



CAPITAL MARKETS

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A MONTHLY E-PUBLICATION ABOUT THE DEVELOPMENTS IN THE CAPITAL MARKET INDUSTRY OF THE REGION

An Interview with

Mr. Dipendra Khatiwada,
MD- Mercantile Exchange Nepal Limited (MEX)

&

Mr. Jitesh Surendran,
CEO - Mercantile Exchange Nepal Limited (MEX)

Special
Industry
Focus



An Interview with

Mr. Muhammad Lukman

CEO - National Clearing Company of Pakistan Limited (NCCPL)



Special
Industry
Focus



with

Mr. Dipendra Kumar Khatiwada,
MD- Mercantile Exchange Nepal Limited (MEX)

**An exclusive interview of MEX NEPAL's Managing Director
Mr. Dipendra Kumar Khatiwada with SAFE Secretariat**



Q: How was the idea of having a Mercantile Exchange in Nepal evolved?

A: The idea of having a commodity exchange in Nepal evolved as a need of an alternative investment opportunity. The stock and the real estate market were the two sectors where the Nepalese investors used to put their funds on. But the need of commodity exchange arose when the stock and the real estate market started losing their charm.

I, Dipendra Kumar Khatiwada along with my friends was thinking of starting a business. We came up with many alternatives among which were the concepts of commodity exchange. After much analysis about the pros and cons of the market, the market condition; we came to a conclusion that we can start a commodity exchange which will bring an alternative investment opportunity for the Nepalese investors. But starting a commodity exchange itself was a challenge in itself. Due to this, most of my friends decided to discontinue with this business and I was the only one person who was positive about this market all alone. I was then looking for a team who can support me to establish a Commodity Exchange in Nepal and a software company to come up with an electronic software platform.

In this regard, I met a software company representative at New Delhi in the year 2007 and as our discussion ended, the counterpart assured me for all sort of support in regards to the software and automation of exchange. Our discussion lasted till 3:00 am on the cold of mid January with all sort of possible discussion including operational modality, management procedures and market modality etc. As soon as that meeting ended, I again started looking for team and finally I found one. The next challenge for me was to explain to my team the benefits of having an exchange in Nepal, which I countered by saying that "We have a chance to rule the economy".

I further explained that scope of Stock exchange in Nepal was limited as 90% of the weightage in the stock exchange was dominated by the banking sectors. Next obviously commodity bourse, which was absolutely a new idea for Nepal and with plenty of opportunity and challenges, was the alternative to come up with a Commodity Exchange in Nepal. For that I had done some ground work about physical market. It was mainly about physical market conditions, market structure, supply chain mechanism, turn-over and market size which provided a sound figure that added strength to my determination. The challenges came in the form of lack of warehousing infrastructure, manipulation on market billing, manipulation of stock, absence of sincerity on quality storage, and market driving factors. The major problem was related with the price discovery mechanism which was the major need of the agriculture sector of Nepal. The volume of challenge was like Mount Everest and accomplishment of the goal seemed to be far from the eye sight. But the same thing was taken as a strategic milestone to commence an automated commodity bourse, as Mercantile Exchange Nepal Limited. And in each and every step of operating MEX Nepal, I was heartily supported by our software counterpart, which is another unforgettable aspect of forming of MEX Nepal.

with

Mr. Jitesh Surendran,

CEO - Mercantile Exchange Nepal Limited (MEX)



An exclusive interview of MEX NEPAL's Chief Executive Officer Mr. Jitesh Surendran with SAFE Secretariat



Q: Share with us some of the milestones achieved by MEX since its inception?

→**14th August 2007:** MEX got registered under the Company Act 2063 and acquired the Operating License too.

→**September 2007:** MEX penned MOU with Kappsoft Nepal Private Ltd., as its designated Software vendor.

→**16th October, 2008:** MEX penned agreement with Laxmi Bank, thereby launching the very first concept of Segregate Account in the country.

