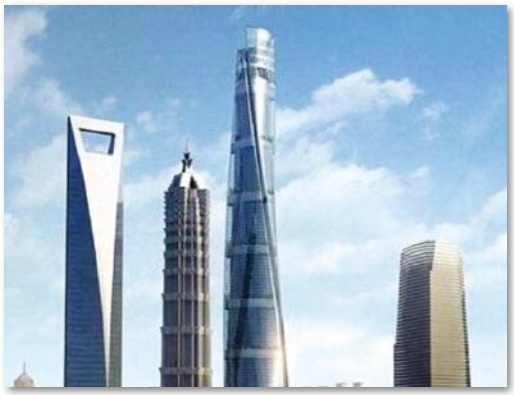
Guide of Shanghai Gold Exchange

International Business



上海黄金交易所
SHANGHAI GOLD EXCHANGE

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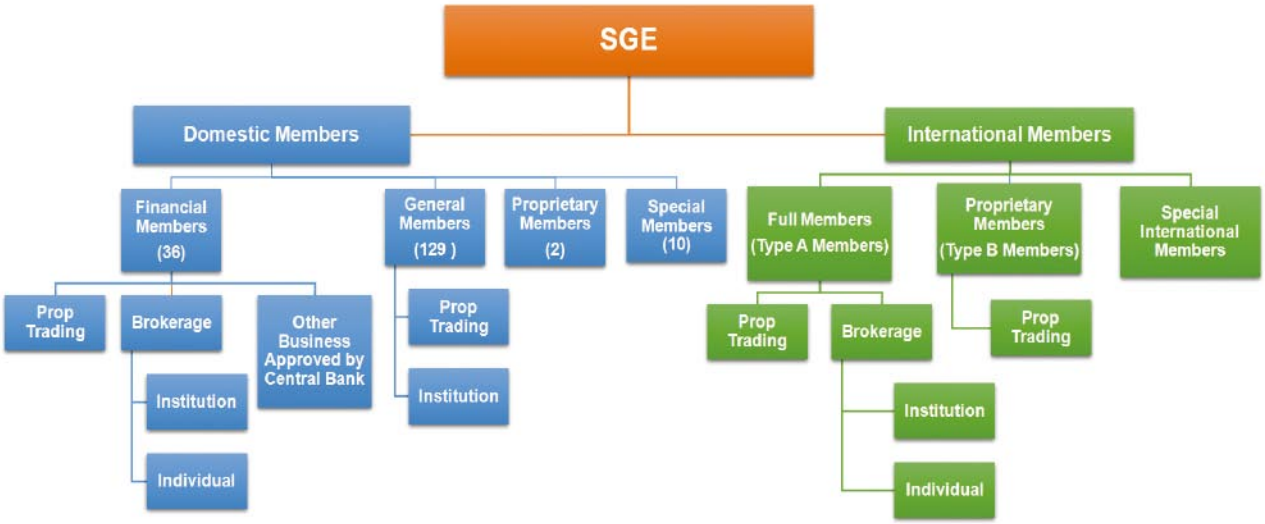
Section 1: Introduction of Shanghai Gold Exchange

1.1 A Glimpse of SGE

- SGE was established in October 2002 by People's Bank of China ("PBOC") upon approval by State Council and supervised by PBOC.
- Founded in September 2014, Shanghai International Gold Exchange ("SGEI") is registered in Shanghai Pilot Free Trade Zone and fully owned by SGE. SGEI enables foreign institutions and individuals to access to China precious metals market based on FT account system. SGEI is responsible for international market development, international members' management and offshore investor services.
- SGE provides trading, clearing, delivery and vaulting services of gold, silver and platinum. Trading products include physical trading, deferred trading, forward, swap, option and leasing.
- SGE assumes full responsibilities under SGE regulations. If one trading party defaults when clearing or delivery by all means of remedies under SGE regulation, SGE will guarantee the other party's interests and will claim the default party of penalty.
- SGE is a membership-based organization with two basic types of members: Domestic Members and International Members. Domestic members include Financial Members, General Members, Proprietary Members and Special Members. Domestic membership can be transferred. International Members include Full Members (Type A Members), Proprietary Members (Type B Members), and Special International Members. International Membership cannot be transferred but can be withdrawn and SGEI will refund the membership fee to the member.

1.2 Membership Structure



1.3 Business Structure

SGE has Price Matching Market, OTC Market and Leasing Market. SGE performs centralized clearing services to the members, in addition, SGE also provides delivery and vaulting services.

