Appendix 3

# Delivery Rules for Fuel Oil Futures of

# the Shanghai Futures Exchange

**(Trial)** (Amended)

## Chapter 1 GENERAL PROVISIONS

**Article 1** These *Delivery Rules for Fuel Oil Futures* (these “Delivery Rules”), formulated in accordance with the *General Exchange Rules of the Shanghai Futures Exchange* and related implementing rules, are designed to ensure the smooth delivery of fuel oil futures at Shanghai Futures Exchange (“SHFE” or the “Exchange”) and regulate physical delivery activities.

**Article 2** These *Delivery Rules* shall apply to delivery of fuel oils against fuel oil futures contracts on the Exchange. The Exchange and all members, customers, and designated delivery oil depots shall abide by these *Delivery Rules*.

**Article 3** The term “physical delivery” as referred to in these Delivery Rules means the process by which the buyer and the seller close their open positions by a transfer of the ownership of the commodity underlying the futures contract in question.Delivery against fuel oil futures contracts are conducted by bonded delivery, which refers to the delivery of the underlying fuel oil which is stored, under bonded status and customs supervision, in bonded tanks at Designated Delivery Oil Depots.

Delivery against fuel oil futures contract adopts depot delivery.

Physical delivery against an expired fuel oil futures contract shall be conducted according to the standard delivery procedures. Delivery against a non-expired fuel oil futures contract may be conducted through an exchange of futures for physicals (“EFP”). Parties intending to enter into an EFP transaction, whether by an exchange of standard warrants or by ship-to-ship transfer, shall apply in advance to, and be successfully matched by, the Exchange.

**Article 4** Anyphysical delivery by a customer shall be conducted by via its carrying member through the Exchange. Any customer who is unable to provide or receive special VAT invoice the tax invoices specified by the Exchange is not permitted to engage in physical delivery.

A natural person customer shall reduce its open positions in any fuel oil futures contract to zero by the close of the third trading day before the last trading day of the contract. The Exchange will force-liquidate such open positions in accordance with its rules starting from the second trading day before the last trading day.

**Article 5** Physical delivery against any expired contract shall take place at a designated delivery oil depot as provided in Appendix 1(the list is to be separately announced by the Exchange). The delivery settlement location for any non-expired contract due for EFP shall be set out in the EFP agreement between the parties.

## Chapter 2 STANDARD DELIVERY PROCEDURES

**Article 6** “Standard deliveryDelivery procedures,” with respect to an expired futures contract, means the mode of settlement delivery wherein the buyer and the seller completes the delivery of the physicals underlying the contract through an exchange of bonded standard warrants, the format of which is established by the Exchange, in accordance with the prescribed procedures.

**Article 7** Assay method and assayers

The quality of petroleum products fuel oil shall be as established at load-in and load-out by assayers certified by the Exchange (see Appendix 2 for the listthe list of which is to be separately announced by the Exchange), using the sampling method specified in ASTM D4057 GB/T 4756 and the test methods specified in the SHFE Fuel Oil Contract Specifications.

The assayer for products fuel oil intended for load-in shall be selected from the foregoing list by the seller; the assayer for products fuel oil intended for load-out shall be selected from the list by the buyer. If the designated delivery oil depot does not agree with the buyer’s or seller’s choice, it may negotiate with the relevant party for a replacement. If the negotiation fails, the designated delivery oil depot may request the Exchange to select the assayer for them. The buyer, seller, and designated delivery oil depot shall cooperate with certified assayers in the inspection process,. Unless otherwise specified by these *Delivery Rules*, the load-in inspection fee shall be borne by the seller, the load-out inspection fee shall be borne by the buyer. the cost of which shall be borne by the seller for the load-in inspection and by the buyer for the load-out inspection.

**Article 8** Load-in Application (Delivery Notice)

Any fuel oil owner intending to deliver its products to a designated delivery oil depot shall first submit a load-in application (delivery notice) to the Exchange for approval of the load-in and issuance of standard warrant. The load-in application shall specify the product name, grade, quantity, sender, and the proposed designated delivery oil depot for the load-in. Owner of fuel oil shall coordinate with relevant parties such as dock, port, pipeline companies, customs, and goods inspection agencies before submitting its load-in application. The load-in application shall be submitted to the Exchange no later than ten business days prior to the proposed date of load-in. Customers shall delegate their futures firm members to handle the load-in application (delivery notice).

