

## **Risk Management Rules of the Shanghai International Energy**

### **Exchange**

(Restated)

#### Table of Contents

Chapter 1 General Provisions

Chapter 2 Margin Requirement

Chapter 3 Price Limit

Chapter 4 Position Limit

Chapter 5 Large Trader Position Reporting

Chapter 6 Forced Position Liquidation

Chapter 7 Risk Warning

Chapter 8 Risk Control Parameters for Crude Oil Futures Contract

Chapter 9 Risk Control Parameters for TSR 20 Futures Contract

Chapter 10 Miscellaneous

Appendix: Methods and Procedures for the Fill of Unfilled Orders

## **Chapter 1 General Provisions**

**Article 1** These *Risk Management Rules of the Shanghai International Energy Exchange* (hereinafter referred to as the “Risk Management Rules”) are made, in accordance with the *General Exchange Rules of the Shanghai International Energy Exchange*, to strengthen the risk management on futures trading, safeguard the legitimate rights and interests of the futures market participants and guarantee the futures trading activities on or through the Shanghai International Energy Exchange (hereinafter referred to as “the Exchange”).

**Article 2** The Exchange applies margin requirements, price limit, position limit, large trader position reporting, forced position liquidation, forced position reduction and risk warning, etc..

**Article 3** These Risk Management Rules are binding on the Exchange, its Members, Overseas Special Participants (hereinafter referred to as the “OSPs”), Overseas Intermediaries, Clients, all other futures market participants, and their staff related to futures business.

## **Chapter 2 Margin Requirement**

**Article 4** The Exchange applies margin requirements. The Exchange applies different rates of trading margin for a futures contract based on

different periods of trading from its listing to its last trading day. The application of different rates of trading margin for each listed futures contract is provided in the risk control parameters section in these Risk Management Rules.

**Article 5** If the trading margin of a futures contract shall be adjusted, the Exchange shall, at the daily clearing on the trading day prior to the next trading day when the adjustment to the margin requirement is applied, settle all positions the futures contract based on the new trading margin rate. If the margin is insufficient at that time, the position holder must deposit funds to meet the new margin requirement, and the relevant Member shall ensure the new margin requirement is met before the opening of the next trading day.

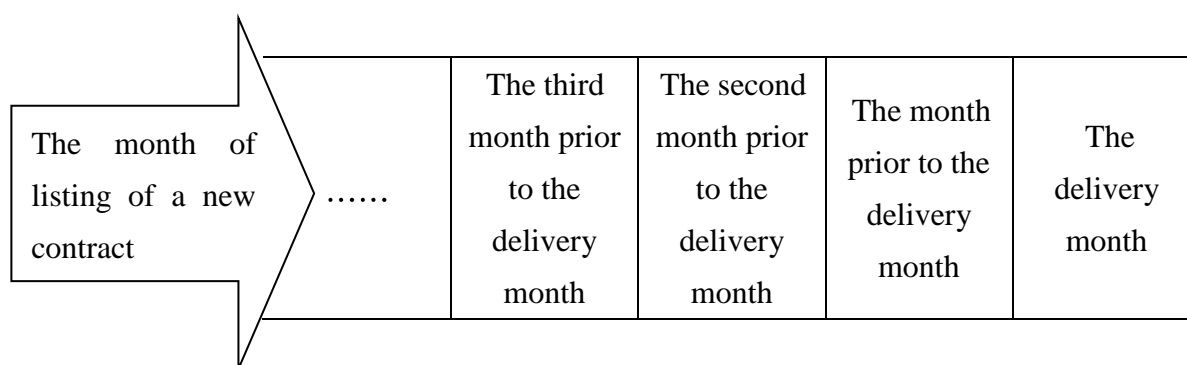
The holder of a short position may use standard warrants as the performance bond for the futures contracts with the same underlying and equivalent amount of positions he/she holds, in which case, the trading margin requirement for these positions shall be waived.

**Article 6** The following is an example of the period of trading of the August 2019 crude oil futures (SC1908) from its listing to its last trading day (period of trading from August 1, 2018 to July 31, 2019):

- the date of listing is August 1, 2018;
- the last trading day is July 31, 2019;
- the trading day prior to the last trading day is July 30, 2019;

- the second trading day prior to the last trading day July 29, 2019;
- the delivery month is August 2019;
- the month prior to the delivery month is July 2019;
- the second month prior to the delivery month is June 2019; and
- the third month prior to the delivery month is May 2019.

These attributes are illustrated in the Exhibit below:



The chronology provided in this Article 6 which exemplifies the period of trading of a futures contract will be used in these Risk Management Rules.

**Article 7** When the following circumstances occur during the trading of a futures contract, the Exchange may adjust the trading margin in response to market risk conditions in the form of a public announcement, and report to the China Securities Regulatory Commission (hereinafter referred to as “the CSRC”):

1. the open interests reach a certain level;
2. the delivery period of a contract is approaching;

3. the cumulative price variation of a contract amounts to a certain level after consecutive trading days;

4. a contract continuously reaches its price limit;

5. a long public holiday is approaching;

6. the Exchange, in its discretion, determines that the market risk is increasing; or

7. other events or conditions the Exchange deems necessary to adjust the trading margin of a futures contract.

**Article 8** In the event that trading in a futures contract reaches a limit price, where an adjustment to the trading margin rate is necessary, the margin requirements set forth in Chapter 3 of these Risk Management Rules shall apply.

