

# **Rules on Handling concerning Settlement by Delivery related to Energy**



**Japan Securities Clearing Corporation**

**Copyright ©2020 Japan Securities Clearing Corporation. All rights reserved.**

This English translation of the Rules has been prepared solely for reference purposes and shall not have any binding force. The original Japanese text shall be definitive when construing or interpreting the meaning of any provision.

**Rules on Handling concerning Settlement by Delivery related to Energy**  
**(In effect as of July 27, 2020)**

**Contents**

**Provisions**

**Supplementary Provisions**

(Article 1. Purpose)

These Rules set forth, pursuant to the provisions of Paragraph 4 of Article 60 of the Business Rules on Business of Assuming Commodity Transaction Debts, matters necessary for the settlement by delivery<sup>\*1</sup> in the Physical Settlement Futures Contracts related to the contracts listed on the market listed in Item (1) of Article 3 of the said Rules.

(<sup>\*1</sup> excluding the settlement by delivery through the declared delivery, customized delivery and ADP prescribed by the Designated Market Operator)

(Article 2. Definition of Terms)

In these Rules, the terms listed below shall have the meanings set forth in the following Items:

- (1) "Receiving Energy Futures Clearing Participant" means the Energy Futures Clearing Participant receiving the delivery goods;
- (2) "Delivery Price" means the delivery price prescribed by the Designated Market Operator;
- (3) "Delivery Day" means the delivery day prescribed by the Designated Market Operator;
- (4) "Storage Facility" means a dangerous goods storage facility prescribed in Article 2 of the Fire and Disaster Management Act that is used to store 1st Class and 2nd Class Petroleums set forth in the Schedule attached thereto under the license granted by the head of municipalities, prefectural governor or the Minister of Internal Affairs and Communications pursuant to the provisions of Article 11 of the said Act;
- (5) "Delivering Energy Futures Clearing Participant" means the Energy Futures Clearing Participant delivering the delivery goods.

(Article 3. Method for Determining Parties to Delivery of Delivery Goods)

The Energy Futures Clearing Participants to become the parties to the delivery of the delivery goods shall be determined in a manner prescribed below:

- (1) The Delivering Energy Futures Clearing Participant shall submit the Delivery Tender Notice and the Delivery Report prescribed by JSCC, and the Receiving Energy Futures Clearing Participant shall submit the Delivery Acceptance Notice and the Delivery Report prescribed by JSCC, to JSCC by noon on the day immediately following<sup>\*1</sup> the Last Trading Day<sup>\*2</sup> of each contract month of the Physical Settlement Futures Contracts;

(<sup>\*1</sup> excluding Non-Business Days; the same applies hereinafter when counting the number of days)

(\*<sup>2</sup> referring to the last trading day prescribed by the Designated Market Operator)

- (2) Upon receipt of the Delivery Tender Notice and the Delivery Acceptance Notice prescribed in preceding Item, JSCC shall notify the Energy Futures Clearing Participants of the contents of such Notices without delay;
- (3) If there are two (2) or more Receiving Energy Futures Clearing Participants with respect to the settlement by delivery other than those decided to be performed through customized delivery or ADP, JSCC shall allocate the delivery goods to be received by each Receiving Energy Futures Clearing Participant through consultation, lottery or other method prescribed by JSCC;
- (4) Upon determination of the delivery goods to be received by a Receiving Energy Futures Clearing Participant, JSCC shall notify such effect to the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant pertaining to the said delivery without delay;
- (5) The Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant shall submit to JSCC a jointly signed General Delivery Notice, specifying the Delivery Day, delivery points, Delivery Amount, delivery method, whether a Quality Certification<sup>\*1</sup> is attached and other relevant matters, by 3:30 P.M. on the last business day of the month in which the said Last Trading Day belongs;

(\*<sup>1</sup> referring to a document prescribed by the Designated Market Operator as a document certifying that the delivery goods submitted for delivery qualify as Good Delivery Material)

