

## Options Trading Rules of the Shanghai International Energy Exchange

(Released and implemented on June 11, 2021)

### CHAPTER 1 GENERAL PROVISIONS

**Article 1** These *Rules* are formulated, in accordance with the *Regulations on the Administration of Futures Trading* and the *General Exchange Rules of the Shanghai International Energy Exchange*, to regulate options trading activities, protect the legitimate rights and interests of options trading participants and the public interests, and facilitate the fulfillment of the options market's functions.

**Article 2** Options trading refers to the trading of option contracts through an open and centralized marketplace or by such other means as approved by the China Securities Regulatory Commission (CSRC).

**Article 3** The Shanghai International Energy Exchange (hereinafter referred to as the "Exchange") organizes options trading activities in accordance with the principles of transparency, fairness, impartiality, and good faith.

**Article 4** These *Rules* are applicable to options trading activities on the Exchange, and shall be observed by the Exchange and Members, Overseas Special Participants (hereinafter referred to as "OSPs"), Overseas Intermediaries, Market Makers, Clients, Designated Depository Banks, and other market participants.

### CHAPTER 2 OPTION CONTRACTS

**Article 5** An option contract is a standardized contract uniformly formulated by the Exchange which gives the buyer the right to buy or sell the agreed underlying asset at a specified price on a specific future date.

**Article 6** The main specifications of an option contract include the underlying asset, contract type, contract size, price quotation, minimum price fluctuation, price limit, contract month, trading hours, last trading day, expiration date, strike price, option style, contract symbol, and listing exchange.

**Article 7** The underlying asset of an option contract refers to the asset that the buyer of the option contract has the right to buy (sell) and the seller of the option contract has the obligation to sell (buy).

In these *Rules*, the underlying asset of an option contract is a futures contract listed and traded on the Exchange.

**Article 8** Option contracts include call options and put options.

A call option refers to an option contract which entitles the option buyer to buy, and obligates the option seller to sell, the underlying futures contract at a specified price on a specific future date.

A put option refers to an option contract which entitles the option buyer to sell, and obligates the option seller to buy, the underlying futures contract at a specified price on a specific future date.

**Article 9** The contract size of an option contracts is lot, and options shall be traded in an integral multiple of one (1) lot.

**Article 10** An option contract shall have the same price quotation as the underlying futures contract.

**Article 11** The minimum price fluctuation of an option contract refers to the minimum allowable price movement of the option contract.

**Article 12** An option contract shall be subject to the same price limit as applicable to the underlying futures contract. The price limit shall be calculated based on the previous trading day's settlement price of the underlying futures contract, and the current day's price limit for the underlying futures contract.

**Article 13** The contract month of an option contract refers to the delivery month of the underlying futures contract.

**Article 14** The last trading day of an option contract refers to the final trading day on which the option contract may be traded.

**Article 15** The expiration date of an option contract refers to the last trading day on which the buyer of the option contract can exercise the option contract.

**Article 16** The strike price of an option contract refers to the price, specified in the option contract, at which the option buyer has the right to buy or sell the underlying futures contract on a specific future date.

The strike price interval refers to the gap between two successive strike prices.

The Exchange may adjust the strike price interval and the strike price range based on market conditions.

**Article 17** Options are classified by style to American-style options, European-style options, and other style options as prescribed by the Exchange.

The buyer of an American-style option may exercise the option on its expiration date or any trading day before it; and the buyer of a European-style option may exercise the option only on the expiration date.

**Article 18** The contract symbol of an option contract consists of the contract symbol of the underlying futures contract, contract month, call (put) option symbol, and strike price.

## **CHAPTER 3      TRADING**

**Article 19** Members and OSPs may engage in options trading only after they have completed preparation for options trading in terms of technical system, business operation rules, and risk management, and staffing.

**Article 20** Non-Futures Firm Members (hereinafter referred to as “Non-FF Members”), Overseas Special Non-Brokerage Participants (hereinafter referred to as “OSNBPs”), and Clients shall each apply for a trading code to engage in options trading.

**Article 21** The participant eligibility rules apply to options trading. The Exchange will separately prescribe the specific rules on participant eligibility management.

**Article 22** A market maker system may be implemented for options trading. The Exchange will separately prescribe the specific rules on the management of market makers.

**Article 23** Each Non-FF Member, OSNBP, or Client may request quotes from Market Makers. The Exchange will determine and announce contracts for quote requests and frequency of submission of quote requests, and may adjust them to reflect market conditions.

**Article 24** The price of an option contract refers to the premium of the option contract per quotation unit.

A premium refers to the amount of funds that an option buyer pays in exchange of rights under the option.