**Article 9** For a futures contract:

1. when the price variation in aggregate (denoted as N) reaches twelve percent (12%) or more for three (3) consecutive trading days (denoted as D1-D3);

2. when the price variation in aggregate (denoted as N) reaches fourteen percent (14%) or more for four (4) consecutive trading days (denoted as D1-D4); or

3. when the price variation in aggregate (denoted as N) reaches sixteen percent (16%) or more for five (5) consecutive trading days (denoted as

D1-D5),

The Exchange may, in its sole discretion, exercise the following one or more measures and inform the CSRC prior to the implementation:

1. require additional trading margin from a part of or all of the Members and/or OSPs on either or both of the long or short position, at the same or different rates of trading margin;

2. limit the withdrawal of funds by a part of or all the Members;

3. suspend the opening of new positions for a part of or all of the Members and/or the OSPs;

4. adjust the price limit, but not to be over twenty percent (20%) up or down;

5. order the liquidation of positions by a prescribed deadline;

6. exercise forced position liquidation; and/or

7. other measures the Exchange deems necessary.

N is calculated using the following formula:

$$N = \frac{P_t - P_0}{P_0} \times 100\% \quad t = 3, 4, 5$$

$P_0$  is the settlement price of the trading day prior to  $D_1$

$P_t$  is the settlement price of the trading day  $t$ , and  $t = 3, 4, 5$

$P_3$  is the settlement price of  $D_3$

$P_4$  is the settlement price of  $D_4$

$P_5$  is the settlement price of  $D_5$

**Article 10** In the event that two or more trading margin rates prescribed in these Risk Management Rules are applicable to a futures contract, the higher or highest shall govern.

**Article 11** The management of the clearing deposit shall be applied according to the provisions of the *Clearing Rules of the Shanghai International Energy Exchange*.

### **Chapter 3 Price Limit**

**Article 12** The Exchange applies price limits. The price limit for each listed futures contract shall be prescribed by the Exchange.

**Article 13** When the following events or conditions occur in the process of trading a futures contract, the Exchange may, in its sole discretion, adjust the price limit for a futures contract in response to market risk conditions. The Exchange shall issue a public announcement of the adjustment, and report to the CSRC:

1. same-direction price limit occurs in a futures contract for consecutive trading days;
2. a long public holiday is approaching;
3. the Exchange, in its discretion, determines that the market risk is increasing; and/or

4. other circumstances the Exchange deems necessary to adjust the price limit in a market.

**Article 14** In the event that two or more price limits prescribed in these Risk Management Rules are applicable to a futures contract, the higher or highest shall be applied.

**Article 15** When a futures contract is traded at the limit price, trades shall be matched with priority given to the bids or the asks which facilitate the close-out of open interests, except for the new positions opened on the current trading day, and based on the “time priority” rule.

**Article 16** In the event that a Limit-locked market occurs to a futures contract on a trading day (denoted as D1, whereas D0 represents the previous trading day, and the following five (5) successive trading days are D2, D3, D4, D5 and D6), the price limit and the trading margin for the futures contract on D2 shall be adjusted as follows:

1. the same direction limit price for D2 shall be fixed at three percent (3%) greater than that for D1;

2. the trading margin on D2 shall be fixed at two percent (2%) greater than the percentage range or price limit for D2. If the adjusted trading margin is smaller than what is applied at the clearing of D0, the same trading margin applied on D0 shall be used as the trading margin for that contract.



If D1 is the first trading day for a newly listed futures contract, the contract's trading margin on that day shall be adopted as the trading margin at the daily clearing on D0.

**Article 17** The price limit and trading margin for the futures contract described in Article 16 of these Risk Management Rules on D3 shall be adjusted as follows:

1. If a same direction Limit-locked market does not occur on D2, the price limit and trading margin for D3 shall return to the normal level;

2. If a reverse direction Limit-locked market occurs on D2, a new round of a Limit-locked market is deemed to be triggered, i.e. 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 16 of these Risk Management Rules; or

3. If the same direction Limit-locked market exists on D2, the price limit for D3 shall be fixed at 5 percent (%) above the price limit on D1, and the trading margin shall be fixed at 2 percent (%) above the regular price limit for D3. If the adjusted trading margin is smaller than what was applied at the clearing of D0, the trading margin on D0 will be applied to meet the margin requirements for that contract.

**Article 18** In the event that a successive same direction Limit-locked market of the futures contract as described in Article 16 of these Risk

Management Rules does not occur on D3, the price limit and trading margin for D4 shall return to the normal level.

The occurrence of a reverse direction Limit-locked market on D3 shall trigger a new round of a Limit-locked market, i.e. D3 shall become D1 for the new round of a Limit-locked market, and the trading margin rate and the price limit for the following trading day shall be set pursuant to Article 16 of these Risk Management Rules; or

If the same direction Limit-locked market continues to exist on D3, which means for three (3) consecutive trading days, the market has been lock at limit price, the Exchange may, at the daily clearing of D3, suspend withdrawal of funds by a part of or all of its Members and take corresponding measures on D4 as follows:

1. if D3 is the last trading day of the futures contract, the contract shall move into its settlement and delivery phase on the next trading day;

2. if D4 is the last trading day, the futures contract shall continue to trade on D4, the price limit and the trading margin for D3 shall be extended to D4, and the contract shall move into its settlement and delivery phase on the next trading day; or

3. if neither D3 nor D4 is the last trading day, the Exchange may, after the market close on D3, execute either of the two measures prescribed in

Article 19 or 20 of these Risk Management Rules subject to market conditions.

**Article 19** Given the circumstances prescribed in item three of the third paragraph under Article 18 of these Risk Management Rules, the Exchange may, in its sole discretion, following the market close on D3, announce that the futures contract prescribed in Article 16 will continue to trade on D4, and take one or more of the following measures:

1. adjusting the price limit, but not to be over twenty percent (20%) up or down;
2. requiring additional trading margins from a part of or all of the Members and/or OSPs on either or both of the long or short position at the same or different rates of trading margin;
3. suspending the opening of new positions by a part of or all of the Members and/or OSPs;
4. limiting the withdrawal of funds;
5. requiring the liquidation of positions by a prescribed deadline;
6. exercising forced position liquidation; and/or
7. other measures the Exchange deems necessary.

