

# Guideline for the Settlement and Purchase of Foreign Exchange for Members

(December 2020)

This Guideline is prepared in accordance with the rules of the State Administration of Foreign Exchange and the *Clearing Rules of the Shanghai International Energy Exchange* and other relevant business rules, for the purpose of regulating the settlement and purchase of foreign exchange concerning the trading of Specified Domestic Futures Products (“SDFPs”) of the Shanghai International Energy Exchange (the “INE”).

According to article 7 of the *Circular of the State Administration of Foreign Exchange on Foreign Exchange Administration for Overseas Traders and Brokers Engaging in Futures Trading under Specific Domestic Categories* (Huifa [2015] No. 35), the foreign exchange settlement and purchase shall only involve the settlement of profit or loss from futures trading, payment of service fees, settlement of physical delivery, as well as settlement to eliminate the shortfall in the settlement currency, which are associated with the trading of specified domestic futures products.

## I. Terminologies

1. **Eligible amount for conversion:** An amount, displayed in the settlement currency, automatically generated by the Member side system based on the actual results of SDFP trading of an overseas Client, Overseas Intermediary, or Overseas Special Participant (hereinafter referred to as the “Overseas Clearing Delivery Principal”) who has authorized a Member for clearing.
2. **Current-day net profit or loss on SDFP** = Current-day profit or loss on SDFP<sup>1</sup> – Current-day transaction fees for SDFP<sup>2</sup> + Current-day option premium paid or received on SDFP.
3. **Current-day cumulative net profit or loss on SDFP** = Preceding-day cumulative net profit or loss on SDFP + Current-day net profit or loss on SDFP – Current-day other expenditures for SDFP<sup>3</sup> – Current-day foreign exchange purchase amount<sup>4</sup>.

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<sup>1</sup> Including profits and losses from open and closed-out positions on the current day, etc.

<sup>2</sup> Including transaction fees for trading, delivery, EFP, standard warrant transfers, and options exercise/performance, fees for the pledge of securities, etc.

<sup>3</sup> Including load-in deposit, etc.

<sup>4</sup> Total amount of FX purchased for the Overseas Clearing Delivery Principal, as conducted after the daily clearing on the preceding trading day and before market close on the current day.

Both the “preceding-day cumulative net profit or loss on SDFP” and the “current-day foreign exchange purchase amount” are taken to be zero if any of the following applies to the preceding trading day:

- i) It was the cut-off date for conversion; or
- ii) The cumulative net profit or loss on SDFP was below zero (negative); or
- iii) The profit currency was changed after the daily clearing.

4. **RMB balance:** The balance maintained by an Overseas Clearing Delivery Principal in RMB.

**Current-day RMB balance** = Preceding-day RMB balance + Current-day net profit or loss on SDFP – Current-day funds withdrawals<sup>5</sup> + Current-day funds deposits.

5. **Cut-off date for conversion:** The fourth Monday of each month (postponed to the next trading day if it falls on a public holiday). Before market close of the next trading day following the cut-off date for conversion, a Member shall complete the foreign exchange (“FX”) settlement and purchase for all its Overseas Clearing Delivery Principals as applicable in accordance with the eligible amount for conversion respectively.

## II. Basic Principles

(I) **Settlement currency:** RMB. Foreign exchange margin can be used for settlement only after it is converted into RMB.

(II) **Profit currency:** An Overseas Clearing Delivery Principal may choose RMB or USD as the profit currency, which should be specified in the written agreement with the carrying Member. Once determined, the profit currency cannot be modified until 6 months later.

(III) **Types of FX conversion:** Conversion for daily clearing, conversion for delivery payment, and forced FX settlement by INE.

(IV) **Eligible amount for conversion:** A daily figure automatically generated by the Member side system at daily clearing for the applicable Overseas Clearing Delivery Principal based on the actual results of its current-day trading of SDFPs. The current-day eligible amount for conversion of two or more Overseas Clearing Delivery Principals shall not be netted.

Once generated, the current-day eligible amount for conversion shall not be altered.

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<sup>5</sup> Including current-day other expenditures for SDFP.

**(V) FX conversion:** A Member shall complete the conversion before the prescribed cut-off time. The conversion must be carried out (i) through a Designated Depository Bank qualified for margin depository for overseas Clients, and (ii) through the Member's dedicated RMB margin account and dedicated foreign-exchange margin account.

