**Appendix 9**

**HEDGE TRADING RULES OF THE SHANGHAI FUTURES EXCHANGE**

**(Revised Version)**

**CHAPTER 1 GENERAL PROVISIONS**

**Article 1** These *Hedge Trading Rules* are made in accordance with the *General Exchange Rules of the Shanghai Futures Exchange* and other applicable rules to boost the hedging functions of the futures market and promote its sound development.

**Article 2** Hedging positions are classified into regular month hedging positions and nearby delivery month hedging positions.

Hedging positions for copper, aluminum, zinc, lead, nickel, tin, aluminum oxide, steel rebar, wire rod, hot-rolled coil, stainless steel, gold, silver, natural rubber, petroleum bitumen (“bitumen”), butadiene rubber and bleached softwood kraft pulp (“BSKP”) futures are classified into hedging positions for regular months (i.e., from the day of listing to the last trading day of the second month before the delivery month) and hedging positions for nearby delivery months (i.e., from the first month before the delivery month to the delivery month).

Hedging positions for fuel oil futures are classified into hedging positions for regular months (i.e., from the day of listing to the last trading day of the third month before the delivery month) and hedging positions for nearby delivery months (i.e., from the second month before the delivery month to the first month before the delivery month).

**Article 3** Members and Clients that engage in hedging activities on the Shanghai Futures Exchange (the “Exchange”) shall observe these *Hedge Trading Rules*.

**CHAPTER 2 APPLICATION AND APPROVAL OF REGULAR MONTH HEDGING QUOTA**

**Article 4** Regular month hedging positions require the approval of the Exchange. Regular month hedge is classified into long hedge and short hedge.

“Regular month long hedge” means taking a long hedging position in futures and call options or a short hedging position in put options; “regular month short hedge” means taking a short hedging position in futures and call options or a long hedging position in put options.

**Article 5** A Client that needs a regular month hedging quota shall apply to its carrying futures firm Member (“FF Member”), which shall, after reviewing the application, complete the application procedures with the Exchange pursuant to these *Hedge Trading Rules*. A Non-FF Member shall complete the procedures directly with the Exchange.

**Article 6** A Client or Non-FF Member applying for a regular month hedging quota shall have the production and business license of the product for hedging.

**Article 7** A Member or Client applying for a regular month hedging quota shall submit the following supporting materials to the Exchange:

(i) a photocopy of the duplicate business license;

(ii) materials proving the size of the physical commodity business, such as production plan for the current year or the following year, the audited financial statements of the latest year, warrants of physicals, inventory certificates, processing orders, purchase and sales contracts, and other valid proof of its possession of physicals;

(iii) a hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and

(iv) other supporting materials required by the Exchange.

**Article 8** An application for a regular month hedging quota of a copper, aluminum, zinc, lead, nickel, tin, aluminum oxide, steel rebar, wire rod, hot-rolled coil, stainless steel, gold, silver, natural rubber, bitumen, butadiene rubber and BSKP futures contract shall be submitted by the last trading day of the second month before the delivery month of the contract. Late applications will not be accepted by the Exchange. A Member or Client may simultaneously apply for a regular month hedging quota for multiple contracts.

**Article 9** An application for a regular month hedging quota of a fuel oil futures contract shall be submitted by the last trading day of the third month before the delivery month of the contract. Late applications will not be accepted by the Exchange. A Member or Client may simultaneously apply for a regular month hedging quota for multiple contracts.

**Article 10** The Exchange will determine the regular month hedging quota of an applicant based on, among others, its eligibility, the product for hedging, trading direction, trading quantity, hedging period, as well as production and business scale, past business performance, and financial conditions. The regular month hedging quota shall not exceed the quantity specified in the supporting materials.

**CHAPTER 3 APPLICATION AND APPROVAL OF NEARBY DELIVERY MONTH HEDGING QUOTA**

**Article 11** Nearby delivery month hedging positions require the approval of the Exchange. Nearby delivery month hedge is classified into long hedge and short hedge.

“Nearby delivery month long hedge” means taking a long hedging position in futures and call options or a short hedging position in put options; “nearby delivery month short hedge” means taking a short hedging position in futures and call options or a long hedging position in put options.

**Article 12** A Client that needs a nearby delivery month hedging quota shall apply to its carrying FF Member, which shall, after reviewing the application, complete the application procedures with the Exchange pursuant to these *Hedge Trading Rules*. A Non-FF Member shall complete the procedures directly with the Exchange.

**Article 13** A Member or Client applying for a nearby delivery month hedging quota shall submit the following supporting materials to the Exchange:

(i) a photocopy of the duplicate business license;

(ii) materials proving its genuine need for nearby delivery month hedging, such as production plan for the current year or the following year, warrants of physicals, inventory certificates, processing orders, purchase and sales contracts, and other valid proof of its possession of physicals;

(iii) a hedging plan, mainly including analyses of the source of risks, hedging objectives, and expected volumes to be delivered or closed out; and

(iv) other supporting materials required by the Exchange.

**Article 14** An application for a nearby delivery month hedging quota of a copper, aluminum, zinc, lead, nickel, tin, aluminum oxide, steel rebar, wire rod, hot-rolled coil, stainless steel, gold, silver, natural rubber, bitumen, butadiene rubber and BSKP futures contract shall be submitted between the first trading day of the third month before the delivery month of the contract and the last trading day of the first month before the delivery month. Late applications will not be accepted by the Exchange.

**Article 15** An application for a nearby delivery month hedging quota of a fuel oil futures contract shall be submitted between the first trading day of the fourth month before the delivery month of the contract and the last trading day of the second month before the delivery month. Late applications will not be accepted by the Exchange.

