



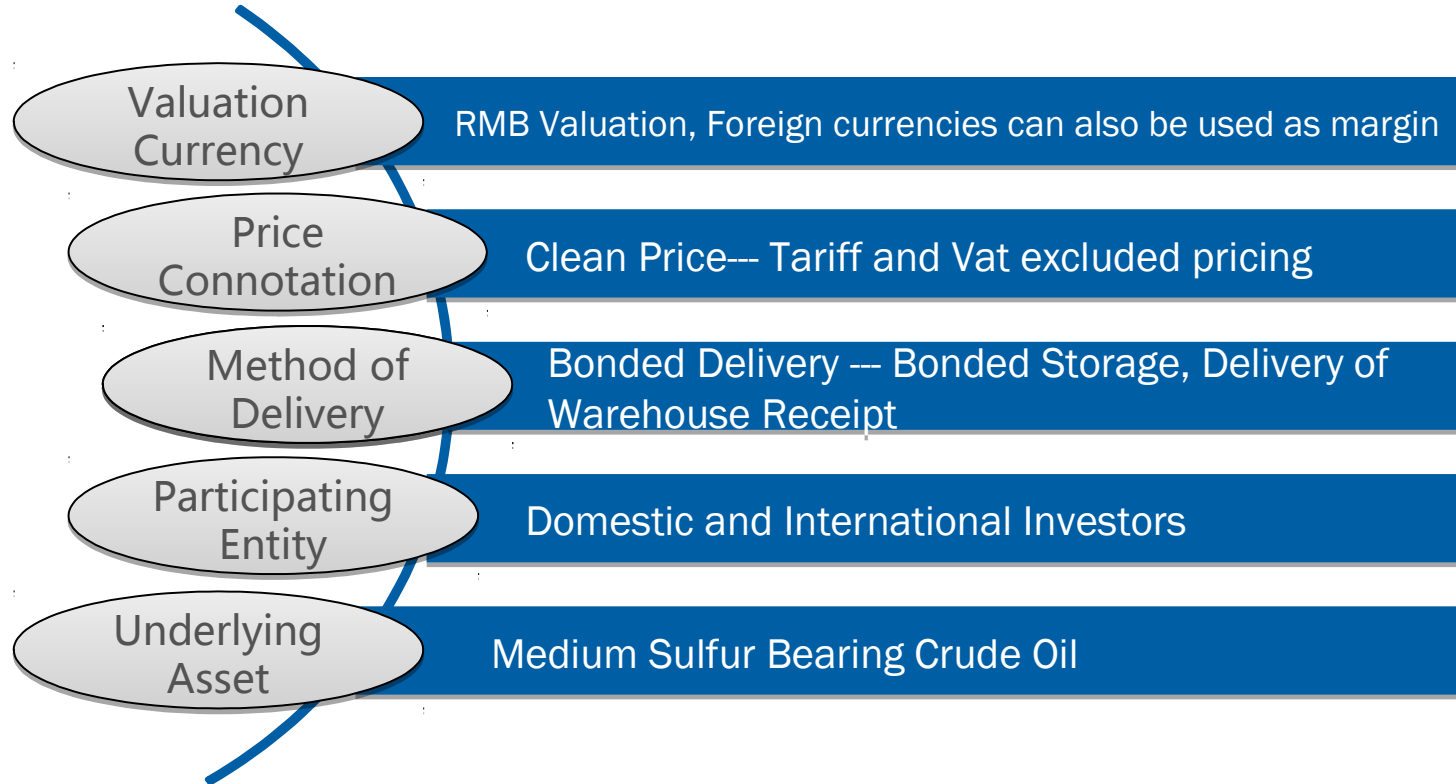
银河期货有限公司
Galaxy Futures Co. Ltd

Crude Oil Futures Contracts and Rules

June 2017

General Scenario

International Platform ,RMB Valuation, Clean Price, Bonded Delivery



What key problems do supporting policy of crude oil aim to solve?

