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4. SURVELLIANCE

1. Unique Client Code (UCC) and Mandatory requirement of Permanent Account Number (PAN)[1]

1.1. It shall be mandatory for the Members of the Exchange to use Unique Client Code (UCC) for all clients transacting on the Exchange. The Exchange shall not allow execution of trades without uploading of the UCC details by the members of the Exchange. For this purpose, Members shall collect after verifying the authenticity and maintain in their back office the copies of Permanent Account Number (PAN) issued by the Income Tax Department, to all their clients.

1.2. PAN would be the sole identification number and mandatory for all entities/persons who are desirous of transacting on the commodity derivatives Exchange.

However, the investors residing in the State of Sikkim are exempted from the mandatory requirement of PAN. The Exchange should, however, ensure a system of proper verification to verify that such members / investors are residents of the State of Sikkim.

Further, PAN may not be insisted in the case of Central Government, State Government, and the officials appointed by the courts e.g. Official liquidator, Court receiver etc. (under the category of Government) for transacting in the securities market. The intermediary shall verify the veracity of the claim of the specified organizations, by collecting sufficient documentary evidence in support of their claim for such an exemption.

1.3. The Members of the Exchange shall:

(i) Collect copies of PAN cards issued to their existing as well as new clients after verifying with the original.

(ii) Cross-check the aforesaid details collected from their clients with the details on the website of the Income Tax Department.

(iii) Upload details of PAN so collected to the Exchange as part of Unique Client Code.

(iv) Verify the documents with respect to the unique code and retain a copy of the document.

1.4. The Member shall also be required to furnish the above particulars of their clients to the Exchange and the same would be updated on a monthly basis. Such information for a specific month should reach the exchange within 7 working days of the following month.

1.5. The Exchange shall impose penalty on the member at the rate of 1% of the value of every trade that has been carried out by the member without uploading the UCC details of the clients. The penalty so collected by the

[1] SEBI/HO/CDMRD/DMP/CIR/P/2016/87 dated September 16, 2016
Exchange circular no. MCX/S&I/281/2016 dated September 19, 2016

Exchange shall be transferred to the Investor protection Fund (IPF). Further, if the client details are not uploaded within a month of the trade, the member is liable to be suspended.

1.6. The Exchange shall be required to maintain a database of client details submitted by Members. Historical records of all such submissions shall be maintained for a period of 7 years by the Exchange.

2. Permanent Account Number (PAN) Verification Mechanism

The Exchange has implemented process of verification and checking of authenticity of Permanent Account Number (PAN) details of clients uploaded by members in the Unique Client Code (UCC) database. The Exchange shall carry out a verification process for all records in the UCC database with status of client marked as "Active". In the event of mismatch in PAN or client name as per Income Tax records (PAN database), the UCC record shall be considered as "Not Verified". The Exchange shall provide a file "MCX_PANvfn_<MEMBER ID>_YYYYMMDD.CSV" in the member's sftp folder, containing the details of such client codes along with the reason of mismatch.

For the UCCs where there is a mismatch, members will be required to rectify and update the PAN and/ or the name of the Client EXACTLY as per the Income Tax records. Any change in the order of the first name / middle name / last name for Individual clients shall result in a mismatch. For Non-individuals, the client name should be the same as registered in the Income Tax records.

Members are required to rectify the records through UCC e-Xchange portal. Members can also upload bulk UCC records through current file upload facility available in e-Xchange. Whenever there is an exact match between the client name as per the UCC database and that in Income Tax records, such records will be treated as "Verified" and members shall not be allowed to modify PAN and Client name of such records.

3. Modification of Client Codes Post Execution of Trades[2]

3.1. Exchange may allow modifications of client codes of non-institutional trades only to rectify a genuine error in entry of client code at the time of placing/ modifying the related order in all segments.

3.2. Proprietary trades will not be allowed to be modified as client trade and vice-versa. Any violation of this provision will lead to disciplinary action against the Member by the Exchange

3.3. The Exchange shall levy a penalty from members and credit the same to its Investor Protection Fund as under:

'a' as % of 'b'	Penalty as % of 'a'
≤ 5	1
> 5	2

[2] Circular no. SEBI/HO/CDMRD/DMP/CIR/P/2016/43 dated March 29, 2016 and SEBI/HO/CDMRD/DMP/CIR/P/2016/73 dated August 19, 2016
Exchange circular no. MCX/T&S/108/2016 dated April 8, 2016, MCX/S&I/199/2016 dated July 13, 2016 and MCX/S&I/242/2016 dated August 23, 2016

Where

a = Value (turnover) of non-institutional trades where client codes have been modified by a member in a segment during a month.

b = Value (turnover) of non-institutional trades of the member in the segment during the month.

