

Detailed Rules of the Shanghai Gold Exchange on Benchmark Price Trading

(Amended November 2019)

Chapter I General Provisions

Article 1 This *Detailed Rules of the Shanghai Gold Exchange on Benchmark Price Trading* (this **Rules**), formulated in accordance with the *Articles of Association of the Shanghai Gold Exchange*, the *Trading Rules of the Shanghai Gold Exchange*, and other applicable rules, is designed to regulate benchmark price trading and protect the lawful rights and interests of market participants.

Article 2 The Shanghai Gold Exchange (the **Exchange** or **SGE**) organizes benchmark price trading and related settlement and delivery activities on an open, equitable, and impartial basis and in good faith.

Article 3 “Benchmark price trading” refers the centralized, iterative fixing process, taken place at a platform of the Exchange, that involves the issuance of various prices to solicit, and in response to, the corresponding buy and sell orders from interested traders so that, at a certain price point denominated in Renminbi (the **benchmark price**) for the benchmark price contract concerned, the total buying quantity and total selling quantity reach a relative balance, at which time the orders are matched and executed at that benchmark price.

Article 4 Benchmark price contracts listed at the Exchange include Shanghai Gold contracts, Shanghai Silver contracts, and other contracts approved by the People’s Bank of China.

Article 5 The Exchange, members, customers, and relevant staff shall abide by this Rules when engaging in benchmark price trading.

Chapter II Participants

Article 6 Benchmark price trading is open to members and corporate customers, the latter of which shall engage in benchmark price trading through their carrying members.

Article 7 Benchmark price trading is facilitated by a group of Fixing Members and Reference Price Members.

Fixing Member is an institution that is obligated to provide a reference price for a relevant benchmark price contract within the designated time period and to assume certain quantity-based responsibilities when the Exchange attempts to balance the buying and selling quantities. Reference Price Member is an institution that is obligated to provide a reference price for a relevant benchmark price contract within the designated time period.

Article 8 The status of Fixing Member and Reference Price Member shall be subject to the review and approval of the Exchange.

Article 9 Any institution that applies for Fixing Member status shall:

- (1) be either a financial institution or a leading enterprise in the precious metals industry;
- (2) have a registered capital of RMB 100 million or an equivalent amount of net assets;
- (3) have a sound business reputation and operating history and no record of any material violation within the most recent three years;
- (4) have a sound organizational structure, financial management system, and internal control and risk management framework;
- (5) have been an active trader in the SGE, domestic, or international precious metals markets and one of the highest annual trading volumes;
- (6) be one of the top market participants (by volume) in the physical delivery of gold or silver at the Exchange;
- (7) abide by the rules of the Exchange; and
- (8) meet other conditions prescribed by the Exchange.

Article 10 Any institution applying for Fixing Member status shall submit the following application materials to the Exchange:

- (1) an application letter for Fixing Member status;
- (2) a photocopy of its business license bearing its common seal;
- (3) accounting report from the most recently completed fiscal year audited by an accounting firm or audit firm;
- (4) documents describing the risk controls it has in place for engaging in the benchmark price trading of relevant products;
- (5) declaration that it has no record of any material violation within the most recent three years;
- (6) a report on its trades at the Exchange in the one-year period before the date of application; and
- (7) other materials required by the Exchange.

Article 11 Any institution that applies for Reference Price Member status shall:

- (1) be either a financial institution or a leading enterprise in the precious metals industry;
- (2) have a registered capital of RMB 50 million or an equivalent amount of net assets;
- (3) have a sound business reputation and operating history and no record of any material violation within the most recent three years;

(4) have been an active trader in the SGE, domestic, or international precious metals markets and one of the highest annual trading volumes;

(5) abide by the rules of the Exchange; and

(6) meet other conditions prescribed by the Exchange.

