



Circular no.: MCX/C&S/492/2009

November 30, 2009

Launch of Exchange of Futures for Physicals (EFP) Facility

Keeping its tradition of bringing the global best practices of exchange trading, MCX is pleased to announce the introduction of EFP (Exchange of Futures for Physicals) facility for efficient Commodity hedging and Risk Management.

In terms of the provisions of the Rules, Bye-Laws and Business Rules of the Exchange; Members are permitted to Open/Close their Futures positions and Swap their Futures positions with physical positions for a corresponding spot transaction by reporting their Exchange of Futures for Physicals (EFP) transactions, subject to submission of requisite documentation as stipulated and only after subsequent approval of the Exchange thereof.

Relevant guidelines for EFP Transactions are endorsed as Annexure 1.

Commodities eligible for EFP Transactions are enclosed as Annexure 2.

The EFP facility shall be made available w.e.f. Tuesday, December 1, 2009.

Members are requested to take note of the same.

Kalpesh Shukla
Vice President

Encl.: As above

Kindly contact Mr. Gitesh Shah on 022- 6649 4000 or send an email at customersupport@mcxindia.com for any clarification.

-----Corporate office -----

Multi Commodity Exchange of India Limited
Exchange Square, CTS No. 255, Suren Road, Chakala, Andheri (East), Mumbai – 400 093
Tel.: 022 – 6649 4000 Fax: 022 – 6649 4151
www.mcxindia.com email: customersupport@mcxindia.com

Annexure 1

GUIDELINES ON EXCHANGE OF FUTURES FOR PHYSICALS (EFP)

1. An Exchange of Futures for Physicals (EFP) transaction involves simultaneous transactions in a cash commodity market and a futures market.
2. In an EFP, one party enters into agreement to buy the physical commodity and simultaneously sells (or gives up a long) futures contract while the other party enters into agreement to sell the physical commodity and simultaneously buys (or gives up a sell) futures contract.
3. The parties are allowed to open/close their futures positions in a noncompetitive manner by reporting their EFP transaction, subject to final approval of the Exchange thereof. All opening/ closing of the positions are done in the same month contracts.
4. The parties should negotiate and agree upon the price, quantity, quality, location and other terms for their cash market transaction.
5. The quantity of the futures and cash commodity (to be) exchanged, the price of the cash commodity, and other terms are privately negotiated by the parties rather than being competitively executed on the Exchange trading platform.
6. EFP transactions are permitted during the tenure of a futures contract. However, during the tender & delivery period of that futures contract no EFP will be permitted.
7. There should be a simultaneous (commitment to) transfer of cash commodity in the cash market between the parties for opening/closing of futures positions.
8. The quantity covered by the related cash market position must be approximately equivalent to the quantity covered by the futures contracts.
9. An EFP may be executed of any commercially reasonable price agreed upon by the parties. However, the "Negotiated Price" could reflect differentials based on quality, location and timings including transportation, quality differentials in the product.
10. The (underlying) commodity should be the same in cash and futures market with the exception of quality and other parameters.
11. EFP for closure or swap future positions is applicable only in respect of historical futures positions of the relevant contract listed in the Exchange, meaning the futures positions to be closed or swapped is not applicable to new positions opened on the day of application for EFP.
12. There may be only two parties in an EFP transaction.
13. An EFP transaction can be through a single or two Clearing Members.

