**HEDGE TRADING RULES OF THE SHANGHAI FUTURES EXCHANGE**

**CHAPTER 1 GENERAL PROVISIONS**

**Article 1** These *Hedge Trading Rules* are made in accordance with the *General Exchange Rules of the Shanghai Futures Exchange* and other applicable rules to boost the hedging functions of the futures market and promote its sound development.

**Article 2** Hedgingposition quota is classified into hedging position quota for regular months and hedging position quota for nearby delivery months.

The division of regular and nearby delivery months as well as the deadline for hedging position quota applications during these different months shall be governed by the futures rules for the particular products.

**Article 3** Members, Overseas Special Participants (“OSPs”), Overseas Intermediaries, and Clients that engage in hedging activities on the Shanghai Futures Exchange (the “Exchange”) shall observe these *Hedge Trading Rules*.

**CHAPTER 2 APPLICATION AND APPROVAL OF HEDGING POSITION QUOTA FOR REGULAR MONTHS**

**Article 4** Hedging position quota for regular months requires the approval of the Exchange. Regular month hedge is classified into long hedge and short hedge.

“Regular month long hedge” means taking a long hedging position in futures and call options or a short hedging position in put options; “regular month short hedge” means taking a short hedging position in futures and call options or a long hedging position in put options.

**Article 5** A Client that needs to engage in hedging during regular months shall complete filing and related procedures with its carrying futures firm Member (“FF Member”), OSP, Overseas Intermediary, or otherwise (each an “Account Opening Institution”), which shall, after reviewing the request, complete the filing and related procedures with the Exchange pursuant to these *Hedge Trading Rules*. A Non-FF Member or Overseas Special Non-Brokerage Participant (“OSNBP”) shall complete filing and other related procedures directly with the Exchange.

**Article 6** A Non-FF Member, OSNBP, or Client applying for a hedging position quota for regular months shall have the production or business license related to the product to be hedged.

**Article 7** A Non-FF Member, OSNBP, or Client applying for a hedging position quota for regular months shall submit the following supporting materials to the Exchange:

(i) a photocopy of the duplicate Business License, a certificate of incorporation, or other documents that can certify the applicant’s scope of business;

(ii) materials proving the size of the physical commodity business, such as production plan for the current year or the following year, the audited financial statements for the most recent year, warrants of physicals, inventory certificates, processing orders, purchase and sales contracts, and other valid proof of its possession of physicals;

(iii) a hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and

(iv) other supporting materials required by the Exchange.

The Non-FF Member, OSNBP, or Client can apply for hedging position quota for regular months for multiple contracts in a single application.

**Article 8** The Exchange will determine the hedging position quota for regular months of an applicant based on, among others, its eligibility, the product for hedging, trading direction, trading quantity, hedging period, as well as production and business scale, past business performance, and financial conditions. The hedging position quota for regular months shall not exceed the quantity specified in the supporting materials.

**CHAPTER 3 APPLICATION AND APPROVAL OF HEDGING POSITION QUOTA FOR NEARBY MONTHS**

**Article 9** Hedging position quota for nearby delivery months requires the approval of the Exchange. Nearby delivery month hedge is classified into long hedge and short hedge.

“Nearby delivery month long hedge” means taking a long hedging position in futures and call options or a short hedging position in put options; “nearby delivery month short hedge” means taking a short hedging position in futures and call options or a long hedging position in put options.

**Article 10** A Client that needs a hedging position quota for nearby delivery months shall complete filing and related procedures with its Account Opening Institution, which shall, after reviewing the request, complete the filing and related procedures with the Exchange pursuant to these *Hedge Trading Rules*. A Non-FF Member or OSNBP shall complete filing and related procedures directly with the Exchange.

**Article 11** A Non-FF Member, OSNBP, or Client applying for a hedging position quota for nearby delivery months shall submit the following supporting materials to the Exchange:

(i) a photocopy of the Business License, a certificate of incorporation, or other documents that can certify the applicant’s scope of business;

(ii) materials proving its genuine need for nearby delivery month hedging, such as production plan for the current year or the following year, warrants of physicals, inventory certificates, processing orders, purchase and sales contracts, and other valid proof of its possession of physicals;

(iii) a hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and

(iv) other supporting materials required by the Exchange.

**Article 12** The Exchange will determine the hedging position quota for nearby delivery months of a Non-FF Member, OSNBP, or Client based on, among others, its trading direction and quantity, business operation of physicals, open positions in the corresponding futures contract, inventory of deliverable commodities at a Delivery Storage Facility, and whether the futures price diverges from the physical price. The hedging position quota for nearby delivery months shall not exceed the quantity specified in the supporting materials.

