Appendix 4

**Risk Management Rules of the Shanghai Futures Exchange**

**(Amended)**

**Chapter 2 THE MARGIN REQUIREMENT**

**Article 4** The Exchange applies a minimum trading margin rate based on a contract’s notional value. Gold futures, silver futures, bitumen futures and, hot-rolled coil futures and bleached softwood kraft pulp (BSKP) futures’ minimum trading margin rate is 4%. Copper cathode (copper) futures, aluminum futures, zinc futures, nickel futures, lead futures, tin futures, steel rebar futures, natural rubber futures’ minimum trading margin rate is 5%. Wire rod futures’ minimum trading margin rate is 7%. Wire rod futures’ minimum trading margin rate is 8%.

When the following events or conditions occur in the process of trading in a futures contract, the Exchange may, in its sole discretion, adjust the trading margin for a contract:

i) open interest reaches a fixed level;

ii) the delivery period approaches;

iii) the price variation of a contract amounts to a certain rate after a consecutive number of trading days;

iv) the same direction limit-locked market remains for a consecutive number of trading days;

v) a long public holiday is approaching;

vi) the Exchange, in its discretion, decides that the risk of the market is increasing; and

(vii) other events or conditions the Exchange deems necessary to adjust the trading margin for a contract.

The Exchange shall issue a public announcement and report to the China Securities Regulatory Commission, or the CSRC, before adjusting the trading margin for a futures contract.

**Article 5** The Exchange applies different rates of trading margin for a futures contract based on the size of open interest and the stage of its lifecycle (i.e., from the listing day to the last trading day), except otherwise specified in this Article 5.

Trading margin for fuel oil and, hot-rolled coil , and BSKP futures contract will no longer vary by the size of open interest.

The specific rates are as follows:

ii) The Exchange shall set the rates of the trading margin at the different period of trading from the listing to the last trading day near the delivery period of a futures contract, as demonstrated in the following tables:

Table 27. Trading margin for the BSKP futures contract at the different period of trading from its listing to its last trading day

|  |  |
| --- | --- |
| Period of Trading | Trading margin based on the notional value of the contract as of that date: |
| As of listing | 4% |
| As of the first trading day of the first month prior to the delivery month | 10% |
| As of the first trading day of the delivery month | 15% |
| As of the second trading day prior to the last trading day | 20% |

When a futures contract comes to a period of trading that requires an increase in trading margin, as demonstrated in Tables 13-2627, above, the Exchange shall, at the daily clearing on the trading day prior to the next trading day when the new period begins, settle the positions opened before the next trading day based on the new trading margin rate to be applied to the next trading day. If a holder of a long or short position becomes insufficient with his margins, the holder must deposit funds to meet the new margin requirement by the opening of the next trading day.

**Article 7** For the natural rubber, bitumen futures or BSKP futures contract:

(a) when the price variation in aggregate (denoted as N) reaches 9% or more on three (3) consecutive trading days (denoted as D1-D3, ) or

(b)when the price variation in aggregate (denoted as N) reaches 12% or more on four (4) consecutive trading days (denoted as D1-D4) or

(c)when the price variation in aggregate (denoted as N) reaches 13.5% or more on five (5) consecutive trading days (denoted as D1-D5),

the Exchange may, in its sole discretion, exercise the following one or more measures:

require additional trading margins from the longs or shorts, or from both the longs and shorts, and/or, at the same or different rates, and/or from a part of or all the members;

(a) limit the withdrawal of funds to a part of or all the members;

(b) suspend the opening of new positions for a part of or all of the members;

(c) adjust the limit price, but not to over twenty percent (20%) up or down;

(d) order the liquidation of positions by a prescribed deadline; and/or

(e) exercise forced position liquidation.

