

**THERMAL COAL  
Product Note**

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## **CHAPTER 1 – TRADING PARAMETERS**

### **Authority**

Trading of Thermal Coal 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 Thermal Coal futures contract is indicated in **Exhibit 1**.

### **Unit of Trading**

The unit of trading for Thermal Coal shall be 10 Metric Tonnes (MT). Bids and offers may be accepted in lots of 10 MT or multiples thereof.

### **Months Traded In**

Trading in Thermal Coal 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 5**

### **Basis Price**

The price of Thermal Coal is basis Ex-warehouse Wani exclusive of sales tax and local levies.

### **Tick Size**

The tick size of the price of Thermal Coal shall be Rs. 10 per MT.

### **Unit for Price Quotation**

The unit of price quotation for Thermal Coal shall be in Rupees per MT, basis - Ex-Warehouse Wani, exclusive of sales tax and local levies.

### **Hours of Trading**

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

- Mondays through Fridays – 10:00 AM to 5:00 PM
- Saturdays – 10:00 AM to 02:00 PM

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

The contents of this product note are subject to Rules, Byelaws and Regulations of NCDEX as in force from time to time and to be read therewith 2

### **Last Day of Trading**

Last day of trading shall be last day of contract month. If the last day happens to be a non-trading day, a Saturday or a Sunday, then the due date shall be the immediately preceding trading day of the Exchange, not being a Saturday

### **Mark To Market**

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

### **Position limits**

**Member-wise:** 12,00,000 MT for all contracts or 15% of market Open Interest, whichever is higher.

**Client-wise:** 4,00,000 MT

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.

### **Margin Requirements**

NCDEX will use Value at Risk (VaR) based margin calculated at 99.95% confidence interval for one day time horizon. NCDEX reserves the right to change, reduce or levy any additional margins including any mark up margin.

### **Pre-Expiry Additional Margin**

There will be an additional margin imposed for the last 5 trading days, including the expiry date of the Thermal Coal contract. The additional margin will be added to the normal exposure margin and will be increased by 1% everyday for the last 5 trading days of the contract.

### **Delivery Margins**

In case of open positions materializing into physical delivery, delivery margins as may be determined by the Exchange from time to time will be charged. The delivery margins will be calculated based on the number of days required for completing the physical delivery settlement (the look-ahead period and the risks arising thereof).

### **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

### **Additional Margin**

In addition to the above margins the Regulator/Exchange may impose additional margins on both long and shot side at such other percentage, as deemed fit. Removal of such Margins will be at the discretion of the Regulator/Exchange.

### **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 the Exchange.

## **CHAPTER 2 – DELIVERY PROCEDURES**

### **Unit of Delivery**

The unit of delivery for Thermal Coal shall be 10 MT.

### **Delivery Size**

Delivery is to be offered and accepted in lots of 10 MT or multiples thereof. A quantity variation of +/- 5% by volume is permitted as per contract specification.

### **Delivery Requests**

The procedure for Thermal Coal delivery is based on the contract specifications as per Exhibit I. All the open positions shall have to be compulsorily delivered either by giving delivery or taking delivery as the case may be. That is, "upon expiry of the contracts, any seller with open position shall give delivery of the commodity. The corresponding buyer with open position as matched by the process put in place by the Exchange shall be bound to settle by taking physical delivery. In the event of default by seller or buyer to give delivery or take delivery, as the case may be, such defaulting seller or buyer will be liable to penalty as may be prescribed by the Exchange from time to time".

The Buyers and the Sellers need to give their location preference through the front end of the trading terminal. If the Sellers fail to give the location preference then the allocation to the extent of his open position will be allocated to the base location.

### **Delivery Allocation**

The Exchange would compile delivery requests received from members on the last trading day, as specified in Chapter 1 above. The buyers / sellers who have to receive / give delivery would be notified on the same day after the close of trading hours. Delivery of Thermal Coal is to be accepted by buyers at the accredited warehouse where the seller effects delivery in accordance with the contract specifications.

### **Actual Delivery**

Where Thermal Coal is sold for delivery in a specified month, the seller must have requisite electronic credit of such Thermal Coal holding in his Clearing Member's Pool Account before the scheduled date of pay in. On settlement the buyer's Clearing Member's Pool Account would be credited with the said delivery quantity on pay out. The Clearing Member is expected to transfer the same to the buyer's depository account. However, the buyer must take actual physical delivery of Thermal Coal before expiry of the validity date as indicated in the quality test report/Assayer's

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Certificate of the Assayer. At the time of physical delivery to buyer, consignment will be tested for moisture to provide correct weight of coal to buyer.

### Validity period

The validity period for Thermal Coal will be one month from the date of first deposit into the warehouse. There is no revalidation sampling and testing in this case.

