

# Clearing Rules of the Shanghai Futures Exchange

## Chapter 1 GENERAL PROVISIONS

**Article 1** These *Clearing Rules* are made, in accordance with the *General Exchange Rules of the Shanghai Futures Exchange*, to regulate the clearing of futures trades on or through the Shanghai Futures Exchange (hereinafter referred to as “Exchange”), safeguard the legitimate interests of all futures market participants, protect the public welfare, manage and mitigate the risks of the futures markets.

**Article 2** The term “clearing” means the activities on or through the Exchange of calculating and transferring margins, profits and losses, fees of transaction and delivery, and other types of payment of the Member pursuant to the trading results and the applicable rules of the Exchange.

**Article 3** The Exchange, to perform its clearing obligations, applies regimes including the Margin Requirement, the Marking-to-Market and the Risk Reserve Fund.

**Article 4** The Exchange clears its Members only. Each Member of futures firm (each FF Member) clears its Clients.

**Article 5** These *Clearing Rules* are applicable to all kinds of clearing activities on or through the Exchange and binding on the Exchange, its employees, Members and their employees and Clients, and any bank designated for the futures margin custodian business (hereinafter referred to as “Designated Depository Bank”), and their employees.

## Chapter 2 THE CLEARING HOUSE

**Article 6** The clearing house is a clearing department within the Exchange. The clearing house is responsible for settling the futures trades executed on or through the Exchange, collecting and disbursing margins and protecting against clearing risks.

**Article 7** Duties of the clearing house:

- (1) to control clearing risks;
- (2) to create and prepare Members' settlement statements;
- (3) to handle fund transfers;
- (4) to compile, record, and report clearing data, etc.;
- (5) to resolve trade-related account disputes between Members;
- (6) to handle delivery settlement and other businesses; and
- (7) to manage margin in accordance with applicable rules.

**Article 8** All the futures trades executed through the Exchange are subject to centralized clearing by the clearing house.

**Article 9** The Exchange may examine Members' clearing and settlement documents, as well as financial statements and related records and books. Members shall cooperate with such examinations.

**Article 10** Each Member shall set up a clearing department. The clearing department of an FF Member shall handle the clearing activities between the FF Member and the Exchange and between the FF Member and its Clients; that of a non-FF Member shall handle the clearing activities between the non-FF Member and the Exchange.

Each clearing department shall properly retain settlement documents as well as financial statements and related records and books for future inquiry and verification.

**Article 11** A settlement clerk is the person designated by the Member to conduct all settlement and delivery on behalf of the Member. Each Member shall designate no fewer than two (2) settlement clerks.

The settlement clerk shall meet the qualifications prescribed by the China Securities Regulatory Commission (hereinafter referred to as “CSRC”), for futures professionals and obtain a Settlement Clerk Training Diploma from the Exchange by participating in the Exchange’s specific training program. Also, the settlement clerk shall obtain a Settlement Clerk Qualifications Certificate from the Exchange (hereinafter referred to as “the Settlement Clerk Certificate”) after getting authorized by her or his employer (Member).

**Article 12** Duties of the settlement clerk:

- (1) to deposit and withdraw funds for the Member;
- (2) to access and cross-check in a timely manner the clearing data provided by the Exchange;
- (3) to post and withdraw the marketable securities;
- (4) to undertake any matters relating to physical delivery; and
- (5) to undertake all other settlements and deliveries.

**Article 13** The settlement clerk shall present her or his Settlement Clerk Certificate when doing clearing and delivery business at the Exchange; otherwise, the Exchange will reject her or his request to engage in such business.

**Article 14** The Settlement Clerk Certificate applies to its license owner and any abuse of the license such as counterfeiting, tampering, borrowing or lending is prohibited.

**Article 15** The clearing house and its employees shall not disclose any trade secrets of the Exchange or of its Members.

### **Chapter 3 THE DESIGNATED DEPOSITORY BANK**

**Article 16** The Designated Depository Bank refers to a bank designated by the Exchange to assist in the settlement of futures trades.

