Introduction to Iron Ore Futures Delivery Business

Dalian Commodity Exchange
February 2018
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

<table>
<thead>
<tr>
<th>Product</th>
<th>Iron Ore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Unit</td>
<td>100 MT/Contract</td>
</tr>
<tr>
<td>Price Quote</td>
<td>CNY/MT</td>
</tr>
<tr>
<td>Tick Size</td>
<td>0.5 CNY/MT</td>
</tr>
<tr>
<td>Daily Price Limit</td>
<td>8% of last settlement price</td>
</tr>
<tr>
<td>Contract Months</td>
<td>Monthly contracts (12 contracts per year)</td>
</tr>
<tr>
<td>Trading Hours</td>
<td>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)</td>
</tr>
<tr>
<td>Last Trading Day</td>
<td>10th trading day of the delivery month</td>
</tr>
<tr>
<td>Last Delivery Day</td>
<td>3rd trading day after the last trading day</td>
</tr>
<tr>
<td>Deliverable Grades</td>
<td>In accordance with DCE Iron Ore Delivery Quality Standard</td>
</tr>
<tr>
<td>Delivery Location</td>
<td>The warehouses and delivery locations designated by DCE</td>
</tr>
<tr>
<td>Minimum Trading Margin</td>
<td>10% of the contract value</td>
</tr>
<tr>
<td>Delivery Form</td>
<td>Physical delivery</td>
</tr>
<tr>
<td>Ticker Symbol</td>
<td>I</td>
</tr>
<tr>
<td>Exchange</td>
<td>Dalian Commodity Exchange</td>
</tr>
</tbody>
</table>

**Note:** The new quality standard F/DCE I001-2017 will be implemented from the 1809 iron ore contract.
Physical Delivery for Iron Ore Futures

- **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**

The business process is unchanged for domestic participants.

The overseas traders can exercise through the bonded delivery.

### Policy Basis for Bonded Delivery:

<table>
<thead>
<tr>
<th>Time</th>
<th>Document</th>
<th>Reference Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 20, 2016</td>
<td>Dalian Administration of Customs issued the &quot;Detailed Rules for Bonded Supervision over Iron Ore Futures&quot;.</td>
<td>Announcement of Dalian Administration of Customs [2016] No. 6</td>
</tr>
<tr>
<td>April 8, 2015</td>
<td>The Ministry of Finance and the State Administration of Taxation issued the &quot;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&quot;.</td>
<td>Cai Shui [2015] No. 35</td>
</tr>
<tr>
<td>February 13, 2018</td>
<td>Policy Q&amp;A (1st Issue) on the &quot;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&quot; (Hui Fa [2015] No. 35)</td>
<td>Policy Q&amp;A on the Official Website of the State Administration of Foreign Exchange</td>
</tr>
</tbody>
</table>
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

![Diagram of delivery process]

- Overseas broker or client
- Domestic Seller
- Selling member
- DCE
- Buying Member
- Overseas broker or client
- Domestic Client

Issuance direction:

1. Receipt voucher
2. VAT common invoice

Directions:

1. Issuance direction
2. 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.
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
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)*
<table>
<thead>
<tr>
<th>Target</th>
<th>Quality Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron (Fe)</td>
<td>= 62.0%</td>
</tr>
<tr>
<td>Silicon dioxide (SiO2)</td>
<td>≤ 4.0%</td>
</tr>
<tr>
<td>Aluminum oxide (Al2O3)</td>
<td>≤ 2.5%</td>
</tr>
<tr>
<td>Phosphorus (P)</td>
<td>≤ 0.07%</td>
</tr>
<tr>
<td>Sulfur (S)</td>
<td>≤ 0.03%</td>
</tr>
<tr>
<td>Trace elements</td>
<td></td>
</tr>
<tr>
<td>Lead (Pb)</td>
<td>≤ 0.02%</td>
</tr>
<tr>
<td>Zinc (Zn)</td>
<td>≤ 0.02%</td>
</tr>
<tr>
<td>Copper (Cu)</td>
<td>≤ 0.20%</td>
</tr>
<tr>
<td>Arsenic (As)</td>
<td>≤ 0.02%</td>
</tr>
<tr>
<td>Titanium dioxide (TiO2)</td>
<td>≤ 0.80%</td>
</tr>
<tr>
<td>Fluorine + Chlorine</td>
<td>≤ 0.20%</td>
</tr>
<tr>
<td>Potassium oxide (K2O) + Sodium oxide (Na2O)</td>
<td>≤ 0.30%</td>
</tr>
<tr>
<td>Grain size</td>
<td>Not more than 20% are broader than 6.3 mm and not more than 35% are finer than 0.15 mm</td>
</tr>
<tr>
<td>Target</td>
<td>Tolerance</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Iron (Fe)</td>
<td>≥60.0%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Silicon dioxide (SiO2) +</td>
<td>≤8.5%</td>
</tr>
<tr>
<td>Aluminum oxide (Al2O3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Silicon dioxide (SiO2)</td>
<td>≤6.5%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Aluminum oxide (Al2O3)</td>
<td>≤3.5%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Phosphorus (P)</td>
<td>≤0.15%</td>
</tr>
<tr>
<td>Sulfur (S)</td>
<td>≤0.20%</td>
</tr>
<tr>
<td>Grain size</td>
<td>Not less than 70% are finer than 0.075 mm</td>
</tr>
</tbody>
</table>
What goods can be delivered? (Location requirement)

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

8 warehouses, 12 factory warehouses

Bohai Rim Region in the North:
- The annual output of crude steel accounts for 60% of the country's total.
- The annual output of iron ore accounts for 73% of the country's total.
- The annual output of port inventory of imported iron ore accounts for 73% of the country's total.

List of designated factory warehouses for delivery can be found on our official website:
http://www.dce.com.cn
Registration of Bonded Warehouse Receipts: What goods can have the bonded warehouse receipts registered?

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
I. Who can participate in the delivery business?

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IV. Method of Declaration of International Balance of Payments
Getting Warehouse Receipts Ready:  (15 to 20 days ahead of schedule by the seller)

Delivery forecast
- Submit the application for two intended warehouses, and pay the forecast deposit: 20 CNY /MT

Handling of warehouse entry
- So long as the warehouse entry procedure is completed, the forecast deposit will be refunded, no matter whether the warehouse receipts are registered.

Inspection for warehouse entry
- The warehouse shall designate the inspection agency for flowing sampling.

Warehouse receipt registration
- Submit the application to the Exchange and fill in the form of premiums and discounts for quality

(Through the factory warehouse, the registration of the warehouse receipts will be less costly and more rapid.)
One-off Delivery Process

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;
How to determine the bonded delivery settlement price?

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.

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

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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Requirements for Bonded Delivery Directory and Application

- **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,

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

Foreign currency depository banks designated by overseas clients

(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)

When the members carry out settlements for overseas delivery buyers,

Foreign currency depository banks designated by overseas clients

(Complete before T+1 day)

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

(Complete before T+5 day)

(The same time as above)
**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).
Thank you!

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