The Exchange shall undertake stringent disciplinary actions against members who undertake frequent client code modifications. If 'a' as % of 'b', as defined above, exceeds 1% during a month, then the Exchange shall conduct a special inspection of the member to ascertain whether the modifications of client codes are being carried on as per the strict objective criteria set by the Exchange. Appropriate disciplinary action shall be taken by the Exchange, if any deficiency is observed.

3.4. Waiver of Penalty**:**

Exchange may waive penalty for a client code modification where member is able to produce evidence to the satisfaction of the exchange to establish that the modification was on account of a genuine error. However, not more than one such waiver per quarter may be given to a member for modification in a client code.

Explanation: If penalty wavier has been given with regard to a genuine client code modification from client code AB to client code BA, no more penalty waivers shall be allowed to the stock Member in the quarter for modifications related to client codes AB and BA

3.5. For this purpose the following shall be classified as genuine errors:

a. Error due to communication and / or punching or typing such that the original client code / name and the modified client code / name are similar to each other.

b. Modification within relatives ('Relative' for this purpose would mean as defined under Companies Act, 2013)

3.6. Error Account:

a. Shifting of trades to the 'Error account' of Member would not be treated as modification of client code, provided that trades in 'Error account' are subsequently liquidated in the market and not shifted to some other code.

b. Further, Member shall disclose the codes of accounts which are classified as 'Error accounts' to the Exchange. Each member should have a well-documented error policy approved by the management of the Member. Exchange shall periodically review the trades flowing to the error accounts of the Members.

c. The Member should ensure that UCC details of 'Error Accounts' is uploaded to the Exchange with Client Code as 'ERROR' and in Client Name field, Name of the Trading Member Exactly as per Income Tax records (PAN Database) is entered. The members, who want to upload

'ERROR' code shall be required to submit request to the Exchange (e-mail: surveillance@mcxindia.com) for uploading the same

4. Position Limits for Commodity Derivatives, clubbing of open positions, penalties for violation of position limits[3]

4.1 The following norms shall be applicable to the Agricultural as well as Non-Agricultural commodity derivatives at commodity level:

a) [Numerical value of overall client level open position limits, shall be applicable to Non-Agri and Agri commodities. The same have been provided as Annexure- A and Annexure- B respectively.][4]

b) The Exchange, however, in their own judgment, may prescribe limits lower than what is prescribed by SEBI by giving advance notice to the market under intimation to SEBI.

c) For the purpose of position limits, norms applicable on client level positions shall also be applicable to the proprietary positions of trading members and while calculating member's open positions, his proprietary positions shall be treated and computed like a client's positions.

d) For the purpose of calculating overall position of a member, the overall position of its all clients (as determined in Clause '4.1 (a) or 4.2 (a)' below) shall be added without netting off among themselves as also against proprietary positions of the member. Thus, all long clients and all short clients shall be added up separately and higher of the two shall be reckoned as Member's open position in a commodity derivative

4.2. Position Limits for Non Agricultural Commodity Derivatives: The following norms shall continue to be applicable to Non- Agricultural commodity derivatives at commodity level:-

a) For the purpose of calculating overall position of a client, all long and short positions of the client across all contracts shall be netted out.

b) Client level position limits shall be equivalent to the numerical level limit as given in table in Annexure- A or 5% of market-wide open interest, whichever is higher.

c) Member level position limits shall be 10 times of the numerical value of client level position limits or 20% of the market-wide open interest, whichever is higher

4.3. Position Limits for Agricultural Commodity Derivatives: As prescribed vide SEBI circulars dated January 15, 2016 and January 29, 2016, following norms shall be applicable on Agricultural commodity derivatives at commodity level:

a. For the purpose of calculating positions of a client, all long and short positions of the client across all contracts shall be added up separately and higher of the two shall be considered as his overall open position.

