

Oil Market

Hedge Positions Handling Procedure

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Article 1 (Definition of Hedge Position)

1. A hedge position means a position established in the futures market for the purpose of reducing the price fluctuation risk arising from the transactions in spot market and others in the course of the business activities of a commercial person.

Article 2 (Hedged Commodities)

1. Hedged commodities shall be crude oil, gasoline, kerosene, gas oil, or oil products that have a close economic correlation with crude oil, such as fuel oil or lubricating oil.

Article 3 (Specific Examples of Hedge Transaction)

1. Hedge transaction shall be a transaction falling under any of the following items:
 - (1) A transaction to establish a short or long position in the futures market to reduce the price fluctuation risk associated with a spot purchase or sale contract;
 - (2) A transaction to establish a short or long position in the futures market to reduce the price fluctuation risk associated with goods that are currently held or will be held or sold in the future;
 - (3) A transaction to establish a short or long position in the futures market to reduce the price fluctuation risk associated with a forward contract;
 - (4) A transaction to establish a short or long position in the futures market to reduce the price fluctuation risk associated with a swap contract; and
 - (5) In addition to the transactions prescribed in each of the preceding items, a transaction to establish a short or long position in the futures market to reduce the price fluctuation risk associated with a spot transaction or other transactions permitted by the Exchange.

Article 4 (Person Eligible for Submitting Application for Hedge Position)

1. Persons eligible for submitting application for hedge position shall be limited to commercial persons trading in crude oil, gasoline, kerosene, gas oil, or oil products that have a close economic correlation with crude oil, such as fuel oil or lubricating oil.

Article 5 (Application and Approval of Hedge Position)

2. Application and approval of hedge positions in the Oil Market shall be made in accordance with either of the following two methods:
 - (1) Hedge position limit approval method
Under the hedge position limit approval method, the Exchange examines the application submitted by the applicant and if the Exchange approves the application, the Exchange will establish a position limit pertaining to hedge positions held by the applicant in each contract month; and the applicant may establish such positions within said position limit during a certain period approved by the Exchange over and above the position limit prescribed by the Oil Market Management Detailed Rules; or
 - (2) Individual hedge position approval method
Under the individual hedge position approval method, the Exchange examines the application submitted by the applicant and if the Exchange approves the application, the Exchange will establish a position limit pertaining to hedge positions held by the applicant in a contract month specified in the application; and the applicant may establish such positions within said position limit during a certain period approved by the Exchange over and above the position limit prescribed by the Oil Market Management Detailed Rules.
2. A person applying for hedge position shall submit an application in a format prescribed by the Exchange containing necessary matters including the amount, hedging purpose, etc. together with the documents supporting them (certificate of inventory, sale and purchase contract, etc.). If the Exchange approves the application, the applicant may establish hedge

- positions within the position limit approved by the Exchange.
3. In the application for hedge position, as a support for the application for hedge transaction in gasoline, spot transactions and other transactions in crude oil, naphtha, etc.; as a support for the application for hedge transaction in kerosene, spot transactions and other transactions in crude oil, jet fuel, etc.; as a support for the application for hedge transaction in gas oil, spot transactions and other transactions in crude oil, heavy fuel oil A, etc.; and as a support for the application for hedge transaction in crude oil, spot transactions and other transactions in gasoline, kerosene, gas oil, etc. shall be accepted, respectively.

Article 6 (Overall Position Limit on Hedge Positions)

1. Separately for short positions and long positions, the overall position limit on gasoline, kerosene, and gas oil positions including hedge positions shall, in principle, be twice the position limit prescribed by the Oil Market Management Detailed Rules for contract months other than the current contract month; and equal to the position limit prescribed by the Oil Market Management Detailed Rules for the current contract month. However, in cases where the Exchange deems it particularly necessary, notwithstanding the provisions above, the Exchange may establish a separate overall limit position after considering the spot transaction volume of the hedge position applicant, the current market conditions, and other factors.
2. The overall position limit including hedge positions as applicable to customers and Members with respect to crude oil transactions shall be the following amount:
25,600 contracts for each contract month.

Article 7 (Application and Approval of Delivery of Hedge Position)

1. A person intending to settle a hedge position in the current contract month by delivery shall submit an application in a format prescribed by the Exchange containing necessary matters including the amount together with the documents certifying that said hedge position has been established in connection with a spot transaction (certificate of inventory, sale and purchase contract, etc.) by the third business day of the current month.
2. If the Exchange approves the application prescribed in the preceding paragraph, the applicant may make delivery of hedge positions within the amount approved by the Exchange.
3. With respect to delivery of gas oil, hedge positions exceeding the upper limit pertaining to gas oil delivery prescribed in Article 4 of the Oil Detailed Management Delivery Rules may not be settled by delivery.

Article 8 (Restrictions on Hedge Positions)

1. A hedge position shall be promptly closed after it served its purpose.
2. An approved hedge position shall be promptly closed if the overall position limit is violated as a result of the carry-forward of existing contract months.
3. In cases where restrictions are imposed on hedge positions pursuant to Article 2.(1).F. and Article 2.(2).C. of the Oil Market Management Detailed Rules, notwithstanding the provisions of this Procedure, the provisions of the Oil Market Management Detailed Rules shall be followed.

Article 9 (Reporting, Investigation, Explanation of Circumstances, etc. Concerning Hedge Positions)

1. With respect to hedge positions established in accordance with the individual hedge position approval method prescribed in Article 5.1.2, when any of the positions served its purpose, the applicant shall promptly notify the Exchange of that effect.
2. When the Exchange deems it necessary, the Exchange may require the applicant to submit supporting documents and other relevant material concerning the hedge positions or

- conduct an investigation on the hedge positions.
3. The applicant referred to in the preceding paragraph shall provide explanation about the appropriateness of the transaction pertaining to the hedge positions during the investigation conducted by the Exchange.
 4. If, as a result of the investigation by the Exchange, the Exchange judges that any of the positions pertaining to the application prescribed in Article 7.1 is not a hedge position, the Exchange shall impose strict sanctions on the applicant in accordance with the rules and regulations of the Exchange.

Article 10 (Revision)

1. Revisions to this Procedure shall be approved by the President & CEO.

Supplementary Provisions

This Procedure shall be in effect as of December 1, 2008.

Supplementary Provisions

Revisions to Article 5 (Application and Approval of Hedge Position) and Article 7 (Application and Approval of Delivery of Hedge Position) shall be in effect as of May 6, 2010.