**Article 25** Rules on opening price, closing price, high price, low price, last price, price change, high bid price, low ask price, bid volume, ask volume, trading volume, open interest, call auction, and order matching applicable to options are the same as those applicable to futures.

**Article 26** Trading orders for option contracts include limit orders, fill-and-kill (FAK) orders, fill-or-kill (FOK) orders, and other orders prescribed by the Exchange.

**Article 27** The Exchange may, based on market conditions, prescribe or adjust the maximum size of each trading order for option contracts, and will announce the maximum size thereof so prescribed or adjusted.

**Article 28** Option contracts shall be listed in accordance with the following principles:

- (i) The date for listing an option contract for a new month shall be set out in the contract;
- (ii) The option contracts to be listed shall include one (1) at-the-money contract and several in-the-money and out-of-the-money contracts;

(iii) Following the listing and trading of an option contract, the Exchange will, based on the price limit and the previous trading day's settlement price of the underlying futures contract and in accordance with the specifications of the option contract, list option contracts for the month with new strike prices, until market close on the trading day before the expiration date;

(iv) The listing reference price of the option contracts shall be determined and published by the Exchange.

For the purpose of item (ii) of the preceding paragraph, an at-the-money option refers to an option contract the strike price of which equals to (or approximates to) the previous trading day's settlement price of the underlying futures contract; if the average of two successive strike prices equals to the previous trading day's settlement price of the underlying futures contract, the higher of them shall be regarded as the strike price of the at-the-money option; an in-the-money option refers to a call (put) option the strike price of which is lower (higher) than that of the at-the-money option; and an out-of-the-money option refers to a call (put) option the strike price of which is higher (lower) than that of the at-the-money option.

**Article 29** An option contract may be closed out through liquidation, exercise or abandonment.

Liquidation refers to a method by which the seller or buyer of an option contract closes out such option contract by taking a reverse position in an options contract which has the same size, underlying futures contract, contract month, expiration date, option style, and strike price as such option contract.

Exercise refers to a method by which the buyer of an option contract closes out such option contract by buying or selling the underlying futures contract at the strike price in accordance with applicable rules.

Abandonment refers to a method by which the buyer of an option contract closes out such option contract by refusing to exercise its rights thereunder upon expiry thereof.

## CHAPTER 4      EXERCISE AND PERFORMANCE

**Article 30** Members, OSPs, Overseas Intermediaries, and Clients shall exercise options and perform contractual obligations in accordance with the trading procedures.

**Article 31** An option buyer may request to exercise or abandon the option within the time limit specified by the Exchange.

An option seller shall perform obligations under the option. Upon the exercise of the option by the option buyer, the option seller shall buy or sell a specified quantity of the underlying futures contract at such strike price as prescribed in the option contract.

The Exchange may adjust the time limit for submission of requests to exercise or abandon options on their expiration dates.

**Article 32** Upon the expiration of the time limit for submission of exercise requests, the Exchange will match exercise requests which are selected on a random and unbiased basis.

**Article 33** Before the expiration of an option contract, a Futures Firm Member (hereinafter referred to as “FF Member”), OSBP or Overseas Intermediary shall remind its Clients to properly dispose of their positions in such option contract.

**Article 34** Following the exercise of and performance of obligations under a call option, the buyer of the call option will hold a long position in the underlying futures contract at the strike price, and the seller of the call option will hold a short position in the underlying futures contract at the same strike price.

Following the exercise of and performance of obligations under a put option, the buyer of the put option will hold a short position in the underlying futures contract at the strike price, and the seller of the put option will hold a long position in the underlying futures contract at the same strike price.

**Article 35** For positions in an option for which no exercise or abandonment request has been submitted within the specified time limit, the Exchange will, prior to the

clearing on the expiration date of the option:

- (i) cause such positions to be exercised automatically in the case of a call option the strike price of which is lower than the settlement price of the underlying futures contract on that day;
- (ii) cause such positions to be exercised automatically the case of a put option the strike price of which is higher than the settlement price of the underlying futures contract on that day; or
- (iii) treat such positions as being abandoned automatically in the case of any other option.

**Article 36** Each Non-FF Member, OSNBP, or Client may request to have its long and short options positions under one trading code offset against each other. The positions being offset shall be deducted from the options open interest for the current day, and be included into the options trading volume.

An option buyer may request to have its long and short futures positions obtained upon exercise of options under one trading code offset against each other, or offset its futures positions obtained upon exercise of options under one trading code against its existing positions in the futures market to the extent of the futures positions obtained from the exercise. The positions being offset shall be deducted from the open interest in the futures contract for the current day, and be included into the trading volume of the futures contract.

