



Mercantile Exchange Nepal Limited
Invest - Trade - Earn

MEX

**Rules of Trading, Clearing and Settlement
of Mercantile Exchange Nepal Limited 2008**



Preamble

These rules shall be known as the Rules of Trading, Clearing and Settlement of the Mercantile Exchange Nepal Limited, 2008 (hereinafter referred to as “this Rules”)

They shall come in to force on the date of their notification by the Mercantile Exchange Nepal Limited (hereinafter referred to as the “Exchange”)

1. **DEFINITIONS :** All words contained in these rules will have same meanings and definitions given in the bye laws of the Mercantile Exchange Nepal Limited(hereinafter referred as the “Exchange” or “MEX”.)

2. **TRADING**

1 The Exchange is operating on all weekdays except Saturdays, Sundays and Exchange-specified National and international Holidays. The Exchange shall notify members with a list of Holidays for each calendar year well in advance. The instruments dealt in the exchange are mainly in line with international markets, hence members are directed to follow the working days and holidays list of the Exchange, to be issued by Exchange from time to time.

2. **Trading Hours:** The Exchange follows the international market timings, hence the trading at the Exchange, unless otherwise notified in advance, shall commence at 10:00 AM and continues until 6 PM without any break based on the nature of the products being dealt. Details of products and timing shall be notified by the Exchange from time to time. Trading hours may vary from one product to another with each having its own break time for scheduled maintenance. Trading in the Exchange shall be on the online trading platform namely Automated Trading System provided by the Exchange. On any trading day after the trading hours until the commencement of next day’s trading hour at



the Exchange, all OTC products shall be available for trading on ATS to members except during a short interval which is the final settlement time at the end of each business day.

2. Trading Phase:

1. **Pre-trading:** The pre-trading phase begins at 9 AM during which participants may enter order and quotes or change, the orders.
2. **Trading:** During the trading phase open orders and quotes are compared and order matching takes place by the Exchange.
3. **Post-Trading:** During the post-trading phase, orders may be entered for the next trading day and existing orders which are valid for next trading period may be changed or deleted. Data inquiry functions are also available during post-trading.

3. ACCOUNT OPENING: Every member, with in a working day of acquiring membership with the Exchange shall open following types of bank accounts with a bank designated by the Exchange.

1. **Operational Account:** Every member shall have an operational account in a designated bank. This account exists for member's operational purpose. This account shall be subjected to audit and the Exchange shall have rights to call for details of transaction of this account as and when required.
2. **Segregated account-** For dealing with the Exchange, every member shall open one bank account in a designated bank with sole operational rights vested with the Exchange and for every client of the Member, a sub ledger/sub account shall be maintained, which shall be named as Segregated Account. All client deposits with the member and members deposit will be kept in this account noted in sub ledgers. This account shall not have funds from anybody intended for operational purposes. Exchange shall give instructions



to the designated bank at the end of each trading day to transfer funds in this account and sub ledger accounts based on margin requirements and profit/loss for the day. A copy of such adjustments shall be made available to the member concerned through electronic means. This account shall be maintained in the name of member, while irrevocable provision should be given to the Exchange. Every depositor shall have a sub-ledger in this account. This account shall be absolutely used for trading purpose only. Every depositor of this account shall be treated as client of member who trades in the ATS. This account shall have 2 gateways to access online. 1st for the Exchange and 2nd for respective member. Member shall access from its own user ID and password to view the account details of his account as well as his client's accounts. The Exchange shall access this account to check the deposit, floating, settled profit and loss amount. The Exchange, after closing of each trading day under intimation to the respective member, shall inform the designated bank to adjust the balance level of sub ledgers in accordance with floating loss/profit based on MTM settlement and final settlement. While depositing money in segregated account, the client shall sign a disclosure with the designated bank which provides authority to treat client fund for trading purpose and withdrawal shall be according to final settlement of his trade, as per authority given by the Exchange, only. Calculation and netting based on member to client is on net basis and Exchange to Member at gross level.

