Guidelines on Trading Options at the Shanghai International Energy Exchange

Introduction and Disclaimer

These *Options Trading Guidelines* are formulated based on the *Options Trading Rules of the Shanghai International Energy Exchange, Trading Rules of the Shanghai International Energy Exchange*，*Clearing Rules of the Shanghai International Energy Exchange*，*Risk Management Rules of the Shanghai International Energy Exchange*, and the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange* to regulate options trading activities, protect options market participants, and maintain an orderly market. These *Options Trading Guidelines* mainly apply to the options trading activities at the Shanghai International Energy Exchange (**INE** or the "**Exchange**") and function as reference materials for INE's Members (i.e., Futures Firm Members and Non-Futures Firm Members), Overseas Special Participants (i.e., Overseas Special Brokerage Participants and Overseas Special Non-Brokerage Participants), Overseas Intermediaries, and Clients when trading options. INE will update and revise these *Options Trading Guidelines* based on market developments and changes to its options trading rules.

Chapter I Market Entry Requirements and Procedures

Members, Overseas Special Participants ("**OSPs**"), and Overseas Intermediaries shall develop in-house rules on options brokerage, trading, clearing and settlement, and risk management in line with the options rules of the Exchange. They should be fully prepared in terms of IT systems, options-related rules, risk management, and staffing before engaging in options trading.

A Client should fully assess his knowledge about the market and products, risk control and tolerance, and financial position in accordance with the eligibility rules, and prudently decide whether to engage in options trading.

I. Futures Firm Members, Overseas Special Brokerage Participants, and Overseas Intermediaries

Futures Firm Members ("**FF Members**") and Overseas Special Brokerage Participants ("**OSBPs**") shall establish sound internal rules on options trading and risk management frameworks and procedures that cover brokerage business, trading, clearing and settlement, risk control, client eligibility assessment, and investor education. They should also develop contingency plans to anticipate any options trading emergencies and ensure smooth business operations.

1. Internal rules

Required internal rules and procedures include but are not limited to:

(1) options brokerage business management rules;

(2) options clearing and settlement rules;

(3) options risk management rules;

(4) futures trading participant eligibility rules; and

(5) options brokerage contracts and risk disclosure statements.

2. Risk management procedures

FF Members and OSBPs must strictly follow risk management procedures when offering options brokerage services. Such procedures include but are not limited to:

(1) risk management procedures in relation to Client capital;

(2) risk management procedures in relation to Clients' exercise or fulfillment of options;

(3) large trader position reporting procedures; and

(4) forced liquidation procedures.

3. IT system

(1) the brokerage trading system should support the following features: Client trading privilege management, options trading and exercise and fulfillment of option contracts, day-end clearing and settlement, and risk control, among others;

(2) appropriate communication and market data links should be established and configured; and

(3) meeting other options-related IT system requirements set by the Exchange.

Overseas Intermediaries should, in reference to the brokerage service requirements for FF Members and OSBPs, establish sound internal rules and risk management procedures, and make the necessary IT preparations to ensure smooth business operations.

II. Non-FF Members and Overseas Special Non-Brokerage Participants

1. Rules and procedures

Non-FF Members and Overseas Special Non-Brokerage Participants ("**OSNBPs**") should establish sound internal controls, risk management rules, and other systems for the management of options trading, including but not limited to rules and procedures for options trading decision-making, order submission, and risk management to ensure smooth business operations.

2. IT system

(1) appropriate communication and market data links should be established and

configured; and

(2) meeting other options-related IT system requirements set by the Exchange.

III. Clients

The Exchange enforces Client eligibility rules for options trading.

When applying for options trading code or trading access, a Client should meet eligibility criteria regarding basic knowledge of futures trading, trading experience, simulated trading experience, available funds, credibility, and risk tolerance.

IV. Market Access Application

FF-Members and OSBPs intending to access the options market need to submit an application to the Exchange. Access will be granted if they have made the necessary preparations and passed the IT system tests organized by INE. Non-FF Members and OSNBPs that have made the necessary preparations may apply to the Exchange for options trading access. Clients meeting the eligibility criteria may apply for options trading access through their carrying FF Members, OSBPs, Overseas Intermediaries, or other account-opening institutions.

Chapter II Investor Eligibility

FF Members, OSBPs, Overseas Intermediaries, and other account-opening institutions are required to assess their Clients' options trading knowledge and risk tolerance in accordance with the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange*, and to permit only suitable Clients to trade options. They must strictly comply with all the requirements on investor eligibility and shall not permit Clients who do not meet the eligibility criteria to trade options. The Exchange may update and revise sections on investor eligibility in these *Options Trading Guidelines* based on the actual market conditions.

I. Investor Eligibility Requirements

1. Institutional Clients

An institutional Client must meet the following criteria to apply for an options trading code or trading access:

(1) having the corresponding personnel with basic knowledge about futures trading and an understanding of the relevant rules;

(2) having records of no fewer than 20 simulated futures or options transactions from at least 10 days of trading on Chinese trading venues; or having no fewer than 10 transactions in futures, options or other centrally cleared derivatives at a Chinese trading venue in the past 3 years; or having no fewer than 10 transactions in futures, options or other centrally cleared derivatives in the past 3 years in overseas exchanges regulated by competent futures regulatory authorities that have an MOU

on regulatory cooperation with the China Securities Regulatory Commission ("**CSRC**") (such overseas trading records are hereinafter referred to as the "**Recognized Overseas Trading Record**");

(3) having an available balance of no less than RMB 1,000,000 or its equivalent in foreign currency in its margin account on each of the 5 consecutive trading days before applying for the trading code or trading access;

(4) having sound internal control, risk management and other relevant rules on futures trading;

(5) having no material adverse credibility records, having never been subjected to a ban from the futures market by any competent regulatory authority, and having never been banned or restricted from engaging in futures trading pursuant to any laws, rules and regulations, or the rules of the Exchange; and

(6) meeting any other conditions required by the Exchange.

2. Individual Clients

An individual Client must meet the following criteria to apply for an options trading code or trading access:

(1) having full capacity for civil conduct;

(2) having basic knowledge about futures trading and an understanding of the relevant rules;

(3) having records of no fewer than 20 simulated futures or options transactions from at least 10 days of trading on Chinese trading venues; or having no fewer than 10 transactions in futures, options or other centrally cleared derivatives at a Chinese trading venue in the past 3 years; or having a Recognized Overseas Trading Record for no fewer than 10 transactions in the past 3 years;

(4) having an available balance of no less than RMB 500,000 or its equivalent in foreign currency in his margin account on each of the 5 consecutive trading days before applying for the trading code or trading access;

(5) having no material adverse credibility records, having never been subjected to a ban from the futures market by any competent regulatory authority, and having never been banned or restricted from engaging in futures trading pursuant to any laws, rules and regulations, or the rules of the Exchange; and

(6) meeting any other conditions required by the Exchange.

II. Basic Knowledge Requirements

Individual Clients and relevant personnel of institutional Clients should possess basic knowledge about futures trading and a good understanding of the INE rules. An account-opening institution may assess a Client's level of knowledge through:

1. Knowledge test. A Client needs to take the online knowledge test through the futures investor eligibility test platform of China Futures Association's (**CFA**) and achieve a minimum score of 80 (out of 100). The test must be completed by the individual Clients and institutional Clients' authorized traders personally; no surrogate test taker is permitted.

2. Letter of commitment. Overseas Clients may declare they possess the level of trading knowledge required under the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange* by signing a letter of commitment to that effect. In this case, they are liable for making any false commitment. The letter of commitment should indicate that the overseas individual Client or the relevant personnel of the overseas institutional Client personally possess the basic knowledge about futures trading and a good understanding of the relevant rules.

III. Trading Experience Requirements

1. Simulated trading experience. The Exchange recognizes simulated futures or options transactions conducted within the joint testing systems or simulated systems of the Exchange or of other domestic trading venues. A Client should provide documents such as the settlement statements issued by securities companies or futures firms to prove it has executed 20 or more simulated transactions from no fewer than 10 trading days.

2. Domestic trading experience. A Client should provide documents such as the settlement statements issued by securities companies or futures firms to prove it has executed 10 or more trades in futures, options, or other centrally cleared derivatives (such as swaps cleared by the Shanghai Clearing House) in the past 3 years.

3. Overseas trading experience. A Client should provide Recognized Overseas Trading Record (such as detailed trading records or settlement statements) to prove it has executed 10 or more trades in futures, options, or other centrally cleared derivatives (such as swaps).

4. An order that is filled through multiple executions is deemed as one record of transaction. All trading records mentioned above should be trading records for real (or simulated) transactions.

IV. Available Funds Requirements

1. Available funds requirement. A Client's balance of available funds in its margin account is determined by the amount actually collected by the account-opening institution. An overseas Client may use foreign currency as margin. Both RMB and foreign currencies count toward the account balance. The range of permissible foreign currencies and the corresponding haircuts are separately announced by the Exchange.

