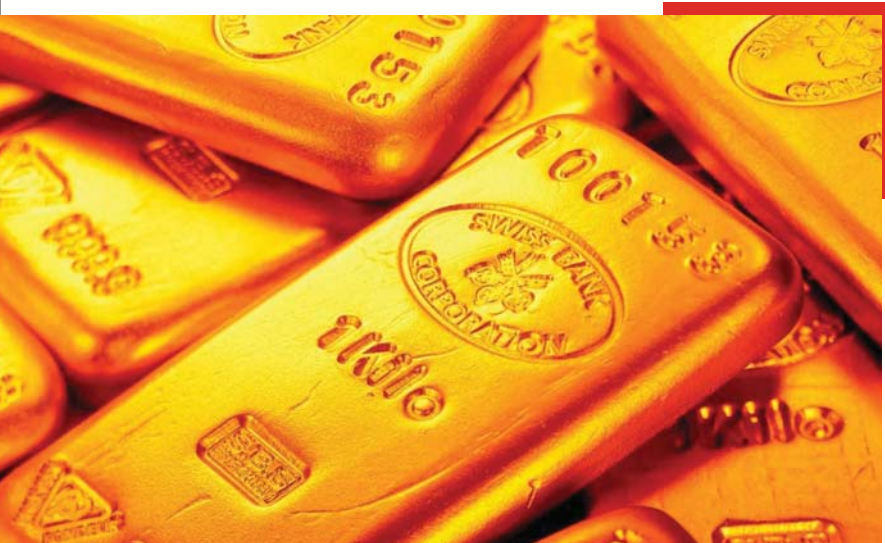




MERCANTILE EXCHANGE
OF MADAGASCAR SA



MEX Madagascar is committed to provide a world-class commodity exchange platform for market participants to trade in a wide spectrum of commodity derivatives driven by best global practices, technology, professionalism and transparency.



Innovations at MEX Madagascar

Price Discovery

MEX Madagascar is the only organization in Madagascar which provides near real time futures prices of commodities traded on the Exchange. MEX Madagascar has revolutionized the entire system of price discovery in futures segments. Malagasy markets particularly in respect of agricultural products is fragmented and spread over so many market places (known as "Phsar"). Prices are polled in these various principal market places two to three times (people are stationed in these places to get a feel of the market) a day and then statistically cleansed by a process popularly known as "boot-strapping". The participants who trade on the Exchange can use these near real-time spot prices to take decisions on the futures segment. This entire process has been commended by MEX Madagascar and where the system of price discovery of MEX Madagascar has been credited for its robustness.

Price Dissemination

The pricing system of futures based on near to global market by the Exchange is being disseminated through its website, trader work station, news agencies etc.

Trading Systems

MEX Madagascar has established reliable, time tested and transparent trading platforms very similar to those being used by successful electronic Derivatives exchanges. MEX Madagascar provides screen based trading and hence it is possible for one to place trades on the platform without visiting the Exchange.

Clearing and Settlement Systems

For efficient clearing & settlement of trades, MEX Madagascar has an automated clearing and settlement system with its Clearing Bank. The software automatically calculates Initial Margins using VAR (Value At Risk) and MTM (Mark to Market) margins on a daily basis. In the same way, members' positions are also computed on a daily basis. The information regarding pay-ins and pay-outs arising in calculations of position of members is transferred at the end of trading hours electronically, using flat files for the clearing banks and Brokers.

At the Exchange, all contracts, not settled through delivery are to be cash settled. At the real-time basis during the trading hours, Margins are re-calculated intraday. Other risk management tools like daily price limits and variation margins have been adopted in line with international best practices.



Differentiation Factors

The differentiating factors for the Exchange are: transparency in the price discovery mechanism, consistency and ease in clearing and settlement procedures and robustness of risk management systems. The Exchange understands the business needs of its participants and will endeavor to offer financing solutions to its members/clients in consultation with select banks and financing agencies.



Customer Education and Awareness

Significant education and awareness needs to be created amongst a vast majority of the population. In order to achieve this, MEX Madagascar has developed comprehensive training modules on commodities and their derivatives processes in online trading, risk management processes, etc.

MEX Madagascar has been conducting awareness programs across the country to highlight the opportunities in the commodity space, which have been very well received.

The Exchange is introducing a certification course for its members analogues to the certification courses followed in the derivatives segment of the capital market and is going to be conducted by

National Colleges. Certification in Derivatives markets is expected to deepen the knowledge of operating staff working on commodity desks of the Members/interested individuals and enable them to take appropriate decisions at the right time while trading on the Exchange.

MEX Madagascar Mission - Mentor for Global Markets

- Improving efficiency of marketing through on-line trading in Dematerialization form.
- Minimization of settlement risks.
- Efficiency of operations by providing best infrastructure and latest technology.
- Implementing best quality standards of warehousing, grading and testing in tune with trade practices.
- Improving facilities for structured finance.
- Improving quality of services rendered by suppliers.
- Promoting awareness about Derivatives trading services of MEX across the length and breadth of the country.
- Development and implementation of hedging needs.

