

NATIONAL COMMODITY & DERIVATIVES EXCHANGE LIMITED

Circular to all trading and clearing members of the Exchange

Circular No. : NCDEX/COMPLIANCE- 002/2007/080
Date : April 5, 2007
Subject : Client Awareness

Members of the Exchange are hereby advised to educate and keep all their clients informed about the risks associated when trading in commodity derivatives and also about their obligations to the members. This would be in the interest of the market as a whole as also for the market participants themselves that they be aware of their rights as well as, more importantly, their obligations before investing in the commodity futures market.

A brief list of the 'Do's and Don'ts' is enclosed to this circular. The members are advised to make the list as part of the 'Know-Your-Customer' documentation obtained from all their clients and ensure that the clients read the said 'Do's and Don'ts' and agree to them prior to entering the commodity futures market. Members shall conspicuously mention in all their advertisements and any other promotional material that the clients before entering commodity markets should go through 'Do's and Don'ts'. The members may be called upon to produce proof of having complied with the said requirement in this regard if required by the Exchange or the Regulator.

Members are hereby directed not to appropriate business of the clients unless a consent of the client is taken in writing. In terms of the provisions of Section 15(4) of Forward Contracts (Regulation) Act, 1952, no member shall enter into any transactions on their own account with any person other than a member of the Exchange without obtaining a consent or authority from such person and such member shall record/note in the agreement for sale or purchase that he has bought or sold the goods, as the case may be, on his own account. Members may be called upon to produce proof in respect thereof as and when required by the Exchange.

For and on behalf of
National Commodity & Derivatives Exchange Limited

Bhashyam Seshan
Company Secretary

Dos & Don'ts in Commodity Futures Market

A. Dealing in Commodity Futures

Do's	Don'ts
<ul style="list-style-type: none"> ✓ Read, understand and be updated about the guidelines and circulars of the Exchange and of the Forward Markets Commission. ✓ Refer and understand all the provisions of Forward Contracts (Regulations) Act, 1952 dealing with futures trading in commodities and amendments thereof from time to time, including provisions and rates relating to the sales tax, value added tax, APMC Tax, <i>Mandi</i> Cess and Tax, octroi, excise duty, stamp duty, etc., applicable on the underlying commodity of any contracts offered for trading by NCDEX. ✓ Read the commodity contracts circulars issued by NCDEX and carefully note the contract specifications of the commodity in which you wish to trade. The contract specifications are subject to change from time to time. ✓ Before entering into buy and sell transactions please be aware of all the factors that go into the mechanism of pricing, trading and clearing. ✓ Read the product note of the commodity in which you wish to deal to understand the commodity and parameters that impact on the trading and settlement of the commodity. ✓ Understand the Delivery & Settlement Procedures of the commodity that you wish to deal in the futures market. ✓ Study historical and seasonal price movements of the commodity that you wish to deal in the futures market. ✓ Keep track of Governments' Policy 	<ul style="list-style-type: none"> ✗ Do not fall prey to market rumours. ✗ Do not go by any explicit/implicit promise made by analysts/advisors/experts/market intermediary until convinced. ✗ Do not deal based on Bull/Bear run of commodity markets sentiments. ✗ Do not go by the reports/predictions made in various print and electronic forms without verification. ✗ Do not trade on any product without knowing the risk and rewards associated with it.

announcements from time to time of the commodity that you wish to deal in the futures market .

- ✓ Apply your own prudent judgment for investments in commodity futures and take informed decisions.
- ✓ Comply with Taxation and other Central Government/State Governments regulatory issues.
- ✓ Go through all Rules, Bye Laws, Regulations Circulars and directives issued by NCDEX.
- ✓ Since the investment is based on various types of margins, be aware of the risks associated with your positions in the market and margin calls made from time to time.
- ✓ Collect/Pay Mark-to-Market margins on your futures positions on a daily basis from/to your member.
- ✓ Be aware of your risk taking ability and fix stop-loss limits. Liquidate your positions at such levels to reduce further losses, if any.
- ✓ In case of any doubt/problems, contact Exchange's Help Desk or email at askus@ncdex.com

