

## ***Iran Mercantile Exchange Company (Public Joint Stock)***

### ***The Rules on The Futures Contracts Transactions***

In execution of paragraph 2 of the approval dated January 21, 2008 by the Securities and Exchange High Council and by virtue of paragraph 4 of article 4 of the Securities Market Law of the Islamic Republic of Iran ratified in 2005, the present Rules comprising 52 articles and 17 notes aimed at operating and trading futures contracts were, upon the proposal of the Iran Mercantile Exchange Company, approved by the board of directors of the Securities and Exchange Organization on Feb. 26, 2008.

#### ***Chapter One- Definitions***

##### **Article 1- Definitions:**

All the terms and words defined in article 1 of the Securities Market Law of the Islamic Republic of Iran ratified in November 2005, shall also apply to the meanings used in the existing rules. Definitions of other terms are provided as follows:

- 1- **The Last Trading Day** means the last day that a futures contract may be traded on the Exchange.
- 2- **Clearing House** means a unit which is responsible for settlement and clearing of futures contracts.
- 3- **Margin Call** means a notification given to increase the clients' margin up to the level of initial margin.
- 4- **Contract Value** means the underlying assets value in the futures contract at the time of opening a position.

- 5- **Futures Contract Trading Statement** means a document filed in the forms approved by the Exchange board of directors for the information of investors as to the status of Underlying Assets and specifications of the Futures Contract and is to be released to the public.
- 6- **Delivery Notice** means a statement provided by the clearing house for the information of buyers in regard to the delivery of goods to them.
- 7- **Buy in Market** means a market which is formed at the end of day-to-day transactions. In such market, the restrictions on prices and quantities of trades will change and the transactions therein shall not affect the calculation of the daily settlement price.
- 8- **Closing the Position** means the substitution of a particular position through the opening of a new reversed position contrary to the client's open position.
- 9- **Exchange** means the Iran Mercantile Exchange Company (Public Joint Stock).
- 10- **Marking to Market** means a process which is accomplished for the control of customers' margin at the end of the trading session by the clearing house in the manner described in these rules.
- 11- **Risk Statement** means a form which is required to be signed by the client prior to his engagement in the futures market indicating his/her own acknowledgment that he/she is fully aware of the existing risks in such transactions.
- 12- **Delivery Prepayment** means a fund that purchasers are required to deposit with the clearing house as upfront payment for taking delivery of commodities.
- 13- **Delivery** means the handover of underlying asset under the matured futures contract by the seller to the buyer.

- 14- **Cash Settlement** means the mutual agreement of contracting parties to release themselves from their obligations whereupon the final settlement is achieved in accordance with the last daily settlement price and the remaining funds are paid back.
- 15- **Normal Trading Session** means a session during which transactions are executed on the basis of continuous auction.
- 16- **Trading Session** means a session during which transactions in a futures contract are executed and includes "Opening Session", "Normal Trading Session" and "Trades Closing Session".
- 17- **Maintenance Margin** means a minimum of the level of the initial margin which is required to be available for each open position. Such minimum shall be determined in the specifications of each futures contract.
- 18- **Continuous Auction** means an auction which will commence after the opening session and will continue until the end of trading session.
- 19- **Single Price Auction** means an auction which is achieved after Pre-Opening Session to detect a rate for execution of registered orders and start of continuous auction.
- 20- **Client's Operating Account** means the client's banking account which is used for the purpose of funds settlement by the clearing house.
- 21- **Buyer (Purchaser)** means an individual who undertakes to buy the underlying asset at the maturity date and, he is referred to as the buyer/purchaser in terms of market practice.
- 22- **Underlying Asset** means the asset which is the subject of a listed futures contract.

