

In the Name of God

The Instruction for Transactions of the Islamic Standard Parallel Salam Contracts (SPS) on Oil and Oil-related products in IME

Approved by the Board of Directors of The Securities and Exchange Organization
(Inclusive of 45 Articles and 24 Notes)

Chapter One- Generalities and Definitions

Article 1- Definitions

All terms and definitions described in the context of the article 1 of the Law of Securities Market of the Islamic Republic of Iran, enacted in 1384 (Iranian Calendar equal to the year 2005) by the parliament, and the Instruction for Trading of Commodity and Commodity-based Securities, passed by the High Council of the Securities and Exchange in 1389 (2010) shall be of corresponding meaning in the present Instruction. Other words shall have the following definitions:

- 1- **The Last Trading Day:** the last day on which it is possible to trade a Standard Parallel Salam contract (SPS) on the exchange.
- 2- **Clearing House:** a department of the exchange in charge of clearing and settlement of the Islamic SPS contracts.
- 3- **Member of the clearing house:** broker, broker/trader and any legal entity, admitted to the exchange as clearing member under such title as per regulations, who has submitted the required collateral to the clearing house.
- 4- **Public Offer Notice:** a notice published to inform the investors and customers of the terms and conditions of the underlying commodity and the Islamic SPS contract specification according to the forms approved by the board of directors of the exchange.
- 5- **Physical Delivery:** delivery of the underlying commodity of the matured Islamic SPS contract by seller to the holder of Islamic SPS contract Certificate.

- 6- Cash Settlement:** cash settlement of Islamic SPS contract shall be realized by announcement or action of any one of the parties to the Islamic SPS contract to waive taking delivery of the underlying commodity. Based on a proviso contract and within the period stated here in the present Instruction buyer and seller shall be entitled to relinquish from taking and making delivery of the underlying commodity. In case of refusal of each party to the Islamic SPS contract to deliver the underlying commodity, the seller shall be committed to pay the amount of the underlying commodity of the contract to the buyer on the basis of the closing price of the last trading day to settle the contract.
- 7- Operation Account:** a banking account used for settlement of the clearing members' transactions with the clearing house.
- 8- Daily Price limits:** the permitted price range for entering the orders of Islamic SPS contracts during each trading session.
- 9- Underlying Commodity:** the commodity subject of the admitted Islamic SPS contract.
- 10- Trading Period:** the period between the first and last trading day of Islamic SPS contract, of which the details and specifications shall be mentioned in the contract.
- 11- Working Day:** the authorized trading days determined by the board of directors of exchange in order to trade Islamic SPS contract.
- 12- Export Ring:** the trading session of the exchange for trading the commodities to be solely exported to the international target markets.
- 13- Islamic Standard Parallel Salam Contract:** it's a kind of Forward contract wherein a certain quantity of the underlying commodity is sold according to the specification of Islamic SPS contract. The value of the contract is paid in cash within settlement respite and the underlying commodity is delivered at the maturity. During the trading period of the Islamic SPS contract, the buyer is entitled to sell the SPS contract to others on a pro rata basis. These two contracts are independent of each other and the seller, by virtue of the Islamic SPS contract certificate, refers the buyer to the initial/original seller(National Iranian Oil Company NIOC) for physical delivery. In such event the holder of the certificate , shall be deemed to have accepted the responsibility of referring to the original seller and shall not be entitled to resort to the seller of the secondary transaction.

14- Closing Price: it's the price calculated and announced by the exchange at the end of daily official trading session according to the method determined in the present Instruction for each trading symbol.

15- Islamic SPS Certificate: it's a document issued by the clearing house and comprises the entire underlying commodity of the buyer out of each SPS contract. Such a certificate shall be the basis for trading during the trading period and by termination of the trading period it shall be deemed as basis for cash settlement or physical delivery of the Islamic SPS contract.

16- Contract Month: it is defined as the month during which the physical delivery is implemented according to the loading schedule notified by NIOC.

17- Settlement Respite: time respite for settlement of the values of Islamic SPS contract by the buyer as per contract specifications.

