

# **Detailed Clearing and Settlement Rules of Shanghai Gold Exchange**

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## Chapter I            General Provisions

**Article 1**     The *Detailed Settlement Rules of Shanghai Gold Exchange* (hereinafter refers to the ***Detailed Settlement Rules***), formulated in accordance with the laws, regulations, and ministry-level rules of China and the *Trading Rules of Shanghai Gold Exchange*, is designed to regulate the settlement activities within the markets of Shanghai Gold Exchange (hereinafter refers to the **Exchange** or **SGE**), protect the public interest and the lawful rights and interests of the trading parties, and prevent and mitigate market risks.

**Article 2**     The term “settlement” refers to the fund transfers and physical deliveries made according to the confirmed results of clearing, which is performed in accordance with trading results and applicable rules of the Exchange, of the fund payable or receivable and the physical bullion deliverable or receivable by the trading parties.

**Article 3**     Unless otherwise prescribed by the Exchange, the Exchange, as the central counterparty, organizes the centralized clearing and settlement of every trade matched through or registered in its system.

**Article 4**     The Exchange authorizes and delegates the Shanghai Gold Exchange International Co., Ltd. (hereinafter refers to **SGEI**) to provide clearing and settlement services to International Members. The detailed rules governing those services shall be formulated by SGEI separately.

**Article 5**     The *Detailed Settlement Rules* shall be applicable to all settlement activities on or through markets of the Exchange. The Exchange, members who receive settlement services from the Exchange (hereinafter refers to the **members**), customers of those members, Margin Custodian Banks (hereinafter refers to the **Custodian Banks**), and all related staff shall abide by the *Detailed Settlement Rules*.

## Chapter II           Settlement Departments

**Article 6**     The Exchange has an internal settlement department (hereinafter refers to the **SGE Settlement Department**) which is responsible for centrally settling trades executed on or through the Exchange, managing margins, and preventing settlement risks.

**Article 7**     The main responsibilities of the SGE Settlement Department are:

- (1) to organize settlement activities;
- (2) to control settlement risks;
- (3) to prepare settlement statements and other accounting statements for members;
- (4) to manage members’ margins;
- (5) to resolve disputes among members over margin accounts and payments; and

(6) to perform other responsibilities prescribed by the laws, regulations, ministry-level rules, and by the Exchange.

**Article 8** Each member shall set up its own settlement department (or appoint dedicated settlement staff) to be responsible for the settlement activities between itself and the Exchange and between itself and its customers. Each member shall provide the contact list of its settlement department (or its dedicated settlement staff) to the Exchange for record.

**Article 9** Each member's settlement department (or dedicated settlement staff) shall keep safe all settlement materials, financial statements, and related supporting materials and books of accounts for examination and verification.

**Article 10** The Exchange has the right to examine a member's settlement materials, financial statements, and related supporting materials and books of accounts pertaining to its trading activities. The member shall cooperate with such examinations.

**Article 11** Each settlement department and its respective staff (or dedicated settlement staff) shall keep confidential any and all trade secrets belonging to the Exchange and members, unless their disclosure is required by the laws, regulations, the judicial system, or administrative authorities.

### **Chapter III Custodian Banks**

**Article 12** Custodian Bank refers to a commercial bank certified by the Exchange to assist in providing margin custody services.

**Article 13** A Custodian Bank must:

- (1) be a national, financially robust, and reputable commercial bank;
- (2) have branches and business outlets in all major cities in China;
- (3) have in place a sophisticated and rapid intra-city and intercity fund transfers network;
- (4) have sound treasury management practices;
- (5) have professionals who are knowledgeable about precious metals trading and settlement and about futures, and who have keen awareness for risk prevention; and
- (6) meet other mandatory requirements of the Exchange.

Upon meeting the above criteria and obtaining the approval of the Exchange, a bank shall be certified as a Custodian Bank and shall enter into a settlement agreement with the Exchange regarding the respective rights and obligations of the parties and relevant service procedures.

