**Appendix 10**

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

**(Revised Version)**

**CHAPTER 1 GENERAL PROVISIONS**

**Article 1** These *Arbitrage Trading Rules* are made in accordance with the *General Exchange Rules of the Shanghai Futures Exchange* and other applicable rules to regulate arbitrage trading and promote the sound development of the futures market.

**Article 2** Arbitrage trading and speculative trading are referred to collectively as non-hedging trading. Non-hedging positions shall be subject to the percentage-based and fixed-amount position limits as prescribed in the *Risk Management Rules of the Shanghai Futures Exchange* for each futures contract in different periods of trading. A non-futures firm Member (“Non-FF Member”) or Client may apply for an arbitrage quota to hold more non-hedging positions.

**Article 3** For the purpose of these *Arbitrage Trading Rules*, arbitrage trading is classified into calendar arbitrage and cross-product arbitrage. “Calendar arbitrage” means trading different contracts on the same product for profit; “cross-product arbitrage” means trading contracts on different products for profit.

The product mix for cross-product arbitrage will be separately announced by the Shanghai Futures Exchange (the “Exchange”).

**Article 4** Arbitrage positions include arbitrage positions for regular months (i.e., from the day of listing to the last trading day of the second month before the delivery month in case of 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 bleached softwood kraft pulp (“BSKP”) futures, or from the day of listing to the last trading day of the third month before the delivery month in case of fuel oil futures) and arbitrage positions for nearby delivery months (i.e., from the first month before the delivery month to the delivery month in case of 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, or from the second month before the delivery month to the first month before the delivery month in case of fuel oil futures).

**Article 5** Members and Clients that engage in arbitrage trading shall observe these *Arbitrage Trading Rules*.

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

**Article 6** A Client that needs an arbitrage quota shall apply to any of its carrying FF Members, which shall, after reviewing the application, complete the application procedures with the Exchange pursuant to these *Arbitrage Trading Rules*. A Non-FF Member shall complete the procedures directly with the Exchange.

**Article 7** A Non-FF Member or Client applying for a regular month arbitrage quota of certain products shall submit the following materials to the Exchange:

(i) an *Application (Approval) Form for Regular Month Arbitrage Quota of the Shanghai Futures Exchange*;

(ii) arbitrage strategies (such as source of funds, size of positions, and classification as calendar arbitrage or cross-product arbitrage); and

(iii) other materials required by the Exchange.

A regular month arbitrage quota of a product will remain valid for the product after being granted.

**Article 8** A Non-FF Member or Client applying for a nearby delivery month arbitrage quota of certain contracts shall submit the following materials to the Exchange:

(i) an *Application (Approval) Form for Nearby Delivery Month Arbitrage Quota of the Shanghai Futures Exchange*;

(ii) arbitrage strategies (such as source of funds, size of positions, classification as calendar arbitrage or cross-product arbitrage, arrangements for position opening and reduction, and intention of delivery);

(iii) an analysis of the spread divergence of the contract; and

(iv) other materials required by the Exchange.

**Article 9** The Exchange will determine the regular month arbitrage quota of an applicant based on, among others, its credit standing, past transactions, and usage of existing arbitrage quotas. The regular month arbitrage quota shall not exceed the quantity specified in the supporting materials.

**Article 10** The Exchange will determine the nearby delivery month arbitrage quota of an applicant based on, among others, its credit standing, past transactions, positions in relevant contracts, quantity of deliverable commodities, and whether the contracts’ spread diverges from the normal spread. The nearby delivery month arbitrage quota shall not exceed the quantity specified in the supporting materials.

**Article 11** An application for a nearby delivery month arbitrage quota of a contract shall be submitted between the first trading day of the second month before the delivery month of the contract (or, in case of fuel oil futures, the first trading day of the third month before the delivery month) and the last trading day of the first month before the delivery month (or, in case of fuel oil futures, the last trading day of the second month before the delivery month). Late applications will not be accepted by the Exchange.

**CHAPTER 3 ARBITRAGE TRADING**

**Article 12** Aggregate non-hedging positions held by a Client at different FF Members shall not exceed the percentage-based position limit or fixed-amount position limit for the contracts concerned in different periods of trading plus the arbitrage quota for the same period.

Long non-hedging positions are the aggregate of long positions in futures and call options and short positions in put options; short non-hedging positions are the aggregate of short positions in futures and call options and long positions in put options.

**CHAPTER 4 REGULATION**

**Article 13** The Exchange will review an application for arbitrage quota within five (5) trading days of receiving the application.

**Article 14** A Non-FF Member or Client that needs to adjust its hedging quota shall timely apply to the Exchange.

**Article 15** The Exchange regulates the usage of the arbitrage quotas granted to Non-FF Members or Clients and may adjust such quotas based on market conditions.

**Article 16** A Non-FF Member or Client, during the validity period of its arbitrage quota, shall timely notify the Exchange of any material change to its business. The Exchange has the right to adjust the arbitrage quota based on the new circumstances.

**Article 17** If the aggregate non-hedging positions held by a Non-FF Member or Client exceed the percentage-based position limit or fixed-amount position limit for the contracts concerned in different periods of trading plus the arbitrage quota for the same period, then the Non-FF Member or Client shall adjust its positions 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 18** If a Non-FF Member or Client engages in fraud or otherwise breaches any laws, regulations, or rules of the Exchange when applying for or using an arbitrage quota, the Exchange may deny its application, adjust or cancel its arbitrage quota, take such measures as suspending the opening of new positions, requiring the close-out of positions within a specified time period, or exercising forced position liquidation if necessary, and handle the case according to the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 19** If a Non-FF Member or Client uses its approved arbitrage 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, and suspending the opening of new positions, requiring the close-out of positions within a specified time period, or exercising forced position liquidation if necessary, and handling the case according to the *Enforcement Rules of the Shanghai Futures Exchange*.

**Article 20** The Exchange may prescribe the collection of trading margin or transaction fees of arbitrage trading.

**CHAPTER 5 MISCELLANEOUS**

**Article 21** The Exchange reserves the right to interpret these *Arbitrage Trading Rules*.

**Article 22** The non-hedging positions shall be reduced and shall be adjusted to multiples of a certain number of lots in the nearby delivery months according to the provisions of the *Risk Management Rules of the Shanghai Futures Exchange* on reducing and adjusting speculative positions.

**Article 23** These *Arbitrage Trading Rules* shall take effect on July 28, 2023.

**Application (Approval) Form for Regular Month Arbitrage Quota of the Shanghai Futures Exchange**

Application No. (the application number shown on the printed comments on application, to be filled in by Members):

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| --- | --- | --- | --- |
| Member name |  | Member code |  |
| Client name |  | Client code |  |
| Type | □ Individual client □ General corporate client□ Special corporate client | Contact personand telephone |  |
| Comments on arbitrage quota application |
| Product symbol | Trading quantity (in lots) |
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| I/We hereby undertake that the supporting materials provided are authentic and valid.Seal/signature of client:Signature of principal:MM/DD/YYYY |

**Application (Approval) Form for Nearby Delivery Month Arbitrage Quota of the Shanghai Futures Exchange**

Application No. (the application number shown on the printed comments on application, to be filled in by Members):

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| --- | --- | --- | --- |
| Member name |  | Member code |  |
| Client name |  | Client code |  |
| Type | □ Individual client □ General corporate client□ Special corporate client | Contact personand telephone |  |
| Comments on arbitrage quota application |
| Contract symbol | Trading direction | Trading quantity (in lots) |
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| I/We hereby undertake that the supporting materials provided are authentic and valid.Seal/signature of client:Signature of principal:MM/DD/YYYY |