

Measures for the Administration of Margin Custodian Banks of Shanghai Gold Exchange

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Chapter I General Provisions

Article 1 This *Measures for the Administration of Margin Custodian Banks of Shanghai Gold Exchange* (this *Measures*), formulated in accordance with the *Detailed Settlement Rules of Shanghai Gold Exchange*, is designed to regulate the margin custody service offered through the Shanghai Gold Exchange (the **Exchange** or **SGE**) and to safeguard funds and settlement processes.

Article 2 The Exchange certifies Margin Custodian Banks of the Exchange (the **Custodian Banks**) with prudence to further market development, and duly performs its certification and supervisory duties according to this *Measures* to ensure these banks will assist it in providing margin custody services in accordance with the law.

Article 3 Custodian Banks shall abide by laws, regulations, and ministry-level rules of China and applicable rules of the Exchange, and shall accept the self-regulatory measures of the Exchange.

Article 4 Rules governing Custodian Banks that assist the Shanghai International Gold Exchange Co., Ltd. (**SGEI**) in offering margin custody services shall be separately developed by SGEI.

Chapter II Application

Article 5 To apply for the status of a Custodian Bank, the applicant shall:

- (1) be a nationwide financial institution that operates in the banking industry, has the legal person status, and is established within the territory of the People's Republic of China;
- (2) have no less than RMB 1.5 trillion in total assets and no less than RMB 100 billion in net assets, and be profitable in each of the three most recent fiscal years;
- (3) meet the requirements of China's banking industry regulators on such indicators of banking financial institutions as the capital adequacy ratio, liquidity ratio, and asset-liability ratio;
- (4) operate no fewer than 100 branches in total and, for each major gold production or consumption region in China, at least 1 local branch that is capable of offering margin custody service;
- (5) have sound corporate governance, risk management, and internal control systems;
- (6) establish a special body or department to oversee the margin custody service;
- (7) have a sound fund management system, develop an internal management system for the margin custody service, a plan for handling incompliant inbound funds, procedures for

handling errors, and contingency plans for such emergencies as malfunction of IT and communication systems;

(8) have the facilities and technical capabilities necessary for providing margin custody service. Such facilities and capabilities include an efficient and stable intra-city and inter-city fund transfer system and nationwide intra-bank real-time remittance system;

(9) have professionals who are knowledgeable about precious metal trading and settlement, futures, and who have keen awareness for risk prevention and control;

(10) have committed no major illegal act or misconduct in the three most recent years, and have a stable system such that there has been no major accident or major administrative penalty imposed by regulators;

(11) have no pending action or outstanding debt that materially affects its credit standing; and

(12) meet other requirements prescribed by the Exchange.

Article 6 To be recognized as a Custodian Bank, the applicant shall submit the following pre-screening materials bearing its official seal:

(1) the *Application Form for Margin Custodian Bank* (Annex 1), application report, feasibility report, development plan for the Dedicated Custodian Bank System, business plan;

(2) overview of its branches, offices, and facilities necessary for providing margin custody service;

(3) internal management system for the margin custody service, plan for handling non-compliant inbound funds, procedures for handling errors, and relevant contingency plans;

(4) setup and duties of positions within the department that oversees the margin custody service; lists and CVs of persons-in-charge and business personnel;

(5) photocopy of the Business License of Enterprise Legal Person certified of passing the latest annual inspection;

(6) photocopy of the Financial License;

(7) the audit reports and internal control evaluation reports from the three most recent years;

(8) Letter of Authorization from the enterprise legal person and the identity document of the handling person; and

(9) any other documents required by the Exchange.

Article 7 A banking financial institution that applies for becoming a Custodian Bank and has passed the qualification pre-screening by the Exchange shall additionally pass relevant business, technical, and communication equipment tests as required by the Exchange and submit to it the following materials:

- (1) test results of the Dedicated Custodian Bank System;
- (2) photocopy of the business license of the branch certified by the Exchange to offer margin custody service (the **servicing bank**), setup and duties of positions within the servicing bank, and lists and CVs of relevant persons-in-charge and business personnel; and
- (3) any other materials required by the Exchange.

Article 8 Before providing margin custody service, a recently qualified Custodian Bank shall enter into the *SGE Margin Custodian Bank Partnership Agreement* with the Exchange to set out the rights and obligations of both parties.

