



Central Securities
Depository of Iran

CSDI & Commodity Exchanges

Bulletin

Vol. 4, Spring 2022

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CSDI & Commodity Exchanges



CEO Message

One of the most important responsibilities of Central Securities Depository of Iran is managing clearing and settlement processes and the risks associated with them.

Promoting the level of services provided by CSDI in these fields hinges upon outlining detailed and transparent mechanisms, automation of procedures and monitoring the accuracy of the work.

The present bulletin gives an outlook about the progress of activities at CSDI towards achieving our goals in the field of settlement of transactions in the commodity exchanges in order to provide a clear account of our performance, achievements and future plans.

In this bulletin, while providing the latest data on commodity exchanges in spring 2022, we also brief our dear audience on an analysis of market status from various perspectives, provide an insight into development

prospects, and anticipate challenges and offer possible solutions for operational risks to facilitate our services to the commodity markets.

I would like to take this opportunity to appreciate the dedicated support of all departments at Central Securities Depository of Iran in developing the necessary technical, operational and legal infrastructure.

Mohammad Baghestani
CEO & Board Member

Commodity Markets & **CSDI's Business**



About Commodity Market Trades

Spot Market Trades

The largest active market in the field of electricity-linked instruments, in terms of the number of contracts and distribution of customers, is the IRENEX spot market. The trade

processes in this market are primarily based on "supply" and "demand" like those in traditional markets, and trades are concluded under the group "Electricity and Renewables."

Derivative market

All trades related to electricity-linked instruments are concluded here in the form of fixed-term Salam contracts by taking these instruments as commodity-linked securities.

Salam contracts in the derivatives market are categorized into the following two classes:

Standard parallel Salam contracts:

This instrument is issued to finance upgrading power plants to increase electricity production or major maintenance operations.

Salam electricity contracts that are categorized into the two following markets:

Large Consumers Market: buyers in this market are power distribution companies and retailers. Since the trades at this market aim to direct electricity to the final consumers, the buyers are exempt from tax.

Wholesale market: buyers in this market are those customers with power consumption higher than 5 megawatts. Also, power retailers can be considered potential buyers in this market, who in turn can claim the Value-added tax (VAT) from the final consumers.

Other eligible securities:

Capacity Certificates: These types of securities are similar to the power subscription fees, and by purchasing them, potential buyers can buy electricity to a certain cap, but there is no compulsion to

buy up to a certain cap. However they are not obliged to purchase up to that limit.

Project Fund: It is a kind of financing fund that provides the financial resources for implementing a specific project. The project fund has obtained a green light from the Securities and Exchanges Organization to exist as a platform for collecting retail capital from the public and

allocating it to the projects defined in the fund's statutes. **Efficient Consumption Certificate:** These securities are used as an incentive to promote efficient fuel consumption. The consumer companies receive securities called Efficient Consumption Certificate that worths equivalent to the energy they saved and are allowed to sell these certificates on IRENEX.



Commodity Markets & **CSDI's News**



Record-breaking Transactions of Glass Certificates of Deposit at IME



“ Record-breaking Transactions of Glass Certificates of Deposit at IME

Iran Mercantile Exchange has achieved a record in total transactions of glass Certificates of Deposit, new figures reveal. Within the week ending on 13th of May 2022, the IME witnessed trade of 550 thousand 573 glass Certificates of Deposit with a total trading value of nearly 479.270 billion IR rials. On this floor, since glass started being traded on the IME in the framework of CODs on March 14, 2022 till present, one million 653 thousand 153 Certificates of Deposit have been traded which amounts to one million 653 thousand 153 square meters of glass.

According to statistical reports, the exchange traded 1.333 trillion IR rials of glass in total out of which the highest volume and value of transactions were recorded in early May.

Transactions of glass Certificates of Deposit take place in the form of a single-price auction. Hence, the pre-opening period starts at 12:45 and ends at 13:30, the time the single-price auction begins. Each Certificate of Deposit is equivalent to one square meter of glass.

The Certificates of Deposit of these symbols do not include second market transactions and following the contract, the buyer is obliged to receive its goods from the warehouse before the maturity date of the certificate of deposit is due.

The permitted price range fluctuations are equivalent to 10% of the base price announced by the supplier.

The buyer is obliged to consume the goods purchased in the domestic market and is not licensed to export the basic goods but is allowed to export the products.

The goods entering the warehouse are only glass sheets produced by the producing company and it can only be delivered to the warehouse by the manufacturer.

The maturity date of the traded certificates of deposit is Wednesday of the same week the contract concludes. The owners of the CODs have until next Sunday following the maturity date of the certificates to receive their goods from the warehouse.

Analytical & Statistical Report



DAILY SALES
REPORT

Part 1

SPOT MARKET

Value of Trades (million IRR)

Total	279,935,129
Settled	278,502,659
Cancelled	5,872,098
Number of Settled Contracts	2,562

Decision-making indicators

- The largest trading volume and settlement of trades were recorded in May 2022, while the highest number of trades was registered in June.
- In the first quarter of the current Persian calendar year starting on March 21, 2022, the value of transactions in the IRENEX international trading floor surpassed 181 thousand billion rials, while the value of trades in the local trading floor recorded in the same period was over 98 thousand billion rials.
- Six products were listed and traded for the first time on the IRENEX spot market.

Summary

Commodity-Linked Securities

Value of Trades (million IRR)

Standard Parallel Salam Contracts	30,263,983
Commodity-linked Deposit Certificates	55,431,740
Certificates of Electricity Capacity	4,356,121
Volume of Futures Contracts on Energy Exchange	70,183

Part 2

Decision-making indicators

- Spring 2022 marks the beginning of futures contracts trade on the IRENEX, with the value of trade for the Commodity-Linked Securities hitting 70 billion IR rials in the same period.
- The beginning of spring also marks the start of trading in Commodity-Linked Certificates of Deposit for sheet glass and an increase in the volume of total trading of the Commodity-Linked Certificates of Deposit by 41 thousand billion rials compared to the same period last year. Additionally, over 120 symbols have also been created based on this commodity.
- Since March 21, 2022, all trading of standard parallel Salam contracts was only related to those symbols listed on IRENEX.

