

# The Clearing House by law

## PART I – Definitions

**Article 1-** The terms and definitions used here in this bylaw are as follows:

Board of directors: It refers to the board of directors of *Tehran Metal Exchange*.

Clearing house: It is a division of administrative organization of TME responsible for settlement and clearing of the traded contracts in the trading floor of the exchange to be named as the abbreviation C/H here in this bylaw.

Clearing: settlement of the contracts between C/H members in cash or credit on a daily basis.

Clearing member: all brokers and other persons whose competence for membership according to rules and regulations has already been certified.

Transaction credit ceiling: the maximum ceiling of credit transactions for each broker determined and notified by the board of directors.

Deposit: Financial resources deposited by each member being side to the contract so as to guarantee the execution of his/her obligations against C/H in the form of cash, bank guaranty( unconditional) and securities as per regulations.

Margin: a sum, deposited by the clearing member with the C/H in order to obtain maximum credit ceiling for his/her transaction.

Initial margin: an amount deposited with the C/H by the clearing member at any time and for each traded futures contract which shall be returned to the member, having been settled in full.

Maintenance margin: an amount calculated during daily settlement of the futures transactions contracts and debited to the account of the clearing member.

Cleared contract: a contract settled by the C/H.

Account status: net daily financial status of each member broker's contracts which is notified to him/her in three status of debited, credited and/or settled.

Delivery time: a date on which the commodity subject to the contract shall be delivered.

Settlement price: a price calculated and quoted officially by the Stock Exchange Organization on a daily basis.

14- Operational account: an account utilized by the C/H for settlement of the funds.

15-C/H guaranty account: it is a bank account opened by the C/H for members to pay a certain amount to be used by the C/H in case of defaults by the members.

16-Trader: person or legal entity doing transactions to his/her own interest and at his/her own account.

Market maker: Legal entity undertaking by permission of the board of directors of the Exchange to sell or purchase a certain commodity in order to balance the supply and demand in the market through its broker in accordance with respective procedure.

Transaction certificate: a document issued by the C/H based on transaction certificate subject of the Article 48 of the “Transactions Bylaw” and the Article 8 of the same bylaw.

## **Part – II – Clearing Members / Membership Requirements in C/H, Members Duties.**

**Article 2-** Clearing members of TME are :

Broker companies

Traders and market makers according to the respective regulations

Other legal entities such as banks, financial and credit institutions as well as producers and manufacturers as per regulations.

**Article 3-** Clearing members are required to sign the membership agreement and to pay their membership fees as per regulations.

**Article 4-** The clearing member is obliged to provide all data correctly and transparently and is obligated to abide by all C/H regulations.

**Article 5-** In the event of conviction of any of the clearing members for any criminal charge or any conviction resulting in being denied of possession of his/her property or leading to denial of doing transaction( such as insolvency, confiscation or seizure of assets, or prohibition of special transactions) he or she is obliged to inform the issue to the Exchange within 20 days at the latest, otherwise his/her competence for membership shall be denied of by the Exchange.

**Article 6-** The clearing member is required to inform any changes or alterations in his/her legal corporate registry information to the exchange.

## **Part – III – Clearing process**

**Article 7-** The C/H performs as the seller against the buyer and performs as the buyer against the seller.

**Article 8-** In order to check the broker’s obligations and timely transmission of information by the exchange, the selling broker is required to inform and submit to the floor Supervisor

the information regarding the tradable commodity as well as the required documents including warehouse warrants prior to 12 am of working day before the offer via C/H system.

**Article 9-** After receiving the information subject of the Article 8, and the required inspections regarding observing the maximum ceiling of the deposits and other binding regulations, the C/H permits the broker and the floor supervisor to offer the commodity in the floor.

**Article 10-** The transaction having been carried out and certified by the supervisor, the settlement and clearing of the contract shall be implemented by the C/H issuing the following documents:

10-1 – the purchase or sale contract signed between the buying/selling broker and the C/H.