- (6) Upon receipt of the General Delivery Notice prescribed in the preceding Item, JSCC shall, without delay, notify the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant of the Delivery Payment<sup>\*1</sup>;

(\*<sup>1</sup> referring to the sum of the delivery payment<sup>\*1-1</sup> and the amount equivalent to consumption tax applicable thereto<sup>\*1-2</sup>; the same applies hereinafter)

(\*<sup>1-1</sup> in the case of delivery of gasoline, the amount after addition of any amount of gasoline tax and local gasoline tax charged in proportion to the delivery amount, and in the case of delivery of gas oil, the amount after addition of any amount of gas oil delivery tax charged when the delivery is made by way of a taxable transaction; the same applies hereinafter)

(\*<sup>1-2</sup> including local consumption tax; the same applies hereinafter)

- (7) If the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures

Clearing Participant intend to change any of the details specified in the General Delivery Notice as prescribed in Item (5), they shall submit a new General Delivery Notice to JSCC by 3:30 P.M. on the Delivery Day<sup>\*1</sup>. In such case, JSCC shall notify the relevant Delivering Energy Futures Clearing Participant and Receiving Energy Futures Clearing Participant of the Delivery Payment again without delay.

(\*1 if such day falls on a Non-Business Day, by 3:30 P.M. on the immediately preceding Business Day)

2 When an Energy Futures Clearing Participant that is an Agency Clearing Participant allocates the delivery goods to Non-Clearing Participants, such allocation shall be made in a fair manner through lottery or other method prescribed by the relevant Energy Futures Clearing Participant in advance.

(Article 4. Delivery Method)

The delivery method shall be as follows:

(1) The Delivering Energy Futures Clearing Participant shall submit a shipping request and other documents prescribed by the Designated Market Operator<sup>\*1</sup> and the Quality Certification<sup>\*2</sup> by noon on the Business Day immediately preceding the Delivery Day;

(\*1 hereinafter referred to as "Shipping Request")

(\*2 subject to the provisions of the following Article)

(2) The Receiving Energy Futures Clearing Participant shall, by noon on the Business Day immediately preceding the Delivery Day, pay the Delivery Payment to JSCC and receive the Shipping Request and Quality Certification as prescribed in the preceding Item;

(3) The delivery method to be used by the Delivering Energy Futures Clearing Participant shall be Tank Delivery<sup>\*1</sup> at the delivery points, and the delivery method to be used by the Receiving Energy Futures Clearing Participant shall be the delivery by inland water vessel; (\*1 referring to the delivery from the tank through the loading arm or through the hose)

(4) Notwithstanding the delivery unit prescribed by the Designated Market Operator, if the Receiving Energy Futures Clearing Participant requests that delivery be made in more than one installment, the Delivering Energy Futures Clearing Participant shall adhere to the request;

(5) For a delivery of gas oil, the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant shall submit to JSCC the gas oil delivery party's written

confirmation prescribed by the Designated Market Operator by the time when the delivery is completed;

- (6) The Receiving Energy Futures Clearing Participant shall submit to JSCC the Delivery Completion Notice prescribed by JSCC by 3:30 P.M. on the day that is three (3) days from and after the Delivery Day. In such case, the Receiving Energy Futures Clearing Participant shall prepare the Delivery Completion Notice based on a document, such as a copy of the cargo handling agreement or the statement of delivery, certifying that the delivery has been definitively completed<sup>\*1</sup>, and keep the Agreements and submit them to JSCC upon request;

(\*1 hereinafter referred to as "Agreements")

- (7) When the Delivery Completion Notice prescribed in the preceding Item is submitted, JSCC shall pay the Delivery Payment to the Delivering Energy Futures Clearing Participant by noon on the next day following the date of its submission; provided, however, that those submitted to JSCC after 3:30 P.M. shall be treated as submitted on the next day of the date of submission;