IRENEX SPOT MARKET



Trading on IRENEX Spot Market

In this chapter, diverse types of trades on the IRENEX spot market and their settlement methods are to be illustrated. Also, all statistics related to these market trades are to be examined from different aspects.

Spot market statistics (million IRR)	Spring 2022	Spring 2021
Total value of trades	279,935,129	187,319,963
Total value of settled trades	278,502,659	136,957,254
Value of canceled trades	5,872,098	1,432,470
Number of total trades	2,581	2,381
Number of settled trades	2,562	2,026
Number of traded commodities	59	47

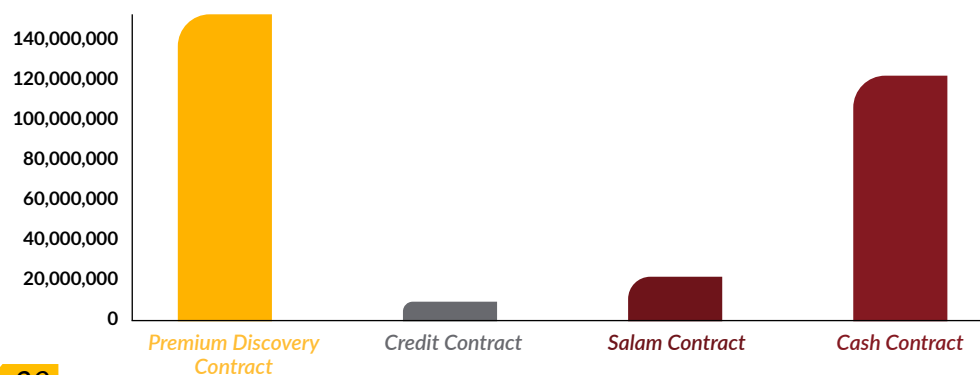


Value of All Types of Trades

According to "the Guideline for Trading Commodities and Eligible Securities on Iran Energy Exchange", contracts in the spot

market of the IRENEX are categorized into various classes in terms of "time payment" and "commodity delivery" conditions:

- Cash contract:** is an agreement in which the date of payment and delivery of the commodity or change in the ownership is determined on the date the trade takes place.
- Credit contract:** The commodity is delivered at the time of the agreement, and the payment takes place on the due date.
- Salam contract:** The commodity will be delivered at a specific time in the future; however, the payment takes place at the time of the contract.
- Premium discovery contract:** The buyer pays part of the transaction price to the seller at the time of the agreement; the remaining amount will be settled at a specified time in the future according to the details mentioned in the contract.

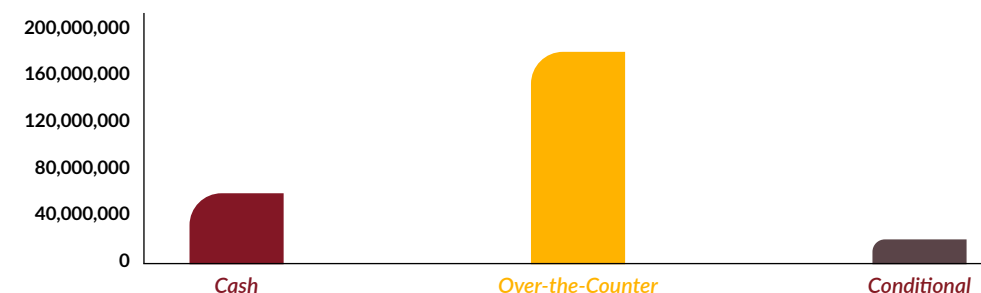


Value of Various Settlement Types

According to the instructions set by "Registration and Depository of Commodities and Eligible Securities" and "Clearing and Settlement of trades on Iran Energy Exchange," the responsibility of the

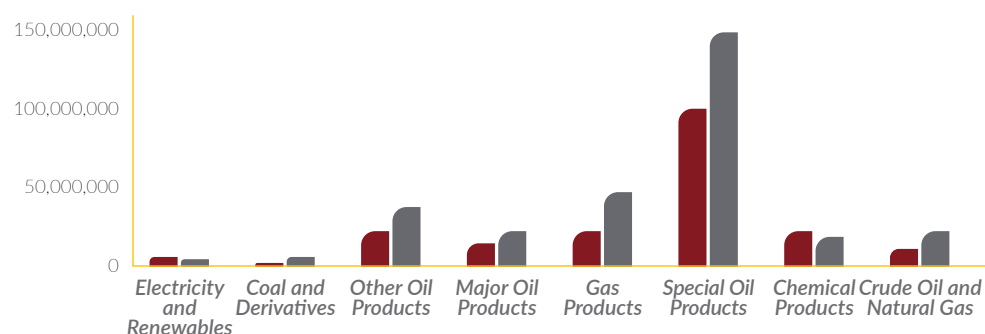
settlement operation rests with the buyer's brokerage firm. Based on the mentioned instructions, all methods of trade settlement for listed assets on IRENEX are as follows:

- Cash settlement:** In this method: The amount is deposited in cash within the settlement deadline.
- Over-the-counter settlement:** In this method, the OTC settlement document along with other necessary documents should be submitted to the clearing house within the settlement deadline.
- Guaranteed settlement:** This settlement method is carried out by presenting a bank guarantee.
- Conditional settlement:** This settlement method can be a combination of cash settlement, offering an OTC form, or submitting a bank guarantee.
- Multi-stage settlement:** This method is used for Premium Discovery Contracts. The payment details are agreed by the parties to the trade according to the delivery volume of the traded commodity and based on the conditions stated in the offering notice.