- 3. Member Deposit account-** This account shall be opened by a member in a designated bank, while the Exchange shall exercise total control in this account. A member's own funds for trading and clearing in the Exchange shall be deposited in this account. The Exchange shall be signatory to this account with irrevocable powers. During every trading day, when specific market volatility happens against trading positions availed or cleared by the respective member, the funds in this account will work as collateral. End of day margin calls on member accounts will be fulfilled through this account and then a margin call notice will be issued to member to refill the depleted amount by next working day 12 Noon. This account shall provide pooling facility to segregated account,



as required. This account shall be locked for withdrawal (except to transfer funds to segregated account) as specified by MEX.

4. **MARGIN TYPES AND REQUIREMENTS:** The exchange shall levy different types of margins based on market requirements. These will include but not be exclusive of:

1. **Initial Margin:** The initial margin requirement is based on the notional value for a contract and is calculated, for the member's position, by applying the notional value to the total value of the member's open positions in that contract. If a member has a net position in various contracts of the same instrument running concurrently, he/she is required to pay margin separately on each of these contracts. Similarly, if a member has open positions in various commodities, the total amount required is calculated as the sum total of the margin required for each commodity and contract calculated separately. The computation methodology regarding initial margin is as follows:

a. **Intra day:** During the trading session, the margin is calculated on the absolute difference between total sales in value terms and total buys in value terms for all transactions executed in contracts during the day in addition to the previous day's open positions carried forward at the official closing price of the previous day.

b. **Over Night:** At the end of intra day trading session, the margin amount is computed on the net position in a contract in quantitative terms based on the official closing price.

2. **Special / Variation Margin:** Variation margin is based on the gain or loss in a member's account and is computed based on the gain or loss in that position as determined by the difference between the previous session's settlement price and the current session's settlement price, if a trade was carried over from a previous session, or, if a trade was initiated during the current trading session, the difference between the price at which the trade was executed during the current trading session and that session's settlement price.



Variation margin shall be applicable if this difference is more than + / - 3 %.

a. **Margin Call:** A variation margin call shall be issued immediately when the contract price crosses the above mentioned range. Members shall pay the variation margin within two hours of the issue of a variation margin call. Variation margin shall be 10% of initial margin or the prevailing contract value whichever is higher. Based on the prevailing market situations, the Exchange shall have the sole discretion to change the parameters included in computation of variation margin.

4. TERMS IN CONTRACT SPECIFICATIONS

1. **Trading unit** - The Trading unit is the minimum quantity of a contract that can be traded (bought or sold) in the Exchange. Details of various trading units shall be notified by the Exchange from time to time.
2. **Quotation / Base value** – Quotation / base value is the quantity per unit for which prices are quoted for online trading.
3. **Tick Size** – Tick size is the minimum amount that the price of a commodity can fluctuate upward or downward .
4. **DDR** - Due date rate is the final settlement price for a particular futures contract based on which the outstanding positions on expiry will be settled off.
5. **Trading System:** The Exchange functions on an Automated Trading System (ATS) which functions online and provides connectivity to member terminals via internet. Such members needs to acquire the Trader Work Station (TWS) and other related software on payment from the Exchange designated software vendor to obtain connectivity to the ATS of the Exchange.



6. **Order Entry:** Order entry in to the TWS is permitted only by designated dealers who are trained by the Exchange and also certificate holders for their skill. Each designated dealers, to enter orders into the ATS shall sign onto the TWS by inputting their user ID which is encrypted for safety reasons, assigned to him by the Exchange, a Clearing Member or other authorized entity. Once he is signed in to the TWS, he can input each order the price, quantity, product, expiration month, customer code and account number. If any Designated Dealer receives an order which cannot be immediately entered into system, the designated dealer must prepare a written order and include the account designation, date, time of receipt and other required information in a prescribed form by the Exchange. The order must be entered into the system when it becomes executable.
7. **Customer Code:** The customer code is a serial code assigned to each Clearing Member and Non Clearing Member of the Exchange.
8. **Priority of Execution:** Customer orders received by a member shall be entered into the TWS, in the sequence received. Orders that cannot be immediately entered into the system must be entered when the orders become executable and then in the sequence in which the orders were received.
9. **Opening Trades:** On each business day, the ATS shall open with a single price for each instrument unless otherwise designated by the Exchange. Once the market is opened, bids and offers will be selected for matching at the opening price based on price and time priority.
10. **Matching Principles:** Order matching takes place at the clearing department of the Exchange by giving the highest priority to market orders entered in the order-matching process.
 - a. All orders and quotes shall remain anonymous in the central book system.
 - b. The Exchange acts as counterparty for every trade.
 - c. Order matching takes place in different bases starting from price / time priority to pro rata matching to the auction principle.



