



Organisation of Islamic Cooperation



COMCEC

TECHNICAL REPORT on GOLD MARKET INITIATIVE for the OIC MEMBER STATES

Report of the Task Force on
Precious Metals

NOVEMBER 2016



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ACRONYMS

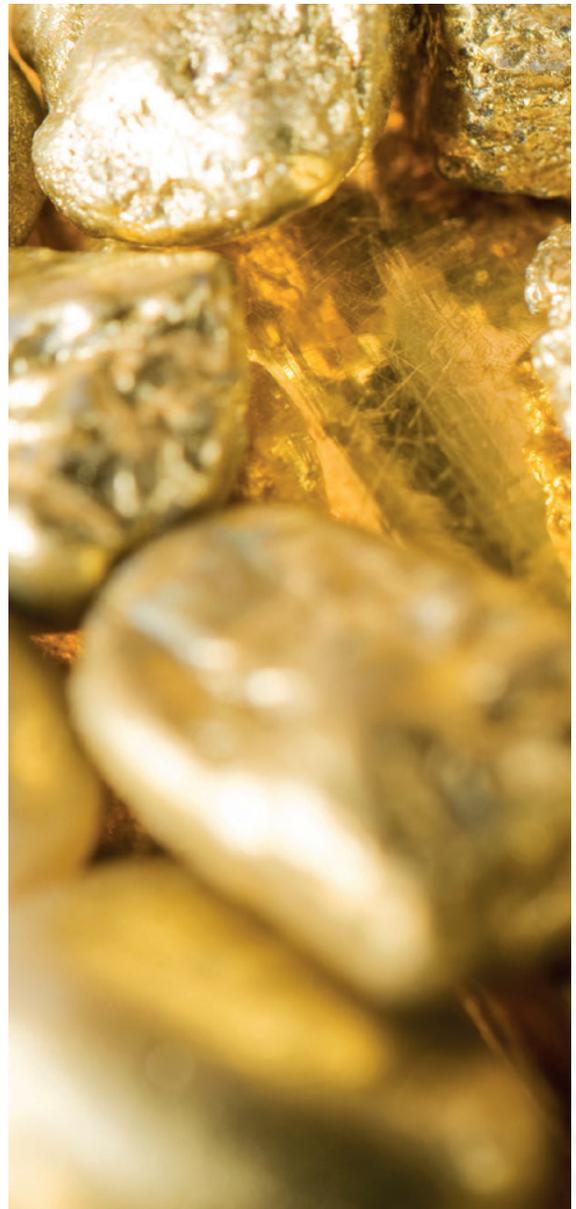
ASEAN	Association of Southeast Asian Nations
ATS	Automated Trading System
BRSA	Banking Regulation and Supervision Agency of Turkey
CBRT	Central Bank of the Republic of Turkey
CCP	Central Counterparty
CMB	The Capital Markets Board of Turkey
CME	Chicago Mercantile Exchange Group
CMI	A DGR/DCR Member lawfully engaged in the business of providing collateral management or inspection services in respect of commodities and who certifies the accuracy of the description of goods on the GR/DCR relating to those goods.
COMCEC	The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Conference
CRA	Central Registry Agency of Turkey
DCCC	Dubai Commodities Clearing Corporation
DGCX	Dubai Gold and Commodities Exchange
DGR	Dubai Gold Receipt
DMCC	Dubai Multi Commodities Centre
EOS	Trading Platform of the DGCX
ETP	Electronic Trading Platform
FCPO	Crude Palm Oil Futures Contract
FGLD	Gold Futures Contract Code at Bursa Malaysia
FTSE	The Financial Times Stock Exchange
IGE	Istanbul Gold Exchange
LBMA	The London Bullion Market Association
OECD	Organization for Economic Co-operation and Development
OIC	The Organisation of the Islamic Cooperation
OTC	Over The Counter
PMM	Precious Metals Market of Borsa İstanbul
SCA	The Securities and Commodities Authority of the UAE
SRO	Self-Regulated Organization
UAE	United Arab Emirates
VIOP	Derivatives Market of Borsa İstanbul

1 INTRODUCTION

In the 30th Session of the Follow-up Committee of the COMCEC, the Committee requested the Organization of Islamic Cooperation Member States' Stock Exchanges Forum Coordinator to conduct a study on the feasibility of a Gold Exchange among the OIC Member States. The Forum coordinator prepared a report and presented the report in the 31st meeting of Ministers of the COMCEC. In that report, the project for the most part were assessed within the framework of principles such as executing gold trades among the OIC countries in an organized and transparent manner and conducting such trades over a common structure, getting access to more investors in that way and ensuring effective pricing. Report was prepared based on 10-year data on gold regarding a few topics. In this respect current gold trading, gold supply, and gold demand in the world were presented first, and then it was aimed at to give idea about the steps needed to be taken for the integration of exchanges or markets, which exist on national level, by presenting the Islamic countries' relative position in the global gold trading.

In 31st meeting of Ministers of the COMCEC, the Committee requested to further study from the Forum 'to accelerate the process of integration of exchanges and harmonization of regulatory frameworks and submit a report on this issue to the 32nd Session of the COMCEC. The Committee also requested that a further study, through the Task Force on Precious Metals of the Forum, be conducted with the aim of accelerating the process of integration of exchanges of the OIC Member States, and the harmonization of regulatory frameworks with a view to establishing a gold exchange among the OIC Member Countries.¹ To that end, many leading exchanges of the OIC Member States were invited to be included in the Task Force after the meeting. Within prominent bullion gold and gold-related products exchanges that operate in the OIC Member States, Dubai Gold and Commodities Exchange and Bursa Malaysia have joined the Task Force led by Borsa Istanbul. The first meeting of the Task Force was held in February 2016, during the meeting products to be traded, trade types, i.e. spot physical or derivative, sharia board, trade currency and physical delivery facilities issues were discussed and they were regarded as very important.

After a series of mailings on the issue, the Task Force decided to make a deep research on exchanges established in the OIC Member States on which gold or gold-related financial products can be traded currently. In this context, primarily countries having regulated and organized markets have taken into account and studied thoroughly. Specifically, among the Organization of Islamic Cooperation Member States' Stock Exchanges Forum's members Turkey, UAE, Malaysia, Saudi Arabia, Kuwait, Oman, and Qatar have been investigated. The result of the study has come out with the conclusion that Borsa Istanbul,



¹ The exact phrase is as follows: ...COMCEC,

"Welcomes the report on "Gold Market Initiative for the OIC Member Countries" prepared by the OIC Member States' Stock Exchanges Forum and requests it to further study, through its Task Force on Precious Metals, to accelerate the process of integration of exchanges and harmonization of regulatory frameworks with a view to establishing a gold exchange among the OIC Member Countries and submit a report on this issue to the 32nd Session of the COMCEC."

Dubai Gold and Commodities Exchange and Bursa Malaysia which are operating in Turkey, UAE and Malaysia respectively have a distinguished position, in terms of trade on physical gold and gold-related financial products, than Kuwait Stock Exchange of Kuwait, Muscat Securities Market of Oman, Qatar Stock Exchange of Qatar, Saudi Stock Exchange of Saudi Arabia, and Bourse des Valeurs Mobilières de Tunis of Tunisia.

In this study, the result of the examination carried out by the Task Force on Precious Metals has been reported. In addition to that, this report is an inseparable part of the “Gold Market Initiative for the OIC Member States” report. Thus, some data cited or referred herein this report could be attained or looked at from the “Gold Market Initiative for the OIC Member States” report.

The report has been designed in six chapters. After giving some explanatory information in the first chapter, up-to-date data of the OIC Member states in the gold industry and the position that these countries holds on gold have been presented based on the data obtained from a few reliable sources in the chapter two. Then the prominent exchanges, i.e. Bursa Malaysia, Borsa İstanbul and Dubai Gold and Commodities Exchange, which have physical gold and gold-backed instruments trade in the OIC Member States have been presented in detail at one for each chapter. In the conclusion chapter, the opinions of the Task Force on Precious Metals has been presented.



2 GOLD IN THE OIC MEMBER STATES

OIC countries are generally at medium and lower ranks in terms of trade on bullion and derivatives of gold except for a few specific headings in terms of gold in the world. This chapter will present data of OIC countries regarding gold and discuss position of such countries in the world gold markets.

2.1 Mines

When data pertaining to 2013, 2014 and 2015 are taken into account, it is seen that there are only four OIC countries included in the top 20 countries producing the highest amount of gold across the world in terms of gold production from mines. The said countries and their production amounts are shown on the Table 2-1. As can be seen on the table, share of total gold production amounts in the last three years of the OIC Member States among the top 20 gold producer countries in the world is 9,24%, 9,39%, and 9,95% respectively. With regard to this data, it can be inferred that the average share of gold mine production of OIC states in top is about 10%.

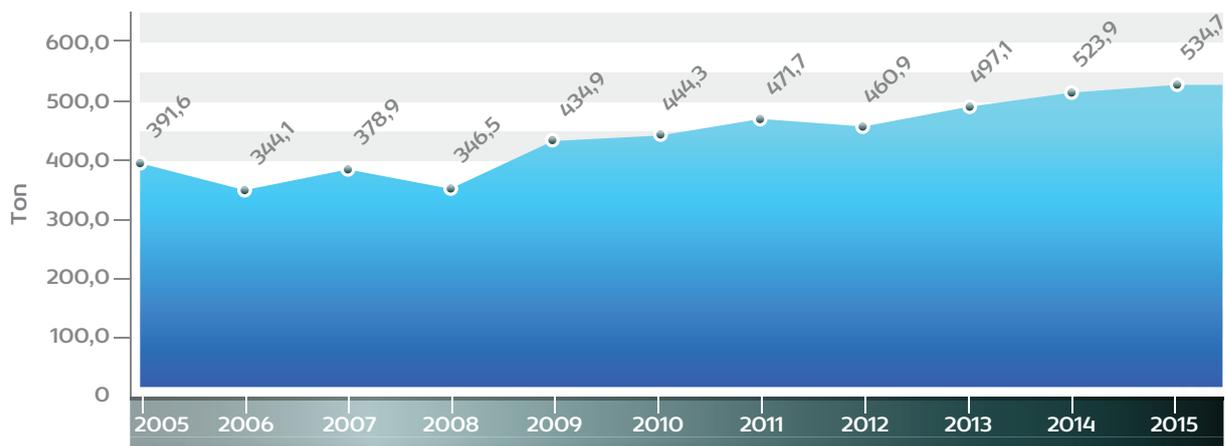
Table 2-1:
Gold Mine Production of the OIC Member States in Top 20 Producers (tons)

Countries	2013	2014	2015
Indonesia	110.7	116.4	134.3
Uzbekistan	77.4	81.4	83.2
Mali	48.2	47.4	49.1
Kazakhstan	44.9	48.9	47.5
Total	281.2	294.1	314.1
World Total	3,042	3,132	3,158
Share of 4 the OIC Members (%)	9.24	9.39	9.95

Source: GFMS, Thomson Reuters, 2016

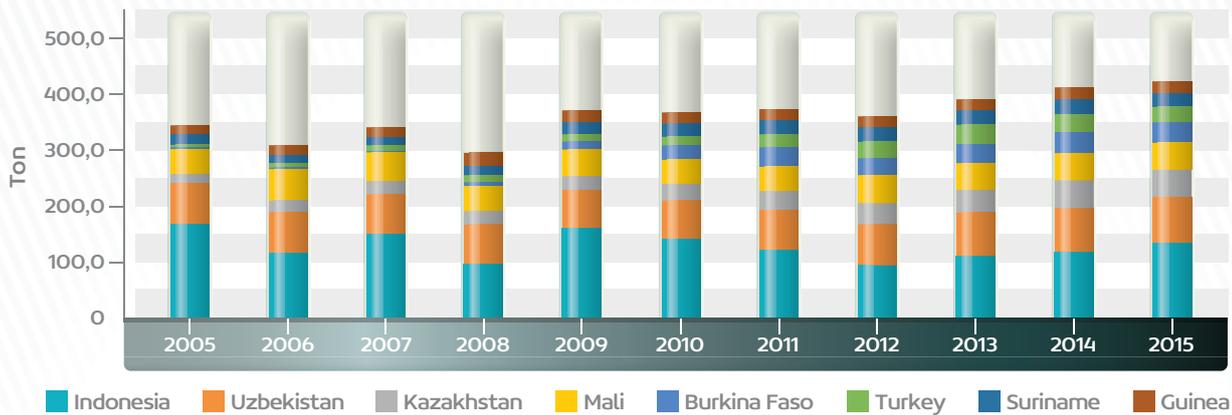
In Chart 2-1 with a larger data range displays gold production of the 17 OIC Member States. As can be from the chart there is a considerable increase starting from 2008, and it jumped to all time high with 534.7 tons in 2015. Top eight countries and their mine production has been shown in Chart 2-2.

Chart 2-1:
Gold Mine Production Change Year-On-Year of the OIC Member States



Source: GFMS, Thomson Reuters, 2016

**Chart 2-2 :
Gold Production from Mines in the OIC Countries**



Source: GFMS, Thomson Reuters, 2016

Although these countries exhibit a stable increase in gold production since 2008, they have contributed to overall production of the world by 15.8% on average in the last 11 years. According to data of the year 2015, of the OIC countries which are not listed in the top 20

countries yet produce gold from mines at an amount in excess of 20 tons, mined gold in Burkina Faso is 38 tons, in Turkey 27.5 tons, in Surinam 25.4 tons, in Ivory Coast 22.2 tons, and in Guinea 20 tons. Table 2-2 shows the top gold producer of the OIC Member States.