Article 2- the specification of the Islamic SPS contract is approved by the Board of Admission by proposal of the exchange. The specifications are enlisted as follows:

- ١- underlying commodity
- ٢- specifications of the underlying commodity and the relevant standard
- ٣- name and details of producers and suppliers
- ٤- contract size
- ٥- trading period of contract
- ٦- contract months
- ٧- currency unit of price
- ٨- delivery period
- ٩- delivery points
- ١٠- trading, settlement and delivery fees
- ١١- penalties
- ١٢- daily price limits
- ١٣- minimum price change
- ١٤- order and purchase limits
- ١٥- lowest and highest limits for physical delivery
- ١٦- accepted methods of settlement of transactions, settlement respites and additional conditions.
- ١٧- Further information and details at the discretion of Admission Board.

Note: all information and documents attached thereto shall be deemed to be inseparable part of the contract specification.

Article 3- the underlying commodity of the Islamic Standard Parallel Salam (SPS) contract shall be selected from among the exchange inventory of the admitted commodities. The prospectus of the underlying commodity is published together with the contract specification.

Article 4- the exchange shall put on display on it's official website the public offer notice of the Islamic SPS contract one working day prior to the commencement of the trading period.

The notice contains the followings:

- ١- the SPS contract specifications
- ٢- the date of commencement and expiry of the trading period
- ٣- the maturity date and the delivery schedule
- ٤- additional conditions of physical and cash settlement
- ٥- trading venue and session
- ٦- the information and papers to be submitted by buyers to NIOC for physical delivery, and the deadline for submission
- ٧- further information at the discretion of the exchange

Note: the opening price for the public offer of underlying commodity in the first trading day/session shall be announced to the exchange by NIOC prior to the commencement of the trading session and such price shall be published in the exchange official website.

Chapter Two- Orders and Trading

Article 5- the trading of the Islamic SPS contract shall be executed in both ordinary trading floor and the export trading venue as per regulations of the present Instruction. The trading ring shall be stated both in the definition of the trading symbol and in the public offer notice.

Article 6- transactions of Islamic SPS contracts shall be implemented through the member brokers of the exchange. All brokerage companies, licensed to trade in the spot market of the underlying commodity and submitted the required collateral to the clearing house for trading SPS contracts, shall be entitled to trade the Islamic SPS contracts of such underlying commodity.

Note: the amount of the collateral prescribed in the present article and the condition of submission shall be determined according to resolution of the board of directors of the exchange.

Article 7- admission of buyers and issuance of trading code for them in order to trade SPS contracts of oil and oil-related products and derivatives shall be executed as follows:

- ١- the client (customer) shall refer to the broker submitting the admission application form plus other documents of identification and admission as per regulations and according to the sample forms
- ٢- the broker receives the abovementioned form sheets and papers, controls the authenticity for the original, shall sign and seal the documents and submit them to the clearing house
- ٣- the clearing house shall submit the above forms and documents to NIOC
- ٤- NIOC while considering the competency and qualifications of buyers shall request them to provide further documents regarding the physical delivery. NIOC, upon confirmation of the competency of the buyer, shall issue the confirmation of the client admission for the exchange
- ٥- the clearing house shall issue trading code number for the customer as per confirmation of the NIOC and shall inform the broker of such.

Note 1: NIOC shall be entitled to set the purchase limits per customer for a trading day or for a trading period and inform the exchange of such. The exchange shall, as per information provided by NIOC, restrict clients codes.

Note 2: each client code shall be issued once and for all, however, NIOC, at it's discretion, shall be entitled to admit buyers based on underlying commodity.

Article 8- receiving/placing orders of the clients shall be in writing, by phone, via internet or other methods as per regulations

Article 9- the brokers are obliged to file the order placing forms of the clients according to the serial numbers and submit them by request of the exchange or the "Organization".

Article 10- to observe the rights of the customers it is compulsory to register the exact time and date while receiving the orders from customers. The brokers are bound to execute the orders according to time of receiving.

Article 11- the time and the dates of trading of the Islamic SPS contracts and duration of each session shall be set and informed by the board of directors of the exchange.

Note 1: any change or alteration in the time, date or duration of the trading sessions shall have to be published and informed to the public at least 3 working days prior to enforcement.