**Article 9** Load-in Application Approval

The Exchange will approve or reject the load-in within three trading business days of receiving a conformant load-in application, taking the owner’s preferences into account if storage capacity permits. Following an approval, the owner shall deliver its products to such the relevant designated delivery oil depot as approved in the load-in application within the load-in period prescribed by the Exchange. Fuel oils that are not approved for load-in or are not loaded in within the prescribed period are not deliverable., which is 15 days as of the approval of load-in by the Exchange, subject to such adjustment as the Exchange may deem fit according to the circumstances.

**Article 10** Load-in Application Deposit

The documents accompanying the load-in application shall be true and accurate. The owner shall post a load-in application deposit of thirty yuan (¥30) per metric ton, which will be debited by the Exchange from the member’s futures settlement account.

If the owner makes delivery within the specified period, the The Exchange shall return the load-in application deposit to the member’s futures settlement account after the owner has completed the load-in procedures and received the bonded standard warrants. If only a partial quantity portion of the quantity specified in the load-in application is delivered, the load-in application deposit corresponding to the shortfall shall be proportionally refunded credited to the designated delivery oil depot as compensation;. If no delivery is made in accordance with the load-in application, the load-in application deposit will not be refunded and shall be paid by the Exchange to the designated delivery oil depot. if no portion of the specified quantity is delivered, the deposit shall be fully credited to the designated delivery oil depot as compensation. Where the actual load-in quantity is within the tolerance for weight differential for the futures contract, the deposit shall be fully refunded.

**Article 11** Before unloading and load-in, the owner shall engage a certified assayer to test the fuel oil for density, kinematic viscosity, sulfur content, moisture, and flash point in accordance to the standards and methods specified in the futures contract, and only unload after passing the test.

**Article 1112** Load-in Documents

A designated delivery oil depot shall inspect the petroleum products fuel oil it receives and verify the accompanying documents.

**Article 1213** Load-in Inspection

The owner shall engage a certified assayer to inspect its outbound petroleum products fuel oil at load-in. Load-in inspection consists of quality assay and quantity weight inspection.

(i) Quality assay

Prior to load-in, the certified assayer shall take and seal fuel oil samples from the ship tanks or other transport containers (Sample A) and from the depot (Sample B). Sample A is further divided into A1, comprising several samples taken from each ship tank or each container, and A2, a mixture of all the samples of A1. After load-in, the certified assayer shall assay the mixed product fuel oil in the depot (Sample C) and issue a testing report. If Sample C passes the test, it means the petroleum product fuel oil delivered by the owner is of satisfactory quality and the testing report for Sample C shall serve as the assay report for the petroleum product fuel oil delivered by the owner.

If Sample C is nonconformant, the certified assayer shall test Sample A and Sample B, with one of the following four outcomes:

(a) Sample A conformant and Sample B nonconformant. This means the petroleum product fuel oil delivered by the owner is of satisfactory quality. The designated delivery oil depot shall be held accountable for the nonconformant, mixed petroleum product fuel oil in the depot, and bear the assay expenses for Samples A and B.

(b) Sample A nonconformant and Sample B conformant. This means the petroleum product fuel oil delivered by the owner is of unsatisfactory quality. The owner shall be held accountable for the nonconformant, mixed petroleum product fuel oil in the depot, and bear the assay expenses for Samples A and B.

(c) Both Sample A and Sample B are conformant. This means the petroleum product fuel oil delivered by the owner is of satisfactory quality. The designated delivery oil depot shall be held accountable for the nonconformant, mixed petroleum product fuel oil in the depot, and bear the assay expenses for Samples A and B.

