

Chukyo-Oil Market
Hedge Positions Handling Procedure

(As of July 27, 2020)

Tokyo Commodity Exchange, Inc.

Rule 1 (Purpose)

1. This Handling Procedure shall, based on the provisions of Rule 6, Paragraph 5 of the Chukyo-oil Market Management Detailed Rules, prescribe matters necessary for handling the Hedge positions.

Rule 2 (Definition)

1. A hedge position means a position established in the futures market of the Exchange (hereinafter referred to as "Markets") for the purpose of offsetting the price fluctuation risk arising from transactions in spot market as prescribed in Rule 4 of an eligible person provided for in Rule 3.

Rule 3 (Eligible Persons)

1. Eligibility to hold Hedge Position shall be limited to those who fall under either of the following items:
 - (1) Commercials; or
 - (2) A person approved by the Exchange as appropriate.

Rule 4 (Applicable Transactions in Spot Market)

1. The applicable transactions for Hedge position shall be as follows:
 - (1) A stock of the same commodity in the spot market;
 - (2) A transaction to sell or buy the same commodity in the spot market;
 - (3) A forward transaction of the same commodity in the spot market;
 - (4) A swap transaction of the same commodity in the spot market;
 - (5) A stock of transaction of the commodity other than the commodity underlying the futures whose value fluctuates in a manner that is essentially related to the futures price; and
 - (6) A transaction that are approved by the Exchange as appropriate.
2. The commodity whose value fluctuates in a manner that is essentially related to the futures price shall be as follows:
 - (1) Crude oil or Naphtha, etc. for Gasoline; and
 - (2) Crude oil or Jet fuel, etc. for Kerosene.

DISCLAIMER: This English translation is being provided for informational purposes only and represents a desire by the Exchange to promote better understanding of the Exchange by non-resident participants. While care has been taken to ensure that the translation is accurate and complete, Tokyo Commodity Exchange, Inc. accepts no liability or responsibility for any loss or damages, including trading losses, that may be incurred from any inaccuracy or omission in the English translation. In the event of discrepancies between the English version and the original Japanese version, the Japanese version shall prevail. Any dispute that may arise within or without a court of law with regard to the meaning of the words, provisions and stipulations of the rules, regulations and agreements shall be resolved in accordance with the Japanese texts.

Rule 5 (Application of Hedge Position)

1. A Trading Participant (meaning Trading Participants provided for in Rule 6, Paragraph 1; the same shall apply hereinafter in this Rule and Rule 8) applying for hedge position prescribed in Rule 6, Paragraph 1 of the Chukyo-oil Market Management Detailed Rules shall submit an application in a format prescribed by the Exchange together with the documents supporting them (certificate of inventory, sale and purchase contract, etc.).
2. Application provided for in the previous paragraph shall be made in accordance with item (1); provided, however, in cases where the Exchange deemed applicable base on the condition of applicant's transaction in spot market, an application shall be made in accordance with item (2):
 - (1) Individual hedge position method
Apply for a specific number of positions in the specific contract; or
 - (2) Hedge position limit method
Apply for a certain number of positions in part or all of the contracts during a certain period.

Rule 6 (Overall Limit on Hedge Positions)

1. Overall limit on positions including Hedge positions shall be the quantity determined prescribed in each of the following items, unless deemed necessary by the Exchange.
 - (1) Nearest Contract: the limit prescribed in Rule 2 and Rule 3 of the Chukyo-oil Market Management Detailed Rules.
 - (2) Other than Nearest Contract: Up to two times as the position limit prescribed in Rule 2 and Rule 3 of the Chukyo-oil Market Management Detailed Rules.
2. An approved hedge position shall be promptly closed if the overall position limit prescribed in the previous two paragraphs is violated as a result of the carry-forward of existing contracts.

Rule 7 (Physical Delivery)

1. An approved Hedge positions may not be settled by physical delivery unless the overall delivery position is within the position limit prescribed in Rule 2 and Rule 3 of the Chukyo-oil Market Management Detailed Rules: provided, however, in cases where fall in either of the following items, an approved Hedge positions may be settled by physical delivery regardless of the position limit prescribed in said Rules.
 - (1) In cases where a person obtained an approval from the Exchange by submitting an application in a format prescribed by the Exchange by the third business day of the current month.
 - (2) In cases where the Exchange deem appropriate and a person obtained approval from the Exchange by submitting an application in a format prescribed by the Exchange by the date specified by the Exchange.
2. The Exchange may limit whole or part of the physical delivery of hedge positions approved in preceding paragraph if deemed necessary in consideration of the status of trading in the market. In such case, Trading Participants or customers shall promptly close any excess position until their positions no longer exceed the limit specified by the Exchange.

Rule 8 (Investigation and Request of the Documents Submission, etc. Concerning Hedge Positions)

1. When the Exchange deems it necessary, the Exchange may require the applicant to explain the contents of the Hedge positions application or to submit supporting documents and other relevant material concerning the hedge positions.
2. In cases set forth below, the Exchange may enforce limitation of approval of Hedge positions in whole or in part, and may impose strict disciplinary actions on the applicant in accordance with the rules and regulations of the Exchange.

Reference Translation

- (1) Trading Participant refused to explain or submit the supporting documents when requested by the Exchange; and
- (2) Deemed inappropriate by the Exchange.

Rule 9 (Revision)

1. Revisions to this Handling Procedure shall be approved by the Representative Director, President.

Supplementary Provisions

Rule 1

This Handling Procedure shall be in effect as of March 31, 2014.

Rule 2

The previous version of the Handling Procedure for Hedge Positions in the Chukyo-oil Market shall be abolished in the effective date of this Handling Procedure.

Rule 3

Measures taken based on previous version of the Handling Procedure for Hedge Positions in the Chukyo-oil Market shall be deemed as the measures taken based on this Handling Procedure.

Supplementary Provisions

The revision to Rule 3 (Eligible Persons), Rule 5 (Application of Hedge Position) and Rule 8 (Investigation and Request of the Documents Submission, etc. Concerning Hedge Positions) shall be in effect as of October 31, 2016.

Supplementary Provisions

The revision shall be in effect as of December 1, 2019.

Supplementary Provisions

The revision shall be in effect as of July 27, 2020.