Article 12 Any institution applying for Reference Price Member status shall submit the following application materials to the Exchange:

(1) an application letter for Reference Price Member status;

(2) a photocopy of its business license bearing its common seal;

(3) accounting report from the most recently completed fiscal year audited by an accounting firm or audit firm;

(4) declaration that it has no record of any material violation within the most recent three years;

(5) a report on its trades at the Exchange in the one-year period before the date of application; and

(6) other materials required by the Exchange.

Article 13 Fixing Members and Reference Price Members shall have the following rights and obligations:

(1) to abide by the rules of the Exchange;

(2) (for Fixing Members) to provide a reference price for the relevant benchmark price contract and act as the counterparty to the unmatched order quantity assigned to it as a result of Quantity Imbalance; and may submit Tendering Quantities during supplementary tendering periods;

(3) (for Reference Price Members) to provide a reference price for the relevant benchmark price contract within the designated time period; and

(4) any other rights and obligations specified by the Exchange.

Article 14 The Exchange shall approve or deny a duly completed application within 20 business days of receiving it.

Article 15 The Exchange may review the suitability of Fixing Members and Reference Price Members and adjust their status according to the results of such reviews.

Article 16 Any Fixing Member or Reference Price Member who intends to terminate its status shall apply to the Exchange in writing at least three months in advance.

Chapter III Trading

Article 17 The underlying of Shanghai Gold contracts shall be SGE-recognized gold ingots with a standard weight of 1 kg and a minimum fineness of 999.9; that of Shanghai Silver contracts shall be SGE-recognized silver ingots with a standard weight of 15 kg and a minimum fineness of 999.9.

Article 18 Shanghai Gold contracts have the trading code of SHAU, quotation unit of yuan/g, and minimum price fluctuation of 0.01 yuan/g; trades shall be in multiple of lots with each lot corresponding to 1 kg; delivery takes place on T+2. Shanghai Silver contracts have the trading code of SHAG, quotation unit of yuan/kg, and minimum price fluctuation of 1 yuan/g; trades shall be in multiple of lots with each lot corresponding to 15 kg; delivery takes place on T+2. Contract specifications are detailed under the *Specifications of SGE Benchmark Price Contracts* (Annex 1). The contract specifications may be adjusted by the Exchange based on market conditions; such adjustments shall be governed by the announcements of the Exchange.

Article 19 Benchmark price trading is conducted through morning pricing sessions and afternoon pricing sessions, with the benchmark price for a session formed after one or more rounds of fixing in that session. The trading hours for various benchmark price contracts are detailed under the *Trading Hours of SGE Benchmark Price Contracts* (Annex 2). The session time and trading hours may be adjusted by the Exchange based on business needs and shall be governed by the announcements of the Exchange.

Article 20 Any order submitted by a member or customer in a particular session of benchmark price trading shall be valid for that session only.

Article 21 Benchmark price trading has no price limits.

Article 22 Benchmark price trading is traded on margin. The Exchange freezes Trading Margin immediately upon the submission of a valid order, and may adjust the margin rate of benchmark price contracts based on market conditions.

Article 23 Each session of benchmark price trading consists of the following three phases:

(1) Submission of reference prices. Fixing Members and Reference Price Members submit the reference prices for Shanghai Gold, Shanghai Silver, and other benchmark price contracts for the current session, based on which the Benchmark Price Trading System calculates the Offered Price for the first round of fixing (the **Initial Price**).

(2) Fixing. Members and customers tender their intended buying or selling quantities (the **Tendering Quantity**) in response to the Initial Price or the subsequent prices offered by the trading system (each an **Offered Price**) as adjusted according to the rules for Offered Prices; and

(3) Formation of the benchmark price. If in any round the difference between the tendered buying quantity and tendered selling quantity (the **Quantity Imbalance**) is equal to or less than the Execution threshold specified by the relevant benchmark price contract, the fixing phase concludes and the Offered Price for that round shall be the benchmark price of that

session. All valid orders submitted in that round are then matched and executed at the benchmark price (**Execution**).

Article 24 Before the start of a morning pricing session or afternoon pricing session, each Fixing Member and Reference Price Member shall submit a reference price for such session through its trading terminal.

