other entity admitted by the Exchange as a Member of the Exchange. Member includes both Clearing and Non Clearing Members
42. "Market Maker" shall mean a Clearing Member registered with the Exchange who quotes both buy and sell price of an instrument in terms of the Rules of the Exchange. Clearing Member of the Exchange shall play the role of a market maker.
43. 'Month' shall mean a month reckoned according to the English calendar.
44. "Net open position of a person for a contract month" shall mean
 - a) the total of long positions that remain to be settled less the total of short positions that remain to be settled if the long positions exceed the short positions and
 - b) the number of short positions that remain to be settled less the number of long positions that remain to be settled if the short positions exceed the long positions.
45. 'Non Clearing Member' – shall mean an individual, professional or institution, who is admitted by the Exchange as the member of the Exchange holding right to directly participate in the trading in the Exchange and he may be allowed to make deals for himself/itself as well as on behalf of his/its clients and clear and settle through such deals through a clearing member only..
46. "Order" shall mean an offer to buy or sell any contract placed through the ATS or any other trading system permitted by the Exchange for trading on specific instruments.
47. "Order Book" shall mean a register maintained by the exchange either in electronic form or in manual form to record all buy and orders received from Members for all instruments offered by the Exchange for trading.



48. "Ordinary Margin or Initial Margin" shall mean the margin deposit that is required from the contracting parties to initiate a position of buy or sell in a contract month.
49. "Pay-in" shall mean making available funds to the clearing department by the Members of the Exchange in accordance with the applicable settlement schedule notified by the Exchange from time to time.
50. "Pay-in Date" shall mean the date and time prescribed by the Exchange for each settlement by Members to perform their obligations by way of payment of funds as applicable, to the Exchange.
51. "Pay-out " shall mean release of funds by the clearing department to the Member of the Exchange who is entitled to receive to the extent of and upon their fulfilling their pay-in obligations into the clearing department, in accordance with the applicable settlement schedule notified by the Exchange from time to time.
52. "Pay-out Date" shall mean the date and time prescribed by the Exchange for each settlement on which date and time, the clearing department shall be required to release funds to the respective accounts of the Member of the exchange.
53. "Prescribe Form or Format" shall mean any or all forms prescribed by the Exchange for official purpose.
54. 'Professional' refers to a professional, who qualifies the criteria of a professional in accordance with the Rules of the Exchange and is admitted by the Exchange as a Non Clearing Member, who shall be eligible to trade for himself as well as for corporations based on the Rules of the Exchange.
55. 'Publication' shall mean publication by the Exchange in a mode prescribed by the Board of the Exchange from time to time.
56. 'Quote' shall mean a 'bid' price or an 'ask' price given by the Exchange for a contract on the ATS or any other trading system of the Exchange.
57. 'Rate' shall mean the price of unit of quote/(s) specified in the contract specifications for a contract transacted on the trading system allowed by the Exchange.
58. "Registered User" is an individual approved by the Exchange to operate the trading terminals of the Exchange on behalf of its member. The term 'user' may be used interchangeably with the term 'registered user'.



59. 'Rules', shall mean the rules framed by the Exchange from time to time for regulating the activities and responsibilities of the Members of the Exchange and its clients, the constitution, organisation and functioning of the Exchange
60. "Sell Order" shall mean an order to sell a contract permitted for trading on the Exchange.
61. 'Seller' shall mean a client who is selling a trading position or, the member of the exchange acting either as an agent on behalf of a client or selling on his own account.
62. "Settlement Day" shall mean the date fixed by the Exchange for member to settle their open positions.
63. "Settlement price" shall mean the average price of an instrument at which a contract trades, calculated at both the open and close of each trading day
64. "Short Position" shall mean the net outstanding sell obligations of a person, whether a member or his client, in respect of his transactions in a contract month for a instrument or its price index, at any given point of time, whose settlement has yet to be effected.
65. "Special Margin" shall mean the margin deposit required from the contracting parties to hold a position in a contract as specified by the Exchange.
66. "To Match an Order " shall mean an order to sell or a part of an order to sell which matches with an order to buy or a part of an order to buy, or vice versa, in terms of price and quantity, either in part or full, and resulting in a trade.
67. "Touch Line" shall mean the best bid and offer, together with the related quantity for buy and sale, displayed on the Trader Work Station (TWS).
68. 'Trade' shall mean a transaction for purchase and sale of a contract resulting from the matching of a bid to buy or a part of a bid to buy with an offer to sell or a part of an offer to sell, or vice versa on the trading system permitted by the Exchange.
69. "Trader Work Station" (hereafter referred to as "TWS") shall mean a computer terminal maintained by a Member of the exchange, which is approved by the Exchange and is installed with software's for trading specified by the Exchange and connected to the ATS for the purpose of trading on the Exchange.
70. "Trading Period" shall mean the duration of a contract prescribed by the exchange during which a contract will be available for trading.



71. "Trading system" shall mean systems and networks as the Exchange may from time to time determine and which shall be notified by the Board as reserved for trading in contracts for specific instruments permitted on the exchange, and also includes its trading segments.
72. "Trading Segment or Segments" shall mean the different segments or divisions into which the instruments admitted to dealings on the Exchange, as classified by the exchange for admission of member to the exchange and for the purpose of trading on the ATS or any other trading system approved by the Exchange.
73. "Trading session of a working day" shall mean the hours of that day during which the sale and purchase of contracts are permitted by the Exchange.
74. "Underlying or underlying instrument" shall mean the instrument with reference to which ready, forward, futures and other contracts are permitted to be traded by the Exchange from time to time.
75. "Unit of Trading" shall mean the minimum quantity of contract that can be purchased or sold, as specified by the Exchange, from time to time in the contract specifications of an instrument.
76. "Unit of Quotation" shall mean the specified quantity of an instrument for which the bid or offer price displayed by the Exchange for a contract month.
77. "Variation margin" shall mean the difference between the contractual value of a contract and the monetary value of the contract determined at the settlement price.
78. "Working day" shall mean a day on which the sale and purchase of contracts is permitted by the Exchange.
- 2.2 Words imparting singular number shall include plural number and vice versa. Words imparting masculine gender shall include feminine gender number and neutral gender and vice versa.
3. **POWER TO AMEND RULES, BYE-LAWS AND REGULATIONS**
- Subject to the provisions of these Bye-Laws, the Board or the committee appointed by the Board of the exchange shall have powers to amend these Bye-Law, Rules and Regulations, as may be required from time to time, for the efficient functioning and operations of the Exchange. Amendments so made shall be binding on all members of the Exchange.



4. **POWER TO FRAME ENABLING PROVISIONS**

The Board of the Exchange may issue clarifications or directives, as may be required from time to time, to remove any difficulty or ambiguity in construction of any of the provisions of these Bye-Laws and Rules and Regulations framed there under. Such clarification or directives shall be binding on all members of the Exchange.