### Accredited Storage Facility/Warehouse

NCDEX has accredited warehouses for receipt and delivery of Thermal Coal. Thermal Coal will be received and delivered only from the NCDEX accredited warehouse. The details of the NCDEX accredited warehouses are as per Exhibit 2.

The Thermal Coal received at the NCDEX accredited warehouse will be tested and certified by warehouse appointed assayer among the Exchange empanelled list of assayers before acceptance as good delivery in the warehouse. Likewise, Thermal Coal delivered to buyers will be from the accredited warehouse only.

### Accredited Assayer

Warehouse appointed assayer take samples for quality testing and certification of Thermal Coal received at the designated warehouse. The quality testing and certification of Thermal Coal will be undertaken only by the Exchange empanelled Assayer. The assayer details are given in the Exhibit 2 alongside the warehouses.

### Quality Standards

Gross Calorific Value(GCV) (Air Dried Basis)	4000 kcal/kg
Total Moisture (As Received Basis)	12%
Ash (Air Dried Basis)	35%
Size	> 10 mm

### Standard Allowances

At the time of deposit Standard Allowance will be 3.0% of the consignment considering the sampling, handling, spillage and weight variance factor.

### Good / Bad delivery Norms

Thermal coal delivery into NCDEX designated Warehouse would constitute good delivery or bad delivery based on the good / bad delivery norms as per **Exhibit 3**. The list contained in **Exhibit 3** is only illustrative and not exhaustive. NCDEX would from time to time review and update the good / bad delivery norms retaining the trade / industry practices.

## **NCDEX Thermal Coal Sampling and Testing Procedure**

Coal will be sampled for every 10 MT of deposit at the time of unloading. 10KG sample will be drawn and it will be reduced to five sets of 1KG each, one set for testing by assayer, one set as record with assayer, one set for depositor's reference, one set for warehouse reference and one set for Exchange reference which will be kept at warehouse. Hence, total sample quantity will be 5 KG for every 10 MT lot.

### **Accredited Assayer**

NCDEX has empanelled assayers for quality testing and certification of Thermal Coal received at the designated warehouse. The quality testing and certification of Thermal Coal will be undertaken only by the empanelled Assayer as appointed by the warehouse service provider. The assayer details are given in the Exhibit 2 alongside the warehouse.

### **Assayer Certificate**

Testing and quality certificate issued by Assayer for thermal coal delivered at designated warehouses in Wani and at such other locations announced by the Exchange from time to time shall be acceptable and binding on all parties. Assayer will submit the test report to designated warehouse. Warehouse will provide the test reports to depositors and simultaneously update the delivery system of Exchange. Each delivery of Thermal Coal at the warehouse must be accompanied by a certificate from warehouse appointed Assayer in the format as per **Exhibit 4**.

### **Electronic transfer**

Any buyer or seller receiving and or effecting thermal coal delivery would have to open a depository account with an NCDEX empanelled Depository Participant (DP) to hold thermal coal in electronic form. On settlement, the buyer's account with the DP would be credited with the quantity of thermal coal received and the corresponding seller's account would be debited. The Buyer wanting to take physical delivery of the thermal coal holding has to make a remat request in prescribed form to his DP with whom depository account has been opened. The DP would route the request to the warehouse for issue of the physical commodity i.e. thermal coal to the buyer and debit his account, thus reducing the electronic balance to the extent of thermal coal so rematerialized.

### **Assayer Charges**

The Assayer charges for testing and quality certification should be paid to the Assayer directly at the delivery location either by cash / cheque / demand draft. These charges shall be borne by the seller at the time of delivery into the storage area.

### **Duties & levies**

The buyer shall pay for the freight cost, insurance and other duties and levies as per the documents provided by the sellers. The customs duty will be applicable on the day the goods are cleared from Indian Customs Department.

### **Stamp Duty**

Stamp duty is payable on all contract notes issued as may be applicable in the State from where the contract note is issued or State in which such contract note is received by the client.

### **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**

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 thermal coal 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**

Premium & Discount on the thermal coal delivered will be provided by the Exchange on the basis of quality specifications:

The Exchange will communicate the premium / discounts amount applicable. Such amount will be adjusted to the members account through the supplementary settlement.

Currently, the applicable premium/discounts for the commodity are as per Exhibit 1.



## **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) will be as disseminated by the exchange at the end of every trading day. The DSP will be reckoned for marking to market all open positions.

### **Final Settlement Price**

The Final Settlement Price (FSP) in Indian Rupees (INR) will be determined by the Exchange on maturity of the contract.

All open positions on the expiry day of the contract would result in compulsory delivery.