An option seller may request to have its long and short futures positions obtained upon performance of obligations under one trading code, or offset its futures positions obtained upon performance of obligations under one trading code against its existing positions in the futures market to the extent of the futures positions obtained from the exercise. The positions being offset shall be deducted from the open interest in the futures contract for the current day, and be included into the trading volume of the futures contract.

For the above-mentioned operations, the time and method of submission of requests

will be separately announced by the Exchange.

**Article 37** An option buyer who intends to exercise the option shall ensure that the balance of its available funds meets the margin requirements for futures trading.

## **CHAPTER 5 CLEARING**

**Article 38** In options trading, Members shall use the same clearing accounts and settlement accounts as they use in futures trading.

**Article 39** In an options trade, the option buyer pays the applicable premium, without depositing the applicable trading margin, while the option buyer receives the premium, and deposits the trading margin.

**Article 40** An option buyer shall, after placing an order to open a position, pay a premium based on the execution price of such order, and shall, after placing an order to liquidate its position, receive a premium based on the execution price of such order.

An option seller shall, after placing an order to open a position, receive a premium based on the execution price of such order, and shall, after placing an order to liquidate its position, pay a premium based on the execution price of such order.

**Article 41** Where an option seller opens a position in an option contract, the Exchange will collect a trading margin from the option seller at the margin rate for the option contract applicable at the time of clearing on the previous trading day; and where the option seller liquidates its position in the option contract, the Exchange will release the trading margin deposited by the option seller for the liquidated position.

**Article 42** At the time of clearing on a trading day, the Exchange will collect a trading margin from each option seller based on the respective settlement price of the option contract and the underlying futures contract on that day, and transaction fees and exercise (performance) fees from both parties to each options trade based on the trading volume and exercise (performance) volume, and transfer the resulting receivables and payables on a lump-sum and netting basis as a credit or debit to their respective Member's clearing deposit.

The Exchange will determine and announce its fee rates, and may adjust such rates to reflect market conditions.

**Article 43** The settlement price of an option contract shall be determined in the following ways:

(i) The theoretical price of the option contract determined by the Exchange based on its implied volatility shall be treated as its settlement price on any trading day other than the last trading day;

(ii) The calculation formula for the settlement price of the option contract on the last trading day shall be as follows:

Settlement price of a call option = Max (settlement price of the underlying futures contract – strike price, minimum price fluctuation);

Settlement price of a put option = Max (strike price – settlement price of the underlying futures contract, minimum price fluctuation); and

(iii) The Exchange may adjust the settlement price of the option contract if the price of the option contract is clearly unreasonable.

In these *Rules*, the implied volatility of an option contract refers to the price volatility of the underlying futures contract as calculated by using the options pricing model and based on the market price of the option contract.

**Article 44** In the event of exercise or abandonment of an option contract, the Exchange will, at the time of clearing, deduct the positions of the option buyer and seller in such option contract from their respective total open positions, and release the option seller's trading margin for such position.

The futures positions obtained from the exercise of (or performance of obligations under) options will not be included in the calculation of the current day's settlement price of the futures contract.

## CHAPTER 6 RISK MANAGEMENT

**Article 45** The Exchange will apply margin requirement, price limit, position limit, trading limit, large position reporting, forced liquidation, and risk warning rules to the risk management in options trading.

**Article 46** The Exchange applies margin requirements to options trading. The trading margin rate applicable to an option seller shall be the higher of:

- (i) settlement price of the option contract  $\times$  contract size of the underlying futures contract + trading margin for the underlying futures contract  $- (1/2) \times$  out-of-the-money amount of the option contract; and
- (ii) settlement price of the option contract  $\times$  contract size of the underlying futures contract +  $(1/2) \times$  trading margin for the underlying futures contract.

Where:

Out-of-the-money amount of a call option contract = Max (strike price – settlement price of the underlying futures contract, 0)  $\times$  contract size of the underlying futures contract;

Out-of-the-money amount of a put option contract = Max (settlement price of the underlying futures contract – strike price, 0)  $\times$  contract size of the underlying futures contract.

**Article 47** The Exchange may prescribe different trading margin rates for different combinations of positions.

**Article 48** The Exchange applies price limits to options trading. The limit price for an option contract shall be calculated as follows:

- (i) Upper limit price = the previous trading day's settlement price of the option contract + the previous trading day's settlement price of the underlying futures contract  $\times$  upper limit rate for the underlying futures contract;

(ii) Lower limit price = Max (the previous trading day's settlement price of the option contract – the previous trading day's settlement price of the underlying futures contract × lower limit rate for the underlying futures contract, minimum price fluctuation of the option contract).