5. **POWER TO FRAME RULES AND REGULATIONS**

1. Subject to these Bye Laws, the Board may frame Rules and Regulations, as may be required from time to time, with respect to:

1. norms, procedures, terms and conditions for the inclusion of an instrument, contract, commodity or any other instruments to be traded in the Exchange;
2. norms and procedures relating to membership in the Exchange including category of memberships, criteria for admission, all kind of fees, subscription, service charges, insurance and capital requirement, approval and rejection of membership applications, provision for appeal on rejection of membership, procedure for hearing on such appeals and membership agreements between Exchange and members, members inter se and members and clients;
3. forms, terms and conditions of contracts to be entered into, and the time, mode and manner for performance of contracts between members inter se or members and their clients;
4. norms, procedures, terms and conditions for trading, clearing and settlement, including establishment and functioning of the Clearing Department of the Exchange and designating clearing members for each non clearing members;
5. determination of the amount of fees, advance transaction funds, securities, margins and other charges to be payable by the members and clients to the Exchange.
6. determination of the scale of commission/brokerage chargeable by members from clients and members inter se ;
7. norms regarding membership compliances, determination of capital adequacy and other norms which shall be required to be maintained by members;



8. norms and procedure relating to maintenance of records and books of accounts by members, and inspection and audit of records and books of accounts of members by the Exchange;
9. norms and procedures relating to disciplinary procedures including withdrawal of trading facilities, suspension, declaration as defaulter, termination of members and administration of penalties and fines;
10. norms and guidelines relating to Conduct of business in the Exchange, appointment of employees and consultants, business and professional ethics, Codes of Conduct for the members and clients from time to time;
11. norms and procedure relating to settlement of disputes between Exchange and members, members inter se and members and clients and framing of rules and procedure for arbitration and conciliation;
12. norms and procedures in respect of, incidental or consequential to closing out of contracts, deals or transactions;
13. norms relating to working days, holidays and trading, clearing and settlement hours in the Exchange
14. issuing of various types of informative and/or warning notices to members as and when it deems necessary.
15. conducting disciplinary enquiry and/or disciplinary proceedings against member/(s) by the Exchange in its own motion or on genuine complaints received from any government bodies or from another member or a client or from public as the case may be and to implement any action taken therein.
16. norms and procedures relating to transfer of membership by sale or lease, criteria for determination of inactive members, suspension and reactivation of inactive members, .
17. norms and procedures for opening and maintaining bank accounts, types of bank accounts, designating banks, determination of criteria for operation of bank accounts, access of Exchange to the bank accounts of the members and transfer of funds from the accounts of members to the Exchange and vice versa.



18. any other matter, in the opinion and discretion of the Board of the Exchange which is expedient for the smooth and efficient functioning of the Exchange, from time to time.

2. Exchange shall also frame or amend Rules norms, procedure and terms and conditions of Trading, Clearing and Settlements, including:
 - a) determination of trading sessions and proceedings in such trading sessions;
 - b) allotments of TWS to the members and approval of the facilities and infrastructure of members including softwares and other equipments installed at the TWS
 - c) provision for training to members, and registration of registered users;
 - d) determination of trading quotations and position limits;
 - e) norms and procedure relating to accepting and placing orders in TWS and ATS.
 - f) determination of prices for each instruments to be traded in the Exchange.
 - g) the form of contracts in various instruments, the time, mode, the manner of performance of a contract between members, and members and clients;
 - h) determination of transaction charges and clearing fees payable by members , clients etc and other fees that may be collected by the Exchange from members, clients, registered users or any other person connected with the transactions;
 - i) suspension of trading in certain instruments permitted for trading on the Exchange and circuits;
 - j) determination of due date and penalties;
 - k) manner of operations, determination of procedures of closing out;
 - l) determination of various types of margins, transaction funds, Special or additional margins and mode of their payment, exemption from payment of margins, lien on margin deposits, penalty for non-fulfillment and/or evasion of margin requirements, liability of client and members to pay margins, member's responsibility to collect margins from clients.
 - m) members responsibility to maintain proper books of accounts;
 - n) determination of settlement prices; Procedure of marking to market
 - o) Norms and procedure for establishment and functions of Clearing Department; and
 - p) Designating and authorising software and electronic vendors for providing software and other electronic equipments to various members of the Exchange to be used in the TWS to access the ATS for trading in the Exchange.
 - q) any other matter, related to the trading, clearing and settlements as may be decided by the Exchange from time to time.



6. MANAGEMENT OF THE EXCHANGE

1. The Board of the Exchange is responsible for the governance of the Exchange in accordance to these Bye-Laws and terms of the Articles of Association of the Exchange with the active support from the CEO and various committees. The CEO shall report directly to the Board.
2. The Board shall appoint committees as it deem fit for the proper and efficient functioning of the Exchange and to advice on matters relating to the management and operation of the Exchange. Such Committee may include, Executive Committees, Membership Committee, Disciplinary Committee and Compliance Committee, . The Board shall prescribe the functions and responsibilities, selection and qualification of members, powers and procedures of each committee from time to time.
3. The Board shall by resolution delegate necessary powers to committees or to a director of the Board, any powers or functions exercisable by it according to these Bye-Laws and the Board shall also have such powers to vary such power given to committees or Director.
4. The Chief Executive Officer appointed by the Board on his behalf shall be responsible for the day to day management of the Exchange and the implementation of these Bye-Laws, Rules and Regulations of the Exchange.
5. The Board shall appoint employees, staffs, consultants and also determine the procedure for selection and qualification of employees, staffs, consultants, terms and conditions of employment, duties and responsibilities of employees in its discretion, as and when required, in accordance with the law.

7. MEMBERSHIP IN THE EXCHANGE

1. The Board of the Exchange shall hold the exclusive right to grant, assign, transfer, revoke or amend various types of memberships to be given in the Exchange. Membership in the Exchange is classified into two categories namely (a) Clearing Membership and (b) Non Clearing Membership. The Board may create such other categories as it deem fit for the purpose of efficient functioning of the Exchange.
2. **Clearing Membership:** The Clearing Member is permitted to participate directly in both trading and clearing processes in the Exchange. Clearing Membership is restricted to registered companies only. Clearing members shall play the role of market makers.



3. **Non-Clearing Membership:** Non-clearing Member is permitted to participate directly in trading in the Exchange. The clearing process of such non clearing member shall be facilitated through a clearing member approved by the Exchange. Membership in Non-Clearing Membership is further classified into three categories, namely, Individual, Professionals and Institutions.
 - a) **Individual:** An Individual member shall be permitted to trade in the Exchange only for himself and not for or on behalf of any other person or entity.
 - b) **Professional:** A Professional member shall be eligible to trade in the Exchange for himself as well as for institutions. He shall be entitled to some special privileges other than the individual member, which the Exchange may determine and notify from time to time.
 - c) **Institution:** Institution, as defined by this Bye –Laws, shall have the privilege to trade for itself and on behalf of its Clients. The Board shall prescribe the qualification and criteria of becoming an member in this category.
6. Membership status is transferable subject to the Bye-laws and Rules of the Exchange. Both Clearing Member and Non Clearing Member are permitted to sell their membership subject to the Bye-laws and Rules of the Exchange. Clearing Member shall not be permitted to lease its membership to protect the interest of clients. However, Non Clearing Member shall be permitted to lease its membership for operative reasons. Exchange shall by rules prescribe the norms and procedure for sale and lease of a membership.
7. The Board shall prescribe by rules, the qualification/ eligibility criteria, application requirements, the obligation of a member, in each category of membership from time to time. The Board shall at its own discretion permit change of membership from one category to the other provided if the member meets the requirements of such other category including the payment of fee and capital requirements.
8. The Board shall, from time to time, determine the capital requirements, fees and other charges payable in each category of membership, including the admission fee, membership fee, annual subscription fee, processing fee, advance transaction funds, margin requirements, and shall frame rules and issue circular there under.



9. The Board shall prescribe the procedure for filing an application for membership, processing, approval or rejection of an application, publication of approval, issuance of certificate to the registered members and the format of application for membership, the agreement to be signed by the members and the Exchange in each category of membership and the formats of agreement to be signed between the Clearing Members and Non Clearing Members, Members and their clients, from time to time and frames rules and regulations there under as and when required..
10. Members are not permitted to conduct, engage or participate in any other business other than the business with the Exchange. Members are also not permitted to have membership with any other Exchange. If any of the members is found violating these criteria shall be terminated forthwith from the membership and the Exchange shall forfeit its deposits with the Exchange.
11. A Company, Individual, Professional or Institution which is declared as insolvent by a Court of law in Nepal or by the Government of Nepal shall not be eligible to apply for membership in the Exchange.