**Chapter 3 THE PRICE LIMIT**

**Article 12** In the event that a limit-locked market occurs for a futures contract on a trading day (denoted as D1 whereas the previous trading day is D0 and the successive trading days are D2-D6,)

(a)the limit price for D2 shall be fixed at three percent (3%) on top of that for D1 for contracts in copper futures, aluminum futures, zinc futures, lead futures, steel rebar futures, wire rod futures, hot-rolled coil futures, gold futures, silver futures, natural rubber futures, fuel oil futures and、 bitumen futures and BSKP futures.

(b)At the daily clearing of D1, the trading margin shall be fixed at two percent (2%) on top of the limit price for D2 for the contracts as listed in paragraph (i) of this Article 12. If the trading margin as adjusted is smaller than what is applied on D0 to the daily clearing, the same trading margin as applied on D0 will be used as the trading margin for that contract.

If D1 is the first trading day for a newly listed contract, the contract’s trading margin on the day of its listing shall be used as the trading margin applied to the daily clearing of D0.

**Article 13** If a limit-locked market does not occur on D2, the limit price and trading margin for D3 will return to their regular level.

The occurrence of a reverse direction limit-locked market which occurs on D2 shall trigger a new round of a limit-locked market, i.e. D2 shall become D1 for the new round of limit-locked market, and the margin rate and the limit price for the following trading day shall be set pursuant to the Article 12 of these Risk Management Rules.

If the same direction limit-locked market exists on D2,

(a)the limit price for D3 shall be fixed at five percent (5%) on top of the limit price for D1 for the contracts listed in Article 12(i) of these Risk Management Rules, except that it shall be fixed at six percent (6%) for the silver futures contract; and

(b)at the daily clearing of D2, the trading margin shall be fixed at two percent (2%) on top of the limit price for D3 for all the contracts listed in Article 12 (i) of these Risk Management Rules except for the silver futures contract for which it will be set at three percent (3%) on top of the limit price for D3. If the adjusted trading margin is smaller than what is applied on D0 to the daily clearing, the trading margin on D0 will be applied to meet the margin requirements for that contract.

**Article 14** If a limit-locked market does not occur on D3, the limit price and trading margin for D4 will return to the regular level.

The occurrence of a reverse direction limit-locked market which occurs on D3 shall trigger a new round of a limit-locked market, i.e. D3 shall be regarded as D1 for the new round of limit-locked market, and the margin rate and the limit price for the following trading day shall be set pursuant to the Article 12 of these Risk Management Rules.

If a same direction limit-locked market occurs on D3, which means, for three (3) consecutive trading days, the market has been locked in limit price, the Exchange will, at the daily clearing, use the same trading margin as applied on D2 for its daily clearing for the contracts listed in Article 12(i) of these Risk Management Rules and may, in its discretion, suspend withdrawal of funds by a part of or all of its members.

If a same direction limit-locked market occurs on D3, which means, for three (3) consecutive trading days, the market has been locked in limit price, and D3 is the last trading day of the contract, the contract shall move into its settlement and physical delivery phase; or if D4 is the last trading day, the limit price and trading margin for D3 will be extended to D4; or if neither of D3 nor D4 is the last trading day, trading in the contract will be suspended on D4, at which time the Exchange will, in its sole discretion, take either of the following measures on D4:

Alternative 1: the Exchange may make a public announcement that it will take one or more of the following actions on D5:

(a)require additional trading margins from the longs or shorts, or from both the longs and shorts, and/or, at the same or different rates, and/or from a part of or all the members;

(b)limit the withdrawal of funds to a part of or all the members;

(c)suspend the opening of new positions for a part of or all of the members;

(d)adjust the limit price, but not to over twenty percent (20%) up or down ;

(e)order the liquidation of positions by a prescribed deadline; and/or

(f)exercise forced position liquidation.