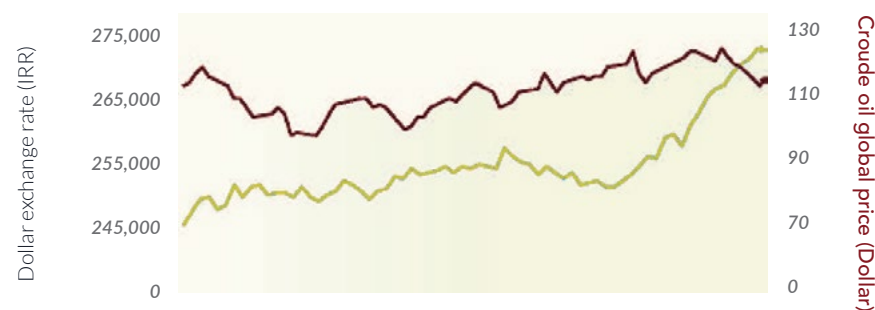


Trade Value per Commodity Groups

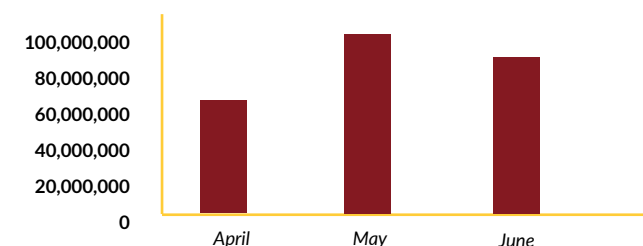
Two of the most important indicators that affect the volume of trades on the spot market are "crude oil base price" and "currency exchange rate".



Correlation of Global Oil Price with Dollar Exchange Rate



Value of Oil Products Trade



In the (following) chart, the dollar exchange rate is based on the daily rates announced by the Central Bank of Iran (CBI), accompanied by the crude oil global price based on the daily reports announced by the Organization of Petroleum Exporting Countries (OPEC) during the first quarter of the Persian year of 1041 (spring 2022).

In the chart illustrated on the right

of the page, the trend of commodity trade value affected by these two indicators has been examined. Although factors such as holidays and seasonal demand effectively affect the volume of trades, it can be projected that the trade volume will increase with a probable increase in the rates of the mentioned indicators.

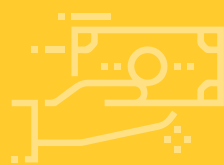
Busiest Trading Days on Spot Market

The record of the highest trade volume during the spring season:

37,976,162,204,650

IRR

May 21

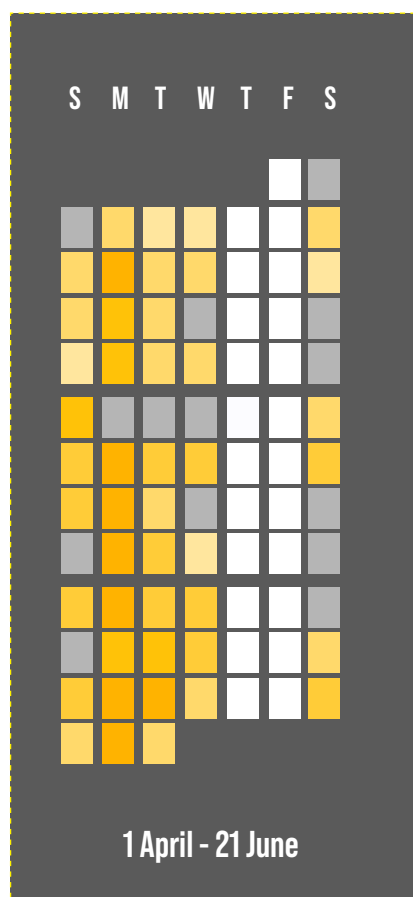
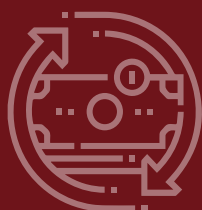


The record of the largest volume of settled trades:

42,826,688,784,550

IRR

May 28

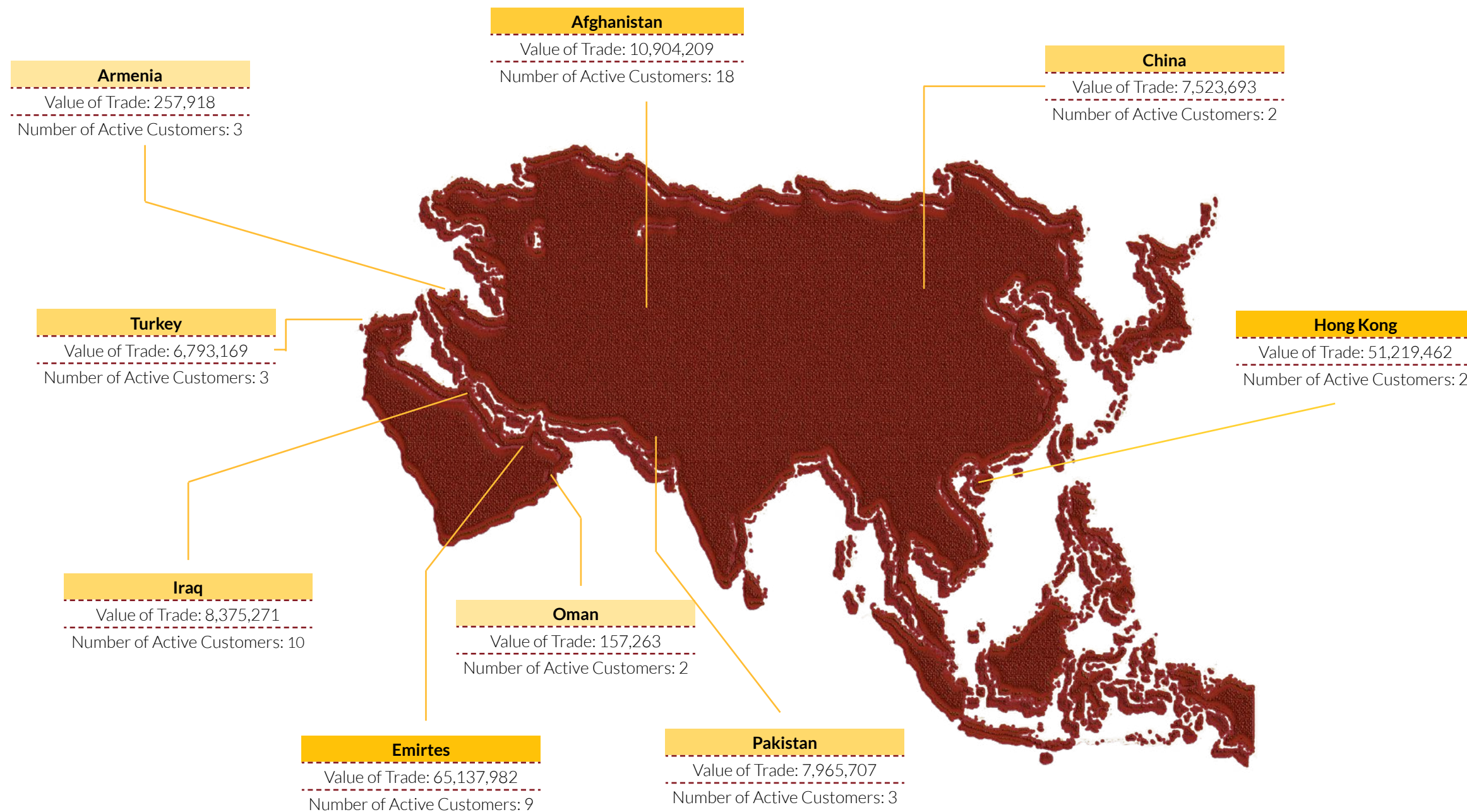


IRENEX International Floor Trading Data

The geographical distribution of investors can be the basis for providing foreign currency settlement services and the development of related infrastructure.

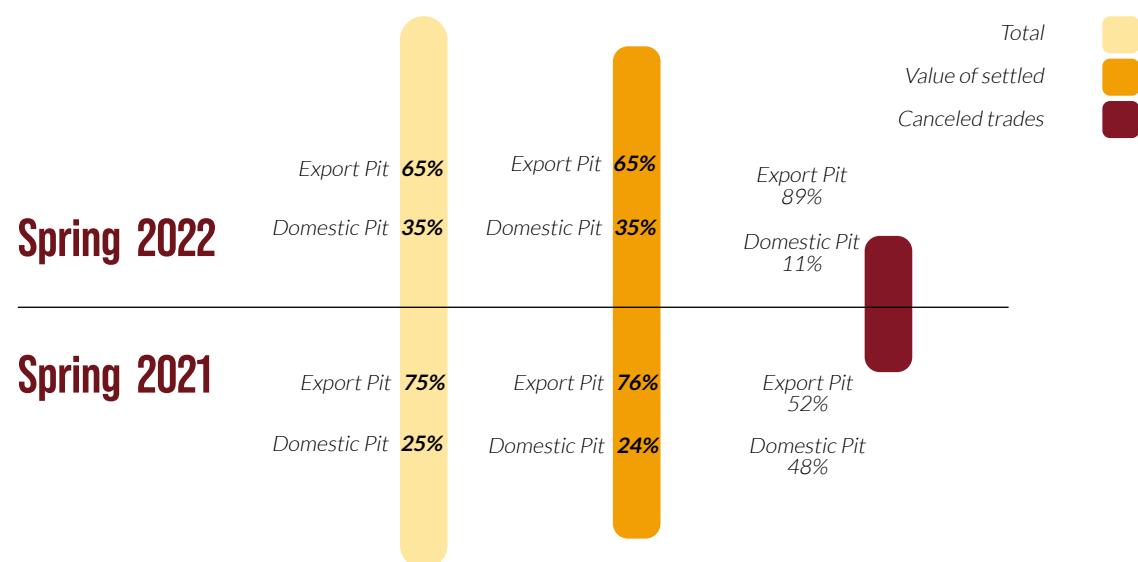
Number of Accounts Created to Operate in Spot Market from Foreign Countries





Lowest Trade Most Trade

Value of Settled and Canceled Trades



Considering that having a good understanding of existing instruments in the capital market and how to employ them can effectively help manage the distribution and consumption of electricity, it is possible to make this market more prosperous by increasing supplies and facilitating the access of retail customers to such instruments in the capital market.

It should be noted that as CSDI conducts registration of electricity-linked assets, the supply default risk is minimal.

Review of Iran's Capital Market Potential in Trading Renewable Energies and Electricity-Linked Securities

Markets (Exchanges)		
Spot Market	Derivatives	Other Eligible Securities
Electricity Trading Board	Industrial Power Market (Bout)	Project (Investment) Fund
	Wholesale Trading Market (Bout)	Capacity Certificate
	Standard Parallel Salam Contracts	Efficient Consumption Certificate

Commodity-Linked Securities



Commodity-Linked Securities Trading: In this chapter, various instruments of commodity-linked securities, the volume of trades related to each instrument, and the geographical distribution of active warehouses in the field of commodity-linked deposit certificates are discussed.

☐ Commodity-Linked securities specify the investors' ownership of a certain volume of a commodity. Therefore, in case of commodity price fluctuations, the price of the securities linked to it will also undergo changes. Some of these securities are as following:

- ☐ Commodity-Linked Deposit Certificates: This type of security is backed by standard Certificates of Deposits (CD) issued by certified warehouses approved by the exchange authorities. After the CD is issued, the owner of the commodity can submit a request to sell it on an exchange by referring to an authorized broker. It is also possible to finance and obtain facilities from the banking system based on commodity-linked deposit certificates.
- ☐ Standard Parallel Salam Contracts: These public financing instruments are generally issued by commodity producers to implement development projects or cover budget deficits. These contracts usually have a maturity date, and the seller enjoys a call option while the buyer has a put option, which guarantees a minimum profit for the investors.
- ☐ Capacity Certificates: These types of securities are similar to the power subscription fees, and by purchasing them, potential buyers can buy electricity to a certain cap, but there is no compulsion to buy up to the determined cap.
- ☐ Energy Futures Contracts: In these contracts, the seller and the buyer commit to trade a specified volume of a specified commodity at a specified price on a specified date. The Iran Energy Exchange has embarked on futures contracts for energy products since early March 2022.