8. FEES, INSURANCE AND BANK ACCOUNTS

1. The Board shall prescribe the kinds, amount and manner of payment of fees, subscription charges and any other charges payable by each member of the Exchange towards its membership. The Board shall also prescribe the norms and procedures of Insurance to be taken by each member at its own cost in order to protect them from the risks and hazards arising from their business operations at the Exchange. If a member fails to pay the fees within the time limit prescribed by the Exchange, including any extension granted by the Exchange shall be adjudged as a defaulting member and subject to disciplinary actions.
2. The Board shall prescribe the types and number of bank accounts to be maintained by each member and the Exchange and its manner of operation, from time to time, for the protection and safeguarding the interest of its clients. The Board shall also notify the names of banks approved by the Exchange through which a member shall be permitted to operate its trade with the Exchange..
3. All members shall be required to strictly follow instructions of the Exchange in respect of operation of bank accounts, maintaining of minimum balance, segregation of clients' fund and own fund, etc. as shall be prescribed by the Exchange. They shall also submit an irrevocable undertaking in writing enabling the Exchange to access and operate the bank accounts in cluding

debiting and crediting the account electronically. They shall also be required to maintain such accounts adequately funded as prescribed by the Exchange, so as to enable the Exchange to recover its dues by debiting their respective bank accounts.

9. **CONTRACTS**

1. The Board or the committee appointed and empowered for the purpose shall finalize the contract specification in respect of contracts in all the instruments.

2. Members shall execute and clear transactions in only such contracts as specified by the Board. All transactions in contracts permitted on the Exchange shall be made only in the manner approved by the Exchange.

3. While entering an order in the system, the member 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, he should specify the respective client identification number.

4. Before executing a contract for a client, the member shall sign a written agreement with the client as per the procedure and in the format specified by the Exchange.

5. All contracts permitted on the Exchange shall be cleared, registered and settled by the Clearing Department subject to the Bye-Laws, Rules and Regulations framed there-under by the Exchange.

6. Members shall issue contract note, in the prescribed format for each of the transaction done by them for their respective clients on the trading system of the Exchange. Such Contract notes shall be issued strictly in the format prescribed by the Exchange. Members shall not issue contract note for any transaction, which has not been executed through the trading system of the Exchange.

7. All transactions in contracts permitted on the exchange shall be settled through the Clearing Department of the Exchange.

8. Clearing Member shall have an agreement to clear, register and settle transactions in contracts permitted for trading in the Exchange. A Clearing member of the Exchange shall not clear and settle contracts of a Non Clearing Member without a valid agreement between them. A copy of the agreement shall be given by the Clearing Member to the Exchange prior to entering any transaction with the Non Clearing Member.



9. Only transactions in contracts permitted for trading on the Exchange will be recognized as valid, provided the member has paid to the Exchange adequate margin deposits as prescribed. Clearing members, who clear contracts, shall pay the prescribed margin deposits and variation margins for their respective outstanding transactions to remain valid.
10. Rates and/or prices for the contracts permitted for trading in the exchange shall be quoted in accordance with Rules and Regulations specified for that contract.
11. The Board shall have the right to determine, specify and modify the specifications for the contracts in an instrument or group of instrument from time to time.
12. The Board shall approve the number, the commencement and expiration cycles of the each and all contracts.
13. The Board or the committee empowered for the purpose shall have the right to determine, specify and modify the position limits with respect to the contracts permitted on the exchange. Such position limits could differ from members to members subject to the categories; and exceptions may be provided by the Board. Position limits and exception rules will be specified in the Rules and Regulations specific to each underlying instrument and contract period.
14. The Board or the Committee as aforesaid shall have the right to determine, specify and modify the price limits with respect to the contracts permitted on the exchange. Such price limits may include floor and ceiling price for a day or for a specific period. Applicability of the price limits shall be specified in the Business Rules and Regulations of the Exchange specific to each instrument from time to time.
15. The Exchange shall have the right to specify and charge trading fee, clearing fee or any other fee from the member of the Exchange, which falls due. The Exchange shall specify the maximum and minimum fees that a Clearing member may charge from a Non Clearing Members and a Member from their clients.
16. All outstanding contracts not settled on the due date shall be closed at the Due Date Rate as fixed by the Exchange for the purpose, together with a penalty as prescribed by the Board or such committee for those failing to settle on due date.
18. Member shall enter into contracts only on the terms and conditions prescribed under the Bye-Laws, Rules and Regulations of the Exchange and the circulars and notices issued there-under.



19. No member shall enter into a contract before the commencement or after end of the trading sessions in the Exchange.
20. Any member of the Exchange transacting in any contract which is not specified by the Board shall be liable for disciplinary action under the Bye Laws and Rules of the Exchange. Members shall maintain a record of all their transactions in a format prescribed by the Exchange.
21. Members shall have separate records of their own account transactions and their registered clients. Members shall preserve these records for a period of three years as an evidence and for production, whenever required by the Board of Directors or any committee of the Exchange
22. Transactions by member for contracts in instruments that are not permitted by the Exchange are prohibited. Any member who infringes or attempts to infringe or who assists in any infringement or attempted infringement of these Bye-Laws shall be liable to suspension and/or expulsion from membership of the Exchange or any other action that the Exchange may take under its Bye-Laws, Rules and Regulations of the Exchange.
23. The event of the death of any party to any contract made on the Exchange shall not discharge the legal representatives of the deceased from fulfilling the obligations under such 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 Bye-Laws, Rules and 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.

10. TRADING DAYS

1. The Board of the Exchange shall determine the trading days, trading hours and holidays of the Exchange, from time to time.
2. The Board has the right to close the trading in any one or more, or all of the contracts in one or more, or all instruments for more than one trading day if it considers appropriate.
3. Exchange shall prescribe rules, norms, procedures relating to every aspects of trade including restrictions on trade, trading sessions, permission of trade and relevant trading procedures.



11. PRICES OF CONTRACTS.

1. Prices of the contracts dealt on the ATS or any other trading system of the Exchange shall be recorded in the manner, as prescribed by the Exchange. No prices shall be recorded for any transaction done in the Exchange, unless it is made in the regular course of trading on the ATS or any other approved trading system of the Exchange.

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

12. REGISTERED USERS

1. Members shall only allow their registered users to operate the TWS, or trade in any other trading system approved by the Exchange. Appointment of such registered users by a Member shall be informed to the Exchange by the Member in advance and permissions to that effect should be obtained from the Exchange.

2. A member shall appoint registered users as per the norms prescribed by the Exchange. The appointment of registered users shall be subject to the qualification and other criteria prescribed under the Rules and Regulations of the Exchange, or orders and guidelines issued there under.

3. The Exchange may, at its own discretion after assigning reasons, cancel the registration of any registered user of a member for failure to comply with the applicable provisions of the Bye-Laws, Rules and Regulations and/or circulars and guidelines issued there under; but the Member concerned shall continue to be liable for acts of commission and/or omission prior to cancellation of registration by the Exchange and/or loss / damage consequent to the cancellation.

4. No person shall be appointed at any time as a registered user of more than one member.

5. The Exchange shall have the power to prescribe the different levels of usage of the ATS or any other approved trading system, and may also prescribe norms for enquiry on the TWS, order entry, etc. by the registered users of the Exchange.

6. The Exchange shall have the power to train and issue necessary certificates to registered users of TWS. Individuals approved for training as registered users of TWS by Exchange shall pay the necessary fee to the Exchange towards cost of training imparted to them. Exchange also holds the right to conduct further training of such registered users as and



when required. The Exchange may also assign the responsibility of such training to a competent institution

13. USE OF TECHNOLOGY

1. The Exchange shall 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 ATS 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.
2. Exchange shall authorize vendors for supply, installation and maintenance of systems, software, networks and other equipments required for accessing the trading system of the Exchange and members shall use only such authorised vendors for such purpose with prior approval from the Exchange. These norms shall be binding on all parties including the members and clients of the Exchange.