   The formula for converting foreign-currency amount to RMB is as follows:

   Converted RMB amount = foreign-currency amount × intraday foreign currency/RMB central parity rate published by the China Foreign Exchange Trade System × haircut for the foreign currency

2. Time period requirements. An FF Member who directly applies for a trading code or trading access on behalf of a Client should ensure that the balance of the Client's margin account at the FF Member after daily clearing is no less than the minimum amount required by the Exchange on each of the five consecutive trading days before the date of application.

   An OSBP or Overseas Intermediary who applies for a trading code or trading access on behalf of a Client should ensure that the balance of the Client's margin account at the OSBP or Overseas Intermediary after daily clearing is no less than the minimum amount required by the Exchange on each of the five consecutive trading days before the date of application.

V. Compliance and Integrity Requirements

1. An account-opening institution should use various means (including credit reference systems in relevant countries and regions) to obtain its Clients' integrity information and comprehensively assess their integrity. The institution should explicitly inform its Clients of the rules and requirements concerning prohibitions or restrictions on futures trading.

2. An account-opening institution should check its Clients' integrity standing through such channels as CSRC's securities and futures market violation and dishonesty record inquiry platform, CFA's Industry Information Management Platform, and the list of individuals with serious financial dishonesty records. The institution may further require a Client to affirm that it satisfies the compliance and integrity requirements under the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange* and that it will be liable for any false commitment.

VI. Internal System Requirements for Institutional Clients

To apply for a trading code or trading access, an Institutional Client should have sound internal control, risk management and other relevant rules on futures trading, including but not limited to rules or procedures for futures trading decision-making, order submission, funds transfer, physical delivery, and risk management.

VII. Partial or Full Exemption from Eligibility Assessment

1. When assessing the eligibility of a Client who meets any of the following criteria, the account-opening institution may waive the basic knowledge and trading experience requirements. In addition, if the Client is already trading a listed product subject to investor eligibility requirements ("**eligibility-restricted product**"), and the available funds balance required by that product is no lower than what is required by the product the Client is currently applying for, then the available funds balance requirement may also be waived:

   (1) having obtained trading access to any eligibility-restricted product listed on another Chinese commodity futures exchange;

   (2) having obtained a trading code for financial futures;

(3) having obtained trading access to options listed on Chinese stock exchanges;

(4) having obtained a trading code from the Exchange and trading access to an eligibility-restricted product listed on the Exchange, and currently applying for trading access to another product listed on the Exchange.

The Client needs to provide supporting materials for the above-mentioned qualifications.

2. When assessing a Client's eligibility, the account-opening institution should make full use of existing information and assessment results. Accordingly, it may skip an assessment item that was examined before and any supporting material that has been submitted before.

   If a Client already has trading access to an INE product, then at the same account-opening institution, it may automatically obtain the trading access to other INE products subject to the same or lower requirement on available funds balance.

3. An account-opening institution may waive the basic knowledge, trading experience, or available funds balance requirements when applying for a trading code or trading access to an eligibility-restricted product on the Client's behalf, if the Client:

(1) is a professional investor as defined in the *Measures for the Administration of Securities and Futures Investors Suitability*;

(2) has trading access to an eligibility-restricted product and is applying for access to the same product at a different account-opening institution, provided the Client furnishes the corresponding supporting materials;

(3) has the records for executing trades in futures, options, or any centrally cleared derivatives at a Chinese trading venue for no fewer than 50 trading days within the past year, or the Recognized Overseas Trading Record for the equivalent, provided the Client furnishes the corresponding detailed trading records, settlement statements, or similar supporting documents.

(4) is a market maker, Special Institutional Client, or another type of trader specially recognized by the Exchange. "Special Institutional Client" refers to an institutional Client that is required by laws, administrative regulations, or ministry-level rules to manage assets in a segregated account. The term includes but is not limited to financial institutions such as futures firms, securities companies, fund management companies, and trust companies, as well as social security funds and Qualified Foreign Institutional Investors.

VIII. Other Requirements

1. Trading code applications and trading access applications share the same application materials. Therefore, an account-opening institution should preserve the following as account-opening materials for future use: documents certifying a Client's satisfaction of requirements on basic knowledge, trading experience, available funds balance, and compliance and integrity under investor eligibility rules; Client's trading access application; and any other relevant materials.

A Client may not provide any declaration, representation, explanation, or statement that is false, misleading, or missing material facts.

2. If an account-opening institution already possesses material showing that a Client has relevant trading records, it may exempt the Client from providing the corresponding supporting materials.

   If a Client requests an account-opening institution to issue certifying materials such as proof of trading experience and trading access, the account-opening institution should do so in a truthful manner.

Chapter III Trading Options

I. Trading Access

1. Requirements on trading access

   An INE trading code can be used for both futures and options trading. It is needed for any Client intending to trade options at the Exchange. A Client without such a code should first apply for one at an account-opening institution, such as its carrying FF Member, OSBP, or Overseas Intermediary.

   According to the *Operational Guidelines on Unified Account Opening for Special Institutional Clients* of the China Futures Market Monitoring Center ("**CFMMC**"), market makers are subject to the same account opening requirements as for Special Institutional Clients. Thus, market makers for option products should apply for a special trading code.

   Access to options trading is not automatic. For a Client, this access is controlled by its account-opening institution. An account-opening institution should ensure that within its IT system, the options trading access is defaulted to "off" for all trading codes. To engage in options trading, a Client should first apply to such institution to obtain the trading access.

2. Application for trading access

   An account-opening institution can offer Clients various ways of applying for trading access, such as applying in person at a business outlet, door-to-door service, or online.

   Regardless of the exact method, the account-opening institution must comply with the *Futures Trading Participant Eligibility Management Rules of the Shanghai International Energy Exchange* and these *Options Trading Guidelines* by granting options trading access only to qualified Clients. Unqualified Clients should *not* be given such access. Individual Clients, General Institutional Clients, Special Institutional Clients, and market makers use different application forms for this purpose. An account-opening institution can add additional items to those forms, but should not remove existing ones.

   Domestic individual Clients should sign the application form; domestic institutional

Clients should stamp the form with its common seal. Overseas Clients should either sign or affix their seals to the application form.

3. Record-filing for trading access

Within three trading days of granting a Client trading access to an eligibility-restricted product, the account-opening institution should file the corresponding trading code with CFMMC as required. Similarly, if a Client closes its account or voluntarily cancels its trading access, the account-opening institution should cancel the filing record within three trading days.

II. Trading Orders

For option contracts, the Exchange supports limit orders and other types of orders as it determines from time to time. A limit order may be given the additional attribute of fill-or-kill (FOK) or fill-and-kill (FAK) orders.

III. Initial and Subsequent Listing of Contracts

1. Initial listing

Option contracts for a new month are listed at the time given in the contract specifications.

As of the date of these *Options Trading Guidelines*, contract specifications state that the Exchange will list option contracts of "the nearest two consecutive months and, when the open interest of the underlying futures contract, after daily clearing, has reached a specific threshold to be separately announced by the Exchange, for later months on the second trading day thereafter." The Exchange will announce this threshold before the listing of the option contract.

2. Subsequent listings

After an option contract is listed for trading, the Exchange will, on each trading day, list contracts for the same expiration month but of updated strike prices determined based on the strike price interval (see contract specifications), until market close on the trading day before the expiration date.

Listed option contracts can be traded until they are delisted. Newly listed option contracts and their listing benchmark prices can be viewed on INE's official website and in the Member Service System. The settlement data package contains a list of option parameters, which include the contracts to be listed on the following trading day and their listing benchmark prices. Members and OSPs may download the package as necessary in their corresponding systems.

IV. Trading Hours

Option contracts share the same trading hours with their underlying futures contracts, i.e., 9:00–11:30 a.m., 1:30–3:00 p.m., and other hours announced by the Exchange.

V. Request for Quote

Non-FF Members, OSNBPs, and Clients may request for quote ("**RFQ**") on option contracts under the following conditions:

1. RFQ is available to option contracts of all months;

2. RFQ should indicate the contract symbol; buy/sell direction and number of lots are not needed;

3. There should be a minimum 60-second interval between two RFQs for the same option contract;

4. No RFQ is accepted during the central auction session for option contracts;

5. No RFQ is accepted for an option contract when it has reached the price limit;

6. No RFQ is accepted for an option contract when the best bid-ask spread is less than or equal to the maximum bid-ask spread specified by the Exchange. The maximum bid-ask spread is given through circulars posted on the Exchange's website.

FF Members, OSBPs, and Overseas Intermediaries should effectively manage their Clients by refusing excessively frequent RFQs or RFQs when there are rational quotes in the market.

