

# **Measures for the Administration of Risk Control of Shanghai Gold Exchange**

**(Amended 2020)**

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## Chapter I      General Provisions

**Article 1**      This *Measures for the Administration of Risk Control of Shanghai Gold Exchange* (this *Measures*), formulated in accordance with the *Trading Rules of Shanghai Gold Exchange*, is designed to strengthen the management of trading risks, regulate trading behaviors, protect the lawful rights and interests of trading parties, and safeguard the normal course of trading on the Shanghai Gold Exchange (the **Exchange** or **SGE**).

**Article 2**      The Exchange, members, customers, and related participants shall abide by this *Measures*.

**Article 3**      The Exchange shall manage risks in an open, fair, and impartial manner and for the purposes of maintaining an orderly market, ensuring investors' access to fair opportunities to trade, and preventing and mitigating market risks.

The Board of Directors of the Exchange is responsible for leading and supervising the risk management programs of the Exchange. The Risk Management Committee under the Board of Directors is responsible for analyzing and evaluating systemic risks, operational and management risks, and other general risks in the SGE market and the effectiveness of risk management measures, and for proposing policy recommendations. Relevant business units of the Exchange are responsible for the daily monitoring, evaluation, and management of various business-specific risks in the SGE market.

**Article 4**      Members shall, in accordance with laws, regulations, and market rules of the Exchange, develop and duly implement risk management rules and processes and manage the risks of its proprietary and brokerage businesses.

**Article 5**      Customers shall understand the market rules of the Exchange and the risk profiles of products they trade, make prudent decisions based on their circumstances, and manage and be responsible for their own trading risks.

**Article 6**      The Exchange implements such risk management systems as margin requirements, price limits, Deferred Fee, Extended Position Fee, position limits, trading limits, large position reporting, forced liquidation, risk warning, and trade monitoring.

**Article 7**      Such risk management systems of the Exchange as the Settlement Reserve, Risk Management Fund, and waterfall model for at-risk assets are governed by the *Detailed Clearing and Settlement Rules of Shanghai Gold Exchange*, *Measures for the Administration of Risk Management Fund of Shanghai Gold Exchange*, and other applicable rules.

**Article 8**      The Exchange authorizes Shanghai Gold Exchange International Co., Ltd. (**SGEI**) to manage on behalf of the Exchange and in accordance with this *Measures* the risks pertaining to International Members and their customers.

In addition to this *Measures*, International Members and their customers shall further abide by relevant provisions of the SGEI on risk management.

## Chapter II Margin Requirements

**Article 9** The Exchange enforces margin requirements. The Exchange periodically estimates the minimum margin requirement based on margin model and determines the Trading Margin requirements for deferred contracts and related contracts in accordance with market conditions.

The Exchange may adjust the level of Trading Margin in view of market risks when:

- (1) open interest in a contract has reached a certain threshold;
- (2) a price limit is hit;
- (3) relevant contract is approaching its delivery date;
- (4) the cumulative price change of a contract over several consecutive trading days has reached a prescribed threshold;
- (5) the cumulative increase in open interest in a contract over several consecutive trading days has reached a prescribed threshold;
- (6) there is any upcoming long public holiday;
- (7) the market liquidity is projected to change;
- (8) there is any significant change in market risks; or
- (9) there is any other circumstance which, in the opinion of the Exchange, warrants such an adjustment.

Any change in margin requirements shall be governed by the announcements of the Exchange.

**Article 10** The Exchange may adjust the Trading Margin requirements for any particular deferred contract depending on the size of its open interest. Such adjustments shall be announced in the market.

**Article 11** When any particular deferred contract hits its price limit, its Trading Margin requirements shall be set in accordance with Chapter III of this *Measures*.

**Article 12** The Exchange may, according to market conditions, raise the Trading Margin and Settlement Reserve requirements for one or both trading directions by the same or different percentage points for some or all member seats; restrict Settlement Account Withdrawals by some or all member seats; suspend the opening of new positions by some or all member seats; adjust price limits, Deferred Fee Rate, and the rate of Extended Position Fee; require the closing of positions within a specified time frame; and/or enforce liquidation of open positions, if:

the cumulative price increase or decrease (“N”) of a deferred gold contract reaches 10% over three consecutive trading days (denoted as D1, D2 and D3); or 12% over four consecutive trading days (D1, D2, D3 and D4); or 14% over five consecutive trading days (D1, D2, D3, D4, and D5); or

the cumulative price increase or decrease (“N”) of a deferred silver contract reaches 12% over three consecutive trading days (D1, D2 and D3); or 15% over four consecutive trading days (D1, D2, D3 and D4); or 17% over five consecutive trading days (D1, D2, D3, D4, and D5).

N is calculated as:

$N = (P_t - P_0) / P_0 \times 100\%$ , where t = 3, 4, or 5, as applicable; and where

P<sub>0</sub> is the settlement price of the contract on the trading day preceding D1; and

P<sub>t</sub> is the settlement price of the contract on the trading day D<sub>t</sub>, where t = 3, 4 or 5, as applicable.