- 23- **Trades Closing Session** means a session with which the market will close and during which the entry of new orders and/or cancellation of orders will not be possible and merely the orders which, through the price change, qualify for buying and selling price equality will be executed in this session.
- 24- **Pre-Opening Session** means a session during which there will exist the possibility of registration, change and cancellation of orders whereas the orders will not be executed.
- 25- **Daily Settlement Session** means a session during which the operations relating to the settlement of futures contract will take place.
- 26- **The Opening Session** means the session which includes the pre-opening session and the single-price auction.
- 27- **Trading Session** means the interval between the first and the last trading days in each futures contract as defined in the specifications of such contract.
- 28- **Warehouse Receipt** means a document issued by the warehouses approved by the Exchange certifying a person's ownership of a certain quantity of a commodity.
- 29- **Working Day** means the permissible business days determined by the Exchange board of directors for execution of futures transactions.
- 30- **Order** means the client's order to open the short or long position.
- 31- **Seller (Vendor)** means an individual who undertakes to sell the underlying assets at maturity date and he is referred to as the seller/vendor in terms of the market practice.

32- **Futures Contract** means a contract through which the seller undertakes to sell, on a given date, a certain quantity of a specific commodity at an-already-agreed price and, likewise, the other party thereto undertakes to buy such commodity with the described specifications. In order to avoid the breach of contract, both parties shall undertake in an express condition to deposit with the clearing house an amount of money as a margin and further pledge to adjust such fund suitable to changes in future prices. The clearing house is delegated, on their behalf to act, appropriate to changes, and deliver a portion of the margin deposited by each party as possessory lien to the other party and such party shall have the right to use this margin until when they can settle accounts at maturity date.

33- **Listed Futures Contract** means securities based on the commodity which has been listed by the Exchange Listing Board for the purpose of trading in futures on the Exchange.

34- **Daily Settlement Price** means a price which is calculated and announced on a daily basis by the Exchange to update accounts.

35- **Futures Committee** means a committee which is formed by the Exchange board of directors to discharge the duties specified in the present rules. The members of such committee shall act in accordance with the rules and with due observance of justice and impartiality. The procedural standards for the operation of such committee shall be established by the Exchange board of directors and the managing director of the Exchange shall be responsible for supervision over the good job performance of the committee.

36- **Certificate of Delivery Readiness** means a document which is presented by the seller in the futures contract and for information of the clearing house so as to indicate his readiness to deliver the commodity in the formats prescribed by the Exchange.

37- **Contract Month** means the month in which the futures contract will become mature.

38- **Customer/Client** means an individual who is active as seller or buyer in the market.

- 39- **Position** means an obligation which is the subject matter of a futures contract in the futures market.
- 40- **Open Position** means a "position" for which the final settlement has not been achieved in the futures market.
- 41- **Long Position** means a "position" in which the client, upon its opinion, shall undertake to buy the underlying asset stated in the futures contract.
- 42- **Short position** means a "position" in which the client, upon its opinion, shall undertake to sell the underlying asset stated in the futures contract.
- 43- **Margin** means a fund which is received from customers in the form of an express condition in the contract.
- 44- **Variation Margin** means a margin which, in the case of insufficiency of initial margin, is received from all customers having the Open Position to cover the price fluctuations risk. Such fund is required to be paid by customers upon the advice given by and within a time-limit set by the clearing house. The Exchange shall fix the amount to be so paid.
- 45- **Initial Margin** means a margin which is received to provide a guarantee for the fulfillment of customers' obligations aimed at opening a position. The amount thereof shall be fixed in the specifications of each futures contract.
- 46- **Compensatory Margin** means a margin that customers shall, upon receipt of the "margin call", have to deposit with the clearing house.

## ***Chapter Two- Specifications of futures contracts:***

**Article 2-** The underlying asset is chosen at the discretion of the Listing Board from among the products listed on the Exchange or commodities with strong cash market.

**Article 3-** The futures contract tradable on the Exchange as based on the listed futures contract, shall be specified by the Exchange board of directors. The specifications of futures contracts shall be approved by the Exchange board of directors.