**Article 14** A Custodian Bank is entitled to:

- (1) open the SGE Settlement Account, members' Settlement Accounts, and other accounts relating to margin custody;
- (2) accept deposits from the Exchange and members;
- (3) access the credit standing of members at the Exchange; and
- (4) exercise other rights prescribed by the laws, regulations, ministry-level rules, and by the Exchange.

**Article 15** A Custodian Bank is obligated to:

- (1) prioritize fund transfers initiated by instructions from the Exchange, and promptly transfer the fund of members to the SGE Settlement Account;
- (2) promptly notify the Exchange of any misconduct or risk of members in relation to the custody of margins;
- (3) help the Exchange to mitigate serious risks;
- (4) keep confidential any and all trade secrets of the Exchange, members and customers;
- (5) take necessary regulatory measures on the fund in members' settlement accounts complying with rules of the People's Bank of China (hereinafter refers to **PBC**);
- (6) accept the Exchange's supervision and guidance on relevant business activities; and
- (7) perform other obligations prescribed by the laws, regulations, ministry-level rules, and by the Exchange.

#### **Chapter IV Accounts**

**Article 16** The Exchange shall open a concentration account with the PBC to hold members' Trading Margin and a dedicated settlement account (hereinafter refers to the **SGE Settlement Account**) with each Custodian Bank to hold members' Settlement Reserve and relevant payments.

**Article 17** Each member must select a Custodian Bank to open a dedicated settlement account (hereinafter refers to the **Settlement Account**) for each trading seat to hold its or its customers' margins and relevant payments. Fund for proprietary trades and brokerage trades shall not be commingled.

**Article 18** Fund transfers between the Exchange and a member shall be effected through the SGE Settlement Account and the members' Settlement Account.

**Article 19** Customers' margins collected by their carrying member shall be deposited in the member's Settlement Account for brokerage seat (hereinafter refers to the **Brokerage Seat Settlement Account**) and shall not be misappropriated. A member may transfer the margins of its customers under the following circumstances:

- (1) to perform Settlement Account Withdrawals as instructed by its customers;
- (2) to pay and deposit Trading Margin, transaction fees, and other charges on behalf of its customers; or
- (3) other circumstances prescribed by the Exchange.

**Article 20** Any member who intends to open, rename, change, or close a Settlement Account must obtain the Exchange's approval by submitting a written application and duly completed materials.

**Article 21** Fund deposited into the SGE Settlement Account by members shall be accounted for separately by the Exchange. The Exchange shall establish a subsidiary account for every seat of each member, and shall daily record and verify in chronological order such entries as inbound and outbound fund transfers, gains and losses, Trading Margin, and transaction fees for each seat.

**Article 22** Fund deposited into a member's Brokerage Seat Settlement Account by its customers shall be accounted for separately by the member. A member shall establish a subsidiary account for each customer, and shall daily record and verify in chronological order such entries as inbound and outbound fund transfers, gains and losses, Trading Margin, and transaction fees for each customer.

## **Chapter V Risk Management**

**Article 23** The Exchange rigorously manages settlement risks by implementing such mechanisms as margin requirements, price limits, position limits, trading limits, and the SGE Risk Reserve.

**Article 24** The Exchange enforces margin requirements. Margins, segregated into Settlement Reserve and Trading Margin, are used to settle trades and guarantee contract performance.

**Article 25** Subject to the approval of the Exchange, a member or customer may post collaterals in accordance with applicable rules in satisfaction of its margin requirements.

**Article 26** Settlement Reserve refers to the fund maintained by a member under the SGE Settlement Account for settling trades, which is not yet used by existing open positions of the Member.

**Article 27** The Exchange requires members to maintain a minimum Settlement Reserve balance based on the types of their seats. The Exchange has the right to adjust the minimum requirement of a member based on market conditions as well as the scale of the member and the type of business it plans to engage in at the Exchange. A member must use its own capital to meet the minimum Settlement Reserve and shall maintain it on daily basis.

**Article 28** On account of its needs, each member may collect no more than RMB 10,000 in Settlement Reserve from each of its corporate customers and deposit such fund in the Brokerage Seat Settlement Account for the purpose of risk control and settling pending fees and charges.

