

Crude oil futures settlement operation

Contents

- 1. Policy of settlement and delivery
- 2. Settlement structure
- 3. Settlement principles
- 4. Deposit management
- 5. Daily settlement
- 6. Settlement risk management
- 7. Entrustment settlement
- 8. Member settlement
- 9. Delivery settlement

1. Policy of settlement and delivery

- **CSRC(2015.6.26)**, *Interim Measures in the management of overseas traders and overseas brokerage institutions to engage futures trading of specific species.* Regulate foreign traders and brokers' opening accounts, settlement, margin collection and storage requirements.
- **People's Bank of China(2015.7.24)**, *Announcement on the cross-border settlement of domestic crude oil futures transactions.* Valuation and settlement of currency, RMB related account opening and revenue and expenditure, interest bearing methods, special account management, anti money laundering and anti-terrorism financing requirements
- **State Administration of Foreign Exchange(2015.7.31)**, *Notice of the State Administration of foreign exchange on issues concerning foreign exchange management of foreign futures traders and overseas brokerage institutions engaged in futures trading in specific species.* The opening and payment of foreign exchange related accounts, foreign exchange settlement and sale business, interest bearing method, special account management, balance of payments declaration, etc.
- **Ministry of Finance and State Administration of Taxation(2015.4.8)** *Notice on the value added tax policy on bonded delivery of crude oil and iron ore futures.* Crude oil futures bonded delivery business temporarily exempt from value-added tax.

2. Settlement structure

- **INE is central counterparty** to organize settlement
- INE settle with members;
- Members settle with clients, oversea special participants, oversea intermediaries;
- Oversea special participants, oversea intermediaries settle with their clients.

3. Settlement principles

- Currency CNY;
- Deposit policy

Transaction deposit, settlement deposit(with minimum balance requirement)

- Non-liability settlement policy

All daily net profits, deposit, fees, taxes, settlement payments would be made in an one-time transfer.

3. Settlement principles

- Entrustment settlements

For oversea special participants: can only assign one member for settlement.

For oversea intermediaries: assign members or oversea special participants for settlement.

4. Deposit management

- INE will designate a number of commercial banks as futures margin designated depository banks.
- Crude oil futures related margin accounts can only be set up in the INE designated depository bank.
- the qualification of INE futures depository business:
(1) For domestic clients (2) For foreign clients
- Foreign banks will be introduced as depository banks in time to provide depository services for foreign investors.

4. Deposit management

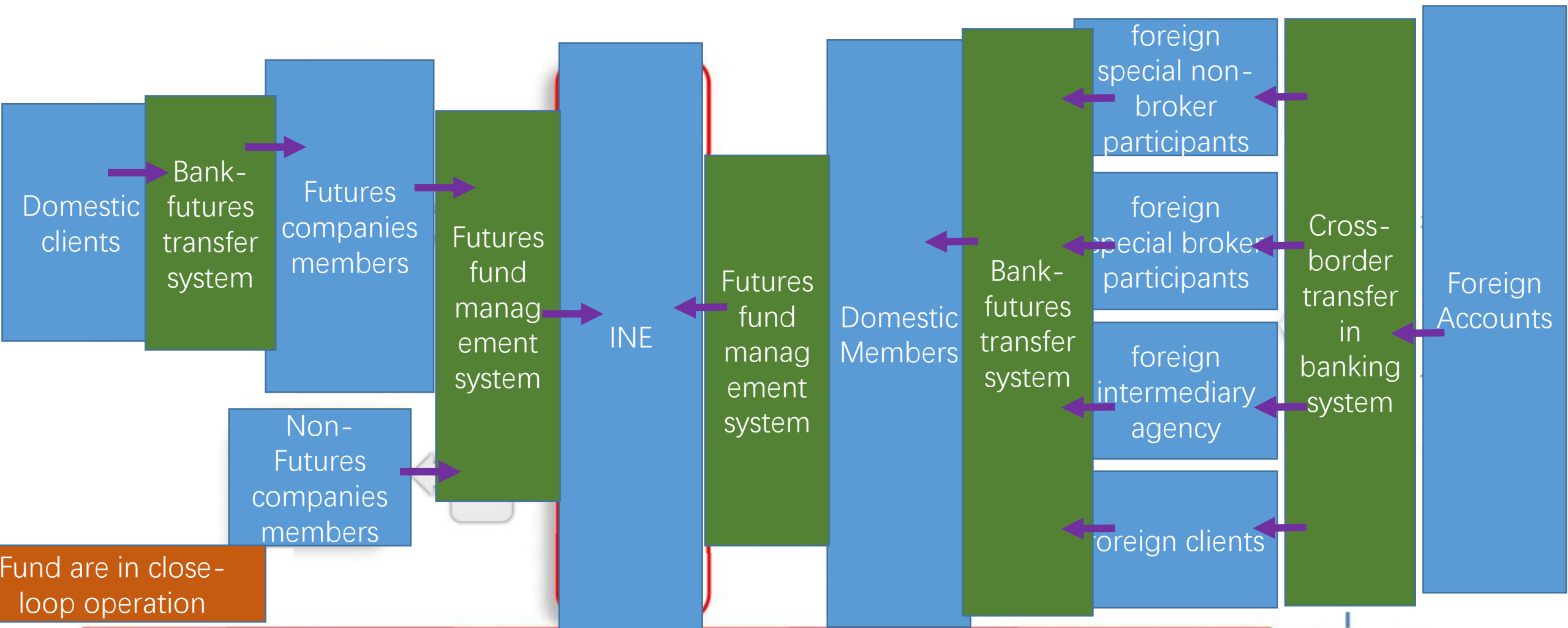
Notice of designated depository bank for depository business in INE(2017.5.28):