11. **Mistrades:** If a trade is erroneously entered and deviates considerably from the market price (reference price) then it is considered as a “mistrade”. Upon final determination of a trade as a “mistrade” it shall be cancelled.

12. **Type of Orders:** Various types of orders accepted by the Exchange are as follows:
 - a. **Market Order:** A market order is an order which does not specify a price limit; rather market orders are matched to the best available contra-side bid or offer.

 - b. **Stop Order:** Stop orders are orders that create market orders when the specified stop price is reached (or triggered). Stop orders are often referred to as stop-loss orders since they are often used to protect a trader's position from deteriorating beyond a certain point and stopping further loss.

 - c. **Limit Order:** Limit Orders include a specified price limit, and may not be executed at a price other than that limit.

 - d. **One Cancels Other (OCO) Order:** An OCO order consists of two orders: upon execution of one order the other immediately gets cancelled. This type of order is useful since the markets may move in both directions, up and down. By placing both a limit order and a stop order for an open position one can profit if the market moves in the trader’s direction or restrict his loss if the market moves against the trader.

 - e. **Good till Cancel (GTC) Order:** A GTC order is a Limit Order to buy or sell at a specified price and remains active from one day to the next until the order is either executed or canceled by the trader.

 - f. **Market on Close (MOC) Order:** A MOC order is an order which is to be executed as a market order in the closing minute of trading and as close to the closing price as possible. If not so executed, it is to be treated as cancelled.



13. **Market making:** The Clearing member shall play the role of a market maker. It shall have the right to take opposite side of the orders placed and act as a counter party for such orders placed by its clients and there by ensure adequate liquidity in the market at all times. Clearing members shall hedge such positions by taking opposite side of such orders with the Exchange or they shall directly cascade the orders placed by its clients to the exchange. In such case Exchange shall act a counter party for such orders and thereby keeps the market more active and secure

5. **ACCESS RESTRICTIONS:**

1. All connections to the ATS, including direct connections of non-clearing members or customers, must be guaranteed by a clearing member who will assume financial responsibility for all activity through that connection. With respect to transactions given up to other clearing members, such guarantee is effective only until such time that the other clearing member accepts the trade. Clearing members shall assist the Exchange in any investigation into potential violations of the rules or of the Act, which may occur through or with respect to the connection guaranteed by the clearing member. Such assistance must be timely and may include, but not be limited to, requiring any Non Clearing Member to produce documents, to answer questions from the Exchange, and/or to appear in connection with an investigation.
2. Clearing Member shall suspend or terminate a Non Clearing Member's online access if the Exchange determines that the actions of the Non Clearing Member threaten the integrity or liquidity of any contract or violate any Exchange rule or byelaws, or if the Non Clearing Member fails to cooperate in an investigation.
3. If a clearing member has received an actual or constructive notice of a violation of Exchange rules in connection with the use of the ATS by a Non Clearing Member for which it has authorized a direct connection and the clearing member fails to take appropriate action, the clearing member may be found to have committed an act detrimental to the interest or welfare of the Exchange.



4. Each Clearing Member or Non Clearing Member shall be supplied with a unique encrypted user ID by the Exchange to access the ATS. In no event may a person enter an order or permit the entry of an order by an individual using a user ID other than the individual's own unique user ID. Such orders shall be cancelled on detection and penalty shall be levied by the Exchange from such defaulters for permitting such wrong entries at their end.