14. ACCESS TO TRADING

1. The Exchange shall provide an automated trading system, or any other trading system, to the members to access and carry on trading in the contracts admitted to dealings on the Exchange.
2. The ATS shall be available for facilitating trading in the contracts for specified instruments permitted for trading in the Exchange and also for trading in such other contracts, which may be allowed by the Exchange for trading from time to time.
3. The Exchange may provide an architecture and the infrastructure related thereto, to the extent possible, to facilitate the members of the Exchange to establish connectivity with the ATS or any other trading system of the Exchange. The Exchange has the absolute right to specify the maximum number of TWSs that may be allotted to a member and the conditions for such allotment. Before a TWS is allotted to a Member, the Exchange shall authorize its employees to inspect and satisfy the premises where the TWS is to be installed. The Exchange has the absolute right to reject any place or places where it observes that the TWS shall not be installed.
4. The Exchange may prescribe the specifications/descriptions of hardware, software, bandwidth 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 member shall be required to strictly adhere to have connectivity with, or



use of the ATS 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.

5. A member shall use only networks, software, leased line connectivity approved by Exchange.
6. An unauthorized person or member declared as a defaulter or any other party or entity declared by the Board of Directors of the Exchange whose presence may be detrimental to the interest of the Exchange in general shall not be permitted to trade in the Exchange.

15. OPERATIONAL PARAMETERS FOR TRADING

1. The Exchange prescribes Rules and Regulations, the operational parameters regarding transactions in contracts traded on the ATS or any other trading system including the determination of functional details of the TWS, limits on trading and open positions mark to market losses, exposure, concentration and on the spread between bid and offer rates, trading units, quotation base value, position limits, Exposure limits, tick sizes, alert generation level and systems, types of contracts and trades, specifications of different order books, types of orders, order conditions and other details related to orders and trades, Maintenance of recording of transactions.

2. Transactions in the ATS or any other trading system of the Exchange may be effected through order driven, quote driven (through clearing member) and/or such other system may provide for trading to members and their registered users in specified instruments under the sole discretion of Exchange.

3. A member shall not by himself or through any other person on his behalf, publish, supply, show or make available to any other person, or reprocess, retransmit, store or use the facilities of the ATS or any other trading system of the Exchange or the information provided thereof, except with the prior approval of the Exchange.

4. All the parameters shall be strictly adhered to by the members and Clients. The parameters, however, may vary with the kind of instruments.

16. LOSS OF ACCESS TO ATS

In the event of suspension, de-activation, failure or malfunctioning of a member's TWS and/or loss of access to the ATS, the Exchange may, at its discretion and without any guarantee,



undertake on behalf of the member, to close-out the outstanding transactions of the member on a valid request received from such member, subject to such terms and conditions as the Exchange may impose, from time to time. If the member fails to give a valid request, then the Exchange shall close such outstanding transactions with out any prior notice to the member for which the member shall be liable.

17. CLOSING-OUT

The member 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.

18. CONTINGENCY ON TWS

1. To facilitate the members to carry on trading in the event of a failure of ATS owing to failure of internet link, the Exchange may, at its discretion, provide offline trading facility in places as decided by the Exchange. Provided that no liability can be attached to the Exchange in case of failure of the system due to non-provision of contingency offline facility, even if it results into loss to the members of the Exchange.
2. Without prejudice to anything contained in the provisions above, such failure or malfunctioning of TWS or loss of access to the ATS or any failure of contingency offline facility shall not reduce, alter or affect the liability of a member or the clients in respect of any trades, already executed by or through such member or his registered user.

19. ORDER MANAGEMENT

1. The conditions and procedures to be followed by a member or his registered users for entering, amending or canceling orders on the ATS shall be as specified in the relevant Rules and Regulations of the Exchange, which may, interalia, specify details to be entered compulsorily from an approved TWS at the time of order entry, such as, client code, type of order, symbol or contract code, etc.
2. The member shall maintain in his relevant records, the details of orders received from his client or modifications thereof, as specified in the Rules and Regulations and Circulars and Notices issued there under by the Exchange.

20. TRADE MANAGEMENT

1. Trading shall be allowed on the ATS or any other trading system of the Exchange in such contracts admitted for dealings on the Exchange and shall be based on trade types,



market types, settlement periods and trading hours in accordance with the Rules and Regulations of the Exchange

2. A member shall be accountable for all the trades executed by him or by his registered users in the Exchange.
3. Any cancellation or withdrawal of the trades made pursuant to these Bye-Laws, Rules and Regulations and Circulars and Notices issued there under shall be final and binding upon the member of the Exchange.

21. ORDER VALIDATION

Orders on the ATS or any other trading system approved by the Exchange shall be subject to such validation to available margin, quantity, price, value etc., under the rules, bye-laws and regulations of Exchange.

22. MATCHING RULES

1. The Exchange may from time to time specify in its Rules and Regulations the rule or principles to be applied for matching orders on the ATS or any other trading system of the Exchange, which may vary for different order books. Unless specified, the orders shall be matched on contract, price-time priority.
2. The Relevant Authority of the Exchange may specify from time to time the types of transactions in a contract for specified instruments with regards to which the member shall act as a legal counter party.
3. Provided that if on an investigation by the Exchange, the Exchange concludes that either or all the transactions or part thereof any contract/s are found to be executed on the ATS or any other trading system of the Exchange in a fraudulent manner and/or are done as financial transactions or structured deals with a design to defraud the Exchange, Exchange has the absolute authority and discretion to cancel such trades and take action to recover the loss if any sustained by the Exchange or any member and/or Client and also shall take disciplinary action against the parties, against the party whom the action is taken.
4. Provided further, during instances referred above where the Relevant Authority of the exchange decides to exercise its discretion to withdraw member as a legal counter party to the transactions, either in full or in part, and/or either from both sides or single side of the transaction, it shall afford an opportunity of being heard to all the parties affected or

likely to be affected by such decision. The decision taken by the Exchange thereafter shall come into force forthwith and shall be final and binding on all the parties concerned, including the clients.

23. CLEARING DEPARTMENT

1. Settlement and Clearing of trade shall be managed by a separate departments constituted by the exchange for the purpose to formulate policies and to monitor all activities relating to clearing and settlement of the trade.

2. All contracts transacted in the Exchange shall be cleared and settled through the Clearing Department of the Exchange in accordance with the Bye-Laws and Rules of the Exchange .

3. All members of the Exchange are permitted to take opposite position against client's position. Members are permitted to clear its positions taken in the markets through other members, provided all these trades and clearing shall go through the ATS provided by the Exchange and in accordance with the rules and regulations prescribed for the purpose.

4. All contracts transacted in the Exchange shall be downloaded by the Exchange to the Clearing members for settlement in the manner specified in the Rules and Regulations and Circulars and Notices issued there under.

5. A clearing member, with the permission of the Exchange may at its discretion discontinue clearing or settling services after closing out of outstanding contracts of any Non Clearing Member with whom the Clearing member has an agreement. A Clearing member shall communicate the reasons for discontinuing the services in writing to the constituent member and also to the Exchange;

6. The discontinuation of such services shall become effective as soon as the clearing member notifies the Exchange and obtains the approval of the Exchange but only after the outstanding contracts are settled. Pursuant to the above, the Clearing department may, after examining the reasons for the discontinuation and upon the receipt of a written application from the member, facilitate the provision of clearing and settlement services to the member through another clearing member who has no objection to provide such services.

7. In respect of contracts for specified commodities, price indices, securities or their derivatives as may be determined by the Exchange from time to time, and traded and cleared by the Exchange in the manner specified in these Bye-Laws, the Exchange shall be deemed to guarantee the net outstanding financial obligations to clearing members.



8. The Exchange shall not be deemed to guarantee the financial obligations of a defaulting Non clearing member to Clearing members, who are clearing and settling through such Clearing Member.

9. The Exchange shall not be deemed to guarantee the financial obligations of any member of the Exchange to his/its clients.