Chapter III Business Requirements

Article 9 A Custodian Bank shall provide margin custody service that is safe, accurate, timely, and compliant with all relevant business rules of the Exchange.

Article 10 A Custodian Bank shall adjust its business hours according to the trading and settlement hours of the Exchange to ensure the availability of the margin custody service.

Article 11 A Custodian Bank shall open, change, or close the Settlement Account of the Exchange or members in accordance with the rules of the Exchange. Any fund transfers between the Exchange and a member shall be effected through the SGE Settlement Account and the Settlement Account of the member.

Article 12 A Custodian Bank shall handle fund deposits and withdrawals through electronic transfers in accordance with the rules of the Exchange.

Article 13 A Custodian Bank shall pay interest to the Exchange at the mutually agreed deposit rate.

Article 14 A Custodian Bank shall strictly comply with the supervisory requirements of the Exchange and take effective measures to prevent liquidity risks, and, without the written consent of the Exchange, shall not restrict Settlement Account Deposits or Settlement Account Withdrawals by members.

Article 15 A Custodian Bank shall assist the Exchange in mitigating liquidity risks from margin transactions.

Article 16 A Custodian Bank shall not assist a member in creating security on its margin, and shall not divert a customer's margin to pay off the debt of a member or the Exchange.

Article 17 A Custodian Bank shall refuse any application by a business, institution, or individual to freeze or transfer the funds within the SGE Settlement Account. If any business or institution intends to implement such a freeze or any other measure which may affect the margin custody service, a Custodian Bank shall promptly notify the Exchange of such intention.

Article 18 When processing a member's Settlement Account Deposits, the Custodian Bank shall verify the payer's account information and refuse to accept any such deposits from any account other than the member's Settlement Account.

Article 19 A Custodian Bank shall transfer funds according to the electronic or written instruction issued by the Exchange's system:

(1) for intra-bank transfers, the Custodian Bank shall guarantee that it will transfer the funds to the Settlement Account of the member designated by the Exchange immediately upon receiving the transfer instruction from the Exchange;

(2) for inter-bank transfers, the Custodian Bank shall guarantee that, upon receiving a transfer instruction from the Exchange, it will immediately transfer the funds through the most expeditious method into the bank account of the payee designated by the Exchange.

Article 20 A Custodian Bank shall perform daily account reconciliation against the SGE Settlement Account according to the following rules:

(1) promptly performing account reconciliation as required by the Exchange following the end of the margin custody service each day;

(2) promptly informing the Exchange of the balance of its Settlement Account and any change thereof at any time and upon request during the business hours of the Custodian Bank;

(3) sending such transaction records as payment and receipt and statements to the Exchange on the business day following the date of corresponding transactions; and

(4) providing the statements for the Settlement Account as required by the Exchange.

Article 21 A Custodian Bank shall, per the supervisory requirements of the Exchange, inform the Exchange on the balance and balance changes of the Settlement Accounts of members and promptly provide the information requested by the Exchange.

Article 22 A Custodian Bank shall, in strict compliance with the supervisory requirements of the Exchange, improve the relevant IT systems and assist members in segregating customers' margins.

Article 23 A Custodian Bank shall actively participate in the business trainings organized by the Exchange, hold regular internal trainings, and ensure its business personnel are intimately familiar with the rules, requirements, and procedures of the Exchange pertaining to the margin custody service.

Chapter IV Technical Requirements

Article 24 The Dedicated Custodian Bank System shall conform to the interface protocols and pass the acceptance test of the Exchange.

Article 25 A Custodian Bank shall apply for reliable and redundant data links between the main and backup data centers of its headquarters and of the Exchange. Relevant network parameters shall be assigned by the Exchange.

Article 26 A Custodian Bank shall incorporate its Dedicated Custodian Bank System into the unified operation and maintenance protocols for its IT systems and perform real-time monitoring of the Dedicated Custodian Bank System, data links, and related software and hardware platforms.

Article 27 A Custodian Bank shall inform the Exchange's Technical Operation and Maintenance Department five business days in advance of any scheduled network maintenance or system upgrade that will affect the normal operation of the Dedicated Custodian Bank System, and shall test the maintenance or upgrade ahead of time.

Article 28 A Custodian Bank shall actively cooperate with and participate in the emergency response tests and joint tests organized by the Exchange.