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[3] Inserted vide MCX Circular Nos. MCX/S&I/301/2016, MCX/S&I/331/2016, MCX/S&I/252/2017, MCX/S&I/300/2017 and MCX/S&I/283/2018 dated September 28, 2016, September 29, 2016, July 26, 2017, August 23, 2017 and July 30, 2018.respectively

[4] Substituted, *ibid.* Prior to substitution it read as under:

"Numerical value of overall client level open position limits, shall be applicable for each commodity as are provided in table given in Annexure- A1."

b. The overall Client level position limits across all contracts shall be equivalent to the numerical level limit as given in table in Annexure-B.

c. The overall member level position limits across all contracts shall be 10 times the numerical value of client level position limit or 15% of the market-wide open interest, whichever is higher.

4.4. Near Month Position Limits: In case of near month contracts:

a) Client level position limits shall be equivalent to the one fourth of the overall Client level position limit as prescribed in table in.Annexure-B.

b) Member level position limits shall also be equivalent to the one fourth of the overall member level position limit.

4.5. [Categorization of commodities: In any given year, based on the average of production data and import data of past five years on a rolling basis and keeping in view various extraneous factors that affect the trading in derivatives, the agricultural commodities shall be classified into three categories viz., sensitive, broad and narrow as below:-

4.5.1 **Sensitive Commodity:** An agricultural commodity shall be classified assensitive commodity if it:

4.5.1.1. is prone to frequent Government/External interventions. These interventions may be in the nature of stock limits, import/export restrictions or any other trade related barriers; or

4.5.1.2. has observed frequent instances of price manipulation in past five years of derivatives trading.

4.5.2. **Broad Commodity**: An agricultural commodity shall be classified as 'Broad Commodity' if it is not 'Sensitive Commodity' and satisfies following criteria;

4.5.2.1. Average deliverable supply for past five year is at least 10 lakh Metric Ton (MT) in quantitative term and is at least INR 5,000 Crore in monetary term.

4.5.3. **Narrow Commodity:** An agricultural commodity which is not falling in either of the above two categories, viz 'Sensitive' or 'Broad' commodity, shall be classified as 'Narrow Commodity'.][5]

4.6. [Deliverable Supply: The deliverable supply for an agricultural commodity would be "Production + Imports"][6]

4.7. [Client Level Numeric Position Limits: Numerical value of overall client level open position limits for each commodity shall be calculated from 'deliverable supply' available in a particular year, as per its category as given below:

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[5] Substituted, *ibid*.Prior to substitution it read as under:
"The overall Exchange wide gross position limit, in case of the agricultural commodities, shall be capped at 50% of the annual estimated production and Imports of the commodity. The annual estimates for production and imports may be sourced from the available estimates published by Government of India/Ministry of Agriculture/ Institutions/Agencies/ other Departments of Central and State Government, as may be appropriate."

[6] Substituted, *ibid.* Prior to substitution it read as under:
*"**Clubbing of Open Positions**: While calculating open positions for the purpose of position limits, Exchange shall take suitable measures for clubbing of open positions of clients/members who may be acting in concert to circumvent the norms of position limits. The broad guidelines for clubbing of open positions are provided in Annexure- A2."*

Category of Commodity	Position limits
Broad	1% of the deliverable supply
Narrow	0.5% of the deliverable supply
Sensitive	0.25% of the deliverable supply

4.7.1. The numbers arrived based upon above formula should be rounded off downward to appropriate number of zeroes.][7]

4.8. [Yearly Categorization of commodities and computation of position limits:

4.8.1. All the national commodity derivatives exchanges shall jointly classify agricultural commodities into the afore-stated three categories on annual basis as per the principles indicated at para No. 4.5 above.

4.8.2. Whenever an agricultural commodity of 'narrow' category is required to be re-categorized to 'broad' in subsequent years, such re-categorization may be possible only if both, average deliverable supply of such commodity for the past five years and monetary value thereof as mentioned at Para '4.5.2.1.' exceeds by more than 5%.

4.8.3. For determination of **'deliverable supply'** of various agricultural commodities for each year, the national commodity derivatives exchanges shall take into account the latest production figures of such commodities as annually declared by relevant government sources or from the latest 'third advance estimates' of agricultural commodities published by the Ministry of agriculture or any other yearly estimates/assessments of production and imports made by any governmental agencies such as Ministry of Agriculture, Ministry of Textiles, Ministry of Commerce, different statutory boards/associations etc., concerned with different agricultural commodities. The national commodity derivatives exchanges shall indicate the sources from which the production and import / export data have been obtained for the purpose of determination of 'deliverable supply' of different agricultural commodities.