(d) Both Sample A and Sample B are nonconformant. This means neither the petroleum product fuel oil delivered by the owner nor that held by the designated delivery oil depot before the load-in are of satisfactory quality. The owner and the designated delivery oil depot shall be held jointly accountable for the nonconformant, mixed petroleum product fuel oil in the depot, and respectively bear the assay expenses for Sample A and Sample B.

In all these four scenarios, Sample A will be deemed nonconformant if any sample from Sample A1 and Sample A2 fails the test. In this case, the testing report for Sample A shall serve as the assay report for the petroleum product fuel oil delivered by the owner.

(ii) Quantity Weight inspection

The quantity weight of petroleum product fuel oil loaded in shall be as indicated by the tank level gauge measured by the shore tanks of the designated delivery oil depot.

**Article 1314** Owner’s Responsibilities for Quality

The owner shall ensure the petroleum product fuel oil it delivers meets the quality standards of the Exchange, and assume full responsibilities and liabilities arising from a material quality degradation (i.e., failing to meet the quality standards of the Exchange) of the entire tank of petroleum products fuel oil due to the nonconformant quality of the petroleum product fuel oil it delivers. Where the designated delivery oil depot believes the owner’s petroleum products have potential quality issues, it is entitled to require an assay before unloading by the owner.

**Article 1415** Owner’s Oversight

The owner shall oversee the load-in of its petroleum products fuel oil into the designated delivery oil depot, or be deemed to have agreed with the testing results of the certified assayer.

**Article 1516** Required Documentation for Delivered Products

(i) Domestic fuel oil: The original testing certificate issued by a certified assayer.

(ii) Imported fuel oil: the original customs declaration form and customs clearance certificate (which will be returned after being photocopied by the Exchange), the original goods testing certificate issued by a national quality testing institution, and the original testing certificate issued by a certified assayer. The owner shall provide the original or photocopy of such required documentation for delivered products as the testing certificate issued by the certified assayer, bill of lading, goods inspection certificate issued by the loading port, customs load-in approval document, and inspection certificate for bonded pre-mixed marine fuel oil, which will be returned by the Exchange after being verified and photocopied.

**Article 1617** Issuance of Standard Warrant

(i) Exchange review and verification

After load-in and acceptance of petroleum product fuel oil, the member shall bring the required delivery documentation for delivered products to the Exchange for review and verification. Once it is verified, the Exchange will instruct the designated delivery oil depot to issue bonded standard warrants through the Standard Warrant System.

(ii) Issuance of standard warrant by designated delivery oil depot

Upon receiving the instruction from the Exchange, the designated delivery oil depot shall issue the standard warrants through the Standard Warrant System.

**Article 18** Bonded standard warrants for fuel oil are valid till the last delivery month of the second year following effectiveness, after which month the underlying fuel oil will be converted to spot product.

A designated delivery oil depot shall transfer fuel oil underlying expired bonded standard warrants to the spot fuel oil tank.

**Article 1719** Delivery Procedures for Delivery for Contract Due

Physical delivery of fuel oil against an expired contract shall be completed within the first five business days following the contract’s last trading day of the contract’s delivery month, referred to as the first delivery day, the second delivery day, the third delivery day, the fourth delivery day, and the fifth delivery day. The fifth delivery day is the last delivery day.

(i) The First Delivery Day

(a) The buyer shall submit to the Exchange a letter of intent (in the form prescribed by the Exchange) for the products it intends to take-delivery.

(b) The seller shall, through the Standard Warrant System, submit to the Exchange valid bonded standard warrants with storage fee fully paid to the fifth delivery day (inclusive), after which date the carrying charges shall be borne by the buyer. Fees and fee rates charged by designated delivery oil depot will be confirmed and published elsewhere by the Exchange.

(ii) The Second Delivery Day

The Exchange will centrally match and allocate bonded standard warrants to buyers based on time of request, preference for integer quantity, and geographical proximity.

Bonded standard warrants that cannot be used for the physical delivery of later-month futures contract shall be prorated among the buyers according to their relative share in the total delivery volume of the current month.

(iii) The Third Delivery Day

(a) The buyer shall make delivery payment at the Exchange in exchange for the bonded standard warrants before 14:00.

(b) The Exchange shall transfer the delivery payment to the seller before 16:00, which transfer may be postponed under special circumstances.