ICBC, the Bank of communications, the China Construction Bank, the Bank of China, the Agricultural Bank of China, the Pudong Development Bank of Shanghai, the Bank of Shanghai, China Everbright Bank, China Merchants Bank, CITIC Bank, China Minsheng Bank and Ping An Bank are the designated depository banks for deposit management of the domestic customers.

4. Deposit management- - -depository bank account setting

Object	The designated account of the depository bank	
INE	Special settlement account	CNY, Foreign Currency, opened at designed location
Members	Special deposit account	CNY, Foreign Currency, opened at designed location called special fund account
Overseas brokering agency Foreign special broker participants Overseas intermediaries Overseas trader Foreign special non brokerage participants Overseas legal persons and natural persons	Special futures settlement account	CNY futures settlement account Foreign exchange accounts of foreign institutions / individuals
Domestic clients	futures settlement account	CNY only

4. Deposit management-money transfer



4. Deposit management- - -Account management

INE: For the deposit from members:

- Implement account management
- Setting up an internal account for each member
- establishes a separate account for the each member who receives a special overseas participant entrustment to settle accounts.
- Settlement risk control: according to each detailed account

4. Deposit management- - -Account management

Members: For the deposit from oversea special participants, oversea intermediaries

- Implement account management
- A comprehensive fund account is opened within the name of an overseas intermediary or an overseas special broker, allowing it to merge the funds of one and more overseas customers into the comprehensive capital account.
- Unified settlement and risk control through consolidated fund accounts

Members, oversea special participants, oversea intermediaries: For the deposit from clients

- Implement account management
- Setting up an internal account for each customer

5. Daily settlement- electronic money in/out

Direction	Currency	The time of application	Assessment by INE
Money in	CNY/ Foreign exchange	Trading period	Automatically and real time
Money in	CNY/ Foreign exchange	Other periods	manual
Money out	CNY/ Foreign exchange	All time	Uniformed processing after market close

5. Daily settlement

- **Crude oil standard warehouse receipt :**

Start-up method: standard warehouse receipt-> hand up, collect

Base price for market value: by the futures settlement price of the contract the most recent month of delivery.

Discount rate: Deposit should not be higher than 80% of the market value of standard warehouse receipt.

- **Foreign funds:**

Start-up method: member service system->electronic money in/out

Base price for market value: mid prices by China Foreign Exchange Trading Center

Discount rate: by INE announcement

So, the amount after discount=the amount of foreign exchange * mid price * discount rate

5. Daily settlement

- There is daily change in the value of assets used as a margin
- The maximum proportion of other assets other than foreign exchange assets **shall not exceed 4 times** that of monetary fund.
- Monetary fund value = CNY + Foreign exchange after discount

6. Settlement risk management- deposit

- The energy center develops different trading margin standards according to the different stages of the operation of futures contracts.
- The INE can adjust the level of trading deposit according to the market risk situation by announcements.