If the Exchange implements the measures in preceding paragraph, the trading of the contract described in Article 16 on D5 shall be conducted as follows:

1. if a same direction Limit-locked market does not occur on D4, the price limit and trading margin for D5 shall return to the normal level;

2. if a reverse direction Limit-locked market occurs on D4, a new round of a Limit-locked market is deemed to be triggered, i.e. D4 shall become D1 for the new round of a Limit-locked market, and the trading margin and the price limit for the following trading day shall be set pursuant to Article 16 of these Risk Management Rules; or

3. if the same direction Limit-locked market continues to exist on D4, which means for four (4) consecutive trading days, market has been locked at limit price, the Exchange may announce that an abnormal circumstance occurs, and take risk control measures as provided in the applicable rules of the Exchange.

**Article 20** Given the circumstances prescribed in item three of the third paragraph under Article 18 of these Risk Management Rules, the Exchange may, in its sole discretion, after the market close on D3, announce its decision to suspend the futures contract described in Article 16 from trading on D4, and announce on D4 its decision to take either of the measures stipulated in Article 21 or 22 of these Risk Management Rules

**Article 21** Given the circumstances prescribed in Article 20 of these Risk Management Rules, the Exchange may, in its sole discretion, announce that the trading of the contract described in Article 16 of these Risk

Management Rules will be extended to D5, and take one or more of the following measures:

1. adjusting the price limit, but not to be over twenty percent (20%) up or down;
2. requiring additional trading margins from a part of or all of the Members and/or OSPs on either or both of the long or short position at the same or different rates of trading margin;
3. suspending the opening of new positions by a part of or all of the Members and/or OSPs;
4. limiting the withdrawal of funds;
5. requiring the liquidation of positions by a prescribed deadline;
6. exercising forced position liquidation; and/or
7. other measures the Exchange deems necessary.

If the Exchange implements the measures in preceding paragraph, the trading of the contract described in Article 16 on D6 shall be conducted as follows:

1. If a same direction Limit-locked market does not occur on D5, the price limit and trading margin for D6 shall return to the normal level;
2. If a reverse direction Limit-locked market occurs on D5, a new round of a Limit-locked market is deemed to be triggered, i.e. D5 shall become D1 for the new round of a Limit-locked market, and the trading margin and the

price limit for the following trading day shall be set pursuant to Article 16 of these Risk Management Rules; or

3. If the same direction Limit-locked market continues to exist on D5, which means for five (5) consecutive trading days, market has been locked at limit price, the Exchange may announce that an abnormal circumstance occurs and take risk control measures as provided in the applicable rules of the Exchange.

**Article 22** If the Exchange announces that an abnormal circumstance occurs and exercises forced position reduction, it shall specify the Forced Position Reduction Base Date and relevant contracts. Forced Position Reduction Base Date is the most recent trading day that a Limit-locked market occurs and forced position reduction is exercised.

When The Exchange exercises the forced position reduction, the Exchange shall automatically match all existing unfilled orders that are placed at the limit price by the close of Forced Position Reduction Base Date with the open interests held by each trader (trader here refers to a Client, a Non-Futures Firm Member (the “Non-FF Member”), or an Overseas Special Non-Brokerage Participant (the “OSNBP”)), who incurs gains on his/her net positions, on a pro rata basis in proportion to the positions of the contract and at the limit price of Forced Position Reduction Base Date . If that trader holds both long and short positions, these positions shall be matched and

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settled before being matched with the remaining orders in the above ways.

The procedure is as follows:

1. Determination of the “amount of the orders to be filled”:

The term “amount of orders to be filled” means the total amount of all the existing unfilled orders placed at the limit price into the central order book before the market close of Forced Position Reduction Base Date by each trader, who has incurred average losses on net positions in the futures contract of no less than eight percent (8%) of the daily settlement price on Forced Position Reduction Base Date. Traders unwilling to be subjected to this method may cancel the orders before the close of the market to avoid having the orders filled; cancelled orders will no longer be regarded as the orders to be filled.

2. Calculation of each trader’s average gains or losses on net positions:

$$\text{trader's average net gains or losses on the contract} = \frac{\text{sum of trader's net gains and losses on the contract (in RMB)}}{\text{trader's net positions on the contract (units of measurement)}}$$

A trader’s net position gains or losses on the affected futures contract shall equal the sum of the differences between the daily settlement price on D3, and a series of historical transaction prices found by tracing backward in the system, where the cumulative amount of the historical transaction positions matches the amount of net positions held by the trader at the market close of D3. Meanwhile, the unit of measurement for each futures contract is specified in the contract.

3. The positions eligible to fill the orders:

The positions eligible to fill the orders include the trader's general positions and arbitrage positions with average gains on net position based on the formula in the Article 22-2, and the trader's hedging positions with average gains on net positions of no less than eight percent (8%) of the settlement price of Forced Position Reduction Base Date.

4. Principles for the orders to be filled:

Subject to Article 22-3, the unfilled orders shall be filled in the following orders based on the amount of gains and whether such positions are general, arbitrage, or hedging:

Firstly, unfilled orders shall be filled with the general and arbitrage positions eligible to fill the unfilled orders of any trader with average gains on net positions of no less than eight percent (8%) of the settlement price on Forced Position Reduction Base Date for the contract.

Secondly, remaining unfilled orders after the first round of filling described in the above paragraph shall be filled with the general positions and arbitrage positions eligible to fill the unfilled orders of any trader with average gains on net positions of no less than four percent (4%) but no more than eight percent (8%) of the settlement price on Forced Position Reduction Base Date for the contract.



Thirdly, remaining unfilled orders after the previous two rounds of fillings shall be filled with the general and arbitrage positions eligible to fill the unfilled orders of any trader with average gains on net positions of no more than four percent (4%) of the settlement price on Forced Position Reduction Base Date for the contract.

At last, remaining unfilled orders after the previous three rounds of fillings shall be filled with the hedging position eligible to fill the unfilled orders of any trader with gains over eight percent (8%) of the settlement price on Forced Position Reduction Base Date for the contract.