(iv) The Fourth Delivery Day and Fifth Delivery Day

The seller shall submit the special VAT invoice to the Exchange who will then release the corresponding trade margin tax invoices which fully cover the delivered fuel oil and in such format and containing such information as prescribed by the Exchange.

**Article 1820** Circulation of Standard Warrant

Standard Bonded standard warrants shall circulate as follows in physical delivery through the Exchange:

(i) the selling customer endorses the bonded standard warrant to its carrying futures firm member to effectuate the physical delivery;

(ii) the seller’s carrying member submits the bonded standard warrant to the Exchange;

(iii) the Exchange assigns the bonded standard warrant to the buyer’s carrying member;

(iv) the buyer’s carrying member assigns the bonded standard warrant to the buying customer.

**Article 1921** Release of Margin

Within the delivery period, if such delivery procedures as the submission and receipt of bonded standard warrant, delivery payment, and special VAT invoice Exchange-specified tax invoices are completed by 14:00, the Exchange will release the corresponding margin funds on the same day; if such procedures are completed after 14:00, the Exchange will do so on the following trading business day.

**Article 2022** Take-Delivery

(i) Where the lawful bearer of a bonded standard warrant intends to take-delivery, the designated delivery oil depot shall release the product after verifying the bonded standard warrant. The owner may, in its sole discretion, itself take delivery of the product at the designated delivery oil depot or delegate the latter to take-delivery and ship the product.

(ii) At the time of load-out, the designated delivery oil depot shall circulate and heat the petroleum products in the tank to a temperature of no lower than forty degrees Celsius (40 °C).

(iii) Quality assay

(ii) Any lawful bearer of a bonded standard warrant who intends to take-delivery shall engage a certified assayer to conduct on-site inspection on the quality and quantity weight of the petroleum products fuel oil to be delivered. The load-out quantity weight shall be as indicated by the tank level gauge or, if the quantity is below the threshold prescribed by the Exchange, as measured by a flow meter or other measuring tools at the discretion of the certified assayer measured by the shore tanks of the designated delivery oil depot. Quality assay shall be based on samples taken from the tank, which are to be divided into Sample A, to be used for laboratory testing, and Sample B, to be sealed and preserved as a specimen.

Any owner who does not engage a certified assayer to conduct the inspection shall be deemed to have approved the quality and quantity weight of the shipment and the certified delivery depository and the Exchange will no longer accept any objection regarding the petroleum products fuel oil thus delivered.

(iv) Acceptance of quality dispute

(iii) Any delivery-taker lawful bearer of bonded standard warrant who wishes to dispute the quality of the delivered goods fuel oil shall submit a written objection, accompanied by the assay results issued by the certified assayer, to the designated delivery oil depot within ten business days following the physical settlement the issuance of the testing report by the certified assayer; failing which, the delivery-taker bearer shall be deemed to have no objection over the delivered goods fuel oil and the designated delivery oil depot and the Exchange will no longer accept any such objections.

(v) Completing the Load-out Confirmation for Standard Warrant

(iv) During load-out, the designated delivery oil depot shall complete a Goods Load-out Confirmation for Bonded Standard Warrant in duplicate, one for the owner and one for itself, and properly retain the its own copy for future examination.

**Article 2123** Loss Compensation; Tolerance for overfill and underfill

(i) The total loss of petroleum product in each load-in and load-out cycle shall not exceed 2‰, to be jointly and evenly assumed by its owner at load-in and its owner at load-out. Loss compensation

The owners of fuel oil at load-in and at load-out shall respectively pay to the designated delivery oil depot the load-in loss compensation and the load-out loss compensation according to the formulas below, which shall be settled within three (3) business days of the issuance of the testing report by certified assayer:

Load-in loss compensation = quantity of fuel oil on the issued bonded standard warrants × 0.6‰ × (settlement price of the nearest month fuel oil futures contract on the trading day preceding the load-in completion day + delivery premiums or discounts);

Load-out loss compensation = quantity of fuel oil on the cancelled bonded standard warrants × 0.6‰ × (settlement price of the nearest month fuel oil futures contract on the trading day preceding the load-out completion day + delivery premiums or discounts).