Article 25 The Initial Price is calculated and determined as follows:

(1) All Fixing Members and Reference Price Members submit reference prices for that session for the relevant benchmark price contract within the designated time period. If 50 percent or more of them submit such a price, the Exchange will discard a single highest one and a single lowest one, and compute the arithmetic mean of the remaining reference prices as the Initial Price;

(2) If less than 50 percent of the Fixing Members and Reference Price Members submit reference prices, the Exchange considers the reference prices received to be invalid for the current session, and will instead compute the arithmetic mean of all the prices at which orders in the reference price-matching contract designated in the specifications of the relevant benchmark price contract are executed within the time period for submitting reference prices, as the Initial Price of the current session.

(3) In the event that no order in the reference price-matching contract is executed within the time period for submitting reference prices, then the benchmark price of the previous session for the benchmark price contract concerned shall be set as the Initial Price for the current session.

Article 26 The fixing phase in each session consists of two types of count-down periods referred to as market tendering periods and supplementary tendering periods. Members and customers may submit Tendering Quantities during market tendering periods; Fixing Members may submit Tendering Quantities during both periods.

Each market tendering period and the immediately following supplementary tendering period form one round. For the first round, the market tendering period and the supplementary tendering period shall have time limits of 60 seconds and 10 seconds, respectively; for all subsequent rounds, they shall have time limits of 30 seconds and 10 seconds, respectively.

Article 27 Between any two rounds in a session, customers may not reduce or cancel the quantity they had tendered in the first of these two rounds if the Offered Price in the second round becomes more favorable to them. Specifically, where a new round is started because the Quantity Imbalance in the preceding round does not meet the conditions for the formation of the benchmark price, if the Offered Price for the new round is lower than that of the preceding round, the trading system will automatically cancel all Tendering Quantities from sellers and at the same time prevent buyers from reducing or canceling their Tendering Quantities; if the opposite is true, the trading system will automatically cancel all Tendering Quantities from buyers and at the same time prevent sellers from reducing or canceling their Tendering Quantities. Customers whose Tendering Quantities in the preceding round are canceled by the trading system but who accept the Offered Price for the current round, shall re-submit their Tendering Quantities.

Article 28 Tendering Quantities submitted by Fixing Members in any round's supplementary tendering period may only reduce the Quantity Imbalance from such round's market tendering period, and shall not reverse the prevailing trading direction established by the relative size of buying and selling quantities in the market tendering period. By the principle of time priority, any portion of Tendering Quantities submitted during the supplementary tendering period that exceed the remaining Quantity Imbalance from the market tendering period shall be invalid and discarded.

Article 29 If the Quantity Imbalance after a supplementary tendering period does not meet the conditions for the formation of the benchmark price, the trading system will adjust the Offered Price based on the Quantity Imbalance and initiate a new round of fixing. The Offered Price shall be adjusted according to the following rules:

(1) The Offered Price will be lowered if selling quantity less buying quantity is greater than the Execution threshold, and raised if buying quantity less selling quantity is greater than the Execution threshold;

(2) The Offered Price in the second round is determined by the size of Quantity Imbalance in the first round. In subsequent rounds, if the prevailing trading direction established by the relative size of buying and selling quantities in a round is the same as that in the preceding round, the price adjustment for the Offered Price for the next round shall be determined by the size of Quantity Imbalance; if the prevailing trading direction reverses, the price adjustment shall be one-half of the price adjustment for the current round but in the opposite direction.

The relationship between Quantity Imbalance and price adjustment is given in *Table of Quantity Imbalance and Price Adjustment of SGE Benchmark Price Contracts* (Annex 3). The relationship between the two may be adjusted by the Exchange based on market conditions and shall be governed by the announcements of the Exchange.

Article 30 The Tendering Quantities submitted by Fixing Members during supplementary tendering period are automatically converted into Tendering Quantities for the market tendering period of the next round. Any cancellation of such Tendering Quantities by Fixing Members shall be in compliance with the principle under Article 27 of this *Rules*.

