

Do's & Don'ts in Commodity Futures Market (NCDEX)

A. Dealing in Commodity Futures

Do's

- ✓ 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, Mandi 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 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

Don'ts

- ✗ 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.

B. Dealing with Members

Do's

- ✓ 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/histradeverification.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 vis-à-vis 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.
- ✓ 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.

Don'ts

- ✗ 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.

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 contract 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#>

Do's & Don'ts in Commodity Futures Market (MCX)

A. Dealing in Commodity Futures

Do's

- **Trade only through registered Members**

In the interest of your own safety, it is important to trade only through registered members since the commodity exchanges have jurisdiction over them in terms of their own rules, bye laws, etc and can therefore, play a role in resolving investor grievances or even take action against the members if necessary. The exchange has no jurisdiction over entities who are not their members.

- **Familiarize yourself with FMC guidelines and rules, regulations, byelaws, circulars, etc. of MCX**

Familiarize yourselves with FMC guidelines and rules, bye laws, etc. of the exchange to have an adequate understanding of the legal framework under which the commodity futures are traded. This would be useful in terms of giving you a better understanding of the procedures relating to trading, clearing and settlement, your rights as investor, etc.

- **Take an informed decision:-**

Be sure that you are taking an informed decision. Read the product note available on the exchange website to understand the commodity specifications. Keep track of Government policy announcements such as the Minimum Support Price, Export/ Import policy, etc, which have a significant impact on the prices of commodities. Also keep track of exchange announcements made through circulars regarding the methodology of computation of due date rates, launch of new contracts, etc. Understand the commodity thoroughly. Study historical and seasonal price movements of the commodity.

- **Understand the Delivery and Settlement Procedure**

Thoroughly understand the delivery and settlement procedure which differs from commodity to commodity in terms of quality implications, place of delivery, options, penalties, margins, etc. This information is given in the product note available on the website. Understanding of delivery would help in avoiding rejection of your delivery.

- **Understand and Comply with Taxation and other relevant laws**

Before initiating a trade, ascertain whether the price of the commodity is inclusive or exclusive of various taxes applicable at the delivery centre at the given point of time. Be aware of implications of various taxes such as Sales tax, Service tax, VAT, etc. Make sure that you understand and comply with accounting standards for derivatives.

- **Pay all applicable margins. Collect / pay mark-to-market margins on a daily basis**

Pay all the applicable margins on your futures position to the member. Also, collect or pay (as the case may be) mark-to-market margins from/to the member which are required to be settled on a daily basis.

- **Insist on documentation with the member such as Member Client agreement, Know Your Client**

Enter into an agreement with the member since that would ensure that you have recourse to all the investor protection mechanisms of the exchange. Co-operate with the member in filling up the 'Know Your Client' form. This form has

been devised to ensure that a member knows all his clients properly, and you are thus protected from the risk which may arise out of a member having unsuitable clients. Only clients with pan numbers are allowed to trade on commodity exchanges.

- **Read and understand the Risk Disclosure Document**

The Risk Disclosure Document provides valuable insight into the risk associated with futures trading. It is therefore, in your interest to carefully read and understand this document.

- **Insist on signed Contract Notes containing all relevant information such as Member Registration Number, Order Details, Trade Rate, Quantity, etc.**

Insist on signed contract notes with all the relevant information for all your trades. The contract note is a proof of the transaction between you and the member and is absolutely essential for you to be able to approach the exchange for redressal of your complaints, availing arbitration mechanisms, etc.

- **Obtain receipt for collateral deposited with the Members**

Take a receipt from your members for collateral deposited with them.

- **Insist on a periodical statement of your ledger account**

Monitor your account with the member properly by insisting on a periodical statement of your ledger account.

- **Freeze your demat account in case of a long absence**

Freeze your demat account if it is not being used frequently for any reason, so that it is not misused.

Don'ts

- **Don't get misled by rumors, luring advertisements and promises, and bull/bear run of market sentiments**

Take an informed decision. Do not get misled by rumors, luring advertisements, etc. nor get swayed by bull/bear run of market sentiments.

- **Don't trade any contract without knowing the associated risks**

You should be fully aware of risk associated with your position in the market arising out of variety of factors such as Government policy, volatility, macro-economic factors, international price movements, etc.

- **Don't undertake off-market transactions**

Do not undertake off-market transactions which are not only illegal but also unsafe since the same may not fall under the jurisdiction of the exchange.

- **Don't accept/pay cash**

Do not pay cash to the members nor take any cash as payments. It is in your interest to deal through cheques, demand drafts, etc. since these instruments leave a proper audit trail.

- **Don't sign blank Delivery Instruction Slips**

It is not advisable to sign blank delivery instruction slips, since the same can be misused.

- **Don't delay payment/deliveries to Members**

Do not delay payment or deliveries to members to avoid losses arising out of penalties, closing of positions, etc.

