

## Precious Metals 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 Precious Metals 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);
  - (2) Commercial operators engaging in transactions pertaining to spot commodity ETFs;
  - (3) Market Makers for Cash-settled Daily Futures Transactions designated by the Exchange; or
  - (4) 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 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;
  - (5) A transaction related to spot commodity ETFs;
  - (6) Gold Cash-settled Daily Futures Transactions; and
  - (7) A transaction that are approved by the Exchange as appropriate.

### **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 Precious Metals 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.).

### **Article 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) Gold: No overall limit;
  - (2) Silver: No overall limit;
  - (3) Platinum: No overall limit; and
  - (4) Palladium: Up to two times as the position limit prescribed in Article 2 and Article 3 of the Precious Metals Market Management Detailed Rules.

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2. An approved hedge position shall be promptly closed if the overall position limit prescribed in the previous paragraph is violated as a result of the carry-forward of existing contract months.

**Article 7 (Delivery)**

1. An approved Hedge positions may be settled by delivery; provided, however, the Exchange may limit whole or part of the delivery of hedge positions if deemed necessary in consideration of the status of trading in the market.

**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 Precious Metals 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 Precious Metals 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 March 19, 2015.

**Supplementary Provisions**

Revisions to Article 3 (Eligible Persons) and Article 4 (Applicable Transactions in Spot Market) shall be in effect as of May 7, 2015.