In each layer, the order fill shall be made pro rata to the amount of position available to fill the unfilled orders, compared to the amount of the unfilled orders, or the remaining unfilled orders.

5. Methods and procedures for the pro rata order fill of unfilled orders (please see Appendix for illustration):

If the amount of the general and arbitrage positions with net position gains of over eight percent (8%) is greater than or equal to that of the unfilled orders, the unfilled orders shall be filled in proportion to the amount of the general and arbitrage positions of net position gains of over eight percent (8%).

If the amount of the general and arbitrage positions with net position gains of over eight percent (8%) is smaller than that of the unfilled orders,

the general and arbitrage positions with net position gains of over eight percent (8%) shall be filled in proportion to the amount of the unfilled orders. The remaining unfilled orders, if any, shall be filled with the general and arbitrage positions with net position gains of over four percent (4%) in the same method as the foregoing, and if there are still unfilled orders remaining, the outstanding unfilled orders shall be filled to the general and arbitrage positions with net position gains of less than four percent (4%), and to the hedging positions with net position gains of over eight percent (8%). Unfilled orders that eventually remain after all the order fills described above, if any, shall not be filled.

6. Decimals of the unfilled orders:

Positions are filled to the unfilled orders posted to the central order book under each trading code. In the first step, the integral portion of the total size of unfilled orders posted under each trading code shall be filled. In the second step, the remaining unfilled portion, i.e. the portion in decimal number posted under each trading code, shall be filled according to the ranking of the decimals from the highest to the lowest with each trading code being filled with one (1) lot, except that if there are two or more traders with equal decimals that could be included in the fill, such fill shall be done on a random basis if there are no enough positions to fill the orders.

If market risk is mitigated after forced position reduction is implemented, the price limit and the margin rate shall return to their regular levels on the next Trading Day; otherwise, the Exchange shall resort to further risk management measures.

Financial losses incurred as a result of the implementation of forced position reduction shall be borne by the Members, OSPs, Overseas Intermediaries and Clients.

**Article 23** If the Exchange announces that an abnormal circumstance occurs, the Exchange may adjust the time for market opening and closing, temporarily suspend trading, adjust price limit, raise level of margin, require position liquidation within a prescribed time period, conduct forced position liquidation, suspend withdrawal of funds, conduct forced position reduction, restrict trading or take any other emergency actions.

#### **Chapter 4 Position Limit**

**Article 24** The Exchange applies the position limits.

Positions held by Clients, Non-FF Members, or OSNBPs that have actual control relationship with each other shall be calculated in aggregation as prescribed in these Risk Management Rules.

Standards and procedures to identify the actual control relationship among different accounts shall be implemented as prescribed by the Exchange separately.

**Article 25** The following rules shall govern the position limit:

1. a specific position limit is set for each product and its futures contract, based on its particular conditions;

2. different position limit levels are applicable to different trading periods of a contract. The Exchange shall exercise stringent control over position limits during the delivery month of the contract;

3. a percentage-based position limit shall be imposed on Futures Firm Members (the “FF Members”), Overseas Special Brokerage Participants (the “OSBPs”) and Overseas Intermediaries, and a fixed-amount position limit shall be imposed on Non-FF Members, OSNBPs and Clients;

4. the position limits applying to hedging positions and arbitrage positions shall be subject to the Exchange’s approval; and

5. the Exchange may, based on specific market conditions, set intra-day open position volumes for different listed products and contracts, and for specific Clients, and a part of or all of Members and OSPs. The detailed standards will be stipulated by the Exchange separately.

**Article 26** The general position limit for each futures contract is provided in the risk control parameter section of these Risk Management

Rules. The Exchange may adjust the general position limits based on market conditions. And such adjustment shall be approved by the Board of the Directors of the Exchange, and be reported to the CSRC prior to its implementation.

When the minimum delivery size of a contract and its trading unit do not match, the rounding of the size of position held in the contract to multiples of a certain number of lots are provided in the risk control parameter section of these Risk Management Rules.

**Article 27** The sum of general positions and arbitrage positions of a futures contract during a certain period of a Non-FF Member, an OSNBP or a Client shall not exceed the sum of general position limit of the futures contract during different trading periods and the arbitrage quota approved by the Exchange during this period

**Article 28** The open positions held in aggregate by a Client through multiple trading codes with different Futures Firm Members (hereinafter referred to as the “FF Members”), Overseas Special Brokerage Participants (hereinafter referred to as the “OSBPs”), or Overseas Intermediaries shall not exceed the position limit set by the Exchange; otherwise, the Exchange shall exercise forced position liquidation as prescribed by Article 40 in these Risk Management Rules.

The positions held by a FF Member or an OSBP shall not exceed the

position limits provided by the Exchange. Once such position limits are reached or exceeded, opening new position in the same direction shall not be allowed. When the aggregated open positions held by an Overseas Intermediary at one or more FF Members or OSBPs reach or exceed the position limits provided by the Exchange, opening new position on the next trading day shall not be allowed.

The positions held by a Non-FF Member or an OSNBP shall not exceed the position limits provided by the Exchange; otherwise, the Exchange shall exercise forced position liquidation as prescribed by Article 40 in these Risk Management Rules.

## **Chapter 5 Large Trader Position Reporting**

**Article 29** The Exchange applies large trader position reporting. A large trader position report shall include information such as funds, open interests, delivery intention, and other information as prescribed by the Exchange.

The Exchange may, in its sole discretion, set and adjust the requirements for large trader position reporting, content of the report, and methods of reporting according to market risk conditions.

Members, OSPs, Overseas Intermediaries and Clients shall be

responsible for the accuracy and integrity of information in the large trader position reports and other related documents submitted.