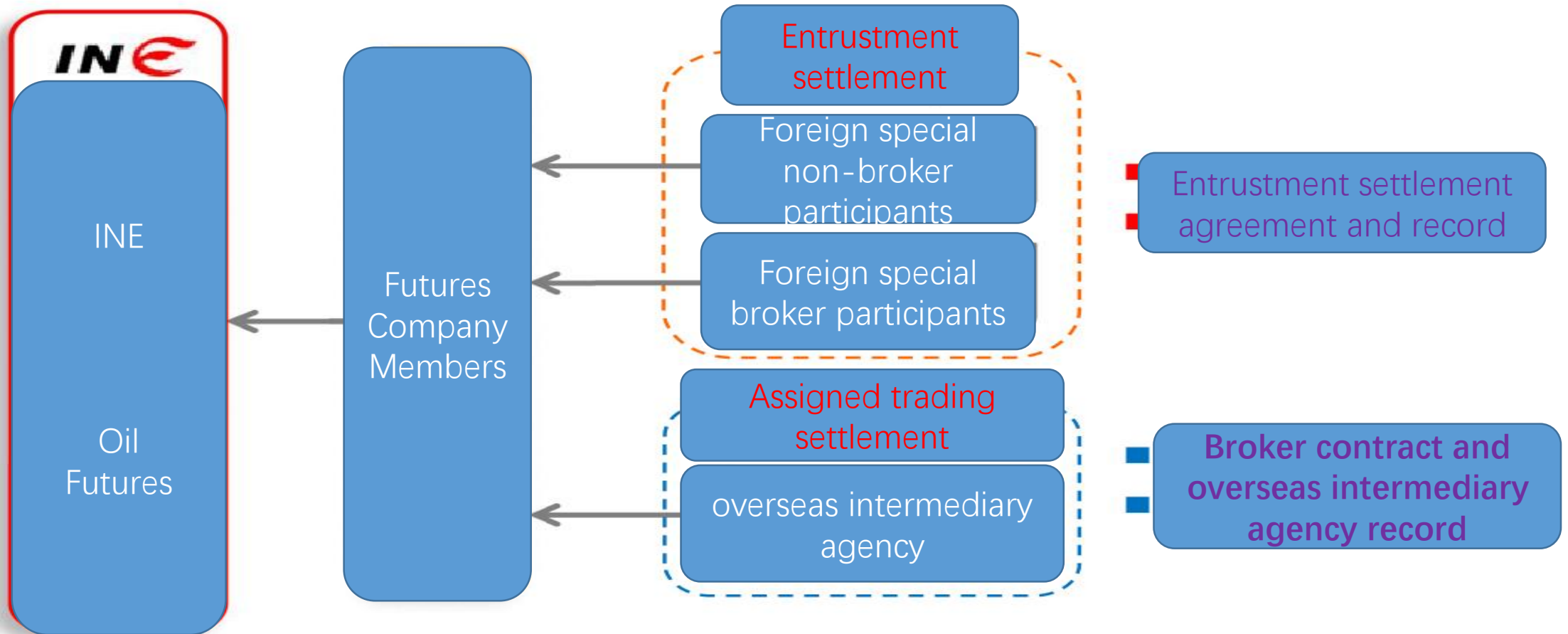
	Period	Deposit rate
Oil Futures Contract	After listing	5%
	Since 1 st trading day of the month prior to delivery month	10%
	Since the date of 2 trading days before last trading day	20

6. Settlement risk management- deposit

Huge position on one side

- Applicable : The same customer Bi-directionally hold of the same variety in the same member, overseas special broker participant and overseas intermediary agency. Non Futures Company members and overseas special non broker participants have two-way holdings.
- Not Applicable: After the closing the fifth trading days before the last trading day closed