**Article 16** The Exchange will determine the nearby delivery month hedging quota of a Member or Client based on, among others, its trading direction and quantity, business operation of physicals, open positions in the corresponding futures contract, inventory of deliverable commodities at a Designated Delivery Warehouse, and whether the futures price diverges from the physical price. The nearby delivery month hedging quota shall not exceed the quantity specified in the supporting materials.

The aggregate nearby delivery month hedging quotas of an applicant for all contracts during a year shall not exceed its production capacity or planned production of the year, or trading volume of the product in the last year.

**Article 17** If a Non-FF member or Client does not obtain a nearby delivery month hedging quota of a copper, aluminum, zinc, lead, nickel, tin, aluminum oxide, steel rebar, wire rod, hot-rolled coil, stainless steel, gold, silver, natural rubber, bitumen, butadiene rubber and BSKP futures contract, then when the contract enters the first month before the delivery month and the delivery month, the regular month hedging quota of the Non-FF member or Client will be the lower of its approved regular month hedging quota and the position limit of the product, and will be converted to its nearby delivery month hedging quota. If the Non-FF Member or Client obtains a nearby delivery month hedging quota through application after the contract enters the nearby delivery month, the approved nearby delivery month hedging quota shall apply.

If a Non-FF member or Client does not obtain a nearby delivery month hedging quota of a fuel oil futures contract, then when the contract enters the second and first months before the delivery month, the regular month hedging quota of the Non-FF member or Client will be the lower of its approved regular month hedging quota and the position limit of the product, and will be converted to its nearby delivery month hedging quota. If the Non-FF Member or Client obtains a nearby delivery month hedging quota through application after the contract enters the nearby delivery month, the approved nearby delivery month hedging quota shall apply.

**CHAPTER 4 HEDGE TRADING**

**Article 18** A Member or Client that is granted a hedging quota in a contract shall establish positions in such trading direction and size as approved before market close of the third trading day before the last trading day of the contract; failing which, the hedging quota will be deemed forfeited.

**Article 19** Hedging quota of a copper, aluminum, zinc, lead, nickel, tin, aluminum oxide, steel rebar, wire rod, hot-rolled coil, stainless steel, gold, silver, natural rubber, bitumen, butadiene rubber and BSKP futures contract shall no longer be used in a revolving manner starting from the first trading day of the delivery month.

**Article 20** Hedging quota of a fuel oil futures contract shall no longer be used in a revolving manner starting from the first trading day of the first month before the delivery month.

**Article 21** In the nearby delivery months, the hedging positions in a relevant product shall be adjusted to multiples of a certain number of lots by reference to the provisions on adjusting speculative positions.

**Article 22** A Member or Client that receives a nearby delivery month hedging quota and takes a short hedging position in the contract concerned may collateralize its standard warrants as trading margin for a corresponding size of the short position when the contract enters the delivery month.

**Article 23** Hedging positions in an option will be converted to hedging positions in the underlying futures upon exercise of the option.

**CHAPTER 5 REGULATION OF HEDGING**

**Article 24** The Exchange will review an application for hedging quota within five (5) trading days of receiving the application and will:

(i) notify the applicant of approval if the requirements for granting hedging quota are satisfied;

(ii) notify the applicant of denial if the requirements for granting hedging quota are not satisfied; or

(iii) request the applicant to provide any additional materials that should be provided.

**Article 25** The Exchange has the right to, from time to time, supervise and investigate the information that a Member or Client provides on its business operation, credit standing, and trading activities in futures, options, and physicals. The Member and the Client concerned shall give assistance and cooperation.

The Exchange may require a Member or Client that receives a hedging quota to report on its trading activities in physicals, futures, and options.

**Article 26** The Exchange regulates the usage of the hedging quotas granted to Members or Clients.

**Article 27** A Member or Client, during the validity period of its hedging quota, shall timely notify the Exchange of any material change to its business. The Exchange may adjust the hedging quota based on market conditions and business operation of the Member or Client.

**Article 28** A Member or Client that needs to adjust its hedging quota shall timely apply to the Exchange.

**Article 29** A Member or Client whose hedging position exceeds the approved hedging quota or an otherwise established limit shall adjust its position by the end of the first trading session on the following trading day. If the adjustment is not made before the deadline or fails to eliminate the excess, the Exchange may exercise forced position liquidation.

**Article 30** If a Member or Client frequently opens and closes out its positions within its approved hedging quota to influence or attempt to influence market price, the Exchange may take such measures as giving a verbal reminder or written warning, adjusting or canceling the hedging quota, suspending the opening of new positions, requiring the close-out of positions within a specified time period, or exercising forced position liquidation.

**Article 31** When the Exchange exercises position reduction to mitigate risks arising in the market, speculative positions will be reduced before hedging positions.

**Article 32** Based on the conditions of the futures, options, and physicals market as well as open interests in the market, the Exchange may, from time to time, request a Member or Client to provide additional materials on its approved hedging quota.

**Article 33** If a Member or Client engages in fraud or otherwise breaches any rules of the Exchange when applying for or using a hedging quota, the Exchange may deny its application, adjust or cancel its hedging quota, deal with its hedging positions as speculative positions or exercise forced position liquidation, and handle the case according to the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 34** The Exchange may offer discounts on the trading margin or transaction fees of hedge trading.

**CHAPTER 6 MISCELLANEOUS**

**Article 35** The Exchange reserves the right to interpret these *Hedge Trading Rules*.

**Article 36** These *Hedge Trading Rules* shall take effect on July 28, 2023.