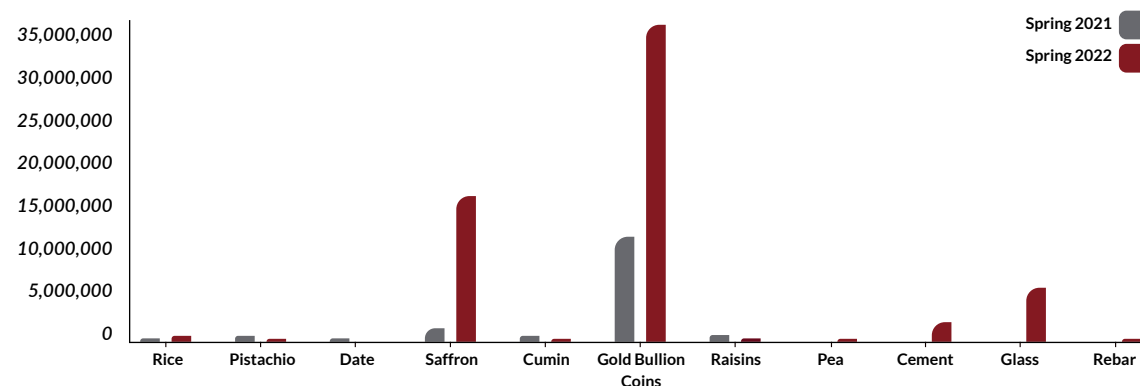


Trading Statistics



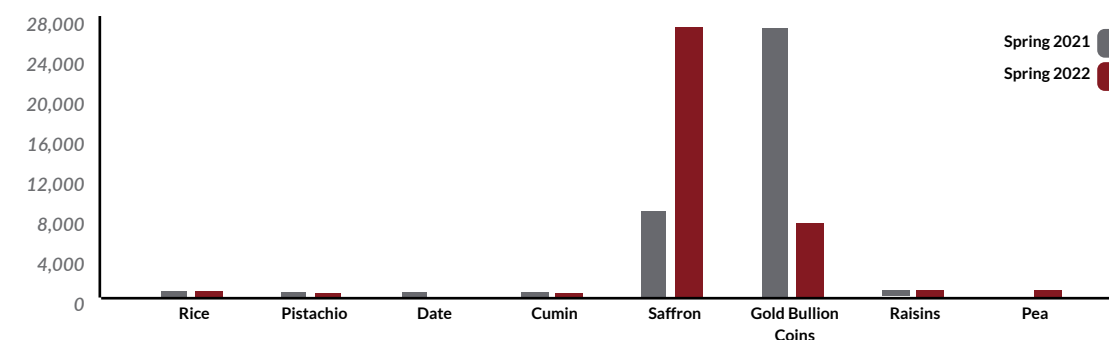
Trading Statistics (million IRR)	Spring 2022	Spring 2021
Commodity-Linked Deposit Certificates	55,431,740	13,671,288
Standard Parallel Salam Contracts	30,263,983	42,669,197
Certificates of Electricity Capacity	4,356,121	4,911,142
IRENEX Futures Contracts	70,183	-

Value of Certificates of Deposit Trade by Commodity (million IRR)



Warehousing Charges/Fees and Trade Value per Commodity

The Costs associated with warehousing of commodities vary based on the type of commodity, its durability, and the value of the underlying asset.



Warehousing Charges/Fees Paid by Investors per Commodity

Investors who buy commodity-linked certificates of deposit are supposed to pay the total storage costs during the trade period. These amounts are to be deposited to the CSDI's accounts, and, after receiving necessary confirmation from the Iran Mercantile Exchange (IME) regarding the performance accuracy of the warehouses' authorities, these amounts are payable to them.

Sheet-Glass Trading Symbols

120

Growth in Commodity-Linked Deposit
Certificates Trading (million IRR)

+41,000,000

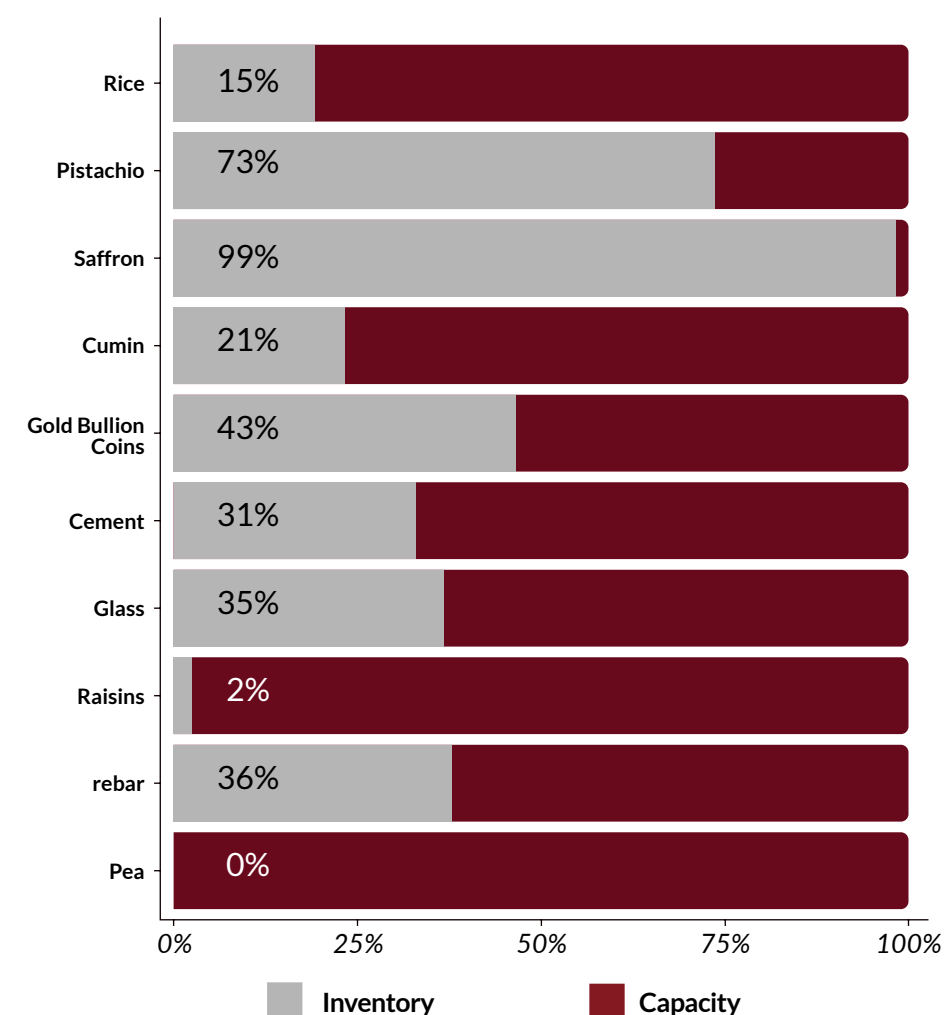
Products such as cement, sheet glass, and rebars are currently exempt from storage costs.

