

Introduction to Iron Ore Futures Delivery Business

Dalian Commodity Exchange

February 2018

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- I Who can participate in the delivery business?
- II What goods can be delivered?
- III How can the buyer and the seller handle the delivery business?
- IV Method of Declaration of International Balance of Payments

Iron Ore Futures Contract



Product	Iron Ore
Trading Unit	100 MT/Contract
Price Quote	CNY/MT
Tick Size	0.5 CNY/MT
Daily Price Limit	8% of last settlement price
Contract Months	Monthly contracts (12 contracts per year)
Trading Hours	9:00 – 11:30 am, 13:30 – 15:00 pm Beijing Time, Monday – Friday, and other trading hours announced by DCE (21:00 – 23:30 pm)
Last Trading Day	10th trading day of the delivery month
Last Delivery Day	3rd trading day after the last trading day
Deliverable Grades	In accordance with DCE Iron Ore Delivery Quality Standard
Delivery Location	The warehouses and delivery locations designated by DCE
Minimum Trading Margin	10% of the contract value
Delivery Form	Physical delivery
Ticker Symbol	I
Exchange	Dalian Commodity Exchange

Note: The new quality standard F/DCE 1001–2017 will be implemented from the 1809 iron ore contract.

Physical Delivery for Iron Ore Futures

Duty-paid
delivery

The business process is unchanged for domestic participants.

Bonded
delivery

The overseas traders can exercise through the bonded delivery.

Delivery unit: 10,000 tons;
Delivery fee: CNY 0.5/ton;
Warehousing fee: CNY 0.5/ton/day;
Warehouse entry & exit fee,
quality inspection fee

Policy Basis for Bonded Delivery:

Time	Document	Reference Number
January 21, 2015	The General Administration of Customs issued the "Official Reply of General Administration of Customs on Agreeing to Launch Bonded Delivery Business for Iron Ore Futures".	Shu Jia Han [2015] No. 34
June 20, 2016	Dalian Administration of Customs issued the "Detailed Rules for Bonded Supervision over Iron Ore Futures".	Announcement of Dalian Administration of Customs [2016] No. 6
April 8, 2015	The Ministry of Finance and the State Administration of Taxation issued the "Notice of the Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policies for Bonded Futures Delivery Business for Crude Oil and Iron Ore".	Cai Shui [2015] No. 35
July 31, 2015	The State Administration of Foreign Exchange issued the "Notice of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration in Trading of Specified Domestic Futures Products by Overseas Traders and Overseas Brokers".	State Administration of Foreign Exchange Hui Fa [2015] No. 35
February 13, 2018	Policy Q&A (1st Issue) on the "Notice of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration in Trading of Specified Futures Products by Overseas Traders and Overseas Brokers in China" (Hui Fa [2015] No. 35)	Policy Q&A on the Official Website of the State Administration of Foreign Exchange

Who can participate in the delivery business?

Delivery shall be prohibited with respect to

any individual client's positions

or any non-integral multiple of delivery units of the positions.

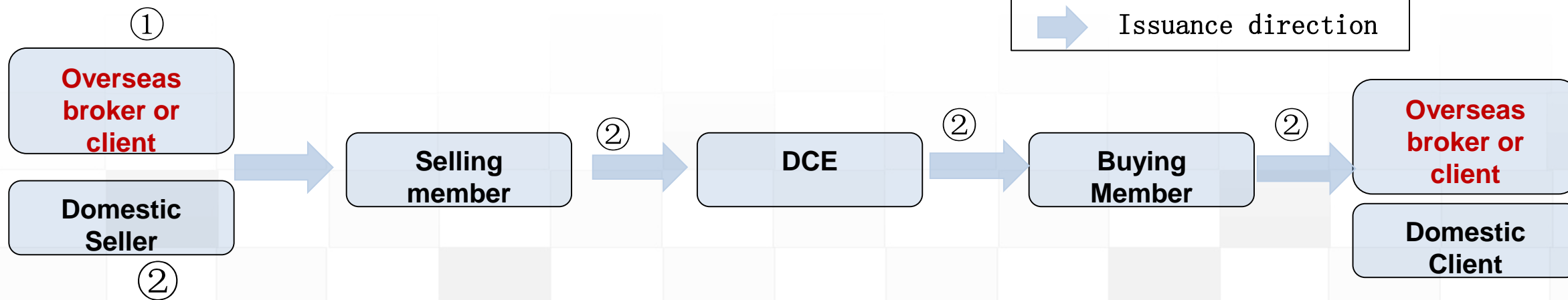
Delivery unit is 10,000 tons.