### III. FX Conversion for Daily Clearing

#### (I) Overview

A Member may use the following table to determine whether it needs to complete a FX purchase or settlement for an Overseas Clearing Delivery Principal:

RMB Balance on Day T	Cumulative Net Profit or Loss on SDFP on Day T	Profit Currency	Is Day T the Cut-Off Date for conversion?	Is valid application received from the Overseas Clearing Delivery Principal before 11:30 a.m. on Day T+1 for FX purchase?	Does the Member need to conduct the conversion before 3:00 p.m. on Day T+1?
≥ 0	≥ 0	RMB	—	—	No
		USD	Yes	—	Yes for FX purchase
			No	Received	Yes for FX purchase
	Not received	No			
	< 0	—	—	—	No
< 0	—	—	—	—	Yes for FX settlement, or call for deposit of additional RMB to eliminate the shortfall

#### (II) Cut-off date for conversion

If the current day is the cut-off date for conversion, the Member shall complete FX settlement and purchase for all its Overseas Clearing Delivery Principals as applicable, according to the eligible amount for conversion as of the current day, through Designated Depository Banks before 3:00 p.m. on the following trading day. The cumulative net profit or loss will be reset to zero and accrued daily starting from the trading day following the cut-off date for conversion.

#### (III) Trading days other than the cut-off date for conversion

##### 1. When the eligible amount for conversion is greater than 0

Before 11:30 a.m. on the next trading day, an Overseas Clearing Delivery Principal who has chosen USD as the profit currency may, at its own discretion, apply to its carrying Member for purchase of FX within the limit of the eligible amount for

conversion. If a valid application is received, the Member shall complete the purchase through a Designated Depository Bank before 3:00 p.m.

## **2. When the eligible amount for conversion is less than 0**

In this scenario the eligible amount for conversion equals to the RMB balance, which means there is a shortfall in the settlement currency. The Member may require the Overseas Clearing Delivery Principal to deposit additional RMB funds, or complete the settlement of FX before 3:00 p.m. on the next trading day to eliminate the shortfall.

### **(IV) Bank-futures FX conversion**

A Member may inquire the real-time exchange rates offered by Designated Depository Banks through the electronic bank-futures FX portals and, based on the available balance in its dedicated margin accounts and other relevant factors, choose the bank(s) for the conversion by submitting the bank-futures FX application(s).

FX applications can be classified into application for FX settlement and application for FX purchase. Each application may contain details of conversion for one or more Overseas Clearing Delivery Principals. FX applications for overseas individual Clients and overseas institutional Clients shall be submitted separately.

Members shall provide Designated Depository Banks with the document of FX settlement and purchase (Appendix 1) as required on time, so as to suffice the compliance review by the banks and to facilitate the relevant declaration requirements.

### **(V) Data submission**

The cut-off time for FX conversion data to be submitted to the China Futures Market Monitoring Center (the "CFMMC") is 5:00 p.m. each trading day. Data for FX conversions as completed by Designated Depository Banks before 5:00 p.m. shall be submitted on the same day, whereas data for FX conversions completed after 5:00 p.m. shall be submitted on the following trading day.

## **IV. FX conversion for Delivery Payment**

Physical delivery in relation to the SDFPs listed on INE include standard delivery, EFP, and standard warrant transfer.

### **(I) FX settlement for the buyer**

An overseas institution as buyer may execute delivery payment in USD. Its carrying Member shall conduct FX settlement through a Designated Depository Bank before sending the delivery payment to INE in RMB.

The overseas institution may decide the amount of FX settlement at its discretion, provided that it does not exceed the amount of the delivery payment to make.

The carrying Member shall complete the FX settlement and the transfer of delivery payment in RMB to INE before 2:00 p.m. on the delivery settlement day.

## **(II) FX purchase for the seller**

An overseas institution as seller may choose to receive delivery payment in either RMB or USD. If USD is chosen, its carrying Member shall conduct FX purchase through a Designated Depository Bank before transferring the fund to the overseas institution.

An overseas institution may decide the amount of FX purchase at its discretion, provided that it does not exceed the amount of the delivery payment to receive.

The carrying Member shall complete the FX purchase before market close on the trading day following the delivery settlement day.

## **(III) Document of FX settlement and purchase**

The supporting document for FX settlement and purchase for delivery payment is the delivery settlement statement or standard warrant transfer statement generated by INE's Standard Warrant Management System. Members shall provide Designated Depository Banks with the relevant statements as required on time, so as to suffice the compliance review by the banks and to facilitate the relevant declaration requirements.

## **V. Forced FX settlement by INE**

Please refer to Article 42 of the *INE Clearing Rules*.

## **VI. Supervision and Administration**

Members are required to properly retain business records and data for relevant inspection by the Exchange or regulatory authorities. Any irregularity shall be promptly reported to the Exchange.

Overseas Clearing Delivery Principals, Members, and Designated Depository Banks shall conduct FX settlement and purchase according to the actual results of the SDFP trading. They are also required to effectively strengthen relevant compliance management and shall not involve in any violation of foreign exchange regulations.

(The English translation of this Guideline is for reference only. In the event of any inconsistency between the Chinese version and English translation, the Chinese version shall prevail.)