**Table 2-2:
Mine Production of Gold in the OIC Countries (tons)**

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Avg.
Indonesia	167	114.1	149.5	95.9	160.5	140.1	121.1	93	110.7	116.4	134.3	127.5
Uzbekistan	75.5	74.1	72.9	72.2	70.5	71	71.4	73.3	77.4	81.4	83.2	74.8
Kazakhstan	19.2	21.8	22.6	22	22.5	29.9	36.7	40	42.6	49.2	49.1	32.3
Mali	46.7	56.9	51.9	47	49.1	43.9	43.5	50.3	48.2	48.9	47.5	48.5
Burkina Faso	1.7	2.1	2.9	6.9	13.8	25.3	34.1	31.3	35	38.5	38	20.9
Turkey	5.1	8.1	10.1	11.4	14.5	16.6	24.1	29.6	33.5	32.3	27.5	19.3
Suriname	18.2	16.9	16.1	17.9	20.8	22.9	24.6	26.5	27	26.6	25.4	22.1
Guinea	14.3	16.6	18	23.9	22.5	20.4	19.7	18.4	19	21	20	19.4
Sudan	5.6	3.6	3.1	2.7	4	10.1	22.5	27.9	20.1	21.5	16.5	12.5
Kyrgyzstan	16.6	10.6	10.5	18.4	17	18.5	19.7	11.3	20.2	19.2	17.7	16.3
Ivory Coast	3	3	3	5.3	8.6	7.3	13.4	14	13.6	18	22.2	10.1
Guyana	10.1	8.4	9.7	10.5	11.9	12.8	14.4	14.4	14.4	14.4	15.7	12.4
Egypt	0	0	0	0	0	4.7	6.3	8.2	11.1	11.8	13.7	5.1
Mauritania	0.5	0.6	1.9	6.8	8.4	9.1	8.7	8.2	10	10.1	9.3	6.7
Senegal	0.1	0.1	0.1	0.1	5.2	4.5	4.3	6.8	6.5	6.7	5.8	3.7
Malaysia	5.6	4.9	4.3	3.8	4.2	5.2	5	5.3	5.1	4.5	4.2	4.7
Tajikistan	2.4	2.3	2.3	1.7	1.4	2	2.2	2.4	2.7	3.4	4.6	2.5
Total	391.6	344.1	378.9	346.5	434.9	444.3	471.7	460.9	497.1	523.9	534.7	439.0
World Total	2,562	2,496	2,499	2,429	2,612	2,742	2,846	2,875	3,064	3,133	3,178	2,765
Share of the OIC (%)	15.3	13.8	15.2	14.3	16.7	16.2	16.6	16.0	16.2	16.7	16.8	15.8

Source: GFMS, Thomson Reuters, 2016

2.2 Refineries

When looking into lists of 71 refineries accredited by the LBMA, it is seen that only 6 refineries of the OIC countries are included in such list. According to data pertaining to the year 2015, given the gold production of 535 tons/year derived from mines at the OIC countries, the capacity of only those refineries of the OIC countries included in the LBMA list seems to be sufficient. However, when about 509 tons/year on average is added as data related to scrap gold for the same period, it will be understood that capacity of such refineries is not sufficient under the light of available capacity data. Besides, it is believed that there will be no capacity problem with some refineries not included in the LBMA list and following completion of those refineries under construction.

2.3 Exchanges/Markets

Among the OIC Member States, UAE-Dubai and Turkey appear to be the most prominent countries where physical gold trade take place and have the most advantageous position. In these two countries, gold can be traded physically on regulated markets, i.e. exchanges along with a very advanced OTC market. In Turkey, gold-backed futures and physical gold dealings are conducted under the roof of Borsa Istanbul. UAE-Dubai has also become one of the important centers for gold trade due to

recent progresses it made in the gold sector in recent years. Apart from these two countries, gold futures are carried out at Indonesia - Jakarta Futures Exchange and Bursa Malaysia of Malaysia.

2.4 Supply and Demand

Scrap supply amounts of gold from the OIC countries for the purpose of fabrication from 2005 to 2015 are shown in Table 2-3. When average data for such period are taken into account, the greatest scrap gold supply seems to be coming from Turkey with around 100 tons/year. Turkey has provided a great deal of gold supply in comparison to the other the OIC countries. High supply of scrap gold causes a boost in activities of refineries.

When looking into average scrap gold supply of all countries shown on the table below during the last decade, there seems to be a supply of 509 tons/year. This amount accounts for 32.8% of the world scrap supply. This rate implies that gold has a very sound basis and is in demand in the OIC countries. Besides, while share of the OIC Member States within gold supply from mines across the world is around 16% it is seen that the OIC countries have a higher share in terms of scrap gold supply. Shortly, OIC countries are obtaining required raw material of gold through recycling scrap.

Table 2-3:
Scrap Gold Supplies of the OIC Countries (tons)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Avg.
Turkey	67.7	82.5	71.5	199.0	217.2	122.0	78.0	72.3	56.3	41.4	72.4	100.8
Indonesia	67.0	71.9	67.9	72.5	79.9	64.9	58.3	49.0	36.2	36.3	46.0	60.4
United Arab Emirates	28.2	34.0	43.8	59.4	70.6	110.0	71.4	73.4	57.0	51.4	43.5	59.9
Saudi Arabia & Yemen	92.5	133.7	56.4	69.4	57.3	44.1	37.1	33.5	23.6	20.8	16.8	56.8
Egypt	72.7	77.5	56.5	35.8	65.0	48.0	47.6	53.6	43.2	39.9	35.0	54.0
Pakistan & Afghanistan	30.9	33.4	31.7	35.5	53.8	50.4	42.7	47.2	37.2	28.8	22.5	39.2
Iran	16.1	21.9	23.0	25.9	32.1	32.7	32.4	32.9	24.3	22.1	17.7	26.3
Iraq & Syria	14.4	23.9	19.0	21.9	35.6	36.7	36.0	33.1	25.3	17.0	12.4	26.3
Malaysia	11.0	19.1	16.4	18.4	19.2	22.2	19.2	16.6	13.2	12.3	10.8	16.8
Libya	4.6	9.7	9.4	10.4	13.4	15.7	16.6	14.4	8.8	8.2	7.7	11.1
Lebanon	6.6	9.9	4.8	6.2	15.1	19.7	14.9	12.6	9.6	8.8	8.2	10.8
Kuwait	12.4	21.8	9.7	10.2	10.4	8.5	7.7	6.2	5.0	4.5	3.9	9.6
Morocco	5.9	6.3	6.2	6.3	9.7	9.3	12.0	11.3	9.3	8.9	8.8	8.5
Jordan	4.6	8.7	7.0	5.6	9.2	12.7	10.8	9.7	7.2	7.4	6.6	8.3
Algeria	2.7	2.8	3.3	3.6	5.8	6.1	7.9	7.5	6.8	6.6	6.7	5.3
Oman & Qatar	3.1	6.1	5.7	6.4	7.3	6.7	5.4	4.9	3.9	3.6	3.3	5.3
Bahrain	1.8	3.8	3.8	3.8	4.7	4.5	4.0	3.5	2.6	2.5	2.0	3.5
Kazakhstan	2.2	2.2	2.2	2.4	3.1	2.9	3.0	3.2	2.9	7.9	11.5	3.2
Uzbekistan	2.2	2.2	2.2	2.4	3.1	2.9	3.0	3.2	2.9	2.7	3.1	2.7
The OIC Countries Total	447	571	441	595	713	620	508	488	375	331	339	509
World Total	903	1,133	1,006	1,352	1,728	1,713	1,675	1,677	1,287	1,157	1,172	1,363
Share of the OIC (%)	49.5	39.4	44.4	33.0	25.8	26.1	26.7	26.6	34.7	38.6	38.1	32.8

Source: GFMS, Thomson Reuters, 2016

Given the fact that jewelry sector constitutes the largest share within the world gold demand, Table 2-5 indicates that the OIC countries account for around one-fourth of the world's jewelry fabrication. Chart 2-3 shows the share of the OIC Member States that produce gold at an amount over 30 tons/year on average. The largest fabrication has taken place in Turkey with regards to this field and Turkey's jewelry fabrication is more than twice the fabrication of its nearest competitor country. Advanced jewelry sector of Turkey makes it stand out among the OIC countries in terms of gold trade.

Data pertaining to the largest exporters for year 2015 amongst OIC countries shows the dominant position of UAE, Turkey, Uzbekistan, Indonesia and Burkina Faso in the export of Gold. Some of the prominent exporters have taken the respective position owing to large size of their domestic market or being one of the most important gold trading partner for the region e.g. UAE for India, Pakistan and GCC.

Table 2-4:
Country wise Gold Exports in USD Billions and Country Rankings

Rank	Exporter	2015 Gold Exports
5	United Arab Emirates	\$13 billion
8	Turkey	\$7.4 billion
20	Uzbekistan	\$1.9 billion
22	Indonesia	\$1.8 billion
24	Burkina Faso	\$1.3 billion
47	Kyrgyzstan	\$470.8 million

Source:

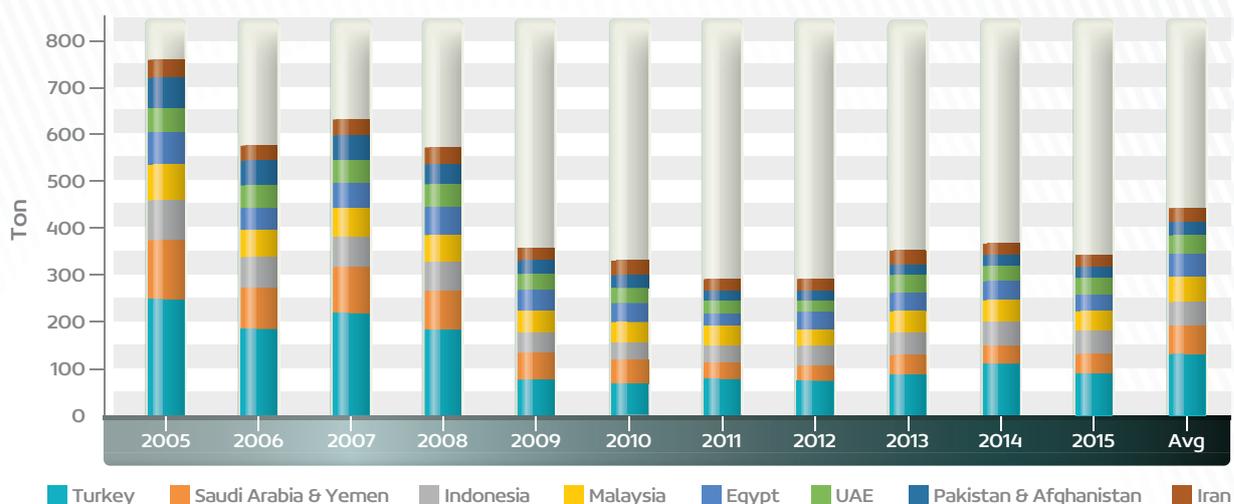
<http://www.worldstopexports.com/gold-exports-country/>

Table 2-5:
Jewelry Fabrication of the OIC Member States (tons)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Avg.
Turkey	251.1	184.9	219.7	183.2	80	73	77	73.8	87.1	114.8	91.6	130.6
Saudi Arabia & Yemen	124.6	89.6	99.5	85	53.5	46.5	36.8	32.5	41.4	37.3	40.8	62.5
Indonesia	86	64.2	62.7	60.8	45.5	38.4	38.7	43.5	51	51.9	48.2	53.7
Malaysia	74.1	58	60.9	56.2	44.9	43.6	37.1	34.7	44.6	44.7	40.9	49.1
Egypt	70.8	50.3	56.5	62.4	44	42.1	28.7	37.4	40.6	40.6	37.8	46.5
UAE	53.2	45.4	48.1	44.6	34	31	26.3	24.7	34.4	33.1	35.1	37.3
Pakistan & Afghanistan	64.2	53.9	50.3	43.8	29.6	26.1	22.1	20.6	24.6	20.9	22.6	34.4
Iran	36.5	32.2	36.2	35.6	30	29.9	27.8	27.7	31.3	28	29	31.3
Iraq & Syria	21.2	20	22.4	19.6	15.1	14.7	11.4	8.7	8.7	7.3	7	14.2
Uzbekistan	9.1	10	10.6	9.6	7.5	9.1	10.2	9.6	9.9	10	8.6	9.5
Kazakhstan	9.1	10	10.6	9.6	7.5	9.1	10.2	9.6	9.9	9.3	7.4	9.3
Bangladesh & Nepal	13.6	11.8	11.7	10.3	8.1	7.7	7.1	7.2	8.1	5.7	4.4	8.7
Morocco	13.8	10.6	10.3	9.4	7.6	7	6.8	6.5	6.4	6.7	6.8	8.4
Kuwait	12.3	9.7	8.9	9.5	7.4	6.6	6.2	5.6	6.3	7	6.7	7.8
Oman & Qatar	11.3	9.9	10.3	8.7	6.6	5.9	5.2	4.8	5.8	5.5	5.8	7.3
Bahrain	11.4	9.6	9.9	8.6	6.4	5.7	5.1	4.5	5.8	5.6	5.7	7.1
Jordan	6.9	4.5	4.7	4.7	5.6	5.8	5.1	4.5	5.4	11.4	12.4	6.5
Lebanon	7.6	5.4	5.5	4.8	3.3	2.6	2.9	3.7	4.6	6	6.2	4.8
Libya	4.9	4.9	5.2	4.8	3.9	3.5	2.4	2.2	2.5	2.6	2.3	3.6
Algeria	3.9	3	3.4	3	2.5	2.4	2.1	2	2.2	2.3	2.2	2.6
The OIC Countries Total	885.6	687.9	747.4	674.2	443	410.7	369.2	363.8	430.6	450.7	421.5	535.0
World Total	2,722	2,302	2,426	2,308	1,819	2,033	2,034	2,008	2,439	2,250	2,178	2,229
Share of the OIC (%)	32.5	29.9	30.8	29.2	24.4	20.2	18.2	18.1	17.7	20.0	19.4	24.0

Source: GFMS, Thomson Reuters, 2016

Chart 2-3 :
Share of the OIC Countries within Jewelry Fabrication



Source: GFMS, Thomson Reuters, 2016

Data pertaining to those OIC countries of which central banks hold gold reserves of 10 tons and more as of 2015 are shown in Table 2-6. Chart 2-4 shows change by years in total reserves of these countries. As can be seen, total central bank reserves of these countries have shown

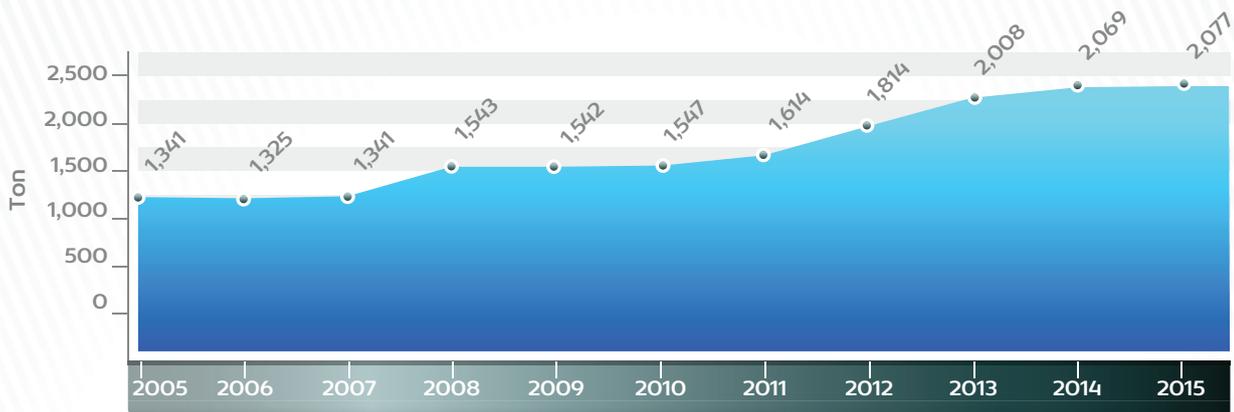
a growth trend in recent years and exceeded 2,000 tons as from 2013. However, when evaluated according to the world's total gold reserves, share of the OIC countries has a very low value with 5.3% on average in the last decade.