As the Exchange announces an adjustment to the margin level, the member with insufficient margin shall deposit funds to meet the adjusted margin requirement by the opening of D5. If the limit price for D5 is not triggered, the limit price and the trading margin for D6 will return to their regular levels. If the limit price for D5 is triggered and he is in the same direction as that of D3, the Exchange will announce that an emergency exists and exercise contingency measures as provided in the applicable rules of the Exchange. If the limit price for D5 is triggered but it is in the opposite direction to that of D3, a new round of a limit-locked market is triggered, and, therefore, D5 shall be regarded as D1 and the trading margin and limit price shall be set pursuant to the provisions in Article 12 of these Risk Management Rules.

Alternative 2: At the daily clearing on D4, the Exchange shall automatically match all unfilled orders that are placed by the close of D3 at the limit price with the open interests held by each customer, or a non-FF member, who incurs gains on his net positions, on a pro rata basis in the open interest of the contract and at that limit price. If that customer, or the non-FF member, has both long and short positions, these positions will be matched and settled before being matched with those resting orders. The procedure is as follows:

I)Determination of the amount of the unfilled orders subject to the order fill :

The term ―amount of unfilled orders subject to the order fill‖ means the total amount of all the unfilled orders submitted after the close of D3 at the limit price into the central order book by each customer who has incurred losses on net positions in the contract of an average level of no less than six percent (6%), or eight percent (8%) for natural rubber, fuel oil and、 bitumen futures and BSKP futures contracts, of D3’s settlement price. The customer unwilling to be subjected to this method may cancel the orders before the close of the market on D3, to avoid having the orders filled.

II)Calculation of each customer’s average gains or losses on net positions

customer’s gains or losses on net positions (in RMB) customer’s average gains or losses on net positions=-------------------------------------------------------

customer’s net positions (in unit of weight),

For purposes of the above formula, the unit of weight is ton for copper, aluminum, zinc, lead, steel rebar, wire rod, hot-rolled coil futures, natural rubber, fuel oil and、 bitumen futures and BSKP futures; kilogram for silver, and gram for gold.

The customer’s gains or losses on net positions shall equal the amount-weighted sum of differences between the actual prices at which the customer’s net positions in a contract which are still open on D3 and the settlement price on D3 of those net positions. For purposes of the foregoing calculation, the customer’s net positions in a contract which are still open on D3 refers to the positions resulting from the most recent transactions as of D3, where the total amount of such transactions is equal to the total amount of net positions still open on D3.

III)Determination of positions eligible to fill the unfilled orders:

The positions eligible to fill the unfilled orders includes the net positions, on which the customer, as calculated using the formula in the Article 14 (ii), records average gains for speculative purposes or for hedging purposes at no less than six percent (6%), or eight percent (8%) for the natural rubber, fuel oil and, bitumen futures and BSKP futures contract.

IV)Principles and methods for the order fill of unfilled orders

i)Principles

(a)Subject to Article 14(iii), the order fill of unfilled orders shall take place in the order of the following four categories with regard to the amount of gains and whether such positions are speculative or hedging:

Category 1: Unfilled orders shall be filled with the speculative positions eligible to fill the unfilled orders of any customer with average gains on net positions of no less than six percent (6%) of the settlement price on D3 for the contracts in copper futures, aluminum futures, zinc futures, lead futures, steel rebar futures, wire rod futures, hot-rolled coil futures, gold futures and silver futures, or the Speculative Position Gains Over 6%. For such positions involving contracts in natural rubber futures, fuel oil futures and, bitumen futures and BSKP futures, the average gains on net positions shall be no less than eight percent (8%), or the Speculative Position Gains Over 8%;

Category 2: Unfilled orders shall be filled with the speculative positions eligible to fill the unfilled orders of any customer with average gains on net positions of no less than three percent (3%) but no more than six percent (6%) of the settlement price on D3 for contracts with respect to copper futures, aluminum futures, zinc futures, lead futures, steel rebar futures, wire rod futures, hot-rolled coil futures, gold futures and silver futures, or the Speculative Position Gains Over 3%. For such positions involving contracts in natural rubber futures, fuel oil futures and, bitumen futures and BSKP futures, the average positions on net positions shall be no less than four percent (4%) but no more than eight percent (8%), or the Speculative Position Gains Over 4%;

