

GOLD FUTURES DELIVERY RULES OF THE SHANGHAI FUTURES EXCHANGE

(TRIAL)

CHAPTER 1 GENERAL PROVISIONS

Article 1 These *Gold Futures Delivery Rules* are made in accordance with the *General Exchange Rules of the Shanghai Futures Exchange* to ensure the smooth delivery of gold futures at the Shanghai Futures Exchange (the “Exchange”) and regulate physical delivery activities.

Article 2 These *Gold Futures Delivery Rules* shall apply to the delivery of gold futures on the Exchange as well as related delivery settlement, weight difference tolerance settlement at load-in and load-out, and invoicing procedures. The Exchange, Members, Clients (investors), and Designated Delivery Vaults shall observe these *Gold Futures Delivery Rules*.

CHAPTER 2 DELIVERY PROCEDURES

Article 3 “Physical delivery” refers to the process whereby the two trading parties of an expired contract close out their positions by transferring the title to the underlying asset of the contract.

Article 4 A holder of a futures contract that remains open after the contract’s last trading day shall perform the contract by physical delivery. Any physical delivery by a Client shall be conducted via, and in the name of, its carrying Member through the Exchange.

A natural person Client shall not take physical delivery of gold and shall reduce its open positions in any gold futures contract to zero (0) by the close of the third trading day before the last trading day of the contract. The Exchange will force-liquidate such open positions starting from the second trading day before the last trading day.

Article 5 Physical delivery against a contract shall be completed within the delivery period prescribed therein, which is the first business day immediately following the last trading day of the contract. This day is called the delivery day.

Article 6 Delivery Procedures

- (i) The seller submits standard warrants. Before 12:00 of the delivery day, the seller shall submit to the Exchange valid standard warrants with storage fees fully paid. The storage fees shall be paid by the seller till the third business day (inclusive) following the last trading day, after which date the storage fees shall be borne by the buyer.
- (ii) The Exchange assigns the standard warrants.
- (iii) The buyer makes payment and receives the standard warrants. At the clearing on the delivery day, the exchange collects the buyer's delivery payment through the in-house transfer system and releases the margin for the corresponding positions. The buyer will obtain the standard warrants after the clearing on the same day.
- (iv) The seller receives payment. The Exchange transfers the delivery payment to the seller through the in-house transfer system at the clearing on the delivery day.

Article 7 Standard warrants shall circulate as follows in physical delivery through the Exchange:

- (i) the seller provides the standard warrants to its carrying Member to effectuate the physical delivery;
- (ii) the seller's carrying Member submits the standard warrants to the Exchange;
- (iii) the Exchange assigns the standard warrants to the buyer's carrying Member; and
- (iv) the buyer's carrying Member assigns the standard warrants to the buyer.

CHAPTER 3 LOAD-IN AND LOAD-OUT

Article 8 Physical delivery against any expired contract shall take place at a delivery vault designated by the Exchange.

Article 9 Load-in application (delivery notice)

Before shipping any gold to a Designated Delivery Vault, an owner shall submit a load-in application (delivery notice) to the Exchange, specifying such information as the product, grade, quantity, shipper, and proposed location of delivery. A Client shall authorize its carrying Member to submit the application.

Article 10 Approval of load-in application (delivery notice)

If storage capacity permits, the Exchange will designate a delivery vault within three (3) business days based on the owner's intents. The owner shall ship gold to the Designated Delivery Vault specified in the approved load-in application within the time period prescribed

by the Exchange. Any gold ingots loaded in the vault without the approval of the Exchange or beyond the prescribed time period shall not be used for physical delivery.

Article 11 Load-in inspection

- (i) When domestic gold ingots arrive at a Designated Delivery Vault, the load-in procedure shall be handled by the designated personnel from the manufacturer whose gold brand has been registered with the Exchange;
- (ii) When imported gold ingots arrive at a Designated Delivery Vault, the load-in procedure shall be handled by the designated personnel from the import bank;
- (iii) If any spot gold ingots, at the same vault, are to be the underlying commodity for a new standard warrant, valid certificates and other relevant documents evidencing that the ingots are loaded in by corresponding manufacturer or import bank shall be provided; and
- (iv) A Designated Delivery Vault shall inspect and verify newly arrived gold ingots and relevant documents. The inspection consists of quality inspection and quantity (weight) inspection.