**Article 17** A Designated Depository Bank shall meet the following criteria:

- (1) it must be a national commercial bank with financial strength and business reputation;
- (2) it must have business branches or subsidiaries in the major cities all over the country;
- (3) it must have an advanced and efficient means to transfer funds over long distances;
- (4) it must have established the rules for margins management;
- (5) it must have professional staff with knowledge of trading in the futures market and an awareness of how to avert risk; and
- (6) any other requirements otherwise as deemed necessary by the Exchange.

A commercial bank, satisfying the criteria listed in Article 17 and approved by the Exchange as a Designated Depository Bank, shall enter into an agreement with the Exchange setting forth the rights and obligations of both parties.

**Article 18** A Designated Depository Bank has the right to:

- (1) open a dedicated settlement account for the Exchange, a futures settlement account for the Member and other clearing-related accounts;

- (2) accept deposits from the Exchange and its Members; and
- (3) review, on an ongoing basis, the credit profile of Members who open accounts with the Designated Depository Bank.

**Article 19** A Designated Depository Bank has the obligation to:

- (1) prioritize the transfer of Members' funds according to the notes or data provided by the Exchange, and promptly inform the Exchange of the results of funds transfer and account balance changes;
- (2) keep confidential the trade secrets of the Exchange and Members;
- (3) assist the Exchange in mitigating any major risk at the Exchange; and
- (4) accept the supervision of the Exchange regarding its futures margin custody service, which entail:
  - (a) informing the Exchange of the balance of Members' futures settlement accounts;
  - (b) assisting the Exchange in verifying the source and destination of Members' funds as required by the Exchange;
  - (c) timely reporting to the Exchange of any funds clearing misconduct or risk of Members;
  - (d) timely reporting to the Exchange of the status of pledge of Members' standard warrants;  
and
  - (e) carrying out the necessary regulatory measures with respect to funds in Members' futures settlement accounts as required by the CSRC or the Exchange.

#### **Chapter 4 REGULAR OPERATIONS**

**Article 20** The Exchange will open a dedicated settlement account at each Designated Depository Bank to hold margin funds and other relevant funds of Members.

**Article 21** Each Member shall open a futures settlement account at a Designated Depository Bank to hold margin funds and other related funds.

**Article 22** Funds transfers between the Exchange and a Member shall only be executed between the Exchange's dedicated settlement account and the Member's futures settlement account.

**Article 23** The Exchange shall implement account segregation for the margin deposited by Members into the Exchange's dedicated settlement account. The Exchange shall establish ledgers for each Member respectively to record and settle the Member's deposits and withdrawals, profits and losses, option premiums, trading margins, transaction fees and other information in chronological order on daily basis.

**Article 24** The Members shall implement account segregation for the margin deposited by Clients into their dedicated fund accounts. The Member shall establish ledgers for each Client respectively to record and settle the Client's deposits and withdrawals, profits and losses, option premiums, trading margins, transaction fees and other information in chronological order on daily basis.

**Article 25** The Exchange is entitled to collect various receivables from a Member's futures settlement account through the Designated Depository Bank without notice to the Member, and to inspect the balance and transaction history of the account at any time.

**Article 26** Any Member who intends to open, rename, change, or close its futures settlement account shall submit relevant applications to the Exchange. Following approval by the Exchange, the Member shall present the Account Update Notice, issued by the clearing

house of the Exchange, to the Designated Depository Bank to complete the update.

**Article 27** In the case of a transfer of membership, the transferee shall open a new futures settlement account.

**Article 28** The Exchange implements the Margin Requirement. All margins include the clearing deposit and trading margin.

**Article 29** The term “clearing deposit” refers to the portion of the funds that a Member has deposited into the Exchange’s dedicated settlement account for the purpose of futures trading and clearing and which is not yet used as margin for the positions held by the Member.

An FF Member shall at all times maintain a minimum clearing deposit of RMB two million (2,000,000) yuan. An FF Member shall make this deposit from its own assets. A non-FF Member shall at all times maintain a minimum clearing deposit of RMB five hundred thousand (500,000) yuan.