Article 31 If the Quantity Imbalance is zero in a market tendering period or, following a supplementary tendering period, is within the Execution threshold for the relevant benchmark price contract, the current session of benchmark price trading shall conclude and the Offered Price in this round shall be the benchmark price for the contract for the current session. Any Quantity Imbalance shall be divided equally among and assumed by all Fixing Members; all valid orders submitted in the final round shall be executed at the benchmark price.

Article 32 The Exchange oversees the process of benchmark price trading. If in any session there is major market volatility, a failure of the Offered Price to converge with the market price, a clear abnormality in the fixing process, or a technical malfunction, the Exchange may suspend trading and, based on market conditions, take one of the following two measures:

(1) cancel all the orders already submitted in that session, issue an Initial Price at the market price, and resume benchmark price trading. Offered Prices in subsequent rounds shall be

determined by the Quantity Imbalance in the preceding round; or

(2) cancel all the orders already submitted in that session and announce the benchmark price for the current session based on the market price of the reference price-matching contract.

Article 33 The Exchange charges a transaction fee for members taking part in benchmark price trading. The fee rate shall be governed by the announcements of the Exchange.

Article 34 The Benchmark Price Trading System of the Exchange displays real-time Offered Prices, Tendering Quantities from market tendering periods and supplementary tendering periods, benchmark prices, trading volumes, and other market data. The Exchange publishes RMB-denominated benchmark prices through its website, trading terminals, third-party information platforms, and other channels.

Chapter IV Settlement and Delivery

Article 35 The Exchange conducts centralized clearing, settlement, and delivery for benchmark price trades.

Article 36 For benchmark price contracts traded in two daily sessions, the benchmark price from the afternoon pricing session shall be used as the settlement price for the purposes of calculating each customer's gains and losses on trades in both the morning and afternoon pricing sessions, and of collecting margin, at the prescribed rate, on the net position held by each participant. For benchmark price contracts traded in one daily session, the benchmark price from each day's session shall be used as the settlement price for the purpose of collecting margin at the prescribed rate.

Article 37 Net positions in a benchmark price contract on T+0 shall be cleared and physically settled during day-end settlement on T+2 at the settlement price from T+0.

Article 38 Trades in benchmark price contracts shall be cleared together with trades in other SGE contracts under the same account. Clearing and delivery shall be conducted in the order of price-matching trades first, benchmark price trades second, quote-driven trades third, and price-asking trades fourth.

Article 39 Before day-end settlement on T+2, a buyer shall have sufficient balance on its funds account and a seller shall have sufficient physical bullion under its Bullion Account, or be deemed to have committed a delivery default. If delivery default occurs, the Exchange shall collect from the defaulting party a penalty based on the quantity in default and the penalty rate for the benchmark price contract concerned, then terminate the trade.

Article 40 Where a defaulting party's Settlement Reserve is insufficient to cover the penalty, the Exchange may take further actions pursuant to the *Measures for the Administration of Risk Control of Shanghai Gold Exchange*.

Article 41 Other clearing- and delivery-related matters shall reference the relevant provisions of the *Detailed Clearing and Settlement Rules of the Shanghai Gold Exchange* and the *Detailed Delivery Rules of the Shanghai Gold Exchange*.

Chapter V Compliance Requirements

Article 42 Fixing Members and Reference Price Members shall provide reference prices that are reasonable for the current market conditions and are prohibited from colluding or jointly manipulating the Initial Price.

Article 43 The Tendering Quantity submitted by a member or customer in each round shall reflect its genuine trading needs. No member or customer may engage in false trading or disrupt or undermine the benchmark price trading process or market order.

Article 44 Each member shall completely separate its proprietary benchmark price trades from its brokerage benchmark price trades and establish a firewall between its proprietary business and brokerage business.

Article 45 Each member shall put the interests of its customers before its own interests whenever a conflict between the two exists.

Article 46 No member is permitted to use any insider information, including the benchmark price orders placed by its customers, in its proprietary trading.