### **Spot Prices**

NCDEX will announce / disseminate spot prices for Thermal Coal relating to the designated delivery center and specified grade/ quality parameters determined through the process of polling a set of market participants representing different segments of the value chain.

The polled prices shall be input to a normalizing algorithm (like 'bootstrapping' technique) to arrive at a representative, unbiased and clean 'benchmark' spot price for Thermal Coal. The security of data and randomness of polling process will ensure transparency and correctness of prices. The Exchange has absolute right to modify the process of determination of spot prices at any time without notice.

### **Dissemination of Spot Prices**

Spot prices for Thermal Coal will be disseminated on daily basis.

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

The table below illustrates timings for pay in and pay out in case of daily settlement. The buyer clients would have to deposit requisite funds with their respective Clearing

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

Time (T+1)	Activity
On or before 11.00 hrs	PAYIN - Debit paying member a/c for funds
After 13.00 hrs	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 / sellers would have to deposit requisite funds / thermal coal with their respective Clearing member before "pay in".

Pay in and Pay out for Final Settlement in case of physical deliveries	
Time (E+2)	Activity
On or before 12.00 hrs	PAYIN - Debit Buyer Member Settlement a/c for funds - Debit Seller Member's CM Pool Account for thermal coal
After 14.30 hrs	PAYOUT - Credit Seller Member Settlement a/c for funds - Credit Buyer Member's CM Pool Account for thermal coal

Additionally the supplemental settlement for Thermal coal futures contracts for premium / discount adjustments relating to quality of Thermal coal delivered, actual quantity delivered and close out for shortages, will also be conducted on the same day. Clearing Members are required to maintain adequate fund balances in their respective accounts.

Pay in and Pay out for supplemental settlement	
Time (E+2)	Activity
On or before 15.00 hours	PAY IN - Debit Member Settlement a/c for funds
After 15.00 hours	PAY OUT – Credit Member Settlement a/c for funds

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### Supplementary Settlement for Taxes

The Exchange will conduct a separate supplementary settlement, as illustrated below, three days after normal pay out for completion of tax transactions.

In order to facilitate issue of invoice to right parties, the buyer Clearing Members are required to give the buyer client details to the Exchange latest by 15.00 hrs on E+3 day failing which the buying member is considered as the end buyer and accordingly invoice is issued in his/their name.

The Seller Clearing Members are required to give the seller client details to the exchange latest by 15.00 hrs on E + 4 day.

The amounts due to the above differences will be debited / credited to Member's clearing bank account similar to normal settlement.

Pay in and Pay out for taxes	
Time (E+5)	Activity
On or before 11.00 hours	PAY IN: Debit Buyer Member Settlement a/c for funds.
After 11.00 hours	PAY OUT: Credit Seller Member Settlement a/c for funds

For further clarification and detailed procedure on sales tax settlement, participants can refer to circular number NCDEX/CLEARING-001/2008/002 issued on January 04, 2008.

**Exhibit 1 – Contract Specifications**

**Futures Contract Specifications for Coal – Wani**

(Applicable for contracts expiring in June 2009 and thereafter)

Type of Contract	Futures Contract Specifications	
Name of Commodity	Thermal Coal	
Ticker symbol	COALWANI	
Trading System	NCDEX Trading System	
Basis	Ex-warehouse Wani, exclusive of sales tax and local levies	
Unit of trading	10 MT	
Delivery unit	10 MT	
Quotation/base value	Rs. per MT	
Tick size	Rs. 10 per MT	
Quality specification	Gross Calorific Value(GCV) (ADB)	4000 kcal/kg
	Total Moisture (ARB)	12%
	Ash (ADB)	35%
	Size	> 10 mm
Quantity variation	+/- 5 %	
Delivery Center	Wani (Wani and within 100 kms of Wani)	
Hours of Trading	<p>As per directions of the Forward Markets Commission from time to time, currently –</p> <p><b>Mondays through Fridays:</b> 10:00 AM to 5:00  <b>Saturdays:</b> 10.00 AM to 2.00 PM</p> <p>The Exchange may vary the above timing with due notice</p>	
Due date/Expiry date	<p>Last Day of every month</p> <p>If the Last Day happens to be a non-trading day, a Saturday or a Sunday then the due date shall be the immediately preceding trading day of the Exchange, not being a Saturday.</p>	
Delivery specification	Upon expiry of the contract all outstanding positions	