**Article 4-** The specifications of futures contracts shall include the following:

- |                                     |  |
|-------------------------------------|--|
| 1- Underlying Assets                | 11- Initial Margin                             |
| 2- Listed Futures contracts         | 12- Maintenance margin                         |
| 3- Volume of Futures Contract       | 13- Maximum of Each Order                      |
| 4- Delivery Standards               | 14- Price Unit                                 |
| 5- Futures Contract Month           | 15- Trading Fees                               |
| 6- Limit of Daily Price Fluctuation | 16- Trading Symbol                             |
| 7- The "Trading Session" includes:  | 17- Trading Hours                              |
| - First Trading Day                 | 18- delivery prepayment                        |
| - Last Trading Day                  | 19- Authorized Limit of Open Trading positions |
| 8- Date of Delivery                 | 20- Penalties/Fines                            |
| 9- Location of Delivery             |  |
| 10- Minimum Price Change in Orders  |  |

**Article 5-** The Exchange shall have to inform the public through its official website of the futures contract "Trading Statement" at least within three business days prior to the trades opening.

***Chapter Three- Registration of Customers' Orders:***

**Article 6-** That group of the brokerage firms or brokers/dealers who have been licensed by the Organization to trade in futures and have been listed on the Exchange for such purpose shall be authorized to trade in futures. The provisions of the present rules shall be deemed to have been opened by the participants in this market.

**Article 7-** That group of the brokerage firms' representatives who have obtained the necessary qualifications as established by the "Organization" and the Exchange shall be allowed to access the trading site for execution of futures.

**Article 8-** The customer's code shall be required to have been received by the broker prior to carrying out trades at the customer's request. In order to obtain the customer's code, the broker shall receive the following documents from the customer:

- 1- For natural persons, copies of their birth certificates and national cards certified in conformity with the originals by brokers. For legal entities, the documents of establishment and holders of authorized signature as well as the copies of their birth certificates certified in conformity with the originals by brokers.
- 2- Completed application form for customer's code
- 3- "Risk statement" form signed by customer

**Note 1:** The code application form and the "Risk statement" shall be prepared and notified by the Exchange.

**Note 2:** The participation of the customers holding the trading code shall be subject to the completion of the "Risk Statement" form.

**Article 9-** The participation of a customer in the futures market shall be subject to opening a banking account by the customer for carrying out futures trades. The given bank or banks and the manner of opening accounts shall be announced by the Exchange.

**Article 10-** The brokers may receive the orders placed by customers in writing, by telephone through internet and/or by any other means determined by the Exchange. They shall, however, have to record all such orders in the Registration order forms prescribed by the Exchange.

**Article 11-** The brokers shall have to present the registration order forms of each customer in the order of filing serial numbers to the Exchange and/or the "Organization" as requested.

**Article 12-** Registration of the specific time and date, while completing the order forms, shall be obligatory on the first come first served basis for customers. Such procedure shall also be enforced as regards the orders received electronically or by telephone. The broker's shall have to execute the orders under the time priority rule of such orders.

**Article 13-** The broker shall, prior to the registration of each customer's order, have to ensure that the "Initial margin" has been deposited into the "Customer's Operating Account". Failing that, the broker shall be accountable for payment of the initial margin.

**Article 14-** The customer may place various kinds of orders as follows:

- a- Order at a specific price means an order which is to be executed at the given or at a higher price.
- b- Order at market price means an order which is to be executed at the market price.
- c- Order for loss avoidance means an order which is to be executed when the market price reaches a specific rate.

**Note:** Other types of orders shall, upon the proposal of the Exchange, be approved by the "Organization".

**Article 15-** Orders by validity fall under the following categories:

- a- Day order which is valid until the end of trading day for order registration
- b- Trading session order which is valid until the end of trading day for order registration
- c- Fill or kill order whereby the whole order is to be either executed or cancelled
- d- Good till cancel order which is valid until it is cancelled

e- Good till date order which is valid until the date specified in the order

**Article 16-** The trading credit limit for each customer and each broker shall be established by the Exchange board of directors.