Otherwise,
20% fine

- **VAT invoice is needed for physical delivery:**

- Duty-paid: VAT special invoice/ Issued by the seller to the buyer
- Bonded: VAT common invoice/ Issued among the five parties

- ① Receipt voucher
② VAT common invoice
➔ Issuance direction

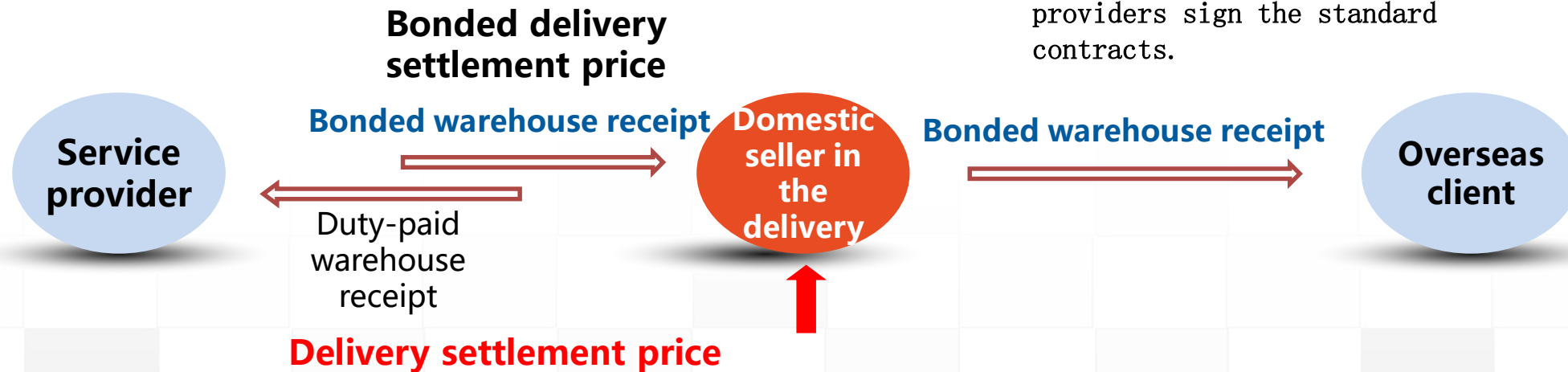


- The overseas client can not issue the VAT invoice, and can not handle it after receiving the bonded warehouse receipt.
- **Warehouse receipt switch**: The warehouse receipt service provider registers the bonded warehouse receipts and switch them to the duty-paid warehouse receipts held by the domestic seller in the delivery, who matches and delivers the switched bonded warehouse receipts to the overseas buyer. The process is actually two transfers of the warehouse receipts.

Payment for goods: Net amount settlement

Invoice: The two sides issue the invoices of full payment for goods to each other.

The participating members, clients and service providers sign the standard contracts.



Receiving the payment for the goods corresponding to “delivery settlement price – bonded delivery settlement price” in advance

The delivery can only be conducted through the members.

In the case of opening accounts and participating in trading directly through domestic futures companies,

- **handle the delivery business through the members.**

In the case of opening accounts and participating in trading in the 2.0 mode,

- **have the handling entrusted to the members by the overseas brokers.**

In handling the delivery business, the client information in the 2.0 mode will be known to the member.

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What goods can be delivered?

Quality requirement

- In accordance with the delivery quality standard (The new standard will be implemented on and after I1809 contract.)