**Article 13** The Exchange may, according to market conditions, raise the Trading Margin and Settlement Reserve requirements for one or both trading directions by the same or different percentage points for some or all member seats; restrict Settlement Account Withdrawals by some or all member seats; suspend the opening of new positions by some or all member seats; change price limits, Deferred Fee Rate, or the rate of Extended Position Fee; require the closing of positions within a specified time frame; and/or enforce liquidation of open positions, if:

the cumulative increase (“M”) in the size of open interest in a deferred gold or silver contract reaches 30% over three consecutive trading days (D1, D2 and D3); or 35% over four consecutive trading days (D1, D2, D3 and D4); or 40% over five consecutive trading days (D1, D2, D3, D4, and D5).

M is calculated as:

$M = (Q_t - Q_0) / Q_0 \times 100\%$ , where t = 3, 4 or 5, as applicable; and where

Q<sub>0</sub> is the size of the open interest in the contract on the trading day preceding D1; and

Q<sub>t</sub> is the size of the open interest in the contract on trading day D<sub>t</sub>, where t = 3, 4 or 5, as applicable.

**Article 14** In addition to a change in market price or open interest specified above, the Exchange may adjust Trading Margin requirements according to the results of backtesting or stress testing. If two or more Trading Margin requirements under this *Measures* are applicable to a particular contract, the requirement in effect shall be governed by the announcement of the Exchange.

### Chapter III Price Limits

**Article 15** The Exchange sets and enforces price limits, which are the largest daily price fluctuations permitted by the Exchange for each corresponding contract.

If a physical contract or a spot contract hits its price limit on a particular trading day, then that price limit shall also apply on the following trading day.

The Exchange may adjust the price limit of a deferred contract in view of market risks when there is:

- (1) Limit-Locked Market or Same Direction Limit-Locked Market for the contract;
- (2) any upcoming long public holiday;
- (3) a change in applicable margin rate for the contract;
- (4) a significant change in market risks; or
- (5) any other circumstance which, in the opinion of the Exchange, warrants such an adjustment.

If two or more price limits under this *Measures* are applicable to a particular contract, the one with the largest absolute value shall apply.

**Article 16** For any deferred contract that is trading at its limit price, priorities shall be given to close-out orders and then orders that have been submitted earlier.

**Article 17** A particular deferred contract is said to be trading at the limit price with single-side quotations (a **Limit-Locked Market** or **limit-locked**) when, for the last five minutes before the close of a trading day, there are only bids (asks) at its limit price and no corresponding asks (bids) at the limit price, or any asks (bids) are instantly filled at the limit price without deflecting the execution price away from the price limit. The term “Same Direction Limit-Locked Market” refers to the situation where a contract is limit-locked in the same trading direction for two consecutive trading days. The term “Reverse Direction Limit-Locked Market” refers to the situation where on the trading day following a Limit-Locked Market day, the contract is limit-locked in the opposite trading direction.

**Article 18** When a particular deferred contract is limit-locked on a trading day (hereinafter referred to as D1; trading days thereafter are sequentially referred to as D2, D3, D4, D5, and D6; the trading day immediately before D1 is referred to as D0. The above nomenclature shall apply throughout this *Measures*), price limit for said contract on D2 shall be raised by three to six percentage points from that of D1 according to the market risk conditions; in addition, at time of settlement on D1, the Trading Margin rate for the contract shall be adjusted to one percentage point above its D2 price limit. If the Trading Margin rate as adjusted is lower than that at time of settlement on D0, then the latter shall be in effect when Trading Margin is collected.

**Article 19** If the deferred contract is not limit-locked on D2, its price limit and Trading Margin rate shall return to their normal levels on D3.

The occurrence of a Reverse Direction Limit-Locked Market on D2 shall trigger a new round of Limit-Locked Market, i.e., such D2 shall become D1 for the new round of Limit-Locked Market, and the Trading Margin rate and the price limit for the following trading day shall be set pursuant to Article 18 of this *Measures*.

If a Same Direction Limit-Locked Market occurs on D2, then the D3 price limit for said contract shall be raised by no less than seven percentage points from its D1 price limit according to the market risk conditions; in addition, at time of settlement on D2, the Trading Margin rate for the contract shall be adjust to one percentage point above its D3 price limit. If the Trading Margin rate as adjusted is lower than that at time of settlement on D0, then the latter shall be in effect when Trading Margin is collected.

**Article 20** If the deferred contract is not limit-locked on D3, its price limit and Trading Margin rate shall return to their normal levels on D4.

The occurrence of a Reverse Direction Limit-Locked Market on D3 shall trigger a new round of Limit-Locked Market, i.e., such D3 shall become D1 for the new round of Limit-Locked Market, and the Trading Margin rate and the price limit for the following trading day shall be set pursuant to Article 18 of this *Measures*.

If a Same Direction Limit-Locked Market occurs on D3 (i.e., the price limit has been hit for three consecutive trading days), the Exchange may take the measures under Article 21 or Article 22 according to market conditions.