(ii) Weight differential: Each standard warrant corresponds to fifty (50) metric tons of petroleum products. The difference between standard warrant weight and actual load-in or load-out weight shall not exceed ±3%.

“Weight differential” for fuel oil at load-in or load-out refers to the difference between the weight indicated on the weight certificate issued by the certified assayer and the weight specified on the issued or cancelled bonded standard warrants. For fuel oil, such weight differential shall not exceed ±3% and shall be settled by the owner directly with the designated delivery oil depot according to the formula below within three business days following the issuance of the testing report by the certified assayer:

Payment for load-in/load-out weight differential = weight differential within the tolerance range × (settlement price of the nearest month fuel oil futures contract on the trading day preceding the load-in / load-out completion day + delivery premiums or discounts).

**Article 2224** Final Settlement Price; Settlement of Weight Differential

(i) Final settlement price

The final settlement price (Pj) is the benchmark price for the delivery settlement of fuel oil futures, calculated as the time-weighted average of the contract’s settlement prices on the last ten (10) trading days of the contract:

$$P\_{j}=\frac{\sum\_{i=1}^{10}iP\_{i}}{\sum\_{i=1}^{10}i}=\frac{1}{55}P\_{1}+\frac{2}{55}P\_{2}+\frac{3}{55}P\_{3}+\frac{4}{55}P\_{4}+\frac{5}{55}P\_{5}+\frac{6}{55}P\_{6}+\frac{7}{55}P\_{7}+\frac{8}{55}P\_{8}+\frac{9}{55}P\_{9}+\frac{10}{55}P\_{10},$$

where Pi is the settlement price on trading day i (i=1, 2, … 10), i.e., the ninth trading day before the last trading day corresponds to i = 1, the eighth to i = 2, and the last trading day to i = 10.

The buyer and the seller shall settle using the final settlement price.

(ii) Settlement of weight differential

Any weight differential arising during load-in, less the 1‰ loss allowance, shall be settled by the owner directly with the designated delivery oil depot within three (3) business days of completion of load-in at the settlement price of the nearest month fuel oil contract on the trading day prior to the day on which the load-in is completed.

Any weight differential arising during load-out, less the 1‰ loss allowance, shall be settled by the owner directly with the designated delivery oil depot within three (3) business days of completion of load-out at the settlement price of the nearest month fuel oil contract on the trading day prior to the day on which the load-out is completed.

The final settlement price for a fuel oil futures contract is the arithmetic mean of the contract’s settlement prices of the last five trading days on which the contract was traded.

**Article 25** The bonded final settlement price shall be the basis for assessing dutiable values for bearer of a bonded standard warrant for fuel oil.

The bonded final settlement price of an expired contract is:

Bonded final settlement price = final settlement price.

The delivery payment corresponding to a bonded standard warrant for fuel oil is:

Delivery payment for expired contract = bonded final settlement price × delivery quantity;

Delivery payment for EFP = EFP bonded final settlement price × delivery quantity.

**Article 2326** Delivery Costs

(i) The buyer and the seller participating in the physical delivery shall each pay to the Exchange a delivery fee of one yuan (¥1) per metric ton.

(ii) The bearer of the standard warrant, if taking delivery with a tanker truck, shall pay to the designated delivery oil depot a loading fee of fifty yuan (¥50) per metric ton.

**Article 2427** The buyer and the seller shall themselves arrange the transportation options if they intend to conduct physical settlement at a designated delivery location.

**Article 2528** A designated delivery oil depot shall assume full responsibilities for the quality, safety, and other relevant aspects of petroleum products fuel oil in storage from its their acceptance and load-in to its their load-out.

**Article 2629** Load-in and load-out operations at a designated delivery oil depot shall not impair the quality and weight of fuel oil. A designated delivery oil depot shall clean the pipelines, both before and after each load-in or load-out., ensure that the pipelines are either fully filled or emptied, that oil inside the pipelines will not affect the quality of the oil to be loaded in or out, and that oil may flow freely inside the pipelines. The temperature of the fuel oil at load-in and load-out shall not be lower than 35 °C.