Location requirement

- In accordance with the requirement for delivery location

Requirement for source of goods

- In accordance with the requirement for source of goods (only for bonded delivery)

What goods can be delivered? (Quality requirement)

Iron ore delivery quality standard (applied to I1809 contract and as of I1809 contract)

Target	Quality Standard
Iron (Fe)	$\geq 62.0\%$
Silicon dioxide (SiO ₂)	$\leq 4.0\%$
Aluminum oxide (Al ₂ O ₃)	$\leq 2.5\%$
Phosphorus (P)	$\leq 0.07\%$
Sulfur (S)	$\leq 0.03\%$
Trace elements	Lead (Pb) $\leq 0.02\%$ Zinc (Zn) $\leq 0.02\%$ Copper (Cu) $\leq 0.20\%$ Arsenic (As) $\leq 0.02\%$ Titanium dioxide (TiO ₂) $\leq 0.80\%$ Fluorine + Chlorine $\leq 0.20\%$ Potassium oxide (K ₂ O) + Sodium oxide (Na ₂ O) $\leq 0.30\%$
Grain size	Not more than 20% are broader than 6.3 mm and not more than 35% are finer than 0.15 mm

What goods can be delivered? (Quality requirement)

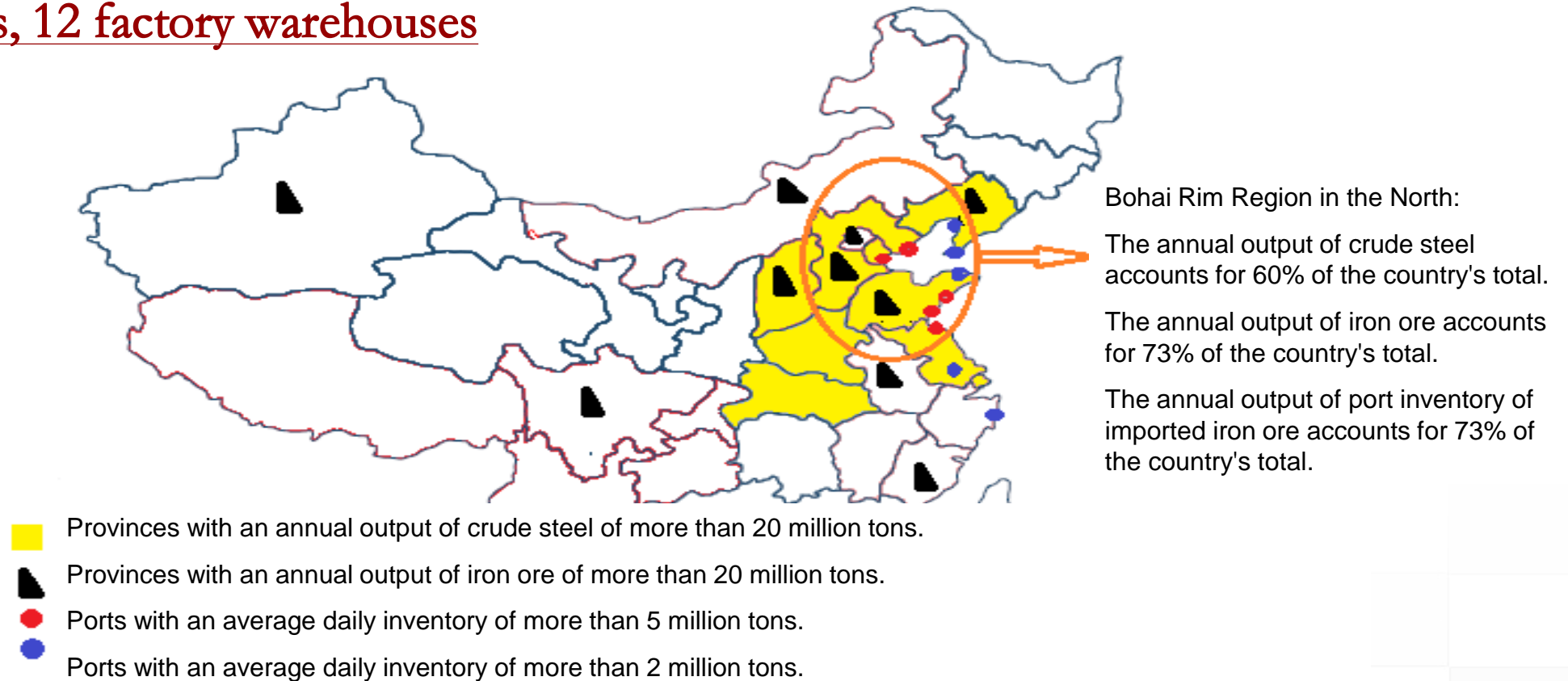
Iron ore delivery quality standard (applied to I1809 contract and as of I1809 contract)