**Article 30** A Member, an OSP or a Client whose general position in a futures contract reaches the general position limit set by the Exchange, or an Overseas Intermediary whose general position in a futures contract reaches or exceeds sixty percent (60%) of its general position limit, shall take the initiative to report to the Exchange by 15:00 of the following trading day.

**Article 31** The Exchange, in its sole discretion, may appoint specific Members, OSPs, Overseas Intermediaries or Clients to submit large trader position reports or other supporting materials, and may examine the above-mentioned documents submitted from time to time.

**Article 32** A Member or an OSP shall submit its large trader position report to the Exchange directly. An Overseas Intermediary shall submit such reports through the FF Members or OSBPs authorized to conduct trading and clearing on behalf of the Overseas Intermediary.

**Article 33** A Client shall submit his/her large trader position report through the FF Member or the OSBP. A Client conducting futures trading through an Overseas Intermediary shall authorize the Overseas Intermediary to submit such reports through related FF Members or OSBPs. If the aggregate amount of open positions held by a Client with multiple trading codes opened with different FF Members, OSBPs and Overseas

Intermediaries meets the position threshold for reporting, the Client shall proactively submit a large trader position report through related FF Members, OSBPs or Overseas Intermediaries. If such Client fails to report, the FF Members, OSBPs or Overseas Intermediaries authorized by this Client shall file such report to the Exchange, or the Exchange may designate and notify the Client's FF Members, OSBPs or Overseas Intermediaries to submit the report.

**Article 34** FF Members, OSBPs and Overseas Intermediaries who meets the position threshold for reporting shall provide to the Exchange the following documents:

1. a complete large trader position report;
2. a description of the source of funds;
3. names, trading codes, respective open interests, account opening documents and daily settlement statements of its top five (5) Clients ranking in terms of open interest; and
4. any other documents required by the Exchange.

**Article 35** A Client who meets the position thresholds for reporting shall provide to the Exchange the following documents:

1. a complete large trader report;
2. a description of the source of funds;



3. account-opening documents and the settlement statement of the current day; and

4. any other documents required by the Exchange.

**Article 36** Each FF Member, OSBP or Overseas Intermediary shall review the documents submitted by its Client who meets the position threshold for reporting, and shall be responsible for the accuracy of the Client's documents submitted.

**Article 37** The Non-FF Member or the OSNBP, who meets the position threshold for reporting, shall provide to the Exchange the following documents:

1. a complete large trader report;
2. a description of the source of funds; and
3. any other documents required by the Exchange.

## **Chapter 6 Forced Position Liquidation**

**Article 38** The Exchange applies forced position liquidation to manage market risks.

**Article 39** The Exchange shall impose forced position liquidation, if:

1.the clearing deposit balance of a Member recorded on any of the internal ledgers at the Exchange, which are whether to serve its own Clients or its authorized clearing entities, falls below zero (0), and the Member fails to meet the margin requirement within the specified time limit;

2.the open interest of a Non-FF Member, an OSNBP or a Client exceeds the applicable position limit;

3.a Non-FF Member, an OSNBP or a Client fails to round the positions held in a futures contract to multiples as required within the specified time limit, or is not qualified to conduct delivery for matured contracts in its possession;

4.a violation of the Exchange's rules occurs that warrants a forced position liquidation;

5.any emergency happens that warrants a forced position liquidation;  
or

6.any other conditions exist that makes the forced position liquidation necessary.

**Article 40** Members and OSPs shall, in the first place, exercise forced position liquidation as required by the Exchange by the end of the first trading session on each trading day or within the time limit prescribed by the Exchange. If a Member or an OSP fails to complete the execution within the prescribed time limit, the Exchange shall enforce the forced position

liquidation. If a Member is required to exercise forced position liquidation because its clearing deposit balance recorded on any of its internal ledgers at the Exchange falls below zero (0), opening new position by such Member, related Overseas Intermediaries, OSPs or Clients that are associated with the corresponding internal ledgers, which are whether to serve the Member's own Clients or its authorized clearing entities, shall be prohibited before the margin requirements are met.

**Article 41** If the forced position liquidation is taken by a Member or an OSP under the conditions provided in the Article 39-1 and 39-2, the Member or the OSP shall determine the portion of positions for forced position liquidation at its discretion. If the action is taken under the conditions provided in the Article 39-3 to 39-6, the Exchange shall determine the portion of positions for forced position liquidation.

**Article 42** For forced position liquidations under conditions described in Article 39-1, the Exchange shall liquidate the positions subject to the priority of general positions and arbitrage positions over hedging positions; and in a descending sequence by the size of the open interest for each contract at the close of the previous trading day, i.e. the general and arbitrage positions in a futures contract with the largest open interest shall be liquidated first; and then proceed to the liquidation on such Member's positions in a descending sequence, based on the losses on net positions in

such contract by all the Clients and OSNBPs associated with the Member's own internal ledger or ledgers for the Member's authorized clearing entities.

If the balance of clearing deposit in such ledgers still falls below zero (0) after the aforementioned forced position liquidation is completed, the Exchange shall forcibly close the Member's remaining positions recorded on the Member's own internal ledgers or ledgers for the Member's authorized clearing entities based on the above mentioned principle of this Article.

Where more than one Member are subject to have its open interest liquidated, the priority shall be given to the Member with the greatest margin call according to the ranking of the Exchange's margin calls in a descending sequence.

**Article 43** For forced position liquidations under conditions described in Article 39-2, the Exchange shall liquidate the positions in accordance with the following methods:

1. In the event that the position held by a Non-FF Member, an OSNBP or a Client exceeds the size of the applicable position limit, the Exchange shall forcibly liquidate the excess positions of such Non-FF Member, OSNBP or Client; or

2. In the event that the position held by an FF Member, an OSBP, an Overseas Intermediary and a Client exceed the size of the applicable position limits simultaneously, the excess positions of the Client shall be liquidated

first. And the remaining excess positions shall be subject to provisions governing exceeding positions limits of FF Members, OSBPs and Overseas Intermediaries.