Note 2: in case of urgent alteration in trading session opening time or duration resulting from technical problems, the exchange shall have to inform and publish such alterations prior to enforcement through its official website, and to keep the record of reasons and related evidences and to submit them on request of the "Organization".

Article 12- execution of orders in the trading system shall be made according to price priority and in case of equality of the prices, the time of entering of orders in the trading system shall take precedence.

Note: the board of directors of the exchange are entitled to propose to the "Organization" further priorities in addition to the present priorities of this article. In case of approval it shall be published and informed to the public 3 working days prior to enforcement.

Article 13- all transactions of Islamic SPS contracts shall be executed in the form of brokers' contest (competition) during the trading session. In special cases, trading in time segments out of the regular trading hours of the exchange shall be authorized solely by approval of the board of directors of the "Organization"

Article 14- with regard to the procedures of trading of Islamic SPS contract, the provisions of the article 19 of " the Instruction for Trading of Commodity and commodity-based Securities" in Iran Mercantile Exchange(passed by the High Council of the Exchanges) shall have the force.

Article 15- the exchange shall, no later than 2 hours after closing of the daily trading session, determine the closing price of the trading session as follows and shall inform publicly in the official website of the exchange:

- a) in case of trading implemented during the same session the weight average of the executed transactions shall be announced and published as the closing price of the trading session.
- b) In case there is no trading in the daily trading session, the closing price shall be calculated and published according to the theoretical price formula set and approved by the Admission Board.

Article 16- any alterations to the daily price limits and/or order limits during the trading period of the Islamic SPS contract shall be enforced by proposal of the exchange and approval of the Admission Board. Such alterations shall have to be published and informed to the public at least 3 working days before enforcement.

Article 17- in case of existence of information or occurrence of emergency conditions influencing the price of the SPS contract, or directing the decisions of the investors, the exchange shall be entitled to halt the trading for one session and to inspect the issue to remove the causes of halt and to bring the trading session back to normal status.

Note: the stoppage of trading more than one session shall be authorized by approval of the “Organization”

Article 18- in case of realization of the circumstances prescribed in the article 17, the managing director of the exchange shall distinguish the transactions executed or influenced under such circumstances and shall announce non-realization and cancellation of those trades.

Article 19- in the event that buying or selling brokers object to the matched trades, they shall have to file their protest with the exchange stating the reasons no later than 2 hours prior to commencement of the trading session of the next day. The decision of the exchange shall be binding.

Article 20- the exchange shall publish the statistical report of the market transactions according to regulations of the “Organization”.

Article 21- in case of existence of any insider information or any manipulation of prices in transactions or abnormal changes in prices, the Organization shall be entitled to stop the trading of the trade symbol of the SPS contract. In such event the exchange shall immediately embark on halting the trade symbol and to follow up the issue to remove the causes of halt. The symbol shall be reopened by confirmation of the Organization.

Article 22- a certificate of Islamic SPS contract shall be issued for all buyers who purchase SPS contract.

Article 23- The holders of the Islamic SPS contract certificate shall be entitled to sell the SPS contract during the trading period maximum up to the amount stated in the certificate. By execution of transaction all sellers shall refer the buyers to NIOC for physical delivery.

Note: NIOC shall be committed to deliver the physical underlying commodity to the holder of the Islamic SPS contract certificate in the

contract month, and the holders of the certificates shall not be entitled to resort to a third party.

Chapter Three- Settlement of Trading

Article 24- settlement of transactions of Islamic SPS contracts shall be implemented during the settlement respite via the broker who has purchased the SPS contract. In any event, submission of the Islamic SPS contract certificate to buyer shall be subject to payment of the contract value by the buyer to the broker.

Note 1: the broker shall have to receive the full amount of the contract or the proportionate collateral for settlement of the value of the contract from the buyer prior to transaction.

Note 2: NIOC is member of the clearing house and bears responsibility for settlement of its transactions.

Article 25- in order to do full settlement of the transactions the member(s) of the clearing house are required to open the "operation account(s)" with the clearing house.