Chapter IV Exercising Options

I. Options Exercise and Fulfillment at INE

1. Time limit for the submission of exercise requests

   A buyer of a European-style option may, during the trading hours or between market close and 3:30 p.m. on the expiration date, submit a request to exercise or abandon the option through the client software, Member Service System, or Overseas Intermediary Service System.

   A buyer of an American-style option may submit a request to exercise the option during trading hours on any trading day before the expiration date, or a request to exercise or abandon the option during the trading hours or between market close and 3:30 p.m. on the expiration date. Such requests can be submitted through client software, Member Service System, or Overseas Intermediary Service System.

2. Exercise check

   Upon receiving an exercise request (in the form of an instruction) from client software, the INE system will check its validity and freeze the corresponding option positions. INE does not perform such checks or freezing operations for exercise requests submitted through the Member Service System or Overseas Intermediary Service System.

3. Automatic exercise

Before time of clearing on the expiration date, the Exchange will automatically exercise options that are in-the-money as determined by the settlement price of the underlying futures contract, and automatically abandon all other options, even if no exercise or abandonment request has been submitted within the specified time limit.

4. Assignment

Upon the closing of the submission window for exercise requests, the INE system will randomly assign the requests to sellers based on the buyers' exercise and abandonment instructions and the result of automatic exercise. The specific assignment algorithm is as follows:

(1)Forming an initial ordered sequence of seller positions based on the Client ID code;

(2)Determining a random starting point, which is one plus the remainder of the (single-counted) options trading volume divided by the size of the short options position;

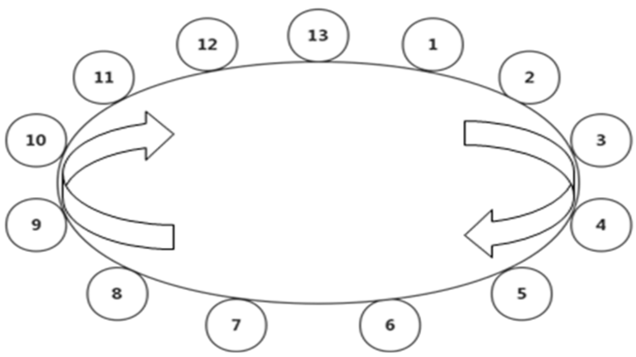
(3)From the starting point, excluding seller positions at every *y* internal ("exclusion interval"), until a total of *x* number of seller positions are excluded, where *x* is the remainder of the size of short options positions divided by the exercise request quantity and *y* is the quotient of the size of short options positions divided by *x*;

(4)Because the original starting point will be excluded in the step above as part of *x*, the position next in the sequence will be used as the new starting point. For purposes of assignment, the INE system will evenly select short positions among this remaining sequence according to the selection interval number, which is the quotient of the size of remaining short options positions divided by the exercise request quantity.

For example, if the trading volume is 27 lots, short positions are 13 lots, and exercise requests amount to 5 lots, then INE would select 5 out of 13 lots for assignment.

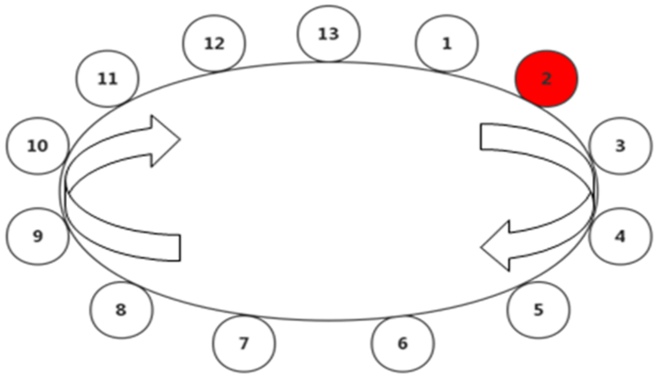
Step 1: Arranging the short positions in ascending order of Client ID number (Figure 1).

Figure 1: Sequence formed after arranging short positions by ascending Client ID number



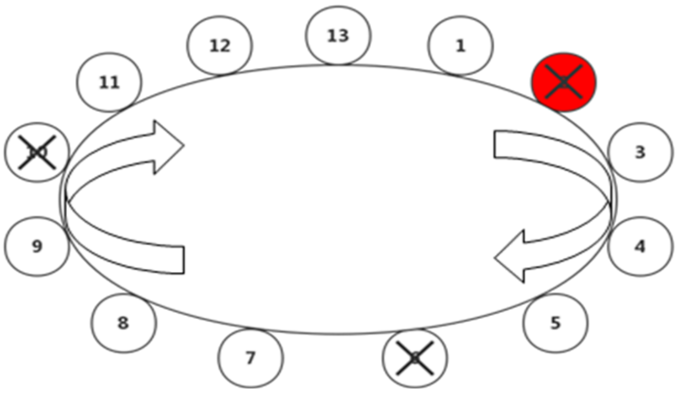
Step 2: Because 27 ÷ 13 = 2 R **1** (remainder of 1), the starting point is 1 + 1 = 2 and the end point is 1 (Figure 2).

Figure 2: Determination of the starting and end points



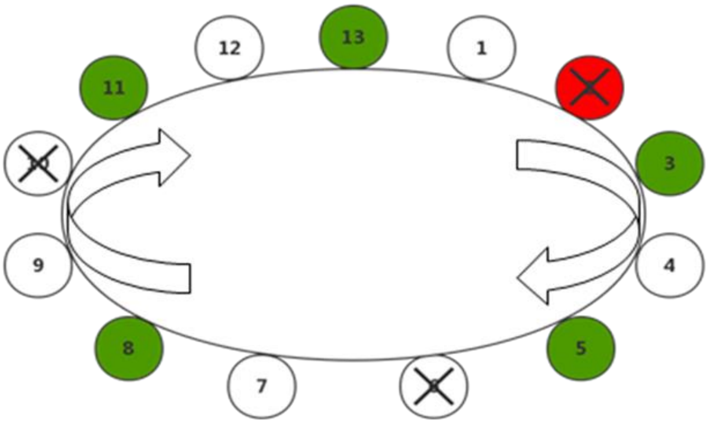
Step 3: Because 13 ÷ 5 = 2 R **3** and 13 ÷ 3 = **4** R 1, 3 lots of short options positions will be excluded, at the frequency of one for every 4 lots (the exclusion interval), beginning from the starting point. The remaining sequence is shown in Figure 3.

Figure 3: The sequence formed after excluding the excess positions



Step 4: Because the original starting point (2) has been excluded, 3 will be the new starting point. Starting from this new starting point, INE selects 5 lots for assignment at an even spacing of one for every 10 ÷ 5 = 2 lots (the selection interval). The resulting assignment is shown in figure 4.

Figure 4 Results of exercise matching



5. Results of exercise and fulfillment

Following the exercise and fulfillment of obligations under a call (put) option, the buyer will hold a long (short) position in the underlying futures contract at the strike price and the seller will hold a short (long) position in the underlying futures contract at the same strike price. These positions will be counted toward the open interest of the futures contract.

The exercise of an option held for speculative or hedging purposes will establish a corresponding speculative or hedging futures position.

6. Netting of open options positions

A Non-FF Member, OSNBP, or Client may request for the netting of its long and short positions in the same option contract held under the same trading code. The positions thusly offset are deducted from the day's open interest for that option contract and added to the contract's trading volume. Request for netting should be submitted during the following hours:

(1)European-style option: during the trading hours or between market close and 3:30 p.m. of the expiration date;

(2)American-style option: during the trading hours on any trading day before the expiration day; and during the trading hours or between market close and 3:30 p.m. on the expiration date.

Before daily clearing, the INE system automatically nets the long and short positions in the same option contract held under the same dedicated market-making trading code. A market maker can request for the partial or complete exclusion of its positions from this automatic netting process.

7. Netting of futures positions created by exercise (fulfillment) of options

An option buyer (seller) may request for the netting of its long and short futures positions obtained upon the exercise (or fulfillment) of options under the same trading code, or the netting of such futures positions against its existing futures positions to the extent of the former. The positions thusly offset are deducted from the day's open interest for that futures contract and added to the contract's trading volume. Request for netting should be submitted during the following hours:

(1) European-style option: during the trading hours or between market close and 3:30 p.m. on the expiration date;

(2) American-style option: during the trading hours on any trading day before the expiration day; and during the trading hours or between market close and 3:30 p.m. on the expiration date;

II. Options Exercise and Fulfillment by FF Members, OSBPs and Overseas Intermediaries

1. Front-end check and validation of exercise requests

When an exercise request is submitted, the option buyer should have sufficient amount of available funds to meet the margin requirements for the resulting futures positions, and its carrying FF Member, OSBP, or Overseas Intermediary should freeze a corresponding amount of margin and positions. FF Members, OSBPs, and Overseas Intermediaries should not accept the exercise request of an option buyer who has insufficient funds.