**Article 49** A limit-locked market refers to the situation where, for an option contract, there are only bid (ask) orders at the limit price without any ask (bid) orders at such price, or all ask (bid) orders are instantly filled at a price other than the limit price, and the last price is the same as the upper (lower) limit price, within five (5) minutes prior to the close of a trading day.

If the settlement price of an option contract on the previous trading day equals or is lower than the current day's price limit, and within five (5) minutes prior to the close of the current day, there are only ask orders at the lowest price without any bid orders at such price, or all bid orders are instantly filled at a price other than the lowest price, the Exchange will not consider such situations as a limit-locked market.

**Article 50** If a same direction limit-locked market occurs for three (3) consecutive trading days with respect to an option contract, the Exchange will not implement forced position reduction, unless the Exchange believes there is an abnormal circumstance.

**Article 51** The trading of an option contract shall be suspended in the event of the suspension of trading of the underlying futures contract.

Where the trading of an option contract is suspended for a whole day on the last trading day, the last trading day and expiration date of the option contract shall be postponed to the immediately following trading day.

**Article 52** The trading margin and price limit for an option contract shall be changed to the extent that those for the underlying futures contract are changed.

**Article 53** The Exchange applies position limits to options trading. Position limits for options refer to the maximum size, as prescribed by the Exchange, of positions held by a Non-FF Member, OSNBP, or Client in option contracts.

**Article 54** Where a Client has acquired multiple trading codes from multiple FF Members, OSBPs, or Overseas Intermediaries, the combined size of open positions in options contracts under all trading codes shall not exceed the position limit imposed by the Exchange with respect to Clients.

**Article 55** Position limits for options and futures contracts shall not be applied on an aggregated basis. Position limit for an option contract may vary based on different periods of trading over the contract's lifecycle. Such periods are segmented in the same manner as those for the underlying futures contract.

The size of positions held by each Non-FF Member, OSNBP, or Client shall not exceed the position limit prescribed by the Exchange. The Exchange will determine and announce the position limits for general positions in option contracts, and may adjust such position limits according to market conditions.

If futures positions held by a Non-FF Member, OSNBP, or Client exceed the applicable futures position limit upon exercise of options, the Exchange will take actions in accordance with applicable rules.

Position limits applicable to Non-FF Members, OSNBPs, and Clients who engage in hedging, arbitrage trading, and market making shall be subject to the applicable rules of the Exchange.

**Article 56** The options positions of a Non-FF Member, OSNBP, or Client shall be calculated as follows:

- (i) long positions in call options with the same underlying asset + short positions in put options with the same underlying asset; and
- (ii) long positions in put options with the same underlying asset + short positions in call options with the same underlying asset.

**Article 57** The Exchange may apply trading limits to option contracts in accordance with the applicable provisions of the *Risk Management Rules of the Shanghai International Energy Exchange*.

**Article 58** The Exchange applies large position reporting rules to options trading. The large position reporting threshold and materials to be submitted shall be subject to the *Risk Management Rules of the Shanghai International Energy Exchange*.

**Article 59** The Exchange applies forced liquidation rules to options trading. The Exchange will force-liquidate the relevant participant's open positions if:

- (i) the clearing deposit balance of a Member recorded on any internal ledger at the Exchange falls below zero (0) and the Member fails to meet the margin requirement within the specified time limit;
- (ii) the positions held by a Non-FF Member, OSNBP, or Client exceed the applicable position limit;
- (iii) the participant is subject to forced position liquidation due to any violation of applicable rules;
- (iv) the positions of the participant shall be force-liquidated in accordance with any emergency actions taken by the Exchange; or
- (v) the participant's positions are otherwise required to be force-liquidated.

The principles and procedures for forced position liquidation in connection with options trading are subject to the *Risk Management Rules of the Shanghai International Energy Exchange*.

**Article 60** The Exchange applies risk warning rules to options trading. Such matters as circumstances which require risk warnings and methods of issuance of risk warnings are governed by the *Risk Management Rules of the Shanghai International Energy Exchange*.

## **CHAPTER 7 MISCELLANEOUS**

**Article 61** Matters uncovered in these *Rules* shall be governed by other applicable rules of the Exchange. In all rules of the Exchange, expressions such as “futures market,” “futures business,” “futures-related business,” and “futures trading” also

encompass option trading and related activities, unless otherwise prescribed.

**Article 62** Where these *Rules* are inconsistent with other rules of the Exchange, these *Rules* shall prevail.

**Article 63** Any violation of these *Rules* shall be addressed in accordance with the *Enforcement Rules of the Shanghai International Energy Exchange*.

**Article 64** The Exchange reserves the right to interpret these *Rules*.

**Article 65** These *Rules* shall come into effect as of June 11, 2021.