**Article 30** The Exchange shall calculate the interest earned by each Member on a daily basis on the cash balances in its futures settlement account at the current cash deposit rate no lower than that set by the People’s Bank of China, and transfer the accrued interest to the Member’s futures settlement account on the first business day after the Designated Depository Bank’s interest payment date (the date on which the Designated Depository Bank makes the interest payment) in March, June, September and December. The interest rates to be applied will be determined, adjusted and announced by the Exchange.

**Article 31** The term “trading margin” refers to the portion of the funds that a Member has deposited into the Exchange’s dedicated settlement account to ensure performance of contracts and which is already used as margin for the positions held by the Member. Once a

future trade is executed, the Exchange will collect from both sides trading margin based on a prescribed percentage of the value of the contract held by them or any other methodology that may be specified by the Exchange.

The Exchange may collect trading margin from one side only under the following circumstances:

- (1) for a Client holding both long and short positions in the same product at the same Member, except for the contract held after market close of the 5th trading day prior to the last trading day;
- (2) for a non-FF Member holding both long and short positions in the same product at the Exchange, except for the contracts held after market close of the 5th trading day prior to the last trading day;
- (3) other circumstances the Exchange deems necessary.

**Article 32** The minimum rates of the trading margin for each futures contract is set forth in its contracts. The rates of the trading margin required at various stages in a contract's life cycle are set forth in the provisions in the *Risk Management Rules of the Shanghai Futures Exchange*.

**Article 33** The Member may, subject to the Exchange's approval, apply marketable securities as collaterals to meet its margin requirement.

**Article 34** Any margin funds collected by an FF Member from its Client for a brokerage trade are assets of the Client. Such funds shall be deposited into the Member's futures settlement account and ready for withdrawal at any time in satisfaction of margin requirements or other fee obligations.

The FF Member shall not misappropriate a Client's margin for any purposes other than ensuring that the Client meets the Exchange's margin and clearing requirements in accordance with the rules of the CSRC.

**Article 35** The trading margin charged by an FF Member to its Client shall no less than that charged by the Exchange to its Member.

**Article 36** The Exchange implements the Marketing-to-Market.

Marketing-to-Market. After market close on each trading day, the Exchange shall apply the settlement price of each contract to calculate the profits and losses, trading margin, transaction fees, taxes on each trade that is executed and transfer the funds due on a net basis as either a credit or a debit to the Member's clearing deposit.

**Article 37** The Exchange shall charge the Member transaction fees based on the volume of contracts it trades on that day and at the applicable fee rate. The Exchange may, considering market conditions, adjust the transaction fee rates for some or all contracts.

The Exchange shall, based on the number of orders placed or cancelled, etc., charge the Member order placement or cancellation fees at applicable fee rates.

Specific fee rates will be announced by the Exchange separately.

**Article 38** The settlement price for a futures contract that is traded on a particular day is the volume-weighted average price of all trades in that contract on that day.

For an untraded futures contract, its settlement price is set as follows:

(1) if, by market close on that day, there are unexecuted bids or asks for that contract in the Exchange's central order book, the middle quote among the best bid, the best ask and the

previous settlement price of the contract will be the settlement price;

(2) if, for the last five (5) minutes before market close on that day, there is only one quote for the contract in the Exchange's central order book at the contract's daily limit price for the day, then that limit price will be contract's settlement price; or

(3) except for the two conditions provided in this Article 38(1) and Article 38(2), the settlement price for an untraded contract will be calculated as follows:

- (a) if the price variation for the prior contract is no greater than the limit price, the settlement price = the settlement price for the previous trading day x (1 ± the price variation of the prior contract);
- (b) if the price variation for the prior contract is greater than the limit price, the settlement price = the settlement price for the previous trading day x (1 ± the limit price); or
- (c) if none of the contracts of prior delivery months is traded on the day, which implies that the price variation for the prior contract is unable to be determined, the settlement price = the settlement price for the previous trading day.