4.8.4. Every year, for each agricultural commodity that is being traded in the derivatives market, all national commodity derivatives exchanges shall jointly complete the exercise of determination of 'deliverable supply, categorization/re-categorization of commodities and computation of numerical value of position limits. Numerical values of position limits for any agricultural commodity shall be revised only if the computation results in a revision in the value by at least 5% compared to previous year's limits. Exchanges shall, after prior intimation to SEBI, notify such details to the market through their respective websites sufficiently in advance and latest by **31st of July** (unless extended by SEBI under exceptional circumstances) of every year and revised limits shall become applicable for all running contracts with effect from **1st of September** of every year.][8]

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[7] Substituted, *ibid.*Prior to substitution it read as under:
"Monitoring of position limits: Exchange shall monitor the open position on a real time basis, and shall endeavour that no client or member breaches the open position limits 'at end of the day' as well as 'during intra-day trading'. Penalty shall be levied on those breaching the position limits at end of the day as well as during intra-day trading as provided in Annexure-A3."

[8] Inserted, *ibid.*

4.9. Exchange-wide Position Limit for Agricultural Commodities: For any agricultural commodity, the overall Exchange-wide gross position limit on open interests shall be 50% of its 'deliverable supply' determined for the relevant year, which shall also be jointly notified by Exchanges along with client level numerical limits][9]

4.10. [**Clubbing of Open Positions:** While calculating open positions for the purpose of position limits, Exchange shall take suitable measures for clubbing of open positions of clients/members who may be acting in concert to circumvent the norms of position limits. The broad guidelines for clubbing of open positions along with the specified exemption from clubbing are provided as Annexure-C and other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity.

4.10.1 **Clubbing of open positions based on PAN, patterns such as 'acting in concert' through common ownership and control structures:**

The term 'Acting in concert' is inclusive rather than exclusive and it would depend on the relevant facts and circumstances of the situation to establish where the persons are acting in concert to circumvent the norms of position limits and therefore it cannot be conclusively defined. However, for the purpose of clubbing of open positions under these criteria, the 'persons acting in concert' shall comprise of but not limited to:

4.10.1.1. persons who are acting together pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate and take positions in a commodity derivatives contract with a common objective or purpose of collectively circumventing the norms of position limits as applicable to a client and member or otherwise, unless the contrary is established.

4.10.1.2. without prejudice to the generality of the above clause and in addition to the laid down criteria given in the SEBI circular dated September 27, 2016, the persons falling within the following categories shall be deemed to be persons acting in concert with other persons unless the contrary is established:

a. a company, its Holding / Subsidiary company,
b. a company, its Associates or Joint Venture Companies in which it holds at least 20% shareholding,
c. a company, its significant shareholder i.e. shareholder holding more than 26% of issued shares of the company,
d. a company, its Key Managerial Personnel (KMP) and Authorised Signatories.

For this purpose Key Managerial Personnel shall be as defined in the Companies Act, 2013 and Authorised Signatory means the signatory who has been named as such or is identified by the company in the annual returns as authorized signatory

[9] Inserted, *ibid.*

4.10.2 **Any other relevant criteria to club open positions which may be observed during the course of regular monitoring and surveillance and which may appear to compromise market integrity:**

The Exchange will consider the following additional relationships/ criteria to ascertain whether persons are acting in concert under any other relevant criteria:

i. Relatives as per AS 18 and Immediate Relatives for individual as defined in Companies Act
ii. Promoters of the company as provided in Annual return filed under the Companies Act
iii. Co-parceners of HUF
iv. Clients having same/ similar postal address, e-mail address, bank accounts, website domain name or mobile numbers

It may be noted that the aforesaid relationship/criteria are only indicative and does not in any way restrict the Exchange to consider other criteria not mentioned herein for the purposes of clubbing of open positions. The Exchange may look into the following parameters to test 'acting in concert' in the event of any of the above relationship criteria or any other criteria not mentioned herein triggers further analysis/ investigation or any objection by the concerned members:

a. Existence of relationship between various clients on the basis of objective criteria or based on the facts of the case,
b. Linked clients being on the same side i.e. Long or Short and cumulatively controlling substantial proportion of the market open interest in a particular commodity/ contract,
c. Orders being placed at or around the same time at relatively near prices by group of clients,
d. Existence of commonality of funds flow between the various parties