- (8) If there is an excess or shortfall in the weight of the delivery goods as compared with the Delivery Amount stated in the General Delivery Notice<sup>\*1</sup>, the Receiving Energy Futures Clearing Participant shall report the weight of such excess or shortfall in the delivery goods to JSCC by 3:30 P.M. on the day that is three days from and after the last delivery day of the current contract month. JSCC shall adjust the Delivery Payment for such excess or shortfall in a manner prescribed below according to the classification set forth in below Items:

(\*1 only within the weight tolerance prescribed by the Designated Market Operator)

- a. For an excess in the weight of the delivery goods:

(a) JSCC shall, on the day on which the Delivery Completion Notice is submitted or the excess in the weight of the delivery goods is reported, calculate the Delivery Payment with respect to the excess using the Delivery Price and notify both the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant thereof; and

(b) The Receiving Energy Futures Clearing Participant shall pay to JSCC the said amount by noon on the day that is five (5) days from and after the last delivery day of the current contract month and JSCC shall pay the said amount to the Delivering Energy Futures Clearing Participant by noon on the next day following the day on which the

said amount is paid by the Receiving Energy Futures Clearing Participant.

b. For a shortfall in the weight of the delivery goods:

(a) JSCC shall, on the day on which the Delivery Completion Notice is submitted or the shortfall in the weight of the delivery goods is reported, calculate the Delivery Payment with respect to the shortfall using the Delivery Price and notify both the Delivering Energy Futures Clearing Participant and the Receiving Energy Futures Clearing Participant thereof; and

(b) The Delivering Energy Futures Clearing Participant shall pay to JSCC the said amount by noon on the day that is five (5) days from and after the last delivery day of the current contract month and JSCC shall pay the said amount to the Receiving Energy Futures Clearing Participant by noon on the next day following the day on which the said amount is paid by the Delivering Energy Futures Clearing Participant.

(9) The payment and receipt of money set forth in the preceding 2 Items shall be performed according to the manner set forth below:

a. A Clearing Participant making a payment of money shall open an account at the bank<sup>\*1</sup> which is selected by the Clearing Participant from the banks designated by JSCC, and shall make a remittance from such account to the account held in the name of JSCC at such Delivery Settlement Bank.

(\*1 hereinafter referred to as the "Delivery Settlement Bank")

b. A Clearing Participant receiving a payment of money shall open an account at the Delivery Settlement Bank and receive it at such account.

#### (Article 5. Quality Certification)

When the delivery is made at a Storage Facility qualifying as a delivery point, if the Receiving Energy Futures Clearing Participant requests that a Quality Certification be attached, the Delivering Energy Futures Clearing Participant shall do so in a manner prescribed by JSCC.

#### (Article 6. Arrangement of Inland Water Vessel)

1 The inland water vessel prescribed in Item (3) of Article 4 shall be arranged by the Receiving Energy Futures Clearing Participant, unless it is arranged by the Delivering Energy Futures Clearing Participant. In this case, the Receiving Energy Futures Clearing Participant shall arrange an inland water vessel satisfying the standard for permission to enter port prescribed

by the delivery point.

- 2 When the arrangement of the inland water vessel is completed, the Receiving Energy Futures Clearing Participant shall promptly notify the Delivering Energy Futures Clearing Participant of that fact.
- 3 Upon receipt of the notification from the Receiving Energy Futures Clearing Participant prescribed in the preceding Paragraph, the Delivering Energy Futures Clearing Participant shall cooperate with the Receiving Energy Futures Clearing Participant so that the Receiving Energy Futures Clearing Participant can complete all the procedures required to be followed in accordance with the rules prescribed by the delivery point by the Delivery Day.