14. The EFP transaction should be a bona fide transaction between two parties who do not have the same beneficial ownership.
15. The approval/rejection of the EFP transaction is at the sole discretion of the Exchange. The Exchange shall not be bound to provide any reasons for the rejection of the proposed EFP transaction submitted by the member to the Exchange.
16. The Exchange will complete the EFP transaction by opening/ closing of corresponding futures positions on the parties at the intimated price by both the parties, subject to it is within the specified period's High & Low prices & conforming to the standard minimum tick increment for the given commodity. The specified period's High & Low prices for Agri commodities should be between 10.00 am to 1.30 pm and between 10.00 am to 5.00 pm in case of other than agri commodities during Monday to Friday and between 10.00 am to 11.30 am on Saturday for all commodities on the date of its reporting to the Exchange.
17. The parties are allowed to open/close their futures positions in a noncompetitive manner by reporting their EFP transaction (in the prescribed format to the Exchange by 2.30 pm and 6.00 pm for agri and non-agri commodities respectively during weekdays and by 12.30 pm on Saturday, subject to submission of requisite documentation as stipulated and subsequent to approval of the Exchange thereof. All opening/ closing of the positions are done in the same month contracts at the price intimated by both the parties within the specified period's High & Low of the day(refer Sr.no.16 above). The Exchange to intimate its approval or rejection of EFP transaction to the Members by 4.00 pm in case of agri commodities and by 7.30 pm in case of other than agri commodities during weekdays and by 1.30 pm on Saturdays.
18. The Exchange's role in respect of the physical transaction between the counterparties shall restrict only to approval of the EFP transaction. The responsibility, risks and enforcement of settlement of the physical transaction shall lie with the respective counterparty.
19. Duties & Responsibilities of Clearing Member
 - Clearing Members on opposite sides of an EFP must subsequently approve the terms of the transaction, including price, quantity, commodity, contract month and date prior to submitting the transaction to the Exchange. All EFP transactions must be submitted to the Exchange by a clearing member acting on its own behalf or for the beneficial account of a customer who is a party to the transaction. Clearing members are responsible for exercising due diligence as to the bona fide nature of EFP transactions submitted on behalf of customers. Clearing Members should not square off outstanding futures positions for which closure request of futures positions towards EFP transaction is submitted to the Exchange.
 - Clearing members/Parties to any EFP transaction must maintain all documents relevant to the futures and the cash, including all documents customarily generated in accordance with cash market or other relevant market practices and any documents reflecting payment and transfer of title. Any such documents must be provided to the Exchange upon request and it

shall be the responsibility of the clearing member to provide the requested documentation on a timely basis.

20. Process Flow of an EFP

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

- The parties should negotiate and agree upon the price, quantity, quality, location and other terms for their cash market transaction.
- The parties should negotiate and agree upon the price (within the high and low prices of time period mentioned under Sr. No.16 above) which they will intimate the exchange for closing/ opening of futures positions and such position limits have to be within the Open Interest limits prescribed by the FMC applicable for that commodity.
- Parties should inform their respective Clearing Members about the deal and submit the supporting documents.
- Each Clearing Member shall submit to the Exchange the "Request for Approval of EFP Transaction" in the prescribed formats (Form A – for Closing Existing Futures Positions, OR Form B – for Opening New Futures Positions) along with the requisite supporting documents to verify the validity and authenticity of proposed transaction within the time period mentioned under Sr.No.17 above.
- The Exchange will verify all the documents submitted and then approve/reject the EFP transaction and intimate the parties accordingly.
- Where the request for EFP transaction is approved, Exchange will initiate activities concerning to the registration of EFP deals only at the end of that trading day.
- The future positions arising out of EFP transaction will be subject to all usual margins applicable to that commodity.
- The EFP price/s would not be considered for calculation of closing/ settlement price of that contract and details of EFP transactions would not be reflected in Bhavcopy of that day. The volume of EFP transaction/s shall be updated in the Exchange records once the transaction is approved/ entered by the Exchange.
- The Exchange shall complete the EFP transaction by opening/ closing of corresponding futures positions on the parties on the negotiated price submitted to the exchange in the format provided only at the end of that trading day.

21. Documents to be submitted by EFP Parties to Clearing Members and Exchange:

- Purchase Bills/ Sales invoice/ Copy of Agreement etc.
- Proof of stock/ Proof of Delivery etc.