Upon the cancellation of an exercise request, the FF Member, OSBP, or Overseas Intermediary should unfreeze the corresponding amount of funds and positions.

An FF Member, OSBP, or Overseas Intermediary should monitor whether a Client would exceed the position limit on the underlying futures contract upon exercising an option. If such a scenario is likely, the FF Member, OSBP, or Overseas Intermediary should remind the Client to close out its futures or option positions as early as possible, or risk forced position liquidation.

2. Estimation of funds needed for exercise

An FF Member, OSBP, or Overseas Intermediary should calculate beforehand the amount of funds Clients would need to exercise their options and inform those with insufficient funds, especially those with a significant shortfall, to prepare additional funds, cancel their exercise requests, and request to abandon the options, or close their positions. The goal is to avoid the situation where Clients have to abandon options *en masse* because of insufficient funds.

For Clients who have failed on numerous occasions to prepare sufficient funds for options exercise, their carrying FF Member, OSBP or Overseas Intermediary should urge such Clients to improve the awareness of risk management. FF Members, OSBPs and Overseas Intermediaries should duly estimate the amount of funds needed for each type of transaction and have sufficient funds at the ready. INE's Clearing Department will, based on the estimation on how much funds are needed to exercise options ("exercise funds estimation"), notify the FF Member or OSBP with insufficient funds to make additional and timely deposits. Likewise, based on exercise funds estimations, the FF Member or OSBP for an Overseas Intermediary with insufficient funds should notify it to make additional deposits in time.

3. Cancellation of exercise requests

   An FF Member, OSBP or Overseas Intermediary should sign an agreement with its Clients regarding the standard related to exercise funds estimation and the rights and obligations of each party.

   If a Client does not have sufficient funds for the exercise, the FF Member, OSBP or Overseas Intermediary should, in accordance with its agreement with the Client and the rules of INE, automatically cancel the Client's exercise requests on its behalf.

   FF Members, OSBPs, and Overseas Intermediaries should properly retain the data related to cancel exercise requests, both for future examinations and as evidence in potential legal disputes.

4. Exercise or abandonment requests submitted through the Member Service System or Overseas Intermediary Service System

   INE provides the Member Service System and the Overseas Intermediary Service System as backup channels for submitting exercise and abandonment requests on behalf of Clients. The former system is available to FF Members and OSBPs; the latter is available to Overseas Intermediaries. Either of these two channels helps resolve the issue of Client having no means to submit an exercise or abandonment request on the expiration date after its close-out order fails to be filled by market close. Before using either channel to submit exercise or abandonment request on behalf of a Client, the FF Member, OSBP, or Overseas Intermediary should check the Client's fund balance and position holding, so as to avoid submitting a request when there is a fund or position shortfall. INE recommends FF Members, OSBPs, and Overseas Intermediaries to treat these two channels as emergency options to be used under special circumstances.

5. Reminders on the expiration of options

   Starting from the third trading day before the expiration of an option contract, an FF Member, OSBP, or Overseas Intermediary should remind its Clients to properly manage their positions in the contract. These reminders can be sent through the client software, text messages, or settlement statements.

6. Reminders on exercise or abandonment on the expiration date

   INE performs automatic exercise and abandonment of an option contract at the time of clearing on its expiration date. Therefore, FF Members, OSBPs, and Overseas Intermediaries should remind their Clients that they do not need to submit exercise requests for in-the-money ("**ITM**") options or abandonment requests for out-of-the-money ("**OTM**") options (relative to the settlement price), so as to avoid unnecessary actions and to save time.

   FF Members, OSBPs, and Overseas Intermediaries should remind their Clients of the situations where exercise and abandonment requests should be submitted. Where the settlement price of the underlying futures contract deviates significantly from its closing price on the option's expiration date, Clients can submit exercise or abandonment requests as necessary if they wish to handle the expiring options differently from how INE's automated processes would handle them.

Clients will have a limited window to submit exercise and abandonment requests on the expiration date. In the interests of efficiency, Clients are advised *against* submitting exercise requests for ITM options or abandonment requests for OTM options as the INE system will process them automatically. FF Members, OSBPs, and Overseas Intermediaries should offer appropriate training and instructions in this regard.

FF Members, OSBPs, and Overseas Intermediaries are recommended to improve their system functionalities so that their systems can reject invalid exercise and abandonment requests. They can also agree with their Clients beforehand on how exercise requests for OTM options and abandonment requests for ITM options are to be handled, such that these situations are automated on their ends (i.e., without further Client input) for greater efficiency.

III. Time, Manner, and Order of Exercise

1. Non-expiration date

For a European-style option, buyers may not submit either exercise or abandonment requests before the expiration day. For an American-style option, buyers may submit exercise requests during trading hours on trading days before the expiration day, but not abandonment requests.

2. Expiration date

On the expiration date of a European-style or American-style option, buyers may submit either exercise or abandonment requests through their client software during trading hours and between market close and 3:30 p.m.

Overseas Intermediaries may submit these requests through the Overseas Intermediary Service System to be automatically forwarded to the Member Service System. FF Members and OSBPs may submit these requests (including as batch requests) directly through the Member Service System.

3. Order of exercise

At the time of clearing, INE will handle buyers' exercise requests in the following order:

	Non-expiration date (American-style)	Expiration date (European- or American-style)
Step 1	Process exercise requests submitted as instructions from client software in reverse order of submission.	Process exercise and abandonment requests submitted as instructions from client software in reverse order of submission.
Step 2	Process exercise requests (including batch	Process exercise and abandonment requests

	requests) submitted through the Member Service System in reverse order of submission. If the cumulative requested quantity exceeds the Client's actual positions, requests will be valid to the extent of the Client's actual positions and be processed in the foregoing order.	(including batch requests) submitted through the Member Service System in reverse order of submission. If the cumulative requested quantity exceeds the Client's actual positions, requests will be valid to the extent of the Client's actual positions and be processed in the foregoing order.
Step 3	-	Automatically exercise or abandon the remaining options.

Take the exercise of a crude oil option on its expiration date as an example:

Assuming the settlement price and closing price of the underlying futures contract SC2108 is RMB 335 per barrel and RMB 337 per barrel, respectively, and the Client's options position is as follows:

Option Contract	Open Interest
SC2108C386	10
SC2108P386	10

For its SC2108C386 position, the Client has submitted the following requests through the client software:

Order of Submission	Option Contract	Requested Quantity	Action	Method
1	SC2108C386	2	Abandon	Instruction
2	SC2108C386	3	Exercise	Instruction

… and the following requests through the Member Service System (MSS):

Order of Submission	Option Contract	Requested Quantity	Action	Method
1	SC2108C386	7	Exercise	MSS
2	SC2108C386	4	Abandon	MSS

In this case, the INE system will process these requests in the following order: 3 lots of exercise request via instruction, 2 lots of abandonment request via instruction, 4 lots of abandonment request via MSS, and 7 lots of exercise request via MSS(As there is only 1 lot left, 1 lot is actually exercised). Automatic abandonment by the INE system is not necessary because all positions in SC2108C386 are closed after this step.

For its SC2108P386 position, the Client has submitted the following requests through the client software:

Order of Submission	Option Contract	Requested Quantity	Action	Method

1	SC2108P386	1	Abandon	Instruction
2	SC2108P386	4	Exercise	Instruction

… and the following requests through the Member Service System:

Order of Submission	Option Contract	Requested Quantity	Action	Method
1	SC2108P386	2	Exercise	MSS
2	SC2108P386	1	Exercise	MSS

In this case, the INE system will process these requests in the following order: 4 lots of exercise request via instruction, 1 lot of abandonment request via instruction, and 1 lot and then 2 lots of exercise request via MSS. Because at this point the Client is still long 2 lots on SC2108P386 which is ITM relative to the settlement price, the INE system will automatically exercise these 2 remaining lots at the time of clearing.

IV. Things to Note

1. Difference between “close intraday” and “close yesterday” in exercise requests

   INE freezes Client positions according to the quantity indicated in each exercise request. When submitting an exercise request, the Client should enter the exercise quantity and choose between “close intraday” and “close yesterday.” These two choices are mutually exclusive. If the quantity indicated in a request exceeds the Client’s outstanding positions, the request is deemed invalid.

2. Exercise requests for a significant number of OTM options

   FF Members, OSBPs, and Overseas Intermediaries shall pay particular attention to Clients who request to exercise a large number of OTM options, understand their purpose and intentions and alert them to the risks.

3. Unfilled close-out orders on the expiration date

   If a Client has not canceled its close-out order for an expiring option by market close, its FF Member, OSBP, or Overseas Intermediary will not be able to submit an exercise or abandonment request through the client software for the corresponding option positions before 3:30 p.m. In this case, the FF Member or OSBP may use the Member Service System (or, for an Overseas Intermediary, the Overseas Intermediary Service System) as the alternative way for submitting these requests on the Client’s behalf.