(Article 7. Specification of Delivery Day)

- 1 In principle, the Receiving Energy Futures Clearing Participant may specify the Delivery Day; provided, however, that if the number of contracts subject to the delivery for one Customer or for a proprietary trade of a Delivering Energy Futures Clearing Participant exceeds 30 contracts, the Delivery Day shall be determined based on a negotiation between the parties to the delivery.
- 2 Notwithstanding the provisions of the preceding Paragraph, when the specified Delivery Day falls under any of the following Items, the Delivery Day shall be determined based on a negotiation between the parties to the delivery:
  - (1) When the inland water vessel is unable to obtain permission to enter port from the delivery point;
  - (2) When a permission for delivery cannot be obtained from the delivery point due to factors such as the operating status of the port facilities; or
  - (3) When there occurs an event, prescribed in Article 10, that is not attributable to the parties to the delivery.

(Article 8. Scope of Responsibilities of the Delivering Energy Futures Clearing Participant)

The scope of responsibilities of the Delivering Energy Futures Clearing Participant in connection with a delivery shall be until all the delivery goods pass the connection point between the terminal flange of the hose used for the delivery and the manifold flange of the inland water vessel.

(Article 9. Delivery Costs)



Delivery costs shall be shared as follows:

- (1) Costs incurred for inspection, measuring and shipping or loading required at the time of delivery shall be borne by the Delivering Energy Futures Clearing Participant;
- (2) Costs incurred for the arrangement of the inland water vessel shall be borne by the Receiving Energy Futures Clearing Participant;
- (3) Costs incurred for the issuance of the Quality Certification shall be borne by the Delivering Energy Futures Clearing Participant; and
- (4) Sharing of other costs not prescribed in the Business Rules on Business of Assuming Commodity Transaction Debts and other rules shall be determined by the parties to the delivery based on mutual consultation.

(Article 10. Handling of Inability to Deliver)

1 In the settlement by delivery, when a delivery<sup>\*1</sup> has not been completed on the Delivery Day due to an event that is not attributable to the parties to the delivery<sup>\*2</sup>, the parties to the delivery shall, based on mutual consultation, separately determine the Delivery Date, which shall fall within a period for the Delivery Day of the contract month relating to the relevant delivery or a period approved by JSCC, and complete the delivery; provided, however, that if JSCC determines that it is impossible or inefficient to complete such delivery through such method, the delivery shall be deemed to have been completed by a settlement at the Delivery Price prescribed by the Designated Market Operator:

(\*1 limited to the delivery for which the details for the delivery, such as delivery goods and delivery conditions, have been notified to JSCC before the occurrence of such event)

(\*2 referring to any of the events listed in the following Items)

- (1) When a shipping at the delivery point cannot be carried out due to a natural disaster, war, riot or the like;
- (2) In the event of an accident to the inland water vessel;
- (3) When a cargo strike occurs in the ship or on the port at the delivery point, or when entering or leaving the port is suspended or similar measures are taken by the public authorities;
- (4) When the ship's captain judges that cargo handling needs to be suspended or halted in order to prevent an accident;
- (5) When performance of the delivery becomes impossible due to laws, regulations, administrative sanctions or the like; or

- (6) Other events approved by JSCC as being inevitable.
2. With respect to a delivery of gas oil, if an entity has lost the eligibility to be a delivery party prescribed by the Designated Market Operator, the delivery shall be deemed to have been completed by a settlement at the Delivery Price prescribed by the Designated Market Operator.
3. The parties to the delivery may not lodge any objection to the handling prescribed in the preceding two Paragraphs.

(Article 11. Claim of Deficiency)

When JSCC acknowledges that there is a deficiency in delivery goods, such as a shortfall in weight, existence of impurities or water, or is of a quality not satisfying the standard for Good Delivery Material prescribed by the Designated Market Operator, the Receiving Energy Futures Clearing Participant may file a claim of deficiency against JSCC and the Delivering Energy Futures Clearing Participant by 5:00 P.M. on the next day following the Delivery Day using a form prescribed by JSCC.