**Article 2730** The delivery unit of fuel oil futures contract is fifty (50) ten metric tons and delivery shall made in multiples thereof.

**Article 2831** Deliverable grade for fuel oil : Deliverables shall conform to or exceed the quality fuel oil specifications prescribed by the Exchange in is as specified in the SHFE Fuel Oil Contract Specifications.

**Article 32** The minimum load-in or load-out weight for fuel oil is 1,000 metric tons, unless, in the case of load-out weight, the owner and the designated delivery oil depot have agreed on another quantity.

## Chapter 3 EXCHANGE OF FUTURES FOR PHYSICALS

**Article 2933** Exchange of futures for physicals refers to the transaction wherein upon mutual consultation and approval by the Exchange, members or customers a buyer and a seller who take opposite positions in a same-month futures contract close out such positions through the Exchange at the price prescribed by the Exchange, and at the same time exchange, at the price mutually agreed upon, the warrants, bills of lading, or physicals through ship-to-ship transfer involving of a commodity which is of the same quantity as, and identical or similar to, the underlying commodity of the futures contract.

Fuel oil futures contracts may be physically settled by EFP before expiration.

**Article 3034** EFP on a futures contract is available from the day of listing to the fourth to last trading day (inclusive), during which the transacting parties may apply for EFP at the Exchange. The Exchange makes one announcement for all the EFP intents on each particular contract.

The seller shall submit the special VAT invoice to the Exchange within seven (7) days following the initiation of the EFP.

The EFP application period for a fuel oil futures contract is from the listing day of the contract to the second trading day (inclusive) before the last trading day of the contract.

**Article 3135** The Exchange’s Announcement of EFP Intents

Before 16:00 on the 20th day (postponed accordingly in the event of a holiday) of the month prior to the contract’s delivery month, members who intend to perform physical delivery on the contract may submit their EFP intents, in the format prescribed by the Exchange, to the Exchange through the Member Service System. Members and customers may publish their EFP intents through the Standard Warrant System. Each intent shall specify, among other information, the customer code, the name of the member, name of the customer, product, contract month, trading direction, EFP settlement method (exchange of warrants, ship-to-ship transfer, or otherwise), delivery quantity, delivery location, time of delivery, and contact information. Buyers and sellers may reach EFP agreement on their own initiative based on the EFP intents published by the Exchange.

Before 12:00 on the business day following the 20th day of the month prior to the contract’s delivery month, the Exchange will announce all members’ EFP intents on the Member Service System. Buyers and sellers may find their counterparties themselves according to such announcement.

**Article 3236** After members or customers a buyer and a seller holding opposite positions in a same-month contract agree to enter into an EFP, they either of them shall submit the EFP application to the Exchange through the Standard Warrant System, by 14:00 on any trading day within the EFP application period (“EFP Application Day”)., apply for EFP at the Exchange by completing the EFP application form issued by the Exchange. The EFP may be carried out once it is approved by the Exchange.

EFP is only available to positions in fuel oil futures opened before the EFP Application Day.

Ship-to-ship transfer shall be conducted in reference to the *SHFE Operating Guidelines for Ship-to-Ship Transfer for Fuel Oil Futures* in Appendix 3.

In deliveries involving non-standard warrant, photocopies of the relevant sales contract and bill of lading shall be provided.

**Article 33** For the buyer and the seller who have applied for EFP, their corresponding positions in the futures contract will be closed out by the Exchange by 15:00 on the EFP Application Day, at the contract’s settlement price of the trading day before the EFP Application Day.

**Article 37** If the parties to an EFP intend to use bonded standard warrants and settle via the Exchange, their carrying members shall submit a corresponding application to the Exchange in advance.

**Article 34** Where the EFP is conducted using standard warrants, the exchange of instruments (including delivery payments and warrants) shall be performed through the Exchange. The trade margin for the EFP shall be based on the relevant contract’s settlement price of the trading day before the EFP Application Day; the exchange of instruments shall be completed at the Exchange by 14:00 on the trading day following the EFP Application Day.