For domestic gold ingots:

- (1) information in the certificate of quality issued by the manufacturer shall be taken as the result of quality inspection;
- (2) quantity (weight) inspection at load-in

The Designated Delivery Vault shall verify the certificate of quality and the packing list of the manufacturer, count the number of ingots, and re-weigh each one. If the weighing difference falls within the allowable range, the weight of a three-thousand-gram ingot shall be the gross weight shown on the manufacturer's certificate of quality and packing list. The gross weight of a one-thousand-gram ingot shall be no less than one thousand (1,000) grams and any excess will not be counted.

For imported gold ingots:

- (1) information in the product label and relevant certificate of quality shall be taken as the result of quality inspection;
- (2) quantity (weight) inspection at load-in

The Designated Delivery Vault shall count the number of ingots and re-weigh each one. The weight of a three-thousand-gram ingot shall be that re-weighed by the Designated Delivery Vault. The gross weight of a one-thousand-gram ingot shall be no less than one thousand (1,000) grams and any excess will not be counted.

Article 12 Owner's oversight of load-in

An owner shall oversee the load-in of its gold into the Designated Delivery Vault, or otherwise be deemed to have agreed the inspection results of the vault.

Article 13 Issuance of standard warrants

(i) The Exchange reviews the application

After the load-in and verification of gold ingots, the owner's carrying Member shall apply to the Exchange for the creation of standard warrants. Once the application is approved, the Exchange will instruct the Designated Delivery Vault to issue standard warrants through the Standard Warrant Management System.

(ii) The vault issues standard warrants

After receiving the Exchange's instruction, the Designated Delivery Vault shall issue standard warrants and the owner shall confirm the issuance through the Standard Warrant Management System. If the owner confirms before 2:00 p.m. on a trading day, the Exchange will settle for any tolerance on that day and the standard warrants will be effective after the settlement. If the owner confirms after 2:00 p.m. on a trading day, the Exchange will settle for any tolerance on the next trading day and the standard warrants will be effective after the settlement. The trading day on which a standard warrant becomes effective is its effective day.

Article 14 Load-out

(i) An owner intending to take delivery shall submit a load-out application via the Standard Warrant Management System and select the location to take delivery. The Exchange will arrange a vault in the selected location and will choose a shipment day from the five (5) trading days following the receipt of the load-out application. The Exchange will notify the owner of the shipment day through the Standard Warrant Management System on a preceding trading day, which will become known as the shipment notice day. The owner shall take delivery at the vault within two (2) business days from the shipment day.

(ii) The Exchange will conduct tolerance settlement for the gold ingots to be loaded out on the shipment notice day.

(iii) When taking delivery, the owner shall enter the take-delivery password into the Standard Warrant Management System and provide a valid identification certificate. The Designated Delivery Vault will ship the gold after verifying the identity of the delivery taker.

(iv) Completion of the Load-Out Confirmation Form for Standard Warrant

When shipping any gold, the Designated Delivery Vault shall complete a *Load-out Confirmation Form for Standard Warrant* in duplicate, one for the owner and one for itself, and properly retain its copy for future examination.

(v) If the owner fails to take delivery at the vault after submitting the load-out application, corresponding standard warrants will be canceled and the underlying gold ingots will be converted to physical products. Fees related to the conversion shall be negotiated and settled between the owner and the vault.

Article 15 Disputes over quality or quantity (weight)

If the delivery taker disputes the quality or quantity (weight) of the gold ingots delivered, he or she shall raise an objection during the physical delivery at the Designated Delivery Vault and shall engage a Designated Inspection Agency to take samples from the gold ingots for quality or quantity (weight) inspection.

The inspection agency's report on the quality or quantity (weight) of the gold ingots shall be final. If any quality or quantity (weight) problem is identified, the delivery taker shall, within five (5) business days of receiving the relevant inspection report issued by the Designated Inspection Agency, submit a written objection to the Exchange together with the inspection report. Where the delivery taker does not submit a written objection or relevant inspection report, he or she shall be deemed to have no objection over the delivered gold ingots and the Exchange will no longer handle any objection regarding the gold ingots thus delivered.

If the inspection result shows the quality or quantity (weight) complies with the contract specifications, the delivery taker shall assume relevant costs. If not, the party who is accountable for the non-compliance shall assume the liability of compensation and relevant costs.

CHAPTER 4 DELIVERABLE COMMODITIES

Article 16 Delivery unit

The delivery unit of a gold futures contract is the standard weight (fine weight) shown on a warrant, or three thousand (3,000) grams. Delivery shall be made in multiples of the delivery unit.

Article 17 Grade and quality specifications

Domestic gold ingots with a gold content no less than 99.95% and standard gold ingots produced by a supplier or refiner certified by the London Bullion Market Association (LBMA) and recognized by the Exchange.