The existing spot market is characterized as relative few subjects within a country and relative free of international trade. Construction of **the crude oil future market shall base upon existing international spot trade**, with respect to the basic idea of **international platform. RMB valuation, clean price, bonded delivery, improve supporting policies of oversea investors.**

1. Policies on Regulation: Measures for the administration of access and supervision of oversea investment and brokerage institutions

What key problems do supporting policy of crude oil aim to solve?

2. Policy on Foreign Exchange: What policy shall oversea investors follow for capital movement and exchange?

3 Policy on Customer: what is the policy of customs declaration and delivery of crude oil futures?

4. Fiscal and Taxation Policy: What policy shall oversea investors and brokers follow for tax payment?



Clarify the Methods of Entry and Supervision for Oversea Participants

Interim Measures for the Administration of futures trading by overseas traders and overseas brokerage agencies (Order of CRSC, No.16)

1、 Methods of Participation : Oversea trader + Oversea Brokerage

Institutions

2、 Open account and Trading Code : Oversea traders shall apply to

the principle of unified

3、 Appropriateness of Trader: Clarify the implementation of

appropriateness of trader, specific standards shall stipulated by the

exchange

Clarify the Methods of Entry and Supervision for Oversea Participants

Interim Measures for the Administration of futures trading by overseas traders and overseas brokerage agencies (Order of CRSC, No.16)

4、 **Settlement Scheme:** Unified Settlement by the exchange, Oversea participants are not eligible for direct settlement

5、 **Risk Control:** Depository and Operation of the Margin
Deposit , Report on Large Position, Measures on Risk Control

6、 **Supervision:** Supervised Under CRSC and its affiliated institutions

Clarify Valuation Currency , Flow of Foreign Exchange and Methods of Management of RMB Account

Ensure the Management of Cross-Border settlement of Crude Oil future (PBOC 【 2015 】 No.15)

- To clarify that trading of crude oil futures are based on RMB valuation and settlement , foreign currency can also be used directly as margin deposit for oversea trader and brokerage institutions
- Reference to cross-broader settlement of other specific domestic future product

Clarify Valuation Currency , Flow of Foreign Exchange and Methods of Management of RMB Account

Ensure the Management of Cross-Broder settlement of Crude Oil future (PBOC 【 2015 】 No.15)

- RMB account opening process for both domestic and oversea participants
- Capital management of RMB dominated futures settlement account for oversea trader and brokerage institutions
 - Shall not be used other than futures trading
 - Special account depository and close management in domestic

To solve the circulation and management of foreign exchange in the crude oil futures market

Notice of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration of Trading in Futures of Specific Varieties in China by Foreign Traders and Foreign Brokerage Agencies (SAFE 【 2015 】 No. 35)

- Oversea trader and oversea brokerage institution could engage in futures trading of specific product domestically via inward fund transferring in forms of foreign exchange or RMB
- Clarify the nature, name and scope of payment of foreign exchange settlement accounts for exchange, Futures Company, oversea trader and brokerage institution.

To solve the circulation and management of foreign exchange in the crude oil futures market

Notice of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration of Trading in Futures of Specific Varieties in China by Foreign Traders and Foreign Brokerage Agencies (SAFE 【 2015 】 No. 35)

- Settlement and purchase of foreign exchange only involve profit and loss of futures trading, commission and delivery payment, or recovery of settlement currency' s fund gap, which relate to the payment of specific domestic future product
- Physical Delivery shall be applied in accordance with the relevant provisions of the foreign exchange administration
- Not taking short-term external debt quota of depository banks

Clarify Taxation problem of Oversea Participant

Notice on Value Added Tax Policy on Bonded Delivery of Crude Oil and Iron Ore Futures (Finance and Taxation 2015, No.35)

Value Added Tax :

Finance and Taxation 2015 No. 35 Notice clarify the existing business of bonded delivery of INE, which is temporarily exempt from Value-Added tax.