6. RESPONSIBILITY FOR CUSTOMER ORDERS:

1. **Standard of Responsibility:** A Member shall exercise due diligence in the handling and execution of customer orders. Failure to act with due diligence shall constitute negligence. In the case of a dispute as to whether a Member has exercised due diligence, the appropriate arbitration or disciplinary committee is authorized to determine whether the Member was negligent and, if so, whether an adjustment is due to the customer. The committee may take into consideration the nature of the order and existing market conditions, at the time the Member acted or failed to act. However, no market condition nullifies a Member's responsibility to exercise due diligence.
2. A Member is prohibited by the Exchange from directly or indirectly guaranteeing the execution of an order or any of its terms such as the quantity or price.
3. A Member may only report an execution. This rule shall not be construed to prevent a Member from assuming or sharing in the losses resulting from an error or the mishandling of an order.
4. **Liability for Negligence:** A Member may not adjust the price at which an order was executed or be held responsible for executing or failing to execute an order unless such Member was negligent or is settling a bona-fide dispute regarding negligence.



A member firm may not compel an adjustment from a Member in the absence of a bona-fide dispute regarding negligence. Clearing members shall document all adjustments. Clearing members shall make and retain a record of each adjustment, which contains the date the adjustment was received, the name of the Member making the adjustment, the account to which the adjustment was credited, the amount of the adjustment, the order number and the reason for the adjustment. Such records must be provided to the Clearing Department of the Exchange upon request.

7 CUSTOMER SUPPORT CENTER (CSC):

1. **Customer Support:** The CSC provides customer support and problem management only to exchange members and customers designated by exchange members in respect of day to day business matters. Trade assistance shall not be entertained as request at customer support centre. The center provides customer support via a specified telephone number and during specified working hours. In order to be eligible for customer support, such members must register with the CSC. Services provided by CSC are supportive in nature and it shall not be used by members to redeem contingency issues.

8. PHANTOM ORDERS:

1. **Definition:** A phantom order is an order that was not authorized by any person but was caused by a failure, malfunction or negligent operation of the system, service or facility from a TWS.
2. An order in which terms (e.g., contract, contract month, quantity, price or direction) were changed without authorization of the person placing the order solely as a result of a failure, malfunction, or negligent operation of the system, service or facility.
3. **Permissible Responses:** If the Exchange has reason to believe that phantom orders have been or are being entered into and/or executed on the system from a TWS by a registered



user, the Exchange shall be empowered to take appropriate action against the concerned member with respect to any affected market, including without limitation, closing the market, deleting bids and offers, and/or suspending new bids and offers.

4. The Exchange shall promptly give notice that all online transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices outside of the no-bust range, as described in the Exchange rules, shall be voided. The Exchange shall have no liability or responsibility to the parties to any transactions that are voided pursuant to this paragraph.
5. The Exchange shall also be empowered to void online transactions that were directly or indirectly caused by the execution of phantom orders and were executed at prices within the no-bust range or phantom orders that were executed if the Exchange concludes that such transactions impair the integrity of the market. The Exchange's liability for voiding transactions within the no-bust range is limited as provided below.

9. **LIMITATION OF LIABILITY**

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



10. TRADE CANCELLATIONS:

1. **Clearing Department trade cancellation authority:** The following policy shall be applied to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations that executed transactions will not be cancelled. The Exchange's trade cancellation policy authorizes the Clearing Department (herein after termed as CD) to mitigate market-disrupting events caused by the improper or erroneous use of the system or by possible system defects or by adjusting trade prices or canceling trades. Notwithstanding any other provisions of this rule, the CD may also adjust trade prices or cancel any trade if the CD determines that failure to adjust the price or cancel the trade may have a material, adverse effect on the integrity of the market. The decision of the CD shall be final.

2. **Review of Trades:** The CD may review a trade based on its analysis of market conditions or a request for review by the user. A request for review must be made within 180 seconds of the trade occurring. The CD shall promptly determine whether the trade will be subject to review. In the case of illiquid contracts, the CD may initiate a review up to one hour after the trade occurred. Promptly after deciding to review a trade, the CD will issue an alert indicating that the trade is under review.