Target	Tolerance	Premium/Discount (CNY/MT)
Iron (Fe)	$\geq 60.0\%$	$\geq 60.0\% \ \& \ < 62.0\%$, -1.5 per 0.1% decrease
		$> 62.0\% \ \& \ \leq 65.0\%$, +1.0 per 0.1% increase
		$> 65.0\%$, Pricing at 65.0%
Silicon dioxide (SiO ₂) + Aluminum oxide (Al ₂ O ₃)	$\leq 8.5\%$	0
Silicon dioxide (SiO ₂)	$\leq 6.5\%$	$> 4.0\% \ \& \ \leq 4.5\%$, -1.0 per 0.1% increase; $> 4.5\% \ \& \ \leq 6.5\%$, -2.0 per 0.1% increase (calculated accumulatively)
Aluminum oxide (Al ₂ O ₃)	$\leq 3.5\%$	$> 2.5\% \ \& \ \leq 3.0\%$, -1.5 per 0.1% increase; $> 3.0\% \ \& \ \leq 3.5\%$, -3.0 per 0.1% increase (calculated accumulatively)
Phosphorus (P)	$\leq 0.15\%$	$> 0.07\% \ \& \ \leq 0.10\%$, -1.0 per 0.01% increase; $> 0.10\% \ \& \ \leq 0.15\%$, -3.0 per 0.01% increase (calculated accumulatively)
Sulfur (S)	$\leq 0.20\%$	-1.0 per 0.01% increase
Grain size	Not less than 70% are finer than 0.075 mm	0

What goods can be delivered? (Location requirement)

Lianyungang, Rizhao, Qingdao, Tainjin, Jingtanggong, Caofeidian, Dalian (bonded)