Article 18 Deliverable commodities

- (i) Domestic gold ingots shall be of a brand registered with the Exchange.
- (ii) Imported gold shall be produced by a supplier or refiner certified by the London Bullion Market Association (LBMA) and recognized by the Exchange.

Article 19 Specifications of deliverable commodities

Deliverable gold ingots shall have a nominal weight of one thousand (1,000) grams (gold content no less than 99.99%) or three thousand (3,000) grams (gold content no less than 99.95%).

Gold ingots underlying each warrant shall consist of commodities of the same manufacturer, grade, registered trademark, quality grade, and shape.

Article 20 Packaging for deliverable commodities

Each gold ingot shall be wrapped with a clean paper or plastic film and placed in a wooden or plastic box. Gold products shall not be damaged or contaminated during transportation or storage.

Article 21 Tolerance and weighing difference standards for each gold ingot

A three-thousand-gram (3,000) gold ingot shall have a maximum weight (fine weight) tolerance of ± 50 grams. The weight (gross weight) of a one-thousand-gram ingot shall be no less than one thousand (1,000) grams and any excess will not be counted.

Each gold ingot shall have a maximum weighing difference of ± 0.1 gram. (scale/pound difference)

CHAPTER 5 DELIVERY SETTLEMENT, TOLERANCE SETTLEMENT AT LOAD-IN AND LOAD-OUT, AND INVOICING PROCEDURES

Article 22 Tolerance is the allowable difference between the fine weight of gold ingots underlying a warrant and the standard weight (fine weight) shown on the warrant during the deposit or withdrawal of gold ingots. Such difference can be either positive or negative. The Exchange will conduct tolerance settlement on the tolerance settlement day (either the warrant effective day or the shipment notice day).

Fine weight of a gold ingot = gross weight $\times$ gold content.

Tolerance = fine weight - standard weight (fine weight) shown on the warrant

Article 23 “Gold Settlement Special Invoice” refers to the common invoice printed with the approval of competent taxation authorities solely for gold delivery settlement and relevant tolerance settlement. The invoice consists of an invoice copy, a settlement copy, and a record copy.

Article 24 Gold delivery settlement and invoicing procedures

(i) Delivery settlement of gold futures: the final settlement price for a gold futures contract is the volume-weighted average price of the contract's execution in the last five (5) trading days on which it has been executed. The buyer and the seller shall settle the contract at its final settlement price at the delivery settlement.

(ii) Settlement of delivery payment: delivery payment between the buyer and the seller shall be settled based on the standard weight (fine weight) shown on the warrant. The Exchange only conducts settlement for its Members only. A buyer (Client) shall make payment through its carrying Member, and a seller (Client) shall receive payment through its carrying Member.

The delivery payment shall be calculated as follows:

Delivery payment = quantity of standard warrants × standard weight (fine weight) shown on each warrant × final settlement price.

(iii) Delivery invoice: a common invoice will be issued at delivery.

(iv) Circulation of a delivery invoice: after the seller (Client or Non-FF Member) issues a general invoice to the Exchange, the Exchange will issue a Gold Settlement Special Invoice (invoice copy) to the buyer (Client or Non-FF Member), provide the settlement copy to the seller (Client or Non-FF Member), and retain the record copy.

Clients must exchange invoices and other documents with the Exchange via their carrying FF Members.

The seller shall submit the tax invoices specified by the Exchange within five (5) business days following the last trading day.

During the delivery period, if a seller's carrying FF Member delivers the standard warrant according to applicable rules, the Exchange shall release the margin for the corresponding positions at the daily clearing. If the member fails to submit the tax invoice by market close on the third business day following the last trading day, the Exchange shall charge a margin no less than 15% of the final settlement price of the contract on the corresponding positions and release such margin after the member submits the invoice.

Article 25 Tolerance settlement at load-in and invoicing procedures

(i) Tolerance settlement at load-in: any load-in tolerance of gold shall be settled at the settlement price of the nearest month gold futures contract listed on the Exchange on the trading day preceding the tolerance settlement day.

(ii) Documents related to tolerance settlement: for a positive tolerance, the gold depositor shall issue a general invoice to the Exchange; for a negative tolerance, the Exchange shall

issue a Gold Settlement Special Invoice (invoice copy) to the depositor and retain the settlement copy and record copy.

(iii) The tolerance settlement payment shall be calculated as follows:

Tolerance settlement payment = tolerance × settlement price of the nearest month gold futures contract listed on the Exchange on the trading day preceding the tolerance settlement day.