It may further be noted that if the parameters as set out above (point nos. 4.10.1 & 4.10.2) are met based on the information as and when available and reviewed by the Exchange, the Exchange shall proceed to club such positions. However, the Exchange may also call for explanation from the concerned members prior to clubbing of open position and after finding that the explanation/ replies are not found to be satisfactory in its opinion; the Exchange shall proceed to club the positions of the identified entities.][10]

4.11. [No client or member shall breach the open position limits' at end of the day' as well as 'during intra-day trading'. Penalty shall be levied on those breaching the position limits at end of the day as well as during intra-day trading as provided in Annexure-D.][11]

5. [Abnormal / Non-genuine trades:

5.1. Abnormal / Non-genuine trades described as:

"Instances wherein the buy and sell transactions have been executed in / by the same sets of parties, on the Exchange, at abnormally high prices differences which are not co-related to the spot / futures price movement in the underlying

[10] Inserted, *ibid.*
[11] Inserted, *ibid.*

commodity. This is particularly true with illiquid contracts. Such trades maybe between different entities (client / own account) within same member or different members."

5.2. The abnormal / non-genuine trades are executed by the market participants primarily with an objective of transferring profit / loss between the concerned entities. In view of the same, penalty of 100% of the profit made / loss incurred / transferred as a result of abnormal trades / non-genuine trades will be levied to the concerned member/s.

5.3. The decision whether a trade or trades is / are abnormal / non-genuine would be of the Exchange which would be final and binding.

5.4. The Exchange may also consider to take appropriate disciplinary actions against the concerned member for multiple instances of such abnormal / non-genuine trades as per the Rules, Bye-Laws and Business Rules of the Exchange. Further, the Exchange reserves the right to consider any other criteria or trading pattern and other circumstantial evidence to identify other forms of market abuses and may consider to impose penalty and / or take additional disciplinary actions in accordance with the Rules, Bye-Laws and Business Rules of the Exchange.

Therefore, Members are advised to be extremely cautious and refrain from executing / allowing such trades, which do not appear to be genuine, in their own account and / or for their Clients. Members are further advised to have appropriate internal systems and controls at their end to ensure that such orders / trades are not entered / executed from their trading terminals.][12]

6. Cross Deals/ Wash Trades/ Self-Trades / Structured Deals and other Market abuses:

Certain trades are carried out by members which are in the nature of "Cross Deals" and / or "Structured Deals" as defined in the Bye-Laws of the Exchange, especially when the same client appears on both the sides of the trades. In order to ascertain the genuineness of such trades, the Exchange shall compare the value of such trades with the value of total trades executed in the concerned contract by the client (or Pro) and total value of trades executed in the contract on the Exchange.

For liquid contracts, if the proportion of traded value of this nature is more than a threshold, as considered by the Exchange from time to time, especially for the trades executed on account of buy and sell orders placed within 60 seconds, such trades shall be considered as abnormal trades and a form of market abuse. A penalty of 0.10% of the value of such trades, subject to a minimum of Rs 10,000/- shall be levied by the Exchange.

Further, cross deals in large numbers in illiquid contracts and executed in proportions higher than a threshold, shall be construed as fictitious transactions. A

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[12] Substituted vide MCX Circular No. MCX/S&I/324/2018 dated August 20, 2018. Prior to substitution it read as under:

"A penalty of Rs. 10,000/- will be levied on the members who indulged in abnormal trades i.e. trades that have been executed at a price with abnormally high differences in illiquid commodities between different or same client of the same member or different members.

For repeated/ multiple instances of such trades, an additional penalty up to Rs. 1,00,000/- will be levied on such members. The Exchange may also take appropriate disciplinary action against such member/s including suspension from trading.

Members are advised to desist from executing transactions or entering orders which prima facie appears to be abnormal, on their own account and / or on behalf of their clients. Members are further advised to put in place appropriate internal systems and procedures for ensuring that such orders are not entered from their terminals. The decision as to abnormality of the trades would be of the Exchange which would be final and binding on all members."

penalty of Rs. 1 lakh to Rs. 5 lakhs or as per prescribed from time to time by the Exchange, shall be levied for such transactions.