Table 2-6:
Official Gold Reserves of the OIC Countries (tons)

Countries	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Avg.
Turkey	116.1	116.1	116.1	116.1	116.1	116.1	195.3	359.6	519.7	529.1	474.4	252.3
Saudi Arabia	143.0	143.0	143.0	322.9	322.9	322.9	322.9	322.9	322.9	322.9	322.9	273.8
Lebanon	286.8	286.8	286.8	286.8	286.8	286.8	286.8	286.8	286.8	286.8	286.8	286.8
Kazakhstan	59.7	67.3	69.5	71.9	70.4	67.3	82.0	115.3	143.7	191.8	238.2	107.0
Algeria	173.6	173.6	173.6	173.6	173.6	173.6	173.6	173.6	173.6	173.6	173.6	173.6
Libya	143.8	143.8	143.8	143.8	143.8	143.8	116.6	116.6	116.6	116.6	116.6	131.5
Kuwait	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0	79.0
Indonesia	96.4	73.1	73.1	73.1	73.1	73.1	73.1	74.0	78.1	78.1	78.1	76.7
Egypt	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6	75.6
Pakistan	65.3	65.3	65.4	65.4	65.4	64.4	64.4	64.4	64.4	64.5	64.5	64.9
Malaysia	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	36.4	35.8	36.4	36.3
Jordan	12.8	12.7	14.3	12.8	12.8	12.8	12.8	13.8	15.6	19.3	34.5	15.8
Syria	25.9	25.9	25.9	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8
Morocco	22.0	22.0	22.0	22.0	22.1	22.1	22.1	22.1	22.1	22.1	22.0	22.0
Afghanistan	-	-	-	21.9	21.9	21.9	21.9	21.9	21.9	21.9	21.9	15.9
Bangladesh	3.5	3.5	3.5	3.5	3.5	13.5	13.5	13.5	13.5	13.8	13.8	9.0
Qatar	0.6	0.6	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	10.3
The OIC Total	1,341	1,325	1,341	1,543	1,542	1,547	1,614	1,814	2,008	2,069	2,077	1,656
World Total	30,833	30,468	29,963	9,981	30,506	30,840	1,206	31,681	31,854	32,029	2,804	1,106
Share of the OIC (%)	4.3	4.3	4.5	5.1	5.1	5.0	5.2	5.7	6.3	6.5	6.3	5.3

Source: World Gold Council

**Chart 2-4:
Change by Years of Official Reserves of the OIC Countries**



Source: World Gold Council

When the data presented in the preceding tables and charts are evaluated, it can be concluded that, though the OIC Member States had not a notable share in the world gold trade, they have made some progress in recent years and they have succeeded to have higher share in many areas concerning gold.



3 BURSA MALAYSIA BERHAD

Bursa Malaysia Berhad, established in 1973 and listed in 2005, is an exchange holding company that consists of several subsidiaries that are depicted in Figure 3-1. Today, it is one of the largest bourses in ASEAN and is home to more than 900 companies across 60 economic activities, which are listed either on the Main Market for large-cap established companies, or on the ACE Market for emerging companies of all sizes.

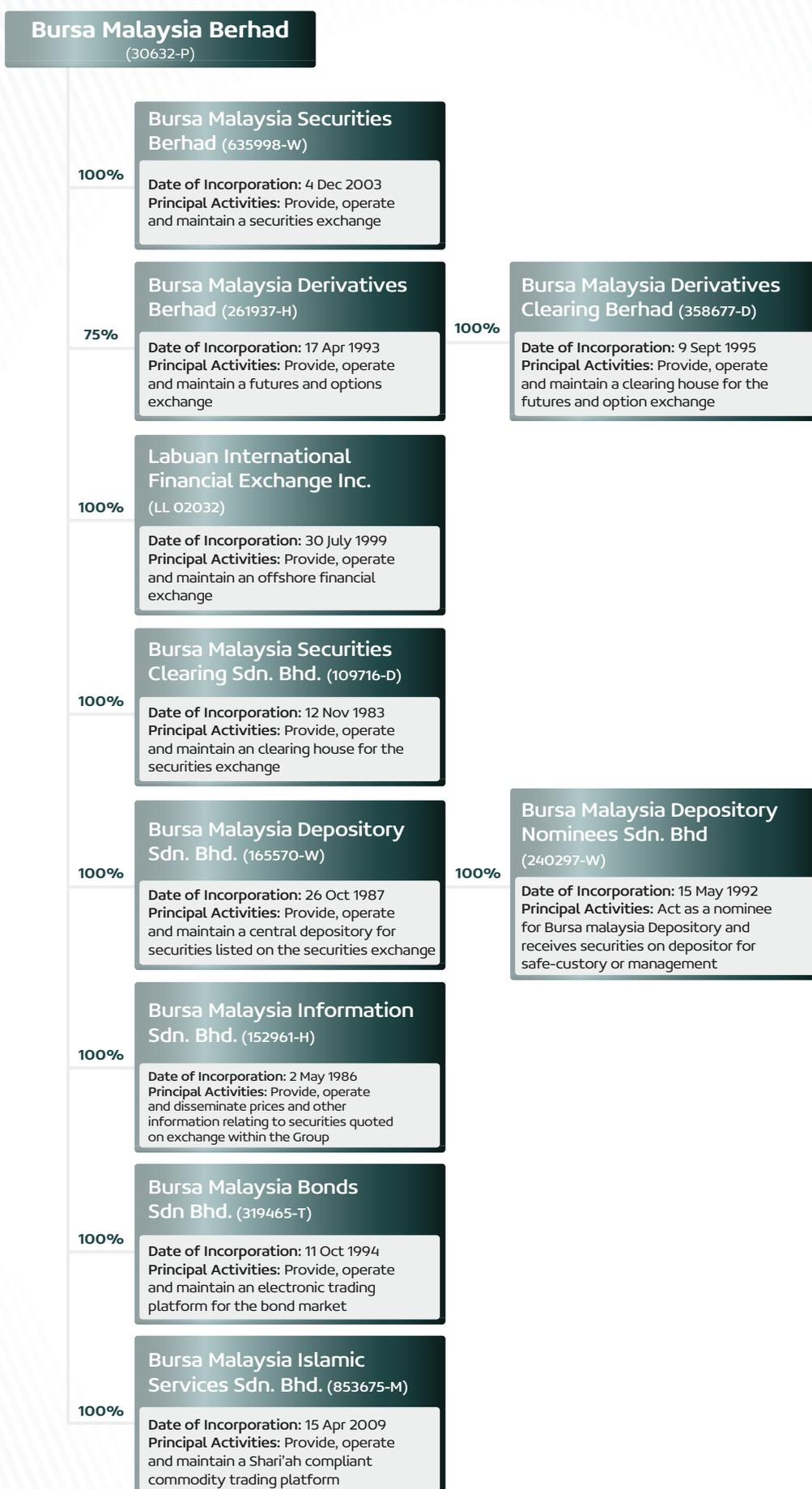
As a fully integrated exchange, Bursa Malaysia offers a comprehensive range of products, which includes Equities, Derivatives, Futures and Options, Offshore and Islamic assets, as well as Exchange-related services such as listing, trading, clearing, settlement and depository. In addition, the Exchange offers other investment choices which includes collective investment schemes such as Exchange Traded Funds, Real Estate Investment Trusts, Exchange Traded Bonds and Sukuk and Business Trust.

Bursa Malaysia adopts the FTSE Bursa Malaysia KLCI values as its main index and introduced the FTSE4Good Bursa Malaysia Index in 2014. In May 2015, Bursa stepped up its commitment to promoting sustainable strategies amongst its issuers and the marketplace by joining the United Nations Sustainable Stock Exchanges initiative. Malaysia is recognized for its Crude Palm Oil Futures Contract, which was launched 35 years ago and is the global price benchmark for the palm oil industry.

Bursa Malaysia is committed to providing facilitative infrastructure to create a globally competitive and vibrant marketplace as well as to maintain an efficient, secure and active trading market for local and global investors.



**Figure 3-1:
Bursa Malaysia and Its Affiliates**



3.1 Traded Products & Services

As a fully integrated exchange, Bursa Malaysia offers a comprehensive range of products, which includes Equities, Derivatives, Futures and Options, Offshore and Islamic assets, as well as Exchange-related services such as listing, trading, clearing, settlement and depository.

A few commodity derivatives are traded at Bursa Malaysia. The most common one is Crude Palm Oil Futures- FCPO on which Bursa Malaysia is the world's biggest trading hub since 1980. The FCPO, the global price benchmark for the crude palm oil market, is a deliverable contract which is traded electronically on Bursa Malaysia's trading platform. Beside palm oil, also gold futures (FGLD) can be traded at the Exchange. The Securities Commission of Malaysia has issued "Shariah Parameters on Islamic Exchange-Traded Fund Based on Gold and Silver" on 7 October 2014. However, Bursa Malaysia currently does not have any such product listed and traded yet, it is in discussion with a local party to introduce a "Gold i-ETF".

Delving into traded products at the Exchange, there can be seen various financial instruments which are presented below.

3.1.1 Securities

- (a) Shares
- (b) Company Warrants
- (c) Structured Warrants
- (d) Exchange Traded Funds
- (e) Real Estate Investment Trusts
- (f) Closed-end Funds

3.1.2 Bonds

- (a) Exchange Traded Bonds and Sukuk
- (b) OTC
- (c) Listed under Exempt Regime
- (d) Loan Stocks

3.1.3 Derivatives

- (a) Commodity Derivatives (palm oil and gold futures)
- (b) Equity Derivatives
- (c) Financial Derivatives

3.1.4 Islamic Markets

- (a) Bursa Suq Al-Sila'
- (b) Islamic Capital Market
- (c) Islamic Investment & Services

3.1.5 Indices

- (a) Bursa Malaysia Index Series
- (b) FTSE Bursa Malaysia Indices
- (c) FTSE / ASEAN Index

3.2 Exchange Technology

In September, 2009, BMD entered into the Globex Services Agreement with the Chicago Mercantile Exchange Group ("CME"). The agreement is to host all existing Bursa Malaysia Derivatives products on CME's Globex electronic trade execution system, which is an electronic trading platform offering global connectivity to the broadest array of futures and options across all asset classes, traded in thousands of possible expirations and combinations, via an application services provider model. Bursa Malaysia has been rendering its trading service via CME Globex platform and financial instruments have been traded on this platform since then.

Trading Participants are required to ensure compliance with all requirements in relation to access, connectivity, specification or use of CME Globex as prescribed by the Exchange or CME whether via directives or otherwise and whether issued to the trading participants or to their agents as the case may be.

In the Equity Market, all buy and sell orders are keyed in by the market participants via Participating Organizations' Order Management System into Bursa's Automated Trading System (ATS) as per the prescribed trading Phases and Market Timing. ATS is an automated and computerized trading system designated by the Exchange to be used for trading in contracts or any other purposes permitted by the Exchange, and matched in accordance with the provisions stipulated in trading rules of the Exchange.

A trading participant's connection to the ATS for the purpose of trading of contract on the market must be through an access point approved by the Exchange.

i. All Participants are required to be familiar with the use of ATS for the purpose of effecting any trades of contracts on the market, unless determined otherwise by the Exchange.

ii. It is the duty of every participant to take all reasonable security measures to prevent unauthorized access to the ATS, which include but are not limited to, establishing and maintaining such procedures for the administration and monitoring of access to the ATS.

Along with Derivatives and Equity Markets which operates over CME Globex and ATS, Bond market of the Exchange operates on ETP the acronym for Electronic Trading Platform. The ETP is the centralized price and trade repository and dissemination for the primary and secondary bond market. It is an efficient and facilitative market control system for Bursa Malaysia to supervise the bond market.

ETP facilitates the trading and reporting of all secondary market activities. The key business components that contribute to the business of ETP are the provisions of

- i. central order book for matching, trade reporting and negotiation
- ii. comprehensive dissemination system for price/yield and trade information dissemination
- iii. data storage for market history data referential maintenance for exchange administrator
- iv. real time market surveillance system.

The core ETP system interfaces with other systems such as the FAST (Fully Automated System for Issuing/Tendering) and Information Vendors.

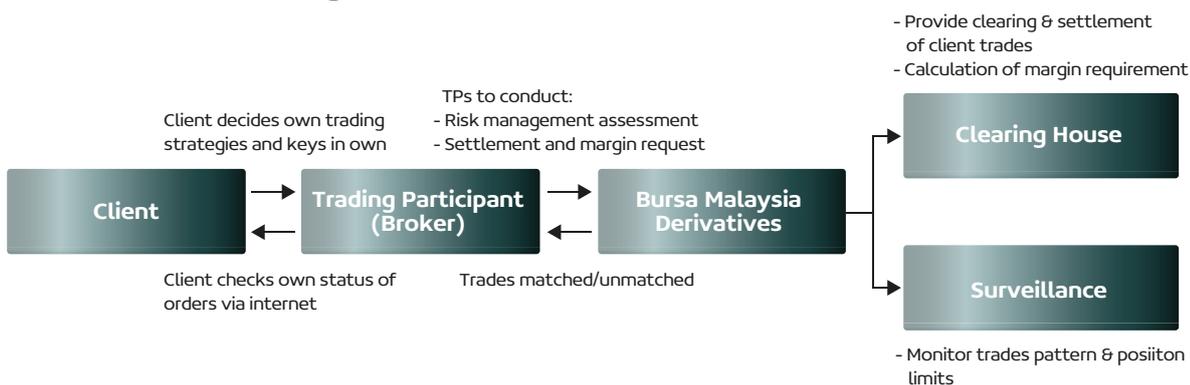
The capital market is divided into the primary and secondary market. The capital market comprises the conventional market and Islamic

market. Primary market activities include the issuance of new debt securities to subscribers which is done on FAST, operated by the Central Bank i.e. Bank Negara Malaysia. Certain data is then transmitted to ETP and disseminated to all members. Secondary trading, on the other hand, is the trading activities by market players on stocks registered on ETP, either via ETP or Over the Counter (OTC) market. All these trades are recorded in ETP.

3.2.1 Internet Orders

This electronic mode of communication via the internet allows the client to key-in his/her orders directly after taking a position of the direction of the Derivatives Market. The client is in control of his/her own orders and not dependent on the broker to execute it. After deciding on a trading position (buy or sell), the client has the ability to enter his/her own orders, amend, cancel and check the order status at his/her own convenience.