Clarify customs supervision of bonded delivery of crude oil futures

Notice of Bonded Delivery of Crude Oil Futures(GACC 【 2015 】 No.40)

- The bonded final settlement price is the calculation and assessment basis of the duty-paid price after customs declaration by the holders of crude oil bonded standard warrant. The formula for the bonded final settlement price of the matured contract is:
Bonded Final Settlement Price = Final Settlement Price.
- A standard warrant may be used for pledge, which shall provides tax guarantee and complies with the requirements of the customs supervision.
- A standard warrant may be used for margin collateral and transfer.

Clarify customs supervision of bonded delivery of crude oil futures

Notice of Bonded Delivery of Crude Oil Futures(GACC 【 2015 】 No.40)

- One bonded oil tank in the Designated Delivery Storage Facilities shall not contain a mixture of crude oil of different deliverable types, but can store different owners of the same deliverable types. Crude oil of bonded delivery is no storage period in the Designated Delivery Storage Facilities .
- The Designated Delivery Storage Facilities shall truthfully declare actual consumption, the customs try to not exceed the standard of 0.12%/ year for the determination of natural losses during storage of crude oil.

二、 INTRODUCTION OF CRUDE OIL FUTURES CONTRACTS

Crude Oil Futures Contract

Standard Crude Oil Futures Contract	
Product	Medium Sour Crude Oil
Contract Size	1000 barrels per lot
Price Quotation	(RMB) Yuan per barrel (no tax or duty included in the quotation)
Minimum Price Fluctuation	0.1 Yuan / barrel
Daily Price Limits	±4% from the settlement price of the previous trading day
Listed Contracts	Monthly contracts of recent twelve (12) consecutive months followed by eight (8) quarterly contracts.
Trading Hours	9:00-11:30 a.m., 1:30-3:00 p.m. (the Beijing Time), and other trading hours as prescribed by the Exchange
Last Trading Day	The last trading day of the month prior to the delivery month; The Shanghai International Energy Exchange is entitled to adjust the last trading day in accordance with the national holidays.

Crude Oil Futures Contract

Standard Crude Oil Futures Contract	
Delivery Period	Five (5) consecutive trading days after the last trading day.
Grades and Quality Specifications	Medium sour crude oil with the quality specifications of API 32.0 degrees and sulfur content 1.5% by weight The deliverable grades and the price differentials will be stipulated separately by the Shanghai International Energy Exchange.
Delivery Venues	Delivery Storage Facilities designated by the Shanghai International Energy Exchange
Minimum Trading Margin	5% of contract value
Settlement Type	Physical delivery
Product Symbol	SC
Listing Exchange	Shanghai International Energy Exchange

Contract Points

Minimum Price Fluctuation

Exchange	Product Symbol	Minimum Price Fluctuation
CME	WTI	0.01Dollar/ barrel
ICE	BRENT	0.01Dollar/ barrel
DME	OMAN	0.01Dollar/ barrel
INE	SC	0.1 Yuan/ barrel
SHFE	Fuel Oil	2 Yuan/ barrel
	Hot rolled coils	1 Yuan/ barrel

Contract Points

Price limit rule

Exchange	Price limit rule
CME WTI	For single contract the price limit is +/-10 dollars of previous settlement price. Globex can active circuit breaker to suspend all trading for 5mins when recently 3-month contracts touch the limit price. Price limit will be increased after trading restart.
ICE BRENT	No price limit rule
DME OMAN	No price limit rule
MCX WTI	4% ; 6% ; 9%
INE SC	Not exceeding 4% of previous settlement price
TOCOM MECO	circuit breaker mechanism

