

Oil Market

Hedge Positions Handling Procedure

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Article 1 (Purpose)

1. This Handling Procedure shall, based on the provisions of Article 7.5 of the Oil Market Management Detailed Rules, prescribe matters necessary for handling the Hedge positions.

Article 2 (Definition)

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

Article 3 (Eligible Persons)

1. Eligibility to hold Hedge Position shall be limited to those who fall under either of the following items:
 - (1) Commercials (meaning Commercials prescribed in Article 85.1.1 of the Market Rules); or
 - (2) A person approved by the Exchange as appropriate.

Article 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;
 - (2) Crude oil or Jet fuel, etc. for Kerosene;
 - (3) Crude oil or Heavy oil Bunker A, etc. for Gas oil; and
 - (4) Gasoline, Kerosene or Gas oil, etc. for Crude oil.

Article 5 (Application of Hedge Position)

1. Trade Members, etc. (meaning Trade Members provided for in Article 87.1.1 of the Market Rules, Broker Members provided for in Article 87.1.2, Remote Trade Members provided for in Article 87.1.3 and Remote Broker Members provided for in Article 87.1.4; the same shall apply hereinafter) applying for hedge position prescribed in Article 7.1 of the 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 month; or
 - (2) Hedge position limit method

Apply for a certain number of positions in part or all of the contract month during a certain period.

Article 6 (Overall Limit on Hedge Positions)

1. Overall limit on positions including Hedge positions with respect to Gasoline and Kerosene shall be the quantity determined prescribed in each of the following items, unless deemed necessary by the Exchange.
 - (1) Current Contract Month: the limit prescribed in Article 2 and Article 3 of the Oil Market Management Detailed Rules; and
 - (2) Other than Current Contract Month: Up to two times as the position limit prescribed in Article 2 and Article 3 of the 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 contract months.

Article 7 (Delivery)

1. An approved Hedge positions in Gasoline and Kerosene markets may not be settled by delivery unless the overall delivery position is within the position limit prescribed in Article 2 and Article 3 of the 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 delivery regardless of the position limit prescribed in said Articles.
 - (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 delivery of hedge positions approved in preceding paragraph if deemed necessary in consideration of the status of trading in the market. In such case, Members or customers shall promptly close any excess position until their positions no longer exceed the limit specified by the Exchange.
3. With respect to delivery of gas oil, hedge positions exceeding the limit pertaining to gas oil delivery prescribed in Article 4 of the Oil Detailed Management Delivery Rules may not be settled by delivery based on Article 7 of the Oil Market Management Detailed Rules and Article 5 of this Handling Procedure.

Article 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 sanctions on the applicant in accordance with the rules and regulations of the Exchange.
 - (1) The Trade Members, etc. refused to explain or submit the supporting documents when requested by the Exchange; and
 - (2) Deemed inappropriate by the Exchange.

Article 9 (Revision)

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

Supplementary Provisions

Article 1

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

Article 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.

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

Supplementary Provisions

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