10. The following provisions shall apply in respect of contracts that are transacted in the Exchange and then cleared, settled and closed out by the Clearing Department of the Exchange in the manner specified by the Clearing Department:

- a. Every member of the Exchange shall be fully responsible for all his commitments to the Exchange and 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 member has dealings;
- b. The Exchange shall not be responsible for the commitments of a defaulting clearing member to his/its constituent Non clearing members, with whom the clearing member has an agreement as per these Bye-Laws;
- c. No Clearing member shall fail to effect clearance, settlement, payment of margin in the manner specified by the Clearing department or fail to pay damages to the Clearing department of the Exchange merely on the ground of default of others including his constituent Non Clearing Members of the Exchange and clients
- d. No Non Clearing member shall fail to effect clearance, settlement or payment of margin in the manner specified by the Clearing department or fail to pay damages to his respective Clearing member with whom he has an agreement as per these Bye-Laws on the ground of default of others including his clients
- e. The Clearing Department of the Exchange shall, in the manner specified by the Relevant Committee or the relevant authority appointed by the Board, have the responsibility of receiving and maintaining margin payments, monitoring open positions and margins, and transmission of documents and payments amongst the members of the Exchange.
- d. The Board shall designate banks for providing and facilitating the collection of funds, transfer of funds, sharing of information and other value added services pursuant to these



Bye-Laws, Rules and Regulations to Clients, member, and other relevant parties dealing with the Exchange.

- e. The Exchange and the designated bank(s) shall have an agreement for the services to be rendered and to be availed by the Exchange and concerned parties. The Exchange retains the right to select, designate and appoint such designated banks in its sole discretion.

24. MARGINS

1. Requirements of margin deposits, its variances and all procedures shall be decided by Exchange from time to time in accordance with the provisions of bye-laws and rules of the Exchange.
2. Every Clearing member shall pay the appropriate margin amount with the Clearing Department of the Exchange against the aggregate open positions cleared by the Clearing member (i) for the Clearing member's own account where applicable and (ii) for other members of the Exchange with whom the Clearing Member has an agreement and; (iii) clients, where-ever applicable.
3. Every members of the Exchange executing transactions on behalf of clients shall collect from the clients the margins specified from time to time, against their open positions within such time as may be prescribed by the Exchange.
4. The margin to be paid shall be calculated, based on the methodology specified under the Rules and Regulations and Circulars and Notices issued there-under for all tradable instruments from time to time, which may be on gross position basis, net position basis, client level basis or in other manner, as may be decided by the Exchange.
5. Margin accounts of all members and Clients shall be marked to market, daily by the Clearing Department and the all the members and Clients shall be required to pay the same as may be prescribed by the Clearing Department of the Exchange.
6. Members and client shall deposit advance transaction fund and/or initial margin in Demand Draft/cheque or through electronic transfer to their designated bank accounts as specified by the Exchange from time to time to fulfill the initial margin requirement in respect of open positions. Variation margin shall be paid by cheque, or electronic debiting from the account of the member with the prescribed designated bank of the Exchange.



7. Failure to pay variation margin within the specified time may lead to the deactivation or suspension of trading terminals and declaring as a defaulter by the Exchange. The Exchange may also take such other measures including disciplinary actions, against the defaulting members, as it may deem fit.
8. Margin deposits received by the members from their constituent members/clients in the above form shall be accounted for and maintained separately in segregated accounts and shall be used solely for the benefit of the respective constituent members/client's positions;
9. The Exchange may specify the type/quantum of margin and the applicability of the same from time to time. Such margin may vary from instruments to instruments and for different contract periods.
10. A member may close out an open position of a client when the call for further margin or any other payment due is not paid by the client;
11. A Clearing Member may close out an open position of a Non Clearing Member when the call for further margin or any other payment due is not complied with by the constituent Non Clearing Member;
12. The Clearing Department may close out the cleared open positions of a Clearing Member, when the call for further margin or any other payment due is not complied with by the Clearing Member.
13. Members shall post and accept margin deposits only in such form as may be permitted by the Exchange;
14. The margin account of members shall be utilised by Clearing Department only for settling the dues of the member upon mark-to-market or for fulfilling the obligations resulting from their open positions and members shall furnish their clients in writing such reports and at such intervals as may be specified by the Exchange.
15. Every Clearing Member shall collect funds from Non Clearing Members, with whom he has an agreement to provide clearing and settlement services as per these Bye-Laws and all such margins as specified by the exchange on the transactions executed by Non Clearing members for clearing and settlement.



16. Members shall maintain such banking arrangements with the designated bank(s) as specified by the Exchange so as to permit the transfer of funds and to maintain margins in a segregated manner.
17. Each Member shall deposit initial, variation, or any additional margin or deposits with designated bank(s), as directed by the Exchange, within the prescribed time and in the prescribed manner.
18. The Exchange shall prescribe such additional or special margins as may be considered necessary during the contract period. Exchange reserves the right to effect upward or downward reviews in the margin requirement structure of each instrument and such reviews may be effected with or without prior notice with a view to protect the interest of the clients.

25. CLEARING AND SETTLEMENT

1. The Clearing Member of the Exchange shall provide clearing and settlement services contracts permitted on the exchange through the clearing Department of the Exchange.
2. In order to facilitate smooth clearing and settlement, all members of the Exchange participating in trading shall be required to open bank accounts with designated Banks as may be advised by the Exchange. All such member shall be required to strictly follow instructions of the Exchange in respect of operation of such bank accounts.
3. The Clearing Department shall process all transactions submitted to it and shall accept for substitution of the Exchange only the net liability of the Clearing member to the Clearing Department.
4. An order to buy or sell will become a matched transaction only when it is matched in the Trading system and the clearing Department does not find the order to be invalid on any other consideration and after verifying that the Contract period, underlying instrument, price indices, quantity and transaction quote.
5. Once a contract is matched and marked to market by the Clearing Department, the Clearing Member shall be substituted as counter party for all net financial liabilities of the members and clients.



6. All outstanding transactions shall be binding upon the original contracting parties, that is, the members of the Exchange, and the clearing member, who have cleared the transactions until liquidated by offset.

7. When a member of the Exchange buys and sells the same contract, price index or any of its derivatives for the same contract month, the purchases and the sales shall not be automatically offset against one another by the member if it is for different clients of that member;

9. All transactions in contracts traded on the Exchange shall be subject to marking to market and settlement through the Clearing member through the Clearing Department, at intervals specified by the Exchange, except on holidays when there is no trading and clearing. The Exchange shall have the right to effect marking to market and settlements to Clearing member through the Clearing Department more than once during the course of a working day, if deemed fit on account of the market risk and other Parameters; and Settlement of differences due on outstanding transactions shall be made by the clearing member through the Clearing Department.

10. Each trading day shall be a settlement day, unless it is declared otherwise by the Exchange at its discretion. There shall be a daily settlement price in respect of each contract month and for each underlying instrument. Settlement price shall be determined by the Exchange based on best price quotations of transactions executed.

11. All transactions, after a mark-to-market and settlement, cleared by clearing member through the Clearing department shall be included in the succeeding marked-to-market settlement.

12. In case of contracts coming under settlement for the first time, the procedures of settlement price shall be decided by Exchange.

13. All contracts outstanding at the end of the last trading day of the contract month of the maturing contract shall be closed-out by the Clearing department of the Exchange at the due date rate as fixed by the Clearing department of the Exchange.

26. REPORTS AND BOOKS OF ACCOUNTS

1. In respect of all trades done by the members of the Exchange, the Exchange shall electronically forward reports to the respective members, including settlement obligations relating thereto. All such reports and obligations shall be binding on the members of the Exchange.



2. The members of the Exchange shall provide the Exchange with such reports that the Exchange may seek from the members from time to time. Details to be provided in such report shall be prescribed in the Rules and Regulations of the Exchange or through Circulars and Notices issued from time to time.