If, by market close on the trading day before the listing day of a new futures contract for a particular product, there is no trade or open interest in all futures contracts for that product, then the settlement price for all said futures contracts on that day shall be determined based on the listing price of the new futures contract.

**Article 39** The settlement price of a futures contract shall be the basis for calculating the settlement variation at that day, as follows:

the settlement variation for the day =  $\Sigma[(\text{the transaction prices of the shorts for the day} - \text{the settlement price for the day}) \times \text{the volume of the shorts for the day}] + \Sigma[(\text{the settlement price}$

for the day - the transaction prices of the longs for the day) x the volume of the longs for the day] + (the settlement price on the previous trading day- the settlement price for the day) x (the open interest of the shorts for the previous trading day – the open interest of the longs for the previous trading day).

**Article 40** The settlement variation for the day shall be credited to or debited from the Member's clearing deposit at the time the daily clearing is conducted.

The excess or deficiency in the trading margin for the day against that for the previous trading day shall be credited to or debited from the Member's clearing deposit.

Expenses such as transaction fees, taxes, and option premiums shall also be debited from the Member's clearing deposit.

Expenses including settlement variation, transaction fees, and option premiums shall be paid with cash.

**Article 41** The clearing deposit balance is calculated as below:

the clearing deposit balance for the day = the clearing deposit balance for the previous trading day + the trading margin for the previous trading day - the trading margin for the day + the applicable sum of marketable securities to meet the margin requirement for the day - the applicable sum of marketable securities to meet the margin requirement for the previous trading day + the settlement variation for the day + the option premium paid or received for the day + the deposit of funds - the withdrawals of funds - transaction fees and other miscellaneous costs.

Specific method for calculating marketable securities applicable to meet the margin requirements can be found in relevant provisions of Chapter 6.

**Article 42** If after daily clearing the clearing deposit of a Member is less than the minimum requirement, such clearing result shall constitute a margin call from the Exchange to the Member, and the gap between the two amounts shall be the amount of additional funds required by the margin call.

Following the margin call, the Exchange is entitled to collect the corresponding amount from the Member's futures settlement account via the Designated Depository Bank. Where a shortfall still exists after the collection, the Member shall eliminate it before market open on the following trading day; failing which, the Member shall be prohibited from opening new positions if its clearing deposit balance is positive but less than the minimum requirement, and be handled in accordance with the *Risk Management Rules of the Shanghai Futures Exchange* if its clearing deposit balance is negative.

The Exchange may implement intraday clearing and call for additional margin in consideration of marketing risks and the margin changes. And the Member shall pay the additional margins within the time limit. Otherwise, it will be subject to what is provided in the second paragraph of this Article 42.

**Article 43** Methods to transfer funds

A Member may transfer funds through any of the following methods to meet a margin call:

(1) by bank transfer. The Member shall apply in writing or by other means as prescribed by the Exchange to make the transfer.

The deposit will be completed, subject to the Exchange's approval, before the daily clearing if the application for deposit is submitted by market close.

The withdrawal will be completed, together with the other approved requests for withdrawals,

after the daily clearing is completed if the application for withdrawal is submitted by market close and approved by the Exchange. Any application for making withdrawals during trading hours will be rejected, except as otherwise determined by the Exchange.

The deposit and withdrawal will be completed on the next trading day if the application is submitted after the daily clearing is completed.

(2) by negotiable instruments. The Member may make the deposit with a check, promissory note, or credit transfer note drawing against its futures settlement account. After the Designated Depository Bank confirms the receipt of the deposit, the Exchange will credit the amount into the Member's clearing deposit balance before the next trading session starts at the latest.

This method is only applicable to the deposit of funds.

**Article 44** Member's withdrawal of funds shall be subject to the specifications of the Exchange as below:

(1) In case where the sum of the marketable securities applied to meet the margin requirement is greater than or equal to 80% of the value of the trading margin:

the sum to be withdrawn = the current cash balance - (the trading margin x 20%) - the minimum level of the clearing deposit; or

(2) In case where the sum of the marketable securities applicable to meet the margin requirement is lesser than 80% of the value of the trading margin:

the sum to be withdrawn = the current cash balance - (the trading margin - the sum of the marketable securities applicable to meet the margin requirement) - the minimum level of the clearing deposit.