8 warehouses, 12 factory warehouses

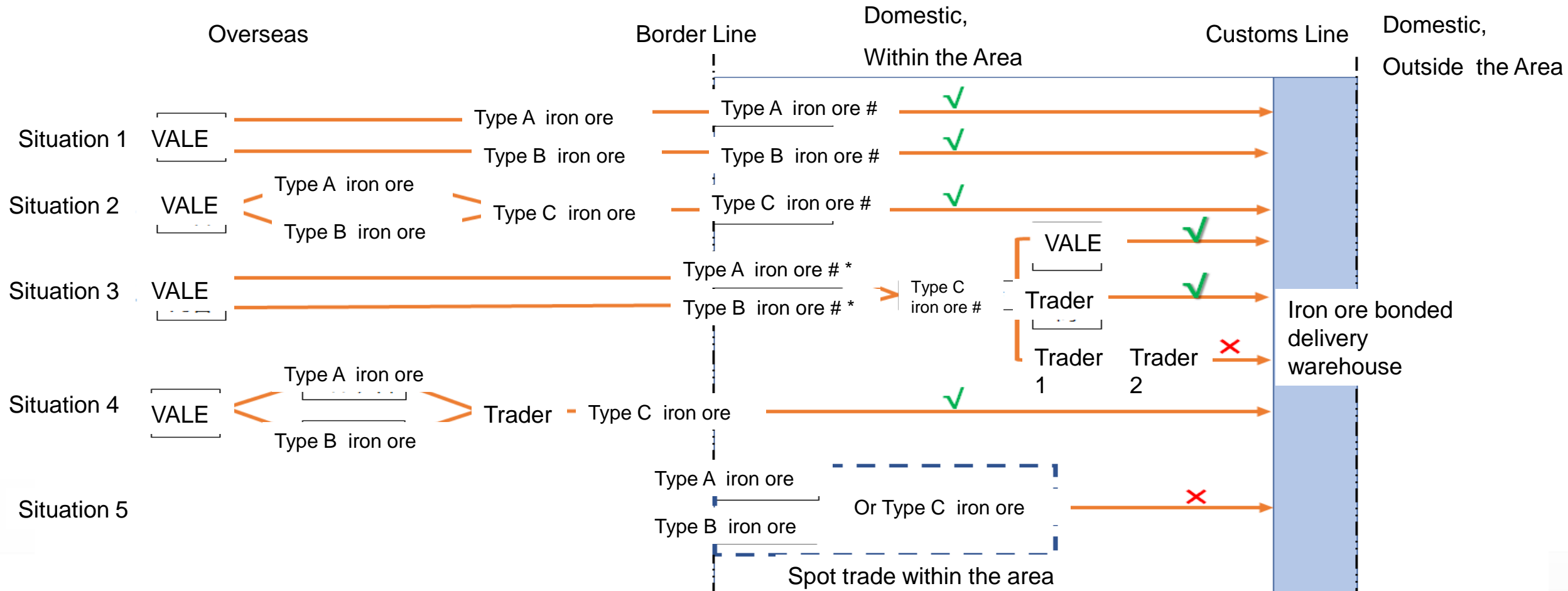


List of designated factory warehouses for delivery can be found on our official website:

<http://www.dce.com.cn>

<http://www.dce.com.cn/dalianshangpin/yw/fw/ywzy/gypjgywzy/jgckgl/1810695/index.html>

Registration of Bonded Warehouse Receipts: What goods can have the bonded warehouse receipts registered?



Note: The goods from abroad shall have the clearance completed at the border or customs: # stands for customs clearance for import (with customs declarations required); * stands for customs clearance for export (with customs declarations required).

I) For A and B, the goods loaded into the warehouse for the first time shall be transported to the delivery warehouse directly after being imported by the owner from abroad.

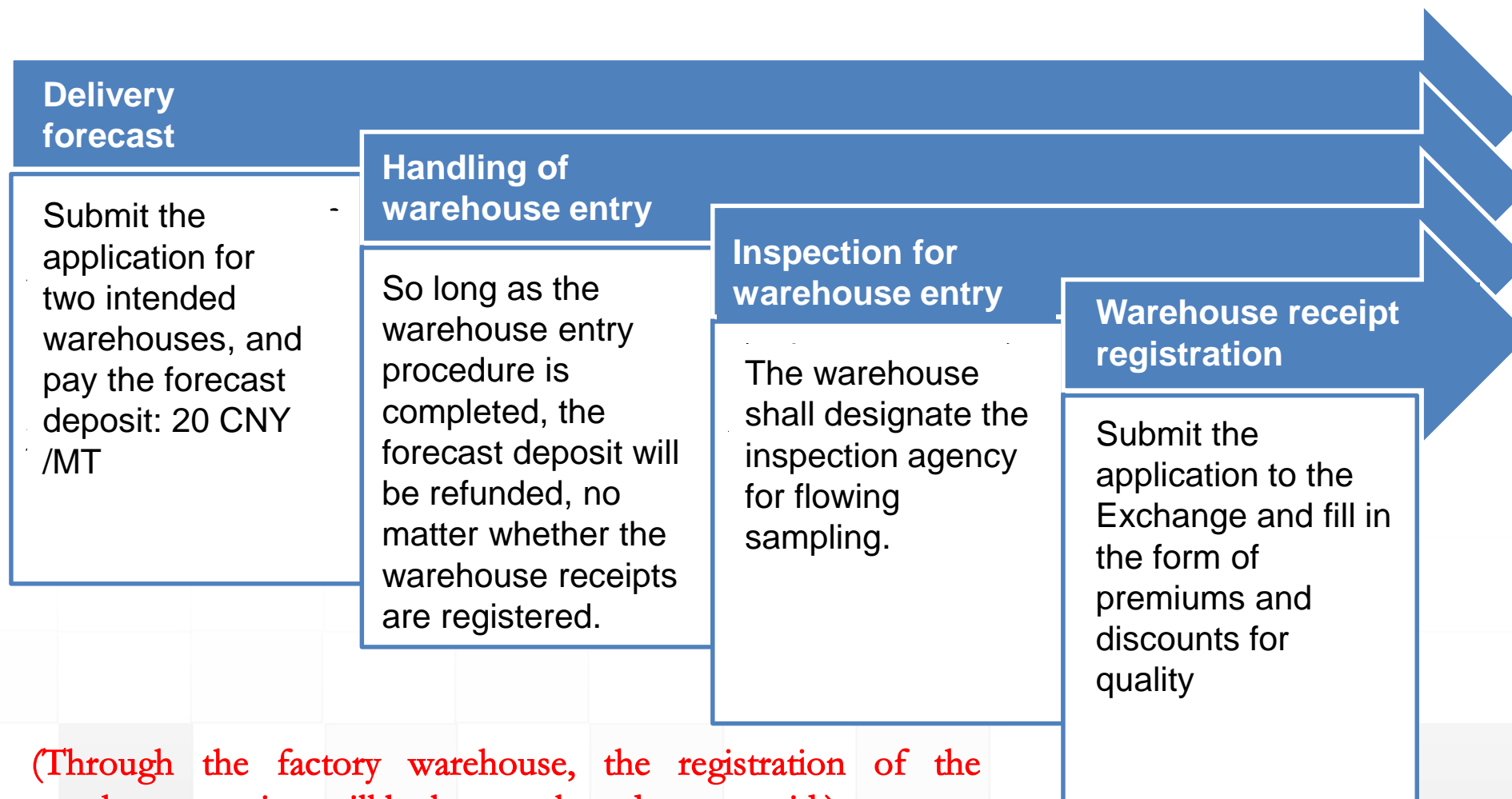
II) C: Mix-ore enterprises and the enterprises in the firsthand trade with them