→**5th January 2009:** MEX started live trading of its operations offering 11 commodities for trading.

→**5th June, 2009:** Membership of Management Association of Nepal (MAN), an apex body of the management professionals in Nepal.

→**27th November, 2009:** MEX Nepal obtained the membership of Nepal Chamber of Commerce (NCC) which is the first assembly spot for business in Nepal.

→**28th November, 2009:** Acquired the certification of International Organization for Standardization (ISO 9001:2008) from United Registrar of Systems Limited (URS), UK

→**1st December, 2009:** MEX Nepal acquired Federation of Nepalese Chambers of Commerce & Industry (FNCCI) Membership

→**30th April, 2010:** The first exchange in Nepal to provide offline support which enables traders to settle their position during emergencies such as internet down, electricity down or no connectivity to MEX Nepal's server. Offline support request can be forwarded through NCMs to CM and finally settled through exchange.

→**17th May, 2010:** New commodities like Sugar, Cocoa and Corn were introduced where as mini-silver and mini-copper were also launched.

→**30th September, 2010:** The first exchange in Nepal to have a Clearing Bank as MEX Nepal introduced Bank of Kathmandu (BOK) as its clearing bank for automated clearing to cater to the needs of the market and its increasing client base.

→**20th December, 2010:** MEX Nepal acquired South Asian Federation of Exchanges (SAFE) Membership.

→**5th January, 2011:** MEX Nepal is the first exchange to launch MEX Yearbook. The purpose of the yearbook was to create brand awareness for the organization. Likewise, the second purpose was to educate the novice market in all the different facets associated with commodity futures and to draw in opinions from various experts in different fields.

→**5th January, 2011:** The Member Education Kit is DVD package designed to assist clients and members of MEX Nepal to help them understand and learn to use the Traders Work Station (TWS), MTWS and Web Admin along with the procedures of grievance handling, and compliance. It includes complete training tutorial with voice-over, explaining the use of each and every components of the software used for trading. This education kit is developed for proper understanding of the trading platform by all the MEX market participants – Members, Clients, and Registered users.

→**18th January, 2011:** MEX Nepal introduced Premiere Clearing Services Pvt. Ltd. as its third Clearing Member on 18th January, 2011 with the purpose of providing additional market makers to the market participants. By doing so, MEX Nepal became the first and only one exchange to have 3 clearing members.

→**15th February, 2011:** The first and the only exchange in Nepal to have the feature of Trade Verification for registered clients, to verify their settled traders on the MEX website for further transparency in the marketplace.

→**19th February, 2011:** MEX Nepal had established its "Data Center" inside the country on 19th February, 2011 with a motive to provide its customers with impeccable connectivity and services, ensuring zero downtime during unforeseen problems on the international internet gateway.

→**22nd February, 2011:** MEX has launched new products i.e., Platinum, Palladium and Small Gold to give more trading options for traders, totaling to 17 commodities and 30 contracts all together in the MEX platform.

→ **16th May, 2011:** MEX had launched a new commodity, i.e., Brent Crude

→ **10th August, 2011:** MEX Nepal had yet again introduced an escort to assist all the clients of commodity market in the form of "Clients' Handbook". The client's handbook is designed with a motive to educate and inform existing as well as prospective clients about their rights, requirements for registering as a client and procedure for trade initiation. MEX believes the "Client Handbook" would be of immense help to create awareness among the clients.

→ **14th August, 2011:** MEX Organized a training program on Anti Money Laundering Directives by Financial Information Unit (FIU), Nepal Rastra Bank (Central bank of Nepal) for its Employees, Management and Clearing Members.

→ **1st September, 2011:** Mercantile Exchange Nepal Limited (MEX Nepal) had added another milestone to its glorious history by signing a Memorandum of Understanding (MOU) and agreement with Chicago Mercantile Exchange (CME). The MOU and joint agreement have been signed for international information sharing between MEX Nepal and CME Group. This signing of agreement is expected to boost the sharing of information about the futures industry in global level and take transparency in this sector of financial markets to new heights.