Figure 3-2:
The Process Flow Diagram of Internet Orders

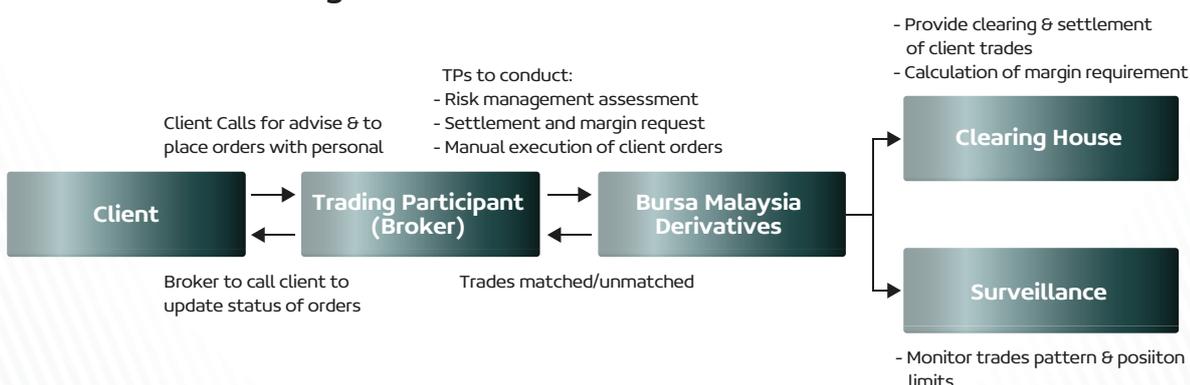


3.2.2 Voice Orders

This is a verbal mode of communication between the client and his/her broker for trading advice and order execution. Although this mode provides interaction between the two parties, the order execution process is highly dependent on the availability of the

broker to take the call and the waiting time that may lapse if the telephone line is engaged. The client has to communicate verbally on all matters pertaining to his/her orders which include order entry, order change, order withdrawal and order status enquiries (whether it is completed or partially filled).

Figure 3-3:
The Process Flow Diagram of Voice Orders



3.3 Participantship

Trading in Bursa Malaysia is carried out by means of participants as is the case in much of other regulated exchanges worldwide. The classes of participantship in Bursa Malaysia are as follows:

- i. Trading Participants;
- ii. Local Participants;
- iii. Associate Participants; and
- iv. Such other class of participantship as may from time to time be created by the Exchange.

The Exchange imposes a lien on every participantship for all the participant's liabilities to the Exchange, the Clearing House to other Participants and the Clients of that Participant.

3.3.1 Trading Participant - Eligibility

Trading Participants are companies duly incorporated with a minimum issued and paid-up capital of RM5 million or any other such amount which may be determined by the Exchange and have to comply with any other financial requirements specified under the Capital Markets and Services Act.

To be eligible for participantship, the applicant to be a trading participant must satisfy all the requirements and criteria for participantship, which the Exchange may from time to time determine.

Trading participants have also to be a holder of a valid Capital Markets Services License to carry on the business of regulated activity of trading in futures contracts.

3.3.2 Universal Broker, Eligible Non-Universal Broker, Special Scheme Broker and Investment Bank

A universal broker, eligible non-universal broker, special scheme broker and investment bank may at its discretion and in line with its commercial considerations, determine the structure of its futures broking activities, subject to the rules. Of those not having a futures broking subsidiary but intends to carry out futures trading activities have to fulfil the following:

- (a) become a trading participant of the exchange and a clearing participant as defined in the rules; and
- (b) apply for a capital markets services license to carry on the business of regulated activity of trading in futures contracts; and
- (c) its representatives must pass the relevant examinations approved by the exchange, hold a capital markets services representative's

license for the regulated activity of trading in futures contracts and registered as a registered representative within the definition of these rules.

A universal broker, eligible non-universal broker, special scheme broker and/or investment bank may carry out futures broking activities via its subsidiary or related company where the subsidiary or related company is a trading participant of the exchange duly licensed pursuant to the Capital Markets and Services Act.

3.3.3 Associate Participant

An associate participant must have the following rights in respect of the trading facilities provided by the Exchange:

- (a) the right to trade for itself or for its related corporation in a market via a trading participant for trading in contracts in such manner as the Exchange may from time to time direct; and
- (b) all other rights conferred on associate participants by the rules in respect of trading in contracts transacted in the market.

Every trading participant must designate at least one corporate nominee, who will be authorized to communicate with the Exchange and to represent the organization in all matters relating to its business.

3.4 Trading Rules and Trading Procedures

Bursa Malaysia is an organized and regulated market. Thus, business rules of Bursa Malaysia are intended to ensure a fair and open market on the Exchange and to provide protection to the public in its contact with the Exchange, its participants and registered representatives.

All persons trading on the Exchange are bound by and have to observe the provisions of the rules and all contracts made or entered into on the Exchange should be governed by the rules of the Exchange. In the following Chart 3-1, general overview of Rules of Bursa Malaysia has been depicted.



**Chart 3-1:
Overview of Rules of Bursa Malaysia**



Source: <http://www.bursamalaysia.com/market/regulation/rules/overview>

Trading procedures of the Exchange have been specified in a very detail set of rules. The Exchange from time to time issues trading procedures. All participants are bound to comply with the trading procedures.²

**Chart 3-2:
Trading Procedures of Bursa Malaysia for Futures**



Both Individual and corporate clients are required to open a trading account prior to executing any trades with a licensed trading participant. The risk disclosure documents and all other required documentation are required to be completed before trading is able to commence. The 5 steps before commencement of trade are as in Chart 3-2 below.

3.4.1 Trading on other Exchanges

Subject to the rules of the Exchange, a participant cannot trade in contracts on another exchange, whether through a broker or participant of that other exchange, or otherwise, unless:

- i. the other exchange has been approved to operate a futures market in accordance with the Capital Markets and Services Act;
- ii. the other exchange has been prescribed as a specified exchange by the Exchange in relation to any or all of the approved classes of futures contracts; or
- iii. the participant is a participant of the other exchange and/or specified exchange,

and a prior notification in writing has been given to the Exchange.

3.4.2 Collateral Requirement

Each clearing participant must lodge a security deposit of at least RM1 million in the form of cash and/or approved collateral which is a property from time to time prescribed by the Clearing House. The Clearing House may from time to time request that clearing participant to increase the amount of the security deposit lodged by the clearing participant. If the Clearing House makes such a request to a clearing participant, the clearing participant must lodge the additional amount in the form of cash and/or approved collateral within one business day from the date of such request.

² Within the context of the gold futures contracts a detailed set of rules could not be obtained from Bursa Malaysia website.

3.5 Gold-Backed Financial Instruments

Bursa Malaysia offers only gold futures contracts, as gold-backed instruments, in order for providing market participants' exposure to international gold price movements at a lower entry cost. There is not available physical spot gold trade at the Exchange. The pricing of the FGLD contract is in local currency. Each FGLD contract is equivalent to 100 grams of gold bullion with minimum 995 fineness. For the industrial user requiring larger exposure, the contract can be traded in multiple lots at once (e.g. 5 lots, 10 lots etc.). In Table 3-1 the contract specifications of the FGLD has been presented.

3.5.1 Clearing of Gold Trades

Contracts are cash-settled at the maturity date. As a cash-settled contract, no delivery of physical gold is required. Instead, the FGLD contract is settled on expiry using the cash equivalent of the amount of gold purchased (e.g. 100 grams), calculated using the London AM Fix price (in USD) on the final trading day converted into RM. Since the reference price is in terms of USD/Ounce there has to be a conversion from ounce to kg. In the second leg of the calculations, this conversion is applied to the trades. After the value founded from the calculations is rounded to the nearest RM0.05, contract is multiplied with this value received. An abstract of clearing process of FGLD is shown in Table 3-2.

**Table 3-1:
Trading Specifications of FGLD**

Contract	Gold Futures Contract
Contract Code	FGLD
Underlying	Gold assayed to a minimum of 995 fineness or such other technical specification of gold underlying LBMA Gold Price AM from time to time.
Instrument	100 grams
Contract Unit	RM0.05 per gram
Minimum Price Fluctuation	There must be no trading at a price more than 10% above or below the settlement prices of the preceding Business Day except as provided below
Price Limits	Spot month, the next 3 calendar months and any February, April, June, August, October and December falling within a 12-month period beginning with the spot month.
Contract Months	First trading session: 09:00 hours to 12:30 hours (Malaysia time); and
Trading Hours	Second trading session: 14:30 hours to 19:00 hours (Malaysia time)
Final Trading Day	1. The last business day of the contract month unless such a day is a holiday in London, in which case the final trading day will be the first preceding business day that is not a holiday in London. 2. Trading in the expiring month contract ceases at 19:00 hours (Malaysia time) on the final trading day.

**Table 3-2:
Settlement of FGLD**

Settlement Method	Cash Settlement based on the final settlement value
Final Settlement Value	<p>1. The LBMA Gold Price AM (quoted in USD/troy oz) on the final trading day will be the reference price for the purpose of calculating the final settlement value.</p> <p>2. For the calculation of the final settlement value, the following will apply:</p> <p>Conversion from USD to RM The LBMA Gold Price AM is converted to Ringgit Malaysia and rounded to the nearest RM0.05 using the mid exchange rate of USD/MYR based on the closing rate published by Bank Negara Malaysia, on the final trading day. In the event the final settlement value is equidistant between 2 minimum price fluctuations, the value is rounded upwards.</p> <p>Conversion from Troy Ounce to Grams 1 troy oz = 31.1034768 grams</p> <p>On the Final Trading Day for a Contract, all Open Positions for the Contract will be marked to the final settlement value determined by the Exchange.</p> <p>For example: On the final trading day, if the London Gold AM Fix price is USD1,300 per troy ounce and the exchange rate is USD1 = RM 3.0800 (USD/RM conversion rate is middle rate published on the final trading day on the Bank Negara Malaysia website at 17:00):</p> <ol style="list-style-type: none"> 1. Conversion of the gold price from USD to RM will be: $1,300 \times 3.0800 = \text{RM}4,004$ per troy ounce. 2. Conversion from troy ounce into grams: $\text{RM}4,004 / 31.1034768 = \text{RM}128.731589260786$ per gram (1 troy ounce = 31.1034768 grams) 3. Final Settlement Value will be RM128.75 per gram (rounded to the nearest RM0.05), 4. Contract Value will be $\text{RM}128.75 \text{ per gram} \times 100 \text{ grams} = \text{RM}12,875$.



4 DUBAI GOLD AND COMMODITIES EXCHANGE

Dubai has historically been an international hub for the physical trade of not only gold, but also many other commodities and so the establishment of the Dubai Gold & Commodities Exchange was the next logical step for the region and the local economy. DGCX is a subsidiary of Dubai Multi Commodities Centre, a strategic initiative of the Government of Dubai, with a mandate to enhance commodity trade flows through the Emirate by providing the appropriate physical, market, financial infrastructure and services required. DGCX commenced trading in November 2005 as the regions first commodity derivatives exchange and has become today, the leading derivatives exchange in the Middle East.

DGCX is regulated by the Securities and Commodities Authority (SCA) in the UAE. SCA was established in 2000 in accordance with Federal Law #4 and is a public authority that has been given the supervisory and executive powers necessary to perform its functions.

SCA, a member of the International Organisation of Securities Commissions (IOSCO), is also the regulatory authority for the Dubai Financial Market and the Abu Dhabi Securities Market and adheres to a fundamental objective to provide the opportunity to invest in commodities in a manner that serves the interest of the national economy by establishing the bases for sound and just dealings between various invertors.

DGCX has a fully operational Compliance Department, which, in liaison with SCA, ensures that Members maintain strict adherence to SCA approved DGCX By-Laws. These By-Laws include rules that require, inter alia,

- Client funds to be maintained in segregated bank accounts by DGCX Broker Members
- The timely collection of margin monies from clients' segregated accounts; so that their 'contracts' are properly maintained on DGCX and all Exchange participants are protected from losses arising from these transactions.

In addition, all DGCX Broker Members that are licensed by SCA are required to apply robust 'Know Your Customer' (KYC) disclosure procedures to their clients' account opening formalities. Furthermore, they are required to

conduct their business with clients to DGCX in accordance with the international 'best' code of practice and standards observed on other major exchanges around the world.

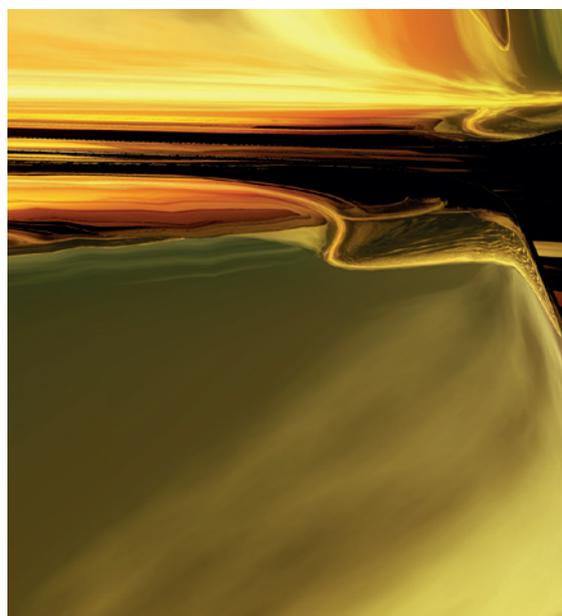
The Management team of DGCX comprises senior personnel from the commodities, securities and financial services industries bringing a wealth of experience and expertise to ensure the success of DGCX. DGCX is majority owned by the DMCC. DGCX is an SRO (Self-Regulated Organization) regulated by the Securities and Commodities Authority (SCA) of the UAE.

4.1 Traded Product & Services

DGCX launched its maiden contract on gold futures in November 2005 and has since added derivatives on other precious metals, base metals, currencies, energy and equity indices.

4.1.1 Gold Futures

One gold futures contract size is 32 troy ounces of refined gold, which corresponds to approx. 1 kg and with has 0.995 fineness as per Dubai Good Delivery Standard. In the following Table 4-1 the specifications of gold futures contract are presented.



**Table 4-1:
Gold Futures Specs of DGCX**

Trading	
Symbol	DG
Contract Size	32 troy ounces. (1 kg)
Quality Specification	0.995 purity, as per Dubai Good Delivery Standard
Trading Months	Feb, Apr, Jun, Aug, Oct and Dec
Last Trading Day	Third last business day of the month preceding the Delivery Month
New Contract Listing	Business day immediately following last trading day
Price Quote	US\$ per troy ounce
Tick Size	US\$ 0.10 (US \$ 3.2 per contract)
Price Movement Limit	US\$ 20 - Note 1*
Max Order Size	200 contracts
Trading Days	Monday through to Friday
Trading Hours	07:00 - 23:55 Hours Dubai time (GMT+4)
Wholesale Trades	EFS, EFP, Block trade facilities available
Delivery related information	
Delivery Unit	1 Kg (31.99 troy ounces)
Deliverable Weight	1 Kilogram cast in one bar
Deliverable Quality	0.995 fineness
Approved CMI / Assayers	Names as listed on the DGCX website
Approved Refiners	Names as listed on the DGCX website
Approved Vaults	Names as listed on the DGCX website
Delivery Period	First Day of the Delivery Month
Notice Day	Last Day of trading of the Delivery Month
Delivery Process	The Matching of Buyers and Sellers for Gold delivery will be completed on a time priority basis upon receipt of their Tender/ Delivery Notices
Vault charges	Rates applicable as published on the DGCX website
Delivery Instrument	Gold via DMCC Tradeflow Warrant at approved vault locations within the Emirate of Dubai.
Option for Cash Settlement	Open Positions that have not been closed out on the Last Day of Trading are subject to cash settlement as per gold cash settlement price declared by the Exchange

Note1*: If price breaches the daily price movement limit, trading in particular contract continue, with the new trading price range without any cooling period



4.1.2 Spot Gold

DGCX is one of the exchanges in the world where gold is traded physically. Currently a spot physical gold contract is traded in DGCX with size of 32 troy ounce and with 0.995 fineness. This spot gold contracts is traded in USD/ounce basis from Monday to Friday except holidays.

