Appendix 3

# Fuel Oil Futures Delivery Rules of the Shanghai Futures Exchange

# (Amended)

# Chapter 4 DELIVERY DEFAULT

**Article 48** Any of the following acts shall constitute a delivery default:

(i) The seller fails to deliver the required amount of the bonded standard warrants within the prescribed delivery period;

(ii) The buyer fails to make payment as required within the prescribed delivery period; or

(iii) Other conducts the Exchange deems as delivery default.

**Article 49** The following formulas shall be used to calculate the delivery default quantities of the buyer or the seller in a futures contract:

The delivery default quantity of the seller (lots) = the bonded standard warrant quantities due (lots) – the bonded standard warrant quantities delivered (lots);

The delivery default quantity of the buyer (lots) = (payment due – payment made) ÷ (1 – 20%)÷ final settlement price ÷ contract size

In calculating the delivery default quantity of the buyer in a futures contract, a deposit of twenty percent (20%) of the value of the contract shall be reserved for penalties and compensation.

**Article 50** Once a delivery default occurs, the Exchange shall notify the defaulting party(the defaulter) and the non-defaulting party(the non-defaulter) before 16:30 on the day of the default. The notice of default is deemed to have been delivered after being sent by the member service system.

The non-defaulting party shall, by 11:00 on the next trading 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 51** In the event of a delivery default, the defaulter shall pay the non-defaulter a penalty of twenty percent (20%) of the contract value (calculated at the final settlement price) in default. The Exchange returns the payment for commodities or the bonded standard warrants to the non-defaulter to terminate the delivery.

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 day following the determination of default, which shall be held within seven (7) trading 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 day following the determination of default, which shall be held within seven (7) trading 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 52** 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 5352** In case both the buyer and the seller default, the Exchange shall terminate the delivery, and impose a fine of five percent (5%) of the contract value subject to default against the buyer and the seller respectively.

**Article 53**  When a delivery is terminated, the Exchange’s obligations to guarantee the delivery shall be dismissed.

**Article 54** If a member commits a partial delivery default, the bonded standard warrants or the payment the defaulting member receives may be applied to the resolution of the default.

**Article 55** If a Member deliberately defaults on physical delivery, it shall be subject to the provisions prescribed in the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 56** The member and the designated delivery storage facility involved in a default shall be obligated to provide evidences and supporting materials relating to the default. A member’s failure to provide such evidences and supporting materials will not impede the establishment of the facts of a default.

**Article 57** Any delivery dispute between a buyer or a seller and a designated delivery storage facility 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 58**  In the event of failure to perform a contract in full or in part due to a force majeure event, the buyer and/or the seller may be entirely or partially exempted from the default liability depending on the effects of the force majeure.