Category 3: Unfilled orders shall be filled with the speculative positions eligible to fill the unfilled orders of a customer with average gains on net positions of no more than three percent (3%) of the settlement price on D3 for contracts in copper futures, aluminum futures, zinc futures, lead futures, steel rebar futures, wire rod futures, hot-rolled coil futures, gold futures and silver futures, or the Speculative Position Gains Below 3%. For such positions involving contracts in natural rubber futures, fuel oil futures and, bitumen futures and BSKP futures, the average gains on net positions shall be no more than four percent (4%), or the Speculative Position Gains Below 4%;

Category 4: Unfilled orders shall be filled with the speculative positions eligible to fill the unfilled orders of a customer with average gains on net positions of no less than six percent (6%) of the settlement price on D3 for contracts in copper futures, aluminum futures, zinc futures, lead futures, steel rebar futures, wire rod futures, hot-rolled coil futures, gold futures and silver futures, or the Hedging Position Gains Over 6%. For such positions involving contracts in natural rubber futures, fuel oil futures and, bitumen futures and BSKP futures, the average gains on net positions shall be no less than 8%, or the Hedging Positions Gains Over 8%.

(b)In each category, the order fill shall be made pro rata to the amount of the positions available to fill the unfilled orders, compared to the amount of the unfilled orders, or the residual unfilled orders.

ii)Method And Procedures As Provided In The Appendix

(b)Contracts in natural rubber futures, fuel oil futures and, bitumen futures and BSKP futures

If the amount of the Speculative Position Gains of Over 8% is greater than or equal to that of the unfilled orders, the unfilled orders shall be filled pro rata to the amount of the Speculative Position Gains of Over 8%;

If the amount of the Speculative Position Gains of Over 8% is smaller than that of the unfilled orders, the Speculative Position Gains of Over 8% shall be filled pro rata to the amount of the unfilled orders. The residual unfilled orders, if any, shall be filled with the Speculative Positions Gains of Over 4% in the same manner as the foregoing, and if there are still orders remaining, the outstanding unfilled orders shall be filled to the Speculative Position Gains Below 4%, and so to the Hedging Position Gains of Over 8%.Unfilled orders which eventually remain after all the order fills described above, if any, shall not be filled at all.

**Chapter 4 THE POSITION LIMIT**

**Article 17** A customer’s positions held at one or more FF members shall be aggregated to determine whether such open positions exceed the customer’s fixed-amount position limit.

For contracts in tin, and silver and BSKP futures, by the close of the last trading day of the month prior to the delivery month, each member or each customer shall adjust their speculative positions held through the member, to multiples of two (2) lots; in the delivery month, the speculative positions as well as newly opened and closed-out positions shall be held in multiples of two (2) lots.

The rounding of the size of hedging positions in the futures contracts enumerated in the preceding paragraphs to multiples of a certain number of lots are specified in the Hedging Rules of the Shanghai Futures Exchange.

**Article 18** The relative and absolute position limit for each futures contract at different stage of trading for an FF member, a non-FF member, and a customer are as follows:

Table 278. For contracts in copper futures, aluminum futures, zinc futures, rebar futures and wire rod futures (in lots)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | From the date of listing to the delivery month | | From the date of listing to the last trading day of the second month prior to the delivery month | | | The month prior to the delivery month | | The delivery month | |
| Total open interest | Position limit Proportion (in %) | Total open interest | Size of position limit (in lots) | | Size of position limit (in lots) | | Size of position limit (in lots) | |
| FF | Non- FF | Customer | Non- FF | Customer | Non- FF | Customer |
| Copper | ≥120,000 | 25 | ≥120,000 | 10 | 5 | 1200 | 800 | 500 | 300 |
| Aluminum | ≥120,000 | 25 | ≥120,000 | 10 | 5 | 1500 | 1000 | 500 | 300 |
| Zinc | ≥120,000 | 25 | ≥120,000 | 10 | 5 | 1200 | 800 | 500 | 300 |
| Rebar | ≥1,200,000 | 25 | ≥1,200,000 | 10 | 5 | 9000 | 3000 | 1800 | 600 |
| Wire rod | ≥450,000 | 25 | ≥450,000 | 10 | 5 | 6000 | 1800 | 1200 | 360 |

Note: total open interest is on a gross basis, size of the position limit for the FF member, the non-FF member and the customer is on a net basis; size of position limit for the FF is the baseline limit.

