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SHANGHAI FUTURES EXCHANGE

Shanghai Futures Exchange Hedging Guide

(September 2026 Consultation Draft)

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Shanghai Futures Exchange

Frequently Asked Questions on Hedging

(September 2026 Consultation Draft)

Pursuant to hedging laws and regulations, the *Hedge Trading Rules of the Shanghai Futures Exchange* (“**Hedging Rules**”), and the futures rules for the particular products, the Shanghai Futures Exchange (“**SHFE**” or the “**Exchange**”) administers hedging position quotas (“**hedging quotas**”) under an approval system. To help Members, Overseas Special Participants, Overseas Intermediaries, and Clients execute hedges at SHFE, this FAQ offers explanations on the application requirements, review focus, and frequently asked questions regarding hedging quotas.

I. General Questions

1. What is hedging and what types of hedging quotas are available?

China’s *Futures and Derivatives Law* defines hedging as “futures and derivatives trading activities conducted by traders that are substantially in line with their assets and liabilities for the purpose of managing the risks arising from changes in the value of such assets and liabilities.” The state encourages traders to tap into the futures and derivatives markets for hedging and other risk management purposes. Those that do may apply to SHFE for an exemption from the usual position limits.

Hedging quotas are subject to SHFE approval. Hedging quotas are classified into “**hedging position quota for regular months**” and “**hedging position quota for nearby delivery months**” by time of use, and into “**long hedge**” and “**short hedge**” by direction of use.

“Long hedge” means taking a long hedging position in futures or call options, or a short hedging position in put options. “Short hedge” means taking a short hedging position in futures or call options, or a long hedging position in put options.

The division between regular months and nearby delivery months, and the timing for applying for hedging quotas, are governed by the futures rules for the particular products.

2. How are hedging positions related to general positions?

General positions and hedging positions are independent of each other. General positions are governed by the position limit rules provided in the *Risk Management Rules of the Shanghai Futures Exchange* and the futures rules for the particular products. Hedging quotas are subject to SHFE approval and are not subject to the position limit rules. In effect, the hedging quota approved by SHFE is the position limit for hedging positions.

Therefore, a Client's total positions in a contract can be as high as the **sum** of the general position limit and its approved hedging quota.

3. Who may apply for a hedging quota?

Non-futures firm Members ("Non-FF Members"), Overseas Special Non-Brokerage Participants ("OSNBPs"), and Clients may apply. The applicant should be qualified to engage in production or business activities related to the product for which the hedging quota is sought. An institutional Client should provide a photocopy of its duplicate Business License, or a certificate of incorporation or other documents evidencing its scope of business.

4. How to apply for a hedging quota?

A Client intending to conduct hedging transactions should apply to the FF Member, Overseas Special Brokerage Participant, or Overseas Intermediary through whom it opened its account (collectively, "**Account-Opening Institution**"). The Account-Opening Institution will review the application materials and complete the relevant procedures at SHFE. Non-FF Members and OSNBPs should submit applications directly to SHFE.

The specific process is as follows: Hedgers prepare application materials as required; Clients (through their Account-Opening Institutions), Non-FF Members, and OSNBPs submit hedging quota applications to SHFE via the Member Service System; SHFE approves hedging quota based on the application materials provided.

5. Can general positions be converted into hedging positions?

Yes. A Client who has obtained a hedging quota may request to convert its general positions into hedging positions. However, two points are worth noting: (1) Only the position attribute changes, the opening time and opening price remain unchanged. Furthermore, positions are converted in chronological order, starting with those opened earliest; (2) This conversion of general positions into hedging positions applies to futures contracts only.

6. Can the same hedging quota be used at multiple Members?

The hedging quota available to a Client is the total of the hedging quotas applied for by the Client through all Members.