**Table 4-2:
Spot Gold Specifications**

Trading	
Symbol	DGSG
Contract Size	32 troy ounces. (1 kg)
Quality Specification	0.995 purity, as per Dubai Good Delivery Standard
Daily Price Movement Limit	No Price Limit*
Maximum Order Size	200 lots
Minimum Delivery Size	1 lot
Price Quote	US\$ per troy ounce
Tick Size	US\$ 0.10 (US \$ 3.2 per contract)
Tick Value	US\$ 3.20
Trading Days	Monday to Friday
Trading Hours	07:00 - 20:00 Hours UAE time (GMT+4)
Initial Risk Margin based on SPAN	USD 1,200 per contract, subject to change.
Automatic Rollover Mechanism	On any given trading day, unless a notice of delivery intent has been received by DCCC prior to 20:15 Hours UAE time, all open positions will be marked to market and automatically carried forward into the next trading session. For all carried forward positions, a rollover fee will be applied.
Delivery Notice	Before 20:15 Hours UAE time (GMT+4) on trading day.
Delivery Margin	5 times the Initial Margin, subject to change.
Delivery Mechanism Details	
Delivery Unit	31.99 troy ounces (1kg) cast in one bar, accompanied by the original Refiner's Certificate.
Delivery Logic	Random allocation.
Delivery Days	T+2 (Monday to Friday)
Delivery Fee	Rates applicable and to be published on the DGCX/DCCC website.
Delivery Method Instrument & Location	100% Cash via DCCC, 100% physical Gold via DMCC Tradeflow Warrant at approved vault locations within the Emirate of Dubai.
Pay-In of Funds / Delivery-In of Gold	Pay in before 10:00 Hours UAE time (GMT+4) on T+2. Pay out after 12:00 Hours UAE time (GMT+4) on T+2.
Exchange of Futures for Physical (EFP)	EFP (Exchange of Futures of Physical) - a mechanism to exchange Futures for Spot, and Spot for Futures will be available.
Approved CMI / Assayers	Names as listed on the DGCX/DCCC websites.
Approved Brands	Names as listed on the DGCX/DCCC websites.
Rollover Fee, per lot	US\$ 0.96 per lot charged to the holders of positions that have been rolled over. The rollover fee will be published by DCCC from time to time. The corporation could levy different rollover fees for the long and short positions.
Daily Settlement Price	As per DGCX Notice # COMP-2008-014 dated April 22, 2008.
Position Limits	As determined by Exchange from time to time.
Delivery Limits	Clearer Member level limit - 50% of Open Interest OR 125 Kgs whichever is lower. Trading Member level limit - 20% of Open Interest or 75 Kgs whichever is lower. Client level limit - 10% of Open Interest OR 25 Kgs whichever is lower.

Note1*: For the avoidance of "fat finger" errors, price band shall be USD 20 from previous settlement price e.g. if previous settlement price is USD 1,200 then the price band is from USD 1,180 to USD 1,220.

4.1.3 India Gold Quanto Futures

DGCX has a futures contract providing price discovery and trading avenue to trade Indian Gold prices through cash settled India Quanto Gold futures contract. The specifications for the contract has been presented in the Table 4-3 below.

4.1.4 Other Traded Instruments

Along with above-mentioned gold instruments, many other financial instruments such as currency futures, hydrocarbons, commodities and equities can also be traded on the Exchange. In the Figure 2-1 below those product pipeline is presented. As can be seen from this scene, DGCX has a very broad range of products traded on its platform.

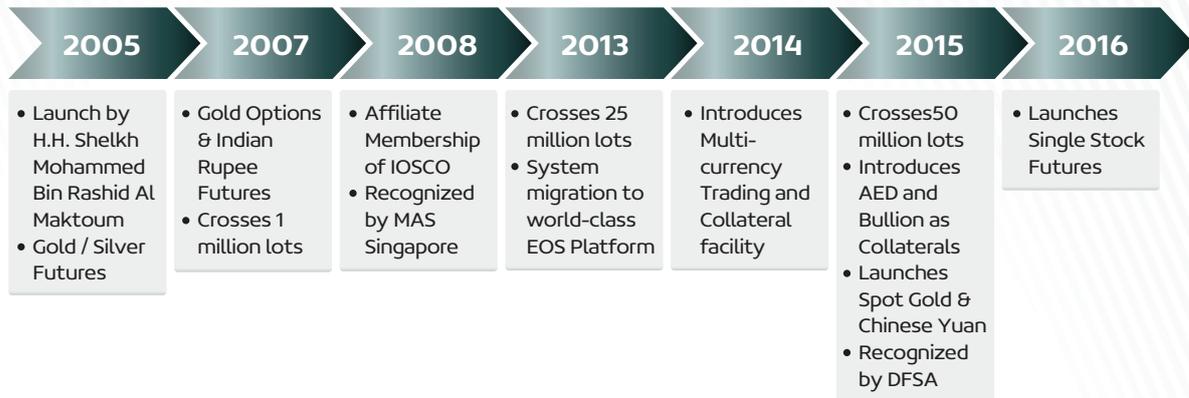
Table 4-3:
India Gold Quanto Futures Specifications

Specifications	Parameters
Contract Symbol	DIG
Underlying	India Gold
Contract Size	1
Price Quote	USD 1.00X Indian Gold Futures Price quoted in INR per 10gms (e.g. Bid 27575 / Offer 27,576)
Tick Size	USD 1.00
Tick Value	USD 1.00
Wholesale Trades	EFS, EFP, Block trade facilities available
Daily Price Movement Limit	No Limits*
Maximum Order Size	500 contracts for Banks and institutions promoted by Banks. All other entities 200 contracts
Settlement Type	Cash settlement in USD
Final Cash Settlement Price Basis	The Final Cash Settlement Price basis shall be the benchmark reference Gold futures price publically available in India that corresponds to the DGCX Contract Month
Trading Months	February, April, June, August, October, December (Six contracts at any given point of time)
Trading Days	Monday through to Friday
Trading Hours	DGCX Trading Hours
Last Day of Trading	The Last Day of Trading for Gold Quanto Futures Contracts is the second last Day of Trading of the month immediately preceding the Delivery month
New Contract Listing	Business Day immediately following the Last Day of Trading



4.2 Key Milestones

**Figure 4-1:
Product Pipeline of DGCX**



4.3 Benefits on Trading on DGCX

Range of futures contracts of DGCX offers participants of the physical commodities markets, such as producers, manufacturers and end users, with a sophisticated means of hedging their price risk exposure. Such price risk management has previously been unavailable to producers in the Middle East. In addition, DGCX offers trading opportunities to financial communities and investment houses in both the Middle East and around the globe who wish to access the growing asset class of commodity and currency derivatives.

- (i) Guaranteed settlement and reduced counterparty risk provided by Dubai Commodities Clearing Corporation, a subsidiary 100% owned by DGCX.
- (ii) The advantage of transacting and clearing business within the UAE and thus the local taxation and regulatory regimes
- (iii) A simple fee structure - one fee for all participants. All participants also pay the same margin, whether commercial or non-commercial entities
- (iv) An opening to both regional and international liquidity pools
- (v) Robust risk management and surveillance systems
- (vi) Uninterrupted trading hours from 7:00 am - 11:30 pm (GMT +4)
- (vii) Regulated by the Securities & Commodities Authority (SCA)

The UAE enjoys an ideal location between the time zones of Europe and the Far East and DGCX offers a range of products from the precious metal, base metal, energy and currency sectors.

4.4 Clearing

DGCX has established a wholly owned subsidiary, the Dubai Commodities Clearing Corporation for undertaking all clearing, settlement and risk management functions. DCCC becomes the central counterparty for all trades executed on the DGCX trading platform, whereby it acts as a Seller to all Buyers and Buyer to all Sellers on the Exchange. DCCC provides a Settlement Guarantee for all trades executed on DGCX. This provides confidence to market participants as counter-party risk is reduced.

In order to protect market participants from counter-party credit risk, DCCC has established a robust risk management framework. The risk management framework provided by DCCC is underpinned by a system of initial margin, daily marking-to-market procedures and additional margins.

4.4.1 Calculation of Settlement Value for Deliverable Gold Futures Contracts

The Settlement Value for each Contract is calculated as { $SV = 31.99 \times P$ }, where SV is the Settlement Value expressed in US Dollars; and P is the invoice, expressed in US Dollars per troy ounce." The invoice price is the Daily Settlement Price of the relevant Class of Contract on the Notice Day.

4.4.2 Calculation of Settlement Value for Deliverable Gold Spot Contracts

The Settlement Value for each spot gold contract is calculated as:

$$\{\text{Settlement Value} = \text{Weight} \times \text{Settlement Price}\}$$

Where settlement value expressed in US Dollars, and weight, expressed in troy ounces. Settlement price, expressed in US Dollars per troy ounce also taken as invoice price.

4.4.3 Deliverable Gold

Deliverable gold is 1 kilogram of refined gold of 0.995 fineness cast in one bar by an “approved gold refiner” and located in an “approved gold vault”. Every bar of deliverable gold are packaged in a form approved by the Exchange. Gold should be delivered to an approved gold vault as follows:

- i) directly from an approved gold refiner for the account of a clearing member, trading member or client; or
- ii) directly from another approved vault for the account of a clearing member, trading member or client provided that such gold was delivered to that approved vault.

4.4.4 Delivery Procedure of Gold Spot/Futures Contract

A clearing member holding a short position, i.e. seller, intending to deliver must provide to the Clearing Corporation a “delivery notice” through the CCP’s electronic clearing platform, containing such information regarding the gold to be delivered and within such time as the Clearing Corporation may prescribe. Likewise, a clearing member holding a long position, i.e. buyer, intending to take delivery must provide to the clearing corporation a “tender notice” through the CCP’s electronic clearing platform, containing such information regarding the quantity of gold to be received and within such time as the Clearing Corporation may prescribe.

In case of Matching Intention contract (Gold futures contract), the matching of buyers and sellers for gold delivery will be completed on a time priority basis based upon receipt of their “tender/delivery notice”. In case of a compulsory delivery contract (Spot Gold contract), the matching of buyers and sellers for gold delivery will be completed on a Random Basis.

A “tender/delivery notice”, once issued, cannot be withdrawn or cancelled after the lapse of the time prescribed for registering the tender/delivery notice unless without the written agreement of the Clearing Corporation.

Sell Clearing Member is required to deposit Gold (as per the specifications) in the approved vault and create a Tradeflow warrant against the Gold deposited. These warrants are required to be offered for DCCC delivery for the Delivery Day through the Tradeflow electronic platform. Buy Clearing Member is required to deposit funds in the settlement account with the clearing bank before the Delivery Day cut off time.

On the Delivery Day, after the cut off time, all warrants that are offered for delivery for that day are automatically locked for DCCC delivery. After this time Sell Clearing member does not have any access to these warrants until the delivery cycle is completed. On the other hand, the CCP will debit the Buy Clearing Members settlement account for the funds payment against the Gold Delivery. Once this is completed the CCP will perform a Delivery versus Payment (DVP) wherein the Gold Tradeflow warrants are transferred to the Buy Clearing Members Tradeflow account and the funds are credited to the Sell Clearing Members Settlement Account.

Once the Tradeflow warrants are transferred to the Buy Clearing Member, the Buy Clearing Member has a choice to cancel the warrants on the Tradeflow system and release the Physical Gold from the vaults or he can use the same warrants for future DCCC deliveries.

4.4.5 Alternative Delivery Procedure

Where a delivery notice issued by a seller has been allocated to a buyer, the buyer and seller may agree that delivery be made under terms and conditions that differ from the by-laws of the Exchange. In such a case, the buyer and the seller must submit to the Clearing Corporation an alternative delivery completion notice in a prescribed format and before such time on the delivery day as is prescribed by the Clearing Corporation.

The submission of the alternative delivery completion notice to release the clearing members and the Clearing Corporation from their respective obligations under the terms of the rules of the Exchange in respect of those contracts that are the subject of the alternative delivery completion notice.

4.4.6 Approved Gold Refiners, Vaults, and CMIs

The Exchange from time to time determine and publish:

- i) a list of approved gold refiners whose gold bars are accepted as deliverable gold in fulfillment of a gold spot/futures contract;
- ii) a list of approved vaults in the UAE in which gold may be stored for delivery in fulfillment of a gold spot/futures contract and whose certification as to weight is accepted for gold delivered in fulfillment of a gold spot/futures contract;
- iii) a list of approved gold CMIs/assayers whose certification as to weight and fineness are accepted for gold delivered in fulfillment of a gold spot/futures contract.

4.4.7 Approved Delivery Locations and Gold Vaults

For the spot gold contract the Clearing Corporation from time to time determine and publish; a list of delivery locations for the delivery of Gold in fulfillment of that DGSG Contract, and a list of approved vaults at each delivery location, at which gold may be delivered in fulfillment of a spot gold contract.

4.4.8 Gold to be Represented by A Warrant

Gold that is the subject of a “delivery notice” in respect of a spot gold contract may be represented by a Warrant issued by an Approved Warrant Issuer and which complies with the requirements of the By-Laws of the Exchange, subject to the following:

- i) a warrant that is to be used to effect delivery in fulfillment of a DGSG should be related to deliverable gold.
- ii) a warrant is eligible to be used to effect delivery in fulfillment of a DGSG if the gold that is the subject of the Warrant is stored in an approved gold vault.
- iii) a warrant used to effect delivery in fulfillment of a DGSG must state, in respect of the gold that are the subject of the Warrant:
 - a) the net weight of the gold,
 - b) the country of origin of the gold,
 - c) the producer and brand of the gold,
 - d) grade, quality, purity, fineness, batch number and test results for the batch;
 - e) the dates of issuance, and reference numbers, of the certificate of analysis.
- iv) A Warrant must follow that:
 - a) the net weight stated on the Warrant must be the net weight shown on the packing list and
 - b) such net weight must not be less than the limit of 1 Kilogram of gold.

