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**Supplementary Rules to the Market Rules: Derivatives
Market Rules**

Version 1: June 2014



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Introduction

Trop-X is a licensed and regulated multi-asset, multi-currency **securities exchange** in the **Seychelles**. **Trop-X** is focused on the provision of the **listing** and **trading** of **securities** for a global audience of **investors**.

These **Derivative Rules** specifically cater for the trading of derivatives on **Trop-X** and are additional to and not separate from, The **Trop-X Market Rules**.

Any questions as to the interpretation of these **Derivative Rules** should be directed to the **Head of Markets Supervision and Compliance** at compliance@trop-x.com.

Trop-X may issue **directives** and **notices** from time to time on specific issues that may affect **members** of **Trop-X** or its **Service Providers**. All such **directives** and **notices** issued shall form part of these **Derivatives Rules**.

These Rules, and any **directives**, and **notices** published from time to time shall be binding on **Members** and **Service Providers** and their **directors**, **officers**, employees and agents.



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SECTION 1

Definitions

Bolded terms referenced in this document are defined in this section except where already defined in the Market Rules which in such cases the bolded terms may be referenced in the “Definitions” of that document.

<u>Term</u>	<u>Definition</u>
‘contract for difference’ or ‘CFD’	means a standardized contractual agreement, to exchange the difference between the opening and closing prices of a particular commodity or financial instrument;
‘contract interest’	means the interest cost that is paid or received, on a daily basis, by holders of net long positions and holders of net short positions, respectively;
‘contract series’	means the contract terms applicable per the Directives ;
‘contract specifications’	means the detailed specification published by notice ;
‘contract value’	means the determination of the value of a contract by multiplying the traded price of the derivative contract by the size of the existing position of the derivative contract ;
‘daily adjustment’	means the daily cash flows relevant to a derivative contract calculated by reference to the daily settlement price ;
‘Daily Settlement Price’	means the settlement price of a derivatives contract as determined and published by Trop-X ;
‘derivative contract’ or ‘contract’	means a contract for a security whose price is dependent upon or derived from one or more underlying assets and accepted for trading on Trop-X and includes futures contracts, options contracts and contracts for difference ;
‘Derivatives Rules’	means the rules contained in this document, along with any directives, announcements and notices that Trop-X publishes to give effect to the derivative rules;
Final Trading Day	means the last day on which a contract can trade as determined by Trop-X ;



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‘Final Settlement Price’	means the final settlement price of a derivative contract determined by Trop-X ;
‘Head of Markets’	means the person responsible for the Markets Division of Trop-X ;
‘initial margin’	means the amount of market collateral deposited or provided to the Clearing Agency in order to open a position;
‘Initial Margin Rate’	means the rate at which the investor is charged the initial margin ;
‘Listing Committee’	means the committee delegated by Trop-X to approve a contract series and any other duties as specified in Section 2 of these Derivative Rules ;
‘market collateral’	means as defined in the Act ;
‘Market Rules’	means the Trop-X Market Rules to which these rules are a supplement ;
‘Rules’ or ‘these rules’	Means these Derivatives Rules as approved by the Securities Authority ;
‘Settlement Price’	means the final settlement price of a derivative contract determined by Trop-X ;
‘settlement value’	means the determination of the value of the derivative contract settlement requirements and is determined by multiplying the Settlement Price of the derivative contract by the size of the existing position of the derivative contract .
‘Trop-X’	means Trop-X (Seychelles) Limited, a company incorporated under the company laws of Seychelles (Company Number 879858-1) and licensed to operate as a securities exchange in terms of the Act ;
‘underlying asset’	means the financial instrument on which a derivative's price is based; and
‘variation margin’	means a payment that is made based upon mark to market daily settlement of open derivatives contracts held by members .