II. Application for Hedging Quota

7. What application materials are needed for obtaining a hedging quota?

- (1) Pursuant to the *Hedging Rules*, the following materials are required from an applicant to apply for a hedging position quota for regular months:
 - (i) Photocopy of the duplicate Business License, or its certificate of incorporation or other documents that can certify its scope of business;

- (ii) Materials proving the size of its physical commodity business, such as the production plan for the current year or the following year, 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) The hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and
 - (iv) Any other supporting materials required by the Exchange.
- (2) Pursuant to the *Hedging Rules*, the following materials are required from an applicant to apply for a hedging position quota for nearby delivery months:
- (i) Photocopy of the Business License, or its certificate of incorporation or other documents that can certify its scope of business;
 - (ii) Materials proving its genuine needs for nearby delivery months hedging, such as the 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) The hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and
 - (iv) Any other supporting materials required by the Exchange.

8. What are the specific requirements for demonstrating scope of business?

If the Business License does not specify a detailed scope of business, the applicant should provide a screenshot of its profile on the National Enterprise Credit Information Publicity System that shows its specific scope of business, and stamp its seal on the screenshot. Applicants that deal in special commodities should also provide the corresponding qualification certificates.

9. What are the specific requirements for the documents demonstrating the size of physical commodity business and a genuine need for hedging?

These materials mainly include:

- (1) **Statement on the size of physical commodity business.** The applicant should provide a monthly summary sheet of the quantity of physicals traded by it in the previous year or the most recent year, with the purchase volume and sales volume listed separately for each month as well as the total and monthly average numbers. Quantity data should be in the same unit as the underlying of the futures contract it is applying for (e.g., “metric ton” for copper cathode, “gram” for gold, and “kilogram” for silver). This statement should bear the seal of the applicant.

- (2) Supporting documents demonstrating the size of applicant's physical commodity business and its genuine hedging needs. These include but are not limited to the documents listed below; any one of the following suffices:

- (i) List of VAT invoices from purchase or sale activities. The first page of the list should indicate the starting and ending time (from YYYY/MM to YYYY/MM). The list should contain information such as the VAT invoice number, name of goods, purchaser, seller, date of issuance, and quantity. Purchases and sales should be listed separately. Quantity data should be in the same unit as the underlying of the futures contract it is applying for. A total number should also be given.

If the VAT invoice list has many pages, the seal is not needed on every page. Instead, the applicant may stamp its seal on the first page (which indicates the starting and ending time) and the last page (which contains the total), and submit the scan of these two pages together with an electronic copy of the complete list document.

The VAT invoice list should cover the previous year or, at a minimum, the most recent three consecutive months. A three-month list must be valid for three months after the last day covered by the list; a one-year list must be valid for one year after the last day covered by the list, and so on.

- (ii) Audited annual report and financial statements. They should show the scale of the applicant's business in the product it is applying for, accompanied by a note specifying the exact page numbers in the annual report (financial statements) where such scale is mentioned, as well as the purchase volume, sales volume, and monthly average volumes of the relevant product.
- (iii) Inventory certificates. Certificates include but are not limited to the following: a recent inventory certificate issued by an external party such as a warehouse (in principle, the issuance date should be no earlier than one month before the application date), which should indicate key information such as the owner, warehouse, product, quantity, and date; documents issued by customs, railways, or other authorities that can certify the existence of the goods; screenshots of SHFE's inventory system, among others.

For any inventory certificate used as application material, the applicant should warrant that the certificate is true and valid, that the quantity and holding period of the physical inventory correspond to the futures hedging positions, and that its aggregate positions in all futures contracts do not exceed the actual inventory quantity.

- (iv) Other materials that can certify the scale of physical commodity business, such as a customs declaration list.
- (v) Other supporting materials recognized by the Exchange.

10. What information should the hedging plan contain?

The hedging plan should contain a brief overview of the applicant, analyses of the source of risks, hedging strategy, the contracts to be used for hedging, contract quantity (in lots), and the expected volumes to be delivered or closed out, among other information. The hedging plan should be stamped with the applicant's seal.

11. How should a newly established enterprise apply for a hedging quota?

A newly established enterprise may apply for hedging quota with its spot contract if it is unable to furnish documents demonstrating the scale of its physical commodity business. In this case, it is required to undertake in the hedging plan that it will perform the contract and, when required, provide documents evidencing contract performance, such as VAT invoices and goods movement documents.

