

Measures of China Financial Futures Exchange on Hedging and Arbitrage Trading

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 the approaching 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 the approaching 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 Based on the direction of the quota approved, hedging quota is classified into long hedging quota and short hedging quota.

Long hedging quota may be used for long futures, long call options, and short put options.

Short hedging quota may be used for short futures, short call options, and long put options.

Article 8 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 approaching delivery month, may additionally apply for a contract quota for the approaching delivery month.

Article 9 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 the approaching 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 10 A member or client applying for contract quota for the approaching 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 11 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 12 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 the approaching 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 the approaching 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 the approaching delivery month shall submit such application materials as prescribed under Article 9, and trade within such quota as approved by the Exchange.

Article 13 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 14 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 the approaching 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 15 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 16 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 the approaching delivery month shall close out its hedging or arbitrage positions in the corresponding contract within the prescribed time period.

Article 17 The hedging or arbitrage positions of a member or client shall not exceed its approved quota.

Chapter IV Trading Management

Article 18 A member or client shall engage in hedging trading in accordance with its hedging plan.

Article 19 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 20 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 21 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 22 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 23 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 24 The Exchange may offer preferential margin and fee standards for hedging and arbitrage trading.

Chapter V Supervision

Article 25 The Exchange may supervise and investigate an applicant's business performance, credit standing, and futures trading, spot trading and other activities. 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 futures trading, spot trading, and other activities. The applicant shall ensure the information it reports is truthful, accurate, and complete.

Article 26 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 27 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 28 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 morning 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 29 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 30 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 31 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 32 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 33 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 34 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 35 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 36 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 37 The Exchange reserves the rights to interpret these *Measures*.

Article 38 These *Measures* shall come into effect on December 23, 2019.