The penalty, if any, will be levied after giving opportunity to the member to give his explanation.

Contracts shall be considered as liquid / illiquid after taking into account the number of trades, traded value and such other criteria as may be considered relevant by the Exchange from time to time.

The above criteria is only indicative and no member can absolve himself from surveillance action by taking shield under the defined criteria and the Exchange shall have the rights to seek explanation for any other observed trading pattern. Further, the Exchange reserves the right to consider any other criteria or trading pattern and other circumstantial evidence to identify other forms of market abuses and impose penalty and / or take additional disciplinary actions in accordance with the Rules, Bye-Laws and Business Rules of the Exchange

The Exchange may also monitor Circular Trading, concentration/ price rigging/ price manipulation and other market abuses and take suitable actions whenever such practices are identified.

7. [Surveillance Obligations for Trading Members:

In order to facilitate effective surveillance at the Member level, the Exchange would be providing the below mentioned alerts based on the trading activity on the Exchange platform.

7.1 Transactional Alerts:

Sr. No.	Transactional Alerts	Periodicity
1	Significantly increase in client activity	Monthly
2	Sudden trading activity in dormant account	Monthly
3	Concentrated position in the Open Interest	Daily
4	High Turnover concentration	Daily

The above transactional alerts are an indicative list. Trading Members may also formulate their own alerts in addition to the above mentioned type of alerts as per their surveillance policy.

The following activities are also required to be carried out by the Trading Members based on UCC parameters:

7.2 Client(s) Information:

Trading Members are required to carry out the Due Diligence of its client(s) on a continuous basis. Further, Trading Members shall ensure that key KYC parameters are updated on a periodic basis as prescribed by SEBI and latest information of the client, including information pertaining to directors/ partners/ trustees/ karta in case of non-individual clients, is updated in UCC database of the Exchange. Based on this information the Trading Member shall establish groups/ association amongst clients to identify multiple accounts/ common account/ group of clients. Trading members are also required to profile their clients and categorize the clients under one of the category, namely, Commercial participant (value chain participant/ exporter/ importer, hedger, etc.) or Non-commercial participant (financial participant/ trader/ arbitrager, etc.)

7.3 Analysis

In order to analyze the trading activity of the Client(s)/Group of Clients(s) or Commodity identified based on above alerts, the Trading Members are required to:

a. Seek explanation from such identified Client(s)/Group of Client(s) for entering into such transactions.
b. Seek documentary evidence such as bank statement/warehouse receipt (for commodities with compulsory delivery) or any other documents to satisfy itself.

1. In case of funds, Bank statements of the Client(s)/Group of Client(s) from which funds pay-in have been met, to be sought. In case of commodities with compulsory delivery, documentary evidence including warehouse receipt of the Client(s)/ Group of Client(s) for which commodities pay-in have been met, to be sought.

2. The period for such statements may be at least +/- 15 days from the date of transactions to verify whether the funds for the settlement of such trades actually belongs to the client for whom the trades were transacted.

c. After analyzing the documentary evidences, including the bank statement/warehouse receipt, Group of Client(s). In case where adverse observations are recorded, the Trading Member shall report all such instances to the Exchange within 45 days of the alert generation. The

Trading Member may seek extension of the time period from the Exchange, wherever required.

7.4 Monitoring and reporting:

a. For effective monitoring, Trading Members shall:

1. Frame a surveillance policy covering:
   i. Receipt of Alerts from Exchange/generated at member's end.
   ii. Time frame for disposal of alerts and if there is any delay in disposal, reason for the same shall be documented.
   iii. Suspicious/Manipulative activity identification and reporting process.
   iv. Record Maintenance

2. The surveillance policy of the Trading Member shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

3. A quarterly MIS shall be put up to the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action taken. Also, the Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) shall be apprised of any exception noticed during the disposal of

alerts.

4. The surveillance process shall be conducted under overall supervision of its Compliance Officer.

5. Designated Directors/Partners/Proprietor/Compliance Officer would be responsible for all surveillance activities carried out by the Trading Member and for the record maintenance and reporting of such activities.

b. Internal auditor of Trading Member shall view the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report. This will be effective as and when the internal audit guidelines become applicable for trading members.

7.5 (a) The provisions contained in Business Rules 7.3 and 7.4 above are illustrative and not exhaustive. Based on facts and circumstances, the trading members are required to exercise their independent judgment and take adequate precaution.