**Article 29** The Exchange shall accrue interest for each member in respect of the daily balance of its Settlement Reserve and pay out such interest on March 21, June 21, September 21, and December 21 each year (postponed accordingly for public holidays) by crediting it into the member's Settlement Reserve.

The Exchange shall charge overdraft interest on any fund it advances to a member to cover the latter's shortfall in Settlement Reserve and will deduct such interest from the member's Settlement Reserve on March 21, June 21, September 21, and December 21 each year (postponed accordingly for public holidays). In the event that a member's Settlement Reserve is insufficient to cover the overdraft interest, the Exchange may accrue and charge compound interest on the overdraft interest outstanding on a quarterly basis at the rate of the penalty interest.

The Exchange shall set, adjust, and announce the rates in effect for the types of interest above according to PBC rules.

**Article 30** Trading Margin refers to the fund maintained by a member under the SGE Settlement Account to guarantee the performance of trades, which is already in use to maintain existing open positions of the Member. The Exchange shall collect Trading Margin on both long positions and short positions in proportion to the value of contracts held or according to other methods provided by the Exchange.

Notwithstanding the foregoing, the Exchange may collect the higher of the Trading Margin for long positions and that for short positions with respect to the following:

- (1) the long and short positions in deferred contracts of the same product held by a customer through the same member seat; or
- (2) any other circumstances as deemed necessary by the Exchange.

**Article 31** The minimum rate of Trading Margin required shall be provided by the contract specifications and announcements issued by the Exchange.

**Article 32** Trading Margin collected by a member from its customer shall be no less than that imposed on the member by the Exchange.

**Article 33** The Exchange maintains risk reserve as per rules. The SGE Risk Reserve is a reserve set up by the Exchange to safeguard the normal operations of the market, provide financial guarantees, and cover the losses from unforeseeable risks.

**Article 34** Sources of funding for the SGE Risk Reserve include:

- (1) provisions at a certain percentage of the transaction fees collected from members;
- (2) government grants earmarked for the SGE Risk Reserve;
- (3) penalties and penalty interests collected from members committing violations; and
- (4) other sources.

**Article 35** The SGE Risk Reserve shall be deposited in a separate account and separately recorded in account books. Its use shall follow the prescribed procedures and for the specified purposes, and shall be reported to the PBC for record.

**Article 36** Other risk management rules are set out in the *Measures for the Administration of Risk Control of Shanghai Gold Exchange*.

## **Chapter VI Clearing and Settlement**

**Article 37** The Exchange performs trades clearing using the “centralization, netting, and multi-tiered” model.

“Centralization” means the Exchange, as the central counterparty, will provide centralized clearing services and performance guarantee to its members, except where otherwise prescribed by the Exchange;

“Netting” means the Exchange will consolidate a member’s trading results at the Exchange to obtain the net transaction amount;

“Multi-tiered” means the Exchange will clear trades for members, and each member will in turn clear trades for its customers.

**Article 38** The Exchange performs trades clearing and settlement for members by trading seats. Members and customers shall ensure that there will be sufficient fund and bullion for settlement in their Cash Account and Bullion Account at the time of settlement.

**Article 39** The Exchange will, in accordance with trading results, clear the delivery payments, margins, gains and losses, transaction fees, and other payables and receivables of members as well as the bullion deliverable and receivable by members and customers. In particular, on any given day the Exchange will:

- (1) calculate the delivery payments and bullion payable and receivable for contracts to be physically delivered on that day;
- (2) calculate the current-day gains and losses on each spot contract traded on that day based on the difference between their execution price and settlement price, and calculate margins at the current-day settlement price based on the net trading quantity of the contract;
- (3) calculate, in accordance with mark-to-market rules, the Trading Margin, current-day gains and losses, Deferred Fees, and other relevant payments on each deferred contract at the current-day settlement price;
- (4) calculate the current-day gains and losses on each benchmark price contract traded on the day by taking the Benchmark Price PM as its current-day settlement price, and calculate margin at the current-day settlement price based on the net trading quantity of the contract;
- (5) calculate the Load-In/Load-Out Differential Weight and corresponding cash amount payable or receivable as per rules;
- (6) calculate transaction fees, storage fees, transportation and insurance fees, and other fees and charges at the prescribed rates; and
- (7) clear other contracts in accordance with applicable rules of the Exchange.