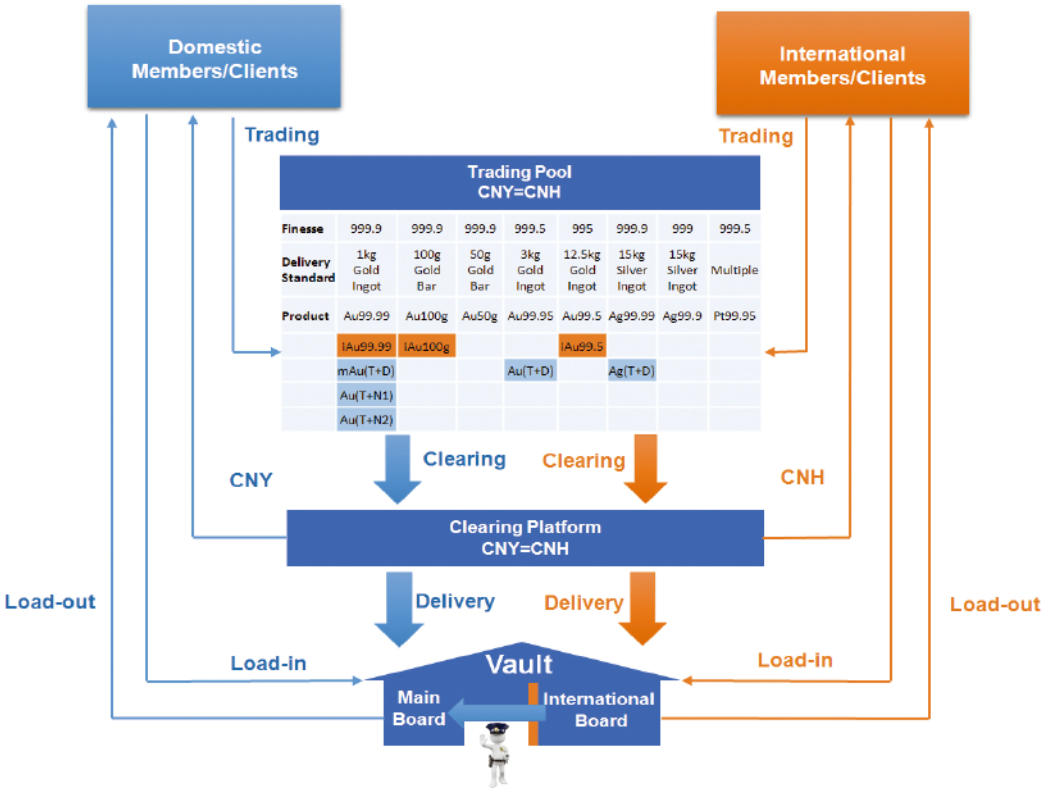
- Trading Platform – Electronic trading transactions matching
- SGE is the independent clearing house
- Delivery and Vaulting Services - Physical delivery, ownership transfer registration, vaulting and distribution
- Leasing Market – Leasing, registration and ownership transfer
- OTC Market – Bilateral and wholesale trading platform

1.4 Trading Hours

SGE is open for trading from Monday to Friday (excluding public holidays) with three trading sessions (previous day 20:00 - 2:30, 9:00 - 11:30, and 13:30 - 15:30). Detailed schedule is as follows:

	Monday	Tuesday to Friday
Market opening	19:45 of the previous Friday	19:45 of the previous day
Pre-order matching	19:50-19:59 of the previous Friday	19:50-19:59 of the previous day
Night trading session	20:00 of the previous Friday -2:30 of the previous Saturday	20:00 of the previous day - 2:30 of the current day
Break between trading sessions	2:30 of the previous Saturday - 9:00 of Monday	2:30 - 9:00
Morning trading session	9:00 - 11:30	
Break between trading sessions	11:30 - 13:30	
Afternoon trading session	13:30 - 15:30	
Submission period of delivery tenders	15:00-15:30	
Termination of trading	15:30	
Submission period of delivery equalizer tenders	15:31 - 15:40	
Matching of delivery tenders	15:40	
Market close	15:45	

1.5 Trading Flow



NOTE: Only members who have gold import license can withdraw the bullion from the International vault and sell on the Main Board.