3. A member shall notify the Exchange of any incident, which may endanger its financial strength or interfere with the member's ability to conduct its business in the best interests of the Exchange.

4. All members 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. All such documents and records shall be kept in good order and preserved at least for such period, as may be specified by the Exchange and/or under the laws of Nepal. All such documents and records shall be made available to the Exchange for inspection, whenever required.

5. Member 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. The audit and investigation shall be restricted to the affairs of the members as providers of trading and/or clearing and settlement services to their client. (a) The members shall submit certificates showing their net worth in the prescribed form to be issued by a certified auditor twice in a financial year. (b) The first certificate showing net worth from date of acquiring membership until 14th July of each year shall be submitted on or before 14th October of the corresponding year. (c) Second Net Worth certificate for the period from 14th July till 14th January shall be submitted on or before 14th April of the corresponding financial year. (d) Non submission of net worth certificates by a member shall be a violation of bye law and it shall invoke a fine of 500 NPR per day until it's submitted finally to the Exchange. (e) Such fine shall be recovered by the Exchange from the member from of his available deposits with the Exchange. Maximum fine which can be recovered from a member under this head shall not exceed 7500 NPR for a single violation. Continuous non submission of Net worth certificates for 2 consecutive half years shall be a violation which shall make the member liable for suspension from membership. (f) A member shall be liable to submit net worth certificates even if he is under suspension by the Exchange.

6. In case of any dispute or difference of opinion originating from or pertaining to orders or trades due to a mismatch between the member's report and the Exchange's report, the report of the Exchange shall be final, conclusive and binding on the members.



27. ADVANCE TRANSACTION FUND

1. The Exchange prescribes norms, procedures, terms and conditions of Advance Transaction Fund to be collected from the Members.

2. Each member shall be required to contribute to and provide a minimum security amount, as may be determined by the Exchange, to the Advance Transaction Fund. The Advance Transaction Fund shall be held by the Exchange. The money in the Advance Transaction Fund shall be applied in the manner, as may be provided in these Bye- Laws, Rules and Regulations of the Exchange and circulars and guidelines.

3. Unless otherwise specified by the Exchange, Exchange shall compute the amount of minimum security to be deposited based on the approved turn over limit (in value) of each member. Approved turn over limit is the maximum turn over limit approved by the Exchange for a member for any given period of time. This includes members own turn over as well as a sum of his clients turnover. In case if the member reaches his approved limit he shall request with the Exchange for increasing such maximum limit. Based on the request Exchange shall review the terms and shall consider for such increase. At any given circumstances Exchange reserves the right to increase such limit.

4. The amount deposited by any member towards the advance transaction fund shall be refundable, subject to such terms and conditions as specified by the Exchange.

5. The Exchange, in its discretion, shall decide mode/forms of deposits, replacement and withdrawal procedures of Advance Transaction fund.

6. The Advance Transaction Fund may be utilised for such purposes, as may be provided by the Exchange from time to time, which may include:

- a. to meet the margin requirements of the members
- b. to meet shortfalls and deficiencies arising out of the clearing and settlement obligations of members in respect of such transactions, as may be provided in these Bye-Laws, Rules and Regulations of the Exchange,
- c. to meet any loss or liability of the Exchange arising out of clearing and settlement operations of such transactions, as may be provided in these Bye-Laws, Rules and Regulations of the Exchange,



7. Whenever a member fails to meet his settlement obligations to the Exchange arising out of his trading and/or clearing and settlement operations in respect of its transactions, as may be provided in these Bye-Laws, Rules and Regulations of the Exchange, the Exchange may utilise the Advance Transaction Fund and other moneys lying to the credit of the said member to the extent necessary to fulfill his obligations under such terms and conditions, as the Exchange specifies.

8. Whenever a member fails to meet his settlement obligations to the Exchange arising out of the transactions, as may be provided in these Bye-Laws, Rules and Regulations of the Exchange, or whenever a member is declared a defaulter, the Exchange utilises the Advance Transaction Fund and norms and procedures relating to such utilisation shall be decided by Exchange.

9. If the cumulative amount under all the above heads is not sufficient, the balance obligations shall be assessed against all the members in the same proportion as their total contribution and deposit towards security deposit, and the clearing members shall be required to contribute or deposit the deficient amount in the Advance Transaction Fund within such time, as the Exchange specifies in this behalf from time to time.

10. If a pro-rata charge is made as mentioned in Bye-Law against a member's actual contribution or deposit, and as a consequence, the members remaining contribution towards the Advance Transaction Fund falls below his required contribution, the clearing member shall contribute towards the shortfall in the Advance Transaction Fund within such time as the Exchange specifies.

11. Where any member, who is required to contribute fails to do so, as specified by the Exchange. The Exchange shall declare such member as a defaulter and shall take appropriate action as it deems fit.

12. Each member's contribution and deposit towards the Advance Transaction Fund shall be allocated by the Exchange among the various segments of trading or clearing, which are designated as such by the Exchange and in which the member may participate, in such proportion as the Exchange decides. The Exchange shall retain the right to utilise the fund allocated to a particular segment of trading to match the losses or liabilities, incidental to the operation of that segment or for any other segment, as may be decided by the Exchange at its discretion.

13. The liability of the Exchange resulting from the deemed contracts of member with the Exchange and to losses in connection there from shall be limited to the extent of contributions made to the Advance Transaction Fund. No further liability shall arise to Exchange.



28. CLEARING LIMITS

1. The Exchange may specify the limits of open positions applicable to the clearing members of the exchange based on the amount deposited towards the Advance Transaction fund/margin fund or any other fund established by the Exchange.
2. The aggregate monetary value of all the net open positions in respect of all contracts that each clearing member clears and settles shall be proportional to the sum of the clearing member's contributions to the Advance transaction fund/margin fund or any other fund specified by the Exchange.
3. The Exchange may specify different clearing limits for different instruments. Clearing Members may make additional deposits to the Advance Transaction fund/margin fund or to other fund/s specified by the Exchange.
4. The net open position and the monetary value thereof in respect of each contract period shall be computed by the Exchange and then aggregated to determine the aggregate monetary value of all the net open positions.
5. When the clearing limit of a clearing member reaches the upper limit, the Exchange shall notify the Clearing member. After receipt of notification the clearing member shall not present or cause to present any further transactions that would increase the aggregate monetary value of net open positions until he has paid additional monies to enhance its limit.
6. The Exchange may close-out the positions of Clearing member, who has failed to comply with the notification issued by the Exchange in this regard.
7. The aggregate monetary value of contracts shall be determined on the basis of (i) the net open positions in each of the contract months for each underlying instrument for which transactions have been cleared by the clearing member and (ii) the respective settlement prices.

29. CODE OF CONDUCT

1. Every Member of the Exchange shall act in a manner to the best interest of the Exchange and to protect and safeguard the interests of his/its clients trading on the Exchange. A member shall be subject to disciplinary proceedings if he is in violation of such good business practices including acting in a manner detrimental to the interest of the Exchange, any misconduct in dealing with or in relation to transactions on the Exchange or any violation of disobedience of the Bye-Laws, Rules and Regulations of the Exchange.



2. Exchange shall prescribe rules and issue guidelines, as required from time to time, regarding the code of conduct to be maintained by every member of the Exchange.

3. The Exchange may, at its discretion, conduct the surveillance, investigation and any other market related activities, either by itself or by duly empowered entity or even through outsourcing.