**Article 40** The calculation formulas are as follows:

Current-day (CD) gains and losses (on each contract) =  $\{ \Sigma [ (\text{sale price of the contract} - \text{CD settlement price}) \times \text{sell quantity}] + \Sigma [ (\text{CD settlement price} - \text{purchase price of the contract}) \times \text{buy quantity}] + (\text{preceding-day (PD) settlement price} - \text{CD settlement price}) \times (\text{PD size of short positions} - \text{PD size of long positions}) \} \times \text{trading unit}$ .

(If there have been cash-settled price asking trades, the current-day gains and losses shall also include the cash difference.)

CD Settlement Reserve balance = PD Settlement Reserve balance + (PD Trading Margin – CD Trading Margin) + (PD fund frozen – CD fund 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 usable currency balance = PD usable currency balance + (PD Trading Margin – CD Trading Margin) + (PD minimum Settlement Reserve balance – CD minimum Settlement Reserve balance) + (PD fund frozen – CD fund 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.



**Article 41** Upon completion of clearing, the Exchange will organize settlement based on the clearing results by debiting the fund payable and bullion deliverable by members and customers from their accounts and crediting the fund and bullion receivable to relevant accounts, and, based on the results of netting, complete fund transfers through PBC's High Value Payment System. Settlement results cannot be reversed once the process is completed.

**Article 42** After day-end settlement is completed, the settlement results shall constitute a margin call to any member whose Settlement Reserve is below the minimum balance required by the Exchange. The difference between the two shall be the amount of additional margin the member needs to deposit.

Any member receiving a margin call shall ensure that it will meet the minimum Settlement Reserve before market opens on the following trading day, failing which, the Exchange shall take appropriate risk control actions.

**Article 43** After day-end settlement is completed, each member may timely obtain the settlement data and settlement statements from the system designated by the Exchange. Each member shall verify, and keep secure these records for a minimum of five years, but any record related to a trading dispute or an investigation by regulatory authorities or the Exchange shall be retained for a longer period, to until the dispute is resolved or the investigation is concluded.

The Exchange shall be deemed to have delivered the settlement data and settlement statements to members once such data and statements have been sent to the designated system.

**Article 44** In the event that the Exchange cannot provide settlement data and settlement statements as scheduled, the Exchange will notify members of availability.

**Article 45** Member who has any objection against the settlement data or settlement statements shall notify the Exchange in writing at least 30 minutes before market opens on the next trading day; otherwise, the member shall be deemed to have accepted the accuracy of the settlement data and settlement statements.

**Article 46** Customer who has any objection against the trading results shall notify its carrying member. The member shall verify the trading result and provide a definite answer to the customer within the timeframe specified in the brokerage agreement.

## **Chapter VII Fund Deposit and Withdrawal**

**Article 47** The Exchange shall process fund deposit and withdrawal for members in a safe, accurate, and convenient manner.

Fund Deposit refers to the act of transferring fund from a member's Settlement Account to the SGE Settlement Account. The Exchange processes Fund Deposit from 9:00 to before day-end settlement on each trading day. After the relevant Custodian Bank confirms that the fund

transferred by a member have been credited into the SGE Settlement Account, the Exchange will increase that member's Settlement Reserve accordingly.

Fund Withdrawal refers to the act of transferring fund from the SGE Settlement Account to a member's Settlement Account. The Exchange processes Fund Withdrawal from 9:00 to 15:30 each trading day and will perform fund transfers according to the application of members.

**Article 48** Fund Withdrawal by members shall be compliant with the rules of the Exchange. The amount that a member may transfer out through Fund Withdrawal is as follows:

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

Payments including delivery payments received on the current day and current-day gains received during day-end settlement can be requested for Fund Withdrawal during the withdrawal hours on the following trading day.