4. Suspension of trading

   An option contract is suspended from trading if the underlying futures contract is suspended from trading. If an option contract is suspended from trading for the whole last trading day, its original last trading day and expiration date are postponed to the next trading day. If this happens, FF Members, OSBPs, and Overseas Intermediaries should promptly notify their Clients.

5. Insufficient funds and breach of position limit after options exercise

If an FF Member, OSBP, or Overseas Intermediary has insufficient funds or a Client exceeds the position limit as a result of exercising options, applicable rules on forced liquidation will apply.

6. Exercise quantity requested through MSS exceeds open positions

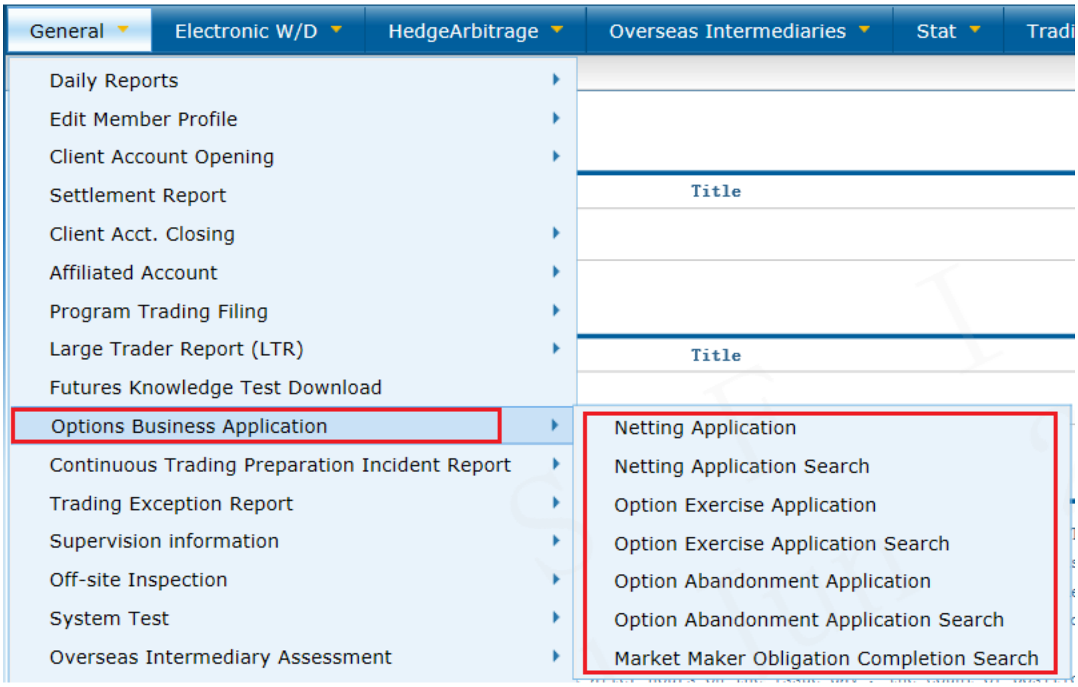
Since requests submitted from the Member Service System are not pre-validated and do not trigger a freeze on open positions, it is possible that the exercise quantity requested actually exceeds the size of open positions. During clearing, INE will process all requests submitted from the Member Service System in reverse order of submission, until available positions are exhausted.

V. Member Service System User Interface

1. MSS home page

From the Member Service System's home page (shown below), navigate to "General" → "Option Business Application," which contain seven menu functions. The three main functions are "Netting Application (i.e., netting request)", "Option Exercise Application (i.e., exercise request)," and "Option Abandonment Request."

Home page of INE's Member Service System



2. Netting application

A screenshot of the "Netting Application" page is shown below. This menu item offers two major functions, "Import Single Request" and "Batch Upload."

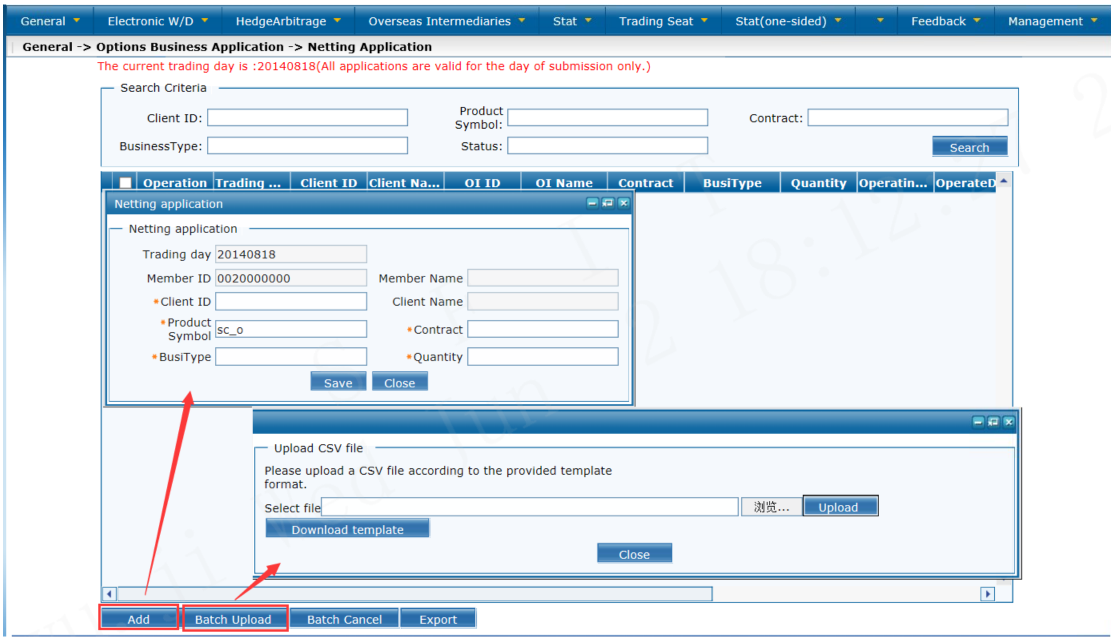
(1)Click "Add" to enter a single netting request. For Clients and Non-FF Members, netting service consists of “options netting” and “futures netting” (only applicable to the futures positions established by fulfilling options); for market makers, it consists of “futures netting” (only applicable to the futures positions established by fulfilling options) and “hold-open positions”. The menu item for netting of futures positions established by exercising options is found in the “Exercise Request” page.

(2)Click “Batch Upload” to upload a set of netting requests in one go. This function requires the upload of a CSV format file, a template for which can be downloaded from the same “Batch Upload” window.

(3)Click “Export” to export the netting requests to an Excel file.

(4)Netting requests are only valid for the day of submission.

Interface for the “Netting Application” menu item



3. Option exercise application

A screenshot of the “Option Exercise Application” page is shown below. This menu item offers two major functions, “Import Single Request” and “Batch Upload.”

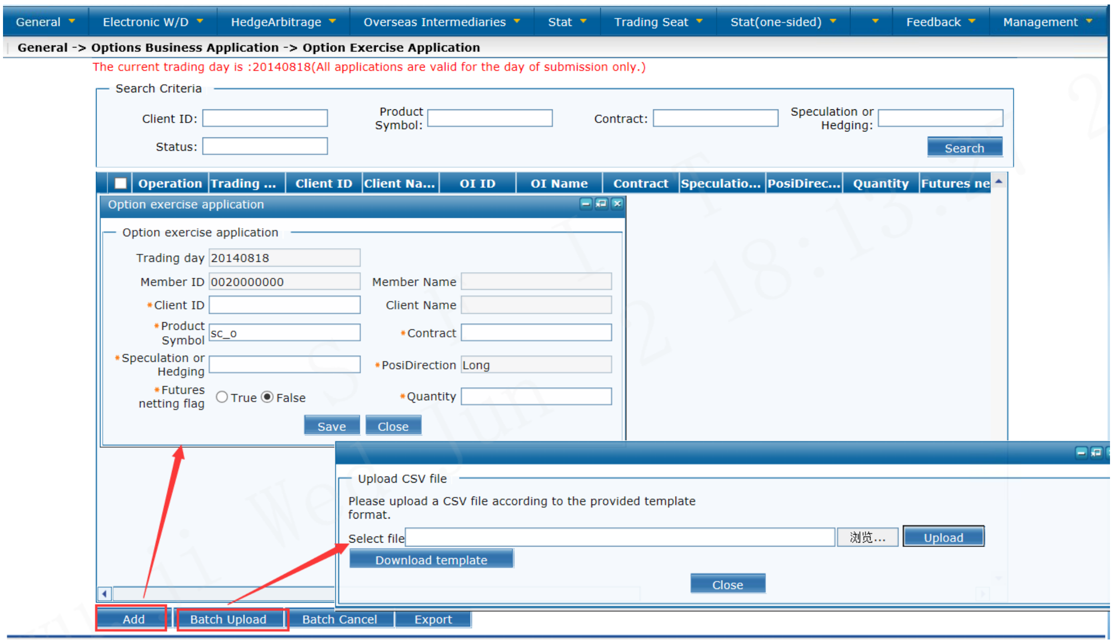
(1)Click “Add” to enter a single exercise request. Users need to provide the following information: client ID, product symbol, contract ID, speculation or hedging flag, position direction, quantity, and whether to automatically net the futures positions established by the exercise.