30. DISCIPLINARY ACTIONS

1. Instances where the Exchange has reasonable ground to believe that the transactions on the Exchange by a member and/or client are being conducted in a manner detrimental to the investors or trading market or any member or person associated with the trade or clearing with the Exchange has violated the code of conduct or any of the provisions of the Bye-Laws, Rules and Regulations of the Exchange, it shall at any time direct the disciplinary committee to investigate the affairs and business of such member or client and submit a report thereon to the Board of the Exchange.
2. The Exchange shall give an opportunity for giving explanation and also an opportunity for personal hearing to such members in the manner prescribed by the Exchange before taking any disciplinary action against such member on any such report by such committee.
3. Any order passed by the Exchange in such disciplinary proceeding shall be binding on such members. The Exchange may impose fine, suspend or terminate such members considering the nature of the violation.
4. The Exchange shall prescribe norms and procedure for investigation and procedure for hearing.

31. SUSPENSION OF MEMBERSHIP:

1. Exchange may suspend the membership and de-activate ATS and TWS of the member for the following reasons:
 - a) non-compliance with the bye-laws, rules, code of conduct and / or regulation of the Exchange;
 - b) non-compliance with the payment of dues and other fees Prescribed by the Exchange within the time limit, unless the Exchange grants an extension of time for payment;
 - c) the insolvency of a member;
 - d) a member fails to comply with an arbitration award made against him; or



- e) any other reason, which the Exchange consider appropriate for suspending the member,
 - f) Any written direction from a Court of Law.
2. A member shall also be suspended by the Exchange if he/it fails to meet the capital / net worth requirements prescribed by the Exchange, or if the member's financial condition is such that its continued operation would jeopardize the integrity of the Exchange.
 3. A suspended member may be granted a hearing before the Disciplinary Committee on receiving a request from such member within 30 days from the date of suspension.
 4. On suspension of a membership, a member's right of trading or clearing in the Exchange shall be ceased for the period of duration of suspension of the membership.
 5. No suspension shall takes away the member's liability or obligation to comply with any direction given or condition imposed by the Exchange pursuant to the suspension or the Bye-laws, Rules or regulations of the Exchange.
 6. A member, who has been suspended, may permitted to trade, upon obtaining permission from the Exchange to square off any existing open positions, unless directed otherwise by the Board.

32. TERMINATION OF MEMBERSHIP

1. The Board of the Exchange shall terminate the membership on account of:
 - a) non-compliance with the rules, byelaws and regulations of the Exchange or the Laws of Nepal and:
 - a) the Exchange receives any notification from the Government of Nepal on prohibition of performing business with the member or such notification by a Court of law;
 - b) the Board receives any notification from any of the Committee of the Exchange;
 - c) a member is inability to perform and continue as a member of the Exchange;
 - d) a member's inability to protect the integrity of the Exchange, in the interest of other members and clients in general and in the interest of the Public in particular; and
 - e) all other reasons for which a member may be suspended.
 - f) declared as insolvent by a Court of Law of Nepal.
2. No termination shall affect the member's existing liability or obligation to comply with the Bye-laws, Rules or regulations of the Exchange.



3. A member terminated in accordance with this rule shall be notified and he may be permitted to request for a hearing before the Disciplinary Committee of the Exchange within 30 days of such termination.

33. APPEAL TO THE EXCHANGE

1. If a member has been suspended or terminated as result of any disciplinary proceedings or in violation of the Bye-Laws, Rules and Regulations of the Exchange may appeal to the Exchange or any Committee constituted by the Exchange in this regard in a manner prescribed by the Exchange within the time limit prescribed by the Exchange by rules.
2. A member, who is aggrieved by the decision in appeal may request for a further hearing by a five member committee constituted by the Exchange to review the decision in Appeal. The decision of the five members Committee shall be final and binding on the member.
3. The Board shall prescribe the rules and procedure for such hearing including the fees.

34 CONFIDENTIALITY OF INFORMATION

1. No member of the Exchange shall directly or indirectly make disclosure of any confidential, financial, or other information that may come into his possession as a result of his functions as a member of the Exchange. A member, who violates the above restriction, shall be subject to immediate suspension or termination from the membership by the Exchange.
2. A member of the Exchange, who attempt to cause employees of the Exchange directly or indirectly to violate or who participate with the employees of the Exchange in violating the above provision shall be guilty of misconduct and subject to immediate suspension or termination of the membership. Exchange shall also dismiss such employees upon recommendation of the Board.

35. JURISDICTION:

1. All disputes arising out of or in connection with the Exchange shall be subject to the exclusive jurisdiction of the Courts in Katmandu irrespective of the location of the parties to the dispute or the place where the concerned transaction may have taken place.
2. For the purpose of jurisdiction, all the transactions entered or executed through the online trading system of the Exchange shall be deemed to have been taken place at the city of Katmandu



and the place of contracting shall be at Katmandu irrespective of the location at which the transaction is entered or executed.

36. RECORDS FOR EVIDENCE

The record of the Exchange as maintained in any register, magnetic storage units, electronic storage units, optical storage units or computer storage units or in any other manner shall constitute an authentic record in relation to any transaction entered into with the Exchange or through the online trading system of the Exchange. Such records shall constitute valid evidence for the purpose of resolving any disputes or claims between the members and the Exchange, member's inter-se and members and the client or any other person, or entity.

37. GOVERNING LANGUAGE

Nepali and English shall be the governing language of the Exchange. All proceedings in the Exchange shall be recorded in English. The governing law shall be Law of Nepal in all disputes.

38. LIMITATION OF LIABILITY

1. The Exchange shall not be liable for any activities of its members or of any other person, authorised or unauthorised, acting in the name or on behalf of any member, and any act of commission or omission by any one of them, either singly or jointly, at any time shall not be in any way construed to be an act of commission or omission by any one of them, as an agent of the Exchange.

2. Save as otherwise specifically provided in these Bye-Laws and in the Rules and Regulations of the Exchange, the Exchange shall not incur or shall not be deemed to have incurred any liability and accordingly, no claim or recourse shall lie against the Exchange, any member of the Board/or committee duly appointed by it or any other authorised person acting for and on behalf of the Exchange, in respect of or in relation to any transactions entered into through the exchange made by its members and any other matters connected therewith or related thereto, which are undertaken for promoting, facilitating, assisting, regulating, or otherwise managing the affairs of the Exchange to achieve its objects as defined in the Memorandum and Articles of Association of the Exchange.

3. The exchange will not accept or bear any liability whatsoever in respect of the operation of any exchange trading system, whether for any breach of a provision of any relevant legislation, any act or omission (whether negligent or not) damage to physical property, any direct or indirect losses including but not limited to loss of profits, loss of files, loss of contract, loss of data or use of data (including any error in information supplied or made available), loss of operation time or loss of use of equipment or process, economic loss, loss of reputation or losses or damages



incidental or consequential to the installation, use or operation of the Exchange online trading systems.

4. The Exchange does not warrant or forecast that the Exchange online trading system or any component thereof or any services performed in respect thereof will meet the requirements of any user, or that operation of the Exchange online trading Systems will be uninterrupted or error – free, or that any services performed in respect of the Exchange online trading System will be uninterrupted or error –free.

5. Every exemption from liability, defense or immunity applicable to the Exchange or to which the Exchange is entitled under bye law shall also be available and shall extend to protect the officers, agents and employees of each of the exchange , the clearing department and any developer of any exchange’s online trading system.

6. Every membership granted to any member by the Exchange shall not be construed as partnership with the Exchange by a member. The exchange shall not hold liable or hold as a party for offence commission of any offence or irregularity committed by any of its member.

39. PROTECTION FOR ACTS DONE IN GOOD FAITH

No claim, suit, prosecution or any other legal proceedings shall lie against the Exchange or any member of the Board or any Committee duly appointed by it or any other duly authorised person acting for and on behalf of the Exchange, in respect of any thing which is done or intended to be done or omitted or intended to be omitted in good faith in exercise of any power under these Bye-Laws or Rules or Regulations of the Exchange or in pursuance of any order or any other kind of communication received by the Exchange, in writing, from any court, tribunal, Government of Nepal under any law or delegated legislation for the time being in force in that behalf.