The Exchange will, in its sole discretion, make adjustments to the amount of funds as and when it deems necessary that the Member may withdraw from its futures settlement account.

**Article 45** The Exchange shall prohibit the withdrawal of funds by the Member if any of the following circumstances exists with respect to the Member or the Client:

- (1) the Exchange is conducting investigation for cause for a possible major violation of the Exchange's rules;
- (2) the Member or Client is under an investigation for cause by the judicial authorities, the Exchange, or other concerned agencies for complaints and whistle-blowing against him or is involved in trade disputes;
- (3) the Exchange deems the market to be in a severely volatile situation;
- (4) any other circumstances which the Exchange deems necessary.

**Article 46** After the daily clearing, each Member shall receive its relevant clearing data through the Member service system.

**Article 47** In case where the Exchange fails to provide the clearing data in a timely manner due to unexpected causes, it shall announce an alternative time when the data will be delivered.

**Article 48** Each Member shall, in a timely manner, receive and verify the data provided by the Exchange, and shall keep properly the data for at least 20 years. Those that are materially connected to any dispute over futures trades shall be kept until the dispute is resolved.

**Article 49** In case where the Member has any dissidence on the clearing data, it shall, thirty (30) minutes prior to the opening of the next trading day, inform the Exchange of its

dissidence in writing. Under some circumstances, the Member may, within two (2) hours following the opening of next trading day, inform the Exchange of its dissidence in writing. And if the Member fails to inform within the time limit, then it shall be deemed to be satisfied with the accuracy of the clearing data.

**Article 50** After daily clearing, the Exchange will transmit funds transfer data for each Member to the corresponding Designated Depository Banks, who shall timely inform the Exchange of the results of funds transfers.

**Article 51** The Exchange will, on the first trading day of every month, provide each Member with the Exchange's Fund Settlement Form (stamped SHFE CLEARING) for the prior month and the Invoice of the Exchange for the transaction fees due on each Member for the prior month. These documents can be cross-referenced by the Member in accordance with the figures in its settlement statements.

**Article 52** The Member shall monitor carefully the activities of its settlement clerk and require her or him to comply with all operational procedures, the most important of which is to maintain the confidentiality of the Member's passwords.

**Article 53** The Member may apply to the Exchange for a transfer of the positions under the following circumstances:

- (1) in case of an FF Member, it cannot continue in the futures brokerage business for any reasons;
- (2) it is merged, divided, closed down, dissolved or bankrupt;
- (3) any other circumstances requiring such transfer as prescribed by the Exchange.

In the event of any circumstance specified in the preceding paragraph, the Member shall

submit to the Exchange an application for position transfer agreed to by the transferring and receiving Members and its accompanying documents. Upon the occurrence of the circumstance described in this Article 53(1) or (2), the FF Member shall also submit to the Exchange an approval document from the competent regulatory authority and materials proving that the Client has been informed of the transfer.

**Article 54** If the application for position transfer is approved, the Exchange and the Member shall jointly appoint a trading day as the settlement date for position transfer.

**Article 55** The Exchange shall, after the daily clearing is completed on the appointed settlement date for position transfer, transfer the positions on behalf of the Member. The Exchange shall also provide the Member with relevant settlement documents prior to and after the transfer for its verification.

**Article 56** The position transfer shall include the transfer of positions and the trading margin, to the exclusion of any other payables or receivables such as the minimum clearing deposit balance, profits or losses for the day, transaction fees, and taxes.

**Article 57** The Member shall verify and confirm its positions and fund balance both prior to and after the transfer. And once confirmed, shall not be changed.

## **Chapter 5 PHYSICAL DELIVERY SETTLEMENT**

**Article 58** A Member shall pay delivery fees to the Exchange for the physical delivery of goods or products pursuant to the Exchange's rules. The fee schedule is stipulated in the *Delivery Rules of the Shanghai Futures Exchange*.