- Physical products on international board are highlighted in orange
- Deferred products are highlighted in blue
- The rest are physical products on main board

1.6 Why Us?

> Huge Market Scale

- A large number of market participants

SGE currently has 177 Domestic Members, around 8,300 institutional clients and 7.3 million individual clients. Currently there are 52 International Members which is increasing steadily.

- Large trading volume

SGE has become the largest physical gold exchange for consecutive 8 years. It also ranks the 4th largest gold exchange by gold trading volume in the world. The trading volume of gold has reached 18,500 tons in 2014, with average daily volume of 76 tons. The trading volume of silver was around 500,000 tons in 2014, with average daily volume of 2,060 tons. SGE has become one of the indispensable exchanges in the world.

> Sustainably growing China economy

The GDP growth rate of China reached 7.4% in 2014. The GDP has exceeded 10,000 billion USD, which makes China the second largest economy in the world after that of the United States. With 10.1% year on year growth, the Per Capita Disposable Income has reached 3,227 USD, which shows strong potential for institutions and individuals gold consumption and investment.

> The liberalization of China financial market

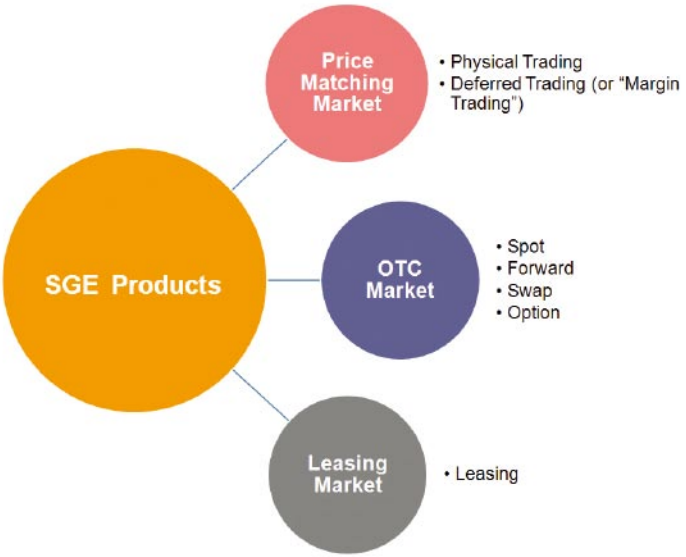
With the development of RMB internationalization, the financial market especially the gold market is accelerating to open up to the world. SGEI is the only access at the moment for foreign investors to use CNH to invest China Gold market.

> Diversified products, flexible trading methods and liquid market

SGE offer diversified products, flexible trading methods and liquid market to investors. SGE is endeavor to provide investors all-round and efficient services, including price-matching market, OTC market with derivatives such as option, swap, forward to meet different needs of investors.

Section 2: SGE Products

SGE has built up an integrated market with Price Matching Market, OTC Market and Leasing Market.



2.1 Price Matching Market

Price Matching Market has the largest trading volume in SGE at the current stage, it has 16 trading products in total, in which 13 are on main board, 3 are on international board. The underlying trading products are gold, silver and platinum. There are physical and deferred trading products in terms of delivering time. Deferred trading products can be categorized to fixed date margin trading and non-fixed date margin trading.

2.1.1 Physical Trading

- Physical trading is full amount trading, the counterparties must have full amount of funds or physicals.
- At the current stage, SGE has launched 11 physical products, including 8 gold contracts, 2 silver contracts and 1

platinum contract. The differences between them are the underlying product, the trading unit and fineness.

- After the clearing, SGE will credit the sales proceeds to seller's account, and the physical gold to buyer's account on T+0. On T+1, physical gold or cash can be withdrawn or transferred.

Bullion	Product	Board	Commission*	Settlement	Vault	Delivery Standard
Gold	Au99.95	Main Board	0.035% of Settlement Amount	Delivery versus Payment	Certified Vault of Main Board	3kg gold ingot Finess no less than 99.95%
	Au99.99					1kg gold ingot Fineness no less than 99.99%
	Au99.5					12.5kg gold ingot Finess no less than 99.5%
	Au100g					100g gold bar Finess no less than 99.99%
	Au50g					50g gold bar Finess no less than 99.99%
	iAu99.5	International Board		Delivery versus Payment	Certified Vault of International Board	12.5kg gold ingot Finess no less than 99.5%
	iAu99.99					1kg gold ingot Fineness no less than 99.99%
	iAu100g					100g gold bar Finess no less than 99.99%
Silver	Ag99.99	Main Board	0.02% of Settlement Amount	Delivery versus Payment	Certified Vault of Main Board	15kg silver ingot Finess no less than 99.99%
	Ag99.9					15kg silver ingot Finess no less than 99.9%
Platinum	Pt99.95	Main Board	0.04% of Settlement Amount	Delivery versus Payment	Certified Vault of Main Board	0.5kg,1kg, 2kg, 3kg, 4kg, 5kg, 6kg platinum ingot Finess no less than 99.95%

