Appendix 4

# Bitumen Futures Delivery Rules of the Shanghai Futures Exchange

# (Trial)(Amended)

# Chapter 6 DELIVERY DEFAULT

**Article 67** Any of the following shall constitute a delivery default:

(i) The seller fails to deliver the required amount of 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 68**  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 standard warrant quantities due (lots) – the 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 69** 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.

Before 11:00 of the following trading day, the non-defaulting party shall submit in writing to the Exchange a notice to specify his intention to terminate or continue the delivery. Failure by the non-defaulting party to submit such notice of intention before the aforementioned deadline shall result in termination of the delivery.

**Article 70** 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 standard warrants to the non-defaulter to terminate the delivery.

The defaulting party shall pay liquidated damages of an amount equal to 5% of the total value of the contracts in default, and:

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

a) terminate the delivery, whereby the Exchange shall refund the payment to the buyer; or

b) continue the delivery, whereby the Exchange shall, on the trading day immediately following the determination of the seller’s default, publish a tender notice for purchase of standard warrants, and implement the tender offer within (seven) 7 trading days. The Exchange shall deliver the standard warrants thus purchased to the buyer. If the Exchange fails to purchase the required standard warrants through the tender offer process, the seller shall pay to the buyer compensations of an amount equal to 15% of the total value of the contacts in default, and the Exchange shall terminate the delivery after refunding the delivery payment to the buyer. All economic losses and expenses incurred in connection with the tender offer process shall be borne by the seller.

(ii) Where the buyer is in default, the seller may elect to:

a) terminate the delivery, whereby the Exchange shall return the standard warrants to the seller; or

b) continue the delivery, whereby the Exchange shall, on the trading day immediately following the determination of the buyer’s default, release a public announcement of auction of the standard warrants and host such auction within seven (7) trading days. The Exchange shall remit the proceeds of auction to the seller as delivery payment. If the auction fails, the buyer shall pay to the seller compensations of an amount equal to 15% of the total value of the contracts in default, and the Exchange shall terminate the delivery after returning the standard warrants to the seller. All economic losses and expenses incurred in connection with the auction shall be borne by the buyer.

The termination of the delivery shall relieve the Exchange from any responsibility of guaranty for the delivery.

**Article 71** The price of the offer to buy shall not be higher than 115% of the final settlement price. The price of the auction shall not be lower than 85% of the final settlement price.

**Article 7271** 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 72** When a delivery is terminated, the Exchange’s obligations to guarantee the delivery shall be dismissed.

**Article 73** If a member commits a partial delivery default, the standard warrants or the payment the defaulting member receives may be applied to the resolution of the default.

**Article 74** 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 75** 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 76** Any delivery dispute between a buyer or a seller and a designated delivery storage facility shall be resolved in accordance with the provisions prescribed in the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 77** 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.