(2)Click “Batch Upload” to upload a set of exercise requests in one go. This function requires the upload of a CSV format file, a template for which can be downloaded from the same “Batch Import” window.

(3)Click “Export” to export the exercise requests to an Excel file.

(4)Exercise requests are only valid for the day of submission.

Interface for the “Option Exercise Application” menu item



4. Option abandonment application

A screenshot of the “Option Abandonment Application” page is shown below. This menu item offers two major functions, “Import Single Request” and “Batch Upload.”

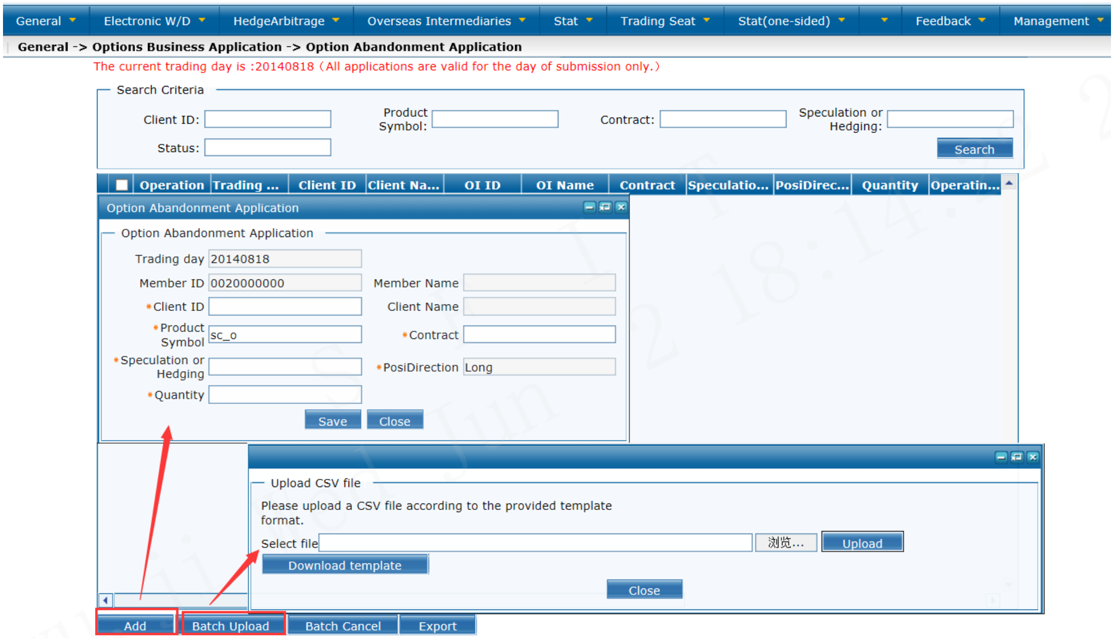
(1)Click “Add” to enter a single abandonment request. Users need to provide the following information: client ID, product symbol, contract ID, speculation or hedging flag, position direction, quantity.

(2)Click “Batch Upload” to upload a set of abandonment requests in one go. This function requires the upload of a CSV format file, a template for which can be downloaded from the same “Batch Upload” window.

(3)Click “Export” to export the abandonment requests to an Excel file.

(4)Abandonment requests are only valid for the day of submission.

Interface for the “Option Abandonment Application” menu item



Chapter V Clearing

I. Premiums

The option premium must be paid with cash rather than the funds balance derived from collateralized marketable securities.

When an option buyer (seller) establishes a position, it pays (receives) a premium equaling the amount needed to establish that position; when an option buyer (seller) closes a position, it receives (pays) a premium equaling the amount needed to close that position. The premium is calculated as follows:

Premium paid (received) by the option buyer (seller) for opening a position = Σ buy (sell) price × number of option contract bought (sold) × contract size of the underlying futures contract

Premium received (paid) by the option buyer (seller) for closing a position = Σ sell (buy) price × number of option contract sold (bought) × contract size of the underlying futures contract

II. Fees

Fees for options trading at INE are transaction fees, intraday position close-out fees, exercise fees, pre-exercise netting fees, and post-exercise netting fees. Please visit the INE website for the latest fee rates.

INE may adjust the fee rates based on market conditions and disclose to the public accordingly.

III. Clearing Deposit

Current-day (CD) clearing deposit balance = preceding-day (PD) clearing deposit balance + (PD trading margin − CD trading margin) + (CD actual available value of margin collaterals – PD actual available value of margin collaterals) + CD profit or loss + (CD option premiums received − CD option premiums paid) + (funds deposits − funds withdrawals) − transaction fees and other expenses.

IV. Settlement Price

1. Settlement price on any trading day other than the last trading day

   On trading days other than the last trading day, current-day settlement price for European-style options is calculated using the Black-Scholes pricing model; that for American-style options is calculated using the binomial option pricing model. The risk-free interest rate is taken to be the benchmark rate for one-year term deposit. INE reserves the right to adjust an abnormal settlement price. The volatility used by the theoretical pricing models is determined as follows:

   (1) If trades are executed in option contracts of a particular expiration month, INE will first calculate the implied volatility of each contract of that month that has at least one trade based on the trading-volume-weighted average current-day transaction price (the price of the underlying futures contract is taken to be its current-day settlement price), then calculate the implied volatility of all contracts of that month as the average of implied volatility of each of the contracts in the previous step weighted by the contract's trading volume.

   (2) If no trade is executed in all option contracts of a particular month, their implied volatility is:

   (i) the implied volatility of the contracts of the earlier of the two nearest adjacent months, if there is trading on contracts of those two months;

   (ii) the implied volatility of the contracts of the nearest adjacent month that have executed transactions, if of the contracts of the two nearest adjacent months, only those of one of them have executed transactions;

   (iii) the implied volatility of the contracts of the earlier of the two next-nearest adjacent months or of the next-nearest adjacent month, as determined in the foregoing manner, if contracts of both of the two nearest adjacent months have not executed any transaction; repeated until the implied volatility can be determined thusly;

   (iv) the preceding trading day's implied volatility of the contracts, if none of the above conditions is met.

   Take crude oil options as an example. Assuming options are listed for underlying futures contracts SC2107, SC2108, SC2109, SC2110, SC2111, and SC2112, then the volatility of the option contract on SC2108 is determined as follows:

- Scenario 1: Trade is executed in option contracts on SC2108 on the current day.

  If only SC2108C380, SC2108C385, and SC2108P390 are traded on the current day, first calculate their respective implied volatility σ_1, σ_2, and σ_3, then calculate their average implied volatility σ weighted by the trading volume of the corresponding option contract. This σ will be the implied volatility of the SC2108 option series.

- Scenario 2: No option contracts on SC2108 are traded on current day.

  If trade is executed in the SC2107 series or SC2109 series (but not both), the implied volatility of the SC2108 series will be that of whichever series that has been traded. If trade is executed in both SC2107 and SC2109 series, the implied volatility of the SC2108 series will be that of the SC2107 series. If both the SC2107 and SC2109 series see zero trade, the implied volatility of the SC2018 series will be determined by the SC2109 and SC2110 series by the same method, and so on.

- Scenario 3: No trade is executed in all series on the current day.

  The implied volatility of the option contracts on SC2108 will be that for the SC2108 series on the preceding trading day.

2. Settlement price on the last trading day

   Settlement price of call options = Max (settlement price of underlying futures contract − strike price, minimum price fluctuation);

   Settlement price of put options = Max (strike price − settlement price of underlying futures contract, minimum price fluctuation).

V. Settlement Risk Management

FF Members, OSBPs, and Overseas Intermediaries should offer effective investor education programs, fully disclose the risks of options trading, streamline transaction and service procedures, appoint dedicated staff members to manage settlement and exercise risks, and improve their IT systems.

1. Irrational behaviors

   Exposure: Clients may go long on deep OTM options that are approaching the expiration date or request for exercising such options.

   Recommendation: Offer investor education programs, disclose risks, and warn Clients of the potential risks.

2. Funds-related risks

   (1) Substantial change in premium

   Exposure: Because option pricing is affected by a multitude of factors including the price of the underlying, volatility, time to expiration, and interest rate, there may be rapid and significant changes in the option premium and changes in the margin level.