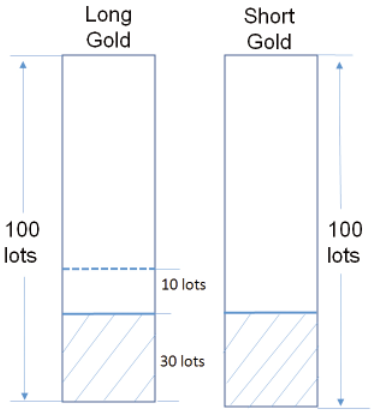
Physical Trading Products

* Commission varies per the volatility of the market, please refer to the announcement published on SGE's website.

2.1.2 Deferred Trading (or Margin Trading)

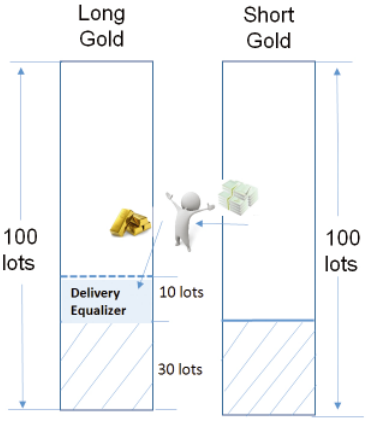
Deferred trading allows investors to perform delivery on the transaction day or postpone to a later date. Meanwhile, Deferred Interests and Delivery Equalizer are introduced to adjust imbalances in the supply and demand of physical bullions.

* What is Deferred Interest?



For example, there are 100 lots of long position and 100 lots of short position. During the delivery tender period of selling and buying physicals, 40 lots of long position request to receive physicals but only 30 lots are delivered, 10 lots are unfulfilled. Therefore, the rest of 70 lots short position should pay compensation - the Deferred Interest, to the 70 lots long position. The Deferred Interest Rate is 0.02% per day of trading value at the moment.

** What is Delivery Equalizer?



Delivery Equalizer is the third party who delivers the 10 lots of gold to make up the shortfall between receiving and delivering the physical gold. Therefore the delivery equalizer will gain the deferred interest of the 10 lots of gold.

a. What is T+D contract?

- T+D contract is traded on margin. Investors can submit tender for delivery, or postpone the delivery date to any day, with daily settlement of deferred interests (0.02% of trading value per day). The underlying products are gold and silver.
- T represents Trading, D represents days. Delivery day is rolling every day.

- Underlying Products:
  - Au (T+D), trading unit is 1kg per lot, delivery standard is 3kg gold ingot with fineness no less than 99.95%; It can be replaced with 1kg gold ingot with fineness no less than 99.99%;
  - mAu (T+D), trading unit is 100g per lot, delivery standard is 1kg gold ingot with fineness no less than 99.99%;
  - Ag (T+D), trading unit is 1kg per lot, delivery standard is15kg silver ingot with fineness no less than 99.99%.

Features:

Margin Trading: Trading through margin payment of 7% of total trading value for gold and 9% for silver which increase the capital efficiency.

Flexible delivery: Tender for delivery can be postponed to any day.

Note: *Due to tax policy on silver, International Members and International Clients cannot deliver Ag (T+D) at the current stage.*

b. What is T+N Contract?

- Au (T+N) is traded on margin, and the deferred interests is charged once a year on a fixed date. The deferred interest rate is 6% of trading value per annum.
- Au (T+N) is composed of two contracts, Au (T+N1) and Au (T+N2).
- T represents Trading, N represents a fixed date; 1, 2 represents the contract's sequence number.

Au (T+N1)	Deferred interest is charged on 15th of June, no deferred interests charged for holding positions in the rest of the year.
Au (T+N2)	Deferred interest is charged on 15th of December, no deferred interests charged for holding positions in the rest of the year.

- **Underlying Product:** Trading unit is 100g and delivery standard is 1kg gold ingot, with fineness no less than 99.99%.

Features:

- Deferred interest is only charged once a year which mitigates the uncertainty of trading cost.
- Deferred interest is not charged if the position is closed out before the delivery date.