**Article 21** After market close of D3, the Exchange may determine and announce that trading of the deferred contract will continue on D4, and, to mitigate market risks, may raise the Trading Margin and Settlement Reserve requirements for one or both trading directions by the same or different percentage points for some or all member seats; suspend or restrict the opening of new positions by some or all member seats; adjust price limits, Deferred Fee Rate, or the rate of Extended Position Fee; restrict Settlement Account Withdrawals; require the closing of positions within a specified time frame; and/or enforce liquidation of open positions.

If on D4 the deferred contract does not trigger its price limit, its D5 price limit and Trading Margin rate shall return to their normal levels.

If on D4 the deferred contract once again hits price limit in the same trading direction as on D3, then the Exchange may declare the situation as a market abnormality and take risk control measures in accordance with applicable rules of the Exchange.

If on D4 the deferred contract hits price limit in the opposite direction as on D3, then a new round of Limit-Locked Market starts, and its D5 Trading Margin rate and price limit shall be set according to Article 18 of this *Measures*.

**Article 22** After market close of D3, the Exchange may determine and announce that trading of the deferred contract will be suspended for one day on D4. Trading Margin for the contract shall be collected at the same rate as that at time of settlement on D2; Settlement Account Withdrawals may be suspended by the Exchange for some or all member seats. On D4 the Exchange may, according to market conditions, select and announce either one of the following two options for the contract to mitigate market risks.

**Option One:**

The Exchange may raise the Trading Margin and Settlement Reserve requirements for one or both trading directions by the same or different percentage points for some or all member seats; suspend or restrict the opening of new positions by some or all member seats; adjust price limits, Deferred Fee Rate, or the rate of Extended Position Fee; restrict Settlement Account Withdrawals; require the closing of positions within a specified time frame; and/or enforce liquidation of open positions on D5;

If on D5 the deferred contract does not trigger its price limit, its D6 price limit and Trading Margin rate shall return to their normal levels.

If on D5 the deferred contract once again hits price limit in the same trading direction as on D3, then the Exchange may declare the situation as a market abnormality and will take risk control measures in accordance with applicable rules.

If on D5 the deferred contract hits price limit in the opposite direction as on D3, then a new round of Limit-Locked Market starts, and its D6 Trading Margin rate and price limit shall be set according to Article 18 of this *Measures*.

**Option Two:**

The contract constitutes a market abnormality and the Exchange will take risk control measures in accordance with applicable rules.

**Article 23** If the Exchange declares a market abnormality in accordance with this *Measures*, it may take such emergency measures as adjusting trading hours, price limits, Trading Margin rates, Deferred Fee Rate, and the rate of Extended Position Fee; requiring the closing of positions within a specified time frame; enforcing liquidation or reduction of open positions; restricting Settlement Account Withdrawals; suspending or restricting trading; and/or suspending the market to mitigate market risks.

**Article 24** If the Exchange declares a deferred contract constitutes a market abnormality and chooses to enforce the reduction of open positions, it shall specify the base date for the forced position reduction (the **base date**). The base date shall be the latest trading day on which a Limit-Locked Market occurs *and* forced position reduction is declared.

At time of settlement on the date of forced position reduction, the Exchange shall identify those customers who, on the base date and by the settlement price of that date, have incurred a unit loss of 8% or more on their net positions in a deferred gold contract or 10% or more on their net positions in a deferred silver contract, take the offsetting orders placed in the contract by these customers at the contract's limit price but remained unfilled by market close, and automatically match them, on a *pro rata* basis and at the contract's settlement price of the base date, to the open positions held by customers who have recorded a gain on their net positions in the contract. If a customer holds both long and short positions in the contract, such long and short positions shall be mutually offset and net positions resulting therefrom shall be closed out in the foregoing manner. The specific procedures are:

(I) Determination of the size of Offsetting Volume

The term "Offsetting Volume" (or **Offset-Pending Volume**) means the aggregate volume remaining unfilled after market close on the base date submitted by customers to the Automated Order Matching System at price limit to close out their open positions, each of whom, by the settlement price of the base date, has incurred a unit loss of 8% or more on its net positions in a deferred gold contract or 10% or more on its net positions in a deferred silver contract. Any customer who is unwilling to accept the foregoing offsetting method may cancel its orders before market close on the base date and such canceled orders shall be excluded from the scope of Offsetting Quantity.

(II) Computation of each customer's unit gains or losses on net positions

Customer's unit gains or losses on net positions in the contract = Customer's total gains or losses on net positions in the contract (in RMB) / Customer's net positions in the contract (in weight unit)

In the above formula, "customer's total gains or losses on net positions in the contract" means, after arranging the customer's historical, executed position-opening orders in the contract in reverse chronological order, the cumulative difference between the execution price of each such order and the current day's settlement price, until the cumulative size of these orders is equal to the net open positions held by the customer on the current day.

(III) Determination of scope of positions to be offset for customers recorded gains on position holdings

The positions held by customers that give them unit gains on net positions as calculated by the above formula (the **Matching Positions**) will be subject to offsetting.