10-2 – the statement of the expenditures including broker's fee, the share of the exchange from the broker's fee as well as the exchange development fees.

10-3 – initial margin maintenance call for the futures transactions.

10-4 – fund payment call and the relevant charges of the contract and/or credit documents certificate

10-5 – certification of the draft issued by the selling broker for the transactions resulting in delivery.

10-6 – maintenance margin call in futures transactions

**Article 11-** The clearing house shall issue the daily account balance statement for the broker after the completion of the full settlement of the transactions.

**Article 12-** the clearing members are required to reimburse the funds specified by the C/H for settlement of the contracts to the respective bank account within the deadline stipulated in the article 14, considering the relevant regulations. The C/H is also bound to reimburse the account balance of the said creditor brokers to their banking accounts within the specified deadline taking into consideration the respective regulations.

**Article 13-** Should any of the brokers not take due action for settlement of his/her outstanding debts resulting from contractual obligations within the specified deadline, the clearing house shall fulfill the outstanding contractual obligations of the broker by providing Rial equivalent of the mentioned obligations at the prevailing daily price from the broker's accounts or his/her deposits with the C/H, and in case of insufficient account balance it shall indemnify the obligations of the respective broker from the guaranty account of the broker, and shall debit the relevant fines charges of the losses incurred, to the debit account of the broker.

**Note:** Failure in settlement of the debts subject of this article shall be subject to the regulations specified in the procedure for handling the brokers company as well as the bank guaranty account.

**Article 14-** Clearing and settlement of the contracts:

Each of the contracts traded in the Exchange are settled based on Type of the contract, expiry and delivery time as per follows:

14-1- Cash contract:

Payment for the value of the cash contract and respective delivery shall be carried out by each of the beneficiary brokers latest prior to the end of the administrative time of the working day following the execution of the contract.

14-2- Credit contract:

Payment for the total value of the credit contract at the determined expiry date the respective delivery shall be carried out by each of the beneficiary brokers latest 3 working days following the execution of the contract.

14-3- Forward contract:

Payment for the total value of the forward contract shall be done maximum 3 working days after the execution of the transaction and the delivery of the commodity subject of the contract shall be made by the beneficiary broker at the determined expiry date.

14-4- Futures contracts:

Reimbursing the fund of initial margin, specified within the contract, shall be until the end of the day of the transaction execution, payment for the maintenance margin is to be done, based on daily margin call, prior to 12 am of the following working day latest and payment for the transaction total price is made on the basis of the transaction unit price at the specified expiry.

The delivery of the commodity subject of this contract is made at the request of the buyer at the determined expiry date, otherwise it shall be cash settled.

14-5- Options contract:

Payment for the price of the call or put options is done by the buying broker, specified within the contract, until the end of the day of execution of transaction.

In case of execution of the option at the expiry date, the option contract shall be settled at the mutually agreed price.

Note 1: All of the abovementioned contracts are signed and executed by observing the Article 10 of Civil Code.

Note 2: Time schedule for the payment steps within the specified periods in the above Sections and the delivery expiry are as per regulations determined and notified by the board of the directors.

**Article 15:** The obligations of the buying broker in the cash and forward contracts:

The buying broker is obliged to reimburse the price of the contract to the sellers' account, as the Article 14 reads. In case of non-payment of the total price, the clearing house shall take the required action based on the Article 13, and the defaulting broker shall be prone to the following penalties:

15-1- After 3 working days, the buying (defaulting) broker is required to pay 25% of the total value of the contract on a daily basis until the full payment of the value is done, and maximum until 10 days later he/she must pay the amount of the contract in favor of the clearing house and to the C/H guaranty account.

15-2- In the event that the buying broker fails to fulfill his/her obligation according to the Section 15-1, the purchase of the said broker shall be null and void and all charges, costs, fees and duties of the Exchange shall be borne by the buying broker.

15-3- The buying broker's obligations in credit contracts shall be on the basis of the guaranties determined by the Clearing House.