**Article 44** Under the conditions provided in the Article 39-3 to Article 39-6, the Exchange shall, in its sole discretion, determine the portion of open interest of each involving Member, OSP, Overseas Intermediary and Client for forced position liquidation.

**Article 45** In the event that both conditions described in Article 39-1 and Article 39-2 occur simultaneously, the Exchange shall first determine the positions for forced position liquidation pursuant to the Article 39-2, and then pursuant to the Article 39-1.

**Article 46** The Exchange shall issue a notice of forced position liquidation to the Member who is subject to the forced position liquidation. Unless otherwise delivered by the Exchange, the notice shall be transmitted through the member service system along with the daily settlement data to the Member. For OSPs, the notice of forced position liquidation is transmitted to the Members who are authorized to perform clearing and settlement services on their behalf. And the Members must promptly notify the OSPs of the notice sent by the Exchange.

**Article 47** If a Member is notified by the Exchange of forced position liquidation, the Member or the OSP covered by the notice shall enforce

liquidation of its positions until the size of the positions reduces to the prescribed level by the end of the first trading session of the current trading day. The result of liquidation shall be subject to the Exchange's verification. If the member fails to complete the forced position liquidation within the specified time limit, the Exchange will directly enforce liquidation of the remaining open interest as required.

If the Member or the OSP is subject to the situation provided in the Article 39-3, the Exchange may directly enforce liquidation in respect of the open interest held by such Member.

Upon the conclusion of the forced position liquidation, the Exchange shall record the enforcement results for filing purpose, and deliver the enforcement results of the forced position liquidation to the Member or the OSP along with the daily trade record.

**Article 48** Liquidation shall be enforced at a price formed through trades executed on the market.

**Article 49** If the forced position liquidation fails to be completed within the specified time due to the limit price or other market conditions, the remaining positions subject to the forced position liquidation may and will be closed out on the next trading day pursuant to the principles described in Article 40. If the forced position liquidation fails to be completed by the end

of the last trading day, the remaining positions subject to the forced position liquidation will be forced into delivery directly.

**Article 50** In the event that the forced position liquidation fails to be completed for the current trading day due to the limit price or other market conditions, the Exchange shall take appropriate measures against the Member or the OSP based on the daily clearing and settlement result.

**Article 51** If the enforcement of the forced position liquidation on the specific positions has to be prolonged due to the limit price or other market conditions, any losses thus incurred shall be borne by the person directly accountable for the enforcement of liquidation. In the event of failure to complete the enforcement of liquidation, the holder of the open interest subject to the forced position liquidation shall assume all the responsibilities arising from his/her ownership and bears all the obligations of delivery on the covered contracts

**Article 52** Gains, if any, arising from a forced position liquidation executed by a Member or an OSP, shall be credited to the person directly accountable for the enforcement of liquidation. Gains arising from the Exchange's enforcement of liquidation shall be disposed of in compliance with relevant State regulations. Losses arising from a forced position liquidation shall be borne by the person directly accountable for the enforcement of liquidation.

If the person directly accountable for the enforcement of liquidation is a Client, any losses arising from such forced position liquidation shall first be borne by the Member carrying that Client, and then the Member may exercise its right of recourse against the OSBP or Overseas Intermediary carrying the Client, or that Client for reimbursement. If the person directly accountable for the enforcement of liquidation is an OSBP or an Overseas Intermediary, any losses arising from the forced position liquidation shall first be borne by the Member carrying that OSBP or Overseas Intermediary, and then the Member may exercise his/her right of recourse against that OSBP or Overseas Intermediary for reimbursement.

## **Chapter 7 Risk Warning**

**Article 53** The Exchange applies risk warning. The Exchange may, as it deems necessary, resort to the following measures, alone or in combination, to warn against and resolve risks:

1. requesting an explanation from market participants with respect to a specific situation;
2. conducting an interview to give a verbal alert;
3. issuing a risk warning letter;
4. giving a reprimand;



5. issuing a risk warning notice to the public; and/or
6. other measures deemed necessary by the Exchange.

**Article 54** The Exchange may request an explanation from relevant Member, OSP, Overseas Intermediary or Client with respect to the situation, or have an interview with the Client or the designated senior executive of a Member, OSP or Overseas Intermediary, when any of the following conditions exists:

1. unusual price movements;
2. unusual trading activities by such Member, OSP, Overseas Intermediary, or Client;
3. any irregularity in the open interest of such Member, OSP, Overseas Intermediary, or Client;
4. any irregularity in such Member's funds on deposit;
5. any suspected violation or default by such Member, OSP, Overseas Intermediary, or Client;
6. any allegation, accusation or complaint against such Member, OSP, Overseas Intermediary, or Client received by the Exchange;
7. any judicial investigation against such Member, OSP, Overseas Intermediary, or Client; or
8. other conditions as the Exchange deems necessary.

**Article 55** The Member, OSP, Overseas Intermediary, or Client may refer to the regime of the large position reporting for ways of reporting and contents of the report, which is set forth in Chapter 5 of these Risk Management Rules, if it is ordered by the Exchange to provide an explanation with respect to a specific situation.

**Article 56** The Exchange shall comply with the following requirements in conducting an interview:

1. Forms of an interview with highlights on related risks conducted by the Exchange shall include on-site conversation, video or audio conference, etc.;

2. The Exchange shall notify the Member, OSP, Overseas Intermediary, or Client in writing in advance of the time, location and requirements of the interview;

3. The Member, OSP, or Overseas Intermediary shall have its designated executive attend the interview as required in the written notice of the Exchange. The Client required to be interviewed in the written notice of the Exchange shall be accompanied by a person designated by his/her account opening institution for the interview;

4. any interviewee who is unable to attend the interview due to any particular reason shall notify the Exchange in advance. Upon the Exchange's

approval, the party may designate a proxy in writing to attend and act on its behalf;

5. an interviewee shall make true representations and refrain from concealing any fact; and

6. the Exchange's employees shall maintain the confidentiality of any information related to the interview at all times, except when the disclosure of such information is required by applicable laws and regulations, judicial authorities or any competent administrative authorities.