Article 29 Each Custodian Bank shall have a technical emergency contact who is available 24/7, and shall inform the Exchange's Technical Operation and Maintenance Department when the emergency contact is changed.

Chapter V Emergency Response

Article 30 A Custodian Bank shall establish a complete contingency plan for responding to network security and information security incidents, and shall ensure that relevant persons, given clear responsibilities and supported by well-implemented measures, can timely respond to and resolve any incident.

Article 31 A Custodian Bank shall immediately notify the Exchange of, and take active remedial measures for, any operational error or IT system malfunction that may affect the margin custody service.

Article 32 A Custodian Bank shall immediately notify the Exchange of any malfunction of the Dedicated Custodian Bank System, and actively cooperate with the Exchange in performing system checks to identify and eliminate the cause of error and assign responsibilities. It may also take emergency actions when necessary.

Article 33 In the event of any incident that undermines the stability and safety of the margin custody service, the Custodian Bank concerned shall immediately activate the contingency plan to restore the service to normal operations as soon as practicable and shall report the relevant matters to the Exchange.

Chapter VI Supervision and Regulation

Article 34 A Custodian Bank shall inform the Exchange in writing within three business days of any change to the setup and duties of various positions, the persons-in-charge, the business contacts, etc. of either the department overseeing the margin custody service or any of the servicing banks.

Article 35 A Custodian Bank shall inform the Exchange in writing within three business days of any change to its internal management system, plan for handling incompliant inbound funds, procedures for handling errors, or related contingency plans.

Article 36 A Custodian Bank whose credit standing may be affected by a significant business risk or loss shall report the risk or loss to the Exchange within three business days of its occurrence, and shall at the same time submit a report analyzing the impact on its margin custody service and describing its response measures.

Article 37 A Custodian Bank that plans to perform any system upgrade, alteration or any other change which may affect the margin custody service shall notify the Exchange and relevant members in writing five business days in advance. In addition, the Custodian Bank shall make adequate disclosures, perform thorough system tests, and develop corresponding contingency plan to ensure the stability of the market is not adversely affected.

Article 38 A Custodian Bank shall, by the end of March of each year, submit to the Exchange a report on its margin custody service, covering the state of operations and service; the implementation of applicable laws, regulations, ministry-level rules, and policies; and overview of its technical support, risk management, handling of errors, and technical malfunctions.

Article 39 The Exchange conducts annual inspections on Custodian Banks. The inspections encompass a qualification review and a check on the operations of margin custody service. The Exchange has the power to conduct *ad hoc* inspections on Custodian Banks as it deems necessary, in which case the Custodian Banks shall cooperate. Inspections can be an on-site inspection by the Exchange or a self-inspection by Custodian Banks.

Article 40 A Custodian Bank shall cooperate with the Exchange when the latter gives guidance through its service desk.

Article 41 A Custodian Bank that receives a meeting notice from the Exchange shall follow the instructions of the notice.

Article 42 The Exchange shall perform annual review of each Custodian Bank to comprehensively evaluate its margin custody service in terms of timeliness, safety, accuracy, and liquidity control; system operation and maintenance; quality of service; business operations and risk control; and member satisfaction surveys, among others. The Exchange may, based on the results of review, determine business arrangements and cooperation projects with the Custodian Bank and advise on and supervise its margin custody service.

Chapter VII Violations and Sanctions

Article 43 Where a Custodian Bank falls under any of the following circumstances, the Exchange will order it to rectify the situation, and, depending on the seriousness of the circumstances, take such actions as issuing a warning, circulating a notice of reprimand, requiring relevant members to conduct business with a new Custodian Bank, or suspending the provision of margin custody service to a new member:

(1) failing to perform its obligations as a Custodian Bank as set out in the *Detailed Settlement Rules of Shanghai Gold Exchange* and this *Measures*;

(2) failing to respond effectively and sufficiently to an incident that influences or may influence its margin custody service or that may threaten the sound operation of the market or impair the lawful rights and interests of a member or customer;

(3) without cause and the written consent of the Exchange, restricting Settlement Account Deposits or Settlement Account Withdrawals by a member;

(4) breaching the service agreement concluded with the Exchange or the market rules of the Exchange;

(5) failing to promptly notify the Exchange of and take effective measures to respond to any operational error or IT system malfunction that may affect the margin custody service;