**Article 38** The final settlement price for EFP is the price as agreed by the buyer and the seller. For an EFP that is conducted using bonded standard warrants and settled through the Exchange, the bonded final settlement price shall be as follows:

Bonded final settlement price for the EFP = settlement price of the delivery month contract on the trading day preceding the EFP Application Day.

**Article 39** Positions held by the buyer and the seller in the delivery month contract that correspond to their EFP application shall be closed out by the Exchange prior to 15:00 on the EFP Application Day at the bonded final settlement price for the EFP.

**Article 40** For any EFP that is conducted using bonded standard warrants and settled through the Exchange, the trade margin shall be based on the settlement price of the corresponding delivery month contract on the trading day preceding the EFP Application Day; the exchange of delivery payment and bonded standard warrants shall be completed by the buyer and the seller through the Exchange within the agreed timeframe.

**Article 41** For any EFP that is conducted using bonded standard warrants and cleared and settled directly between the buyer and the seller, the off-the-exchange transfer of standard warrants shall be governed in reference to the *Standard Warrant Rules of the Shanghai Futures Exchange*; alternatively, such transfer may be conducted directly between the buyer and the seller following delivery.

**Article 42** For any EFP that is conducted using bonded standard warrants and settled through the Exchange, the seller shall submit the tax invoice to the Exchange within five business days following the settlement of delivery payment and bonded standard warrants. If the Exchange receives the tax invoice before 14:00, it shall, after verifying the accuracy thereof, release the corresponding margin funds to the seller at clearing on the same day; otherwise, the Exchange shall, after such verification, release the corresponding margin funds at clearing on the following business day. The Exchange shall issue a tax invoice to the buyer on the business day after the day on which it received the seller’s tax invoice.

If the seller fails to submit the tax invoice within the prescribed time limit, it shall pay a late fee of 0.5‰ of the delivery payment for each day of delay between three and ten days, and of 1‰ of the delivery payment for each day of delay between eleven and thirty days. Failing to provide the tax invoice within thirty days shall be deemed as a refusal and for which the seller shall pay 20% of the delivery payment as penalty.

**Article 43** Delivery payment for EFP settled through the Exchange shall be settled by such means as internal transfer or bank transfer.

**Article 44** For any EFP that is conducted using bonded standard warrants, settled through the Exchange, and the delivery for which is not completed within the prescribed time limit, the rules governing delivery default shall apply. In the event of a dispute over the quality of the delivered physicals, the buyer shall submit an objection, accompanied by the testing report from a certified assayer, within ten business days following the issuance of the report.

**Article 3545** Where the EFP is conducted using non-standard warrants (including by ship-to-ship transfer), the final settlement price shall be as agreed between the buyer and the seller shall jointly arrange for the transfer of delivery payment and instruments, which may be conducted through the Exchange or directly between themselves. Any dispute arising from such delivery process shall be resolved by the buyer and the seller; the Exchange does not provide any performance guarantee. The buyer and the seller shall abide by applicable laws and regulations and furnish the sales agreement, non-standard warrants, and other relevant materials. Delivery payment, non-standard warrants, and tax invoice shall be settled by the buyer and the seller themselves. The Exchange does not provide any guarantee with respect to the quality of physicals in a delivery involving non-standard warrants should a dispute over quality arise.

**Article 3646** Any non-bona fide EFP shall be handled in accordance with the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 3747** The Exchange will promptly disclose all pertinent EFP-related information.

## Chapter 4 DELIVERY DEFAULT

**Article 3848** Any of the following acts shall constitute a delivery default:

(i) the seller fails to deliver all the bonded standard warrants within the prescribed delivery period;

(ii) the buyer fails to deliver all the delivery payments within the prescribed delivery period; and

(iii) any other act recognized by the Exchange as a delivery default.

**Article 3949** In connection with calculating the number of contracts on which a buyer has committed delivery default, twenty percent (20%) of the value of such contracts shall be provisioned as liquidated damages and compensation.