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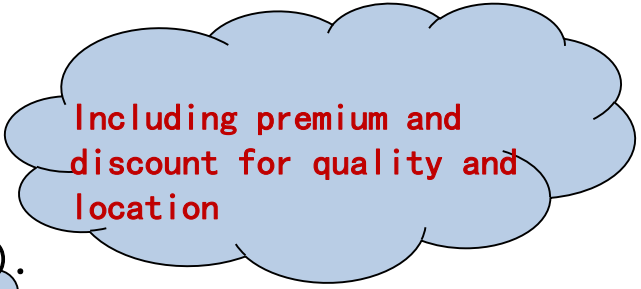
Registration of Warehouse Receipt on Par

Getting Warehouse Receipts Ready: (15 to 20 days ahead of schedule by the seller)



(Through the factory warehouse, the registration of the warehouse receipts will be less costly and more rapid.)

One-off Delivery Process



Including premium and discount for quality and location

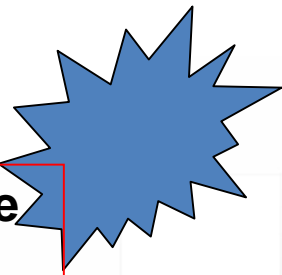
1st delivery day | The selling member submits the warehouse receipt.

2nd delivery day | The buyer submits the delivery intent (2 locations at most).
Matched by the Exchange

3rd delivery day | The buying member supplements the payments for the goods, and the Exchange transfers the warehouse receipt.

Bonded warehouse receipt: The selling member submits the invoice, and the Exchange transfer 100% payments for the goods.

Duty-paid warehouse receipts: existing process unchanged



If the selling member fails to submit the invoice prior to the closing of the market on the 7th trading day after the last delivery day, the Exchange shall deduct in advance the corresponding amount equal to 5% of the payments;

Bonded delivery settlement price = [(the delivery settlement price – the relevant costs) / (1 + the import VAT rate) – the consumption tax] / (1 + the import duty rate)

The bonded premium/discount = (the quality premium/discount + the location premium/discount) / (1 + the import VAT rate) / (1 + the import duty rate)

After delivery by the buyer, the warehouse receipts can be transferred, but after being deregistered, the warehouse receipts can only be used for customs clearance for import or export, and shall not be transferred repeatedly in the form of physicals in the bonded area.