→ **12th September, 2011:** Mercantile Exchange Nepal limited (MEX Nepal) introduced Mini Natural Gas in its trading platform

→ **3rd October, 2011:** MEX introduced Small Silver Contract to provide various options for trading to the Clients.

→ **11th November, 2011:** MEX Nepal had launched "Online Client Registration" (OCR) effective from 11th November, 2011 with an objective to provide efficient and effective service to its valued members and clients. With the introduction of OCR, applicants residing anywhere can register under the concerned Non Clearing Member (NCM) by logging into its concerned Clearing Member's (CM) website.

Q: Please share with us your expectations for the future of the capital market and commodity market in Nepal?

A: Nepal is carrying spontaneous opportunity in capital market and commodity segment. Need to cater on specific sector and with appropriate policy too. We need to specify here with some illustrations: There is a need to cater on specific sector with appropriate policy. we need to specify here with some illustrations:

1.0 Few months before SEBON made a policy about mutual funds- a step ahead from the absence of regulatory arrangement- the country was showing willingness to provide regulatory arrangement on such issues. But the crux of the matter is very demotivating. Policy makers assumed mutual fund can't be operated without getting direct involvement of the banking sector (to be promoted by commercial banks). Such a policy would hinder the potential of a group, entity or people and it monopolizes one sector's amidst the other sectors. It exhibits a lack of vision. Now can we allow such things to obstruct the market prosperity or not?

2.0 As we know Nepal is lacking with a specific commodity exchange act. A, a draft committee was formed years before and with active support and involvement of private sectors too was supposed to draft of the acts and rules. But still it is yet to be presented in the parliament to amend existing securities act to implement this new act and rules.

These 2 illustrations above are enough to show lack of seriousness of policy makers to garner a right path for the prosperity of the capital market. But that doesn't mean this is the end of the scenario. We can realize as in the transitional phase of Nepalese political situation economic, the agendas are becoming least prioritized. But slow and steady concerns are expressed from time to time, to emphasize the optimism about the future of capital and commodity markets. Nepal commodity and capital segment are yet to be explored. Commodity segment have lots of untouched fields which are abandoned so far. Warehouse development, grading and inspection agencies, commodity insurance, crop insurance, structured finance, contract farming, EFP and so many aspects are yet to be covered by commodity segments participants. These component will add value to the economy. Similarly capital market is not yet developed enough. Potentials are tremendous. Mutual fund, hedge funds, asset management, equity derivatives, and other components are still new in the Nepalese context.

We can cater with honesty of the market development and it is possible to attain growth through these sectors. Absence of attention of the policy makers is threatening to unfold the new segment of market and its instruments.

In order to address such issues, we need to constantly knock the doors of policy makers and then contribute to the need of the markets.

Challenges & Future Plans of MEX Nepal

The capital gain tax introduced on commodity markets in the year 2009-2010 of 10% per profit transaction has really made a huge hurdle in developing the market, and market participants are resorting to unhealthy trade practices and the market is getting unfavorable for genuine participants. So MEX Nepal is taking a lead role in negotiating with the government authorities to make the taxation more practical as in other countries and also to put an end to such unhealthy market practices which can curb the long term vision of the capital market in the country.

MEX Nepal would also like to request international agencies like SAFE to guide the authorities in power of Nepal to come up with a market friendly taxation policy for the derivative markets and also accelerate the need of a regulator. MEX Nepal has been researching to introduce deliverable products to be traded, for the very reason MEX Nepal has promoted the very first SPOT Exchange in the country, Nepal Spot Exchange (NSE).

To have the deliverable products to be traded, it requires warehousing facility and also legislation to implement warehouse receipts, which will ultimately help the farmers of Nepal to have the right price for their produce and also will curb the big time curtailing prevalent in this sector. MEX Nepal along with Nepal Spot Exchange will not leave any stone unturned to make this a reality.