Table 2829. For fuel oil futures contract (in lots)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | From the date of listing to the first month prior to the delivery month | | From the date of listing to the last trading day of the third month prior to the delivery month | | The second month prior to the delivery month | | The first month prior to the delivery month | |
| Total open interest | Position limit proportion (in %) | Size of position limit (in lots) | | Size of position limit (in lots) | | Size of position limit (in lots) | |
| FF | Non- FF | Customer | Non-F | Customer | Non- FF | Customer |
| Fuel oil | ≥500,000 | 25 | 7500 | 7500 | 1500 | 1500 | 500 | 500 |

Note: total open interest is on gross basis, size of position limit for the FF, the non-FF and the customer is on a net basis; size of position limit for the FF is the baseline limit.

Table 2930. For contracts in lead futures, nickel futures, tin futures, natural rubber futures, bitumen futures, gold futures, silver futures, hot-rolled coil futures and BSKP futures (in lots)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | From the date of listing to the delivery month | | From the date of listing to the last trading day of the second month prior to the delivery month | | The month prior to the delivery month | | The delivery month | |
| Total open interest | Position limit Proportion (in %) | Size of position limit (in lots) | | Size of position limit (in lots) | | Size of position limit (in lots) | |
| FF | Non- FF | Customer | Non- FF | Customer | Non- FF | Customer |
| Lead | ≥200,000 | 25 | 2500 | 2500 | 1000 | 1000 | 300 | 300 |
| Nickel | ≥240,000 | 25 | 9000 | 9000 | 3000 | 3000 | 600 | 600 |
| Tin | ≥60,000 | 25 | 2000 | 2000 | 600 | 600 | 200 | 200 |
| Natural rubber | ≥50,000 | 25 | 500 | 500 | 150 | 150 | 50 | 50 |
| Bitumen | ≥300,000 | 25 | 8000 | 8000 | 1500 | 1500 | 500 | 500 |
| Gold | ≥  160,000 | 25 | 3000 | 3000 | 900 | 900 | 300 | 300 |
| Silver | ≥  300,000 | 25 | 6000 | 6000 | 1800 | 1800 | 600 | 600 |
| Hot-rolled coil | ≥  3,600,000 | 25 | 180000 | 180000 | 9000 | 9000 | 1800 | 1800 |
| **BSKP** | **≥**  **500,000** | **25** | **4500** | **4500** | **900** | **900** | **300** | **300** |

Note: total open interest is on gross basis, size of position limit for the FF, the non-FF and the customer is on a net basis; size of position limit for the FF is the baseline limit.

Article 19 The Exchange may adjust the position limit for an FF member subject to his net assets and business profile, using the following formula:

size of position limit = the baseline position limit × (1+the credit coefficient+ the business coefficient)

The term ―baseline limit‖ means the minimum size of a position limit set by the Exchange for the FF member, as provided in the Tables 28-30 29-31 in Article 18.

The term ―credit coefficient‖ means the variable based on the net assets of an FF member. The minimum net asset requirement for an FF member is RMB thirty (30) million, where his credit coefficient is set at zero (0). With each increment of RMB five (5) million in the net assets, the credit coefficient will increase by 0.1 (one-tenth) up to two (2) in maximum.