Recommendation: Enhance the risk control system and closely monitor Client accounts.

(2) Increasing margin rate

Exposure: Margin rate may be raised for holidays or in the event of a Limit-Locked Market.

Recommendation: Incorporate margin rate change in risk estimation.

(3) Divergence of settlement price and closing price

Exposure: Theoretical pricing models are used to calculate the settlement price of options before the expiration date and option contracts of the same expiration month use the same volatility value.

Recommendation: Strength pre-trade risk management and prudently manage fund withdrawals by Clients.

3. Liquidity risks

Exposure: Since liquidity is spread across a large number of option contracts, some contracts may have poor liquidity.

Recommendation: Prepare a liquidity contingency plan and beware of the forced liquidation procedures.

4. Client options exercise (fulfillment) risks

(1) Operating risks during exercise and netting

Exposure: In the Member Service System, netting of options, netting of futures positions established by exercising or fulfilling options, exercise requests, and abandonment requests share the same interface page, so caution is required to prevent misclick.

Recommendation: Streamline options exercise and netting procedures and improve system automation.

(2) Risk of higher trading margin requirements after option exercise (fulfillment)

Exposure: Exercising or fulfilling options may increase margin requirements.

Recommendation: Risk estimation should fully consider the additional margin requirements from options exercise and fulfillment and the potential losses from the exercise, as well as such events as a significantly different current-day settlement price compared with the settlement price of the previous trading day or increases in margin rate.

(3) Risk from exercising OTM options

Exposure: Exercising OTM options may incur losses.

Recommendation: Properly disclose and warn Clients of the risks.

(4) Risks on the expiration date

Exposure: The results of automatic exercise may differ from expectation (because determination of ITM and OTM hinges on the settlement price, for example); failing to meet margin calls may incur losses.

Recommendation: Remind Clients when their contracts are nearing expiration and improve the estimation of exercise risks.

VI. Miscellaneous

One can find options-related data such as trade orders, executed orders, contract settlement parameters, and non-trading position changes through the Member Service System.

Chapter VI Supervision and Risk Control

I. Options Risk Management

1. Trading margin

(1) Option buyers do not need to pay trading margins.

(2) Option sellers need to pay trading margins. The amount is determined by the margin rate for the option contract as of the time of clearing on the preceding trading day, and is collected at the higher of the following two values:

(i) Settlement price of the option contract × contract size of underlying futures contract + trading margin for the underlying futures contract − (1/2) × OTM amount of the option contract; or

(ii) Settlement price of the option contract × contract size of underlying futures contract + (1/2) × trading margin for the underlying futures contract.

(3) The OTM amount of an option is calculated as follows:

For a call option: Max (strike price − settlement price of underlying futures contract, 0) × contract size of underlying futures contract;

For a put option: Max (settlement price of underlying futures contract − strike price, 0) × contract size of underlying futures contract.

2. Price limit

(1) An option contract is subject to the same price limit as the underlying futures contract (underlying's settlement price of the previous trading day × current-day price limit rate).

(2) Upper limit price = option contract's settlement price of the previous trading day + (futures contract's settlement price of the previous trading day × futures contract's upper limit rate);

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

(3) Where an option contract's settlement price of the previous trading day is equal to or less than the current day's price limit, i.e., the lower limit price is the minimum price fluctuation, if, in the five minutes before the close of a trading day, there are only asks at the lower limit price but no bids at the lower limit price, or if during such time any bid is instantly filled without deflecting the price away from the lower limit price, then INE will *not* treat the situation as a Limit-Locked Market.

3. Position limit

(1) Position limits for futures and options are separate.

(2) Position limit for an option contract varies across the different periods of trading within its lifecycle. These time periods coincide with those for the underlying futures contract.

(3) Option position with respect to any particular underlying asset is calculated as:

Long calls + short puts in that underlying;

Short calls + long puts in that underlying.

(4) The prevailing position limits are determined and announced by the Exchange (see INE circulars).

(5) Non-FF Members, OSNBPs, and Clients that need to exceed the position limit and are qualified to hedge with the underlying futures product or engage in arbitrage trading or market-making activities, may apply to the Trading Management Department for exemption from the price limit.

4. Large trader position reporting

The large trader reporting regime for options is similar to that for futures. Any Member, OSP, or Client whose general positions in an option contract reach the general position limit set by the Exchange, or any Overseas Intermediary whose general positions in an option contract reach 60 percent of its general position limit, is required to file a report with the Exchange by 3:00 p.m. of the following trading day. The specific rules for this are set out in the *Risk Management Rules of the Shanghai International Energy Exchange*.

A Member or OSP should file its large trader position report to the Exchange directly. A Client should do so through its FF Member or OSBP, or, for any Client trading through an Overseas Intermediary, delegate the Overseas Intermediary to file such reports through the corresponding FF Member or OSBP.

If the aggregate positions held by a Client through multiple trading codes with different FF Members, OSBPs, and Overseas Intermediaries reach the reporting threshold, the Client should voluntarily file a report through an FF Member, OSBP, or Overseas Intermediary.

If a Client does not make this filing, its carrying FF Member, OSBP, or Overseas Intermediary should do so on the Client's behalf. The Exchange can also designate and notify the relevant FF Members, OSBPs, and Overseas Intermediaries to file this report.

An Overseas Intermediary should file these reports through the FF Member or OSBP that provides it trading and clearing services.

5. Forced position liquidation

(1) The Exchange will carry out forced liquidation if:

(i) the clearing deposit balance of a Member on any internal ledger of the Exchange, whether for its own Clients or for other entities for whom it clears trades, falls below zero, and the Member fails to meet the margin requirement within the specified time limit;

(ii) the open position of a Non-FF Member, OSNBP, or Client has exceeded the applicable position limit;

(iii) there is a violation of the Exchange's rules that warrants forced liquidation;

(iv) there is any emergency that warrants forced liquidation; or

(v) there is any other circumstance that necessitates forced liquidation.

(2) The Exchange will also carry out forced liquidation according to its rules if a Non-FF Member, OSNBP, or Client exceeds the position limit for an underlying futures contract after exercising the corresponding options.

(3) Forced liquidation is governed by the *Risk Management Rules of the Shanghai International Energy Exchange*, among other rules.

6. Risk warning

The Exchange implements a risk warning regime. Whenever the Exchange deems it necessary, it may take one or a combination of the following measures to warn against and resolve risks: requiring certain market participants to give an explanation on a specific matter; arranging a meeting to give a verbal alert; issuing a written warning; giving a reprimand; issuing a risk warning notice to the public; and/or taking other necessary measures.

7. Trading limit

The Exchange enforces trading limits. Trading limit means the maximum position a Member or Client may open in a particular contract during a specified time interval. Based on market conditions, the Exchange may, with respect to the different products and contracts listed on the Exchange, limit the size of new positions established ("position-opening volume") by some or all of the Members or by specific Clients within a day. Specific standards will be separately provided by the Exchange.

II. Abnormal Options Trading Behaviors

1. General rules

(1) Abnormal trading behaviors in options trading are the same as those in futures trading. Such behaviors include self-trades, trades between accounts linked by actual control relationship, frequent order cancellation, large-amount order cancellation, and exceeding the position limit by a group of accounts linked by actual control relationship ("combined position over-limit").

(2) Abnormal trading behaviors in options trading are subject to the same supervisory standards and handling procedures as in futures trading.

(3) In options trading, number of occurrences of self-trades, trades between accounts linked by actual control relationship, frequent order cancellation, and large-amount order cancellation are counted by contracts, and the position held by accounts linked by actual control relationship are limited in the same manner as for individual Clients.

(4) For purposes of determining whether an abnormal trading behavior has reached the threshold for the Exchange to take actions, the Exchange separately counts the number of occurrences of self-trades, trades between accounts linked by actual control relationship, frequent order cancellations, and large-amount order cancellations.

(5) If any abnormal option trading behavior is detected, the Exchange will notify the relevant futures firm through the Member Service System or by other means.

2. Supervisory standards for abnormal options trading

(1) If a Client or a group of accounts linked by actual control relationship on an aggregate basis falls under any of the following circumstances, such Client or accounts will reach the threshold for the Exchange to take actions for the abnormal trading behavior of self-trade, frequent order cancellation, or large-amount order cancellation, respectively:

(i) 5 or more self-trades in the same contract in one trading day;

(ii) 500 or more order cancellations in the same contract in one trading day;

(iii) 50 or more large-amount order cancellations in the same contract in one trading day. One “large-amount order cancellation” means cancellation of 300 lots or more in a single instruction.

The Exchange considers futures and options separately when determining whether the number of occurrences of self-trades, frequent order cancellations, and large-amount order cancellations has reached the threshold for it to take actions.