4.4.9 Approved Warrant Issuers

The Exchange may from time to time determine and publish a list of “approved warrant issuers” whose warrants representing gold may be used for delivery in fulfillment of a spot gold contract.

4.5 Exchange Technology

In November 2014 DGCX completed the migration to an industry leading exchange platform called EOS powered by Cinnober, one of the world’s leading trading technology providers. The Exchange partnership with Cinnober offers an advanced technology platform designed to support DGCX Members’ increasingly sophisticated trading requirements.

The activation of the EOS Platform marks the completion of DGCX’s new technology infrastructure.

The advanced platform provides DGCX’s growing Member community with superior transaction speed, more efficient means to access liquidity, higher reliability, enhanced trading and clearing flexibility and global connectivity. The upgrade provides low latency network access, world-class risk-management, surveillance and clearing capabilities.

The new technology gives the Exchange the ability to offer contracts in multiple currencies. DGCX will also be able to offer 24-hour market support on the new platform, enhancing the value it offers Members while also attracting new business opportunities from retail, institutional and high-frequency traders.

4.5.1 EOS

EOS, the new DGCX technology platform will give the Exchange the ability to offer contracts in multiple currencies including UAE dirhams. Going forward, the new platform will also allow DCCC, fully owned Clearing Corporation of DGCX, to provide multi-currency settlement facilities.

With its state-of-the-art matching engine, EOS is geared to the needs of high-frequency traders, who require ultra-low latency platforms to trade productively and profitably.

4.5.2 EOS-Cloud

In order to provide its members a low latency trading access, DGCX now offers a hosting services in the same Data Centre where EOS Platform is hosted to all members. In addition to hosting, members can also avail the DGCX maintained dedicated hardware infrastructure to reduce upfront capital investment. Leveraging these facilities, members can extend services quickly and efficiently to meet their increasing needs.

4.6 Rules

DGCX is regulated by the SCA in the UAE. SCA was established in 2000 in accordance with Federal Law 4 and is a public authority that has been given the supervisory and executive powers necessary to perform its functions.

SCA, a member of the International Organization of Securities Commissions, is also the regulatory authority for the Dubai Financial Market and the Abu Dhabi Securities Market and adheres to a fundamental objective to provide the opportunity to invest in commodities in a

manner that serves the interest of the national economy by establishing the bases for sound and just dealings between various inventors.

DGCX has a fully operational Compliance Department which, in liaison with SCA, ensures that Members maintain strict adherence to SCA approved DGCX By-Laws. These By-Laws include rules that require, inter alia,

- Client funds to be maintained in segregated bank accounts by DGCX Broker Members
- The timely collection of margin monies from clients' segregated accounts, so that their 'contracts' are properly maintained on DGCX and all Exchange participants are protected from losses arising from these transactions.

In addition, all DGCX Broker Members that are licensed by SCA are required to apply robust 'Know Your Customer' disclosure procedures to their clients' account opening formalities. Furthermore, they are required to conduct their business with clients to DGCX in accordance with the international 'best' code of practice and standards observed on other major exchanges around the world.

4.7 Membership

The DGCX Membership structure is organized into different categories depending on the requirements of the participant. The first stage of applying for DGCX membership is completing the application form, which can be obtained from the DGCX Membership Department or via the DGCX website. DGCX has almost 267 members and 84 clearing members from a range of financial centers such as Zurich, London, Chicago, Singapore, Mumbai and Hong Kong, as well as the UAE. The following Membership categories are available on DGCX:

4.7.1 Broker Membership

Broker Members are entitled to trade on all the products listed by DGCX either on proprietary basis or on behalf of clients. Broker Members must meet minimum Net Current Tangible Asset (NCTA) requirements specified by Exchange, and comply with a comprehensive set of regulatory requirements specified in the DGCX By-Laws. Broker Members proposing to deal on behalf of clients, will be subject to statutory regulations. Broker Members will require a license from the SCA. Following provisional admission to DGCX Broker Membership, the Exchange will submit the necessary papers to the SCA on the applicant's behalf. Applicants for DGCX Broker Membership incorporated outside the UAE will be required to

provide details of the regulatory arrangements to which they are subject to in their home jurisdiction. Broker Memberships are currently offered at an Admission Fee of US\$ 150,000.

Before an applicant is approved as a Broker Member, the Exchange will undertake the necessary due diligence; for example:

- The applicant's financial resources
- The applicant's expertise and experience as a broker in commodities, derivatives markets and/or in securities, or other similar markets
- The applicant's likely contribution to the liquidity and development of DGCX markets.

4.7.2 Trade Membership

Trade Members are entitled to trade on a proprietary basis only on all products listed on DGCX. Trade Members must meet minimum net current tangible asset requirements specified by DGCX. Trade Memberships are currently offered at an Admission Fee of US\$ 60,000.

Before an applicant is approved as a Trade Member, the Exchange will undertake the necessary due diligence; for example:

- The applicant's financial resources
- The applicant's expertise and experience in commodities, derivatives markets and/or in securities, or other similar markets
- The applicant's likely contribution to the liquidity and development of DGCX markets.

4.7.3 Special Clearing Membership

Broker Members and Trade Members are eligible to apply for Regular Membership of the DCCC, which entitles them to clear DGCX transactions. In addition, financial institutions who propose to clear DGCX transactions, but who do not wish to trade either as a principal or for clients may apply for Special Membership of DCCC.

Applicants for Clearing Membership are required to meet minimum Net Current Tangible Assets requirements and to open a 'Settlement Account' with any one of the Approved Clearing Banks of the DCCC.

4.8 Trading Procedures & Trading Rules

Trading on the Exchange takes place on the ATS, or Automated Trading System which is an electronic system provided by the Exchange to its members for trading of contracts, or on such other facility as the Exchange may approve.

4.8.1 Trading to Take Place on ATS

Except where otherwise determined by the Exchange, all trading takes place on the ATS. Access to the ATS can be by way of:

- i) Trade Work Stations (TWS) approved by the Exchange as to technical specifications and location and any other factors that the Exchange may determine at its sole discretion to be relevant; and
- ii) UserID(s) allocated to members on such terms and conditions as the Exchange may determine at its sole discretion.

The Exchange may disconnect any UserID allocated to an approved user if it is of the opinion that the continued access of the ATS by that approved user will affect the orderly conduct of the market.

The Exchange may, from time to time, issue written directions and guidelines regarding the procedures to be followed in using the Trader Work Stations.

4.8.2 Connections to the ATS

The Chief Executive may, where he considers it necessary in the interests of a fair, orderly and transparent market, determine that a member will not provide a connection to the ATS in relation to particular clients, a particular class of client, or in relation to a particular order system. The Exchange may:

- i) determine the number of UserIDs to be issued to a particular member;
- ii) determine the required specifications and location of any TWS, and
- iii) disable any UserID as required when it is of the view that continued use of such UserID will affect the operation of a fair, orderly and transparent market.

4.8.3 Approved Users

No person is permitted to trade through a TWS connected to the ATS unless he has been authorized to trade by a member and has been registered with the Exchange as an approved user. A person who is:

- a director or other officer, employee or agent of a member; or
- a client of a member,

and in either case who has been authorized to trade by that member, is eligible to apply to the Exchange for registration as an approved user.

A member who allows access to a TWS allocated to him by a person who is not an approved user may have his trading rights

suspended by the Exchange for a period to be determined by the Exchange.

4.8.4 Trading on behalf of Clients

No Trade Member can trade on behalf of another person, or accept instructions to trade on behalf of another person, and any Broker Member of the Exchange is not allowed to trade on behalf of a client, or accept instructions to trade on behalf of a client, without first being approved by the Exchange as being entitled to do so.

Above conditions do not apply to:

- i) a member that is a corporation if every client on whose behalf that member trades or accepts instructions to trade is an affiliated corporation; or
- ii) a member that is a firm if every client on whose behalf that member trades or accepts instructions to trade is:
 - a partner in the firm; or
 - a corporation that is beneficially owned by a partner in the firm.

A Broker Member, or an applicant wishing to become a Broker Member, should submit an application to the Exchange, for approval to trade on behalf of clients.

Prior to executing a client's instructions, a member must issue a call to that client for the minimum initial margin that is determined from time to time by the Exchange in such manner as the Exchange sees fit, or such larger amount of initial margin that the member deems appropriate in the circumstances.



5 BORSA İSTANBUL

Borsa İstanbul brings together all the exchanges operating in the Turkish capital markets under a single roof. Its Articles of Association was prepared by the Capital Markets Board -CMB, and it was registered on April 3, 2013.

The main purpose and field of activity of Borsa İstanbul is described as follows: "In accordance with the provisions of the Law and the related legislation, to ensure that capital markets instruments, foreign currencies, precious metals and gems, and other contracts, documents, and assets approved by the Capital Markets Board of Turkey are traded subject to free trade conditions in a facile and secure manner, in a transparent, efficient, competitive, fair and stable environment; to create, establish and develop markets, sub-markets, platforms, systems and other organized market places for the purpose of matching or facilitating the matching of the buy and sell orders for the above mentioned assets and to determine and announce the discovered prices; to manage and/or operate the aforementioned or other exchanges or markets of other exchanges; and to carry out the other activities listed in its Articles of Association." Established on the basis of Capital Markets Law, Borsa İstanbul is a self-regulatory entity and subject to private law.

Borsa İstanbul is targeting to become a leading stock exchange of a size reflecting Turkey's potential in terms of the number of publicly traded companies and market capitalization. This goal couples with maximum participation by domestic and international portfolio investors who trade both local and foreign capital markets instruments. Borsa İstanbul envisions a world-class in-house exchange technology which enables, among other things, linkages with other markets. This vision will add value to the drive of making İstanbul an international financial center.

5.1 International Recognition and Memberships

Borsa İstanbul has been; recognized as a "Designated Offshore Securities Market" by the U.S. Securities and Exchange Commission, officially designated as an "appropriate foreign investment market for the private and institutional Japanese investors" by the Japan Securities Dealers Association, and also

approved by the Austrian Ministry of Finance as a regulated market in accordance with the regulations of the Austrian Investment Fund Act.

Beside international recognitions, Borsa İstanbul is a member of many organization operating in its industry. Among those organizations are World Federation of Exchanges, Federation of Euro-Asian Stock Exchanges, Federation of European Securities Exchanges, International Islamic Financial Market, World Federation of Diamond Bourses, London Bullion Market Association, Kimberley Process Certification Scheme, Association of Futures Markets, Futures Industry Association, and Intermarket Surveillance Group.

5.2 Markets

Within its vision to contribute to the goal of making İstanbul a regional financial center Borsa İstanbul has been designed as a financial super market in which a broad array of financial products can be traded as well as rendering many other services such as colocation. In Borsa İstanbul those large product range are traded on four main markets of the Exchange, which are Equity Market, Debt Securities Market, Derivatives Market (VIOP), and Precious Metals, and Diamond Markets. Below the financial products that are traded at the Exchange have been presented on market basis.

5.2.1 Equity Market

In Borsa İstanbul Equity Market equities of companies from various sectors, preemptive rights, exchange traded funds, warrants and certificates are traded. The Market offers a liquid, transparent and secure trading environment for both domestic and foreign investors.

Trading in the Equity Market is carried out based on price and time priority, with "continuous auction", "continuous auction with market maker" and "single price" trading methods with a fully automated electronic trading system.

5.2.2 Debt Securities Market

The Debt Securities Market is comprised of the Outright Purchases And Sales Market, where the secondary market transactions of debt securities are conducted; the Offering Market For Qualified Investors, where the capital market instruments of the corporations whose

equities are traded on Borsa İstanbul Equity Market are issued to “qualified investors” as defined in the capital markets legislation; the Repo-Reverse Repo Market, where repo-reverse repo transactions are conducted; the Interbank Repo-Reverse Repo Market, where the repo-reverse repo transactions are conducted only by the banks for their own portfolios; the Repo Market for Specified Securities, where repo-reverse repo transactions with specified debt securities are conducted; the Equity Repo Market where repo- reverse repo transactions are carried out with the shares of the companies that are traded on Borsa İstanbul Equity Market and which are included in BIST 30 Index; and International Bonds Market, where foreign debt instruments issued by the Turkish Undersecretariat of Treasury and listed by Borsa İstanbul are conducted. Debt securities, securitized asset and income backed debt securities, lease certificates, liquidity bills issued by the Central Bank of the Republic of Turkey and other securities which are approved by Borsa İstanbul Board, which are denominated in TRY and foreign currency can be traded on the Debt Securities Market.

Trading is conducted electronically in the Debt Securities Market via the automated multiple price-continuous auction system. Central Bank of the Republic of Turkey and the intermediary institutions, which are members of Borsa İstanbul and banks can carry out transactions in the Debt Securities Market.

5.2.3 Derivatives Market -VIOP

In VIOP, financial derivatives started to be traded in December, 2012. Turkish Derivatives Exchange and Borsa İstanbul Futures & Options Market (VIOP) trading platforms have merged as of August 5, 2013. Following the merger, all futures and option contracts in Turkey continued to be traded on a single platform under the umbrella of VIOP. Currently, Single Stock Futures, BIST 30 Futures, SASX10 Futures, FBIST Futures, USD/TRY Futures, EUR/TRY Futures, EUR/ USD Cross Currency Futures, Monthly Overnight Repo Rate Futures, TRY/gr Gold Futures, USD/Ounce Gold Futures, Aegean Cotton Futures, Anatolian Red Wheat Futures, Durum Wheat Futures, Electricity Futures, Overnight Repo Rate Futures, Steel Scrap Futures, Single Stock Options, BIST 30 Options and FX options are traded at this Market.

5.2.4 Precious Metals and Diamond Markets

Gold has been regarded as one of the most important investment products for generations in Turkey. That being the case,

it was a necessity to establish an institution that facilitates and regulates trade of gold on a market basis. The journey of İstanbul Gold Exchange came out of this story in 1995 close to the Grand Bazaar in İstanbul. It operated under the same name until merging with İstanbul Stock Exchange under the roof of Borsa İstanbul in April, 2013. Since then, as a key financial institution of Turkey, Borsa İstanbul has been providing an opportunity to investors for trading of gold, silver, platinum and palladium alongside diamond and many other precious stones such as sapphire, emerald, ruby, topaz and pearl within the Precious Metals and Diamond Markets. Borsa İstanbul is one of the key players in physical gold trade in the world.

5.3 Gold Trade

On July 26th, 1995 İstanbul Gold Exchange (IGE) was founded with the aim of being the only regulated market on physical gold trade in Turkey. From then to 2013, when the IGE merged with İstanbul Stock Exchange under the roof of Borsa İstanbul, gold was traded under the IGE. After the merger, the IGE operations have been taken over by Precious Metals and Diamond Markets of Borsa İstanbul. The Market consists of three sub-markets that are depicted below. While spot trading of gold and other precious metals including silver, platinum and palladium is carried out on Precious Metals Market (PMM) ; diamond, sapphire, ruby, emerald, topaz, pearl are traded on Diamond and Precious Stones Market. In lending market above mentioned precious metals can be lent for a certain time in return for a premium.