APPLICATION FORM FOR EFP

FORM-A

(FOR CLOSURE OF EXISTING FUTURES POSITIONS)

**APPROVAL OF EXCHANGE OF FUTURES FOR PHYSICALS (EFP)
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 Department

Multi Commodity Exchange of India Limited

Mumbai

Dear Sir/Madam,

Sub: Request for approval of EFP transaction

In pursuance of the guidelines issued by the Exchange to execute EFP transaction, we hereby submit our request for approval of EFP transaction. The requisite details are furnished below:

Details of Existing Futures Position on MCX		
Details of Futures Positions	Long Position Holder	Short Position Holder
Applicant/Counterparty		
CM Code & Name		
TM Code & Name		
Client Code, Name & Address		
Contract Details	E.g. Gold Feb '08	
No. of lots to be Closed & Price		

Details of Corresponding Physical Transaction		
Details of Cash Market Transaction	Long Position Holder (Buyer)	Short Position Holder (Seller)
Applicant/Counterparty		
Trade Date		
Name of the Commodity		
Description of the Quality		
Trade Quantity		
Trade Price		
Trade Value		
Delivery Date		
Delivery Location and Address of Warehouse/s		
Enclosed Supporting Documents by the Applicant		

I/We understand that the function of MCX 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 transaction.

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 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:

**DRAFTCLIENT UNDERTAKING
EXCHANGE FOR PHYSICAL TRANSACTIONS**

The Client Undertakes:

The Client acknowledges and undertakes that it shall provide to the Member full details of the physical transaction (including documentary evidence) which attach to EFP transactions effected by the Member on behalf of the Client. The Client acknowledges that upon request, this information **MUST BE PROVIDED** to the Member and the Exchange to ensure the Member's compliance with the Business Rules of MCX. The Client understands that failure to comply with the provisions of MCX EFP Rules may result in disciplinary action by MCX against the Member.

The information provided in the attached documents is true to the best of my knowledge.

Client authorized signatory

Date

Member authorized signatory

Date

APPLICATION FORM FOR EFP

FORM-B

(FOR OPENING OF NEW FUTURES POSITIONS)

**APPROVAL OF EXCHANGE OF FUTURES FOR PHYSICALS (EFP)
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 Department

Multi Commodity Exchange of India Limited

Mumbai

Dear Sir/Madam,

Sub: Request for approval of EFP transaction

In pursuance of the guidelines issued by the Exchange to execute EFP transaction, we hereby submit our request for approval of EFP transaction. The requisite details are furnished below:

Details for Opening of Futures Position on MCX		
Futures Position to be Opened	Long Position	Short Position
Applicant/Counterparty		
CM Code & Name		
TM Code & Name		
Client Code, Name & Address		
Contract Details	E.g. Gold Feb '08	
No. of lots to be Opened & Price		

Details of Corresponding Physical Transaction		
Details of Cash Market Transaction	Long Position Holder (Buyer)	Short Position Holder (Seller)
Applicant/Counterparty		
Trade Date		
Name of the Commodity		
Description of the Quality		
Trade Quantity		
Trade Price		
Trade Value		
Delivery Date		
Delivery Location and Address of Warehouse/s		
Enclosed Supporting Documents by the Applicant		

I/We understand that the function of MCX 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 transaction.

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 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:

**DRAFT CLIENT UNDERTAKING
EXCHANGE FOR PHYSICAL TRANSACTIONS**

The Client Undertakes:

The Client acknowledges and undertakes that it shall provide to the Member full details of the physical transaction (including documentary evidence) which attach to EFP transactions effected by the Member on behalf of the Client. The Client acknowledges that upon request, this information **MUST BE PROVIDED** to the Member and the Exchange to ensure the Member's compliance with the Business Rules of MCX. The Client understands that failure to comply with the provisions of MCX EFP Rules may result in disciplinary action by MCX against the Member.

The information provided in the attached documents is true to the best of my knowledge.

Client authorized signatory

Member authorized signatory

Date

Date

Commodities eligible for EFP Transactions

- Gold and Gold mini
- Silver and Silver mini
- Copper
- Zinc
- Aluminium
- Nickel
- Lead
- Chana
- Wheat
- Mentha Oil