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	<p>will result in delivery.</p> <p>The penalty structure for failure to meet delivery obligations will be as per circular no. NCDEX/TRADING-086/2008/216 dated September 16, 2008.</p>
Delivery Logic	Compulsory Delivery
Opening of contracts	Trading in any contract month will open on the 1st day of the month. If the 1st day happens to be a non-trading day, contracts would open on the next trading day.
Closing of contract	Upon the expiry of contract all outstanding open positions would result in compulsory delivery
No. of active contracts	As per the Contract Launch Calendar in Exhibit 5.
Price band	<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>If the price hits the revised price band (9%) again during the day, trade will only be allowed with the revised price band. No trade/order shall be permitted during the day beyond the revised limit of (+/-) 9%.</p>
Position limits	<p><b>Member-wise:</b> 12,00,000 MT for all contracts or 15% of market wide Open Interest whichever is higher.</p> <p><b>Client-wise:</b> 4,00,000 MT</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.
Premium/Discount	<p><b><u>Premium/Discount for GCV:</u></b></p> <ul style="list-style-type: none"> <li>Guaranteed GCV = 4000 kcal/kg.</li> </ul>

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	<ul style="list-style-type: none"><li>• Premium/Discount :</li></ul> <p><b>Adjusted Value = <math>\frac{\text{Price} \times \text{GCV(ADB)}}{\text{Guaranteed GCV (4000)}}</math></b></p> <ul style="list-style-type: none"><li>• If GCV is less than 3700 kcal/kg, the goods will be rejected.</li><li>• If GCV is greater than 4300 kcal/kg, no premium would be applicable.</li></ul> <p><b><u>Premium/Discount for Total Moisture:</u></b></p> <ul style="list-style-type: none"><li>• Total moisture in excess of 12% (subject to maximum of 14%) shall be adjusted for as follows:</li></ul> <p><b><u>Adjusted Quantity =</u></b> Contract quantity x (100 – (Actual TM-Basis TM)/100</p> <ul style="list-style-type: none"><li>• Total moisture of less than 12% shall not attract any premium.</li><li>• If Total Moisture is greater than 14% the goods will be rejected.</li></ul> <p><b><u>Premium/Discount for Ash:</u></b></p> <ul style="list-style-type: none"><li>• Ash of less than 35% shall not attract any premium.</li><li>• If Ash is greater than 37% the goods will be rejected.</li></ul> <p><b><u>Premium/Discount for size :</u></b> If more than 15% of the coal is less than 10 mm in size, a discount of Rs 25/MT will be applicable on every additional percentage over 15%.</p>
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**Exhibit 2 – Warehouse & Assayer Address Details**

<b>Warehouse</b>	<b>Assayer</b>
M/s JICS Logistics GUPTA COALFIELD & WASHERIES LTD Near Bricks Factory, Vill : Brahmni Tehsil : Wani, Dist. Yeotmal Maharashtra - 445309  Contact Person: Mr Govind Saboo (Mob: 9324246515)	M/s Mitra S.K. Coal Inspection Pvt. Ltd., Plot No. 280, Buty layout, Yaswant Apartment, Flat No. 5 Dharampeth Extn. Nagpur : 440010 Contact Person : Mr. Chandan Chowdhury, Manager Ph. No. (0712)2531373 Fax No. (0712) 2531374 (M) 09823183822 Sri Sabu Mathews, Inspector (M) 09423404694

**Exhibit 3 - Good / Bad delivery norms for acceptance of Commodity at warehouse**

No.	Particulars	Good / Bad delivery
1	Quality not meeting futures contract specification.	Bad delivery
2	Delivery at non designated warehouse	Bad delivery
3	Delivery completed but without sampling & testing / certification / expired validity	Bad delivery
4	Delivery without weight certificate	Bad delivery
5	Weighed at other than recognized by designated warehouse/ weigh bridge / weigh scale	Bad delivery
6	When sample is not drawn as per sampling norms and not carried out at the time of unloading	Bad delivery
7	Delivery found contaminated on visual inspection	Bad delivery



**Exhibit 4 – Specimen of NCDEX Thermal Coal Testing Report**

<b>CERTIFICATE OF QUANTITY &amp; QUALITY</b>			
Date : _____		Report no.: _____	
NCDEX member :			
Commodity :			
Lorry No. :			
Warehouse address:			
QUANTITY :			
Date of deposit:			
Test Parameters	NCDEX specifications	Test results	Test Protocol
<p>This is to certify that National Commodity &amp; Derivative Exchange Ltd. ( NCDEX ) member / constituent _____ has delivered _____ and the cargo meets/does not meets NCDEX contract specifications and hence, it is accepted/rejected for deposit.</p>			
<b>Chief Inspector / Authorized Signatory</b>			

**Exhibit 5- Schedule of the Due Date/Expiry Date of Trading on Coal Futures**

<b>Launch Date</b>	<b>Expiry Date</b>
April 09	June 09
May 09	July 09
June 09	August 09
July 09	September 09
August 09	October 09
September 09	November 09
October 09	December 09