Trading Markets: Futures and Commodity Contracts for Difference (CFD)

Trading Markets:

The Futures Market is primarily intended for Hedging and Speculation. Contracts in Futures Market results mostly in Cash Settlement and do not frequently result in delivery. The Clearing Department arranges guarantee of trades executed on the exchange. Contracts must be closed out during settlement date. Delivery contracts will be delivered and settled through the certified receipts. MEX Madagascar is having different delivery months for different products and separate contracts for each commodity being traded at MEX Madagascar. All contracts are settled on daily basis at the daily settlement price till the final settlement of commodity on the expiry date.



Commodity CFD:

Commodity CFDs, unlike most of the other forms of CFDs are actually priced from the value of the commodity trading on the global futures market. This is because in real life, the only way to trade commodities on any type of exchange is through futures, thus this is the most quoted and traded price. The reality of this is that Commodity CFDs mimic the futures value of the commodity including its trading times and individual tick value. In addition to this, commodity CFDs do have an expiry date and identical to as if clients were holding the future contract itself.



Exchange Members: Clearing and Non-Clearing Members

Non-Clearing Member (NCM) is a member of MEX Madagascar who has the right to execute transactions in the trading system of the exchange and the right to have contracts in its own name. As a broker, s/he can deal on behalf of the clients. All the trades have to be executed only through the Trading facilities provided by the Exchange. NCM will settle the transactions through Clearing Members. NCM is required to maintain a separate account for client transactions and is required to maintain the margin deposit and money belonging to clients in segregated accounts. NCMs are responsible for all the transactions of their clients. NCM will clear their Trades through Clearing Members. A NCM will be allowed to have clearing relationship with only one CM at any point of time. The obligations of the NCMs are monitored by the associated CM. Breach of rules, regulations and bye-laws by a NCM, shall not be allowed to do further trading unless the limits are reset on receipt of additional deposits. An individual, a Professional or an Institution can apply for acquiring a NCM with the Exchange.

Clearing Members

Clearing Member (CM) is an institutional Member of MEX Madagascar who has the right to execute transactions in the trading system of the exchange like a NCM. CM has also right to clear the transactions of contracts executed in MEX Madagascar either on its own behalf or on behalf of other NCMs. CMs will be responsible to MEX Madagascar for all the obligations (margins, settlement obligation etc) of NCMs on whose behalf they have agreed to clear the trades. MEX Madagascar will debit the banking account of the CMs for all the obligations of the NCMs who are clearing through CMs. CMs will enter into Clearing Agreements with their constituent NCMs. They will also take the required Caution Deposit from the NCMs. They will be allowed to set the limits for trading by NCMs. CMs are required to maintain segregated accounts of all the monies belonging to NCMs on behalf of whom they are clearing the trades. If the clearing limits of CMs are breached, all the NCMs attached to them will be stopped from further trading until the limits are reset on receipt of additional deposits.

The number of CMs will be limited compared to that of NCMs in MEX Madagascar. CMs will be located in major towns and have banking accounts with the Designated Clearing Banks who have interface with MEX Madagascar.

All Clearing Members can act as the Market Maker.

Website

The Exchange's website www.mexmadagascar.com contains a reservoir of information on the processes and operations of the Exchange as well as the Rules, Regulations and Bye-laws under which the Exchange governs. The website disseminates future prices through a ticker. It is updated regularly so that a visitor to the site is kept abreast of the latest developments in the field of commodities.

MEX Madagascar firmly believes that it would achieve its chief objective when the Malagasy farmers would be in a position to choose his cropping pattern based on the futures prices disseminated by the Exchange, rather than the practice of sowing a particular crop based on current prices. At the same time MEX Madagascar helps EXIM to minimize risk in import and export, thus providing a hedging platform. The challenge is to first reach the farmer and convince him/her of the utility of adopting the futures prices to determine the sowing pattern of crops. The Exchange does realize that with every passing day it is moving a step closer to achieving this objective.



Board of Directors

The governance of MEX Madagascar vests with the Board of Directors. The Board comprises directors who are persons of eminence, each an authority in his/her own right in the areas very relevant to the Exchange. They are well known, highly experienced and independent. Our Chief Executive Officer who is a full time employee is an expert in the field with over 10 years experience in futures market operations. Besides the Board, CEO is assisted by various committees like Membership Services Committee, Compliance Committee, Clearing and Settlement Committee and Disciplinary Committee, entrusted with handling independent portfolios.

Legal warning: "Commodity and Futures trades have contingent liability and investor should be aware of this implication. Transaction in various instruments dealt in any exchange can carry a high degree risk. A relatively small market movement can lead to a proportionately much larger effect in the value of your investment and this may work against your predictions too. The information contained herein is compiled from sources believed to be reliable. However, Mercantile Exchange of Madagascar shall not be held responsible for the accuracy of the information, or trading losses if any, the customer may incur in trading or otherwise."



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