	Rice	Pistachio	Saffron	Cumin	Gold Bullion Coins	Raisins	Chickpea
Spring 2022	236,072,640	18,777,720	22,485,505,039	22,045,440	7,496,094,750	842,840	3,241,420

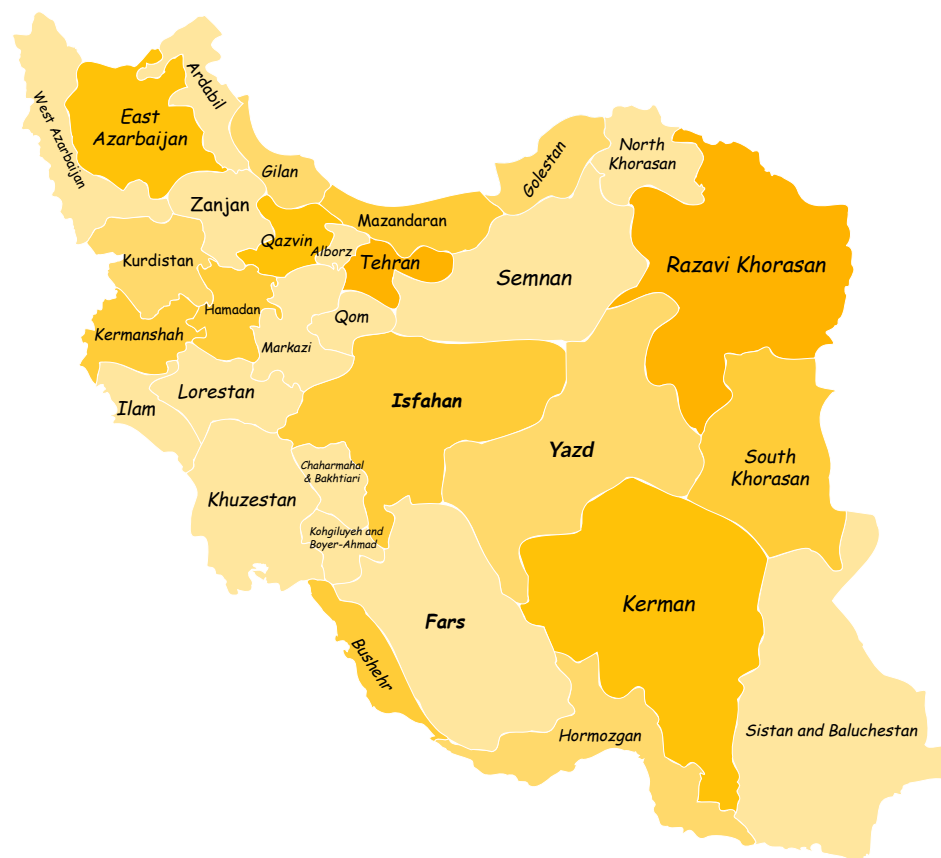
Sheet Glass-Linked Deposit Certificate:

Sheet-glass deposit certificates were listed for the first time in the IME trading board in winter 2022, and currently, all the listed capacity of this commodity is traded only in the form of commodity-linked deposit certificates. Also, with an increasing number of sheet-glass manufacturing plants that have been required to sell their products on IME, significant growth in the value of these commodity-linked deposit certificates is recorded in the market. Therefore, Iran's Central Depository Company intends to help smooth the distribution and pricing of other similar products in the consumer market by expanding sheet-glass trading as well as to start registration and providing services to other similar products to use the commodity-linked deposit certificates as a suitable solution for easing the final consumer to access the products.

The Ratio of "Inventory to Warehouse Capacity"



Geographical Distribution of Active Authorized Warehouses for Commodity-Linked Deposit Certificates

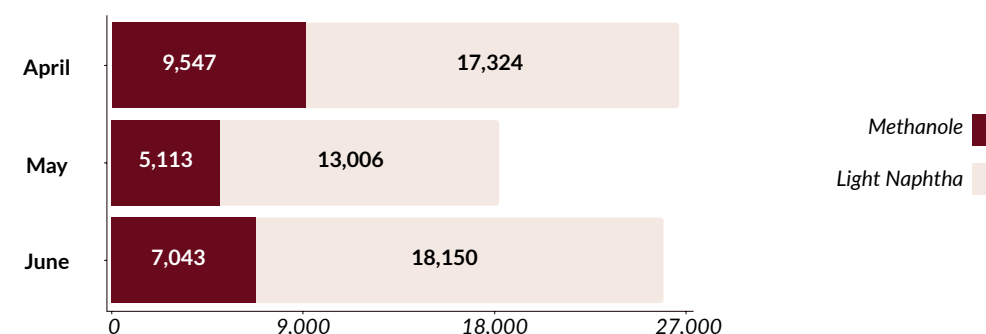


Less Density Higher Density

IRENEX Futures Contracts

As a result of ceaseless efforts by the Iran Energy Exchange partnered with Central Securities Depository of Iran, "the executive guidelines for futures contracts on IRENEX" were approved by the SEO's board of directors in June 2021, and the trading of this instrument on IRENEX launched in March 1400.