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SECTION 2

Objects, Powers and Duties of the Listing Committee

1. The **Listing Committee** shall have powers to and be responsible for specification of the **Derivative Contracts** that shall be available for trading.
2. The **Listing Committee** may, for the purposes of ensuring timely approval, confer to **the Head of Markets** the responsibility of specifying any new **contract specifications**, as long as the **contract** falls within the parameters of a **contract series** and will be **cleared** by the appointed **Clearing Agency**.
3. Any decision taken by the **Head of Markets** per Rule 1(ii) of **these Derivatives Rules** shall be treated as a decision taken by the **Listing Committee**.
4. Any **person** aggrieved by a decision of the **Listing Committee** may initiate the complaints proceedings per Section 10 of the **Market Rules**.
5. The **Listing Committee** shall cause to be **published by notice**, and on **the Trop-X** website, information pertaining to the **contract specifications**.



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SECTION 3

Derivative Trading Rules

1. Approval

- a) **Trop-X** shall authorize for trading, **CFDs**, and any other **contract** approved by the **Listing Committee**. All such **contracts** shall be collectively called **derivatives contracts** for the purposes of **these Derivative Rules**.
- b) **Trop-X** may withdraw approvals on the basis that *inter alia*, the **derivative contract** no longer meets the approval criteria. The **Listing Committee** shall communicate any such decision by **notice**.

2. Trading Hours

Trading Hours in respect of derivatives trading shall be per the **contract specifications**. Any **off market trading** shall be conducted only in accordance with the **Market Rules**, specifically Rule 5.2 and Directive 3.1 of the **Market Rules**.

3. Contract specifications

- a) Prior to opening a **derivatives contract** for trading, **Trop-X** shall cause to be published by **notice** and on its website, the relevant **contract specifications**.
- b) A **member** entering into any **transaction** in respect of a **derivative contract** after market close or on the last trading day of a **contract** must do so accordance with Rule 5.1 and Directive 3.1 of the **Market Rules**.

4. Adjustments

- a) All adjustments to be made shall be done in the manner prescribed in the **contract series** and/or **contract specifications**.
- b) In order to prevent systemic risk, **Trop-X** shall have the power to:
 - i. make an adjustment to the terms of the **contract specifications**; and
 - ii. direct the **Clearing Agency** to make an adjustment to the number of open **contracts** registered with it;
 - iii. ensure that the value of the open **derivative contract** is, as far as practicable, the same as it would have been prior to any adverse occurrence;



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- iv. determine the date and time that any adjustment will become effective; or
 - v. round the adjustment of any term of this Rule 4(b) to the nearest cent or unit of the **underlying asset**.
- c) **Trop-X** shall inform the market via **notice** in the event that a **contract series** and/or **contract specification** has been amended as soon as it is practicable and appropriate to do so. Prior to making any such adjustments, **Trop-X** will notify the **Securities Authority**.

5. Effect of Options Contracts

[Reserved]

6. Effect of Futures Contracts

[Reserved]

7. Effect of CFD contracts

- a) The parties to the **CFD contract** will make an adjustment between them on **Settlement Day** according to whether the **settlement value** is greater than or less than the **contract value** at the time of entering into the **contract**.
- b) The **daily adjustments** will be paid in such currency as per the **contract specifications**.
- c) A party holding an open position will make such **daily adjustments** representing interest and/or yield by reference to the **Daily Settlement Price**, as determined by **Trop-X**.

8. Reporting Requirements

- a) **Members** are required to report each derivatives market **transaction** it enters into. A **member** shall be taken to have reported the **transaction** if the information is automatically provided through the **ATS**.
- b) If for any reason, including a technical failure, the required information is not provided through the **ATS**, **members** will be required to report to **Trop-X** the information specified in the manner prescribed.