12. How should a fast-growing enterprise apply for a hedging quota?

For an originally small enterprise that has recently experienced significant growth in physical commodity business, it may submit documents proving the growth in such business, as well as a future business scale plan approved by its management.

13. How is hedging quota approved and how may it be raised?

SHFE approves hedging quotas on account of businesses' hedging needs as well as its risk prevention mandates. Specifically, SHFE may dynamically adjust the overall hedging quota for regular months and nearby delivery months for each product according to the product's fundamentals, market conditions, availability of deliverable commodities, and open interest, among other factors. Any enterprise that needs a higher hedging quota than what is approved may apply to SHFE for raising the quota.

14. How is hedging quota for regular months converted into hedging quota for nearby delivery months for those without a hedge trading quota for nearby delivery months?

For a Non-FF Member, OSNBP, or Client that has not obtained a hedging quota for nearby delivery months, when the contract enters into the nearby delivery months, its hedging quota for regular months will be automatically converted into a hedge trading quota for nearby delivery months based on the lower of (i) the hedging quota for regular months it has obtained and (ii) the position limit for the corresponding product. The specific products to which this conversion applies, and the time and amount of such conversion, will be separately notified by SHFE.

Any hedging quota for nearby delivery months obtained through the application process will supersede the automatically converted quota, if any, upon entry into the nearby delivery months.

III. Key Points in the Administration of Hedging Positions

15. How is hedging quota shared between futures and options?

A hedging quota is shared by the relevant futures contract and the corresponding options.

Specifically, “long hedge” means taking a long hedging position in futures or call options, or a short hedging position in put options. “Short hedge” means taking a short hedging position in futures or call options, or a long hedging position in put options.

16. What should be noted about making month-end position adjustments?

Upon entering the month before the delivery month and the delivery month itself (for oil products, upon entering the second month before the delivery month and the month before the delivery month), hedgers may come to hold excess hedging positions as hedging quotas change. Therefore, hedgers are advised to monitor quota changes in advance and adjust their positions in a timely manner.

17. What are the rules on the warning and handling of excess hedging positions?

The Member Service System will send a warning about excess hedging positions five trading days in advance. Please check for such warnings regularly.

Any trader whose hedging position exceeds its approved hedging quota or an otherwise established limit must adjust its position by the end of the first trading session on the following trading day. If adjustment is not made by this time or fails to eliminate the excess, SHFE may impose forced liquidation on the excess positions.

IV. Supervision

18. How does SHFE supervise the use of hedging quotas?

SHFE may at any time supervise and examine the production, operations, and credit standing information provided by Non-FF Members, OSNBPs, and Clients as well as their trading activities in the futures, options, and spot markets. These supervised entities should provide assistance and cooperation. SHFE may require those that have a hedging quota to report their activities in the spot, futures, and options markets, and, based on circumstances in the futures, options, and spot markets and their positions, may at any time require them to provide additional explanatory materials regarding the hedging quotas they have obtained.

SHFE may, based on market conditions and hedgers’ production and operations, adjust the hedging quotas granted and cancel or refuse to accept their hedging applications. A hedger should promptly report to SHFE any material change in its business during the period it holds a hedging quota. If a hedging quota needs to be adjusted, the hedger must promptly apply to SHFE for such an adjustment.

Notes:

1. This Q&A applies similarly to hedging at the Shanghai International Energy Exchange (INE).
2. If there is any inconsistency between this Q&A and the futures rules for the particular products, the product rules prevail.
3. This Q&A is prepared based on the *Hedge Trading Rules of the Shanghai Futures Exchange* and SHFE's practices in reviewing hedging applications. Matters not covered in this Q&A are governed by the rules and relevant notices of the Exchange.
4. You may contact SHFE for questions about hedging. Contact information is available on the official SHFE website.
5. SHFE reserves the right to interpret this Q&A.