Contract Points

Margin

Exchange	Margin	
CME WTI	Initial margin 2.12% – 3%	maintenance margin 1.93% – 2.71%
MCX WTI	Initial margin Minimum 4% or based on SPAN whichever is higher	Additional and/ or Special Margin In case of additional volatility, an additional margin (on both buy & sell side) and/ or special margin (on either buy or sell side) at such percentage, as deemed fit, will be imposed in respect of all outstanding positions.
ICE BRENT	1.38% – 2.29%	
INE SC	5% of contract value	
TOCOM MECO	As SPAN Margining System started from January 4, 2011, Japan Commodity Clearing House (JCCH) will set its parameters based on historical price fluctuation.	
DME OMAN	Member 2.22%	Non member 2.44%

Contract Points

Listed Contracts

Exchange /Contract	Listed Contracts
CME WTI	Continuous contract in 6 years, listed June and November contract of 7th 8th 9th year
ICE BRENT	Continuous contract in 8 years
DME OMAN	Continuous contract of recently 6 years
MCX WTI	12 continuous month contracts
TOCOM MECO	6 continuous month contracts
INE SC	12 continuous month contracts and 8 season contracts

Contract Points

Last Trading Day

Exchange /Contract	Last Trading Day
CME WTI	Trading in the current delivery month shall cease on the third business day prior to the twenty-fifth calendar day of the month preceding the delivery month. If the twenty-fifth calendar day of the month is a non-business day, trading shall cease on the third business day prior to the last business day preceding the twenty-fifth calendar day. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Crude Oil futures, the originally listed expiration date shall remain in effect. In the event that the originally listed expiration day is declared a holiday, expiration will move to the business day immediately prior.
ICE Brent	Trading shall cease at the end of the designated settlement period on the last Business Day of the second month preceding the relevant contract month (e.g. the March contract month will expire on the last Business Day of January). If the day on which trading is due to cease would be either: (i) the Business Day preceding Christmas Day, or (ii) the Business Day preceding New Year' s Day, then trading shall cease on the next preceding Business Day
DME OMEN	The transaction shall be terminated on the last trading day of the two months prior to the delivery month.
INE SC	The last trading day of the month prior to the delivery month; The Shanghai International Energy Exchange is entitled to adjust the last trading day in accordance with the national holidays.
TOCOM MECO	Day session on the last business day of the current contract month.
MCX WTI	Contract date around 20, the date is not fixed, the stock exchange will announce this date in advance.

Contract Points

Bonded delivery

- Bonded delivery means the physical delivery of the underlying commodity of a futures contract in bonded status within the Customs Special Supervision Areas or the Bonded Supervision Premises;
- Bonded delivery in narrow sense is the process of transfer of bonded warrant property in goods, bills and payment for goods. The bonded delivery in broad sense also includes bonded crude oil load-in and load-out;
- Participation in bonded delivery is not directly related to import qualification. There are different management methods and qualification requirements for bonded crude oil delivery, crude oil import and crude oil circulation in the country;
- If the holder of the bonded standard warrants needs to make customs declaration in order to import the commodities, the relevant state provisions for bonded commodities shall be followed.



Potential participants in crude oil futures

Intermediary

- FCMs
- Prime Brokers
- IB(Introducing Brokers)

Bank

- A department that uses futures for hedging or proprietary trading
- Clearing bank
- Depository bank
- Paper Crude Oil 、 WRH(Warehouse receipt hypothecation)

Commercials

- oil companies (NOC , IOC)
- Trading House
- Independent refinery
- Petroleum consuming enterprise : Airlines, shipping companies, large logistics and transportation companies

Proprietary institutions

- Financial institutions / trading companies under the dealer
- Professional investment institution
- Market Makers
- Quantitative/HFT

Fund company

- CTA Funds/Managed Futures

Crude oil futures market outlook

- **Macroscopically: forming a benchmark price reflecting the supply and demand of the petroleum market in China and even around the Asia Pacific Region**
- **Medium view: to promote the marketization and internationalization of the oil and gas industry**
- **Micro: provide a risk hedging tool and portfolio selection for related enterprises and investors**