Measures of China Financial Futures Exchange on Hedging and Arbitrage Trading

(Adopted on February 3, 2012; first amended on August 30, 2013; second amended on February 12, 2018; third amended on December 28, 2018)

Chapter I General Provisions

Article 1 These Measures are formulated in accordance with the *Trading Rules of China Financial Futures Exchange* for the purposes of regulating hedging and arbitrage trading and facilitating the functioning and sound development of the futures market.

Article 2 For the purpose of these Measures, “hedging” includes long hedging and short hedging.

Article 3 For the purpose of these Measures, “arbitrage” includes but is not limited to cash-futures arbitrage, calendar spread arbitrage, and cross-product arbitrage.

Article 4 Members and clients that engage in hedging and arbitrage trading on China Financial Futures Exchange (the “Exchange”) shall comply with these Measures.

Chapter II Application for Quotas

Article 5 The Exchange implements a quota system for hedging and arbitrage. Any client intending to acquire a hedging or arbitrage quota shall apply to its carrying member, who shall complete the application procedures with the Exchange after examining the application materials.

A member shall directly apply to the Exchange for hedging and arbitrage quotas.

Article 6 Hedging or arbitrage quota is further classified into product quota and contract quota for nearby delivery month.

“Product quota” refers to the maximum hedging or arbitrage positions a member or client may hold in all contracts of the same product in the same direction.

“Contract quota for nearby delivery month” refers to the maximum hedging or arbitrage positions a member or client may hold in a certain contract of a physically delivered product in the same direction from the trading day before the delivery month of the contract to its last trading day.

Article 7 Any member or client intending to engage in hedging or arbitrage trading shall apply for a product quota.

Any member or client intending to engage in hedging or arbitrage trading in a physically delivered contract in the delivery month, may additionally apply for a contract quota for nearby delivery month.

Article 8 A member or client applying for hedging or arbitrage quota shall submit the following application materials to the Exchange:

(1) a written application for product quota or contract quota for nearby delivery month;

(2) the hedging plan or arbitrage plan;

(3) the applicant's valid identification;

(4) information on recent transactions in the cash and related markets and relevant proof of assets;

(5) a statement on past hedging and arbitrage trading; and

(6) other materials as required by the Exchange.

The Exchange may prescribe other requirements on the application materials based on the quota applications it has received from other market participants.

Members shall examine the application materials with due diligence to ensure their truthfulness, accuracy, and completeness.

Article 9 A member or client applying for contract quota for nearby delivery month shall submit the application to the Exchange during the period from the first trading day two months before the delivery month of the contract to the fifth trading day before the delivery month.

Chapter III Quota Management

Article 10 The Exchange reviews a quota application based on market conditions and the applicant's application materials, credit standing, and trading activities, among other factors.

Article 11 With respect to a physically delivered product, if a member or client has obtained a hedging product quota but has not applied for a hedging contract quota for nearby delivery month, then from the trading day before the delivery month of a contract in such product, the member or client shall be granted a contract quota for nearby delivery month in the relevant trading direction (either long or short), equal to the lesser of:

(1) the positions in the contract in the corresponding direction held by the member or client using its hedging product quota after settlement on the second trading day before the delivery month; or

(2) the position limit for such contract in the delivery month.

Any member or client applying for a hedging contract quota for nearby delivery month shall submit such application materials as prescribed under Article 8, and trade within such quota as approved by the Exchange.

Article 12 The Exchange reviews and replies to an application for hedging or arbitrage quota within five trading days of accepting the application.

During the course of review, the Exchange may require additional information from the applicant. The time spent obtaining such information shall be excluded from the five-day review period.

Article 13 A product quota shall be valid for 12 months effective from the trading day following the date of approval.

Any member or client that intends to engage in hedging and arbitrage trading after the expiry of its existing product quota shall apply to the Exchange for a new product quota prior to the tenth trading day before the expiry of its existing quota.

A contract quota for delivery month shall be valid from the trading day before the delivery month of the contract to the last trading day of the contract.

Article 14 A member or client seeking to adjust its product quota shall apply to the Exchange in writing. The adjusted product quota shall be effective from the trading day following the date of approval.

Article 15 Any member or client that has not applied for a new product quota within the prescribed time period shall close out its hedging or arbitrage positions before existing product quota expires.

Any member or client that is not granted a contract quota for nearby delivery month shall close out its hedging or arbitrage positions in the corresponding contract within the prescribed time period.

Article 16 The hedging or arbitrage positions of a member or client shall not exceed its approved quota.

Chapter IV Trading Management

Article 17 A member or client shall engage in hedging trading in accordance with its hedging plan.