Article 47 Each member's risk control division shall monitor activities of benchmark price trading and conduct on-site inspections on such activities from time to time.

Article 48 During benchmark price trading, all communications and external contacts by Fixing Members and Reference Price Members shall be transmitted via equipment with recording functions. Such communication and contact records shall be retained.

Article 49 Any action, including price manipulation, pre-arranged trading, and placing buy and sell orders alternately in the same session in breach of good faith, that disrupts the market or constitutes misleading or deceptive trading activity, whether performed by a single entity or a group in collusion, is strictly prohibited.

Article 50 Each member and customer participating in benchmark price trading shall retain complete compliance and trading records. Proprietary records shall be kept separate from brokerage records. All records shall be retained for a minimum of five years.

Article 51 All employees of a member that participate in benchmark price trading shall receive pre-trading training to gain an adequate knowledge of the rules and operating procedures for benchmark price trading.

Article 52 Professionals selected from major market participants, the Exchange, and gold industry associations form a Benchmark Price Trading Oversight Committee to oversee the compliance-related matters in benchmark price trading.

Article 53 The Exchange shall have the right to from time to time check the level of compliance of market participants and to issue verbal warning, written warning, or notice of reprimand to, or to revoke the benchmark price trading privilege of, any participant found to have violated or have failed to meet the compliance requirements of benchmark price trading.

Chapter VI Penalties for Violations

Article 54 Any market participant who has violated relevant trading rules or disrupted the market order shall be penalized in accordance with the *Enforcement Rules of the Shanghai Gold Exchange*.

Article 55 The Exchange shall have the right to terminate the status of a Fixing Member or Reference Price Member if such member is found to have:

- (1) colluded or jointly manipulated the Initial Price;
- (2) influenced or manipulated the market price or deliberately disrupted the process of benchmark price trading and market order;
- (3) failed to comply with the risk warning requirements of the Exchange; or
- (4) committed any other violation that warrants the termination of its SGE membership in accordance with the *Measures for the Administration of Membership of the Shanghai Gold Exchange*.

Article 56 A member shall be penalized in accordance with the *Enforcement Rules of the Shanghai Gold Exchange* if, when acting as a broker, it is found to have:

- (1) failed to segregate own funds from customer funds;
- (2) used customer account to trade for itself or a third party;
- (3) divulged customer instructions or other confidential trading information;
- (4) conducted trade on customer's behalf without following its instructions; or deliberately blocked, delayed, or altered customer orders; or induced or coerced customer to enter into a transaction that furthers the member's own interests; or
- (5) performed any other action that violates the rules of the Exchange regarding brokerage services.

Article 57 The Exchange shall have the right to punish in accordance with the *Enforcement Rules of the Shanghai Gold Exchange* any participant who has violated other rules or failed to perform its contractual obligations.

Chapter VII Ancillary Provisions

Article 58 Matters not covered by this *Rules* shall be governed by the relevant rules of the Exchange.

Article 59 This *Rules* is written in Chinese. In case of any inconsistency between its different language versions or different editions, the latest Chinese version shall prevail.

Article 60 The Exchange shall reserve the right to interpret and amend this *Rules*.

Article 61 This *Rules* shall take effect as of the date of its release.

Annex 1

Specifications of SGE Benchmark Price Contracts – SHAU

Item	Specification
Trading Product	Gold
Trading Code	SHAU
Quotation Unit	yuan/gram
Trading Method	Benchmark price trading
Trading Unit	1 kg/lot
Minimum Price Fluctuation	0.01 yuan/gram
Price Limit	No limit
Margin Rate	6%
Minimum Order Size	1 lot
Maximum Order Size	10,000 lots
Matching Method	By difference between tendered buying and selling quantities
Execution Threshold	400 kg
Trading Fee	Subject to SGE announcements
Reference Price-Matching Contract	Au99.99
Round Duration	First round: 60 seconds for market tendering period plus 10 seconds for supplementary tendering period; Subsequent rounds: 30 seconds for market tendering period plus 10 seconds for supplementary tendering period
Settlement Method	Delivery-versus-payment
Delivery Mode	Physical delivery
Time of Delivery	T+2
Deliverable Bullion	Gold ingots with standard weight of 1 kg and minimum fineness of 999.9
Quality Standard	Ingots produced in compliance with the prevailing <i>SGE Standard for Gold Ingot</i> by SGE Standard Gold Ingot Refiners, or standard ingots produced by LBMA Good Delivery refiners
Delivery Vault	Certified Vaults for gold
Delivery Fee	0
Default Penalty Rate	Same as margin rate
Listing Date	April 19, 2016