(Article 12. Handling of Deficient Delivery Goods)

- 1 Upon receipt of the claim of deficiency pursuant to the provisions of the preceding Article, JSCC shall conduct a research necessary for verifying the matters subject to the claim. In such case, JSCC may request a registered analysis center prescribed in Article 16-2 of the Act on the Quality Control of Gasoline and Other Fuels (Act No. 88 of 1976) to conduct an inspection.
- 2 If, as a result of the research conducted pursuant to the provisions of the preceding Paragraph, no deficiency is recognized, JSCC will reject the claim. Otherwise, JSCC shall handle the deficiency in the following manner:
- (1) When the weight of the delivery goods fell short in the amount exceeding the weight tolerance prescribed by the Designated Market Operator, JSCC shall cause the delivery to be completed by requiring the Delivering Energy Futures Clearing Participant to accept a price discount by the amount calculated with respect to the entire amount of shortfall based on the Delivery Price;
- (2) When the deficiency is immaterial and JSCC determines that it would not cause any problem if the delivery were completed based on a price discount, JSCC shall cause the delivery to be completed based on a price discount determined by JSCC;
- (3) When JSCC determines that the deficiency is material and delivery goods are not suitable

for delivery, JSCC shall cause the delivery to be completed by requiring the Delivering Energy Futures Clearing Participant to supply substitute delivery goods within a period of five days from the next day following the day on which such determination is made; and

- (4) When the Delivering Energy Futures Clearing Participant fails to supply the substitute delivery goods pursuant to the provisions of the preceding Item or when the deficiency is still material even after the supply of the substitute delivery goods and JSCC considers that they are unsuitable for delivery, it shall be deemed that the Delivering Energy Futures Clearing Participant never supplied any delivery goods.

3 Upon determination of the handling procedure for a deficient delivery goods pursuant to the provisions of the preceding Paragraph, JSCC shall notify that effect to the parties to the delivery without delay. The relevant parties to the delivery must follow the determination.

(Article 13. Costs Incurred for Handling of Deficiency)

Costs incurred for the handling of a deficiency pursuant to the provisions of the preceding Article shall be borne in a manner prescribed below:

- (1) If the claim is rejected as a result of the research, the inspection fees and other actual costs incurred for the research shall be borne by the Receiving Energy Futures Clearing Participant; and
- (2) As to the deficiency resulted in a delivery based on a price discount pursuant to Item (1) and Item (2) of Paragraph 2 of the preceding Article or a delivery based on substitute delivery goods pursuant to the provisions of Item (3) of the said Paragraph, the inspection fees and other actual costs incurred for the research shall be borne by the Delivering Energy Futures Clearing Participant.

(Article 14. Penalty for Late Delivery)

1 The Delivering Energy Futures Clearing Participant who has completed a delivery by supplying substitute delivery goods pursuant to the provisions of Item (3) of Paragraph 2 of Article 12 shall pay to JSCC an amount equal to one-percent (1%) of the Delivery Payment<sup>\*1</sup> for such substitute delivery goods as a penalty for late delivery.

(\*1 excluding gasoline tax and local gasoline tax in the case of gasoline or gas oil delivery tax in the case of gas oil)

2 Upon receipt of the payment of the penalty for late delivery under the preceding Paragraph,

JSCC shall pay it to the Receiving Energy Futures Clearing Participant without delay.

(Article 15. Withdrawal of Claim of Deficiency)

When the parties to the delivery agreed to withdraw a claim of a deficiency after it has been filed pursuant to the provisions of Article 11, the Receiving Energy Futures Clearing Participant may withdraw the claim by notifying JSCC to that effect in writing. In this case, if a cost for an inspection under the provisions of Paragraph 1 of Article 12 has already been incurred, it shall be borne by the Receiving Energy Futures Clearing Participant.

(Article 16. Methods of Processes Related to Delivery)

The methods set forth in Article 3 and Article 4 shall be made through the electronic computer system set by JSCC.

(Article 17. Emergency Measures)

When, with respect to a delivery, any situation that is not set forth in the Business Rules on Business of Assuming Commodity Transaction Debts or other rules arises, or an unforeseen situation arises, the delivery shall be handled by the parties to the delivery through mutual consultation.

**Supplementary Provisions**

These Rules shall come into effect on July 27, 2020.