Note: Failure in payment for the total price of the relevant contract, if occurred once in three month, shall be settled as per above, and in case of recurrence, besides implementing this procedure the defaulting broker shall be subject to the brokerage defaults Procedure.

Note 2: The obligations specified here in this Article are considered as proviso and are binding.

**Article 16-** The obligations of the selling broker in Forward contracts:

The selling broker is, according to the Article 14, required to deliver the commodity subject of the contract to the buying broker. In case of failure in on - time delivery he/she shall be subject to the following procedures:

16-1- The selling broker shall not be subject to the delay penalty up to 15 days after the delivery date specified within the contract.

16-2- After termination of 15 days mentioned in the Article 16, and failure in delivery of commodity, an amount equivalent to 2/5% of the total value of the undelivered commodity shall be paid in favor of the Clearing House and to the H/C Guaranty Account effective from the delivery date specified within the contract for a maximum period of two months calculable on daily basis.

16-3-After expiration of the specified period in the Section 16-2 and failure in delivery, the selling broker undertakes to pay monthly in favor of the C/H and to the C/H Guaranty Account, 3.75 % of the value of the undelivered commodity up to full delivery.

16-4- In any case, the C/H should carry out the settlement of the sale and purchase contracts which are subject to the Articles 15 and 16 in a manner that the total sum of the delay and the relevant fees do not exceed beyond 10 % of the transaction value.

16-5- In cash and credit contracts, as per Article 15, the obligations of the selling broker are dealt with as identical to that of the buying broker.

## **PART – IV – General regulations**

**Article 17-**The Clearing House shall reveal the information regarding the member's transactions solely at the request of the competent authorities through the Secretary General of the Exchange.

**Article 18-** In occasions when the total sum of deposits of each broker would not cover the risk of on-time delivery and /or the obligations pertaining to the traded contracts against the Clearing House, the C/H is bound to take action to seize the deposits and prevent the continuation of the transaction.

**Article 19-** In circumstances when the clearing broker is not able to fulfill his/her obligations regarding the contracts or the C/H discerns that the member is incapable of doing his/her obligations, the C/H may cease the continuation of the transactions of the member preventing him/her to enter the Trading Floor by power of the verdict of the "Violations Committee" (in which case it is dealt with urgently and out of turn).

**Note 1:** the cease of the transactions of the violating broker shall be notified to him/her.

**Note 2:** the Violations Committee may specify the conditions for removing the cease here in the context of the verdict.

**Article 20-** The followings may be deemed as clearing member's failure in fulfilling the obligations in view of the Clearing House, and are subject to delay penalties and the punishments stipulated within the Violations Bylaw :

20-1- the member violates the rules and regulations of the Clearing House or the exchange.

20-2- the member violates the implementation and observation of the requirements and the provisions of the membership agreement.

20-3- the member, do not fulfill the on-time delivery obligations, the on-time payment of the contracts values, fees, losses, delay penalties and do not confirm the retention of the credit documents notified by the Clearing House.

20-4- the member refuses to declare the seizure of his/her property or his/her bankruptcy.

**Article 21-** The broker is obliged to observe transaction credit ceiling and in case of failure in observance, the Clearing House shall cease the continuation of the transactions.

**Article 22-** The execution of any purchase order by the buying broker is subject to the confirmation of receiving 10% of the estimated price of his/her transaction or obligation. In case of the buyer's refusal to continue the transaction, the received price shall be returned to the buyer in accordance with Rules and regulations of the C/H after deducting the costs and the relevant delay charges.

**Article 23-**all the buyers are required to ship the transacted commodities in accordance with the procedure approved by the board of directors.

**Article 24-** All instructions required for implementation of the provisions of this bylaw are approved by the board of directors of the exchange and notified to the clearing members.

**Article 25-** The present bylaw comprises of 4 parts including 25 Articles and 7 Notes being ratified and approved by the TME Council on 29 May 2005. Any amendments or alterations thereto shall be implemented by the resolution of such Council.