Bullion	Product	Trading Unit	Minimum Price Fluctuation	Daily price limit	Trading Commission	Trading Margin	Settlement	Settlement Day of Deferred Interests	Deferred Trading Rate	Default Rate	Vault	Delivery Standard
Gold	Au(T+D)	1kg/lot	RMB0.01/g	Settlement Price of the previous trading day ±6%	0.02% of trading value	7%	Daily Mark to Market	Each Calendar Day	0.02% of the trading value on daily basis	8% of the trading value	Certified Vault of Main Board	3kg gold ingot, fineness no less than 99.95%
	mAu(T+D)	100g/lot	RMB0.01/g						0.02% of the trading value on daily basis			1kg gold ingot, fineness no less than 99.99%
	Au(T+N1)	100g/lot	RMB0.05/g					15th of June	6% of the trading value			1kg gold ingot, fineness no less than 99.99%
	Au(T+N2)	100g/lot						15th of December				
Silver	Ag(T+D)	1kg/lot	RMB1/kg	Settlement Price of the previous trading day ±8%	0.02% of trading value	9%	Daily Mark to Market	Each Calendar Day	0.02% of the trading value on daily basis			15kg silver ingot, fineness no less than 99.99%

Deferred Trading Products

2.2 OTC Market

OTC Market is an important supplement to Price Matching Market. The counterparties can confirm trading value bilaterally on the electronic platform and clear through SGE. It has gold spot trading, forward, swap and option.

	Spot	Forward	Swap	Option
Product	PAu99.95, PAu99.99,iPAu99.99, iPAu99.5,iPAu100g			OAu99.99,OAu99.95
Trading Unit	Agreed trading amount via bilateral trading			
Delivery Type	Physical Delivery/Cash Delivery			
Trading Hours	9:00-17:00			
Trading System	SGE price asking trading system and the other SGE designated trading system			
Transaction Fee	**PAu99.95, PAu99.99:** Physical Delivery-0.035% Cash Delivery-Exempted temporarily **iPAu99.99, iPAu99.5, iPAu100g:** Physical&Cash Delivery- Exempted temporarily		**PAu99.95, PAu99.99:** Physical Delivery-0.04% Cash Delivery-Exempted temporarily **iPAu99.99, iPAu99.5, iPAu100g:** Physical&Cash Delivery-Exempted temporarily	Option Registration fee is temporarily exempted. Exercise fee is charged based on the underlying product

OTC Market Products

2.3 Leasing Market

- SGE offers leasing, pledge, non-trading physical transfer services to International Members and Clients.
- International Members and Clients can do gold leasing, pledge, location swap and the other non-trading physical transfer with the deliverable products on international board with each other. International Members and Clients can also do gold leasing, swap location and non-trading physical transfer of deliverable products on main board.
- For gold leasing, International Members and Clients can borrow the deliverable products on international board and main board from Domestic Members and Clients. International Members and Clients can lend the international board deliverable products to Domestic Members and Clients who have gold import license. Upon approval by SGE, International Members and Clients can lend the deliverable products on the main board to Domestic Members and Clients.

Section 3: Clearing

3.1 Principles of Clearing

- The SGEI follows the "netting, separated, and multi-stepped" principles for clearing funds.
- "Netting" means International Members to net the difference of proceeds and payments with SGEI.
- "Separated" means funds of International Clients and International Members are separately deposited in different accounts. All the funds of international clients are in the custody with SGEI specified account in closed loop.
- "Multi-stepped" means SGEI is responsible for clearing for International Members who assumes the responsibility to clear for their own clients.

3.2 Clearing Time

Clearing time starts at 15:30, T+0 clearing means upon delivery or clearing, the fund is credited to seller's account and debited from buyer's account on same day. On T+1, the fund is transferred to seller's account which can be withdrawn.