It seems that with the increased development of settlement infrastructure, significant growth in the trade of this instrument is impending in the near future. In the following, the volume of futures contracts trading on IRENEX during the second quarter of 2022 is presented:



Settled Trade of Standard Parallel Salam Contracts in Spring 2022

Ministry of Economic Affairs and Finance

Underlying Asset: Light Crude Oil Destined for Domestic Markets

Final Settlement Value: 27,499,993,087,479 IRR

Settlement Date: 21 May 2022

Embedded Put Options (Exercised by Buyer): 15% per year

Mahan Sirjan Mines and Industries Development Company

Underlying Asset: Iron Ore Lump

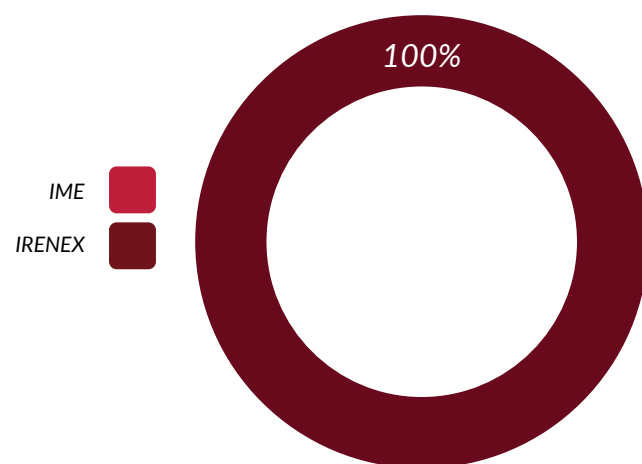
Final Settlement Value: 1,785,000,000,000 IRR

Settlement Date: 31 May 2022

Embedded Put Options (Exercised by Buyer): 19% per year

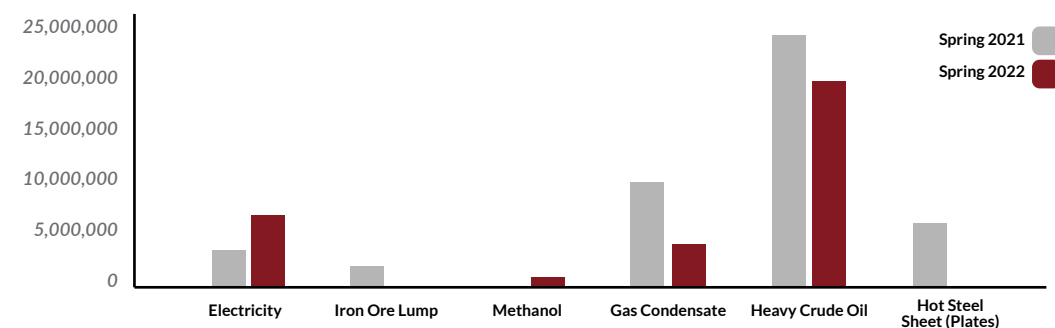


Value of Standard Parallel Salam Contracts Trading per Exchange



All trading for Standard Parallel Salam Contracts during Spring 2022 were associated with Symbols listed on IRENEX.

Value of Standard Parallel Salam Contracts Trade by Commodity (million IRR)



Ongoing Development Measures



Steps Taken by CSDI to Develop Innovative Instruments on IRENEX

Considering the delayed establishment of Iran Energy Exchange with several years gap compared to its counterpart entity Iran Mercantile Exchange, using existing potentials in commodity exchanges requires the all-out expansion of available instruments for investors in the Iranian capital market.

Therefore, CSDI, as the responsible entity for providing the pre-and post-trade services to the Iran Energy Exchange, has begun devising executive guidelines for new instruments for this market. In the following, the latest measures being taken and implemented in this regard are listed:

Futures Contracts Trading in IRENEX :

In order to create further momentum in the export of oil products, enabling the investors to take the delivering oil product shipments at a specific time and enabling them to predict the price fluctuation, the futures contracts trading floor has started working from late winter 2022, for Nafta and Methanol products.

As it can be easily inferred from the name of futures contracts, in trading this type of contract, the buyer purchases a product at a specific price, and the payment is made at a particular date. With the unveiling of these contracts, the Islamic Republic of Iran was officially introduced as a reference for pricing energy carriers.

Major Actions Taken by CSDI :

- Development of technical infrastructure for settlement and delivery of traded commodities using futures contracts on IRENEX
- Negotiating with banks to open accounts for customers
- Adding formulas for calculating guarantees in related trade guidelines

Options Contracts:

In these contracts, the seller and the buyer agree to conduct a specific trade in the future. The buyer acquires the right to buy or sell assets mentioned in the contract at a specified price and time in exchange for a certain amount of money; The seller gives the buyer the right to buy or sell the mentioned asset. The only difference between this type of contract and the futures contract is that in the contract, the parties are committed to implementing it, but in the option contract, only one party is committed to the contract, and the other party enjoys options.

Major Actions Taken by CSDI:

- Compilation of relevant executive instructions, guidelines
- Devising the settlement and delivery analysis document
- Devising guarantee calculation formula
- Negotiating with banks to open accounts for customers

Efficient Consumption Certificate:

Efficient consumption certificates are used globally as an incentive to promote energy efficiency and reduce fuel consumption. The consumer companies receive securities called Efficient Consumption Certificates that worth's equivalent to the energy they saved and are allowed to sell these certificates on IRENEX.