(b) Trading Members are required to take note of the above and put in place the required procedures, policies and processes after proper approvals of their relevant authorities latest by January 01, 2017.

(c) The Exchange shall provide these alerts to the Trading Members through "MCX e- Xchange", a web-based facility (Reports Surveillance Alert/Report) with effect from December 01, 2016. The Trading Members are requested to analyse these alerts and revert in case of adverse observations, if any, to the Exchange at surveillance@mcxindia.com.][13]

[13] Inserted vide MCX Circular No. MCX/S&I/380/2016 dated November 03, 2016.

8. [Dormant Clients:

The clients who have not traded in last one year shall be considered as Dormant. The Members are required to ensure that any further trading by such Client be started only after updated information related to KYC is obtained from the concerned Client.][14]

9. [Due Diligence while placement of orders:

Member / clients are placing large number of orders or large quantity order within a short span of time at market price to create or square up the open position. Such orders may cause temporary volatility or price fluctuation and thereby result in abnormal movement in price of the concerned contract /commodity.

Members are advised to exercise due diligence and caution while placing such large quantity / number of orders at market price within a short span of time, and to implement appropriate internal systems / checks before placing of such orders, failing which the Exchange may consider to take appropriate disciplinary action as may deem fit against the concerned member.][15]

[14] Inserted vide MCX Circular No. MCX/S&I/293/2018 dated July 31, 2018.
[15] Inserted vide MCX Circular No. MCX/S&I/173/2018 dated May 04, 2018.

ANNEXURES

Annexure A

Sr.	Commodity	Unit	Numerical Position Limit - Overall Commodity	
			Client*	**Member****
1	Aluminum	MT	25,000	2,50,000
2	Brass	MT	2,500	25,000
2	Copper	MT	7,000	70,000
3	Crude Oil	BBL	4,80,000	48,00,000
4	Gold	Kgs	5,000	50,000
5	Lead	MT	3,500	35,000
6	Natural Gas	mmBtu	60,00,000	6,00,00,000
7	Nickel	MT	1000	10,000
8	Silver	MT	100	1,000
9	Zinc	MT	7,000	70,000
10	Zinc (Option)	MT	14,000	1,40,000
11	Gold (Option)	Kgs	10,000	1,00,000
12	Crude Oil (Option)	BBL	9,60,000	96,00,000
13	Silver (Option)	MT	200	2,000
14	Copper (Option)	MT	14,000	1,40,000
*Client-Level Limit shall be numerical limit mentioned above or 5% of the market wide open position whichever is higher.				
**Member-Level Limit shall be numerical limit mentioned above or 20% of the market wide open position whichever is higher.				

Annexure B

Agriculture commodities open position limits applicable w.e.f. Sep 01, 2018

Commodity	Unit	Numerical Position Limit - Overall Commodity		Numerical Position Limit - Near-month	
		Client*	Member **	Client*	Member***
Cotton	Bales	3,60,000	36,00,000	90,000	9,00,000
CPO	Tonnes	1,00,000	10,00,000	25,000	2,50,000
RBD Palmolein	Tonnes	68,000	6,80,000	17,000	1,70,000
Castor Seed	Tonnes	15,000	1,50,000	3,750	37,500
Mentha Oil	Tonnes	160	1,600	40	400
Pepper	Tonnes	360	3,600	90	900
Cardamom	Tonnes	100	1,000	25	250
Rubber	Tonnes	10500	1,05,000	2625	26250

** A client's open interest limit at overall (all contracts) level will be the absolute number indicated above for the commodity. In case of near month limit, a client's open interest limits will be one-fourth of the client's overall position limit in that commodity.*

*** Overall (all contracts) member-level limit shall be numerical limits or 15% of market-wide open position, whichever is higher*

**** Near month member level position limit shall be equivalent to the one fourth of the overall member level position limit*

Exchange-wide Position Limit for Agricultural Commodities w.e.f. Sep 01, 2018

Commodity	Unit	Exchange-wide Gross Position Limits (50% of Deliverable supply)
Cotton	Bales	1,80,00,000
CPO	Tonnes	50,00,000
RBD Palmolein	Tonnes	34,00,000
Castor Seed	Tonnes	7,50,000
Mentha Oil	Tonnes	16,000
Pepper	Tonnes	36,000
Cardamom	Tonnes	10,000

Annexure- C

A. Guidelines for Clubbing of Open Positions:

1. When a person is a partner in one or more partnership firms and /or is a director in one or more companies and/or is a manager (karta) of a Hindu Undivided Family (HUF), the total open position of

   a. the person as an individual operator,
   b. the firm or firms in which he is a partner ;
   c. the Company or companies in which he is a director ; and
   d. the HUF of which he is a manager(karta)

   taken together shall not exceed the prescribed limit.

