

Notice No.: CLRG-2007-016

Issue Date: May 21, 2007

Sub.: Guidelines for Reporting EFP/EFS Transactions

Notice to all Members,

Sub.: Guidelines for Reporting EFP/EFS Transactions

In pursuance of By-laws of DGCX, Clearing Rules of DCCC and Notice # TRDG-2006-032 dated October 19, 2006; the following is hereby notified:

Pursuant to By-Law D.9 of the Exchange, Members are permitted to Open/Close their Futures positions by reporting their Exchange for Futures (EFP) / Exchange for Swaps (EFS) transactions (in the prescribed format provided in Annexure 1), subject to submission of requisite documentation as stipulated and subsequent approval of the Exchange thereof.

Relevant extract of DGCX By-Laws for EFP/EFS Transactions is enclosed in Annexure 2.

This facility shall be available in all contracts listed for trading on the Exchange.

Members are requested to take note of the above.

For Dubai Gold & Commodities Exchange

Gaurang Desai

Head of Market Operations

Annexure 1 – EFP/EFS Reporting Guidelines

Pursuant to the By-Law D.9.3, additional procedure for execution and approval of EFP/EFS transactions is prescribed below.

The following is process flow for reporting EFP/EFS transactions to the Exchange:

1. Parties of the intended EFP/EFS transaction shall negotiate the terms and the price of the futures and underlying Instruments.
2. Inform their respective Clearing Members about the deal.
3. Each Clearing Member shall submit the “Request for Approval of EFP/EFS Transaction” in the prescribed format **EFP-1**. The Exchange may request requisite supporting documents to verify the validity and authenticity of proposed transaction.
 - a. All such requests must be submitted to the Exchange latest by 1800 hours
 - b. Notifications received after the cut-off time of 1800 hours shall be deemed as the next Business Day’s submission and processed accordingly.
4. The Exchange’s role in respect of the physical transfer between the counterparties shall restrict only to approval of EFP/EFS transaction. The responsibility, risks and enforcement of settlement of the physical transaction shall lie with the respective counterparty.
5. Dubai Commodities Clearing Corporation (DCCC) will verify all the documents submitted and make recommendation for approval of the same.
 - a. The Exchange will then approve/reject the EFP/EFS transaction. All requests for EFP/EFS received during the day (i.e. before 1800 hours) will be approved/rejected before the end of the said trading day.
6. The approval/rejection of the EFP/EFS transaction shall be at the sole discretion of the Exchange. The Exchange shall not be bound to provide any reasons for the rejection of the proposed EFP/EFS transaction submitted by the member to the Exchange.
7. Where the request for EFP/EFS transaction is approved, DCCC will initiate activities concerning to the registration of EFP/EFS deals. The volume of the EFP/EFS transaction shall be updated in the Exchange records once the transaction is registered. A message will be broadcasted for information of all participants.

Documents required to support Requests for EFP/EFS Transaction:

The following documents are essential to support Requests for EFP/EFS Transactions:

1. The document that shows the exact date, time, and location where the EFP/EFS transaction was executed such as dealing slips / dealing confirmation / physical contract invoices / bill of lading etc.
2. The details of the two parties to the transaction.
3. Complete details of the cash instrument or commodity that is being exchanged (quantity, grade, amount etc).

4. The futures contract being used to hedge (including contract month and the volume of contracts traded). This must be “substantially similar” to the commodity or cash instrument that is being exchanged and the volume traded should be of equivalent economic value.
5. Confirmation that only two parties are involved and that they are taking opposite cash and futures positions.
6. Where parties to the trade subject the physical trades to the outcome of the approval of the EFP/EFS by the Exchange, a Letter of Intention to enter into the physical contract by both parties can be forwarded together with the Letter of Notification of EFP.
 - a. *The Exchange may consider such requests at its sole discretion and if the request for EFP/EFS is rejected, the Exchange shall not be obliged to give reason(s) for such rejections.*

Key Elements of a Bona Fide EFP/EFS Transaction

The following are the key elements to satisfy a bona fide transaction, Exchange may consider one or more such elements to approve/reject a “Request for Approval of EFP/EFS Transaction”:

1. Relationship of the Instruments

The futures and cash legs of the EFP/EFS have to demonstrate strong qualitative and quantitative correlation, such as:

- (a) Qualitative correlation is established when:
 - (i) the underlying instrument satisfies the delivery specifications of the associated contract; or
 - (ii) there is reliable and strong price relation between the underlying instrument and the futures; or
 - (iii) the underlying instrument is hedgeable under the futures contract.
- (b) Quantitative correlation is established when the cash position is approximately equal in US Dollar value to the futures position. An appropriate hedge ratio should be used to create such US Dollar equivalency. A “good hedge” rule which is generally accepted as providing guidance in sizing of the futures position of the EFP/EFS relative to the underlying physicals position would be accepted by the Exchange in verifying and approving the EFP/EFS transactions submitted to the Exchange.

2. Relationship of the Parties/Clients

Only separate parties/clients are permitted to conduct EFP/EFSs. In this context, separate parties/clients are defined to be those who have;

- (a) accounts which belong to different beneficial owners; or
- (b) account which are under separate control.