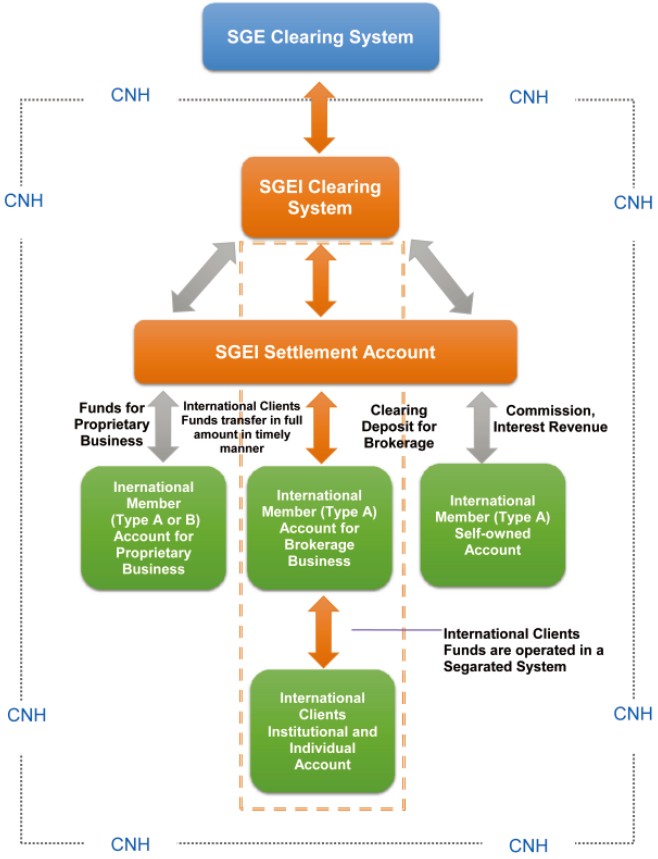
3.3 Margin Policy

- The Clearing Margin is the fund which any International Member is required to deposit into the SGEI's Settlement Account for clearing purpose.
- The Trading Margin is the money deposited into the SGEI's Settlement Account by an International Member to hold position of the trades. Currently margins for gold is 7% and silver 9% of total trading value. The margin will be adjusted per the volatility of the market.

- The SGEI imposes a minimum balance requirement for Clearing Margin on International Members. The minimum balance requirement for brokerage trading is RMB 5 million, the minimum balance requirement for prop trading is RMB 500,000.

3.4 Separated Funds Operation

Any transaction involving funds of an International Client will be handled in a closed loop. The International Client's Account, its carrying International Member's Brokerage Account, and the SGEI's Settlement Account will be linked together by the International Client's trading code. Funds of such International Client will be transferred following preset directions within the Separated Funds Transaction system, and will be transferred into or out of the SGEI's Settlement Account in full through the Brokerage Account of its carrying International Member. Brokerage Account should not retain any funds belonging to International Clients.



3.5 FT Account System

FT Account System

- FT Account System is offshore RMB (CNH) and foreign currencies account system designed by PBOC in Shanghai Pilot Free Trade Zone. All International Members and Clients must open FT account(s).
- Currently there are 7 settlement banks certified by SGEI, International Members and International Clients can choose one of them to open FT account(s).

7 Settlement Banks are as below:

- Bank of China
- Industrial and Commercial Bank of China
- China Construction Bank
- Agriculture Bank of China
- Bank of Communications
- Shanghai Pudong Development Bank
- China Merchants Bank

Section 4: Delivery

4.1 Delivery Standard:

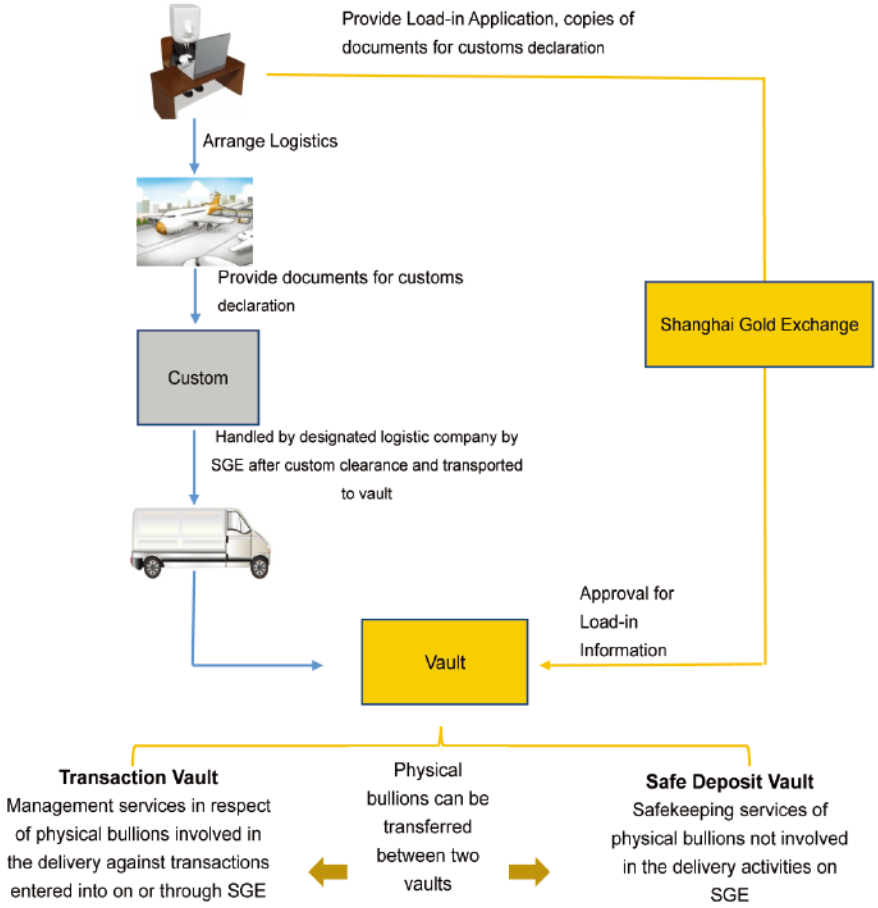
SGE strictly obeys the regulations of "Anti Money Laundering, Anti-Terrorist Financing, Anti-Tax Evasion" by PBOC, and prevents "Conflict Gold" to flow into China Gold Market. SGEI only admits gold bullions by refiners on LBMA Good Delivery List.