The term ―business coefficient‖ means the variable based on the trading turnover of a FF member. The business coefficient is divided into five (5) bands. The minimum trading turnover requirement for an FF member is RMB eight (8) billion, where his business coefficient is set at zero (0) and the business coefficient will increase in parallel to the annual trading turnover, with the maximum set at one (1), as provided in the following:

Table 3031

|  |  |  |
| --- | --- | --- |
| Band | Annual trading turnover (denoted as C1, in RMB 100 million) | The business  coefficient |
| 1 | C1≤80 | 0 |
| 2 | 80<C1≤160 | 0.25 |
| 3 | 160<C1≤280 | 0.50 |
| 4 | 280<C1≤400 | 0.75 |
| 5 | C1>400 | 1.00 |

**Appendix:Methods and Procedures for the Fill of Unfilled Orders**

**Appendix:**

**Methods and Procedures for the Fill of Unfilled Orders in Contracts of Natural Rubber, Fuel Oil Futures and, and BSKP Futures**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Ste p | Scenario | Size | Percentage | Filled to | Result |
| 1 | Speculative Positions with Gains of No Less Than 8% ≥ Unfilled Orders | Unfilled Orders | Unfilled Orders Speculative Positions with Gains of No Less Than 8% | customers holding the Speculative Positions with Gains of No Less Than 8% | Fill completed |
| 2 | Speculative Positions with Gains of No Less Than 8%  < Unfilled Orders | Speculative Positions with Gains of No Less Than 8% | Speculative Positions with Gains  of No Less Than 8% Unfilled Orders | customers placing the Unfilled Orders | Residual Unfilled Orders,  if any, to be filled in the Step 3, and the Step 4 |
| 3 | Speculative Positions with Gains of No Less Than 4%  ≥ Residual Unfilled Orders I | Residual Unfilled Orders I | Residual Unfilled Orders I Speculative Positions with Gains of No Less Than 4% | customers holding the Speculative Positions with Gains of No Less Than 4% | Fill completed |
| 4 | Speculative Positions with Gains of No Less Than 4%  < Residual Unfilled Orders I | Speculative Positions with Gains of No Less Than 4% | Speculative Positions with Gains  of No Less Than 4% Residual Unfilled Orders I | customers placing the Residual Unfilled Orders | Residual Unfilled Orders,  if any, to be filled in the Step 5, and the Step 6 |
| 5 | Speculative Positions with Gains of Less Than 4% ≥ Residual Unfilled Orders II | Residual Unfilled Orders II | Residual Unfilled Orders II Speculative Positions with Gains of Less Than 4% | customers holding the Speculative Positions with Gains of Less Than 4% | Fill completed |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 6 | Speculative Positions with Gains of Less Than 4% < Residual Unfilled Orders II | Speculative Positions With Gains of Less Than 4% | Speculative Positions with Gains  of Less Than 4%  Residual Unfilled Orders II | customers placing the Residual Unfilled Orders | Residual Unfilled Orders to be filled in the Step 7, and the Step 8 |
| 7 | Hedging Positions with Gains of No Less Than 8%  ≥ Residual Unfilled Orders III | Residual Unfilled Orders III | Residual  Unfilled Orders III Hedging Positions with Gains of No Less Than 8% | customers holding the Hedging Positions with Gains of No Less Than 8% | Fill completed |
| 8 | Hedging Positions with Gains of No Less Than 8%  < Residual Unfilled Orders III | Hedging Positions with Gains of No Less Than 8% | Hedging Positions with Gains of  No Less Than 8% Residual Unfilled Orders III | customers placing the Residual Unfilled Orders | Orders not to be filled at all |

Notes:

1. Residual Unfilled Orders I = Unfilled Orders – Speculative Positions with Gains of No Less Than 8%;
2. Residual Unfilled Orders II = residual Unfilled Orders I – Speculative Positions with Gains of No Less Than 4%;
3. Residual Unfilled Orders III = residual Unfilled Orders II –Speculative Positions with Gains of Less Than 4%;
4. The Speculative Positions or the Hedging Positions refer to open interest of the customers who have incurred gains on Eligible Position