Notice No.: CLRG/2006/017 **Issue Date:** June 19, 2006

Sub.: Dealing with default in physical settlement of Gold and Silver contracts

Notice to all Members,

Sub.: Dealing with default in physical settlement of Gold and Silver contracts

In pursuance of By-laws of DGCX, Clearing Rules of DCCC; the position of the Corporation in dealing with a default in physical settlement is further clarified.

Members' attention is drawn to clause G.2.1 of the Clearing Rules which prescribes Delivery Procedures and effecting of delivery. Accordingly members are further advised that failure to deliver commodities or pay money for commodities is considered as a very serious violation of the Clearing Rules of the Corporation and any such instance shall be dealt with accordingly by the Corporation.

Members are aware that on expiration of gold or silver futures contracts, all open positions shall be compulsorily settled by delivery. In the event of default in physical settlement, the Corporation shall at its absolute discretion initiate any or all of the actions noted below against the Member in default.

In an event where a Member fails to deliver commodities or make payment, the Corporation

1. may suspend the Member or terminate their membership as deemed appropriate by the Board;
2. may withdraw trading rights and liquidate existing open positions;
3. may levy a penalty as deemed appropriate in its absolute discretion;
4. any other action it deems fit

Ascertainment of Penalty and Losses

1. The member in default shall pay to the Corporation an amount equivalent to:
   1.1. Difference between prevailing spot price and settlement price
      (i) **For Seller member in default –** the difference between spot price prevailing on the delivery date and settlement price as on tender date, where the spot price on delivery date is higher than the settlement price on tender delivery date
      (ii) **For Buyer member in default –** the difference between spot price prevailing on the delivery date and settlement price as on tender date, where the spot price on delivery date is lower than the settlement price on tender delivery date
2. A penal charge of 3%, of the settlement price as of delivery tender date shall be levied.
   2.1. Penal charges so collected from the member in default may be transferred to Settlement Guarantee Fund maintained by the Clearing Corporation or such other account as decided by the Exchange/Clearing Corporation.
   2.2. A part of the penal charges so collected may also be utilized towards compensating the member not in default for the damages or cost incurred by them for giving or taking delivery of the commodity. The compensation payable, if any, to the member not in default, shall be determined by the Corporation taking into account the sale/purchase costs, logistics costs and such other factors as it deems appropriate.

The Corporation reserves its rights to change/modify the above procedure at any time without notice.

Illustrations for calculation of charges under clause 1.1(i) and 1.1(ii) are shown below:

For 1.1.(i)	**For 1.1.(ii)**
Gold Settlement Price = $ 590	Gold Settlement Price = $ 590
Spot Price Delivery Date = $ 610	Spot Price Delivery Date = $ 580
Difference per troy ounce = $ 20	Difference per troy ounce = $ 10
Total Penal Charge per troy ounce = $ 37.70	Total Penal Charge per troy ounce = $ 27.70
($ 20 + ($590 * 3% = $ 17.70))	($ 10 + ($590 * 3% = $ 17.70))

For the purpose of determining prevailing spot price, the Corporation would refer to the spot prices declared by Dubai Gold & Jewellery Group and/or London Bullion Market Association and/or any other source as deemed appropriate by the Corporation from time to time.

Members are requested to take note of the above.

For Dubai Gold & Commodities Exchange

Gaurang Desai

DGM – Market Operations