**Article 57** The Exchange may issue a risk warning letter to the Member, OSP, Overseas Intermediary, or Client, if it finds that such Member, OSP, Overseas Intermediary, or Client commits any suspected violation of the Exchange's rules or holds position that is exposed to substantial potential risks.

**Article 58** The Exchange will make a reprimand against the Member, OSP, Overseas Intermediary, or Client through the designated media, if the Member, OSP, Overseas Intermediary, or Client conducts any of the following activities:

1. failing to provide an explanation for a specific situation or attend the interview as required by the Exchange;

2. concealing facts, or hiding, falsifying, or omitting important information when explaining a specific situation or answering questions;

3. destroying or eliminating evidence of rule violations, or failing to cooperate with the CSRC or the Exchange in any investigation;
4. being found to have engaged in fraudulent actions towards Clients;
5. being proved, upon investigation, to trade secretly through multiple accounts or manipulate the market; or
6. committing any other violation of the Exchange's rules as determined by the Exchange.

Apart from making reprimand against the Member, OSP, Overseas Intermediary, or Client, the Exchange shall bring such party that violates the rules of the Exchange subject to the sanctions as provided in the *Enforcement Rules of the Shanghai International Energy Exchange*.

**Article 59** The Exchange shall issue a risk warning notice to the public, if any of the following conditions exists:

1. unusual price movements;
- 2.a considerable discrepancy between the prices of the futures and the physicals;
- 3.a considerable discrepancy between prices of domestic and international futures markets; and/or
- 4.any other condition under which the Exchange deems necessary to issue a risk warning notice.

## Chapter 8 Risk Control Parameters for Crude Oil Futures Contract

**Article 60** The minimum trading margin for the crude oil futures contract is 5% of the notional contract value.

**Article 61** Trading margins for a crude oil futures contract at different periods of trading from its listing to its last trading day are as follows:

Period of Trading	Trading margin based on the notional value of the contract as of that date
As of listing	5%
As of the first trading day of the first month prior to the delivery month	10%
As of the second trading day prior to the last trading day	20%

**Article 62** Proportions and sizes of position limit for a crude oil futures contract at different periods of trading are as follows:

From the Day of Listing to the First Trading Day of the Month Prior to the Delivery Month		From the Day of Listing to the Last Trading Day of the Third Month Prior to the Delivery Month		From the First to the Last Trading Day of the Second Month Prior to the Delivery Month		From the First to the Last Trading Day of the Month Prior to the Delivery Month	
Total Open Interests (lots)	Position limit Proportion (%)	Position limit (lots)		Position limit (lots)		Position limit (lots)	
	FF Member, OSBP, Overseas	Non-FF Member, OSNBP	Client	Non-FF Member, OSNBP	Client	Non-FF Member, OSNBP	Client

		Intermediary						
Crude Oil Futures	$\geq 75,000$	25	3,000	3,000	1,500	1,500	500	500

Note: The open interest and the position limits in the table is either long or short positions.

**Article 63** After the market closes on the eighth trading day prior to the last trading day of a crude oil futures contract, positions held by individual Clients who are not capable of issuing or accepting invoices during delivery shall be closed out completely. From the seventh trading day prior to the last trading day on, the positions held by such Clients will be subject to forced position liquidation by the Exchange.

After the market closes on the third trading day prior to the last trading day of a crude oil futures contract, the number of selling positions held by Clients, Non-FF Members, or OSNBPs shall not exceed that of the standard warrants they held. From the second trading day prior to the last trading day on, the exceeding positions held by such Clients, Non-FF Members, or OSNBPs will be subject to forced position liquidation by the Exchange.

## Chapter 9 Risk Control Parameters for TSR 20 Futures Contract

**Article 64** The minimum trading margin for a TSR 20 futures

contract is seven percent (7%) of the contract value.

**Article 65** Trading margins for a TSR 20 futures contract at different periods of trading from its listing to its last trading day are as follows:

Period of Trading	Minimum Trading Margin as Percentage of Contract Value
As of listing	7%
As of the first trading day of the month prior to the delivery month	10%
As of the first trading day of the delivery month	15%
As of the second trading day prior to the last trading day	20%

**Article 66** Proportions and sizes of position limit for a TSR 20 futures contract at different periods of trading are as follows:

	From the Day of Listing to the First Day of the Delivery Month		From the Day of Listing to the Last Trading Day of the Second Month Prior to the Delivery Month		From the First to Last Trading Day of the Month Prior to the Delivery Month		From the First to Last Trading Day of the Delivery Month	
	Gross Open Interest (lot)	Relative Limit (%)	Absolute Limit (lots)		Absolute Limit (lots)		Absolute Limit (lots)	
		FF Member, OSBP, Overseas, Intermediary	Non-FF Member, OSNBP	Client	Non-FF Member, OSNBP	Client	Non-FF Member, OSNBP	Client

TSR 20 Futures	$\geq 50,000$	25	2,000	2,000	600	600	200	200
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Note: The open interest and the position limits in the table are either long or short positions.

**Article 67** If the cumulative price change (denoted as N) in a TSR 20 futures contract reaches nine percent (9%) in three (3) consecutive trading days (denoted as D1-D3), or twelve percent (12%) in four (4) consecutive trading days (denoted as D1-D4), or thirteen point five percent (13.5%) in five consecutive trading days (denoted as D1-D5), the Exchange may, in view of market conditions, take one or a combination of the measures stated in Article 9 of these Risk Management Rules, and report to the CSRC in advance.