40. SECRECY OR CONFIDENTIALITY

The Exchange shall take all necessary steps to maintain, preserve and protect the details, particulars, data or any other information with complete confidentiality and it will disclose such datas and information only as per direction in writing from a court or a governmental body empowered to call for such information.

41. INDEMNITY

Each member of the Exchange, shall indemnify and keep indemnified the Exchange from and against all harm, loss, damages, injury and penalty 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 default in complying with any of the provisions of these Bye-Laws or the Rules or Regulations of



the Exchange or the Laws of Nepal 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 and their employees, servants and agents.

42. DISCLAIMER

Where any loss or damage is caused or incurred by any party or person on account of or as a result of any act of commission or omission or default in complying with any of the provisions of the Law of Nepal and the Rules framed thereunder or these Bye-Laws or the Rules or Regulations of the Exchange or any agreement, transaction or contract executed or made in pursuance thereof on account of negligence or fraud on the part of any member of the Exchange or their employees, servants or agents, in the event of the Exchange making good or being required to make good such loss or damages (or any part thereof) to such party or person, the Exchange shall be entitled to recover the amount so made good by it from the member of the Exchange.

43. SEVERABILITY

If any provision of these Bye-Laws or the Rules and Regulations of the Exchange 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 Bye-Laws or the Rules and Regulations of the Exchange, which shall continue to apply with full force and effect, provided further that the action already taken earlier under such provision shall remain unaffected.

44. FORCE MAJEURE:

Exchange shall not be liable for any failure to perform its functions, defaults, latches, or delays happens to the trading, clearing and settlement functions of the Exchange or its online trading and clearing systems as a result of circumstances beyond the control of the Exchange or any act of God. In the event that the functions of the exchange is prevented or hindered in consequence of any act of God or circumstances beyond the control of the Exchange, the functions of the exchange shall be suspended during the period of continuance of any such event. These acts may amongst other things include electrical, communication, computer system failure beyond the reasonable control of the exchange, war, invasion, riot, strike, rebellion, revolution, military or usurped power or confiscation, terrorist activities, nationalisation, government sanction, embargo and natural calamities

45. CONCILIATION



1. All claims, differences and disputes, between a member and the exchange, members inter se or member and clients, arising out of or in connection with the transactions on the Exchange including any agreements and contracts, made subject to these Bye-Laws or the Rules or Regulations of the Exchange or with reference to anything incidental thereto or in pursuance thereof or relating to their validity, construction, interpretation, fulfillment or the rights, obligations and liabilities of the parties thereof and including any question of whether such agreements, contracts and transactions have been entered into or not, the parties shall adopt conciliation proceedings, before a conciliator or a panel of conciliator appointed by the Board of the Exchange prior to referring the dispute to arbitration, subject to the provisions of this Act and the rules made thereunder.
2. The place of Conciliation shall be at the Arbitration and Conciliation Centre at the Exchange or any place prescribed by the Board.
3. The Board shall prescribe the norms, procedure and fees including the procedure for appointment of conciliator for such conciliation process.

46. ARBITRATION:

1. If parties fail to resolve any claims, dispute or difference through conciliation, the dispute shall be referred to and decided by arbitration subject to the provisions of this Bye Laws and rules made thereunder.
2. **Reference to Arbitration:** All claims, differences and disputes, between a member and the exchange, members inter se or member and clients, arising out of or in connection with the transactions on the Exchange including any agreements and contracts, made subject to these Bye-Laws or the Rules or Regulations of the Exchange or with reference to anything incidental thereto or in pursuance thereof or relating to their validity, construction, interpretation, fulfillment or the rights, obligations and liabilities of the parties thereof and including any question of whether such agreements, contracts and transactions have been entered into or not, the parties shall be submitted to arbitration in accordance with the provisions of these Bye Laws and any rules framed thereunder.
3. In all trade, contracts, agreements and transactions, which are made or deemed to be made subject to these Bye laws, Rules and Regulations of the Exchange, this provision of arbitration shall form and deemed to form a part of such trade, contract, agreements and transactions and parties therein shall be deemed to have entered into an arbitration agreement in writing by which all claims, differences or disputes shall be submitted to arbitration as per the provisions of these Bye Laws.



4. **Appointment of Arbitrators:** The Board shall prescribe by rules or notification the qualification of arbitrators. The Board shall also constitute a panel of not less than five arbitrators, consisting of professionals conversant with the trading in the exchange and its Bye-Laws, Rules and regulations, or having expertise in such areas like law or economics, finance, business or from any other profession approved by the Board.
5. **Place of Arbitration** The place of arbitration shall be at the Arbitration and Conciliation Centre at the Exchange or any place prescribed by the Board.
6. **Jurisdiction and procedures:**All parties to a reference to arbitration under these Bye-Laws, Rules and Regulations and the persons, if any, submitting claims under them, shall be deemed to have submitted to the exclusive jurisdiction of the Court in Katmandu for the purpose of giving effect to the provisions of the Act, these Bye-Laws and Rules and Regulations in force.
7. All the reference to arbitration shall be conducted including the procedures, taking of evidence, passing of award and decided in accordance with the procedure and provision of these Bye-Laws and rules framed thereunder by the Exchange
8. **Language of Arbitration:** The language of arbitration shall be in English and the proceedings also conducted in English Language. If the documents are in a language other than English, parties shall submit its true copies along with the documents.
9. **Fees and Charges:** The Board shall prescribe the fees for the proceedings, charges of arbitrators and any other fees as may be required for the proceedings and the manner of payment from time to time.
10. **Set-off and Counter Claim :** On a reference to arbitration by one party, the other party or parties shall be entitled to claim a set-off or make a counter claim against the former party, provided such set-off or counter claim arises out of or relates to trades, contracts and transactions made subject to the Bye-Laws, Rules and Regulations of the Exchange and subject to arbitration as provided herein, and provided further such set-off or counter claim is presented, together with full particulars, at or before the first hearing of the reference but not afterwards unless specifically permitted by the arbitral tribunal.
11. **Award:** The award passed by the arbitrator whether interim or final shall be binding on the parties and their respective representatives, notwithstanding the death of or legal



disability occurring to any party before or after the making of the award and such death or legal disability shall not operate as a revocation of the reference or award or shall not affect the rights under the award of the awardee in any manner whatsoever. After the award is being passed, a signed copy of the award shall be delivered to each party.

12 Penalty on Failure to Submit to or Abide by Award in Arbitration

Exchange on receiving an award against an member and who fails or refuses to submit to or abide by or comply with any award in arbitration between members or between an member and a client or exchange, as may be provided in these Bye-Laws, Rules and Regulations shall declare such member as a defaulter and suspended or terminated from its membership, and thereupon the other party shall be entitled to institute legal proceedings to enforce the award in the same manner as if it is a decree of court.

13. Right to Appeal: A party, who is aggrieved with the award, may appeal to the competent court of jurisdiction, within 30 days from the date of the award, in accordance with the Arbitration Act of Nepal. Provided that the aggrieved party shall deposit the amount in award with the Exchange before filing the appeal and such amount shall be kept with the Exchange in abeyance and shall be disposed of eventually as per direction of the Court.

14. Enforceability of Award as a Decree: When the time for preferring an appeal has been expired and no appeal has been preferred or the appeal has been preferred and the appeal has been rejected the award is enforceable as if it is a decree of court.

15. Power to make rules: Subject to this provision, the Board shall frame necessary rules and regulations regarding the procedure of arbitration, procedure for appointment of arbitrators, procedure for making an award, fees, forms and all other procedures in relation to the conduct of arbitration, which are not specifically mentioned in these Bye Laws.

47 RIGHT TO TAKE CRIMINAL ACTIONS

If the Exchange finds or came to know that any member or any person or entity dealing with the Exchange has committed or intending to commit any fraud, misrepresentation or cheating on the Exchange, the Board shall take criminal action against such members or person or entity and its directors, partners in accordance with the laws of Nepal