**Article 49** The Exchange shall be entitled to restrict Fund Withdrawal by a member if:

- (1) the member is being investigated by the Exchange;
- (2) the member is under active formal investigation by the judicial system or other competent authorities;
- (3) in the opinion of the Exchange, the market is exposed to significant risks; or
- (4) there is any other condition for which such restriction is deemed necessary by the Exchange.

## **Chapter VIII Customer Transfer**

**Article 50** "Customer transfer" refers to the arrangement where the physical inventories, positions, and the corresponding Trading Margin of the customers of a member are transferred from the account of that member to that of another member. Subject to the approval of the Exchange, a member may transfer its customers if:

- (1) the member is involved in a merger, division, suspension of business operations, dissolution, or insolvency;
- (2) the member no longer meets the requirements for offering brokerage services;
- (3) the member breaches the rules of the Exchange and incurs a risk of violation or default; or

(4) there is any other circumstance in which a transfer of customers is authorized by the Exchange.

Customer transfer excludes amounts such as current day's gains and losses, transaction fees and Settlement Reserve.

**Article 51** To perform Customer transfer, the transferring member and the accepting member shall jointly file a transfer application with the Exchange, and submit the application report as well as materials proving that the customers concerned have been informed of the transfer arrangement. After the application is approved, the Exchange and relevant members shall determine a trading day for the transfer.

**Article 52** The Exchange shall transfer customers after day-end settlement on the scheduled date, and shall provide the members concerned with a transfer list which shall be checked and confirmed by the members.

**Article 53** The Exchange may suspend the customer transfer procedures if there is a serious risk in the market or otherwise deemed inappropriate by the Exchange.

## **Chapter IX Default Resolution**

**Article 54** The Exchange shall be entitled to recognize that a member has committed a default in circumstances including but not limited to:

- (1) failure of physical delivery due to insufficient fund in member's Cash Account or insufficient bullion in member's Bullion Account or its customer's Bullion Account; or
- (2) the Settlement Reserve of the member falls below the required minimum and the shortfall is not eliminated within the specified time limit.

**Article 55** A member shall be liable for any default of proprietary trades and be the first party to assume all liabilities for any default of brokerage trades.

**Article 56** Each customer shall take full responsibility for the trades it executes through its carrying member and shall have the right to report to the Exchange any issue in the brokerage services offered by the member.

**Article 57** In the event of a physical delivery default, the Exchange shall, at the prescribed default penalty rate, pay compensation to the non-defaulting party and collect default penalty from the defaulting party, and terminate the delivery process.

**Article 58** The foregoing provisions on default resolution are not applicable to bilateral-credit price asking trades. If default occurs in such a trade, the trading parties shall seek a solution themselves by the rules of the Exchange.

**Article 59** Where a member has insufficient Settlement Reserve and is not able to eliminate the shortfall within the period prescribed by the Exchange, the Exchange shall have the power to:

- (1) suspend the member from opening new positions;
- (2) execute forced position liquidation by rules until the margin released therefrom is sufficient for contract performance and compensation;
- (3) dispose of the collaterals posted by the member as margin and apply the proceeds toward contract performance and compensation;
- (4) dispose of the member's pledged assets in accordance with the law;
- (5) dispose of the member's physical inventory in accordance with the law;
- (6) draw on other fund of the member such as its Membership Fee to fulfill contractual obligations and make compensations;
- (7) draw on the SGE Risk Reserve by rules;
- (8) draw on the fund of the Exchange by rules; and/or
- (9) take other actions within the power of the Exchange.

Upon drawing on the SGE Risk Reserve or its own fund, the Exchange shall obtain the corresponding right of recourse or the right of claim against the member.

## **Chapter X      Ancillary Provisions**

**Article 60** The time for the businesses covered by this *Detailed Settlement Rules* is a general principle and subject to change by the Exchange in view of the particular circumstances.

**Article 61** The *Detailed Settlement Rules* are formulated in Chinese. In case of any inconsistency between its different language versions or different editions, the latest Chinese version shall prevail.

**Article 62** The Exchange shall reserve the right to interpret this *Detailed Settlement Rules*.

**Article 63** The *Detailed Settlement Rules* shall take effect as of the date of its release.