It may be noted that no requests will be approved, if the parties/clients are or are acting on behalf of same entity.

3. Nature of the Transaction

The request supporting a bona fide EFP/EFS transaction should comprise of the following:

- (a) it must involve an "Exchange" of futures contracts for the underlying instrument in which both legs of the transaction entail actual financial risk
- (b) the futures leg is subject to similar rights and obligations as any other exchange-traded futures transaction
- (c) the cash leg must impose a real obligation:
 - (i) to transfer ownership from seller to buyer upon performance of the EFP/EFS;
 - (ii) to deliver within reasonable period or in accordance with industry practice the underlying instrument.

4. Price of the Transaction

The price differential between the futures contract and the underlying instrument should have the following characteristics:

- (a) the differential is determined by mutual agreement off-exchange;
- (b) the differential should reflect commercial realities; nevertheless, any significant pricing away from the Daily Price Range of the market may be justified by commercial necessity.

Annexure 1 - EFP - 1 - Request for Approval of EFP/EFS Transaction

Note:

1. To be printed on the letterhead of respective Clearing Member firm with all the blanks in the format duly filled and bearing the stamp of the member firm.
2. Requests from both counter-parties shall match in order to process the request further.
3. This form shall be accompanied by supporting documents as prescribed by the Exchange.

Date:

To:

Market Operations Team,
 Dubai Gold & Commodities Exchange (DGCX)
 Dubai, U.A.E.

FAX No: +971-4-3611669

Dear Sir/Madam,

Sub: Request for Approval of EFP/EFS Transaction

In pursuance of the guidelines issued by the Exchange to execute EFP/EFS transaction, we hereby submit our request for approval of EFP/EFS transaction as per details given below:

Futures Position Details	Long Position Holder	Short Position Holder
CM Code & Name		
TM Code & Name		
Client Code, Name & Address		
Contract Details	<i>e.g. DG: 05-AUG-2007</i>	
EFP/EFS Quantity		
Price	<i>e.g. US\$ 680 per Troy Oz.</i>	
Value in US\$		

I/We understand that the function of DGCX in respect of the physical transfer between the parties to this physical contract and/or the parties intending to enter into this physical contract as mentioned above shall be limited to verification of proof of intention before approval of the request for execution of EFP/EFS transaction.

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I/We further undertake that the responsibility, risks and enforcement of settlement of this physical contract/intention to contract shall lie with me/us and the counter party to this physical contract/intention to contract.

I/We shall not hold the Exchange liable for any loss or damage caused to me/us in relation to this physical contract/intention to contract for the relevant underlying instrument after completion of the EFP/EFS exercise by the Exchange.

I/We certify that the information mentioned above is correct and I/We undertake to maintain all records in our books for necessary inspection and audit by the Exchange / regulatory authorities.

Yours faithfully,

Authorized Signatory

Name:

Designation:

Annexure 2 – Relevant extract of DGCX By-Laws for EFP/EFS Transactions

New Definitions for insertion in By-Laws A.2

Commodity Swap : A Financial transaction in which the parties agree by private negotiation to exchange cash flows based upon the future movement of the price of a commodity

Exchange for Swap Transaction : A transaction where:

- (i) a bona fide Commodity Swap transaction, as determined by the Exchange, is completed ; and
- (ii) at or about the same time a Futures Contract, opposite in effect, is traded by a Member or Members on behalf of these parties, the Contract being such that the Underlying Physical bears a commercial relationship to the subject commodity of the Commodity Swap transaction; and
- (iii) The quantity or amount of the commodity covered by the Futures Contract is commercially equivalent to that of the Commodity Swap transaction.

Amendment to By-Law D.9 as follows (additional words are underlined):

D.9 Exchange for Physicals and Exchange for Swap

D.9.1 Exchange for Physicals and Exchange for Swap Transactions Permitted

- (a) Exchange for Physicals and Exchange for Swap transactions shall be permitted subject to the provisions of this By-Law D.9.
- (b) The Exchange shall determine and publish procedures to be followed in executing Exchange for Physicals and Exchange for Swaps transactions.

D.9.2 Prohibitions

No Exchange for Physicals or Exchange for Swap transaction may be effected where:

- (a) the parties to each side of the physical transaction or the Commodity Swap transaction, as the case may be, are the same or are acting on behalf of the same person; or
- (b) where both sides of the futures trade are taken out by the same Member on its own account or are taken out on behalf of the same Client

D.9.3 Exchange may prescribe additional provisions

- (a) the Exchange may, where it believes that it is necessary in order to maintain a fair, orderly, transparent market, prescribe additional provisions in relation to the execution of Exchange for Physicals and Exchange for Swap transactions, provided

that any such change shall not result in the effective prohibition of Exchange for Physicals or Exchange for Swap trading.

- (b) such provisions may include limitations on the type or size of Exchange for Physicals or Exchange for Swap transactions which may be effected; and
- (c) no Exchange for Physicals or Exchange for Swap transaction shall be registered unless the prescribed provisions are satisfied.

D.9.4 Publication of details of Exchange for Physicals and Exchange for Swaps

The Exchange shall publish, on each Business day, the number of Exchange for Physicals transactions and the number of Exchange for Swap transactions executed on the previous Business day by reference to each Class of Contract