

**Subject: Market Incidents**

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Notice to all Members,

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Pursuant to the DGCX By-Laws, Members are hereby advised as follows.

Recent market events have seen significant price volatility in a number of DGCX contracts, which has been mirrored in markets around the world. Whilst both DGCX and DCCC have operated in accordance with their normal operating procedures, a review has been undertaken to ensure that they remain appropriate in the exceptional circumstances that have occurred.

The DGCX By-Laws have also been reviewed as there has been feedback from some market participants regarding certain aspects of the Contract Specifications and the powers of DGCX in particular situations. Whilst the result of this review has not resulted in any changes being required to either the By-Laws or the operating procedures, DGCX considers it appropriate to draw the following to the attention of Members and their Clients.

At the outset it should be recognized that any exchange's rules and/or regulations will provide a degree of detail covering the operation of the market, but that they will never go into such exhaustive detail as to address all operational aspects of a market. Furthermore, it is not the function of an exchange's rules and/or regulations to cover technical aspects of the operation of the market – e.g. the order types that are permitted. DGCX's By-Laws are no different in this regard to the rules and/or regulations of other exchanges.

As a general principle the role of an exchange is not to intervene in the normal operation of the market, but that where intervention is required any action taken by the exchange is clearly set out in the relevant rules and/or regulations. Such action should be taken to ensure that the market operates in a fair, orderly and transparent manner. DGCX's intervention powers are covered in By-Laws D.5.5 (Market Halts Emergency Termination of a Trading Session and Subsequent Resumption) and D.8 (Trading Disruptions).

Broadly speaking a fair, orderly and transparent market is one where, *inter alia*, price discovery is able to be undertaken by market participants. Therefore, for an exchange to intervene it must firstly satisfy itself that its market is operating in a way that is inimical to this principle. The distinction between its own market and that of other, related markets is key in that notwithstanding the global nature of markets, the determination by an exchange of whether its market is fair, orderly and transparent can only be made with reference to activity on that market itself. That another (related) market may be exhibiting markedly different difference for broadly similar products cannot of itself lead to a clear conclusion that one market is operating in a fair, orderly and transparent manner and that the other is not. It is perfectly possible, in such a scenario for both markets to be operating in a fair, orderly and transparent manner.

A second area of concern lies with the determination of final settlement prices. For a number of products listed globally by exchanges, these prices are often determined with reference to another

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pricing source – be it an index, other exchange, or other marketplace. In such cases the responsibility for ensuring the accuracy and integrity of the reference price rests with the relevant market operator, and not with any other third-party exchange that may make use of such reference price. A third-party exchange will not have either the powers of the ability to monitor the trading activity that takes place in the reference market, and so cannot reach any determination as to the validity of published prices but must, like all other market participants, rely upon the reference market's own policies and procedures that ensure fair and robust price discovery.

Therefore, whilst again exchanges, and clearing houses have powers that allow them to use prices other than those specified in the relevant contract specifications as being the final settlement price for a particular product, these powers are not used except where issues have arisen with regard to the reference price – e.g. system issues, or where an investigation has been launched which has resulted in the invalidation and/or amendment to a reference price. That a reference price is at a level at which trading has not taken place is not, *ab initio*, sufficient grounds for an exchange to determine a different settlement price.

Finally, with regard to certain technical aspects of DGCX's trading system it should be noted that at the time of implementation the EOS Trading Platform did not support the submission of outright orders (other than calendar spread orders) at negative prices. Since that time there has been no demand to introduce such functionality and consequently such orders are rejected upon submission. However, DGCX is in the process of upgrading its trading system and will look to introduce this functionality at the time of implementation of the new system. Further details regarding this upgrade will be available in due course.

Notwithstanding the current functionality of the EOS Trading Platform, Members and their Clients should be aware that DGCX makes available for trading a number of products for which the Final Cash Settlement Price (FCSP) is determined as being the relevant reference futures price as made publicly available, and which most notably include the following:

- DGCX Brent Crude Oil Futures;
- DGCX West Texas Intermediate (WTI) Light Sweet Crude Oil Futures (WTI); and
- DGCX Mini West Texas Intermediate (WTI) Light Sweet Crude Oil Futures (WTIM)

As the FCSP for these, and other products is determined not with reference to DGCX market activity so the possibility exists that the FCSP may be a negative value. In such cases DGCX a value of \$1 will be used in the end-of-day reports provided to Members, with a subsequent cash adjustment to reflect the difference between this value and the FCSP.

In summary, DGCX considers that its By-Laws, and the Clearing Regulations of DCCC, together with the operating procedures are appropriate, but welcomes suggestions from Members and their Clients.

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Members requiring further information with regard to this Notice should contact their relationship manager.

**For Dubai Gold & Commodities Exchange**

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**Director – Operations & Risk**