7. Entrustment settlement



Settlement risk management- settlement deposit

	Minimum balance
Members	2 million CNY
Non-members	0.5 million CNY

entrustment settlement	Minimum balance
1, for member who accept each foreign special broker participants for entrustment settlement	+ 2 million CNY
2, for foreign special broker participants who accept each overseas intermediary agency for entrustment settlement	+ 2 million CNY
3. For member who accept each foreign special non-broker participants for entrustment settlement	+ 0.5 million CNY\
4, for member who accept each overseas intermediary agency for entrustment settlement	+ 2 million CNY

Settlement risk management

- Real-time settlement: the INE will make real-time settlement in the intraday, and notify the members with insufficient margin to increase the margin in time.
- Additional margin: at the end of the settlement of the day, the energy center issued an additional margin notice and deducted from the special fund account of the member when the member's reserve requirement in any detail account of the energy center is lower than the minimum balance requirement. If the amount of the additional margin can not be fully deducted, members should add up to the minimum balance before the market opening of the next trading day. If it still not met, INE would limit the opening of a new position and implement forcible closing position.
- Additional monetary funds of settlement: at the end of the settlement of the day, when any member's specified account reserve is less than the minimum balance of the settlement reserve, INE initiates request for additional monetary fund of settlement. If the request is not met on time, INE can make it through forced exchange of foreign exchange.

After daily settlement, for any specified account of member:

- Settlement deposit $<$ Minimum requirement \rightarrow add CNY deposit \rightarrow add foreign exchange funds, if not enough \rightarrow add funds before next market opening to meet the minimum requirement, if not enough \rightarrow if not enough, minimum requirement $>$ settlement deposit > 0 , can not open new position; settlement deposit < 0 , forced closing.
- CNY fund $<$ Minimum settlement deposit requirement \rightarrow add CNY deposit \rightarrow add funds before next market opening to meet the minimum requirement, if not enough \rightarrow if still not enough, forced foreign exchange settlement may be initiated by INE

8. Member settlement

- 1,Pre-settlement(make the first settlement after receiving trading data; decide the amount of buying/selling foreign exchanges)
- 2,Buy/sell foreign exchanges (Make buying/selling foreign exchange application to bank. The bank adjusts the balance in relevant accounts. then the bank gives feedback)
- 3,settlement(according to the feedback, make another feedback, and send relevant data)

Member settlement – daily buying/selling foreign exchanges and forced buying/selling foreign exchanges

	daily buying/selling foreign exchanges	forced buying/selling foreign exchanges
Initiator	Member	INE
Trager condition	Futures trading profit and loss settlement, payment commission, delivery of funds, settlement of money and capital gap.	The minimum balance requirement of CNY reserves in the member settlement reserve is lower than the settlement reserve requirements.
buying/selling foreign exchanges account	Special deposit account for member	Special fund account for member
buying/selling foreign exchanges business	<p>buying: deducting the balance of RMB account and increasing the balance of US dollar account</p> <p>selling: reduce the balance of US dollar accounts and increase the balance of RMB accounts.</p>	Deducting the balance of US dollar accounts, increasing the balance of RMB accounts, and automatically transferring funds to the INE.

9. Delivery settlement - tax preserve settlement

- Due delivery: delivery period - five consecutive trading days after the last trading day.

Tax preserve settlement price: the arithmetic average of the last 5 settlement prices of the futures contract.

1 st delivery date	Sell side provide warehouse receipt, buy side submit willingness
2 nd delivery date	Delivery sides match
3 rd delivery date	Buy side provide funds, get list of goods
4 th and 5 th delivery date	Sell side provide invoice

- Convert futures to spots

Applicable - historical positions of all futures contracts in INE

The deadline for application – 3 trading days before the last trading day

Tax preserve settlement price: settlement price of the month contract on the first trading day before the application date.

Delivery settlement-relevant policies

Unit	time	name	Main content
Ministry of Finance and the State Administration of Taxation.	2015/4/8	Notice on the value added tax policy on delivery of crude oil and iron ore futures	Crude oil futures delivery business temporarily exempt from value-added tax.

Invoice cycle:

- (1) sell side's assigned member's settlement representative open invoice to sell side's assigned member
- (2) sell side's assigned member open invoice to INE
- (3) INE open invoice to buy side's assigned member.
- (4) buy side's assigned member open invoice to buy side's assigned member's settlement representative