Beside spot trade on gold on the Exchange also TRY and USD denominated gold futures contracts can be traded on Derivatives Market of the Exchange. Physical Clearing of these types of gold futures contracts is done at Precious Metals Market Vault.

**Chart 5-1:
Precious Metals and Diamond Markets' Structure**



5.3.1 Spot Gold

Standard gold bullions and bars having fineness above 0.995 and in certain form and non-standard gold having fineness less than 0.995 and undefined shapes, and features of both are set by the Under-Secretariat of the Turkish Treasury, are traded on spot basis on Precious Metals Market. Trading currencies are TRY/kg, US\$/ounce, EUR/ounce. Minimum price ranges for gold is 1 kurus for TRY/kg quotations, 5 cent for US \$/ounce and EUR/ounce quotations. Orders may be entered up to 90 (T+90) value dates.

Buy and sell orders are sent to and matched, based on price and time priority, automatically in a web-based electronic trading system, in short EBS. Orders can be matched completely or partially. Only authorized representatives of the Exchange members may enter orders.

Trades are done in 24-hour continuous session basis including weekends and holidays. A session starts at 04:00 pm in a business day and closes at 04:00 pm in next business day. Clearing operations are executed in business days within official working hours of the Exchange.

**Table 5-1:
Trading and the Latest Liabilities Hours at PMM**

Precious Metals Market Trading Hours	Starts at 04:00 pm every business day and closes at 04:00 pm in next business day.
Precious Metals Delivery Liabilities	At the latest 16:00 for T+0 transactions.
Monetary Liabilities	At the latest 17:15 for T+0 transactions.

General Specifications for Standard Gold

It is compulsory that each gold bullion or bar to be traded on the PMM has the refinery emblem or seal, bullion serial number, weight and fineness notations. Only standard gold that have the fineness seal of foreign or domestic accredited refineries can be are traded at the Exchange. In addition to these specifications standard gold bullions and bars must have some facial features. In this regard they must have smooth surface and not have any blister, crust and migration as well as sharp corners. They should easily be stored and moved.

Types of bars and bullions for standard precious metals traded on the Exchange are as follows:

- i) Mini Bar: 1 gr, 2.5 gr, 5 gr, 10 gr, 20 gr, 50 gr, 100 gr, 250 gr and 500 gr
- ii) Bullion: 1 kg
- iii) Large Bar: Bullion over 1 kg.

In addition to standard gold bullions and bars also non-standard gold and gold ore can be traded on the PMM. These types of gold do not have any defined shape. Of these while non-standard one is formed from recycled gold and ore is formed from mines. Fineness of these two types of gold is determined by assayers accredited by the Turkish Mint.

5.3.2 Gold Futures

By trading a gold futures contract, one can buy or sell TRY/Gr or USD/Once Gold Futures Contract. Underlying security is pure gold, i.e. gold having 0.995 fineness. Trading can be

conducted continuously from 09:10 to 17:45 (local time). In order to be conducting gold futures trade, one member is required to lodge collateral which is set by the SPAN portfolio margining method initially and then is set as 75% of the required collateral for maintenance margin.

While each TRY/Gr gold futures contract equals 1 gram, each USD/ounce gold futures contract equals 1 ounce of pure gold. Contract months are February, April, June, August, October and December and contracts are cash-settled. Last business day of each contract month is expiry date. In case domestic markets are closed for half day due to an official holiday, expiry date will be the preceding business day.

The daily settlement price is calculated as follows at the end of the session and rounded to the nearest price tick:

- i) The weighted average price of all the trades executed within the last 10 minutes of the session,
- ii) If less than 10 trades were realized in the last 10 minutes of the session, the weighted average price of the last 10 trades executed within the session,
- iii) If less than 10 trades were realized in the session, the weighted average price of all the trades executed during the session,
- iv) If no trades were realized during the session, the settlement price of the previous day.

LBMA Gold Price P.M. is used in final settlement price. If a deal has been struck over TRY, LBMA

price is converted to TRY/gram price and called as the final settlement price. In calculations, the average of US Dollar selling and buying rate announced by the Central Bank of the Republic of Turkey at 15:30 (for USDTRY conversion) and 31.1035 (for ounce/gram conversion) is used as the conversion factors. If the afternoon fixing price is not released, the gold fixing price A.M. price is used in calculations.

5.4 Clearing

Istanbul Settlement and Custody Bank Inc. (Takasbank), a subsidiary of Borsa Istanbul, is Clearing Company for Borsa İstanbul's markets. Takasbank commits to complete the clearing and settlement for markets and capital market instruments through open offer, novation or another legally binding method by acting as buyer against seller and seller against buyer. The risks that Takasbank is exposed to, arising from services that Takasbank provides as a CCP are safeguarded through collaterals, guarantee fund and amount allocated from Takasbank's capital.

Based on the legal framework provided by the new Capital Market Law Takasbank initiated central counterparty services for the Securities Lending Market operated by itself and subsequently took the same function in March 2014 in the Organized Derivatives Market of Borsa İstanbul.

5.4.1 Futures and Options Market Clearing and Settlement

Takasbank is the central clearing and settlement institution of the derivatives transactions executed at the Borsa Istanbul Futures and Options Market. As of March 3, 2014 Takasbank began to provide central counterparty services at Borsa Istanbul Futures and Options Market. In this regard, gold futures contract of this market are centrally cleared and settled by Takasbank.

5.4.2 Precious Metals and Diamond Market Cash Settlement

Takasbank has been authorized to execute the cash settlement and collateral transactions of precious metal trades realized at Borsa Istanbul Precious Metals and Diamond Market. Borsa Istanbul Precious Metals and Diamond Market members are required to open accounts at the Takasbank in order to be able to carry out cash settlement and collateral transactions.

Within the infrastructure designed for the smooth execution of cash settlement and collateral transactions, the connection with Borsa Istanbul is provided via web service

and Borsa İstanbul members are given the opportunity to access Takasbank screens through internet.

5.4.3 Cash Settlement Transactions for Precious Metals Market

The data regarding the settled trades in the PMM is transmitted to the Takasbank system by Borsa Istanbul. In line with the members debt balance, members settlement obligations are fulfilled by using the amounts that are collected from the members' accounts held with the correspondent bank. The list of members fulfilling the settlement obligations is provided to Borsa Istanbul and consecutively, the finalization of the precious metals settlement process is enabled. The list of members fulfilling the precious metals obligations at Borsa Istanbul is provided to Takasbank by Borsa Istanbul; accordingly, members' cash settlement receivables are transferred to member accounts held with the correspondent bank. Cash settlement transactions are executed between 4:00 pm – 5:00 pm.

5.4.4 Clearing of Physical Gold

Clearing of physical precious metals trades is executed by the PMM. The buyer deposits cash amount for precious metals he bought to the corresponding bank of Takasbank while the seller delivers precious metals that he sold in the relevant trade to the vault of Borsa İstanbul operated by Precious Metals and Diamond Markets at the latest 4:00 pm in related settlement day.

After settlement instructions between Takasbank and the PMM are agreed on via electronic communication system of trading and clearing systems of the two clearing parties, cash and precious metals are mutually transferred to the buyer and the seller accounts respectively.

5.5 Exchange Technology

In the current situation, each market of the Exchange except for Equity Market, has its own trading system developed by the Exchange or provided by third parties. For example Precious Metals Market is operating over Electronic Exchange System, EBS in Turkish abbreviation which is a web based application. In addition to EBS, members have been using to participate in the Market APIs since 2014.

Borsa Istanbul has gone under a great transformation in the last few years in order for renewing its technological infrastructure. In July, 2013 Borsa İstanbul and Nasdaq

OMX Group, the inventor of the electronic exchange and fueling economies and providing transformative technologies for the entire lifecycle of a trade - from risk management to trade to surveillance to clearing as well as owning and operating 26 markets, 3 clearinghouses and 5 central securities depositories supporting equities, options, fixed income, derivatives, commodities, futures and structured products in the U.S. and Europe, signed a partnership agreement which aimed to expand Borsa İstanbul's global presence, while substantially strengthening İstanbul's position as a regional hub for capital markets. The agreement gave Borsa İstanbul a chance to integrate and operate Nasdaq OMX's suite of world-class market technologies for trading, clearing, market surveillance and risk management, covering all asset classes including energy contracts. This process enabled Borsa İstanbul to be a leading integrated multi-asset exchange, and to provide a cutting-edge platform serving issuers, investors, and traders globally.

Equity Market of Borsa İstanbul migrated its operations from its outdated trading platform to new Genium INET (BISTECH) customized for Borsa İstanbul by Nasdaq OMX. In the first quarter of 2017 Derivatives Market is also expected to serve on the Genium INET platform alongside Equity Market. Debt Equity Market along with Precious Metals and Lending Markets of the Exchange are also expected to migrate from their current system to the BISTECH by 2017 fall.

While on the one hand Genium INET Trading software has been adapted for Borsa İstanbul, on the other, Genium INET Clearing software has been customized for Takasbank to carry out clearing transactions of the Markets of Borsa İstanbul. Thereby, when all the migration process of all markets of the Exchange was completed, Borsa İstanbul would provide an opportunity to its participants to trade on all financial instrument on the same platform. In addition to this, it is expected it would place Borsa İstanbul atop the Exchanges operating around Turkey's region.

In the process of improving its technological infrastructure toward the aim of becoming a regional power, Borsa İstanbul also attained a technology comparable to that of world exchanges, thanks to the "primary data center" and "data wall" of the most advanced technology in April, 2014. The primary data center and data wall were launched with a view to attain a technology that is comparable to that of the world exchanges. Data wall

consists of 36 screens of 55 inches each. Borsa İstanbul "primary data center" is the one with the highest standards in Turkey in terms of technological security, with a total area of 1,500 square meters. Aiming at regional leadership with the primary data center and data wall, the Exchange started the construction of the new data center in 2013, which comprises 170 cabinets versus 40 cabinets of the data center which was established in 1993. The cabinets are not physically accessible, and each has a unique digital key. The capacity increased by at least four fold, which means a consequent parallel increase in the trading speed. The fact that all servers work in redundancy eliminates data loss risks.

After completion of the primary data center, order transmission speed from the computers of intermediary institutions to Borsa İstanbul to be decreased to about one milliseconds thanks to the new technology, which was about 15 milliseconds previously. The primary data center also offers co-location services for banks.

5.5.1 Genium INET

Genium INET trading platform is designed to be one of the fastest and most functionally complete multi-asset trading systems and supports multiple markets simultaneously on a single platform - including all trading from traditional cash and fixed income securities, derivatives, and commodities.

This area is used to distribute all Genium INET protocol specifications, member applications, enhancements, project updates, operation info, testing and certification necessary for successful member, broker, and Independent Software Vendor (ISV) integration.

5.5.2 Conduct of Trading

All trade at the Exchange can only be conducted by means of brokers or representatives, approved by Borsa İstanbul Board and provided that they fulfill the qualifications envisaged in the relevant legislation, of members of the Exchange. No other person that is not granted a right to trade in the name of a member, can transmit orders into the Exchange's trading platforms. While orders sent to Equity, Debt Securities and Derivatives Markets are on account of their clients, orders sent to the PMM are generally of the members themselves.

Since, currently, every market of the Exchange has its own trading system and they are not at the same platform, any member is required to

apply for authorization to trade on each market and must meet every market's technological requirements. However, after migration of all the markets to BISTECH in the near future any member will have a privilege to trade on one platform and on a diverse range of instruments.

For trades on precious metals instruments one will be able to trade on a tailored web based trading system, integrated with its surrounding systems such as clearing and custody software.

5.6 Rules

The Capital Markets Board of Turkey (CMB) is the first regulatory and supervisory authority in charge of the securities and derivatives markets in Turkey. The CMB has been making detailed regulations for organizing the capital markets and developing market instruments and institutions. The CMB licenses, regulates and supervises capital markets and institutions in Turkey. Its remit is to:

- maintain fair, orderly and efficient capital markets,
- ensure that investors are protected and receive full, accurate and timely information,
- safeguard investments in capital markets.

The legal landscape in the field of capital markets in Turkey underwent a major change. In an effort to harmonize the Turkish capital markets regulation with the EU acquis and improve the integration of the Turkish capital markets with the global markets and enhance competitiveness thereof, Turkish law maker enacted the Capital Markets Law No. 6362 as a reform making law, bringing about not only liberalization of the activity of running organized markets, but also re-structuring and re-branding of Istanbul Stock Exchange, Istanbul Gold Exchanges and Turkish Derivatives Exchange as Borsa İstanbul, which is devised by the said law as a joint-stock company subject to private law, having market stakeholders as shareholders alongside the shares of Treasury, and thus allowing the realization of good governance principles as well. The establishment process of Borsa İstanbul under the provisions of CML was completed by the registration of articles of incorporation of Borsa İstanbul on April 3, 2013. The legal framework of Turkish capital markets, as it currently stands, is mainly devised by two major pieces of legislation, namely CML and Turkish Commercial Code. There is also an extensive deal of detail level regulation which specifically may be manifested as Communiqués of Capital Markets Board and Regulations of Stock Exchange.

Established on the basis of Capital Markets Law no. 6362, Borsa İstanbul is a self-regulatory entity and subject to private law. The rules about its market operations are prepared by Borsa İstanbul taking into account views of relevant institutions and market needs.

5.7 Membership

Only members are authorized to trade on more than one market or sub-market. Members are required to deposit the relevant amount of collateral for each market they will trade on.

Borsa İstanbul Members consist of the intermediary institutions authorized to operate in the capital markets and institutions authorized to operate in the Precious Metals and Diamond Markets. Members trading on Borsa İstanbul's Equity Market, Emerging Companies Market, Debt Securities Market and Derivatives Market may be classified roughly as banks and brokerage houses.

Banks, authorized institutions (currency offices), precious metals brokerage houses, joint stock companies engaged in precious metals production or trade, and Turkey branches of foreign companies that fulfill the requirements envisaged by Borsa İstanbul Board and that hold operation licenses from the Treasury Undersecretariat may trade on the Precious Metals and Diamond Markets.

Broker candidates who satisfy the requirements for being a broker as envisaged in the relevant legislation must fill the application form, and submit an application to Borsa İstanbul with the documents specified in the form. Brokers authorized to trade on the Equity Market are also authorized to trade on the Emerging Companies Market.

CBRT is authorized to trade in all markets, platforms and systems of the Exchange without any limitation and is not subject to such obligations as acceptance to membership, grant of authorization to trade, collateral, audit and discipline included in the relevant Exchange regulations.