(IV) Principles and methods for allotting Offsetting Quantity

1. Principles governing the allotment of Offsetting Quantity

Matching Positions shall be divided into three tiers based on the size of their gains, and allotted in a cascading arrangement:

For deferred gold contracts: T1 Matching Positions are those of customers who have recorded unit gains on net positions of no less than 8% of settlement price of the based date; T2 Matching Positions, 4% or more but less than 8%; and T3 Matching Positions, less than 4%. The Matching Positions for each tier shall be prorated into that tier's Offset-Pending Quantity (or the residual Offset-Pending Quantity) in the sequence of T1 to T3.

For deferred silver contracts: T1 Matching Positions are those of customers who have recorded unit gains on net positions of no less than 10% of settlement price of the base date; T2 Matching Positions, 5% or more but less than 10%; and T3 Matching Positions, less than 5%. The Matching Positions for each tier shall be prorated into that tier's Offset-Pending Quantity (or the residual Offset-Pending Quantity) in the sequence of T1 to T3.

2. Allotment of Offsetting Quantity and procedures

If the size of T1 Matching Positions is greater than or equal to the Offset-Pending Quantity, the Offset-Pending Quantity shall be prorated into the T1 Matching Positions.

If the size of T1 Matching Positions is smaller than the Offset-Pending Quantity, the T1 Matching Positions shall be prorated into the Offset-Pending Quantity. The residual Offset-Pending Quantity shall be matched with the T2 Matching Positions in the same manner as above, and the residual Offset-Pending Quantity from that, if any, shall be matched with the T3 Matching Positions. Any remaining Offset-Pending Quantity will not be allotted further. The specific steps are illustrated in the table below:

Table 1: Option Two – Method and Procedures for Allotting Offsetting Quantity

Step	Condition	To Be Allotted	Allotment Ratio	Target	Result
1	Size of T1 Matching Positions $\geq$ Offset-Pending Quantity	Offset-Pending Quantity	Offset-Pending Quantity $\div$ Size of T1 Matching Positions	Size of T1 Matching Positions	Allotment completed
2	Size of T1 Matching Positions $<$ Offset-Pending Quantity	Size of T1 Matching Positions	Size of T1 Matching Positions $\div$ Offset-Pending Quantity	Offset-Pending Quantity	Proceed to step 3 or 4 if there is residual Offset-Pending Quantity
3	Size of T2 Matching Positions $\geq$ Residual Offset-Pending Quantity #1	Residual Offset-Pending Quantity #1	Residual Offset-Pending Quantity #1 $\div$ Size of T2 Matching Positions	Size of T2 Matching Positions	Allotment completed



4	Size of T2 Matching Positions < Residual Offset-Pending Quantity #1	Size of T2 Matching Positions	Size of T2 Matching Positions ÷ Residual Offset-Pending Quantity #1	Residual Offset-Pending Quantity #1	Proceed to step 5 or 6 if there is residual Offset-Pending Quantity
5	Size of T3 Matching Positions ≥ Residual Offset-Pending Quantity #2	Residual Offset-Pending Quantity #2	Residual Offset-Pending Quantity #2 ÷ Size of T3 Matching Positions	Size of T3 Matching Positions	Allotment completed
6	Size of T3 Matching Positions < Residual Offset-Pending Quantity #2	Size of T3 Matching Positions	Size of T3 Matching Positions ÷ Residual Offset-Pending Quantity #2	Residual Offset-Pending Quantity #2	Residual Offset-Pending Quantity will not be allotted further

Notes:

1. Residual Offset-Pending Quantity #1 = Offset-Pending Quantity – Size of T1 Matching Positions;
2. Residual Offset-Pending Quantity #2 = Residual Offset-Pending Quantity #1 – Size of the T2 Matching Positions;
3. Size of Matching Positions refers to the size of positions held by customers that give them unit gains on net positions and are subject to offset.

#### (V) Offsetting and fractional Offset-Pending Quantity

After the above process, each customer code shall first be assigned with the integral part of the Offsetting Quantity allotted to the customer; then each customer code shall be assigned with one lot in descending order of the fractional parts. For those customers who have the same fractional part and the remaining Matching Positions are insufficient to match all of their Offsetting Quantity, then the remaining Matching Positions shall be distributed at random.

If risks are mitigated following the forced position reduction, the deferred contract's price limit and Trading Margin rate shall return to their normal levels on the next trading day; if not, the Exchange will take further risk control measures.

Financial losses incurred by forced position reduction shall be borne by members and their customers.

### Chapter IV Deferred Fee and Extended Position Fee

**Article 25** The Exchange collects Deferred Fee on deferred contracts. To ensure deferred contracts have a smooth settlement process, the Exchange may adjust the rate of Deferred Fee in the event of:

1. any significant or abnormal price fluctuation;
2. any continuing irregularity in the settlement of a particular deferred contract;
3. any deviation from the usual spread between a particular deferred contract and the corresponding spot product;
4. any evidence of price manipulation; or

5. any other circumstance which, in the opinion of the Exchange, warrants such an adjustment.

**Article 26** The Exchange collects Extended Position Fees on deferred contracts. When open interest in a particular deferred contract exceed a certain level or when the market becomes overheated, the Exchange may charge Extended Position Fees for some or all open positions which have been continuously held beyond a certain period. The Exchange will set the rate for Extended Position Fees according to market conditions.