#### ***Chapter Four- Method of Executing Transactions***

**Article 17-** The days and hours of executing trades on the Exchange and the duration of each "Trading Session" processes shall be fixed and notified by the Exchange board of directors.

**Note:** Changes in days and hours of transactions shall be notified to the public at least three working days before they become effective.

**Article 18-** The orders shall be executed in the priority of price and when prices are equal, in the priority of timing that orders have been entered on the trading site.

**Note:** The Exchange board of directors may in addition to the priorities stated in this article, propose, as the case may be, other priorities to the "Organization", for approval. Such modifications shall be notified to the general public at least within three business days before their effect.

**Article 19-** Trading in futures contract shall open with a "single price auction" and shall proceed with "continuous auction".

**Article 20-** The Exchange shall, one hour after closing the "Daily Trading Session" at the latest, calculate the settlement price pursuant to the existing rules and notify to the public.

**Article 21-** The daily price range fluctuation in each futures contract and the volume limit of each order shall be established at the time of listing a futures contract.

**Note:** Changes in price range fluctuation and volume limit of each order during the trading session of a futures contract shall be possible upon the proposal of the Exchange board of directors and approval by the "Organization's" board of directors. Such changes shall be notified to the general public at least three business days before their effect.

**Article 22-** Where availability of information or occurrence of an emergency materially affect the price of a futures contract and/or investors' decisions, the "Futures Committee" may stop the trades for one trading session at the latest and follow up the case to eliminate the grounds for trading halt.

**Note:** The trading halt for more than one trading session up to 3 business days shall be possible upon the order given by the Exchange managing director and exceeding this session upon the approval of the "Organization".

**Article 23-** In the case that the items referred to in article 22 herein occur, the "Futures Committee" shall identify the transactions carried out based on or affected by such items and report them to the Exchange managing director. The Exchange managing director shall announce the non-occurrence of such transactions.

**Article 24-** If the buyer's or seller's broker raises an objection against the transactions so executed, he shall submit his objection to the Exchange while stating the reasons for investigation two hours before the opening of the trading session for the following day. The decision taken by the Exchange in this regard shall be enforceable.

**Article 25-** The Exchange shall publish the statistical report on market transactions in accordance with the standards prescribed by the "Organization".

**Article 26-** The "Open Positions" of each broker or each customer shall not exceed the authorized limit set for such person.

**Note:** The authorized limit of "Open Positions" for each broker or each customer shall be established in accordance with the standards prescribed by the Organization.

**Article 27-** In case of suspicion about the use of inside information or pricing manipulation in transactions and/or where uncommon price changes are observed, the "Organization" may issue instructions to halt the trading symbol of the futures contract. In that case, the Exchange shall immediately stop such trading symbol and proceed to follow up the matter until the grounds for the halt have been removed. The reopening of the halted symbol shall be allowed by the approval of the "Organization".

### ***Chapter Five- Settlement Operations***

**Article 28-** Each customer shall, for the purpose of trading in futures, open an account named the "Customer's Operating Account" with a bank so introduced by the clearing house. At the time of opening the account, the customer shall permit the clearing house to handle such account for operations of "Accounts Updating" as per the existing rules.

**Note:** Transfer of funds for Settlement of customers' accounts shall be handled by the clearing house.

**Article 29-** The clearing house shall, appropriate to the number of "Open Position" of each customer and the amount of the "Initial margin" for each futures contract, take action to close the customer's account.

**Article 30-** The "Daily Settlement Session" shall start after the closing of transactions and shall continue for one hour before the closing of the day trading session for the following day.

**Article 31-** The clearing house shall, on the basis of the "Daily settlement price" handle the operations of "Accounts Updating" as follows:

- 1- With respect to the "Open Positions", the difference in the subscribed assets value under "the futures contract shall be calculated on the basis of the difference between the "daily settlement price" of the current day transactions and the previous day transactions and shall be credited in the customers' accounts.
- 2- If, upon performance of the calculations stated above, the customer's "Initial margin" drops below the limit of the "Maintenance margin", the clearing house shall send the "margin call" to the concerned broker.