(6) failing to meet the requirements of banking industry regulators on such indicators as the capital adequacy ratio, liquidity ratio, and asset-liability ratio;

(7) failing to cooperate with the Exchange in the day-to-day margin custody service;

(8) failing to cooperate with the Exchange or a member in segregating the margins of customers or breaching the *Measures for the Administration of Segregation of Customers' Margin of Shanghai Gold Exchange*;

(9) failing to cooperate with the Exchange during an annual inspection, *ad hoc* inspection, service desk guidance, or required meeting; or failing to submit summary report on its margin custody service for the preceding year or other materials required by the Exchange;

(10) offering poor service, including by failing to send the payment and receipt statements and other business records to the Exchange in a timely manner, failing to promptly reconcile accounts with the Exchange, failing to implement rectification plans as required by the Exchange, receiving three validated complaints from members within a single year or a validated complaint for the same type of problem for three consecutive years;

(11) running an unstable Dedicated Custodian Bank System that has caused three errors within a single year or the same error for three consecutive years; or

(12) any other circumstance as recognized by the Exchange.

Article 44 The Exchange may suspend the margin custody service of a Custodian Bank if it:

- (1) fails to take effective measures to prevent the funds in the SGE Settlement Account from being frozen or transferred;
- (2) assists a member in creating security on the margin in its Settlement Account;
- (3) reports net loss in the most recent fiscal year; or
- (4) falls under any other circumstance that, in the opinion of the Exchange, warrants the suspension.

Article 45 If, in the opinion of the Exchange, a problematic Custodian Bank has taken effective remedial actions and is once again capable of offering the margin custody service as normal, the Exchange will suspend the penalty imposed in accordance with the preceding paragraph and revert to the normal administrative regime over the Custodian Bank's margin custody service.

Article 46 The Exchange may cancel the status of a Custodian Bank if it:

- (1) applies for the termination of the status;
- (2) is canceled, dissolved, or declared bankrupt in accordance with law;
- (3) has lost its legal personality due to a merger or acquisition;
- (4) no longer satisfies the qualification requirements for a Custodian Bank;
- (5) incurs net loss in each of the two most recent fiscal years;
- (6) has failed the latest annual inspection and still fails to meet applicable requirements after the prescribed rectification period;
- (7) has provided false document or information to the Exchange;
- (8) has a major potential risk in the opinion of the Exchange; or
- (9) falls under any other circumstance which, in the opinion of the Exchange, warrants such cancellation.

Article 47 Following a decision of cancellation, the Exchange shall send a notice to the Custodian Bank concerned ten business days before the cancellation takes effect, and promptly release the decision on its website.

Such a cancellation does not affect any existing legal relations between the Custodian Bank and the Exchange; the Exchange shall have the right to terminate relevant business relations with the Custodian Bank.

Article 48 A Custodian Bank whose status has been cancelled shall not re-apply within three years as of the date of cancellation.

Chapter VIII Ancillary Provisions

Article 49 Unless otherwise provided by national laws or regulations, a Custodian Bank shall not disclose to any third party or by any means any non-public information concerning the margin custody service.

Article 50 Custodian banks that have been providing margin custody service before this *Measures* takes effect do not need to re-apply for the status.

Article 51 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 52 The Exchange shall reserve the right to interpret this *Measures*.

Article 53 This *Measures* shall take effect as of the date of its release.

Application Form for Margin Custodian Banks

Full name of applicant		
Registered address		
Postal code		
Legal representative		
Business License of Enterprise Legal Person No.		
Financial License No.		
Department overseeing the margin custody service		
Tel.		
Fax		
Chief officer of the margin custody service	Name	
	Department and position	
	Contact details	
Business director of Shanghai branch	Name	
	Department and position	
	Contact details	
Technical director of Shanghai branch	Name	
	Department and position	
	Contact details	

Director of the servicing bank	Name	
	Department and position	
	Contact details	
Name of handling person		
ID Card No. of handling person		
Tel. of handling person		
Financial position of the applicant	Total assets as of the end of last year	
	Net assets as of the end of last year	
	Net profit in the three most recent years	
	Capital adequacy ratio in the three most recent years	
	Asset-liability ratio in the three most recent years	
	Liquidity ratio in the most recent three years	
	Number and region of branches	
	Internal control systems related to the margin custody service	
	Other remarks	