Transfer of Bonded Warehouse Receipt



Settlement

- The Exchange conducts unified settlement for the payment for goods.



Rules for Transfer Price

- The transfer price shall be within the range of the price limit with the taxes deducted for the contract of the delivery month the closest to the day when the application for transfer is submitted.

江苏省南京市自来水总公司水费专用发票

发票联

发票代码 133021

发号 00011

户号:

册号:

付款期限:

小区 302 室

2010-02-28

本期抄见数		加原表用水量(吨)	
617			
水资源费		污	
吨	金额(元)	用水量(吨)	单价
70		40	0.4
3.3		6	0.1
本期应付金额(元)		上期结转零头(元)	
0.00		0.00	

玖拾壹元柒角整

期: 2010-03-08

收款单位(盖章有效): 江

居民生活用水费+居民生活污水处理费

Rules for Invoices

- When applying for transfer, the selling member shall submit the VAT common invoice to the Exchange.

成 00 133021 210*250000

科兴门窗有限公司深圳经销点
地址: 深圳市福田区华强北路1001号10楼1001室
电话: 0755-25555555 传真: 0755-25555555

项目定单结算单

客户名称	材料名称	规格	单位	数量	单价	金额	备注
客户名称	1						
	2						
	3						
	4						
	5						
	6						
	7						
	8						
	9						
合计人民币(大写) 万 仟 佰 拾 元 角 分							
备注: 本单为计算机打印, 不得涂改, 否则无效。如有异议, 请在收到本单之日起 3 个工作日内提出。							
客户名称: 江 苏 省 建 筑 工 业 局							
客户名称: 江 苏 省 建 筑 工 业 局							

Bonded Delivery Settlement Bill

- The bonded delivery settlement bill shall be issued to the seller and the buyer; after the owners of the goods pick up the goods, the bonded delivery settlement bills (for customs clearance) shall be issued to them.

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- **Policy Basis:** The Policy Q&A (1st Issue) on the “Notice on Issues Concerning Foreign Exchange Administration in Trading of Specified Domestic Futures Products by Overseas Traders and Overseas Brokers” (Hui Fa [2015] No. 35), and the to-be-released “Operational Guidelines for Foreign Exchange Administration in Bonded Physical Delivery of Iron Ore Futures”.

Domestic Member

- **Registration for Directory of FX Enterprises**
The registration shall be handled at the local administration of foreign exchange with the membership card in accordance with the requirements in Item 3 of Attachment 2 to the Document Hui Fa [2012] No. 38.
- **Restoration declaration shall be conducted in the settlement of the delivery payment with overseas traders or brokers.**

Domestic Client

- When handling the customs clearance for import, the buyer in the delivery shall conduct the restoration declaration for the delivery payment.

How should the members handle the declaration for the foreign-related receipt and payment of the delivery payments?

When the members carry out settlements for overseas delivery sellers,

Foreign currency depository banks designated by overseas clients

All settlements shall be handled through the foreign currency depository banks.

(Complete before **12:00** on T+1 day)

Fabricate a foreign-related payment with a sum of zero

Fabricate an inward remittance in the capital account

Fabricate an outward remittance in the current account

(Complete before T+5 day)

(The same time as above)

Fabricate a foreign-related payment with a sum of zero

Fabricate an outward remittance in the capital account

Fabricate an inward remittance in the current account

(The same time as above)

When the members carry out settlements for overseas delivery buyers,

Foreign currency depository banks designated by overseas clients



Condition: The business shall be only handled when the domestic buyer conducts the warehouse exit and customs clearance for import.

Declaration: The depository bank shall handle the declaration of domestic payment for the clients and the declaration of payment receipt for the futures companies or the Exchange.
Trading code: 121030, Transaction note: “iron ore futures”

The declaration for inspection and quarantine shall be conducted with the bonded delivery settlement bill;

The customs clearance shall be handled with the **CIQ**, the Special Settlement Bill for Customs Clearance (**Exchange**) and the Bonded Warehouse Receipt Inventory (**Warehouse**).



How to
handle
customs
clearance

Thank you!



大连商品交易所
DALIAN COMMODITY EXCHANGE

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