**Article 32-** The brokers shall, immediately after receipt of the "margin call", inform the case to the concerned customer so that he shall take action for payment of the "Compensatory Margin" within the prescribed time-frame.

**Note 1:** The "Compensatory Margin" shall have to be paid within one hour before the end of the trading session for the following day at the latest.

**Note 2:** It shall be possible to create a new "open position" for customers who have received the "margin call" upon payment of the "compensatory margin".

**Article 33-** In the event that the customer does not take any action, until the end of the prescribed deadline, to pay the "compensatory margin", and correct the balance of this account up to the limit of the "initial margin", the concerned broker shall, upon the instructions of the clearing house, take action to close, all or any part of the customer's open positions for provision of the "compensatory margin".

**Article 34-** In the case the broker is unable to provide the compensatory margin out of the freezing the customer's trading position during the normal trading hours, he shall provide such fund in the compensatory market.

**Note 1:** The procedural standards for compensatory market shall be approved by the Exchange board of directors.

**Note 2:** If the closure of the customer's positions in the "compensatory market" does not cover his obligations, such obligations shall be met out of the funds held by the concerned broker and/or the customer's margins deposited with the clearing house.

**Article 35-** If the customer takes action to close his position, the difference in the contract value opposite to the value of the subscribed assets in the futures contract shall be credited into the customer's account on the basis of the last "daily settlement price".

**Article 36-** At the end of each trading day, the "daily settlement price" shall be calculated by employing one of the following methods:

- a- The "daily settlement price" is the weighted average of the price of trades carried out during the closing 30 minutes of the last trading session of that trading day.
- b- In the case that the trades volume during the session stated in paragraph a, above is less than 20 percent (20%) of total trades for the same day, the "daily settlement price" is the weighted average of the price of trades carried out during the closing one hour of the last "trading session" of that trading day.
- c- In the case the trades volume during the session stated in paragraph b, above is less than 20 percent (20%) of total trades for the same day, the "daily settlement price" is the weighted average of the price of daily total trades of the futures contract.
- d- If the futures contract is not accomplished during one trading day, the average price of the best sale and purchase order registered on the trading site within the approved range of the daily price fluctuation shall be calculated at the closing moment of the last trading day and considered to be the "daily settlement price".

- e- Where the calculation of the "daily settlement price" is not achieved through one of the above-mentioned methods, the price hereof shall be theoretically determined by the "Futures Committee". The method of theoretical calculation of "daily settlement price" shall, upon the proposal of the "Futures Committee", be approved by the Exchange board of directors.

**Article 37-** The clearing house shall, upon advising the "daily settlement price", send the settlement report to brokers until the end of the business hours of the same day. Such report shall contain the least amount of information relating to each broker with a breakdown of his customers as follows:

- 1- The number of existing "opening positions"
- 2- The number of positions closed during the day
- 3- The number of "positions" opened during the day
- 4- The amount of available margin
- 5- The amount of required "Initial margin"
- 6- Compensatory margin
- 7- Fees

**Article 38-** Upon receipt of the settlement report, the brokers shall have to examine this report and, if it contains any inconsistency, inform the Exchange of the matter in writing within 30 minutes before opening the market for the next business day. Failure to send the Exchange a report within the specified deadline shall be deemed to be the confirmation of the settlement report and waiver of protest by brokers.

### ***Chapter Six- Delivering Commodities and Final Settlement***

**Article 39-** Futures contracts shall, after the last trading day, enter the delivery session and the parties thereto shall take action for delivery processing.

**Article 40-** The delivery session shall start as of the business day after the last trading day and shall continue until the end of "contract month".

**Article 41-** The owners of the open "short position" shall, within five working days before the last trading day, deliver the "certificate of delivery readiness" and "warehouse receipt" to the clearing house, through the broker concerned.