**Article 59** Delivery payment is settled in the sequence of buyer making payment first and seller making delivery then. Delivery payment may be made through in-house transfer or bank transfer. With the in-house transfer option, the Member shall submit to the Exchange an

In-House Transfer Application by 14:00 on the third delivery day at the latest, and the Exchange will debit the delivery payment from the Member (buyer)'s clearing deposit and credit it into the Member (seller)'s clearing deposit. With the bank transfer option, the Member (buyer) may transfer the delivery payment into the Exchange's dedicated settlement account in the form of credit transfer notes, promissory notes, checks, or other forms of payment recognized by the Exchange; the Member (seller) will receive the delivery payment in its futures settlement account by funds transfer from the Exchange.

If the Member (buyer) fails to make the delivery payment prior to 14:00 on the third delivery day, the Exchange may transfer the delivery payment out of the clearing deposit of the Member (buyer).

**Article 60** The benchmark price for delivery settlement (i.e., final settlement price) is the settlement price of the futures contract concerned on its last trading day, but that for fuel oil futures shall be determined according to Article 24 of the *Fuel Oil Futures Delivery Rules of the Shanghai Futures Exchange*, that for gold futures shall be determined according to Article 24 of the *Gold Futures Delivery Rules of the Shanghai Futures Exchange (Trial)*, that for natural rubber, bleached softwood kraft pulp (BSKP), and stainless steel futures shall be determined according to applicable provisions of the *Delivery Rules of the Shanghai Futures Exchange*, and that for bitumen futures shall be determined according to applicable provisions of the *Bitumen Futures Delivery Rules of the Shanghai Futures Exchange (Trial)*. Commodity for delivery shall be priced at the final settlement price plus any premium or discount for grade and delivery venue (i.e., benchmark delivery warehouse vs. non-benchmark delivery warehouse).

**Article 61** The Exchange shall issue the value-added tax invoice, or the VAT invoice, to the Member (buyer) and shall collect the VAT invoice from the Member (seller). The Member (buyer) shall issue the VAT invoice to the Client (buyer) and collect the VAT invoice from the

Exchange. The Member (seller) shall issue the VAT invoice to the Exchange and collect the VAT invoice from the Client (seller).

The Member (seller) shall deliver the VAT invoice to the Exchange on the last delivery day at the latest.

**Article 62** If the VAT invoice submitted by the Member (seller) is delayed for three (3) to ten (10) days, the late delivery penalty will be imposed at the daily rate of 0.5‰ of the payment; if overdue for eleven (11) to thirty (30) days, the late delivery penalty will be imposed at the daily rate of 1‰ of the payment; if overdue for over thirty (30) days, it shall be deemed a failure to submit the VAT invoice and the penalty of 20% of the payment will be imposed.

**Article 63** Within the delivery period, if the he prescribed procedures relating to the payment for delivery are concluded by 14:00 on the current day by the Member (buyer), the Exchange shall disburse the margin for the positions closed by the physical delivery on that day. If the prescribed procedures are completed after 14:00, the Exchange shall disburse the margin on the following trading day.

Within the delivery period, if the prescribed procedures relating to the standard warrant for delivery are concluded by 14:00 on the current day by the Member (seller), the Exchange shall disburse the margin for the positions closed by the physical delivery on that day. If the prescribed procedures relating to the VAT invoice are not concluded by market close on the third delivery day, the Exchange shall charge the Member (seller) a margin no less than 15% of the final settlement price of the contract on the positions to be delivered on the current day and disburse that margin after the prescribed procedures relating to the VAT invoice are concluded.

**Article 64** Procedures for delivery settlement of gold and fuel oil futures, settlement of the difference between standard warrant weight and actual load-in or load-out weight, and issuance of tax invoices shall be governed by the *Gold Futures Delivery Rules of the Shanghai Futures Exchange (Trial)* and the *Fuel Oil Futures Delivery Rules of the Shanghai Futures Exchange*.