4.2 Delivery:

SGE has established a complete vaulting structure with safe and fast logistic system. SGE also has built up a comprehensive management system and operation rules of physical delivery and load-in & load-out management.

4.3 Vaulting Services:

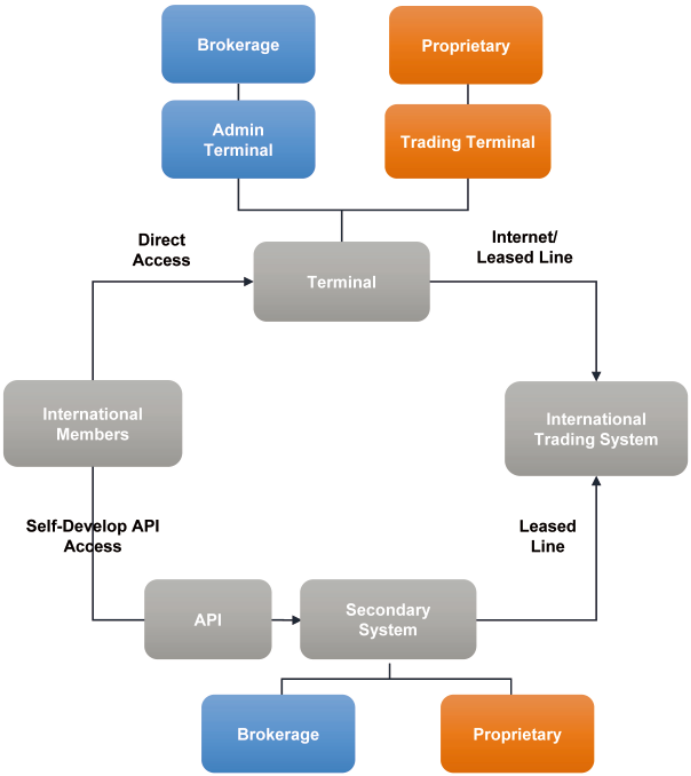
International Board Certified Vault offers Transaction Vaulting Services and Safe Deposit Vaulting Services. Transaction Vaulting Services refer to the management services for physical bullions trading on SGE. Safe Deposit Vaulting Services refer to the management services for physical bullions not trading on SGE. Physical bullions deposited into the Safe Deposit Vault will be separately stored and accounted for the International Member or Client. There are 58 vaults for main board all over China, in which 56 for gold and 2 for silver. One vault for international board in Shanghai.



