DGCX
بورصـــة دبــــي لـلذهـــب والســـلع
DUBAI GOLD & COMMODITIES EXCHANGE

Notice to all Members,

Sub.: Mock Trading for Introduction of Spread Trading Facility

In pursuance of By-laws of DGCX, Clearing Rules of DCCC; the following is hereby notified:

The Exchange shall introduce Spread trading facility in Gold & Silver futures contracts available for trading with effect from Friday, September 8, 2006. Brief description along with benefits and conventions of using spread trading facility are provided below:

➢ **Spread Trading Facility**

Spread trading facility will provide an opportunity for members to execute calendar spread contracts or roll over their positions from one expiry contract to another through a single order. Initially this facility will be offered for contracts bearing nearest expiry month and the next expiry month (first and second available expiry contracts in a given commodity)

➢ **Benefits of Spread Trading Facility**

- **Creation of Calendar Spread Position -** Member may use this facility to create a calendar spread position in two contracts. Currently no initial margins are payable on calendar spread positions.

- **Roll-over of contract** - Spread contract order entry also allows members to shift or roll-over their position from one maturity month to another. To illustrate this, a typical DGOCTDEC spread contract order execution would allow a member to shift or roll-over their open position in gold futures from DG OCT06 contract to DG DEC06 contract.

- **No different order entry required for different contract -** In the current system, members need to enter individual orders in both near month and far month futures contracts if they wish to roll-over their positions. To resolve the same spread contract may be used as both near month and far month orders are entered simultaneously into the system.

- **No Pending leg issue –** A typical problem faced during manual roll-over orders is when one leg of the order is executed and the other leg remains pending. With this facility, trades get executed simultaneously in both underlying contracts to ensure that one leg does not remain unexecuted in the system.

➢ **Market Conventions of the Spread trading**

- **Order entry convention -** Placing a buy or sell order would always be with respect to the far month contract. To illustrate this, if a member places a buy order in DGOCTDEC spread futures contract then he will create a long position in the Far Month contract (DG DEC06) and a short position in the Near Month Contract (DG OCT06). For example:

  - Buying 10 contracts @ $ 5 of DGOCTDEC Spread contract implies

Buying 10 contracts of Far Month Contract (DG DEC06) & Selling 10 contracts of Near Month Contract (DG OCT06).

- Selling 10 contracts @ $ 5 of DGOCTDEC Spread contract implies

Selling 10 contracts of Far Month Contract (DG DEC06) & Buying 10 contracts of Near Month Contract (DG OCT06).

- **Spread Price Quote convention** - The spread order price quoted would represent the price at which the holders of the long and short positions are willing to carry over their position from near month to the far month contract. The spread price quoted could potentially be positive, negative or zero depending on the inherent characteristics of the commodity. For example, spread price quote for DGOCTDEC can be $5.00.

- **Trade price convention** – Once a spread order is executed, it results in two corresponding futures trades, one in the near month and the other in the far month. For the near month trade, trade price shall be the Settlement price of the previous trading day (also referred to as Previous Close Price - PCP) while the trade price for the far month contract will be the PCP + Spread Price quoted. In cases where the PCP is not available, Base Price of the near month contract shall be used. An example given below will clarify Spread price quoted and resultant Trade prices:

Spread Contract	Spread Price	Near Month Contract PCP or Base Price	Near Month Contract Trade Price	Far Month Contract Trade Price
DGOCTDEC	$ 5.00	$ 619.90	$ 619.90	$ 624.90
DGOCTDEC	$ -5.00	$ 619.90	$ 619.90	$ 614.90
DGOCTDEC	$ 0.00	$ 619.90	$ 619.90	$ 619.90

For trades executed as a result of spread order, Trade Book will also provide Spread symbol against trade records of underlying contract as shown below:

- **Net Position convention -** On execution of the spread orders, the open position in the underlying near month and underlying far month contracts gets updated correspondingly. To illustrate this, consider a scenario where a member ABC has the following position in Client XYZ:

Underlying Contract	Client	Net Position	DG OCT06 PCP	DS SEP06 PCP
DG OCT06	XYZ	+10 contracts	$ 650.10	-
DS SEP06	XYZ	-20 contracts	-	1250.05 US¢

Now if a member rolls over the above position of DG OCT06 to DG DEC06 and DS SEP06 to DS DEC06 contracts respectively, the member would be required to execute following spread orders in DGOCTDEC and DSSEPDEC Spread contracts to roll-over these positions:

Spread Contract	Buy or Sell Spread	Spread Price	Near Month Contract PCP	Near month Contract Trade Price	Far Month Contract Trade Price
DGOCTDEC	Buy Spread	$ 6.00	$ 650.10	$ 650.10	$ 656.10
DSSEPDEC	Sell Spread	15 US¢	1250.05 US¢	1250.05 US¢	1265.05 US¢

Net position after execution of above Spread orders is shown below:

Underlying Contract	Client	Cumulative Net Position	Traded Price
DG OCT06	XYZ	NIL	$ 650.10
DG DEC06	XYZ	+10 contracts	$ 656.10
DS SEP06	XYZ	NIL	1250.05 US¢
DS DEC06	XYZ	-20 contracts	1265.05 US¢

➢ Trading parameters of Spread Contracts

- The instrument type of Spread Contract shall be 'Futures'.

- The base price of spread contract shall be zero. The daily price range (DPR) will be defined as a flat value. For example, if the flat DPR is set as US$ 30 and PCP is US$ 628.30, then the price range would be between US$ 598.30 to US$ 658.30

- Validity of the spread orders shall be DAY order, EOS (end of session) & IOC (Immediate or cancel)

- Last trading day for all spread contracts shall be the same as the last trading day of the Near Month Underlying contract. For example the DG OCT-DEC06 spread contract shall also expire along with expiry of DG OCT06 contract.

- Valuation of the trades will be done as under:

  o **Near Month =** Round (PCP or Base Price of Near Month Contract * (Price Numerator / Price Denominator) * Quantity * Tradable Lot * (General Numerator / General Denominator),2)

  o **Second Month =** Round ((PCP or Base Price of Near Month Contract + Spread Price Quoted) * (Price Numerator / Price Denominator) * Quantity * Tradable Lot * (General Numerator / General Denominator), 2)

- Trades done on account of spread contract shall form part of the Volume, Value, Open Interest and No. of Trades of the Near Month and Far Month contracts; however it shall not form part of Near Month and Far Month Contract Average Trade Price (ATP) computation.

- The spread contract will have its own Open price, High price, Low price, Last Traded Price (LTP), Last Traded Quantity (LTQ), Volume, Value, Last Updated Time (LUT), Last Traded Time (LTT), % Change and Average Traded Price (ATP).

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- Open interest changes due to execution of spread orders will be reflected in underlying near month and far month contracts and not for the spread contracts.

- Life time high Open Interest and Life time low open interest for spread contract will also not be computed. Life Time High would be same as the High price for the day and Life Time Low would be same as Low price for the day.

- The Market Statistics (daily price list) shall not include spread contract details.

Contract specifications and contract calendar applicable for spread contract listed are prescribed in the enclosed Annexures 1 & 2 respectively, which will be binding on all the members and constituents trading through them.

In order to provide an opportunity to members to get them familiarized with this spread trading facility, a mock trading session will be conducted on Saturday, September 2, 2006 between 1100 to 1300 hours. No changes would be required in existing system set-up at member's end other than addition of spread contacts for trading.

Members are requested to take note of above.

For Dubai Gold & Commodities Exchange

Gaurang Desai
DGM – Market Operations

Annexure 1- Spread Futures Contract Specifications

Dubai Gold Spread Futures Contract – DGXXXYYY#

Contract Size	32 Troy ounces (1Kg)
Last Trading Day	Last trading day of near month contract
Base price	Zero
Price Quote	US$ per Troy ounce
Minimum Tick Size	$ 0.10
Trading Days and hours	Monday through Friday 1000 – 2130 Hrs (GMT + 4 hours)
Maximum Order Size	200 Lots
Price Limit (Flat)	$ 30

Dubai Silver Spread Futures Contract – DSXXXYYY#

Contract Size	1,000 Troy ounces
Last Trading Day	Last trading day of near month contract
Base price	Zero
Price Quote	US$ quoted in Cents per Troy ounce
Minimum Tick Size	0.50 Cent
Trading Days and hours	Monday through Friday 1000 – 2130 Hrs (GMT + 4 hours)
Maximum Order Size	200 Lots
Price Limit (Flat)	75 US Cents

XXX refers to the Near Month code, YYY refers to Second Month code. (e.g. DGOCTDEC, DSDECMAR)

Annexure 2 – Spread Contracts to be introduced for Trading

Underlying Commodity	Spread Contract Name	Trading Symbol	Near Month Underlying	Far Month Underlying
Dubai Gold Futures	DG OCT06-DEC06 Spread	**DGOCTDEC**	DG OCT06	DG DEC06
Dubai Silver Futures	DS DEC06-MAR07 Spread	**DSDECMAR**	DS DEC06	DS MAR07