**Table 5-2:
Numbers of Members Conducting
Trade on Borsa İstanbul Markets**

Market	No. of Members
Equity Market	86
Debts Securities Market	114
Derivatives Market	82
Precious Metals Market	99
Diamond and Precious Stones Market	512

5.7.1 Representation of Members on Borsa İstanbul

Borsa İstanbul organizes training programs for the markets that brokers will trade in. Persons that have successfully completed the training programs and fulfill the qualifications envisaged in the relevant legislation may operate on Borsa İstanbul markets as brokers.

Broker candidates who satisfy the requirements for being a broker as envisaged in the relevant legislation must fill the application form (Equity Market/Debt Securities Market/Derivatives Market/Precious Metals and Diamond Markets), and submit an application to Borsa İstanbul with the documents specified in the form. In the Precious Metals and Diamond Markets, brokers may be authorized for trading and/or settlement, provided that they fulfill the requirements.

5.7.2 Surveillance of Members

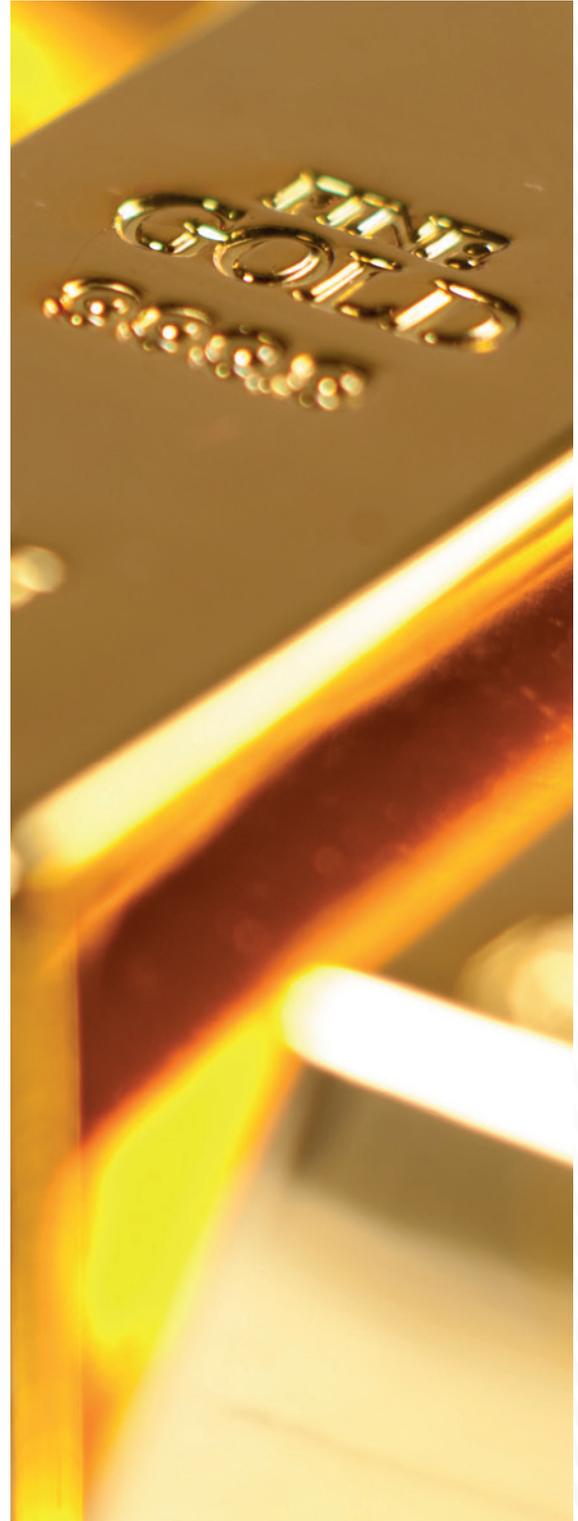
Surveillance and supervision of members are carried out by CMB and Borsa İstanbul. Borsa İstanbul members are required to communicate information about their activities to CMB and Borsa İstanbul whenever requested. Should it deem it necessary, Borsa İstanbul is entitled to examine the accounts and records of its members. Banks that are members of Borsa İstanbul are also under the supervision of CBRT and BRSA.

CMB is entitled to suspend or terminate the transactions of intermediary institutions. Borsa İstanbul reserves the right to admit or refuse an intermediary institution that holds a Trading Brokerage Authorization from CMB. Additionally, Borsa İstanbul is entitled to suspend the transactions of a member intermediary institution or terminate its membership in certain cases.

5.7.3 Granting of Authorization to Trade on Precious Metals Market

An application may be filed to the Exchange for trading in any one, more or all of the

markets, platforms and systems organized in the PMM. Applicants for an authorization to trade must, prior to application, have satisfied the conditions required as per the applicable laws. Principles of operation of precious metals intermediary institutions and foundation of precious metals intermediary institutions are determined by a regulation to be issued by the Undersecretariat of the Treasury. Authorization to trade in the PMM may be preventively or temporarily removed or cancelled by a decision of the Board of the Exchange.



6 CONCLUSION

There are many factors playing role in gold trade. Capital accumulation or surplus existing especially in developed countries, diversity of financial instruments, portfolio of educated investors, technological development, quality of human resource, flexible structure offered by regulations and superiority in many other matters have caused developed countries to be predominant in the gold trade. However, if recent progresses made by the OIC countries in the field of exchange operations, improvements in qualified human resources, peoples' interest in gold, advances in financial sectors of the Islamic countries could be brought together and synergized, and furthermore if the integration of gold exchanges based on the OIC countries could be materialized, those OIC Member States would get a higher share in the world gold trade.

Share of the OIC Member States in the world gold trade and related sectors is very modest when compared to their potential. Establishment of an integrated gold market among the OIC Countries is an important project in order to increase the OIC Member States' share in the said fields. However, one should not ignore the fact that the share in production from mines is rather small and size of those companies engaged in fabrication of metals is not large enough in the OIC countries. Therefore, the main supply source of gold in these countries is scrap.

On the other hand, even though ownership/existence of gold mines is an important advantage for countries to derive revenue, it is a much more significant point to have a developed financial system, market friendly regulations, economic stability, and internationally accepted large refineries with high technology and common technical infrastructure. In this regard though Islamic countries have made many developments in this area, in order to be a developed gold market, they need to take a pathway in which diversified gold-backed products to be developed.

Banks and other financial institutions are one of the most important components of an effective gold market, and Islamic banking is expected to continue its growth trend in upcoming years. Thus, it is believed that customers of these banks will have a great demand for gold and gold-backed instruments.

In the event that Islamic financial products and banking are developed, banks and other financial institutions will have a positive contribution to the success of the gold market. Besides, it will open a path afterwards for other precious metals such as silver, platinum and palladium to be traded on the market.

Among the key factors for assuring success of a common gold market is advanced safekeeping facilities of gold within the financial system in a modern manner. Factors such as building adequate vaults within customs or free zone areas, ensuring that vaults are integrated with secure and easily accessible electronic data are crucial in effective settlement of gold transactions. For that purpose Borsa İstanbul has a facility under construction with the capacity of around 1,600 tons of precious metals, particularly gold, as well as other valuables like silver, platinum, palladium, and diamond going to be completed in the 1st quarter of 2017. Similarly UAE's DMCC have appointed Brink's Global Services to manage the complete day-to-day operations of its vault. The vault began operating in April 2009 and is adjudicated to be the largest non-sovereign vault in the Middle East. It has been designed to store large volumes of bullion as well as other valuables such as jewelry, watches and art. Especially in terms of their vaults these two countries, Turkey and UAE, stand out among all the OIC Member States.

Another important issue is to have an internationally recognized trading of gold among the OIC Member States and a special attention should be paid to gold supply that may come from territories of conflict. Certain standards should be established due to importance of the issue and certain standards should be set for the sector by taking into account guidelines published by the OECD in order to prevent illegal trade. UAE and Turkey have recently started taking actions. However, it is believed that it is very important for the OIC countries to act in compliance with these policies, too.

Alongside the issues touched upon above it is also very important to note that many factors such as effective promotion and informatory practices aimed at retail and corporate investors, offering of gold-backed alternative income-generating product diversifications conforming to the Islamic principles, keeping

transaction costs at competitive levels, trading platform's being technologically integrated, advanced and capable of meeting the market's needs, integrated operation with the vault or custody and ability to combine markets, content of web-based and mobile applications will play pivotal roles in establishment and development of an integrated gold market. In addition, if possible, within such scope, increasing of mints' capacities, enhancement of cooperation among mints in the OIC member countries, introduction of security code for gold produced by those mints and prevention of circulation of fake mint products in the market, and improvement of human resource will have significant positive impact on the integrated gold market that will operate among Islamic countries.

When above stated parameters are taken into account altogether Turkey, UAE and Malaysia are one step ahead of the other OIC countries. On the other hand, even these three countries have a long path to keep up with advanced economies, or to be more precise, advanced gold markets across the world such as China, USA, Switzerland, and UK.

In terms of technology three Exchanges, elaborated herein this report, have advanced technologies for trading of gold. However all the three platforms of these Exchanges differ from one another and it will require a common platform to be developed or adapted in order to carry out gold trade among these countries which are recommended to sign multilateral agreements, in which all required steps should be defined to materialize the project. After the agreements are signed these three countries, in order to test the water, either are expected to form cooperation between their Exchanges tackled in the report or establish a brand new platform accessible from these countries. If the project succeeds then the scope can be extended to the other OIC countries and they may be invited to be included in the project.

In conclusion, in order for conducting gold trade on such an integrated platform, Task Force recommendations are as follows:

- A state-of-the-art and highly adaptable web-based trading and clearing platform, or system, which will bring together the Exchanges mentioned in this report and their members, should be set up.
- Only authorized members of exchanges of OIC countries that will be granted the right to trade over such platform will be able to enter orders into the system orders. However big banks and other international

market players should be attracted to be included in the ecosystem even if they are not members. Especially, foreign bullion banks which are market makers must be encouraged to take place at this platform.

- Physical delivery should be carried out by clearing subsidiaries of those Exchanges or any designated international warehouse operators.
- By whom and how monetary liabilities will be handled should be decided on initially. That is where the monetary liabilities incurring from the trades done over the platform to be cleared should be clarified.
- In the clearing process one of the Exchanges could be appointed to conduct these operations. For example, DGCX & DCCC; Borsa İstanbul and its affiliate Takasbank have adequate experience on this issue.
- Gold standard should be defined beforehand, i.e. which gold bullion will be traded should be made clear. Thus a common Good Delivery List among these Exchanges should be issued.
- At the outset 1 kg gold bullions and large bars having weight of 350 oz. to 430 oz. and over 0.995 fineness are recommended to be traded. However considering the reality of OIC citizens' interest in jewelry and high amount of scrap used, some alternatives can be developed for jewelry and scrap trades.
- Regulations of those countries are needed to be harmonized for carrying out transactions orderly. Thus a commission of experts specialized on the capital markets and related laws of these countries including tax regulations as well as international trade needs be formed. This commission is expected to prepare a framework that will be legal base for materialization of the project.
- A new model should be created considering successful markets including current models of OIC members. Market can be spot, derivate or a mixed and this is the main point to be decided for the new model.
- If there will be physical settlement in the new gold market, then some transportation models should be developed between countries.
- Connection between Islamic financial institutions and products should be developed.

APPENDIX – 1:

DGCX Views on the Project

The Common platform: There are countries which have their own platforms and over the counter (OTC) markets for various bullion products. Some of the examples for such platforms are the exchanges like Dubai Gold & Commodities Exchange DMCC (DGCX), Borsa Istanbul and Bursa Malaysia. OTC market even at the retail level are well developed in a number of the OIC member countries. It makes little sense to launch a standalone Bullion Exchange in one country providing access to all participants from the OIC countries due to various reasons listed below:

- Bullion sector being strategic for some countries,
- Similar platforms available in individual countries,
- Country specific regulations in place,
- Operational difficulty of making all potential customers from the OIC countries participants of the OIC bullion Exchange,
- Likely lack of appetite from market participants for any such single exchange specific to one product vertical.

It makes more sense to have a Pan-OIC connectivity between all exchanges for promoting pan-OIC bullion trade. The connectivity will:

- Allow for standardization of Bullion products in line with requirements of the OIC countries,
- Connect all available regulated and authorized bullion platforms in various countries,
- Allow existing participants in various exchanges to freely trade and participate in any of the connected markets under this connectivity.

The prima facie requirements: for such connectivity are:

- Commercial feasibility analysis by all individual countries/ exchanges for providing infrastructure and regulatory support for the project,
- Harmonization of regulations across various countries to allow connectivity between regulated & authorized exchanges and allow traders/members from various countries/ exchanges to freely access the common connectivity,
- Other aspects like suitability of products across all members of OIC.

The project can potentially become a test

case for broader cooperation for other Islamic products and markets across OIC. As mentioned in the report of the “the OIC Member States Stock Exchanges Forum Coordinator”, this model can be potentially become a stepping stone for the OIC countries to establish an the OIC Commercial and Economic Union.

Next Steps: The next steps for the project will be:

Starting small - test the waters: To provide a proof of concept to members of OIC, some members (UAE - DGCX, Turkey - Borsa Istanbul, Malaysia - Bursa Malaysia etc.) who already have similar structures in place (Bullion products on exchanges), need to go ahead with planning and implementation of similar connectivity bilaterally.

Study of regulatory requirements for any such initiative: Any such initiative will have to be studied for the extent of regulatory approvals required. In-principle any such project in some form will need to be approved by regulators in individual countries for implementation. It has to be studied and confirmed by exchanges that regulatory licensing requirements are fulfilled in process of implementing the project.

Standardization guidelines: A common product will have to have standard guidelines at various levels for successful operations. This will include standardization in sourcing, quality specification, testing, sophisticated delivery process etc. For example: Dubai Multi Commodity Centre (DMCC) has pioneered such standardization with introduction of Dubai Good Delivery (DGD) and Market Deliverable Brand (MDB) branding systems. These can be explored further to be introduced across the OIC under the project.

Infrastructure requirements: The services and infrastructure requirements like Vaults, Quality assaying, transportation, electronic depository system for seamless transfer of title etc. need to be explored in detail. Since this task force has the luxury of implementing the system with analysis of all structures available in various markets, this opportunity should be utilized to have world class and state of the art systems for this project utilizing the connectivity for products offerings

APPENDIX – 2: Bursa Malaysia Views on the Project

- Main challenge with gold is the ability to deliver when required, this will lead to differing prices in different exchanges due to the cost of making the physical asset available at the respective delivery point.
- Looking at possibility of linking the various OIC Exchanges to facilitate cross-border trades. In relation to the Asean Link, which enables trades among Asean Exchanges and which Bursa Malaysia is included in, the experience of Bursa Malaysia thus far is that it has not gain much traction as it seems to be duplicating existing inter-broker arrangements. In addition, it is needed to consider not just the trading aspect but also the post-trade as well as to streamline regulations to enable investors and brokerage house to have the wider accessibility more readily and efficiently.
- It would be useful to have some input from regulators, securities commission and obtain their support as well to further proceed with this exercise.