## **Chapter 6 MARKETABLE SECURITIES**

**Article 65** A Member may, subject to the Exchange's approval, deposit marketable securities to meet the margin requirements, however, profits or losses, fees, taxes, and option premiums shall be paid in cash.

**Article 66** The Client shall authorize its or his FF Member to deposit the marketable securities on its or his behalf.

Pursuant to the Client's instructions, the FF Member shall produce the Client Authorization Letter that bears the signature and business seal of the Client when it submits the marketable securities. However, if the Client intends to deposit its or his standard warrant to meet the margin requirements, the Client may grant such authorization and notify the Exchange of the authorization through the standard warrant management system.

The clearing house is responsible for attending to the matters in relation to the marketable securities deposited to meet the margin requirements. On each trading day, it shall be open for handling such matters until market close. However, under special circumstances, it may extend the opening hours.

**Article 67** The marketable securities referred to in these *Clearing Rules* are limited to the following assets:

- (1) standard warrants;

(2) any other classes of marketable securities approved by the Exchange.

**Article 68** Marketable securities may be applied as follows:

(1) application: A Member intending to deposit marketable securities to meet the margin requirements shall apply to the Exchange, and, if the securities belong to the Client, it shall also produce a Client Authorization Letter that bears the signature and business seal of the Client. In case where the Client's standard warrant is to be applied, the Client may, through the standard warrant management system, authorize its or his FF Member and notify the Exchange of its or his authorization; and

(2) verification and deposit:

(a) subject to the Exchange's approval, the Member shall deliver the standard warrant through the standard warrant management system to the Exchange for deposit pursuant to the procedures set forth in the *Standard Warrant Rules of the Shanghai Futures Exchange*.

(b) verification and delivery of other classes of marketable securities shall be in compliance with the Exchange's rules.

**Article 69** The market value of the marketable securities shall be calculated as follows:

(1) In the case of a standard warrant being applied to meet the margin requirements, the current day settlement price of the nearest delivery month contract for the product underlying the warrant will serve as the reference price for calculating the market value of the standard warrant.

Before market close on the day when the standard warrant is used as margin collaterals, the market value of the standard warrant shall be tentatively calculated at the preceding day

settlement price of the nearest delivery month contract for the product underlying the warrant.

(2) The reference prices of other classes of the marketable securities applied to meet the margin requirements shall be determined by the Exchange.

**Article 70** The term “discounted value” means the discounted market value of the marketable securities that are used as collaterals to meet the margin requirements. The discount rate for marketable securities shall be determined by the Exchange, and the discounted value of a standard warrant shall not exceed 80% of the market value of the standard warrant.

In accordance with the methods described in this Article 69, the Exchange shall, at the daily clearing, reset the reference price of the marketable securities and the discounted value.

**Article 71** The maximum available margin funds of a Member using marketable securities as margin collaterals shall be four (4) times (the “allotting multiplier”) of the Member’s cash balance held in the Exchange’s dedicated settlement account. The Exchange may adjust the allotting multiplier of a Member based on market risks and the Member’s credit standing.

The less one that is either the discounted value or the maximum value available will be designated by the Exchange as the actual value available of the Member’s marketable securities to meet the margin requirements. If the Member completes the delivery of the marketable securities, the Exchange will, at the daily clearing, credit the actual value available to the Member’s clearing deposit.

**Article 72** The Exchange shall set a validity period for each class of marketable securities during which time they may be used to meet the margin requirements. Any marketable securities that exceed the validity period may be renewed subject to the procedures set forth in these *Clearing Rules*, if the holder applies for a renewal.

**Article 73** The Exchange will revoke a Member's right to use marketable securities to meet the margin requirements in either of the following conditions:

- (1) the Member's withdrawal or application of the funds will give rise to significant risks or even endanger the Exchange's legitimate interests; or
- (2) other conditions as deemed necessary by the Exchange.

**Article 74** If the Member intends to withdraw the marketable securities used as collaterals, it shall first make up for the deficiency that will result from such a withdrawal. Only when the deficiency is satisfied may the Member proceed to withdraw the marketable securities.