The aggregate hedging position quota for nearby delivery months of an applicant for all contracts during a year shall not exceed its production capacity or planned production of the year, or trading volume of the product in the last year.

**Article 13** If a Non-FF Member, OSNBP, or Client does not hold a hedging position quota for nearby delivery months of a futures contract, then when the contract enters the nearby delivery months, its hedging position quota for regular months will be the lower of its approved hedging position quota for regular months and the position limit of the product, and will be converted to a hedging position quota for nearby delivery months. If the Non-FF Member, OSNBP, or Client applies for and obtains a hedging position quota for nearby delivery months after the contract enters the nearby delivery months, the approved hedging position quota for nearby delivery months shall apply.

**CHAPTER 4 HEDGE TRADING**

**Article 14** A Non-FF Member, OSNBP, or Client that is granted a hedgingposition quota in a contract may establish hedging positions either by directly placing trading orders or by designating existing positions in accordance with applicable rules, in each case before the market closes on the third trading day prior to the last trading day of the contract involved in the hedge; failing which, the hedging position quota will be deemed forfeited.

**Article 15** In the nearby delivery months, the hedging positions in a relevant product shall be adjusted to multiples of a certain number of lots in accordance with the *Risk Management Rules of the Shanghai Futures Exchange* and the futures rules for such product.

**Article 16** A Non-FF Member, OSNBP, or Client that holds a hedging position quota for nearby delivery months and takes a short hedging position in the contract concerned may collateralize its standard warrants as trading margin for a corresponding size of the short position when the contract enters the delivery months.

**Article 17** Hedging positions in an option will be converted to hedging positions in the underlying futures upon exercise of the option.

**CHAPTER 5 REGULATION OF HEDGING**

**Article 18** The Exchange will review an application for hedging position quota within five (5) trading days of receiving the application and will:

(i) notify the applicant of approval if the requirements for granting hedging position quota are satisfied;

(ii) notify the applicant of denial if the requirements for granting hedging position quota are not satisfied; or

(iii) request the applicant to provide any additional materials that should be provided.

**Article 19** The Exchange has the right to, from time to time, supervise and investigate the information that a Non-FF Member, OSNBP, or Client provides on its business operation, credit standing, and trading activities in futures, options, and physicals. The Non-FF Member, OSNBP, or Client concerned shall give assistance and cooperation.

The Exchange may require a Non-FF Member, OSNBP, or Client that holds a hedging position quota to report on its trading activities in physicals, futures, and options.

**Article 20** The Exchange supervises the usage of hedging position quotas granted to Non-FF Members, OSNBPs, and Clients.

The Exchange may adjust the hedging position quota of a Non-FF Member, OSNBP, or Client or cancel or reject its hedging position quota application based on market conditions and the state of its production and business activities.

A Non-FF Member, OSNBP, or Client, during the validity period of its hedging position quota, shall notify the Exchange of any material change to its business in a timely manner.

**Article 21** A Non-FF Member, OSNBP, or Client that needs to adjust its hedging position quota shall apply to the Exchange in a timely manner.

**Article 22** A Non-FF Member, OSNBP, or Client whose hedging position exceeds the received hedging position quota or an otherwise established limit shall adjust its position by the end of the first trading session on the following trading day. If the adjustment is not made before the deadline or fails to eliminate the excess, the Exchange may exercise forced position liquidation.

**Article 23** If a Non-FF Member, OSNBP, or Client frequently opens and closes out its positions within its received hedging position quota to influence or attempt to influence market price, the Exchange may take such measures as giving a verbal reminder or written warning, adjusting or canceling the hedging position quota, suspending the opening of new positions, requiring the close-out of positions within a specified time period, or exercising forced position liquidation.

**Article 24** When the Exchange exercises position reduction to mitigate risks arising in the market, general positions will be reduced before hedging positions.

**Article 25** Based on the conditions of the futures, options, and physicals market as well as open interests in the market, the Exchange may, from time to time, request a Non-FF Member, OSNBP, or Client to provide additional materials on its received hedging position quota.

**Article 26** If a Non-FF Member, OSNBP, or Client engages in fraud or otherwise breaches any rules of the Exchange when applying for or using a hedging position quota, the Exchange may deny its application, adjust or cancel its hedging position quota, treat its hedging positions as general positions or exercise forced position liquidation, and handle the case according to the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 27** The Exchange may offer discounts on the trading margin or transaction fees of hedge trading.

**CHAPTER 6 MISCELLANEOUS**

**Article 28** To the extent of any inconsistency between these *Hedge Trading Rules* and the futures rules for the particular products, the product rules shall prevail.

**Article 29** The Exchange reserves the right to interpret these *Hedge Trading Rules*.

**Article 30** These *Hedge Trading Rules* take effect on August 8, 2025.