Major Actions Taken by CSDI:

- Devising Guarantee Letter from Parent Entity
- Upgrading Relevant Platforms

IRENEX Commodity-Linked Deposit Certificates:

This type of security proves the ownership by a particular investor in a specific commodity. IRENEX plans to create a conducive atmosphere so retail investors can trade physical assets. It is also possible that the investors who buy this type of instrument f can easily finance and obtain facilities from the banking system based on commodity-linked deposit certificates.

Major Actions Taken by CSDI:

- Modification of IRENEX Trade Settlement (Guidelines) Instructions
- Devising guarantee calculation formula
- Devising Guarantee Letter from Parent Entity
- Development of the necessary technical infrastructure



Introduction

Systems



Energy Exchange Integrated Settlement System (ENEXIS)

Commodity Market Settlement Department at Central Securities Depository of Iran is in charge of settlement of all transactions on the Iran Energy Exchange as well as transactions of derivatives, certificates of deposits on the Iran Mercantile Exchange.

These operations are performed using the Energy Exchange Integrated Settlement System (ENEXIS), which is designed and launched by the CSDI in a bid to streamline the relevant processes.

The following is an introduction to the Energy Exchange Integrated Settlement System (ENEXIS).

Commodity Exchanges Integrated Settlement System

Commodity Exchanges Settlement System is a basic framework and platform to settle the transactions conducted on the two Iranian commodity exchanges, Iran Energy Exchange (IRENEX) and Iran Mercantile Exchange (IME), designed and launched by Central Securities Depository of Iran as a bid to streamline the relevant processes.

This project was designed in three phases and aimed to integrate pre-trade and post-trade processes of the commodity exchanges' physical markets, minimize operational risks such as transactions regulation, lower operational costs, and proceed all stages electronically.



enexis



The first phase included the introduction of basic information and registration of producers, suppliers, commodities, and offerings. The second stage encompassed the processes of registering brokerage firms, customers, accounts, and buy orders, as well as, examining and approving orders, and development of management dashboard. The third phase was settlement processes and fees calculation, payments, delivery of goods, and the supervisory dashboard. Previously, settlement of the transaction carried out on IRENEX was performed manually, considering the huge amounts of transactions and the market expansion, the model was prone to many difficulties. Therefore, development of an e-settlement system for the transactions done on both IRENEX & IME was inevitable. Consequently, design and implementation of the first sector of the system dedicated to Energy Exchange Settlement (ENEXIS) was kicked off in 2017 and launched in 2018.



Service Provider



CSDI

Beneficiaries



- **Central Securities Depository of Iran**
- **Commodity exchanges**
- **Brokerage firms**
- **Customers of Iran Energy Exchange-physical market**

Participants

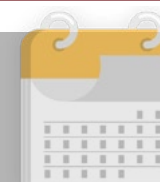


- **Commodity exchanges**
- **Tehran Stock Exchange Technology Management Company**
- **Brokerage firms**
- **Banks**

Objectives

- **To streamline settlement processes**
- **Market Development:** Because of this system, settlement operations are automated and handled by a sole entity causing a dramatic reduction in transaction costs in the long term that is regarded as a major role player in market development.
- **The constant commitment to dematerialization and objectives of e-government**
- **Minimizing operational risks**

Unveiling Date



Design and implementation of Energy Exchange Settlement (ENEXIS) was kicked off in 2017 and launched in 2018.

How ENEXIS work

- The information concerning commodities, customers, suppliers, beneficiaries' accounts and other basic data are registered in the system through various portals.
- Orders submission and down payment block in the buyer's proxy bank account is executed by the system.
- The information regarding offering and transaction is also registered in the system through a previously defined model.
- The system wires down payments into CSDI's operational bank account
- The system makes calculations for each contract, including the supplier's share and fees.
- The system calculates the buyer's debt value (transaction and fees), the supplier's (fees) and each market entity's credit based on the settlement type.
- Amounts deposited into the CSDI's operational bank account are recognized for each contract.
- Providing the deposited amount adequacy, the settlement is performed and the payment to the creditors will be made automatically through the bank portal.
- If settlement is delayed, fine calculation and payment are also done by the system.
- If the transaction is terminated, the system calculates early termination fee and transfers it.
- In all stages, settlement forms are provided to the buyer and seller broker based on the transaction.
- Standard accounting documents are produced by the system at CSDI and are provided to experts.
- Authentic reports and relevant charts regarding every offering, contract, payment etc. are consistently accessible to experts.



Specifications

All stages of study, design and review of ENEXIS are done according to international standards and its pilot test yielded brilliant results.

Features

- All pre-trade and post-trade functions are electronically executed via an integrated system.
- All information on commodities, suppliers, and buy orders can be recorded in the system.
- The system supports the model of placing orders based on proxy account
- All transactions are settled in cash, out of clearinghouse or by guarantees (supporting various guarantee models)
- The operator can enter the prices manually and that means the system can be hailed for its add-on module, which allows CSDI to price any shares or services and settle the relative transactions in multiple foreign currencies.
- Commodity delivery management that leads to the release of guarantees (whether bank or retention money guarantees) by the system
- Auto-calculation of all quantities
- Authentic report generation at any stage of the process
- Continuous monitoring of the market
- Discrete access levels for CSDI, IRENEX and brokerage firms personnel
- Providing the possibility to place buy orders for each customer,



monitor transactions, follow up settlement processes (View debt and credit, settlement status, payments for each transaction, and print settlement forms) and delivery (registering delivery information and monitoring delivery status) for brokerage firms

- Access of IRENEX experts to information on transactions and suppliers' guarantees
- Access of CSDI to registration and change of basic and operational information (such as offering and transactions), registering and updating customers' information and their accounts, monitoring all information, approval or rejection of settlement, delivery confirmation, instruments for managing payments and accounting, work schedule, etc.
- Assigning accesses levels dynamically and the possibility to add, change or delete specific access levels
- Electronic verification of information and prevention of possible abuses



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Depository of Iran**



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