Article 26 Tolerance settlement at load-out and invoicing procedures

(i) Tolerance settlement at the load-out of a standard warrant that has not been used for physical delivery: when a Member or Client (delivery taker) takes delivery with such a standard warrant, any tolerance shall be settled at the settlement price of the nearest month gold futures contract listed on the Exchange on the trading day preceding the tolerance settlement day. For a positive tolerance, the Exchange shall issue a Gold Settlement Special Invoice (invoice copy) to the delivery taker and retain the settlement copy and record copy; for a negative tolerance, the delivery taker shall issue a general tax invoice to the Exchange;

(ii) Tolerance settlement at the load-out of a standard warrant that is acquired through physical delivery: when a Member or Client takes delivery with such a standard warrant, any tolerance shall be settled at the settlement price of the nearest month gold futures contract listed on the Exchange on the trading day preceding the tolerance settlement day. The competent taxation authority of the Exchange shall, on behalf of the Exchange, issue a special VAT invoice (the deduction copy) to the Member or the Client showing the actual delivery payment (consisting of the delivery payment and tolerance settlement payment) and the delivery quantity in accordance with the Delivery Settlement Statement, Load-out Confirmation Form for Standard Warrant, and Tolerance Settlement Statement provided by the Member or the buyer. The invoice copy and the bookkeeping copy of the special VAT invoice shall be retained by the Exchange. If the Member or the Client is not a VAT payer, no special VAT invoice will be issued.

(iii) The tolerance settlement payment shall be calculated as follows:

Tolerance settlement payment = tolerance × settlement price of the nearest month gold futures contract listed on the Exchange on the trading day preceding the tolerance settlement day.

Article 27 The actual delivery payment of the buyer (Client or Member) consists of the delivery payment and tolerance settlement payment, the former shall be determined on a “Last In, First Out” basis. The unit price, value, and tax amount of a special VAT invoice shall be calculated as follows:

Actual delivery payment = delivery payment + tolerance settlement payment;

Actual settlement price = actual delivery payment ÷ delivery quantity;

Unit price of the invoice = actual settlement price ÷ (1 + VAT rate);

Value of the invoice = quantity × unit price of the invoice; and

VAT amount = value of the invoice × VAT rate.

CHAPTER 6 EXCHANGE OF FUTURES FOR PHYSICALS

Article 28 “Exchange of Futures for Physicals (EFPs)” refers to a process where the Members or Clients who hold opposite positions in a futures contract expiring in the same month agree to, subject to the approval of the Exchange, tender a notice to have their respective positions in such contract closed out by the Exchange at the price prescribed by the Exchange; then at the price agreed upon, the seller transfers to the buyer the warrant or bill of lading of the same quantity, same underlying commodity, and same direction as the futures contract.

A gold futures contract may be physically settled by EFP before expiration.

Article 29 The EFP period is from the listing day of a contract intended for EFP to the second trading day (inclusive) before the last trading day of the contract.

After a buyer and a seller (Clients or Members) who hold opposite positions in a contract expiring in the same month agree to enter into an EFP, either of them shall submit an EFP application to the Exchange through the Standard Warrant Management System by 2:00 p.m. on any trading day within the EFP application period (“EFP Application Day”).

If non-standard warrants are used for delivery, the buyer and the seller (Client or Members) shall comply with applicable national laws and regulations and provide photocopies of the relevant purchase agreement and the bill of lading.

Article 30 EFP is only available to positions in gold futures opened before the EFP Application Day.

Article 31 The final settlement price for an EFP is the price as agreed by the buyer and the seller (Clients or Members).

Article 32 Positions held by the buyer and the seller (Clients or Members) in the delivery month contract that correspond to their EFP application shall be closed out by the Exchange prior to 3:00 p.m. on the EFP Application Day at the settlement price of the delivery month contract on the preceding trading day.

Article 33 If standard warrants are used in the EFP, all relevant documents, including commodity payment and warrants, shall be exchanged on the Exchange by 2:00 p.m. on the first trading day after the EFP Application Day. The trading margin for the EFP shall be calculated based on the settlement price of the delivery month contract on the trading day preceding the EFP Application Day.

Article 34 If standard warrants are used in the EFP, the seller shall submit a common invoice to the Exchange within seven (7) days after completing the EFP procedures. The Exchange shall issue a common invoice to the buyer and release the seller's corresponding trading margin on the first business day after it received the seller's invoice.

Any failure to submit the common invoice within the prescribed time period shall be handled in accordance with the provisions of the *Clearing Rules of the Shanghai Futures Exchange* on the late submission of special VAT invoices.

