

# **Measures for the Administration of Margin Collateral Service of Shanghai Gold Exchange**

## **Contents**

Chapter I	General Provisions
Chapter II	Collateral
Chapter III	Collateralization Application
Chapter IV	Collateralization Quota
Chapter V	Collateralization Fee
Chapter VI	Collateral Cancellation
Chapter VII	Grace Period and Default Resolution
Chapter VIII	Ancillary Provisions

## Chapter I General Provisions

**Article 1** This *Measures for the Administration of Margin Collateral Service of Shanghai Gold Exchange* (this *Measures*), formulated in accordance with the *Detailed Settlement Rules of Shanghai Gold Exchange*, is designed to regulate the operations and management of margin collateral service (**collateralization**) of Shanghai Gold Exchange (the **Exchange** or **SGE**).

**Article 2** “Collateralization” refers the service whereby a member or customer post collaterals approved by the Exchange to be used as margin in its trades.

**Article 3** The Exchange, Domestic Members and their customers shall abide by this *Measures* when engaging in collateralization.

**Article 4** Shanghai International Gold Exchange Co., Ltd. shall, by referencing this *Measures*, formulate separate rules for collateralization by International Members and their customers.

## Chapter II Collateral

**Article 5** In this *Measures*, the term “collateral” refers to such gold, silver, and other precious metals inventories in Certified Vaults, Foreign Currency, Marketable Securities, and Other Collaterals as approved by the Exchange.

**Article 6** In this *Measures*, the term “Foreign Currency” includes foreign currencies listed and traded in the interbank foreign exchange market of the China Foreign Exchange Trade System and such other freely convertible currencies traded in other international financial markets as announced by the Exchange.

**Article 7** In this *Measures*, the term “Marketable Securities” is limited to A-shares and ETF shares listed on domestic stock exchanges and those government bonds and other SGE-recognized marketable bonds that are traded on domestic stock exchanges or the National Interbank Funding Center.

**Article 8** In this *Measures*, the term “Other Collaterals” refers to those marketable assets that are acceptable to the Exchange for collateralization.

## Chapter III Collateralization Application

**Article 9** Applications for collateralization are accepted during the continuous trading hours of each trading day.

**Article 10** A collateral may be posted as margin for a maximum of 180 days and a minimum of 1 day. The specific term of collateralization shall be determined at the time of application and shall not be modified once confirmed. If the expiry date of a collateralization does not fall on a trading day, it shall be postponed to the next trading day.

**Article 11** The market value of collaterals in each collateralization shall be no less than RMB 100,000.

**Article 12** Before applying for collateralization, a member shall ensure that any inventory collaterals are deposited into Certified Vaults, and that any non-inventory collaterals are either confirmed to be under the name of the Exchange or the right of disposal of which is vested in the Exchange in advance.

**Article 13** A member intending to post its own inventory collaterals as margin shall submit the application for collateralization via the member service system before market close on the current day.

**Article 14** A member intending to post non-inventory collaterals as margin shall, before market close on the current day, submit the application for collateralization via the member service system and the *Authorization Letter for Collateralization (Member)* (Annex 1) to the Exchange.

**Article 15** A customer intending to post collaterals as margin shall do so through its carrying member, who shall, before market close on the current day, submit the application for collateralization via the member service system and the *Authorization Letter for Collateralization (Customer)* (Annex 2), bearing the customer's signature and seal, to the Exchange.

**Article 16** No application for collateralization can be withdrawn once it is accepted.

**Article 17** The Exchange reviews all accepted applications for collateralization at the time of settlement on the current day. An application for posting inventory collateral as margin by a member or customer will be denied if the quantity specified in the application is greater than the available inventory; an application for posting non-inventory collateral as margin by a member or customer will be denied if the Exchange cannot confirm the existence and status of the collateral.

#### **Chapter IV Collateralization Quota**

**Article 18** "Collateralization quota" refers to the funds quota that a member or customer can use as margin through a collateralization transaction. The Exchange will recalculate the collateralization quota of a member during daily settlement based on the base price of the collateral and said member's available currency funds.