**Article 27** The institution, adjustment, and termination of the Deferred Fee and Extended Position Fees shall be governed by the announcement of the Exchange.

## **Chapter V Position Limits**

**Article 28** The Exchange enforces position limits. “Position limit” refers to the maximum size of long positions or short positions, other than those from the tender of Delivery Equalizers, each member seat or customer is permitted by the Exchange to hold in a particular contract.

**Article 29** The Exchange manages market risks by imposing position limit on both member seats and customers. Open positions held by each member seat or customer shall not exceed the position limit specified by the Exchange.

**Article 30** The Exchange imposes separate position limits on the proprietary seats and brokerage seats of each member.

**Article 31** The initial position limits for the proprietary seats of each member shall be 4 metric tons for a deferred gold contract and 80 metric tons for a deferred silver contract. Based on its specific needs, a member may apply for adjusting these position limits; the Exchange will approve or deny the application depending on, among other things, the member’s trading history, risk tolerance, credit standing, and exposure to market risks.

**Article 32** The initial position limits for the brokerage seats of each member shall be 6 metric tons for a deferred gold contract and 200 metric tons for a deferred silver contract. Based on its specific needs, a member may apply for adjusting these position limits, and the Exchange will approve or deny the application depending on, among other things, the volume of brokerage trades of the member, the highest open positions reached, number of customers carried, risk control capabilities, and exposure to market risks.

**Article 33** The Exchange may, in view of the position limits for the seats of a member, adjust that member’s minimum required balance of Settlement Reserve for its proprietary seats and brokerage seats.

**Article 34** The universal position limits imposed on each customer for open positions in deferred contracts are as follows:

Table 2: Position Limits for Each Customer’s Positions in a Deferred Contract

(Unit: metric tons)

Customer Type	Deferred Gold Contract	Deferred Silver Contract
Corporate Customers	2	80

Individuals	1	20
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**Article 35** When the Exchange adjusts the position limits of a member or customer upon its application and according to market conditions, the overall position limit applied for by any single member seat or customer shall not exceed a certain proportion of the open interest in the corresponding contract at the time of application.

When the open interest exceeds 200 metric tons for a deferred gold contract or 5,000 metric tons for a deferred silver contract, said proportion shall be 25% for a member's proprietary seat; 25% for a corporate customer brokerage seat; 35% for an individual customer brokerage seat of a commercial bank; 25% for an individual customer brokerage seat of other types of members who are qualified to provide brokerage services to individuals; 10% for a general corporate customer; and 5% for an individual.

When the open interest of a deferred gold contract or a deferred silver contract does not exceed the level prescribed in the foregoing paragraph, the Exchange may determine said proportion in view of the levels in the foregoing paragraph, market risks, and the circumstances of the contract in question.

The above proportions may be adjusted by the Exchange in view of the particular circumstances and shall be governed by the announcement of the Exchange.

**Article 36** The Exchange may review the position limits for member seats and customers, and adjust the position limits based on, among other things, their trading volume, open positions, and risk tolerance.

**Article 37** If the open positions of a member seat or customer have exceeded the limit prescribed by the Exchange due to an adjustment of the corresponding position limits or another reason, the member or customer shall reduce its open positions within the time frame specified by the Exchange. Failure to do so is grounds for the Exchange to enforce liquidation in accordance with applicable rules.

A customer may open accounts with different members. For such a customer, the Exchange will calculate the positions it holds through various seats on an aggregate basis, and, when the customer's aggregate position holding exceeds its position limit, instruct relevant members to liquidate the excess positions.

**Article 38** For any member or customer who is qualified to produce or deal in gold or silver and who, for hedging purposes, needs to exceed the above position limit, it may apply for a hedging quota by submitting a photocopy of its duplicate business license, hedging plan, a duly completed *Hedging Application (Approval) Form of Shanghai Gold Exchange*, and one of the following supporting materials:

(1) for a raw material producer or processor, documents certifying the consumption rate of the precious metals being hedged, its production capacity, production plan of the current year, purchase and sales plans or contracts for the raw materials or manufactured products concerned, and supporting materials for the total output of the preceding year, etc.;

(2) for a raw material processor, distributor, or other types of enterprise, documents evidencing the physical inventory of the precious metals being hedged or any other documents (e.g., purchase and sales contracts or tax invoices) proving its ownership of precious metals, etc.; or

(3) relevant materials evidencing the necessity of applying for the hedging quota, and any other materials required by the Exchange.

**Article 39** The Exchange will review a hedging application in accordance with applicable rules and determine the hedging quota to be granted, subject to the condition that the hedging quota granted shall not exceed the level applied for in the applicant's supporting materials, and that the annual hedging quota granted shall not exceed the applicant's production capacity and production plan of the current year or the quantity of the precious metals concerned dealt by the applicant in the preceding year. The Exchange may require the applicant to supplement its supporting materials if they are deemed insufficient.