BEFORE YOU BEGIN TO TRADE

1. Ensure that you deal with and through only SEBI registered intermediaries. You may check their SEBI registration certificate number from the list available on the Stock exchanges www.bseindia.com and SEBI website www.sebi.gov.in.
2. Ensure that you fill the KYC form completely and strike off the blank fields in the KYC form.
3. Ensure that you have read all the mandatory documents viz. Rights and Obligations, Risk Disclosure Document, Policy and Procedure document of the stock broker.
4. Ensure to read, understand and then sign the voluntary clauses, if any, agreed between you and the stock broker. Note that the clauses as agreed between you and the stock broker cannot be changed without your consent.
5. Get a clear idea about all brokerage, commissions, fees and other charges levied by the broker on you for trading and the relevant provisions/ guidelines specified by SEBI/Stock exchanges.
6. Obtain a copy of all the documents executed by you from the stock broker free of charge.
7. In case you wish to execute Power of Attorney (POA) in favour of the Stock broker, authorizing it to operate your bank and demat account, please refer to the guidelines issued by SEBI/Exchanges in this regard.

TRANSACTIONS AND SETTLEMENTS

8. The stock broker may issue electronic contract notes (ECN) if specifically authorized by you in writing. You should provide your email id to the stock broker for the same. Don't opt for ECN if you are not familiar with computers.
9. Don't share your internet trading account's password with anyone.
10. Don't make any payment in cash to the stock broker.
11. Make the payments by account payee cheque in favour of the stock broker. Don't issue cheques in the name of sub-broker. Ensure that you have a documentary proof of your payment/deposit of securities with the stock broker, stating date, scrip, quantity, towards which bank/ demat account such money or securities deposited and from which bank/ demat account.
12. Note that facility of Trade Verification is available on stock exchanges' websites, where details of trade as mentioned in the contract note may be verified. Where trade details on the website do not tally with the details mentioned in the contract note, immediately get in touch with the Investors Grievance Cell of the relevant Stock exchange.
13. In case you have given specific authorization for maintaining running account, payout of funds or delivery of securities (as the case may be), may not be made to you within one working day from the receipt of payout from the Exchange. Thus, the stock broker shall maintain running account for you subject to the following conditions:
 - a) Such authorization from you shall be dated, signed by you only and contains the clause that you may revoke the same at any time.
 - b) The actual settlement of funds and securities shall be done by the stock broker, at least once in a calendar quarter or month, depending on your preference. While settling the account, the stock broker shall send to you a 'statement of accounts' containing an extract from the client ledger for funds and an extract from the register of securities

displaying all the receipts/deliveries of funds and securities. The statement shall also explain the retention of funds and securities and the details of the pledged shares, if any.

- c) On the date of settlement, the stock broker may retain the requisite securities/funds towards outstanding obligations and may also retain the funds expected to be required to meet derivatives margin obligations for next 5 trading days, calculated in the manner specified by the exchanges. In respect of cash market transactions, the stock broker may retain entire pay-in obligation of funds and securities due from clients as on date of settlement and for next day's business, he may retain funds/securities/margin to the extent of value of transactions executed on the day of such settlement in the cash market.
- d) You need to bring any dispute arising from the statement of account or settlement so made to the notice of the stock broker in writing preferably within 7 (seven) working days from the date of receipt of funds/securities or statement, as the case may be. In case of dispute, refer the matter in writing to the Investors Grievance Cell of the relevant Stock exchanges without delay.
14. In case you have not opted for maintaining running account and pay-out of funds/securities is not received on the next working day of the receipt of payout from the exchanges, please refer the matter to the stock broker. In case there is dispute, ensure that you lodge a complaint in writing immediately with the Investors Grievance Cell of the relevant Stock exchange.
15. Please register your mobile number and email id with the stock broker, to receive trade confirmation alerts/ details of the transactions through SMS or email, by the end of the trading day, from the stock exchanges.

IN CASE OF TERMINATION OF TRADING MEMBERSHIP

16. In case, a stock broker surrenders his membership, is expelled from membership or declared a defaulter; Stock exchanges give a public notice inviting claims relating to only the "transactions executed on the trading system" of Stock exchange, from the investors. Ensure that you lodge a claim with the relevant Stock exchanges within the stipulated period and with the supporting documents.
17. Familiarize yourself with the protection accorded to the money and/or securities you may deposit with your stock broker, particularly in the event of a default or the stock broker's insolvency or bankruptcy and the extent to which you may recover such money and/or securities may be governed by the Bye-laws and Regulations of the relevant Stock exchange where the trade was executed and the scheme of the Investors' Protection Fund in force from time to time.

DISPUTES/ COMPLAINTS

18. Please note that the details of the arbitration proceedings, penal action against the brokers and investor complaints against the stock brokers are displayed on the website of the relevant Stock exchange.
19. In case your issue/problem/grievance is not being sorted out by concerned stock broker/sub-broker then you may take up the matter with the concerned Stock exchange. If you are not satisfied with the resolution of your complaint then you can escalate the matter to SEBI.
20. Note that all the stock broker/sub-brokers have been mandated by SEBI to designate an e-mail ID of the grievance redressal division/compliance officer exclusively for the purpose of registering complaints.