**Revision Explanation**

**I. Background of Revision**

Crude oil futures were listed on March 26, 2018 and have been in operation for one year. According to the discussions with Members, Overseas Traders and Overseas Brokerage Participants,  pursuant to *the Regulations on the Administration of Futures Trading*, *the Interim Measures for the Administration of Overseas Traders’ and Overseas Brokers’ Engagement in the Trading of Specified Domestic Futures Products*, and *the Measures for the Eligibility of Securities and Futures Investors*, the Exchange has been revising 7 rules, which are "*Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange*", "*Trading Rules of the Shanghai International Energy Exchange*", "*Clearing Rules of the Shanghai International Energy Exchange*", "*Delivery Rules of the Shanghai International Energy Exchange*", "*Risk Management Rules of the Shanghai International Energy Exchange*", "*Membership Management Rules of the Shanghai International Energy Exchange*" and "*Enforcement Rules of the Shanghai International Energy Exchange*", to optimize eligibility management, streamline account opening processes, and further promote physical delivery to serve the real economy.

**II. Major Revisions**

The revision, total of 51 amendments, mainly includes three aspects: optimization of eligibility, promotion of physical delivery, enhancement of management and ease of operation.

**(1) Optimization of eligibility**

Firstly, clearly applying the scope of eligibility. Although the Exchange has not yet listed option products, specified futures and option products are subject to eligibility assessment. The Exchange will update supporting guidelines for account opening institutions regarding the eligibility assessment.

Secondly, optimizing the eligibility standards. In summary, the new eligibility standards mainly include knowledge level, trading experience, capital threshold and integrity compliance. The level of client eligibility is assessed by the account opening institutions, and can be carried out through eligibility assessment test and undertaking letter provided by overseas clients. Trading experience is extended to trading experience of futures, options and other centralized liquidated derivatives. General principle of capital threshold is 100,000 yuan, the threshold of crude oil futures and the integrity compliance requirements remain the same.

Thirdly, introducing the principle of exemption and mutual recognition. Clients who have passed the trading assessment of the listed products with higher eligibility standards can automatically obtain the trading access of other listed products with the same or lower eligibility standards in the same account opening institution. Before the implementation of the new rules, clients who have opened the trading access of futures or options in other exchanges, and apply for opening the trading access of the Exchange, the knowledge level and trading experience do not need to be re-evaluated. If the client is applying for the crude oil futures, the capital threshold needs to be re-examined. Other exemptions of knowledge level, trading experience, and capital thresholds are listed in Section 8 of the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange*.

**(2) Multi-pronged measures to promote physical delivery**

Firstly, physical delivery for all the open positions at expiry of crude oil futures is settled by transferring bonded standard warrant, the actual holding of standard warrant is the key factor in successful physical delivery. To avoid passive default by traders with no delivery intention, the Exchange shall limit the selling positions held by Clients, Non-FF Members, or OSNBPs not to exceed the number of the standard warrants held by them after the market closes on the third trading day prior to the last trading day of a crude oil futures contract. From the second trading day prior to the last trading day on, the exceeding positions held by such Clients, Non-FF Members, or OSNBPs will be subject to forced position liquidation by the Exchange. Please refer to the Article 63 in *Risk Management Rules of the Shanghai International Energy Exchange.*

Secondly, provisions regarding crude oil load-in is specified. In the case where the owners submit the load-in application to the Exchange less than thirty (30) days prior to the proposed load-in date and be prepared for the load-in and no dispute is raised from Designated Delivery Storage Facilities, The Exchange may approve application according to the storage capacity and other circumstances as appropriate. Generally speaking, in order to load in successfully, the owner shall submit the load-in application to the Exchange no less than thirty (30) days prior to the proposed load-in date.

Thirdly, notions and features regarding physical filing is clarified. Crude oil after Physical Filing can be generated into standard warrant after load-in application. Please refer to Article 148 in *Delivery Rules of the Shanghai International Energy Exchange*.

Fourthly, in accordance with the circular published regarding EFP settlement of crude oil, exception is made in *Delivery Rules of the Shanghai International Energy Exchange* so as to unify and stipulate the operation.

**(3) Other modifications enhancing management and operational convenience**

Firstly, due to the complexity of business, several specific requirements related to the overseas clients are adjusted: extending the time limit for reviewing the filing of overseas intermediaries to 30 trading days, introducing more provisions for changes in the filings of overseas intermediaries; introducing exemption for filing conditions of overseas intermediaries.

Secondly, modifying the circumstances of initiating an investigation. The cases that the Exchange recommend to initiate an investigation by the CSRC are mainly suspected of crime and modifications state the possible measure the Exchange may take. In addition, some terms are adjusted according to the actual circumstances.

Thirdly, specifying the settlement price for transferring the crude oil standard warrants settled via the Exchange according to the circular adjusting the basis of bonded settlement price of Exchange for Physical published by the General Administration of Customs, the said price is settlement price of the previous trading day prior to the transferring application day of the first-nearby crude oil futures contract. The calculation formula rises from the guide to the rules.

Fourthly, adjusting the notification time for delivery default according to actual circumstances. When a delivery default occurs, the Exchange notifies the defaulting party and the non-defaulting party before 16:30 on the next trading day after the default.