**Article 40** The Exchange manages hedging quotas separately from position limits. A hedging quota is valid for no more than one year in general. If any hedging position opened by a member or customer is not closed out by the expiration of the quota, the Exchange will regard such position as an ordinary open position, and may liquidate the portion in excess of the applicable position limit in accordance with applicable rules.

**Article 41** For any customer who trades through multiple member seats, the Exchange shall enforce its hedging quotas on an aggregate basis. If a member or customer commits fraud or violates any of the Exchange's rules when entering into hedging trades, the Exchange will either treat the hedging positions so opened as ordinary open positions or liquidate them, and will take further actions pursuant to the *Enforcement Rules of Shanghai Gold Exchange*.

## **Chapter VI Trading Limits**

**Article 42** The Exchange enforces trading limits. "Trading limit" refers to the maximum number of position-opening trade in a particular contract a member seat or customer is permitted to execute within a set period. The Exchange may impose different trading limits on the listed products and contracts, and on some or all member seats or customers, as warranted by market conditions. The trading limits in effect shall be separately determined and announced in advance by the Exchange.

The above paragraph does not apply to hedging trades.

## **Chapter VII Large Position Reporting**

**Article 43** The Exchange enforces large position reporting. When the position limit of a member's proprietary seat or brokerage seat or of a single customer exceeds the universal position limit applicable to the relevant contract *and* the open positions held by said seat or customer reach 80% of the position limit, or upon request by the Exchange, the member or customer shall report details on its funds and open positions to the Exchange. The customer's report shall be submitted through its carrying member.

The Exchange shall have the right to require a member or customer to submit follow-up reports or supplementary reports.

The Exchange may adjust the reporting thresholds for members and customers in view of market risks.

**Article 44** Members shall monitor the position holdings of their customers. When a customer reaches the reporting threshold, its carrying member shall supervise the customer to promptly submit a large position report.

**Article 45** When the position holding of a member or customer reaches the prescribed reporting threshold or when required by the Exchange, the member or customer shall submit a large position report to the Exchange by market close of the following trading day. If a follow-up or supplementary report is required, the Exchange will notify the member who shall promptly notify the customer as applicable.

**Article 46** When the open positions held by a member through a brokerage seat reach the reporting threshold or when required by the Exchange, the member shall submit to the Exchange:

(1) a duly completed *SGE Large Position Reporting Form for Brokerage Seats of Members*, which identifies the member name, seat number, contract code, current position holdings, number of customers with position holdings, margins for position holdings, allottable funds, risk control measures, etc.

(2) the settlement statements of the top five customers by size of position holding; and

(3) any other materials as required by the Exchange.

**Article 47** When the open positions held by a member through a proprietary seat or by a customer reach the reporting threshold or when required by the Exchange, the member or customer shall submit to the Exchange:

(1) a duly completed *SGE Large Position Reporting Form for Customers and Proprietary Seats of Members*, which identifies the customer name, trading code, member name, seat number, contract code, current position holding, delivery intents, margin for position holding, allottable funds, description of the sources of funds, the nature and duration of position holding, status of related accounts, etc.

(2) customer's settlement statements; and

(3) any other materials as required by the Exchange.

Members shall review the materials submitted by their customers before forwarding said materials to the Exchange. Members shall ensure the truthfulness of these customer materials.

**Article 48** The Exchange shall have the right to verify the information provided by members and customers.

**Article 49** A customer may open accounts with different members. For such a customer, the Exchange will calculate the positions it holds through various seats on an aggregate basis, and, when its aggregate position holding reaches the reporting threshold, may designate and notify a relevant member to submit the materials that should be furnished by the customer.

## Chapter VIII Forced Liquidation

**Article 50** The Exchange implements a forced liquidation regime. “Forced liquidation” (or **liquidation** for short) means the compulsory action whereby the Exchange closes out the open positions of a member seat or a customer in accordance with applicable rules.

**Article 51** The Exchange shall have the right to liquidate the open positions held by a member seat or customer if:

- (1) the Settlement Reserve in the margin account of a proprietary seat of the member falls below the required minimum and the member fails to eliminate the shortfall within the specified time frame;
- (2) the Settlement Reserve in the margin account of a brokerage seat of the member falls below the required minimum and the member fails to eliminate the shortfall within the specified time frame;
- (3) the position holding of the member or the customer has exceeded the applicable position limits;
- (4) the member or the customer becomes subject to forced liquidation as a penalty for its violation;
- (5) such liquidation is warranted by any emergency action taken by the Exchange; or
- (6) there is any other circumstance that warrants the forced liquidation.

**Article 52** Unless otherwise instructed by the Exchange, positions to be force-liquidated based on circumstances under Article 51 shall first be liquidated by the relevant member within the first two hours of market open. The Exchange shall have the right to liquidate the positions that were not liquidated by members within this time frame.

