**Appendix 1：**

**Explanatory Notes**

Shanghai Futures Exchange (“SHFE”) plans to systematically internationalize its secondary business and product rules in order to lay a solid foundation for the gradual opening of its market in the future. Focusing on strengthening regulation, preventing risks and promoting high-quality development of the futures market and based on the futures regulatory system with Chinese characteristics, this internationalization of rules aims to engage overseas special participants (“OSPs”), overseas intermediaries, and overseas clients (collectively, “overseas participants”) into the trading process of the domestic futures market, thereby creating a secure, standardized, transparent, open, and foreseeable rule framework aligned with the internationalization of the SHFE platform. This document provides an explanation on this internationalization of rules.

**I. General Principles**

This internationalization of rules is designed to facilitate overseas participants’ full access to the entire futures trading process at SHFE. Specifically, it includes optimizing rules for market access, trading, clearing, risk management, and delivery; clarifying the market access requirements for overseas participants; upgrading the futures and options trading process; establishing a tiered carrying-brokerage clearing system; strengthening risk management; and improving the delivery mechanisms. This internationalization of rules is intended to achieve the following targets: (1) to internationalize the SHFE platform by introducing overseas participants to and facilitating their access to the futures trading process at SHFE; (2) to promote the internationalization of RMB, with the contracts denominated and settled in RMB while also accepting the use of foreign currencies as margin, and other mechanisms; and (3) to explore the futures regulatory system and business models with Chinese characteristics, and improve the delivery mechanisms to provide replicable experience for the internationalization of SHFE’s products in the future.

The revision primarily involves the formulation and revision of 35 secondary business and product rules. Specifically, SHFE formulated a new set of business rules, namely, the *Overseas Special Participants Management Rules of the Shanghai Futures Exchange*; revised 15 business rules, such as the *Membership Management Rules of the Shanghai Futures Exchange*, the *Trading Rules of the Shanghai Futures Exchange,* and the *Clearing Rules of the Shanghai Futures Exchange*, etc.; and revised 19 futures rules for listed products, such as the *Copper Cathode Futures Rules* *of the Shanghai Futures Exchange*, the *Aluminum Futures Rules of the Shanghai Futures Exchange*, and the *Zinc Futures Rules* *of the Shanghai Futures Exchange*, etc.

**II. Major Changes**

(I) **Market access**: Systematically stipulating the market access conditions, rights and obligations, and relevant requirements for overseas participants to engage in domestic futures trading

The internationalization of rules clarifies the qualification requirements, rights and obligations, and business rules for OSPs and overseas intermediaries; establishes eligibility criteria for overseas clients; stipulates the eligibility assessment and management obligations of account opening institutions (referring here and hereinafter to futures firm members, overseas special brokerage participants, and overseas intermediaries); and formulates rules governing carrying-brokerage services provided by futures firm members and overseas special brokerage participants to overseas intermediaries.

Accordingly, new rulemaking included the *Overseas Special Participants Management Rules of the Shanghai Futures Exchange*; revisions were made to the *Membership Management Rules of the Shanghai Futures Exchange* and the *Futures Trading Participant Eligibility Management Rules of the Shanghai Futures Exchange*.

(II) **Trading**: Systematically adding new rules that are applicable to overseas participants’ participation in domestic futures trading

The internationalization of rules strengthens the management of trading seats and trading codes for overseas participants and of account opening by overseas account opening institutions; adds requirements for applying hedging and arbitrage quotas by overseas clients and overseas special non-brokerage participants; specifies the requirements for the management of options trading, exercise, and fulfillment by overseas participants; keep open the rules for overseas participants to act as market makers; and improves the information disclosure system.

Accordingly, revisions were made to the *Trading Rules of the Shanghai Futures Exchange*, the *Options Trading Rules of the Shanghai Futures Exchange*, the *Hedge Trading Rules of the Shanghai Futures Exchange*, the *Arbitrage Trading Rules of the Shanghai Futures Exchange*, the *Marker-Making Management Rules of the Shanghai Futures Exchange*, and the *Information Management Rules of the Shanghai Futures Exchange*.

(III) **Risk management**: Refining risk management rules for overseas participants engaging in domestic futures trading

The internationalization of rules sets position limit standards for overseas participants; specifies large trader position reporting thresholds for overseas participants; details instances of forced position liquidation; improves the filing process for overseas participants holding any account involving actual control relationship; clarifies handling procedures for abnormal trading behaviors by overseas participants; defines instances of violation by overseas participants and corresponding countermeasures; and optimizes classification of positions by nature and their application scenarios.

Accordingly, revisions were made to the *Hedge Trading Rules of the Shanghai Futures Exchange*, the *Arbitrage Trading Rules* *of the Shanghai Futures Exchange*, the *Options Trading Rules of the Shanghai Futures Exchange*, the *Administration of Accounts Involving Actual Control Relationship Rules of Shanghai Futures Exchange*, the *Risk Management Rules of the Shanghai Futures Exchange*, the *Administration of Abnormal Trading Behaviors Rules of the Shanghai Futures Exchange*, the *Enforcement Rules of the Shanghai Futures Exchange*, and 19 futures products rules.

(IV) **Clearing**: Improving rules governing RMB-denominated products and foreign currencies used as margin, introducing the tiered carrying-brokerage clearing system, and optimizing rules regarding settlement accounts and fund transfers

The revision establishes RMB as SHFE’s clearing and settlement currency, includes foreign currencies to the scope of assets used as margin, and clarifies mandatory exchange of foreign currencies; optimizes tiered clearing rules and adds carrying-brokerage clearing rules; specifies the types of futures settlement accounts of SHFE, members, OSPs, overseas intermediaries, and clients and the rules applicable to their fund transfers through their accounts.

Accordingly, revisions were made to the *Clearing Rules of the* *Shanghai Futures Exchange* and the *Designated Depository Banks Rules of the Shanghai Futures Exchange*.

(V) **Delivery**: Clarifying instances of non-deliverable positions and the corresponding handling procedures

Firstly, the internationalization of rules enumerates the following instances of non-deliverable positions—positions held by a natural-person client; positions not of an integeral multiple of the delivery unit; positions held by an institutional client that is unable to deliver or receive VAT invoices; a standard warrant account has not been opened before the last trading day; and other positions deemed non-deliverable by SHFE.

Secondly, the internationalization of rules specifies the way to handle outstanding non-deliverable positions. Specifically, after market close on the last trading day of a futures contract, SHFE will impose a fine equaling 20% of the contract value calculated at the final settlement price on each of the buyer and the seller holding the non-deliverable positions. Based on the disparity in the non-deliverable positions held by the buyer and the seller and whichever party holding a larger position, SHFE will pay an amount equaling 20% of the contract value calculated at the final settlement price to the counterparty holding the deliverable positions. The open positions described above will be closed out without proceeding to delivery.

Accordingly, revisions were made to the *Delivery Rules of the Shanghai Futures Exchange*.

(VI) **Other:** In accordance with the upper-level legislation and the actual business operation, corresponding revisions were made to the *Membership Management Rules of the Shanghai Futures Exchange* and the other five management rules.