**Article 19** The collateralization quota shall be the lower of the collateral's maximum matching value and discounted value.

**Article 20** The maximum matching value of a collateral, to be determined by the Exchange based on the liquidity and risk of said collateral, shall not exceed 4 times (the **maximum matching ratio**) the amount of available currency funds in the margin account of

a member seat, and may be adjusted by the Exchange based on market risks and the creditworthiness of the collateral owner.

**Article 21** The “base price” of a collateral refers to the fair value by which the Exchange appraises the collateral. The base price of an inventory collateral shall be the settlement price of the corresponding contract; the base price of a non-inventory collateral shall be as published by the Exchange in view of the trades in relevant market.

**Article 22** The “haircut” of a collateral refers to the percentage by which the valuation of the collateral is to be reduced in the calculation of collateralization quota. The haircut for various collaterals shall be governed by the announcements of the Exchange, but shall in no event be no less than 10% for physical gold inventories, 20% for physical silver inventories, and 5% for non-inventory collaterals.

**Article 23** The formulas for various terms are as follows:

Market value = base price × quantity × price multiplier;

Discounted value = market value × (1 – haircut);

Maximum matching value = available currency funds × maximum matching ratio;

Collateralization quota = MIN (maximum matching ratio, discounted value);

Current-day (CD) currency funds balance = preceding-day (PD) currency funds balance + (CD delivery payments received – CD delivery payments paid) + CD gains and losses + (Settlement Account Deposits – Settlement Account Withdrawals) + interests + (CD Deferred Fees received – CD Deferred Fees paid) – transaction fees and other related fees and charges;

CD usable currency balance = PD usable currency balance + (PD Trading Margin – CD Trading Margin) + (PD minimum Settlement Reserve balance – CD minimum Settlement Reserve balance) + (PD funds frozen – CD funds frozen) + (CD delivery payments received – CD delivery payments paid) + CD gains and losses + (Settlement Account Deposits – Settlement Account Withdrawals) + interests + (CD Deferred Fees received – CD Deferred Fees paid) – transaction fees and other related fees and charges;

CD unutilized collateralization quota = CD collateralization quota – CD utilized collateralization quota;

CD usable balance = CD usable currency balance + CD unutilized collateralization quota;

CD withdrawable funds balance = (CD Settlement Reserve balance – CD minimum Settlement Reserve balance) – CD delivery payments received – (PD utilized collateralization quota ÷ maximum matching ratio).

**Article 24** A member's collateralization quota is recognized in its proprietary seat margin account; a customer's collateralization quota, which shall be managed by its carrying member, is recognized in said member's brokerage seat margin account.

**Article 25** The collateralization quota shall only be used as Trading Margin and may neither be used to cover delivery payments, losses, fees and charges, taxes or other payments nor be withdrawn as cash.

## **Chapter V Collateralization Fee**

**Article 26** The Exchange charges a Collateralization Fee (but not interests) for collateralization.

**Article 27** The Collateralization Fee is based on the utilized collateralization quota and the fee rate shall be governed by announcement of the Exchange.

**Article 28** The Collateralization Fee is calculated by calendar days and collected each trading day or earlier in case of holidays.

**Article 29** Collateralization Fee = CD utilized collateralization quota × fee rate.

**Article 30** The Collateralization Fee shall be rounded to the nearest cent (*fen*).

## **Chapter VI Collateral Cancellation**

**Article 31** Before a collateralization transaction expires, the relevant member or customer may apply to the Exchange to cancel the collateralization for the early return of the collateral.

**Article 32** A member or customer shall ensure that it has the necessary currency funds and adequate margin funds to cancel a collateralization before submitting an application to the effect.

**Article 33** Member who intends to cancel collateralization secured by inventory collaterals shall apply through the Member Service System before market close on the current day.

**Article 34** Member who intends to cancel collateralization secured by non-inventory collaterals shall apply through the Member Service System and submit the *Authorization Letter for Collateralization (Member)* to the Exchange before market close on the current day.

