

Energy Market Hedge Positions Handling Procedure

(As of January 31, 2022)

Tokyo Commodity Exchange, Inc.

Rule 1 (Purpose)

1. This Handling Procedure shall, based on the provisions of Rule 6, Paragraph 5 of the Energy 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, etc. 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 in spot market etc. for Hedge position shall be as follows:
 - (1) A stock of the same commodity in the spot market;
 - (2) A transaction of 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 or transaction of the commodity 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, prescribed in the preceding paragraph Item 5 shall be as follows:
 - (1) Crude oil or Naphtha, etc. for Gasoline;
 - (2) Crude oil or Jet fuel, etc. for Kerosene;
 - (3) Crude oil or Heavy oil Bunker A, etc. for Gas oil;
 - (4) Gasoline, Kerosene or Gas oil, etc. for Crude oil; and
 - (5) Electricity for Electricity.

1/4

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Rule 5 (Application of Hedge Position)

1. Trading Participants (meaning Trading Participants provided for in Rule 6, Paragraph 1 of the Market Rules; the same shall apply hereinafter in this Rule and in Rule 8) applying for hedge position prescribed in Rule 6, Paragraph 1 of the Energy 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 based on the condition of applicant's transaction in spot market, an application shall be made in accordance with item 2:
 - (1) Individual application
Apply for a specific number of positions in the specific contract; or
 - (2) Comprehensive application
Apply for a certain range 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 with respect to Gasoline and Kerosene shall be the quantity 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 Energy Market Management Detailed Rules; and
 - (2) Other than Nearest Contract: Up to two times as the position limit prescribed in Rule 2 and Rule 3 of the Energy 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 in Gasoline and Kerosene markets 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 Energy 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.
3. With respect to physical delivery of gas oil, hedge positions exceeding the limit pertaining to gas oil delivery prescribed in Rule 5, Paragraph 1 and Paragraph 2 of the Energy Delivery Detailed Rules may not be settled by physical delivery based on Rule 6 of the Energy Market Management Detailed Rules and Rule 5 of this Handling Procedure.

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

Reference Translation

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.
 - (1) Trading Participants 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 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 Oil Market shall be deemed as the measures taken based on this Handling Procedure.

Supplementary Provisions

Revisions to Rule 6 (Overall Limit on Hedge Positions) shall be in effect as of February 9, 2015.

Supplementary Provisions

The revisions to the provisions of Rule 6 (Overall Limit on Hedge Positions) shall be in effect as of June 1, 2015.

Supplementary Provisions

The revisions to the provisions of 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 revisions to the provisions of Rule 1 (Purpose), Rule 4 (Applicable Transactions in Spot Market), Rule 5 (Application of Hedge Position), Rule 6 (Overall Limit on Hedge Positions), Rule 7 (Physical Delivery) and the name of this Procedure shall be in effect as of September 17, 2019.

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.

Supplementary Provisions

The revision shall be in effect as of January 31, 2022.