### (1) Execution by members

1. For liquidation pursuant to Item (1) of Article 51, the member shall determine, at its own discretion, the positions to be liquidated, so long as the margins so released within the specified time frame are enough to cover the shortfall in the Settlement Reserve;
2. For liquidation pursuant to Item (2) of Article 51, the member shall determine the pool of customers and the open positions of such customers subject to forced liquidation. When liquidating any customer’s open positions, the member shall adhere to the standards and conditions set out in relevant agreements, and shall notify the customer through the means agreed upon by the parties; and
3. For liquidation pursuant to Item (3), (4), (5), or (6) of Article 51, the open positions to be liquidated shall be determined by the Exchange.
4. A member shall timely report to the Exchange as required if the liquidation to be enforced by the member is substantial in monetary value, involves a large number of customers, or will cause a customer to carry a negative equity.

### (2) Execution by the Exchange

1. For liquidation pursuant to Item (1) of Article 51, liquidation shall in general be carried out for the positions held through the proprietary seat of the member after market close of the preceding trading

day by decreasing market value, as calculated based on the settlement price of the preceding day, of the corresponding contracts and trading direction.

Where the open positions of several member seats need to be liquidated, liquidation shall be performed by decreasing size of margin calls associated with each member seat.

2. For liquidation pursuant to Item (2) of Article 51, except for the customers and contracts specifically marked by the member for liquidation, the Exchange will in general first arrange customers by decreasing market value of their position holdings through the brokerage seat of the member after market close of the preceding trading day, and, for each successive customer in that sequence, liquidate the positions it holds by decreasing market value of the corresponding contracts and trading direction.

Where the open positions of several member seats need to be liquidated, liquidation shall be performed by decreasing size of margin calls associated with each member seat.

3. Liquidation pursuant to Item (3) of Article 51:

- if a single member seat is over-limit, the Exchange shall determine, based on the ratio of the size of excess positions to the size of position holding, the quantity of those positions held by relevant customers that are to be liquidated;
- if two or more member seats are over-limit, the Exchange shall liquidate by member seat by decreasing size of excess positions associated with each seat;
- if a customer is over-limit, the Exchange shall liquidate the customer's excess positions;
- if an over-limit customer holds open positions through multiple seats, the Exchange shall liquidate by decreasing size of position holding under each seat;
- if a member seat and a customer are simultaneously over-limit, the Exchange shall first liquidate the positions of over-limit customers, then liquidate that of member seats in accordance with the above approach for over-limit member seats.

4. For liquidation pursuant to Item (4), (5) or (6) of Article 51, the Exchange shall determine the positions to be liquidated in view of the specific circumstances of the members and customers involved.

If both Item (3) and Item (1) or (2) of Article 51 apply to a member, the Exchange shall determine the positions to be liquidated first according to Item (3) and then according to Item (1) or (2).

**Article 53** Forced liquidation of member positions by the Exchange.

(1) Notice. The Exchange will order relevant members to perform liquidation. Unless otherwise specifically instructed by the Exchange, the notice to liquidate will be in the form of current day's settlement data and settlement statements. Members may access relevant data through the Exchange's system.

(2) Execution and confirmation.

1. The relevant member shall first close out positions itself until it meets the requirement of the Exchange. The execution results will be examined by the Exchange;
2. If a member fails to complete liquidation within the specified time frame, the Exchange shall be entitled to directly liquidate the remaining positions;
3. A member shall be solely liable for the situation where more than the necessary number of open positions is liquidated due to the member closing out positions at the same time as liquidation by the Exchange of the above remaining positions;
4. If the positions to be liquidated belong to an order with frozen quote, the Exchange shall have the right to cancel the order on behalf of the member or customer and liquidate the positions after unfreezing the price;
5. After forced liquidation is completed, the Exchange shall record and archive the execution results; and
6. The results of forced liquidation shall be sent alongside the daily execution records to relevant members, who may access them through the Exchange's system.

**Article 54** The price at which a position is liquidated is determined by the corresponding trade in the market.

**Article 55** If liquidation is not completed within the specified time frame due to price limit or other market factors, the remaining positions shall be liquidated on the following trading day in line with the principles under Article 53 until liquidation is completed.

**Article 56** If a member did not complete liquidation on the current day due to price limit or other market factors, the Exchange shall take corresponding follow-up actions in respect of that member in accordance with settlement results.

**Article 57** Losses incurred as a result of deferred liquidation due to price limit or other market factors shall be borne by the person directly responsible for the liquidation. With respect to the positions pending to be liquidated, the relevant holder shall continue to assume the responsibilities of position holding or physical delivery.

**Article 58** Gains from liquidation by a member shall be credited to the person directly responsible for the liquidation; gains from liquidation by the Exchange shall be handled in accordance with applicable rules; losses incurred during forced liquidation shall be borne by the person directly responsible for the liquidation.

If the person directly responsible for the liquidation is a customer, losses incurred during forced liquidation shall first be borne by its carrying member, who may subsequently pursue recourse at its own initiative against the customer.

**Article 59** If after forced liquidation the member concerned still has a Settlement Reserve shortfall which is not eliminated within the specified time frame, the Exchange shall be entitled to suspend such member's relevant businesses and resolve the default in accordance with the *Detailed Clearing and Settlement Rules of Shanghai Gold Exchange*.