**Article 35** If a customer intends to cancel a collateralization, its carrying member shall submit an application through the Member Service System and submit the *Authorization Letter for Collateralization (Customer)*, bearing the signature and seal of the customer, to the Exchange before market close on the current day.

**Article 36** Collaterals pledged under a single collateralization transaction shall not be canceled in parts.

**Article 37** A cancellation application shall not be withdrawn after acceptance.

**Article 38** The Exchange shall have the right to cancel a member or customer's collateralization if:

(1) a major risk occurs in the use of funds by the member or customer and said risk may endanger the legitimate rights and interests of the Exchange;

(2) a major market risk arising during the term of collateralization may endanger the legitimate rights and interests of the Exchange; or

(3) there is any other reason that warrants the termination of the collateralization.

## **Chapter VII Grace Period and Default Resolution**

**Article 39** The Exchange reviews all cancellation applications and expired collateralizations at the time of settlement on the current day. If the member has sufficient current-day usable balance at this time, the Exchange will appropriately reduce the collateralization quota and return the corresponding collaterals through the original pathway; if the member has insufficient current-day usable balance at this time, the Exchange shall proceed in accordance with the *Measures for the Administration of Risk Control of Shanghai Gold Exchange* and provide a grace period, lasting two trading days, to the member with respect that that collateralization transaction, during which the member shall replenish its funds.

**Article 40** If there is still a shortfall in the member's usable balance upon the expiry of the grace period, the Exchange shall be entitled to dispose of the collaterals concerned and any resulting losses or fees shall be borne by the member or relevant customer.

**Article 41** Proceeds from the disposal of collaterals shall be used to replenish the member's usable balance or to discharge relevant debt obligations, with the remaining amount, if any, being returned to the member. If the proceeds are insufficient to cover the usable balance or debt obligations, the Exchange shall be entitled to recover the shortfall from the member.

## **Chapter VIII Ancillary Provisions**

**Article 42** This *Measures* is written in Chinese. In case of any inconsistency between its different language versions or different editions, the latest Chinese version shall prevail.

**Article 43** The Exchange shall reserve the right to interpret this *Measures*.

**Article 44** This *Measures* shall take effect as of the date of its release.

**Annex 1:**

**Shanghai Gold Exchange**

**Authorization Letter for Collateralization (Member)**

To the Shanghai Gold Exchange:

Our company, \_\_\_\_\_ (member name), with seat code \_\_\_\_\_, hereby applies for the ( collateralization  cancellation of the collateralization) of \_\_\_\_\_ (quantity/amount) of our company's ( Foreign Currency  Marketable Securities  Other Collaterals  collateralization application number) of \_\_\_\_\_ (product) in order to cover our company's margin obligations and related debt obligations at the Exchange. The collateral shall expire on \_\_\_\_\_.

Statement: Our company have carefully read the *Measures for the Administration of the Margin Collateral Service of Shanghai Gold Exchange*, understand and are willing to assume relevant responsibilities.

Member (official seal):

Legal Representative (signature):

Date:

**Annex 2:**

**Shanghai Gold Exchange**

**Authorization Letter for Collateralization (Customer)**

To the Shanghai Gold Exchange:

This letter is to confirm that I am / our company is delegating member \_\_\_\_\_  
\_\_\_\_\_ (seat code: \_\_\_\_\_) to apply for the ( collateralization   
cancellation of the collateralization) of \_\_\_\_\_ (quantity/amount) of my / our  
company's ( gold inventory  silver inventory  Foreign Currency  Marketable  
Securities  Other Collaterals  collateral application number) of \_\_\_\_\_  
\_\_\_\_\_ (product) in order to cover the foregoing member's margin obligations and related debt  
obligations at the Exchange. The collateral shall expire on \_\_\_\_\_.

Statement: I / our company have carefully read the *Measures for the Administration of the  
Margin Collateral Service of Shanghai Gold Exchange*, understand and am/are willing to  
assume relevant responsibilities.

Seat Code:

Customer Code:

Member (official seal):

Customer (official seal):

Legal Representative (signature):

Legal Representative (Signature):

Date: