

Notice No.: COMP-2016-042

Issue Date: November 24, 2016

Subject: Revised guidelines with respect to discretionary trading on DGCX

Notice to all Members,

Subject: Revised guidelines with respect to discretionary trading on DGCX

Pursuant to the Notice no. COMP/2005/003, dated November 7, 2005, Notice no. COMP-2009-026 dated June 30, 2009, DGCX By-Laws and DCCC rules, all SCA licensed Members are hereby advised that the Exchange has revised and updated the discretionary trading guidelines to be adopted by Broker Members, when offering their Clients of the discretionary trading¹ facility in accordance with Part E.4 of the Exchange By-Laws and as specified in Section/Clause 3.2 of the Exchange prescribed Member Client Agreement (MCA).

This guidance note is published to provide guidelines to Broker Members in understanding the requirements for discretionary trading on behalf of its Clients.

All SCA licensed Members are eligible to carry out trades on behalf of its Clients on discretionary and non-discretionary basis. However, Members carrying out discretionary trading have to ensure that appropriate measures are adopted and due care is taken, while onboarding such Clients.

Broker Members are requested to take note of the above.

For Dubai Gold & Commodities Exchange

Nirav Barfiwala
Director Compliance (I)

1 Discretionary trading allows a Broker Member to buy and sell futures and options contracts traded on DGCX platform on behalf of Clients, signed off for discretionary trading. In this case, the discretion is exercised by the Broker Member having full authority to manage an account and undertake transactions for the Client of that account without prior reference, or direction from, that Client on the basis the MCA signed between the Broker Member and the Client.

Detailed Guidelines with respect to discretionary trading on DGCX

Broker Members intending to trade on behalf of its Clients on discretionary basis shall follow the below guidelines:

1. Members shall carry out the discretionary trading in circumstances, where the Client gives its consent to the Member in writing of his intention to trade on discretionary basis.
2. Members have to ensure that the 'Know your Customer' (KYC) form captures additional information indicating that the said Client is a discretionary Client.
3. As a part of the KYC, the Client have to sign the MCA in accordance with E.4 relating to Client Agreement form.
 - 3.1. For discretionary trading Clients in the MCA format as specified under Notice no. COMP/2005/003 dated November 7, 2005, the Client shall clearly strike off Section/Clause 3.1(non-discretionary trading) and retain the Section/Clause 3.2.relatng to discretionary trading.
 - 3.2. Once appropriate Section/Clause is strike off, the Client is required to clearly sign/initial against this Section/Clause suggesting his intention to trade on discretionary basis.
 - 3.3. Alternatively, the Member can completely remove the Section/Clause 3.1(non-discretionary trading) and retain only Section/Clause 3.2 relating to the discretionary trading. However, this Section/Clause should be clearly signed/initialed by the Client confirming trading on discretionary basis only.
4. Compile a written risk assessment form, jointly signed by the Broker Member and Client, detailing the Client's risk appetite. Such assessment should further:
 - 4.1. Establish the Client's suitability for discretionary trading;
 - 4.2. Clearly communicate specific instructions to the Broker Member that include, inter alia, intra-day and/or position loss limits.
 - 4.3. Where the Client expresses no specific limits, this should also be shown in the written risk assessment form. (Annexure A provides Suggested Discretionary Client's Risk Assessment Form, provides the Member with minimum acceptable process.)
5. All associated discretionary trading orders and/or transactions must show unequivocally that the Broker Member is implementing the proper duty of care in administering the business of discretionary Clients' trading. (Annexure B outlines an acceptable duty of care undertaking).
6. As per the requirement of Part E.6 (g) of the By-Laws, the Member shall send trade confirmation to Client in writing with all the details regarding the transactions made for the Client no later than the Business Day immediately following the day of the transaction.
7. Members are required to maintain a "Register" for all the orders executed on discretionary basis.
8. Member shall not enter or execute orders through Exchange trading platform with an intention to carry out pre-arranged trade with another party to the exclusion of Market participants generally and/or enter into prohibited trade practices as defined by the Exchange By-Law.
9. The Members are also allowed to pool orders to carry out discretionary trading to offer better execution to the Clients. Members intending to trade by pooling of orders for discretionary trading have to necessarily ensure to the follow additional processes mentioned below.
 - 9.1. Member should set up a "pooled client code" (PCC) for pooling in of orders on behalf of Clients on discretionary basis.
 - 9.2. Member should ensure that the trades executed through this PCC are allocated to the respective Clients on or before the close of Business day. This could be achieved using the Trade Split and Trade Allocate facility available on EOS Clear platform.

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- 9.3. The Members back office systems should be able to adequately capture these trades and is capable of generating the daily trading statement report capturing the necessary information specifically type and number of Contracts Open and corresponding Close Out of such positions, together with a statement of account which confirms resultant Profit & Loss statement.
10. Under the MCA format, Section/Clause 3.2 relating to discretionary trading, the following point should incorporated replacing the previous text for Client trading under this arrangement.

Section/Clause 3.2: Discretionary Trading:

“The Client hereby grants the Broker Member, authority to act on its behalf to purchase or sell Contracts listed on DGCX for the account of the Client. Additionally, the Client grants/does not grant the Broker Member authority to Pool-In orders for the purpose of purchase or sell futures contracts or options on DGCX on Client’s behalf; subject to any conditions that may be agreed to in writing and attached to this Agreement.”

11. The Members are required to take the below points into consideration prior to accepting the Client to trade on discretionary basis, on behalf of its Clients.
- 11.1. Members are to note that the permission given above with respect to discretionary does not, in any way, give the Broker firm the license to act as a fund manager in respect of your Clients’ monies. The facility thus granted is intended only to enable the Exchange Members efficient order placement/matching capability; whereby trading can be carried out on discretionary basis using PCC.
- 11.2. The books, accounts and records shall be available for audit/inspection/review by the Exchange officials and or any other regulatory authorities at any time without any prior intimation.
- 11.3. The Members have to ensure that the trades carried out on discretionary basis does not amount to prohibited trade practices pursuant to D.3 and D.7 of the Exchange By-Laws. Further, in proper observance of Part D in particular D.5.7, an order shall not be entered into the Automated Trading System of the Exchange with the intention of effecting a transaction that has been pre-arranged with another party to the exclusion of Market participants.
- 11.4. Members shall educate their discretionary trading Clients about the potential risks involved in granting discretionary trading rights, procedures and modalities adopted in carrying the discretionary trading activity.

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ANNEXURE A - Client's Risk Appetite Form

(Should be printed on Member firms letterhead)

| Sr. No. | Disclosure | Yes | No |
|---------|---|--|----|
| 1 | Client has read and signed the prescribed Risk Disclosure Statement (which should be made available in a local language if required by the Client): | | |
| 2 | Section/Clause 3.2 'Discretionary Client Trading' signed by Client in Member Client Agreement | | |
| 3 | Broker Member has reviewed with the Client the suitability of Discretionary Trading in light of the Client's personal financial circumstances and investment goals: | | |
| 4 | Client wishes to place a financial limit on losses incurred per Open Position | If 'YES', please indicate maximum loss limit per Open Position US\$ _____ | |
| 5 | Client wishes to place a financial limit on losses intra-day | If 'YES', please indicate maximum loss limit intra-day in US\$ _____ | |
| 6 | Client allows Open Positions to remain open overnight | | |

Signed by the Client: _____ Date: _____

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Annexure B - Form of Member Duty of Care
(Should be printed on Member firms letterhead)

To:

DGCX Compliance department
Dubai Gold & Commodities Exchange
Level UP (Floor 37), Gold Tower (AU)
Jumeirah Lakes Towers (JLT)
PO Box 37736, Dubai, UAE

From: **(Name and address of the Member firm)**

We, **(insert name of the Member)**, Broker Member hereby affirm that we will take adequate care to avoid discretionary trading that involve arrangements, which might lead to situations, where we exercises discretion without the required written authority and signing of the Member Client Agreement prior to executing the transaction.

We understand that in the event we breach any of the Exchange Rules, the risk is that a Client can dispute transactions that do not benefit that Client at any time or claim that some or all of the trades undertaken by ourselves on behalf of the Client are unauthorized. This would leave ourselves and Client heavily exposed and further subject to litigations between ourselves and the Client.

We undertake to execute orders in the Client's discretionary account that best suit loss limit parameters, as specified by the Client in Annexure A. Furthermore, we accept responsibility for losses in Client's discretionary account, in case we have deliberately not made an attempt to utilize orders that could limit such losses, in accordance with Client prescribed limits.

We hereby accept responsibility for losses in Client's discretionary account that are greater than available funds, in the case where no tangible attempt has been made by ourselves to utilize orders that could limit such losses to an amount equal to available funds in the account.

We also undertake to take due care in maintaining appropriate records of the discretionary trading Clients including the records of the transaction and trade confirmation records sent to the Clients within the timeline prescribed by the Exchange.

Signed by the Broker Member: _____

Date and stamp: _____