The deadline for the Member to apply for withdrawal of the marketable securities is 14:30 on each trading day.

**Article 75** The Member shall pay a holding fee for the marketable securities when it uses the marketable securities to meet the margin requirements. The holding fee shall be set and adjusted by the Exchange at a rate that is no greater than the current loan rate set by the People's Bank of China and shall be announced by the Exchange. The Exchange shall collect the holding fee monthly.

**Article 76** In case where the Member fails to or is unable to perform, wholly or partially, its obligations to satisfy the margin requirements, the Exchange may convert the marketable securities into cash through redemption or by making physical delivery and will have priority to the cash assets realized therefrom to cover the trading margin shortfall and any other trading costs. Any expenses incurred in the redemption or cash conversion of the marketable securities shall be borne by the Member.

## **Chapter 7 RISKS AND OBLIGATIONS**

**Article 77** The Member shall assume all the risks associated with the contracts it trades on the Exchange.

**Article 78** The Exchange shall maintain a two-tiered risk management structure, i.e., the Exchange shall monitor its Members' risks, and each Member shall monitor its Clients' risks.

**Article 79** In case where a Member fails to perform its obligations, the Exchange may take the following protective measures:

- (1) apply the Member's clearing deposit;
- (2) suspend the Member from opening new positions;
- (3) direct of force-liquidation of the Member's positions until the funds rendered available from the liquidation can be applied to satisfy the obligations, as provided in the applicable rules of the Exchange; and
- (4) convert into cash its marketable securities used as collaterals and apply the cash assets realized therefrom to fulfill such obligations.

**Article 80** If the Member still fails to meet all its liabilities when the measures as provided in Article 79 are taken, the Exchange may take actions in the following order:

- (1) terminate its membership and apply its membership fee to cover its obligations;
- (2) subject to the approval of the Board of Directors of the Exchange, or the Board, apply the risk reserve fund to cover the remaining obligations;
- (3) apply the Exchange's own assets to cover the remaining obligations; and
- (4) make a claim against the Member through legal proceedings.

**Article 81** The Exchange shall maintain a risk reserve fund to ensure the financial integrity of the futures market and protect the Exchange against any loss due to unexpected risks.

**Article 82** Resource of the risk reserve fund:

- (1) the Exchange shall distribute to the risk reserve fund on the basis of 20% of its earnings from the transaction fees which includes the amounts discounted to the Member; and
- (2) other financial means as provided in the national financial policies and regulations.

When the balance of the risk reserve fund is ten (10) times the registered capital of the Exchange, the Exchange may, with the approval of the CSRC, cease to allocate assets to it.

**Article 83** The risk reserve fund shall be maintained as a segregated class of assets. It shall not be used for other purposes than the coverage of losses resulting from the market's emergencies.

**Article 84** Application of the risk reserve fund shall be warranted by the Board and approved by the CSRC. The application of the risk reserve fund shall comply with the purposes and procedures as provided in the prescribed rules and regulations.

## **Chapter 8 MISCELLANEOUS**

**Article 85** Any violation of these Clearing Rules shall be brought under actions as provided in the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 86** If the *Continuous Trading Rules of the Shanghai Futures Exchange* contains special provisions on settlement with respect to continuous trading, such provisions shall prevail.

**Article 87** If the Exchange has special provisions on the settlement of options, such provisions shall apply.

**Article 88** The Exchange reserves the right to interpret these *Clearing Rules*.

**Article 89** These *Clearing Rules* shall be implemented as of 09/18/2019.

The Appendix 1 Account Update Notice (Template) Omitted

The Appendix 2 Client Authorization Letter (Template) Omitted

The Appendix 3 Deposit Checklist of Marketable Securities of the Shanghai Futures Exchange (Template) Omitted

The Appendix 4 Withdrawal Checklist of Marketable Securities of the Shanghai Futures Exchange (Template) Omitted

The Appendix 5 List of Designated Depository Bank list of the Shanghai Futures Exchange (Omitted)