Article 18 In a cash-futures arbitrage, a member or client shall buy (sell) contracts in the futures market at the same or substantially the same time as selling (buying) the corresponding securities or other related assets of comparable value in the cash and related markets.

Article 19 In a calendar spread arbitrage, a member or client shall trade, at a comparable value of and at the same or substantially the same time as the first leg of arbitrage trading, in a contract of the same futures product but of a different contract month and in the opposite direction.

Article 20 In a cross-product arbitrage, a member or client shall trade, at a comparable value of and at the same or substantially the same time as the first leg of arbitrage trading, in a contract of a different futures product and in the opposite direction.

Article 21 A member shall supervise its clients to use their hedging and arbitrage quotas in a lawful and compliant manner, organize ongoing risk awareness programs, and cooperate with the Exchange in its supervision and regulation.

Article 22 Any member or client that encounters any abnormal situation when engaging in hedging or arbitrage trading, such as in relation to its technical system or risk management, shall timely report the situation to the Exchange.

Article 23 The Exchange may offer preferential margin and fee standards for hedging and arbitrage trading.

Chapter V Supervision

Article 24 The Exchange may supervise and investigate an applicant's business performance, credit standing, and its trading activities in the futures, cash, and other related markets. The member or client concerned shall assist and cooperate with the Exchange in its supervision and investigation.

The Exchange may require the applicant to report its trading activities in the futures, cash, and other related markets. The applicant shall ensure the information it reports is truthful, accurate, and complete.

Article 25 The Exchange may supervise an applicant's use of its hedging and arbitrage quotas and adjust the quotas according to market and the applicant's conditions.

Article 26 When the hedging or arbitrage positions of a member or client exceed the matching ratio between futures and underlying positions prescribed by the Exchange, the Exchange may require the member or client to adjust its positions within a prescribed time period. If such adjustment is not completed in time or the prescribed ratio requirement is still not met after the adjustment, the Exchange may take such measures against the member or client as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, forced liquidation, and adjusting or cancelling its hedging or arbitrage quota.

Article 27 When the hedging or arbitrage positions of a member or a client exceed its approved and effective hedging or arbitrage quota, it shall voluntarily adjust its positions before the close of the first session on the same trading day. If such adjustment is not completed in time or its positions still exceed the quota after the adjustment, the Exchange may take such measures against the member or client as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, forced liquidation, and adjusting or cancelling its hedging or arbitrage quota.

Article 28 A member or client that has not applied to the Exchange for new hedging or arbitrage quota within the prescribed time period shall close out its hedging or arbitrage positions before the expiry of the existing quota. If such close-out is not completed in time, the Exchange may take such measures against the member or client as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, and forced liquidation.

Article 29 When a member or client opens and then closes its positions with excessive frequency during hedging trading, the Exchange may take such measures against the member or client as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, forced liquidation, and adjusting or cancelling its hedging quota.

Article 30 If any member fails to examine the application materials of a client with due diligence as required by the Exchange, the Exchange may take such measures against it as giving a verbal reminder, issuing a written admonishment, issuing a reprimand, and suspending the acceptance of its applications for hedging and arbitrage quotas.

Article 31 If any member fails to perform its obligations of supervising and educating its clients as required by the Exchange or of cooperating with the Exchange in its supervision and regulation, the Exchange may take such measures against it as giving a verbal reminder, issuing a written admonishment, and issuing a reprimand.

Article 32 When a member or client influences contract prices or commits other violations using its hedging or arbitrage quota, the Exchange may take such measures against it as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, forced liquidation, and adjusting or cancelling its hedging or arbitrage quota.

Article 33 When a member or client fails to perform its reporting obligations as required, the Exchange may take such measures against it as giving a verbal reminder, issuing a written admonishment, suspending the opening of new positions, requiring the close-out of positions within a prescribed time period, forced liquidation, and adjusting or cancelling its hedging or arbitrage quota.

Article 34 When a member or client commits fraud or otherwise violates laws, regulations, or the rules of the Exchange when applying for hedging or arbitrage quota or when engaging in hedging or arbitrage trading, the Exchange may reject its application for hedging and arbitrage quotas, adjust or cancel its hedging and arbitrage quotas, force-liquidate part or all of its hedging and arbitrage positions, and take actions in accordance with the *Measures of China Financial Futures Exchange on Dealing with Violation and Breaches*.

Chapter VI Ancillary Provisions

Article 35 Any violation of these Measures shall be handled by the Exchange in accordance with these Measures and the *Measures of China Financial Futures Exchange on Dealing with Violations and Breaches*.

Article 36 The Exchange reserves the rights to interpret these Measures.

Article 37 These Measures shall come into effect on January 2, 2019.