3. **Trade Price Adjustment and Cancellation Process:** The CD will first determine whether the trade price is within the No Bust Range for the contract. During fast market conditions, upon the release of significant news events, or in other circumstances in which the CD determines it is appropriate, the CD may temporarily double the published No Bust Range without prior notice. In applying the No Bust Range, the CD shall determine the actual or implied market price for that contract immediately before the trade under review. The CD may consider any relevant information, including but not limited to the existing market conditions, the volatility of the market, the prices of related instruments in other markets, the last trade price on system, a better bid or offer price, a more recent price in a different contract month, theoretical value of an option based on



the current (most recent) implied volatility and any other factors that the CD deems relevant.

4. **Trade Price Inside the No Bust Range:** If the CD determines that the price of the trade was inside the No Bust Range, the CD will promptly issue an alert indicating that the trade shall stand.

5. **Trade Price Outside the No Bust Range:** If the CD determines that a trade price is outside the applicable No Bust Range for an implied-eligible contract, either the trade price shall be adjusted to a price that equals the actual or implied market price for that contract at the time of the questioned trade, plus or minus the standard or doubled No Bust Range, as may be applicable or shall bust the trade. The CD will promptly issue an alert indicating that the prices of the trades outside the No Bust Range have been adjusted to the No Bust Range limit.

6. **Liability for Losses Resulting from a Price Adjustment or Trade Bust:**
 - a. **Adjusted Stop Orders -** A member or client responsible for an order(s) that results in a trade price adjustment shall be liable for actual losses incurred by persons whose stop orders were elected as a result of the order(s). The compensable loss on each futures contract executed as part of a stop order shall be the difference between the adjusted price, as determined by the CD, and the price in the market at the time the person knew or should have known that his stop order was erroneously elected.

 - b. **Adjusted Spread Trades:** A party responsible for an order that results in a trade price adjustment shall not be liable to persons whose spread orders were executed and adjusted unless the adjusted execution price of the spread is less favorable than the market equilibrium spread price for the relevant spread. The liability of the party responsible for an order that results in a price adjustment shall be limited to the difference between the adjusted price and the equilibrium market price, but shall not exceed the relevant No Bust Range.



c. **Other Transactions** : A party responsible for entering an order that results in a trade price adjustment shall not be liable for losses incurred by persons whose trade prices were adjusted, except as provided in the above two circumstances.

d. **All Other Futures Contracts**: A party responsible for an order that results in a trade bust may be liable for the reasonable out-of-pocket losses incurred by persons whose trades were busted or persons whose stop orders were elected and not busted. Issues of liability in such cases will be determined by the CD based upon all relevant facts and circumstances, including the conduct of the respective parties. All claims in connection with such losses must be pursued under the Exchange applicable rules.

11 CLAIM PROCESS:

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



claims shall be reduced pro rata so that the total payment does not exceed liability limited by the Exchange.

12 TRADE CANCELLATION OR OFFSET PROCEDURES:

1. Upon a determination by the CD that a trade shall be busted or that trade prices shall be adjusted, that decision will be implemented. The busted trade price and any price quotes that have been adjusted will be reflected as cancelled in the Exchange's official record of time and sales. Time and sales will reflect the trades at the adjusted price.
2. Positions that result from a trade determined by the CD to be outside the No Bust Range that cannot be busted because the trade was not reported within three minutes of the trade occurring may be transferred between the parties using the original trade price and quantity upon agreement of the parties. Any party may, but is not required to, include a cash adjustment to another party to the trade.
3. Trades determined by the CD to be inside the No Bust Range may not be reversed or transferred as mentioned above. Additionally, if the trade is not busted, the parties may not reverse the trade by entering into a prearranged offsetting transaction.