9. CFD Daily Settlement Price Procedures



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a) **Daily Settlement Prices** shall be calculated by the Exchange by using the closing price of the underlying Instrument as determined by the Exchange.

b) **Discretion to Amend the Daily Settlement Price**

Where any **Daily Settlement Price** is established pursuant to this **Rule** and **Trop-X** is of the opinion that the established **Daily Settlement Price** will have the effect of creating a market that is not fair, orderly and transparent, **Trop-X** may amend the **Daily Settlement Price** as it sees fit.

c) **Determination of Settlement Price**

The **settlement price** for each **contract specification** shall be determined in accordance with the relevant **contract series** and **contract specifications**. The **settlement price** so determined shall, subject to there being no technical failure of the **ATS**, be accepted as final.

10. Position Limits

a) **Trop-X** or the **approved Clearing Agency** may set out in **Directives** a limit on the number of **derivatives contracts** in a **contract specification** or **contract series** which may be entered into or registered with a **Clearing Agency** (either generally or in one or more accounts or in respect of one or more **persons**).

b) **Trop-X** will **notify members** of a change to a position limit before the change becomes effective.

c) A **member** must not enter into a **transaction** if the effect of that **transaction** means that a position limit is exceeded.

11. Exercise limits

[reserved]

12. Restrictions on Exercise

[reserved]



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SECTION 4

Clearing and Settlement of Derivative Contracts

1. Clearing

Upon novation of a **derivative contract** to the **Clearing Agency** and the **Clearing Agency Participant**, the original **derivative contract** is extinguished and the **Clearing Agency** and **Clearing Agency Participant** will have entered into a **market contract**.

2. Reporting

- a) All reporting of **trades** to the **Clearing Agency** shall be done in the manner directed by **Trop-X**.
- b) **The Clearing Agency** must produce a ledger for each **Clearing Agency Participant** and **Member** which will itemize:
 - i) the day's **trades** in respect of any **derivatives contract**;
 - ii) the position changes for the previous **business day**;
 - iii) the net **settlements** to be paid or collected;
 - iv) **margins** required at the close of the **business day**;
 - v) the current day's margin balance; and
 - vi) the combined net debit or credit balance for the **business day**.

3. Margining Obligations & Close Out

- a) **Initial margin** requirements of a **contract** as determined by the appointed **Clearing Agency** will vary from time to time according to the volatility of the market.
- b) **Initial margins** must be met in the form of **market collateral** as prescribed by the **Clearing Agency** from time to time.
- c) After the **trade**, the **Clearing Agency Participant** shall call the minimum **initial margin** from its **client** on such basis as from time to time determined by the **Clearing Agency**.



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- d) Liability for payment of the **initial margin** shall arise between the **Clearing Agency Participant** and the **Clearing Agency**; and the **client** of the **Clearing Agency Participant**, upon the **clearing** and **novation** of a **trade**.
- e) **Variation margin** payments are made on a netted basis between the **participant** and the **Clearing Agency** as a result of mark to market **daily settlement** on open **derivative contracts**. Such payment is payable on the next **business day**.
- f) **The Clearing Agency Participant** must call **variation margin** from their **client** where their **client** has a net debit **variation margin** position, unless the **client** is the **Clearing Agency Participant** and the **contracts** are registered with the **Clearing Agency** in the name of that **Clearing Agency Participant**.
- g) Liability for **variation margin** shall arise at the same time as the **variation margin** comes into existence, irrespective of the time when any call is made.
- h) Calls for **initial margin** and **variation margin** must be satisfied by payment and the time of payment, unless the **clearing agency participant** agrees to accept and receives, in lieu of payment, approved **securities** as determined by the **Clearing Agency**.
- i) Where a **client** is in in **default** by failing to pay a call for margin (or lodge approved **securities**), a **member** must immediately close out to the extent necessary to counter the call for margin, all or any existing open positions in any market held by the **member** on behalf of the **client**.

4. Fees & Charges

- a) **Contract interest** is paid daily by holders of net long positions and received daily by holders of net short positions. **Contract interest** on positions held overnight on Friday will accrue interest on Saturday and Sunday.