## Chapter IX Risk Warning and Trade Monitoring

**Article 60** The Exchange implements risk warning regime and irregular trade monitoring regime. The Exchange may, whenever it deems necessary, take one or more of the following actions in conjunction with other risk control measures to warn against and mitigate risks: requiring the submission of a report; arranging a warning appointment; issuing a warning letter; issuing a censure; and/or issuing a risk warning notice.

**Article 61** The Exchange may hold appointment with a designated customer or executive of a member to warn against risks or to require the customer or member to submit a report in the event of:

(1) abnormal price movements caused by the trades of the member or customer;

(2) irregularity in the orders of the member or customer, including:

1. batch or rapid order placement automated by a computer program, creating a single-day order volume that might compromise the security of the Exchange's system or disrupt the normal course of trading;

2. frequent placement and cancellation of orders in a particular contract, which might have affected the trading price or misled other customers to trade;

3. multiple placement and cancellation of large orders in a particular contract in a single day, which might have affected the trading price or misled other customers to trade; and

4. any other order irregularity identified by the Exchange.

(3) irregularity in the trades of the member or customer, including:

1. trades between accounts under actual common control, except for those otherwise permitted by the Exchange;

2. self-trades through the same account;

3. a substantial volume or multiple rounds of "buy-high, sell-low" trades; and

4. any other trading irregularity identified by the Exchange.

The term "actual control" means the action or ability of a person (whether an individual or entity) to determine the trading decisions of another person (whether an individual or entity) by virtue of its power to manage, use, benefit from, dispose of, or otherwise influence the account of the latter person.

(4) any irregularity in the position holding of the member or customer, including;

1. the combined position holding of accounts under its actual control is in excess of the position limit; and

2. any other position holding irregularities identified by the Exchange.

(5) any irregularity in the member's funds;

- (6) any irregularity in the delivery activities of the member or customer;
- (7) any suspected violation or default by the member or customer;
- (8) any complaint against the member or customer received by the Exchange;
- (9) any judicial investigation against the member or customer; or
- (10) any other circumstance which, in the opinion of the Exchange, warrants such an action by the Exchange.

**Article 62** Warning appointments conducted by the Exchange shall abide by the following rules:

- (1) the Exchange shall issue a written notice to arrange for the appointment with the designated customer or executive of the member. When attending the appointment, the customer shall be accompanied by a person designated by its carrying member;
- (2) the Exchange shall inform the member of the time, location, and other requirements of the appointment through a written notice one day in advance;
- (3) any designated person who is unable to attend the appointment due to special circumstances shall notify the Exchange in advance, and may, subject to the approval of the Exchange, appoint in writing an agent to attend the appointment on his/her/its behalf;
- (4) a designated person shall provide truthful statements and shall not willfully withhold any fact; and
- (5) SGE staff shall keep information gathered from the appointment confidential, unless the disclosure of which is required by relevant laws or regulations or by the judicial system or competent administrative authorities.

Where any member or customer is required by the Exchange to submit a report, the requirements for large position reporting shall serve as a reference for the format and content of such report.

**Article 63** If, through reports and appointments, a member or customer is suspected to have committed any violation or is holding positions that are exposed to substantial risks, the Exchange may issue a warning letter and, to mitigate risks, take such further actions against the member or customer as restricting the frequency of trading, restricting the opening of new positions, requiring the closing of positions within a specified time frame, and enforcing liquidation of open positions. The Exchange shall handle violations in accordance with the *Enforcement Rules of Shanghai Gold Exchange*.

**Article 64** The Exchange may censure a member or customer through a designated media channel, if:

- (1) the member or customer fails to submit reports or attend appointments as required by the Exchange;

- (2) the member or customer willfully withholds facts or conceals, misreports, or omits any significant information;
- (3) the member or customer intentionally destroys supporting materials relating to its violation or default, or does not cooperate with the Exchange during investigations;
- (4) the member is found through an investigation to have defrauded customers;
- (5) the member or customer is found through an investigation to have traded through multiple accounts to circumvent position limit or have engaged in market manipulation;
- (6) the member or customer has engaged in any irregular trade identified by the Exchange; or
- (7) the member or customer has committed any other violation as determined by the Exchange.

In addition to the public censure, the Exchange will take further actions in accordance with the rules of the Exchange against the member or customer for its violations.

**Article 65** The Exchange may issue a risk warning notice to alert all members and customers of risks arising from:

- (1) abnormal price movements;
- (2) a significant price gap between a particular deferred contract and the corresponding spot product;
- (3) a significant gap between domestic price and international price; and/or
- (4) any other irregularity recognized by the Exchange.

## **Chapter X Ancillary Provisions**

**Article 66** The Exchange may take actions in response to any violation of this *Measures* in accordance with this *Measures* and the *Enforcement Rules of Shanghai Gold Exchange*.

**Article 67** Any matter not covered by this *Measures* shall be governed by the corresponding provisions (if any) of relevant laws, regulations, and market rules of the Exchange.

**Article 68** 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 69** The Board of Directors of the Exchange shall reserve the right to interpret this *Measures*.

**Article 70** This *Measures* shall take effect as of the date of its release.