(2) With respect to any option contract, if the position-opening volume of a Client or the aggregate position-opening volume of a group of accounts linked by actual control relationship exceeds the intraday position-opening limit prescribed by the Exchange, such a situation is deemed as an abnormal trading behavior.

(3) Where the aggregate non-hedging positions held by a group of accounts linked by actual control relationship exceeds the sum of the position limit set by the Exchange and the aggregate size of arbitrage quota acquired by those accounts for that period, such overage (“combined position over-limit”) constitutes an abnormal trading behavior.

The Exchange considers futures and options separately when determining whether the number of occurrences of combined position over-limit has reached the threshold for it to take actions.

(4) Executing trades between accounts linked by actual control relationship constitutes an abnormal trading behavior.

(5) Activities such as self-trades, frequent order cancellation, and large-amount order cancellation resulting from such transactions as hedging trades, fill-or-kill (FOK) orders, and fill-and-kill (FAK) orders do *not* constitute abnormal trading behaviors, and neither do frequent order cancellations resulting from options market-making.

(6) If on a single trading day a Client or a group of accounts linked by actual control relationship on an aggregate basis reaches the threshold for the Exchange to take actions for self-trade, frequent order cancellation, or large-amount order cancellation in two or more futures contracts or option contracts, the same kind of abnormal trading behavior in relation to these different contracts will be deemed as a single occurrence of that abnormal trading behavior.

(7) If on a single trading day a group of accounts linked by actual control relationship reaches the threshold for the Exchange to take actions for combined position over-limit in two or more futures contracts or two or more option series, the combined position over-limit in all these futures contracts or option series will be deemed as a single occurrence of abnormal trading behavior. All option contracts on the same underlying futures contract constitutes one option series.

3. Handling procedures for abnormal options trading

(1) Where a Client’s self-trade, frequent order cancellation, or large-amount order cancellation reaches the threshold for the Exchange to take actions for abnormal trading behaviors, the Exchange will do so according to the following procedures:

(i) For any Client reaching the threshold for the first time, the Exchange will alert the Client's FF Member or OSBP on the same day. The FF Member or OSBP should promptly forward the Exchange's alert notice to the Client and educate, advise, dissuade, and prevent the Client from engaging in rule-breaking trades.

If the Client engages in futures trading through an Overseas Intermediary, the relevant FF Member or OSBP should promptly forward the alert notice to the Client via the Overseas Intermediary, who should educate, advise, dissuade, and prevent the Client from engaging in rule-breaking trades.

(ii) For any Client reaching the threshold for the second time, the Exchange will place it on a watch list and notify relevant Members, OSPs, and Overseas Intermediaries of the abnormal trading behavior.

(iii) For any Client reaching the threshold for the third time, the Exchange will, after market close on the same day, suspend the Client from opening new positions for no less than one month in general.

(2) If a Non-FF Member or OSNBP has engaged in self-trades, frequent order cancellation, or large-amount order cancellation and reaches the threshold for the Exchange to take actions for abnormal trading behaviors, the Exchange will do so according to the following procedures:

(i) When the threshold is reached for the first time, the Exchange will send an alert notice to the Non-FF Member or OSNBP.

(ii) When the threshold is reached for the second time, the Exchange will require a senior manager of the Non-FF Member or the futures risk control officer of the OSNBP to attend a meeting.

(iii) When the threshold is reached for the third time, the Exchange will suspend the Non-FF Member or OSNBP from opening new positions for no less than three months in general.

(3) If the combined position of a group of accounts linked by actual control relationship exceeds the position limit, the Exchange will take the following actions:

(i) If the combined position of a group of accounts linked by actual control relationship exceeds the position limit, the Exchange will send an alert notice to the relevant Clients' FF Members and OSBPs, who should promptly forward the notice to the Clients and educate, advise, dissuade, and prevent them from engaging in rule-breaking trades.

If the Client engages in futures trading through an Overseas Intermediary, the relevant FF Member or OSBP should promptly forward the alert notice to the Client via the Overseas Intermediary, who should educate, advise, dissuade, and prevent the Client from engaging in rule-breaking trades. If a combined position over-limit involves accounts opened with different Members or OSPs, the Exchange will send the alert notice to the Member or OSP with the largest of such position holdings; if a combined position over-limit involves accounts opened with different Overseas Intermediaries, the Exchange will send the alert notice to the Overseas Intermediary with the largest of such position holdings via the relevant FF Member or OSBP.

(ii) If the combined position of a group of accounts linked by actual control relationship exceeds the position limit, the Exchange will, after market close on the same day, notify the Clients' FF Members or OSPs to require the Clients concerned to close their positions.

(iii) If any such Clients fail to close their positions within the first trading session of the next trading day, the Exchange will carry out forced liquidation, one Client at a time, by descending combined size of their respective general positions and arbitrage positions, until the aggregate positions held by the whole group comply with the position limit of the Exchange.

(iv) Where the forced liquidation is to be carried out by the Exchange, it will, after market close on the same day, suspend all accounts within the group from opening new positions for no less than one month in general.

(4) If the combined position of a group of accounts linked by actual control relationship exceeds the position limit, the Exchange will take the following self-regulatory measures in addition to the actions in Paragraph (3):

(i) If the group reaches the Exchange's threshold for actions for the first time, the Exchange will place the accounts within the group on a watch list and notify relevant Members, OSPs, and Overseas Intermediaries.

(ii) If the group reaches the threshold for the second time, the Exchange will, starting from the following trading day, suspend accounts within the group from opening new positions for no less than ten trading days in general.

(iii) If the group reaches the threshold for the third time, the Exchange will, starting from the following trading day, suspend accounts within the group from opening new positions for no less than six months in general.

(5) Exemptions of accounts linked by actual control relationship from combined position over-limit

(i) If the combine position of a group of accounts linked by actual control relationship exceeds the position limit at daily clearing of the current trading day of a contract but does not exceed the position limit at daily clearing of the previous trading day, such group of accounts may be exempted from the self-regulatory measure under Paragraph (4).

(ii) If the combined position of a group of accounts linked by actual control relationship exceeds the position limit at daily clearing of the current trading day of a contract and if these accounts cannot close out positions on the next trading day due to market factors and continue to exceed the position limit at the time of clearing, such group of accounts may similarly be exempted from the self-regulatory measure under Paragraph (4) on the following trading day.

(iii) Notwithstanding exemptions from the self-regulatory measures of Paragraph (4) provided by the foregoing two paragraphs to instances of combined position over-limit, the portion of combined positions in excess of the applicable position limit are still subject to the rules of Paragraphs (3)(ii), (3)(iii), and (3)(iv).

4. Supervisory responsibilities of FF Members, OSBPs, and Overseas Intermediaries

(1) FF Members, OSBPs, and Overseas Intermediaries should closely monitor the trading activities of Clients, take measures to prevent abnormal trading behaviors from Clients, and advise them to trade futures in a rational and compliant manner.

If any FF Member, OSBP, or Overseas Intermediary discovers any abnormal trading behaviors from a Client during futures trading, it should alert, dissuade, and stop the Client and promptly report the situation to the Exchange in writing.

(2) If the Exchange imposes a self-regulatory measure on a Client for abnormal trading behavior, the relevant FF Member, OSBP, and Overseas Intermediary should promptly notify the Client, retain related evidence, and take effective measures to regulate the subsequent trading activities of the Client.

Where a Client is involved in any abnormal trading behavior, the Exchange may, depending on the severity of the situation, impose such self-regulatory measures on the relevant FF Members, OSBPs, and Overseas Intermediaries as sending an alert notice, requiring attendance at a meeting, conducting an off-site or on-site investigation, issuing a warning letter, and issuing an opinion letter. For any Overseas Intermediary that has received a regulatory warning letter, regulatory opinion letter, or other regulatory sanctions from the Exchange, the Exchange will also notify its FF Members and OSBPs.

(3) The Exchange will order corrections and impose such self-regulatory measures as sending an alert notice, requiring attendance at a meeting, and issuing a warning letter or an opinion letter if an FF Member, OSBP, or Overseas Intermediary:

(i) fails to promptly and accurately forward the self-regulatory measures taken by the Exchange to Clients;

(ii) fails to take effective measures to prevent abnormal trading behaviors from Clients;

(iii) condones, induces, instigates, or supports Clients to engage in abnormal trading behaviors; or

(iv) fails to duly assist the Exchange in the investigation of suspected violation of laws or regulations as required by the Exchange, or willfully delay the investigation or conceal or omit facts.

If the Exchange has already issued two warning letters to any FF Member, OSBP, or Overseas Intermediary for negligence of duty, then upon the third occurrence of such negligence, it should issue an opinion letter to such FF Member, OSBP, or Overseas Intermediary. If such negligence constitutes other types of misconduct, the FF Member, OSBP, or Overseas Intermediary will be subject to the *Enforcement Rules of the Shanghai International Energy Exchange*.