13. ARBITRATION OF DISPUTES REGARDING SUCH TRANSFER:

1. If a party does not agree to transfer a position as stated above, any other party to the trade may file an arbitration claim against the member or clearing member representing the other side of the trade. Written notice of such claim must be provided to the Exchange within five business days of the trade occurrence. Failure to file the claim within five business days shall be deemed a waiver of all claims. The arbitration claim will be dismissed by the Exchange if the owner of the account on the other side of the trade is not deemed a Member as defined by Exchange rules or a person otherwise subject to the Exchange's jurisdiction. If not dismissed, the arbitration claim will be conducted in accordance with the Arbitration proceedings of the Exchange.



2. In deciding the claim, the Arbitrators may consider, among other factors, the reasonableness of the actions taken by each party and what action the party on the other side of the error trade took before being notified that the trade was being questioned.

14 VOLUNTARY ADJUSTMENT OF TRADE PRICE:

1. When a trade outside of the No Bust Range is busted in accordance with this rule, the parties to the trade may agree voluntarily to reestablish the trade but to adjust its price and make cash adjustment provided that all of the following conditions are met:
 - a. the CD approves the adjustment;
 - b. The quantity of the position being reestablished is the same as the quantity of the trade that was busted.
 - c. In the case of a trade below the actual or implied market price, the adjusted price must be the lowest price that traded at or about the time of the trade without being busted. In the case of a trade above the actual or implied market price, the adjusted price must be the highest price that traded at or about the time of the trade without being busted.
 - d. The parties to the adjusted trade must report that trade to the clearing system not later than the close of business on the business day after the trade occurred.

15. BUSTING TRADES AFTER SYSTEM FREEZE

In the event that the matching engine freezes with live orders in the queue waiting to be matched, such orders may be matched when the system is unfrozen and before the CD can restart the matching engine. The CD is authorized to bust trades resulting from such matches if the price of such trades is outside of the No Bust Range at the time that a confirmation of the trades was sent.

16. SCHEDULE OF ADMINISTRATIVE FEES:

1. When CD busts a trade, the party responsible for entering the order into the system that gave rise to the trade bust shall pay an administrative fee to the Exchange in accordance with the following schedule. The fee is NPR 500 for each of the first five occasions in a calendar year where a party's order entry results in a trade bust, NPR 1,000 for each of



the next three occasions within the same calendar year where a party's order entry results in a trade bust, and NPR 2,000 for each subsequent occasion within the same calendar year where a party's order entry results in a trade bust.

- 2 .If a non-member customer responsible for entering an order into the system that results in a trade bust fails to pay the fee in accordance with this section, the clearing member carrying the customer's account shall be responsible for payment of the fee.
3. **No Bust Range:** The No Bust range will be +/- 10% of the opening price.

17. CLEARING AND SETTLEMENT:

- 1 **Member Management:** The Exchange shall record the clearing members' personal details along with their clearing and settlement statistics. Personal details include member code, member name, contact details and details of authorized persons. Clearing and settlement statistics include monthly aggregated settlement and clearing volume and margin details of both clearing members and their clients.
2. **Order Matching:** One of the most important functions of the Exchange is the reduction of counterparty risk – the risk that the other side to any transaction will default on his obligations regarding that transaction. The Exchange accomplishes this by letting the Clearing Member to take the opposite side of every trade done during the trading session: by replacing the original buyer in a transaction with itself, and thus becoming the buyer to every seller, and by replacing the original seller in a transaction with itself, thereby becoming the seller to every buyer.
3. All orders placed shall be routed to the Exchange trading and clearing system of the Exchange. These orders shall be matched based on price and time priority.



4. **Pooling Resources:** Exchange pools the financial resources of all the clearing members in the case that any one clearing member might get into financial difficulties. To accomplish this, every clearing member must meet certain minimum capital requirements. The sum total of the financial resources presents a much stronger entity than any one individual member would be.
 5. **Margin Structure:** The Exchange shall have right to impose clearing and settlement margin as well as delivery margin. The Exchange shall amend the margin types and margin requirements from time to time based on the prevailing situations.
 6. **Position Management:** Positions for clearing and settlement are accounted for on separate clearing and settlement accounts for each member. These accounts will be maintained with clearing and settlement department of the Exchange. Once opposite positions are cleared and settled they will be mutually offset. The Exchange shall maintain a record of all positions cleared and settled as well as a record of open positions available for clearing and settlement at any given period of time.
18. **CLEARING AND SETTLEMENT PROCEDURE:**
1. **Mark to Market (MTM) Settlement:** MTM settlement is the process of settling all open positions for the day, based on the daily closing price of the respective contract. This will determine the floating loss or profit on every position, which shall be communicated to the members. MTM settlement is also known as end-of-the-day settlement. For the purpose of MTM settlement, the closing price shall be derived by the Exchange in its sole discretion.
 2. **Daily Settlement Price:** The daily settlement price shall be computed by taking the midpoint between the highest and lowest prices (also known as the “closing range”) achieved during the final minute of trading during that day’s trading session.



