Appendix 1

# Delivery Rules of the Shanghai Futures Exchange

**(Amended)**

## Chapter 18 DELIVERY DEFAULT

**Article 135** Any of the following acts shall constitute a default on delivery:

(i) The seller fails to deliver the required amount of standard warrants within the prescribed delivery period;;

(ii) The buyer fails to make payment as required within the prescribed delivery period; or

(iii) The commodity that the seller delivers do not comply with the grade and specific qualifications in the futures contract.

**Article 136** The following formulas shall be used to calculate the delivery default quantities of the buyer or the seller in a futures contract:

The delivery default quantity of the seller (lots) = the standard warrant quantities due (lots) – the standard warrant quantities delivered (lots);

The delivery default quantity of the buyer (lots) = (payment due – payment made) ÷ (1 – 20%)÷ final settlement price ÷ contract size

. In calculating the delivery default quantity of the buyer in a futures contract, a deposit of twenty percent (20%) of the value of the contract shall be reserved for penalties and compensation.

**Article 137** Once a delivery default occurs, the Exchange shall notify the defaulting party(the defaulter) and the non-defaulting party(the non-defaulter) before 16:30 on the day of the default. The notice of default is deemed to have been delivered after being sent by the member service system.

The defaulter shall by 11:00 hours on the next trading day, submit to the Exchange its written intent to terminate or continue the delivery. Failure to notify the Exchange of its intent within the specified time limit shall be deemed by the Exchange as the defaulter’s decision to terminate delivery.

**Article 138** In the event of a delivery default, the defaulter shall pay the non-defaulter a penalty of twenty percent (20%) of the contract value (calculated at the final settlement price) in default. The Exchange returns the payment for commodities or the standard warrants to the non-defaulter to terminate the delivery.

In the event of a default, the defaulter shall pay liquidated damages in the sum of five percent (5%) of the nominal value of the defaulted amounts, and one of the following methods shall apply:

(i) If the seller defaults, the buyer may opt for any of the following:

a) terminate delivery: in which case, the Exchange will refund the payment to the buyer; or

b) continue delivery: in which case, the Exchange will, on the trading day immediately after it determines that the seller has defaulted, announce a request for procurement from the public to provide the standard warrant within seven (7) trading days. If the request for procurement proves successful, the Exchange will present the procured standard warrant to the buyer; otherwise, the seller shall make payment to the buyer in the sum of fifteen percent (15%) of the nominal value of the defaulted amount as a compensation, the Exchange will return the delivery payment to the buyer, and the delivery shall be terminated. The seller shall bear all the losses and costs due to or arising from the request for procurement.

(ii) If the buyer defaults, the seller may opt for any of the following actions:

a) terminate delivery, in which case, the Exchange will return the standard warrant to the seller; or

b) continue delivery, in which case, the Exchange will, on the trading day immediately after it determines that the buyer is in default, call for an auction from the public for the sale of the standard warrant which shall take place within seven (7) trading days. If the call for auction proves successful, the Exchange shall pay the delivery payment to the seller; otherwise, the buyer shall make payment to the seller of fifteen percent (15%) of the nominal value of the defaulted amount owed to the seller, the Exchange will return the standard warrant to the seller, and the delivery shall be terminated. The buyer shall bear all the losses and costs due to or arising from the call for auction.

The Exchange’s obligation to guarantee the delivery shall be dismissed upon the termination of the delivery process.

**Article 139** The procurement price shall not be greater than one hundred and twenty-five percent (125%) of the final settlement price, and the auction price shall not be less than seventy-five percent (75%) of the final settlement price.

**Article** 140**139** In case both the buyer and the seller default, the Exchange shall terminate the delivery, and impose a fine of five percent (5%) of the contract value subject to default against the buyer and the seller respectively.

**Article 140** When a delivery is terminated, the Exchange’s obligations to guarantee the delivery shall be dismissed.

**Article 141** If a member commits a partial delivery default, the standard warrants or the payment the defaulting member receives may be applied to the resolution of the default.

**Article 142** If a Member deliberately defaults on physical delivery, it shall be subject to the provisions prescribed in the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 143** The member and the designated delivery storage facility involved in a default shall be obligated to provide evidences and supporting materials relating to the default. A member’s failure to provide such evidences and supporting materials will not impede the establishment of the facts of a default.

**Article 144** Any dispute as to the conclusions resulting from an inspection of the delivered commodity between the owner and the designated delivery storage facility shall be resolved by a joint inspection in which both parties participate. An exchange designated certified assayer may be asked to conduct a re-inspection and the conclusions drawn from the re-inspection shall form the basis for the resolution of the dispute.