**Article 68** After the market closes on the eighth trading day prior to the last trading day of TSR 20 futures contract, positions held by individual Clients who are not capable of issuing or accepting invoices during delivery shall be closed out completely. From the seventh trading day prior to the last trading day on, the positions held by such Clients will be subject to forced position liquidation by the Exchange.

After the market closes on the third trading day prior to the last trading day of TSR 20 futures contract, the number of selling positions held by Clients, Non-FF Members, or OSNBPs shall not exceed that of the standard warrants they held. From the second trading day prior to the last trading day



on, the exceeding positions held by such Clients, Non-FF Members, or OSNBPs will be subject to forced position liquidation by the Exchange.

## **Chapter 10    Miscellaneous**

**Article 69** Terminology prescribed in these Risk Management Rules and other business rules of the Exchange:

1. “Same direction Limit-locked market” means that a Limit-locked market occurs in the same direction for at least two consecutive trading days.

2. “Reverse direction Limit-locked market” means that a Limit-locked market occurs in the reverse direction on the next trading day after the occurrence of a Limit-locked market.

3. “Position limit” means the maximum size of position of one contract that can be held by a Member, an OSP, an Overseas Intermediary or a Client as prescribed by the Exchange.

4. “Forced position liquidation” means a mandatory measure taken by the Exchange to close out open positions held by Members, OSPs, Overseas Intermediaries or Clients under specified conditions prescribed by the Exchange.

5. “Forced position reduction” means that when the same direction Limit-locked market occurs and causes a significant market risk increase, the

Exchange has the right to automatically match all existing unfilled orders that are placed at the limit price with the open positions held by traders who incur gains on their net positions, in proportion to the open interest of the contract and at the limit price.

**Article 70** Any behavior or conduct in breach of these Risk Management Rules will be brought by the Exchange under the sanctions as provided in the *Enforcement Rules of the Shanghai International Energy Exchange* and these Risk Management Rules.

**Article 71** The Exchange reserves the right to interpret these Risk Management Rules.

**Article 72** These Risk Management Rules are effective as of 20<sup>th</sup> April, 2020.

Appendix: Methods and Procedures for the Fill of Unfilled Orders

## Appendix: Methods and Procedures for the Fill of Unfilled Orders

Steps	Allocation Conditions	Allocation Amount	Allocation Proportion	Allocation To	Results
1	Amount of general position and arbitrage position with over 8% profit $\geq$ Applied Position Closing Amount	Applied Position Closing Amount	$\frac{\text{Applied Position Closing Amount}}{\text{Amount of General Positions and arbitrage trading positions with over 8\% profit}}$	Traders of the general position and arbitrage position with over 8% profit	Allocation completed
2	Amount of general position and arbitrage position with over 8% profit < Applied Position Closing Amount	Amount of general position and arbitrage position with over 8% profit	$\frac{\text{Amount of General Positions and arbitrage trading positions with over 8\% profit}}{\text{Applied Position Closing Amount}}$	Traders applying for position closing	Any remaining be allocated as per Steps 3, 4
3	Amount of general position and arbitrage position with over 4% profit $\geq$ Remaining Applied Position Closing Amount <sup>1</sup>	Remaining Applied Position Closing Amount <sup>1</sup>	$\frac{\text{Remaining Applied Position Closing Amount 1}}{\text{Amount of General Position and arbitrage trading position with over 4\% profit}}$	Traders of the general position and arbitrage position with over 4% profit	Allocation completed
4	Amount of general position and arbitrage position with over 4% profit < Remaining Applied Position Closing Amount <sup>1</sup>	Amount of general position and arbitrage position with over 4% profit	$\frac{\text{Amount of General Position and arbitrage trading position with over 4\% profit}}{\text{Remaining Applied Position Closing amount 1}}$	Remaining Traders applying for position closing	Any remaining be allocated as per Steps 5, 6
5	Amount of general position and arbitrage position with less than 4% profit $\geq$ Remaining Applied Position Closing Amount <sup>2</sup>	Remaining Applied Position Closing Amount <sup>2</sup>	$\frac{\text{Remaining Applied Position Closing Amount 2}}{\text{Amount of General Position and arbitrage trading position with less than 4\% profit}}$	Traders of the general position and arbitrage position with less than 4% profit	Allocation completed
6	Amount of general position and arbitrage position with less than 4% profit < Remaining Applied Position Closing Amount <sup>2</sup>	Amount of general position and arbitrage position with less than 4% profit	$\frac{\text{Amount of General Positions and arbitrage trading positions with less than 4\% profit}}{\text{Remaining Applied Position Closing Amount 2}}$	Remaining Traders applying for position closing	Any remaining be allocated as per Steps 7, 8
7	Amount of hedging position with over 8% profit $\geq$ Remaining Applied Position Closing Amount <sup>3</sup>	Remaining Applied Position Closing Amount <sup>3</sup>	$\frac{\text{Remaining Applied Position Closing Amount 3}}{\text{Amount of hedging positions with over 8\% profit}}$	Hedging Traders with over 8% profit	Allocation completed

8	Amount of hedging position with over 8% profit < Remaining Applied Position Closing Amount <sup>3</sup>	Amount of hedging position with over 8% profit	$\frac{\text{Amount of hedging positions with over 8\% profit}}{\text{Remaining Applied Position Closing Amount } 3}$	Remaining Traders applying for position closing	In case of remaining, no more allocation
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## Notes:

1. Remaining Applied Position Closing Amount<sup>1</sup>=Applied Position Closing Amount-Amount of general position and arbitrage position with over 8% profit
2. Remaining Applied Position Closing Amount<sup>2</sup>= Remaining Applied Position Closing Amount<sup>1</sup>- Amount of general position and arbitrage position with over 4% profit
3. Remaining Applied Position Closing Amount<sup>3</sup>= Remaining Applied Position Closing Amount<sup>2</sup>- Amount of general position or arbitrage position with less than 4% profit
4. Amount of general position, arbitrage position and hedging position means the amount of positions held by traders who profit within the scope of position closing