**Appendix 2**

**Note on Revisions**

To keep pace with the changes in the copper futures and spot markets, better serve the quality development of China’s copper industry, and promote the functions of the Shanghai copper futures, the Shanghai Futures Exchange (SHFE) proposes to revise the grade and quality specifications of the *Copper Cathode Contract* after extensively gathering market comments and suggestions. The changes and notes are given below.

**I. Changes**

SHFE proposes to delete the following rule from “Grade and Quality Specifications” in the *Copper Cathode Contract Specifications*: “Standard: #1 Standard copper (Cu-CATH-2) as prescribed in the National Standard GB/T 467-2010, with total copper and silver content not less than 99.95%,” and to revise the wordings on deliverable grades in the contract appendix accordingly.

**II. Reasons**

**First**, Grade A copper (Cu-CATH-1) has become the mainstream product in China’s spot copper market, accounting for over 70 percent of the total copper cathodes production. Therefore, removing #1 Standard copper and retaining Grade A copper as the only deliverable for SHFE copper futures will help promote the upgrade and quality development of the domestic copper industry.

**Second**, the change will bring the deliverable in line with the mainstream quality standards in domestic and overseas markets. Corresponding products traded on the London Metal Exchange (LME), COMEX, and Shanghai International Energy Exchange (INE) are delivered against one or a combination of European standard Grade A copper, American standard Grade 1 copper, and Chinese standard copper. These are all high quality requirements and the corresponding rules have also been proven in practice. Hence, following this rule change, SHFE will further converge with the international quality standards and unify the quality specifications for SHFE copper futures and INE bonded copper futures.

**Third**, the influence of #1 Standard copper is waning. At SHFE, the product is only associated with two registered delivery brands and has a low delivery ratio and remaining quantity of standard warrants, which means the contract change will only have a minor impact on current delivery activities. In addition, given the small price spread between #1 Standard copper and Grade A copper, the impact of this change on the price of Shanghai copper futures will also be small.