2. Where two or more persons are partners in a partnership firm or firms and where two or more persons are director in a company or companies and where two or more persons are Kartas of HUFs, the total open position held by

   a. all the partners of partnership firm or firms;
   b. the concerned partnership firm or firms;
   c. all the directors of the company or companies ;
   d. the concerned company or companies ;
   e. all the Kartas of the HUFs ; and
   f. the concerned HUFs

   taken together shall not exceed the limit as mentioned above.

3. Where a person or persons operating as individuals and /or being partners in one or more partnership firms and/or being directors in one or more companies and/or being kartas of HUFs are also trustees in one or more trusts, the total open position of

   a. the person as individual operator,
   b. the firm or firms in which they are partners;
   c. the company or companies in which they are directors;
   d. the HUFs in which they are Kartas; and
   e. the trust or trusts in which they are trustees,

   taken together shall not exceed the limit as mentioned above.

   Provided that, if at any time more deliveries than one are running in the same commodity, the above limit shall apply to the combined open position of the member or the non-member, as the case may be, in all such deliveries running concurrently.

4. Open position of a member shall be the total of the open position acquired by him by trading through or with other member and by appropriating the business of his clients (collectively for all clients).

5. The open position of a non-member shall be the total of the open position acquired by him trading through or with one or more members.

B. Exemptions from Clubbing:

1. In the agriculture marketing set up of the rural India, co-operative societies play a crucial role. Primary Agriculture Marketing Societies registered under the state cooperative Acts, thus, are active in different agricultural commodities. These societies are also member of Federations at the State and National level. Due to this Federal structure there may be some instances when these societies have common Directors. Also, the persons from State Governments/RCS may be nominated as Directors in these societies. In view of this, the position of different societies if they are members of a Federation will not be clubbed with the open interest position of the Federation for the purpose of determining the open interest position of the Federal or vice versa. Similarly, if Govt/RCS nominated directors sits on the Boards of different societies, this will not amount to common interest for the purpose of clubbing of positions.

2. As a practice of good corporate governance, the companies now have independent directors on their Board with no financial interest in the company. Similarly, companies also have Govt/Financial Institutions nominated Directors without any financial interest in the company. In such cases, when the Directors don't have any financial interest in the company. The Commission has taken a view that the position of such companies/corporates may not be clubbed just because they have common directors.

C. The above stated guidelines are indicative only. The Exchanges may take suitable measures for clubbing of open positions on the basis of the criteria laid down above and also include other criteria such as PAN, patterns such as 'acting in concert' through common ownership and control structures and any other relevant criteria to club open positions that may be observed during the course of regular monitoring and surveillance that may appear to compromise market integrity.

Annexure D

Position Limit Violation

The following penal provisions are made to discourage/ prevent open interest violations at Commodity level / near month contract level

1. Monetary penalty on the concerned member for violations in the open interest (either on own account or on account of clients) are linked to the quantum/ value of violation committed and to be charged from the concerned member for each such violation as under:

   a. Where the violation is more than 2% of the prescribed limit(s) –
   Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs. 10,000/- whichever is higher.

   b. Where the violation is up to 2% of the prescribed limit(s) –
   Limit exceeded x Closing price x number of days such violation continued x 2% (0.02) or Rs.10,000/- whichever is lower.

   c. The member has to ensure reduction in position and to bring it within the prescribed limit(s) by the next trading day after the day of violation. In case such violation continues, the Exchange would square-off the excess position without any further notice to the member by putting the orders on behalf of the member in that client code and will not be responsible for the consequences of such action

2. In case, the instance at 1 (a) above is observed for more than 3 times in a month across the market, the Exchange would suspend the concerned member for a period of one week. For instances at 1 (b) above the Exchange may devise its norms to deal with habitual defaulters.

3. The monetary penalty as stated above, will be credited to the Investor Protection Fund of the Exchange.