Note: the clearing house shall be entitled to supervise, monitor and to receive the reports of transfer of funds between accounts, and to have the right to withdraw, by power of attorney of clearing house member(s), from the above accounts in order to do clearing and settlement operation including withdrawal and transfer of the transaction amounts, losses, fees, and to do further duties vested in as per regulations.

Article 26- the clearing house shall, by the end of each trading day, calculate the net value of the amounts which is going to be paid to or withdrawn from the member broker of the clearing house, and shall transmit in the form of a notice for the member through the electronic system. Such amounts shall be realized by subtraction of total purchase value of the clearing house member from the value of its total sale. In calculation of the net value of the transaction, the tax, dues, fees and other deductions shall also be taken into account.

Article 27- the members of the clearing house are obliged to settle the values of the transactions of SPS contracts within the settlement respite.

Article 28- the NIOC transaction' amounts shall directly be paid to or be withdrawn from the NIOC operation account by the clearing house of the exchange. Accordingly the net value of the paid to or withdrawn amounts subject of the article 26 of the present Instruction shall be calculated for each member broker of the clearing house regardless of the trades that the member executed for NIOC.

Article 29- withdrawal of the balance in the operation account of the NIOC prior to completion of the cash settlement process of SPS contract shall be authorized solely after submission of the equivalent collateral to the clearing house.

Note: the amounts of collaterals prescribed in this article and the conditions for submission thereof shall be determined according to the resolution of the board of directors of the exchange.

Article 30- settlement of transactions shall be executed in cash and the payment method can be either as payment by the buyer, or seller's declaration as per exchange forms confirming direct settlement between buyer and seller. The accepted methods of settlement and the settlement respites shall be stated in the SPS contract specification. The member of the clearing house is obliged to settle the transactions according to provisions of the present Instruction and the terms and conditions mentioned in the contract specifications.

Note: in any manner, the fees, taxes levied and other legal deductions shall be subtracted in cash from the operation account of the member of the clearing house.

Article 31- in the event that the clearing house member does not fulfill it's obligations during the specified respite, the clearing house shall take one or whole set of following actions against the member:

- ١- To suspend the membership of the clearing house member notifying the exchange to cease the member to continue it's operation in the exchange,
- ٢- To compensate the obligations of the defaulting member from it's collaterals with the clearing house, and in case of insufficiency of the collaterals to sell the proportionate number of SPS contracts, purchased by the member, from it's account,
- ٣- To compensate the losses from the Guaranty Fund.

Chapter Four- Physical Delivery and Cash Settlement

Article 32- the Islamic SPS contract shall proceed to delivery period immediately after the last trading day and the parties to the contract are obliged to embark on making and taking delivery.

Article 33- the delivery period shall commence from the first working day from the last trading day and shall terminate at the end of the contract month.

Article 34- NIOC, as the seller of the Islamic SPS contract and also the holders of the SPS contract certificates, shall be entitled to announce their waiver of physical delivery of the underlying commodity to the clearing house of the exchange as of the end of the trading session of the last trading day through to 16:00 of next working day according to the procedure set forth by the exchange.

Note 1: in the event that a minimum limit is specified for physical delivery in the contract specifications, holding the lesser quantities of underlying commodity by the buyer at the end of the last trading day shall be regarded as the buyer's waiver of physical delivery of the underlying commodity.

Note 2: in the event that a maximum limit is specified for physical delivery in the contract specifications, holding extra quantities of underlying commodity by the buyer at the end of the last trading day shall be regarded as the waiver of the buyer of physical delivery of the extra quantities of the underlying commodity.

Note 3: the Admission Board shall be entitled to set a limit for waiver of the counterparties of physical delivery. Such limits shall have to be stipulated in the SPS contract specification.

Article 35- the clearing house shall take the following measures during the second working day from the last trading day:

1- the volume deliverable by NIOC shall be determined via the following formula:

The Deliverable Volume= Net selling volume sold by NIOC during the trading period – total sum of the contract waived by NIOC

Υ- the volume of the commodity requested by buyers for physical delivery is determined as follows:

The Requested Volume= total sum of the underlying commodity of buyers at the end of the last trading day – total sum of the contracts waived by the buyers

Υ- in the event that the deliverable volume/quantity is higher than or equal to the requested volume divided by total sum of the requested volume, the physical delivery shall be allocated and the SPS contracts waived by buyer and seller shall be cash settled according to the section 5 of the present article.