Specifications of SGE Benchmark Price Contracts – SHAG

Item	Specification
Trading Product	Silver
Trading Code	SHAG
Quotation Unit	yuan/kg
Trading Method	Benchmark price trading
Trading Unit	15 kg/lot
Minimum Price Fluctuation	1 yuan/kg
Price Limit	No limit
Margin Rate	10%
Minimum Order Size	1 lot
Maximum Order Size	40,000 lots
Matching Method	By difference between tendered buying and selling quantities
Execution Threshold	9,000 kg
Trading Fee	Subject to SGE announcements
Reference Price-Matching Contract	Ag(T+D)
Round Duration	First round: 60 seconds for market tendering period plus 10 seconds for supplementary tendering period; Subsequent rounds: 30 seconds for market tendering period plus 10 seconds for supplementary tendering period
Settlement Method	Delivery-versus-payment
Delivery Mode	Physical delivery
Time of Delivery	T+2
Deliverable Bullion	Silver ingots with standard weight of 15 kg and minimum fineness of 999.9
Quality Standard	Ingots produced by SGE Standard Silver Ingot Refiners in compliance with the prevailing standard for silver ingot at the Exchange, or standard ingots produced by LBMA Good Delivery refiners
Delivery Vault	Certified Vaults for Ag (T+D)
Delivery Fee	1 yuan/kg
Default Penalty Rate	Same as margin rate
Listing Date	October DD, 2019

Annex 2

Trading Hours of SGE Benchmark Price Contracts

Phase	Shanghai Gold (SHAU)		Shanghai Silver (SHAG)	
	Morning	Afternoon	Morning	Afternoon
Submission of Reference Prices	10:09-10:14 a.m.	2:55-2:59 p.m.	9:39-9:44 a.m.	2:25-2:29 p.m.
Fixing	10:15 a.m.	3:00 p.m.	9:45 a.m.	2:30 p.m.

Annex 3

1. Table of Quantity Imbalance and Price Adjustment for Shanghai Gold (SHAU)

Adjustment to Offered Price of the next round (if prevailing trading direction established by the relative size of buying and selling quantities is the same as that in the preceding round)		Adjustment to Offered Price of the next round (if prevailing trading direction reverses)
Quantity Imbalance (QI) in the market tendering period (kg)	Price Adjustment	
$QI \leq 400$	Execution	-
$400 < QI < 3,500$	0.1 yuan/g	50% of the price adjustment for the current round but in the opposite direction
$3,500 \leq QI < 6,000$	0.2 yuan/g	
$6,000 \leq QI < 10,000$	0.3 yuan/g	
$QI \geq 10,000$	0.4 yuan/g	

2. Table of Quantity Imbalance and Price Adjustment for Shanghai Silver (SHAG)

Adjustment to Offered Price of the next round (if prevailing trading direction established by the relative size of buying and selling quantities is the same as that in the preceding round)		Adjustment to Offered Price of the next round (if prevailing trading direction reverses)
Quantity Imbalance (QI) in the market tendering period (kg)	Price Adjustment	
$QI \leq 9,000$	Execution	-
$9,000 < QI < 45,000$	2 yuan/kg	50% of the price adjustment for the current round but in the opposite direction
$45,000 \leq QI < 75,000$	4 yuan/kg	
$75,000 \leq QI < 120,000$	8 yuan/kg	
$QI \geq 120,000$	16 yuan/kg	