Article 35 Where non-standard warrants are used in an EFP, the delivery payment and other relevant documents may be exchanged indirectly via the Exchange or directly between the buyer and the seller (Client or Member), as agreed by the buyer and the seller (Client or Member). Any dispute arising from this delivery process shall be resolved by the buyer and the seller (Client or Member), and the Exchange will no longer be liable for any performance guarantees.

Article 36 Delivery payment for an EFP settled via the Exchange shall be made through in-house transfer.

Article 37 If an EFP delivery is not completed within the time period specified in this Chapter, the provisions in these *Gold Futures Delivery Rules* on delivery default shall apply.

Article 38 Any *non-bona fide* EFP shall be handled in accordance with the *Enforcement Rules of the Shanghai Futures Exchange*.

Article 39 The Exchange will publish all EFP-related information in due course.

CHAPTER 7 CHARGES AND FEES

Article 40 Delivery charges and fees

Each party to a physical delivery shall pay a delivery fee of 0.06 yuan/gram to the Exchange.

Article 41 Allocation fees

To meet owners' needs to take or make delivery of gold ingots at their selected vaults, the Exchange is responsible for allocating and transporting gold ingots to or from any Designated Delivery Vaults. The Exchange will collect allocation fees from an owner via the carrying Member on the warrant effective day and the shipment notice day. Specific fee standards will be separately announced by the Exchange.

Article 42 The fee items and standards that a Designated Delivery Vault applies to the load-in, load-out, and storage of gold ingots shall be reviewed, approved, and separately announced by the Exchange.

Article 43 Storage fees for gold ingots will be regularly collected and paid via the Exchange.

CHAPTER 8 DELIVERY DEFAULT

Article 44 Any of the following acts shall constitute delivery default:

- (i) A seller fails to deliver all the standard warrants within the prescribed delivery period;
- (ii) A buyer fails to make all the commodity payment within the prescribed delivery period;
or
- (iii) The gold ingots that a seller delivers do not comply with the specified standards.

Article 45 The following formulas shall apply when calculating the number of contracts on which a buyer or a seller has committed delivery default:

Seller default quantity (in lots) = quantity (in lots) of standard warrants to be delivered –
quantity (in lots) of standard warrants actually delivered

Buyer default quantity (in lots) = (commodity payment due – commodity payment made) ÷
final settlement price ÷ contract size

In connection with calculating the amount of delivery default based on the buyer default quantity, 20% of the value of the contracts in default shall be provisioned from the buyer's corresponding margin balance as liquidated damages and compensation.

Article 46 In the event of delivery default, the Exchange shall notify the defaulting party and the non-defaulting party of the default by 4:30 p.m. on the day of the default. A default notice is deemed to have been delivered after being sent via the Member Service System.

Article 47 In the event of delivery default, the defaulting party shall pay the non-defaulting party liquidated damages equaling 20% of the value of the contracts in default (calculated at the final settlement price). The delivery will be terminated after the Exchange returns the commodity payment or the standard warrants to the non-defaulting party.

Article 48 Where both the buyer and the seller are in default, the Exchange will terminate the delivery and impose a fine on each equaling 5% of the value of the contracts in default.

Article 49 The termination of delivery shall relieve the Exchange of any delivery guarantees.

Article 50 Where a Member commits delivery default on some of its transactions, any standard warrants or commodity payment it receives can be used as remedy.

Article 51 Any Member who intentionally defaults on physical delivery shall be handled in accordance with the *Enforcement Rules of the Shanghai Futures Exchange*.

Article 52 Any Member or Designated Delivery Vault involved in default is obligated to provide evidence related to the default. A Member's refusal to provide such evidence shall have no bearing on the finding of fact.

Article 53 Disputes between an owner and a Designated Delivery Vault as to the inspection results of gold ingots shall be resolved by their joint inspection. A Designated Inspection Agency may be requested to conduct a re-inspection and the conclusions drawn therefrom shall constitute the basis for resolving the dispute.

CHAPTER 9 MISCELLANEOUS

Article 54 The Exchange reserves the right to interpret these *Gold Futures Delivery Rules*.

Article 55 For the purpose of these *Gold Futures Delivery Rules*, "gross weight" of a gold ingot refers to its weight excluding packaging; "fine weight" refers to its weight of pure gold, $\text{fine weight} = \text{gross weight} \times \text{gold content (fineness)}$.

Article 56 Matters not covered herein shall be governed by the *Articles of Association of the Shanghai Futures Exchange*, the *General Exchange Rules of the Shanghai Futures Exchange*, and other implementing rules of the Exchange.

Article 57 These *Gold Futures Delivery Rules* shall take effect on September 1, 2020.