

## NCDEX Natural Gas Product Note

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### **CHAPTER 1 – TRADING PARAMETERS**

#### **Authority**

Trading of Natural Gas futures may be conducted under such terms and conditions as specified in the Rules, Byelaws & Regulations and directions of the Exchange issued from time to time. A specimen of Natural Gas futures contract is indicated in **Exhibit 1**.

#### **Unit of Trading**

The unit of trading for Natural Gas shall be 1250 mmBtu. Bids and offers may be accepted in lots of 1250 mmBtu or multiples thereof.

#### **Months Traded In**

Trading in Natural Gas futures may be conducted in the months as specified by the Exchange from time to time. The trading months for the contract are given in **Exhibit 2**

#### **Basis Price**

The price of Natural Gas is basis Ex-Hazira exclusive of all taxes, levies and other expenses.

#### **Tick Size**

The tick size of the price of Natural Gas shall be Rs. 0.10 (i.e. 10 paise).

#### **Unit for Price Quotation**

The unit of Price quotation for Natural Gas shall be in Rupees per mmBtu, basis Ex-Hazira exclusive of all taxes, levies and other expenses. Quotes shall not be made on any other price basis.

#### **Hours of Trading**

As per directions of the Forward Markets Commission from Time to Time, currently:

- Mondays through Fridays – 10:00 AM to 11:30 PM  
10:00 AM to 11.55 PM (during US day light saving period)
- Saturdays – 10:00AM to 02:00 PM

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- o Expiry Date – Date as per **Exhibit 2** at 11:30 PM / 11.55 PM \*

Or as per directions from Forward Market Commission from time to time. All timings are as per Indian Standard Timings (IST)

\*during US day light saving period

### **Last Day of Trading**

The last day of trading for future contracts is given in **Exhibit 2**.

### **Mark To Market**

The outstanding positions in futures contract in Natural Gas would be marked to market daily based on the Daily Settlement Price (DSP) as determined by the Exchange.

### **Position limits**

At the commodity level, the member-wise position limit will be a maximum of 2,00,00,000 mmBtu or 20% of the open market position, whichever is higher. The client-wise position limit will be a maximum of 50,00,000 mmBtu. Both position limits will be subject to NCDEX Regulations and directions from time to time.

### **Margin Requirements**

NCDEX will use Value at Risk (VaR) based margin calculated at 99% confidence interval for one day time horizon. NCDEX reserves the right to change, reduce or levy any additional margins including any mark up margin.

### **Delivery Margins**

Buyers who have been matched by the exchange to receive deliveries would have to deposit with the exchange the whole value of the delivery on the day after the expiry of the contract. The seller matched by the exchange to give deliveries would have to deposit a delivery margin as determined by the exchange from time to time. This margin will have to be given on the day after the expiry of the contract. Open unmatched positions would not attract any delivery margins.

### **Arbitration**

Disputes between NCDEX members inter-se and between members and constituents, arising out of or pertaining to trades done on NCDEX shall be settled through arbitration. The arbitration proceedings and appointment of arbitrators shall be as governed by the Bye-laws and Regulations of NCDEX.

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### **CHAPTER 2 – DELIVERY PROCEDURES**

#### **Unit of Delivery**

The minimum unit of delivery for Natural Gas shall be 10,000 mmBtu.

#### **Delivery Size**

Delivery is to be offered and accepted in lots of 10,000 mmBtu or multiples thereof.

#### **Delivery Requests**

The procedure for Natural Gas delivery is based on the contract specifications as per Exhibit 1. Sellers & Buyers having open positions are required to give their intention/notice to deliver and take delivery to the extent of open position, at least 3 days before the expiry of the contract. Accordingly, the window for acceptance of delivery requests will be open for 3 working days and shall close 3 days prior to the expiry date (including the expiry date) of the contract.

Immediately after giving intention during the aforesaid window, the seller must satisfy the Exchange that he holds stocks of the intended quantity and quality at the delivery center. Also, the seller should have a valid contract with a physical supplier whereby the seller is entitled to sell and physically deliver gas to the buyer of the agreed quantity at the delivery center. The seller giving intention would need to submit physical documents like Storage / Shipping / import / export documents, invoice, valid Quality certificate, valid Connectivity Certificates etc. to the satisfaction of the Exchange. Such valid documents must be received by the Exchange on or before E-2. Any failure to furnish any/all of the relevant documents would render the seller ineligible to give delivery.

Similarly, immediately after giving intention during the aforesaid window, the buyer must satisfy the Exchange that he has the capability like pipeline connectivity etc. to receive gas at the delivery center. For this purpose the buyer must furnish the Exchange with appropriate documents which would enable him to take delivery to the satisfaction of the Exchange. Such valid documents must be received by the Exchange on or before E-2. Any failure to furnish any/all of the relevant documents would render the buyer ineligible to receive delivery.