INDUSTRY FOCUS



Mercantile Exchange Nepal Limited

Brief History

Mercantile Exchange Nepal Limited (MEX) was established in Nepal on 14th August, 2007, but started its operation from 5th January, 2009. MEX is established to facilitate the commodity future exchange market in Nepal. With a huge investment in information technology, MEX operates in a highly sophisticated online system that is in line with the global commodity exchange market. MEX caters its derivatives functions in Nepal as one and only ISO 9001:2008 certified commodity exchange in Nepal. The day to day operations of the Exchange are managed by the experienced and qualified professionals. The structure of MEX is impossible to replicate in Nepal. MEX's diverse futures markets offer access to contract based on different commodities. MEX initially started with facilitation of trading in 11 commodities i.e. Gold, Silver, Copper, Coffee, Wheat, Cotton, Natural Gas, Heating Oil, Crude Oil, Soybean Oil and Soybean. Then there was addition of Mini Contracts for Gold and Crude Oil on 22nd June, 2009. Then on 15th Feb, 2010, two new mini contracts were introduced for Silver and Copper for trading in MEX trading platform. Later on 17th May, 2010, MEX introduced three new commodities Sugar, Corn & Cocoa. Then, on 22nd Feb, 2011, two new commodities i.e. Platinum and Palladium and one small contract was introduced for Gold. Again on 16th May, Brent Crude was added to the energy list of the commodities traded at MEX Nepal. So altogether MEX facilitates trading in 17 commodities. So far as other commodity exchanges operating in Nepal are self regulated, MEX Nepal is also a self regulated exchange. But MEX is the only exchange pushing the government to come up with regulatory framework and a regulatory body for the commodity market in Nepal. Currently, the regulatory body of stock exchanges i.e. Securities Board of Nepal (SEBON) is proposed to regulate the commodity market. At present, SEBON and MEX Nepal are deliberately coordinating with each other for the work of regulation of commodity market in Nepal.

Vision and Mission

MEX has a vision to be “a world class commodity exchange”. For this purpose, MEX is employing world class technologies backed by a sound financial system. The mission of MEX is:

- To establish fair price discovery mechanism.
- To stand for market integrity and price transparency.
- To help Exporters-Importers, Processor and Grower by providing risk minimization system.
- To establish global standard in exchange trading.
- To develop and implement hedging needs.
- 100 % Observance of anti money laundering laws.

Quality Policy of MEX

“Mercantile Exchange Nepal Limited (MEX) 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. We shall achieve our quality goals by maintaining a Quality Management System that focuses on continual improvement through teamwork, individual responsibility, personnel development, and open communication with all our stakeholders involved while providing transparency in transactions and customer satisfaction.

Some Highlights of MEX Nepal

MEX Nepal is also the exchange with the maximum number of clearing members, Non Clearing Members, Sub- Brokers and client base, having their presence from far west to the east , in almost all the major cities of Nepal. Exchange has been the major contributor of tax to the Government of Nepal and also has generated more than 700 million NPR worth new institutional investments in less than 3 years. MEX introduced the very new concept of Segregate Account in Nepal with its Designated Clearing Banks. An exchange, its members and clients who strictly comply with the Anti Money Laundering Policy and there is no cash deposits and also third party fund transfers are not allowed. MEX Nepal is vigorously involved in Corporate Social Responsibilities (CSR) on a regular basis. MEX Nepal follows the best dispute resolution mechanism. An Exchange which conducts regularly, a monthly interaction with its members, for the very reason the interaction committee has been formed – comprising of members from NCM, CM, Head of MEX Compliance and MEX Client Service Departments. MEX Nepal is an Exchange that follows Go Green Policy and adheres strictly to green initiatives and also promotes the same to its members.



**SOUTH ASIAN
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