**Note:** In case the foregoing documents are not submitted to the Exchange within the stated time-frame, the future contracts shall be settled in cash on the basis of the "Daily Settlement Price" for that day and the said owners shall be liable to the penalties specified in the future contracts.

**Article 42-** One business day after the end of the deadline for supplying the "certificate of delivery readiness", the clearing house shall send the "delivery notice" in the priority of timing to the customers holding open "long position" through the brokers concerned. The respective brokers shall have to notify the "delivery notice" to the customers immediately upon receiving it from the clearing house. Such advice shall contain the following:

- 1- Quantity and specifications of the commodity to be delivered
- 2- The name of commodity seller
- 3- Schedule and manner of delivery
- 4- Address of warehouses to deliver commodity and inventories in each warehouse
- 5- Name and address of the seller's representative with whom the buyer is to be in contact for delivery
- 6- The buyer's trades report on the futures contract containing the date for sale or purchase as well as the number of futures contract purchased or sold during the session
- 7- The details of "warehouse receipt"
- 8- Service charges and delivery fees
- 9- Other necessary information at the discretion of the Exchange

**Article 43-** The recipients of "delivery notice" shall, within three business days at the latest before the end of the "trading session", deposit 25% of the value of the subscribed assets in the futures contract in the clearing house account as the "delivery prepayment" on the

basis of the last "daily settlement price" and thereafter hand over the paying-in slip to the clearing house through the respective broker.

**Note:** If the said fund is not paid within three days before the end of the "trading session", the futures contract shall be "settled in cash" and the said recipients shall be liable to payment of penalties prescribed in the futures contract.

**Article 44-** The buyers who, during the three closing days of the "trading session", take action to open the "long position" shall have to pay 25% of the futures contract value" as "delivery prepayment".

**Article 45-** The owner of the "long position" shall, during one business day at the latest after the last trading day, credit the remainder of the futures contract into the clearing house account and hand over the paying-in slip thereof to the broker. The broker concerned shall, upon production of the paying-in slip to the clearing house, obtain the "warehouse receipt" thereof from that house.

**Note:** If the said fund is not paid within the given session, the futures contract shall be "settled in cash" and the party thereto shall be liable to payment of penalties prescribed in the futures contract.

**Article 46-** The clearing house shall, until the end of the following business day at the latest, pay the funds received from the buyer's broker to the seller's broker.

**Note:** If the buyer shall not, within the specified time-frame, take delivery of the commodity from the warehouse designated by the seller, all expenses and losses incurred thereafter shall be borne by the buyer.

**Article 47-** In the case where the buyer, upon receipt of the commodity, notices any difference in regard to the specifications of the commodity received with those described in the futures contract, he shall, within 15 business days at the latest after the end of the delivery session, notify any such difference in writing to the Exchange and Arbitration

Board. Failure to report the case within the specified deadline shall be deemed to be the confirmation of the fulfillment of obligations by the seller and waiver of protest by the buyer.

### ***Miscellaneous Provisions***

**Article 48-** The penalties prescribed in the contracts shall be deducted out of the cash in "customer's operating account" and, in case of insufficiency, out of the deposits and margins of the concerned broker deposited with the clearing house and shall be paid into the counterparty's account.

**Article 49-** If the given sessions herein coincide with a holiday, such day shall not be accounted for and the following day shall start to run as to be the given session.

**Article 50-** The directors and personnel of the Exchange companies and of the "Organization" as well as their wives and the children under their custody shall not have the right to buy and sell the "future contracts".

**Article 51-** If any of the provisions herein is violated by the persons concerned, the Exchange shall have to investigate their offences in accordance with the relevant rules or, report such violations, as the case may be, to the authorities of competent jurisdiction.

**Article 52-** The existing rules, where necessary shall be amended as follows:

- 1- Upon the proposal of the Exchange board of directors and approval by the "Organization" board of directors
- 2- Upon the proposal of "Organization" chairman and approval by the "Organization" board of directors