- 3 **Final Settlement Price:** The final settlement price shall be computed by taking the midpoint between the highest and lowest prices (also known as the “closing range”) achieved during the final minute of trading during the last day of trading for that contract. Final settlement shall take place on the expiry of the futures contracts, where all open positions for that contract shall be settled.

19 DETERMINATION OF OBLIGATIONS:

1. Following the closing of trading, the Exchange will determine the following obligations for each clearing member:
 - a. Obligations regarding variation margin;
 - b. Obligations regarding clearing and settlement fees;
 - c. Obligations regarding the additional paying in/recovering of the deposit margin.
 - d. Obligations are determined for each clearing member based on his own transactions and positions and also based on the transactions and positions of non-clearing members for whom the clearing member provides settlement service
2. **Obligation defined:** An obligation regarding variation margin is defined as the change of the value of a clearing member’s positions, that were open at the beginning of the trading session, or were put on during the trading session, as a result of their mark-to-market correction – the gain or loss in that position as determined by the difference between the previous session’s settlement price and the current session’s settlement price, or between the price at which the trade was executed during the current trading session and that session’s settlement price
3. A clearing fee and settlement fee is charged for each transaction, depending on the number of contracts in a particular order. The rate of the exchange fee is a constant value and does not depend on the price of the transaction.



4. The amount of margin deposit – also known as “initial” margin – required from clearing members is calculated during the clearing session after all positions have been offset.
5. The margin deposit required is based on the rate of the margin deposit and the number of open positions in each trading account.
6. The rate of the deposit margin, in its turn, depends on the price change limit and is set by the Exchange.
7. The Exchange will inform members, regarding their obligations, on every trading day on a time prescribed by the Exchange. Clearing members that have online trading facilities may receive reports electronically. The list and format of electronic documents sent to members are regulated and governed by the Exchange.

20. PAY-INS AND PAY-OUTS:

1. The pay-in/pay-out for settlement – also known as “variation” margin -- shall be by way of debit and credit to the buyer and seller, based on whether their positions show a gain or loss.
2. Payments will be made to the buyer’s and/or seller’s relevant clearing member’s account on T+1 day where T stands for date of allocation of settlement.

21. REPORTS:

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



22. SURVEILLANCE: RISK MANAGEMENT AND FINANCIAL SAFEGUARD

1. **Initial Margin:** Initial margin shall differ from product to product and it shall be as defined in contract specifications of each product.
2. **Variation margin:** Variation margin is based on the gain or loss in a member's account and is computed based on the gain or loss in that position as determined by the difference between the previous session's settlement price and the current session's settlement price, if a trade was carried over from a previous session, or, if a trade was initiated during the current trading session, the difference between the price at which the trade was executed during the current trading session and that session's settlement price. Variation margin shall be applicable if this difference is more than + / - 3 %.
 - a. A variation margin call shall be issued immediately when the contract price crosses the above mentioned range. Members shall pay the variation margin within two hours of the issue of a variation margin call. Variation margin shall be 10% of initial margin or the prevailing contract value whichever is higher. Based on the prevailing market situations, the Exchange shall have the sole discretion to change the parameters included in computation of variation margin.

23. FLUCTUATION RATIO:

Fluctuation ratio shall be based on the product which shall normally range around 25 percent as specified in contract specification of each product.

24. ACTION AGAINST DEFAULT OR FRAUD

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