Appendix3

# Guidelines for Participating in Performance-Guarantee Price Asking Transactions of Shanghai Gold Exchange

Under the leadership of the People’s Bank of China, the price asking market of the Shanghai Gold Exchange (the **Exchange** or **SGE**) has achieved rapid development in recent years, offering valuable market services as part of China’s multi-tiered gold and silver market system.

To duly perform its responsibilities as a Qualifying Central Counterparty (QCCP), enhance the functions of gold infrastructures, and provide targeted services to market participants, the Exchange is planning to launch performance-guarantee price asking trading to bring CCP clearing to eligible gold price-asking transactions. Institutional market participants wishing to take part in performance-guarantee price asking transactions (through **proprietary trading seats**) may complete the filing process with the Exchange in accordance with the applicable rules to obtain the corresponding access.

## I. Pricing Asking Contracts

The performance-guarantee price asking contract listed on the Exchange is CAu99.99, whose specifications are governed by the *Specifications for SGE Performance-Guarantee Price Asking Spot, Forward, and Swap Contracts* (Schedule 1). The tenor for the contract generally does not exceed one year.

## II. Filing

Once onboarding, access to gold performance-guarantee price asking contracts for inter-bank market makers are granted by default for. To obtain or change their access to performance-guarantee price asking contracts for other members and/or metal types, market participants need to submit to the Exchange an *Application Form for Trading Privileges for SGE Performance-Guarantee Price Asking Spot, Forward, and Swap Contracts* (Schedule 2) for record-filing.

## III. Trading, Registration and Confirmation

1. Trading and trade registration follows the same model as in bilateral-credit price asking transactions, in which one of the trading parties or a broker they both authorize registers the trade, followed by customer confirmation, member confirmation (from both sides), and SGE confirmation. At the time of member confirmation, the Exchange freezes a corresponding amount of margin under the member’s trading seat. At the time of SGE confirmation, the Exchange processes the position holding for the trade and recalculates the required margin.

2. After confirming a performance-guarantee price asking spot or forward trade, the Exchange will create an executed trade in its system based on the transaction information and update the trading parties’ positions in the performance-guarantee price asking contract for the corresponding expiry date. A performance-guarantee price asking swap trade is a combination of two trades. After confirming the swap trade, the Exchange will create one near-leg executed spot trade and one far-leg executed forward trade in its system based on the transaction information.

## IV. Position

1. Following the system’s creation of an executed trade,the positions held by the trading parties in the performance-guarantee price asking contract for the corresponding expiry date are updated as follows: updated buyer position = original position + buy quantity; updated seller position = original position − sell quantity.A positive-signed position denotes long position; a negative-signed position denotes short position.

2.Where the Exchange adjusts the market holiday due to China’s announcing the public holiday schedule or other reasons, it will shift all positions whose expiry date falls on the market holiday to positions expiring on the trading day immediately after the market holiday or, if such trading day falls in another month, to positions expiring on the trading day immediately preceding the market holiday.

## V. Margin and Position Limits

1. The Exchange implements a larger-side margining system by freezing margin funds at the larger of the long or short positions held. The margin needed to maintain position in a performance-guarantee price asking contract = the amount of margin needed for each lot × max(long position, short position). The per-lot margin requirement is governed by the announcements of the Exchange. During the trading and registration process, position corresponding to trades to be confirmed (i.e., trades that have been confirmed by the member of the current party and awaiting confirmation by the counterparty) will not be netted with existing positions.

2. The Exchange enforces position limit with respect to members’ proprietary seats. The initial position limit is governed by theannouncements of the Exchange. Position limit is calculated as follows:

With respect to a trade placed through a proprietary trading seat in a performance-guarantee price asking contract of a particular expiry date, position limit should be checked at the time of confirmation by the member of the current party. A swap trade is split into near-leg spot trade and far-leg forward trade, which are to be checked separately.

Order size = size of the current trade to be confirmed + size of existing same-trading-direction trades to be confirmed (already confirmed by the member of the current party and awaiting confirmation by the counterparty)

(1) With respect to the performance-guarantee price asking contract of each expiry date, the Exchange calculates the sum of (i) the absolute value of the open positions held and (ii) the order size. “Open positions held” is the net position and marked with either a positive or a negative sign. “Order size” is a scalar value and thus always positive.

(2) With respect to contract of all expiry dates held through a proprietary trading seat, the Exchange calculates the total of each of the summed values obtained in step (1) and compares it with the position limit.

## VI. Settlement Price

Based on the Shanghai Benchmark Price PM and the SGE gold forward price curve (for Au99.99 deliverable), the Exchange calculates the listed reference price and settlement price for positions in CAu99.99 contract through linear interpolation by calendar days. Among which, the gold forward price curve (Au99.99 deliverable product) is formed by the daily quotations of market makers in the existing inter-bank gold price asking market.

## VII. Clearing, Settlement and Delivery

1. In the post-trade procedures of clearing, settlement and delivery, performance-guarantee price asking contracts follow the existing rules and systems of the Exchange regarding funds accounts and Bullion Accounts.

2. Sequence of trade clearing: The day-end clearing and delivery sequence for price asking contracts is performance-guarantee price asking contracts then bilateral-credit price asking contracts. Bullion or payments obtained from delivery against contracts earlier in the sequence may be used for delivery against contracts later in the sequence.

3. Gains and losses are calculated as follows:

Current-day (CD) gains and losses (on each contract) = { Σ [ (sell price − CD settlement price) × sell quantity] + Σ [ (CD settlement price − buy price) × buy quantity] } × trading unit + Σ [ (CD settlement price − preceding-day (PD) settlement price) × PD size of positions] × trading unit.

4. Expiry delivery: During delivery on the expiry day, delivery payment is calculated based on the current day’s settlement price.Aproprietary trading seat needs to ensure its funds account and Bullion Accounts have sufficient capital and bullion before settlement.In the event of a delivery default, the Exchange pays compensation to the non-defaulting party and collects a default penalty from the defaulting party based on the penalty rate for the contract, and then terminates the delivery process.

5. Load-in Differential Weight: cash amount for Load-in Differential Weight for Performance-Guarantee Price Asking Transactions = Load-in differential weight × Settlement price of the Guarantee Price Asking contract

## VIII. Participation Method

To engage in performance-guarantee price asking trades, market participants should, based on their nature, choose either the performance-guarantee price asking floor trading software (SM encryption version) provided by the Exchange or the floor trading software provided by their International Members.

If a market participant connects through a Tier Two System, it should comply with the API rules for SGE Tier Two Systems.

## IX. Miscellaneous

The performance-guarantee price asking contracts listed on the Exchange are gold contracts and settled by physical delivery. Following trade settlement, VAT invoice should be issued in the same manner as for bilateral-credit price asking trades in gold contracts.