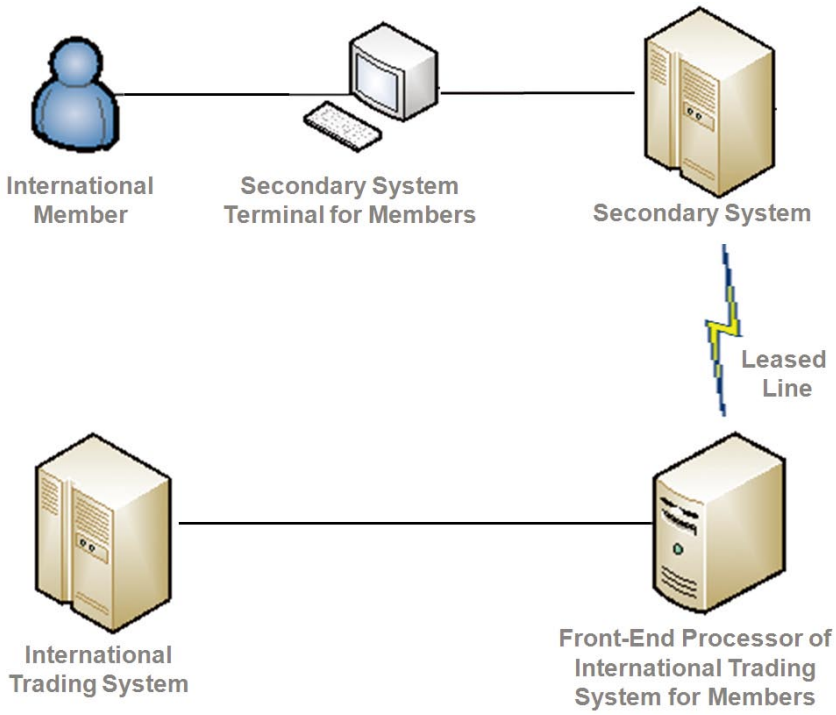
Procedures for Entry into a Bonded Zone

Section 5: SGE Trading System

5.1 International Member System Access Model



5.2 International Member Secondary System



Section 6: How to Become Our Member

6.1 The Requirements of SGE International Member

1. Be a legal entity duly registered outside the PRC (including those registered in Hong Kong, Macao or Taiwan) or within a region otherwise recognized by SGE
2. Acknowledge and undertake to abide by the Articles of Association of the SGE, the Articles of Association of SGEI, rules and measures of SGE and the SGEI governing their respective business activities and agree to submit to the supervision of its activities by SGE and the SGEI

3. Have competitive industry background or position (this may refer to itself, its parent company or headquarters)
4. The registered capital or the net assets of the applicant is not less than US$ 10 million (or an equivalent amount in RMB or other currency)
5. In compliance with the law and have no record of serious violations in the latest two years
6. Meet any requirements as otherwise prescribed by SGE

6.2 To Apply for Our Membership You Should Submit

An applicant is required to submit the following documents (in one original copy and three duplicates):

1. A written application with signature of its legal representative or an authorized signatory, and photocopy of ID document of such legal representative/authorized signatory and power of attorney of the authorized signatory (if applicable)
2. Statement on gold business operations of its parent company or headquarters
3. Photocopy of business license
4. Photocopy of its financial business license (if applicable)
5. Photocopy of Articles of Association and corporate internal control procedures
6. The latest audited financial statement of the Applicant
7. Statement as to whether the applicant has ever been subjected to material sanctions by regulatory authorities in the last year
8. Any other documents as otherwise required by SGE

6.3 Other Requirements

Within 30 working days of receiving the notice of approval from SGE, the applicant should:

1. Pay membership fee and annual fee
   a) Membership fee of RMB 2.8 million for Type A Members and RMB 1.6 million for Type B Members
   b) Annual fee of RMB 50,000
2. Open an account to be used exclusively for clearing purposes at an SGEI's certified settlement bank
3. Undertake the procedures for authorization of the relevant designated staff and retain their specimen signatures for such purpose
4. Complete any procedures as otherwise required

Contact us:

Shanghai International Gold Exchange

Address: 42/F, Bank of China Tower, 200 Yincheng Road Central, Pudong, Shanghai
Tel: +86-21-2089 9599
Fax: +86-21-2089 9499
Web: http://www.en.sge.com.cn

Lila Lu Market Executive Director, SGEI
Tel: +86-21-2089 9555
Email: lilalu@sge.com.cn

Hugh Gong Senior Officer, Market and Strategy Dept.
Tel: +86-21-2089 9530
Mob: +86 186 0211 1416
Email: gongzhi@sge.com.cn

Fred Wu Assistant General Manager, Market and Strategy Dept.
Tel: +86-21-2089 9531
Mob: +86 180 1776 9330
Email: wuyf@sge.com.cn

Julia Zhu Senior Officer, Market and Strategy Dept.
Tel: +86-21-2089 9535
Mob: +86 138 1693 9923
Email: zhuyi@sge.com.cn