Members giving delivery requests for the commodities are not permitted to square off their open positions once such request is made. A penalty of 5% of final settlement price on the position squared off will be levied on the Members violating the same.

NCDEX would thereafter complete the matching process on the day of Expiry, provided the documents furnished by the buyer and seller are to the satisfaction of the Exchange, and by random allocation, and any other factor(s) that the Exchange deems appropriate for completion of the matching process.

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All open positions of those sellers who do not provide required information for physical delivery or are unable to find a corresponding buyer as with similar intention shall be settled in cash.

### **Delivery Allocation**

On the last trading day, the Exchange would then compile delivery requests received from members. The buyers/ sellers who have to receive/ give delivery would be notified on the same day after the close of trading hours. Delivery of Natural Gas is to be accepted by buyers at the specified location at Hazira where the seller effects delivery in accordance with the contract specifications.

### **Actual Delivery**

The seller would have to arrange for appropriate facility and deliver the product at the delivery center along with assaying certificate.

### **Quality Standards**

Should be of Standard Pipeline Quality.

### **Duties & levies**

The seller shall be responsible to bring the goods at the delivery center. The buyer shall be responsible for the freight cost, insurance, import duty and all other taxes and levies on actual basis. Freight and Insurance will be paid on actual basis on production of satisfactory documentary evidence from the seller. The customs duty will be applicable on the day the goods are cleared from Indian Customs Department.

### **Stamp Duty**

Stamp duty is a State subject, and shall be payable as per applicable State Laws.

### **Taxes**

#### **Service tax**

Service tax will be payable by the members of Commodity Exchanges on the gross amount charged by them from their clients on account of trades/ deals executed by them on Exchange platform.

#### **Sales Tax/ VAT**

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Local taxes/ VAT wherever applicable is to be paid by the seller to the sales tax/ VAT authorities on all contracts resulting in delivery. Accordingly the buyer will have to pay the taxes/ VAT to the seller at the time of settlement. Members and/ or their constituents requiring to receive or deliver Natural Gas should register with the relevant tax/ VAT authorities of the place where the delivery is proposed to be received/ given. In the event of sales tax exemption, such exemption certificate should be submitted before settlement of the obligation. There will be no exemptions on account of resale or second sale in VAT regime.

### **Premium/ Discount**

No premium or discount on the basis of quality specifications will be applicable for Natural Gas.

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### **CHAPTER 3 – CLEARING AND SETTLEMENT**

#### **Daily Settlement**

All open positions of a futures contract would be settled daily based on the Daily Settlement Price (DSP) as determined by the Exchange.

#### **Daily Settlement Price**

The Daily Settlement Price (DSP) determined by the exchange at the end of every trading day. The DSP will be utilized for marking to market all open positions.

#### **Final Settlement Price**

The Final Settlement Price (FSP) of Natural Gas contract would be the international spot price of Natural Gas as polled by the Exchange and converted at the USD/Rupee exchange rate prevailing on expiry date.

On expiry of the contract, the following types of open positions would be cash settled:

- a) Delivery information not provided.
- b) Unmatched delivery information

The open positions for which information have been provided for and have been matched by the Exchange, would result in physical delivery.

#### **Pay in and Pay out for Daily Settlement / Final physical settlement**

For Natural Gas the daily settlements will be as per the table illustrated below. As the FSP will be declared only on E+1 day daily settlement will be done as usual on E+1 also, using the Daily Settlement Price. Subsequently, on E+2 the difference between the FSP and the DSP will be settled. The buyer clients would have to deposit requisite funds with their respective Clearing Member before "pay in" time.

Example: For a contract which is expiring on 25th of a particular month (i.e. on E), the FSP will be available on the subsequent trading day (i.e. 26th of the month or E+1).

The process of settlement will be done as follows:

Trading would be done on the expiring contract till the 25th of the month (i.e. E). The MTM Settlement will be done on the 26th at the Daily Settlement Price for the contract. The final settlement would be done on 27th of the month (i.e. on E+2) The Final Settlement will be done with respect to the difference between Daily Settlement Price and Final Settlement Price as declared by the Exchange.

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All fund debits and credits for Daily Settlement of the Member would be done in the Member's Settlement Account with the Clearing bank.

<b>Time (E+1) Activity</b>	<b>Activity</b>
On or before 11.00 hours	PAYIN: Debit paying member a/c for funds
After 13.00 hours	PAYOUT: Credit receiving member a/c for funds

All fund debits and credits for difference of Daily Settlement Price and Final Settlement Price would be done in the Member's Settlement Account with the Clearing bank.