The following formulas apply when calculating the number of contracts on which a buyer or a seller has committed delivery default:

Seller-default quantity (in lots) = quantity (in lots) of bonded standard warrants to be delivered – quantity (in lots) of bonded standard warrants actually delivered;

Buyer-default quantity (in lots) = (delivery payment due – delivery payment made) ÷ (1 – 20%) ÷ final settlement price ÷ contract size

**Article 4050** In the event of a delivery default, the Exchange shall notify the defaulting party and the non-defaulting party of the default by 16:30 on the day of the default.

The non-defaulting party shall, by 11:00 on the next trading business day, indicate to the Exchange in writing of whether it chooses to terminate delivery or to proceed with the delivery. The non-defaulting party will be deemed to have chosen to terminate the delivery if it does not submit such a written intent within the prescribed period.

**Article 4151** In the event of a delivery default, the defaulting party shall pay the non-defaulting party liquidated damages equaling 5% of the contract value in default, additionally,

(i) where the seller is in default, the buyer may choose to:

(a) terminate the delivery, in which case the Exchange will return the delivery payment to the buyer; or

(b) continue with the delivery, in which case the Exchange will announce a solicitation of bonded standard warrants on the trading business day following the determination of default, which shall be held within seven trading business days. If the solicitation succeeds, the Exchange will transfer the bonded standard warrants to the buyer; otherwise, the seller shall pay the buyer 15% of the contract value in default as compensation, and the Exchange will return the delivery payment to the buyer and terminate the delivery. The seller shall solely bear all financial losses and costs incurred by the solicitation.

(ii) where the buyer is in default, the seller may choose to:

(a) terminate the delivery, in which case the Exchange will return the bonded standard warrants to the seller; or

(b) continue with the delivery, in which case the Exchange will announce an auction of the bonded standard warrants on the trading business day following the determination of default, which shall be held within seven (7) trading business days. If the auction succeeds, the Exchange will transfer the delivery payment to the seller; otherwise, the buyer shall pay the seller 15% of the contract value in default as compensation, and the Exchange will return the bonded standard warrants to the seller and terminate the delivery. The buyer shall solely bear all financial losses and costs incurred by the auction.

The termination of delivery shall relieve the Exchange of any delivery guarantees.

**Article 4252** The solicitation price shall not be higher than 125% of the final settlement price; the auction price shall not be lower than 75% of the final settlement price.

**Article 4353** Where both the buyer and the seller are in default, the Exchange will terminate the delivery and impose a fine on each equaling five percent (5%) of the contract value in default.

**Article 4454** Where a member commits delivery default on some of its transactions, any bonded standard warrants or delivery payment it receives can be used as remedy.

**Article 4555** Any member who willfully defaults on physical delivery shall be handled in accordance with the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 4656** Any member or designated delivery oil depot involved in a default are obligated to provide evidence related to the default. A member’s refusal to provide such evidence shall have no bearing on the characterization of the default.

**Article 4757** Any delivery-related dispute between any buyer or seller and a designated delivery oil depot shall be resolved through negotiation. If negotiation fails, the dispute shall be submitted to the Exchange in writing within ten (10) days of its occurrence for mediation. If mediation fails, they may, in accordance with their arbitration agreement, apply to an arbitral body for arbitration. If such an agreement was not made or is invalid, they may initiate a lawsuit before a people’s court.

**Article 4858** If either or both the buyer and the seller cannot perform or fully perform its/their obligations due to force majeure, it/they may be partially or fully exempt from the resulting liabilities to the extent to which it was / they were adversely affected by the force majeure.

## Chapter 5 MISCELLANEOUS

**Article 4959** The Exchange reserves the right to interpret these *Delivery Rules*.

**Article 5060** Matters not covered herein shall be governed, *mutatis mutandis*, by the *Articles of Association*, *General Exchange Rules*, and other implementing rules of the Exchange.

**Article 5161** These *Delivery Rules* shall come into effect as of July 1,2018.

Appendix 1: SHFE designated delivery oil depot s

Appendix 2: SHFE Certified Assayers

Appendix 3: SHFE Operating Guidelines for Ship-to-Ship Transfer for Fuel Oil Futures