ξ- In the event that the deliverable volume/quantity is lower than the requested volume/quantity, the physical delivery to the buyers shall be made according to time priority. In such event, the SPS contracts waived by buyer and seller as well as the SPS contracts having not been allocated physical delivery according to time priority shall be cash settled as per section 5 of the present article

ο- The clearing house shall calculate the value of the cash settled SPS contracts on the basis of the closing price of the last trading day (product of the contract size in the closing price of the last trading day) and shall deduct the equal amount from the operation account of NIOC and shall pay the amounts to the operation account of each buying broker separately.

Note 1: in case of a buyer placing order with and purchasing from several brokers, the buyer shall have to introduce to the clearing house the broker that is entitled to collect the amounts of cash settlement into its operation account.

Note 2: in case that the full or partial value of the SPS contract is settled with the clearing house upon the acceptance of seller, in cash settlement the seller's deed of acceptance shall be handed over to buyer and the balance of the value declared on the deed and the value of the SPS contract shall be cash settled based on the closing price of the last trading day.

Note 3: the method of substantiation of the time priority subject of the present article shall be determined and notified by the exchange.

Article 36- the clearing house shall, by the end of the third working day from the last trading day, submit/transmit to NIOC the list of the SPS contracts resulting in physical delivery and the relevant brokers and

shall release at the same time the amounts of selling contracts in the operation account of NIOC to be drawn by NIOC.

Article 37- the holders of the SPS contract certificate introduced by the clearing house for taking physical delivery shall have to submit the information and documents required for physical delivery within the specified period.

Note: the required information and documentations and the specified respite mentioned in the present article shall be stipulated in the SPS contract specification and the public offer notice.

Article 38- in the event of buyer's failure in submission of the required information and documentations within the specified respite as prescribed here in the article 37, or refusal of buyer to take delivery of the underlying commodity in any manner, the transaction shall be cancelled and NIOC shall return the amounts paid by the buyer to him/her after deduction of the penalties by the end of the contract month.

Note: the penalty subject of the present article shall be 5 percent of the value of the contract. In the event that the price of the last trading day shall be less than the transaction price, the balance of the value of the SPS contract based on the transaction price and the price of the last trading day shall also be added to the prescribed 5 percent penalty.

Article 39- in case of submission of the required information and documents stated in the article 37 of the present Instruction by the buyer within the specified respite, NIOC shall declare and notify the loading schedule to buyer and exchange at the same time.

Note: the loading schedule shall have to be in a manner that the entire delivery of the Islamic SPS contract to be fulfilled and finished within the contract month.

Article 40- in case of failure or delay of NIOC in delivery of the sold underlying commodity, NIOC shall be obliged to compensate for the losses to the buyers according to the compensation terms and conditions attached to the SPS contract specification.

Article 41- NIOC shall report to the clearing house of the exchange the statistics of the physical delivery operation of the Islamic SPS contracts by the end of the contract month.

Chapter Five- Miscellaneous

Article 42- in case of concurrence of times and dates ,prescribed in the present Instruction, with official holidays of the Islamic Republic of Iran, that date shall be considered holiday and the next working day shall be regarded the prescribed date.

Article 43- in the event of any breach of the provisions of the present Instruction by respective persons, the exchange shall inspect the breach or shall report the case to the competent authorities.

Article 44- in view of the governance of the article 36 of the Law of the Securities Market of the Islamic Republic of Iran, enacted in November 2005, on the disputes between respective persons resulting from their professional activity, such disputes shall be dealt with in the Board of Arbitration set forth in the same law.

Article 45- in case of necessity, the present Instruction shall be amended as per following order:

- ۱- by proposal of NIOC and approval of the board of director of the Organization
- ۲- by proposal of the board of directors of the exchange and approval of the board of directors of the Organization.
- ۳- By proposal of the president of the Organization and endorsement of the board of directors of the Organization.