<b>Time (E+2) Activity</b>	<b>Activity</b>
On or before 11.00 hours	PAYIN: Debit paying member a/c for funds
After 13.00 hours	PAYOUT: Credit receiving member a/c for funds

### Pay in and Pay out for final physical settlement

The table below illustrates timings for pay in and pay out in case of positions marked for physical settlement. The buyers would have to deposit requisite funds.

Pay in and Pay out for Final Settlement in case of physical deliveries

<b>Time (E+3) Activity</b>	<b>Activity</b>
On or before 12.00 hours	PAYIN - Debit Buyer member a/c

<b>Time (E + 6) Activity</b>	<b>Activity</b>
<b>On or before 12.00 hours</b>	PAYOUT - Credit Seller Member Settlement a/c for funds

Pay out to the seller shall be subject to receipt by the Exchange of satisfactory evidence of delivery of commodity by the seller to the buyer. Such evidence shall be submitted by both seller and the buyer.

### Supplementary Settlement for Taxes

Would have to be settled between the buyer and seller directly under intimation to the Exchange. Any non compliance should be reported to the Exchange within the specified timelines.



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### Exhibit 1 – Contract Specifications

Type of Contract	Futures Contract Specifications
Name of Commodity	NATURAL GAS
Ticker symbol	NATURALGAS
Trading System	NCDEX Trading System
Unit of trading	1250 mmBtu
Delivery unit	10000 mmBtu
Quotation/base value	Rs per mmBtu
Tick size	Rs 0.10 (i.e. 10 paise)
Quality specification	Should be of Standard Pipeline quality.
Basis	Ex- Hazira exclusive of all taxes, levies and other expenses
Delivery center	Hazira
Trading hours	<p><b>Mondays through Fridays</b> - 10:00 AM to 11:30 PM  10:00 AM to 11:55 PM (during US day light saving period)  <b>Saturdays</b> - 10:00AM to 02:00 PM  <b>Expiry Date</b> - at 11:30 PM / 11:55 PM *</p> <p>All timings are as per Indian Standard Timings (IST)  *during US day light saving period</p>
Due date/Expiry date	Trading in the contract shall cease on the fourth business day of the contract month, excluding Saturdays, prior to the first calendar day of the next month.
Penalty Structure	The penalty structure for failure to meet delivery obligations will be as per Circular no. NCDEX/TRADING-091/2007/235 dated October 4, 2007
Delivery specification	The buyer and seller shall give intentions of taking/giving delivery through the delivery request window at least three trading days prior to the expiry of the contracts and such intentions can be given during 3 days which would be notified separately. This will be matched by exchange for physical delivery as per the process put in place by the Exchange.
Delivery Logic	Intention Matching
Closing of contract	All open positions for which delivery intentions have not been received or for which delivery intentions

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	have been rendered but remain unmatched for want of counterparty to settle delivery, will be cash settled at Final settlement Price on the expiry of the contract.
Opening of contracts	As per launch calendar
No. of active contracts	As per launch calendar
Price limit	<p>Base daily price fluctuation limit is (+/-) 4%. If the trade hits the prescribed daily price limit, the price limits will be relaxed up to (+/-) 6% without any break/ cooling off period in the trade. In case the daily price limit of (+/-) 6% is breached, then after a cooling off period of 15 minutes, the daily price limit will be further relaxed up to (+/-) 9%. Trade will be allowed during the cooling off period within the price band of (+/-) 6%.</p> <p>In case of price movement in International markets which is more than the maximum daily price limit (currently 9%), the same may be further relaxed in steps of 3% with the approval of FMC.</p>
Position limits	<p><b>Client level:</b> 50,00,000 mmBtu  <b>Member level:</b> 2,00,00,000 mmBtu or 20% of the open market position, whichever is higher.</p> <p>The above limits will not apply to bona fide hedgers. For bona fide hedgers, the Exchange will, on a case to case basis, decide the hedge limits. Please refer to Circular No. NCDEX/TRADING-100/2005/219 dated October 20,2005</p>
Special Margin	In case of additional volatility, a special margin at such other percentage, as deemed fit, will be imposed in respect of outstanding positions, which will remain in force as long as the volatility exists, after which the special margin may be relaxed
Final Settlement Price	The Final Settlement Price (FSP) of natural gas contract would be the international spot price of Natural Gas as polled by the Exchange and converted at the USD/Rupee exchange rate prevailing on expiry date.

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### Exhibit 2- Schedule of the Due Date/ Expiry Date of Trading on Natural Gas Futures

Launch Date	Expiry Date
22 December 2009	25 January 2010
22 December 2009	23 February 2010
29 December 2009	26 March 2010
27 January 2010	27 April 2010
24 February 2010	25 May 2010
27 March 2010	25 June 2010
28 April 2010	27 July 2010
26 May 2010	26 August 2010
26 June 2010	27 September 2010
28 July 2010	26 October 2010
27 August 2010	23 November 2010
28 September 2010	27 December 2010