B. Dealing with Members

Do's	Don'ts
<ul style="list-style-type: none"> ✓ Trade only through registered members of the Exchange. Check with the Exchange to see whether the member is registered with the Exchange. ✓ Insist on filling up a standard 'Know Your Client (KYC)' form and on getting a Client-Id. ✓ Insist on reading and signing standard 'Risk Disclosure Agreement'. ✓ Cross check the genuineness of trades carried out at NCDEX through the trade verification facility available on NCDEX website. The trades can be verified online at www.ncdex.com/marketdata/hist_trade_verification.aspx where trade information is available up to 3 working days from the trade date. ✓ While trading through an authorized person ensure that a duly signed contract note has been issued by the member or its authorized persons for every executed trade, highlighting the details of the trade along with your unique Client-Id. ✓ Obtain receipt for collaterals deposited with the member towards margins. ✓ Go through the Rules, Bye-laws, Regulations, Circulars, directives, notifications of the Exchange as well as of the Regulators, Governments and other authorities and details of Client-Trading Member Agreement to know your rights and duties <i>vis-à-vis</i> those of the member. ✓ State clearly who will be placing orders on your behalf. Give precise and clear instructions while placing, modifying or canceling orders. 	<ul style="list-style-type: none"> ✗ Do not start trading before reading and understanding the Risk Disclosure Agreement and entering into the prescribed agreement with the Member. ✗ Do not deal with unregistered intermediaries even if their charges are lower and/or margins are lesser. ✗ Do not undertake off-market transactions in commodities with a member of the Exchange, unless such member records in the agreement for sale, note or memorandum that he is selling/purchasing the goods as the case may be, for his own account and obtains a consent from you in respect thereof as required u/s 15 (4) of the Forward Contracts (Regulation) Act, 1952. ✗ Do not neglect to set out in writing, orders for higher value given over phone. ✗ Do not accept unsigned/duplicate contract note/confirmation memo. ✗ Do not accept contract note/confirmation memo signed by any unauthorized person. ✗ Do not delay payment/deliveries of commodities to member. ✗ Do not get carried away by luring advertisements, rumours, hot tips, promise of unrealistic returns, etc. ✗ Do not forget to take note of risks involved in the investments. ✗ Do not sign blank Delivery Instruction Slips (DIS) while furnishing securities deposits and/or keep them with Depository Participants (DP) or broker to save time.

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| <ul style="list-style-type: none">✓ Ask all relevant questions and clear your doubts with your member before transacting.✓ Ensure that the Contract Note contains all the relevant information such as Member Registration Number, Order No., Order Date, Order time, Trade No., Trade rate, Quantity, Arbitration Clause.✓ Insist on receiving the bills for every settlement.✓ Insist on periodical statements of your ledger account.✓ Scrutinize minutely both the transaction as well as the holding statements that you receive from your Depository Participant.✓ Keep Delivery Instruction Slips (DIS) book issued by DPs in safe possession.✓ Ensure that the DIS numbers are pre-printed and your account number (Client-Id) is mentioned in the DIS book.✓ Freeze your Demat account in case of your absence for longer duration or in case of not using the account frequently.✓ Pay required margins in time and only by Cheque and ask for receipt thereof from the member.✓ Deliver the commodities in case of sale or pay the money in case of purchase within the time prescribed. | |
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C. Rights of a Client:

- ❖ In case of any disputes with the Member regarding the trades done on the Exchange platform, the client could contact the Exchange for suitable redressal as per Bye laws of the Exchange including use of mediation/arbitration mechanisms of the Exchange. The clients would be required to produce copies of the agreements entered into by them with their member, for obtaining relief through the process of arbitration. Hence, clients are advised to obtain copies of signed agreement from members and keep such copies with them. Further, all copies of all correspondence to and from members may be preserved for producing them to the arbitrators, if required.
- ❖ All rights as per the Rules, Bye Laws and Regulations of the Exchange are available to a client in respect of all transactions traded on the Exchange and for which the clients have a contact note duly issued by the member.
- ❖ In case of any disputes in respect of the trades on the Exchange or in the contract notes or any complaint against the member, take up the issue with member directly. In case of non-resolution, file written complaint against the member with the Exchange within 6 months from the date of cause of action. (Details and Format are available in Regulation 21.4.2 of the Regulations and Chapter 11, Clause 4, Part A, Bye Laws of the Exchange. The details are available respectively on NCDEX's web site –

<http://www.ncdex.com/Aboutus/regulation.aspx>

<http://www.ncdex.com/Aboutus/byelaws.aspx#>