# Measures of China Financial Futures Exchange on Risk Control

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## 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 strengthening risk management in futures trading, protecting the legitimate rights and interests of futures trading participants and ensuring smooth futures trading on the China Financial Futures Exchange (the “Exchange”).

**Article 2** The Exchange implements a comprehensive system of risk management measures, including margin requirements, price limits, position limits, trading limit, large position reporting, forced liquidation, forced position reduction, Guarantee Fund and risk warnings.

**Article 3** The Exchange, members and clients shall comply with these *Measures*.

## Chapter II Margin Requirements

**Article 4** The Exchange implements margin requirements. Margin is classified into clearing reserve and trading margin.

**Article 5** During futures trading, the Exchange may adjust the trading margin standards based on market risk conditions and report the adjustment to the China Securities Regulatory Commission (“CSRC”), if:

(1) a One-Sided Market occurs;

(2) there is a long public holiday;

(3) in the opinion of the Exchange, market risks have noticeably changed; or

(4) in the opinion of the Exchange, such actions are warranted by the circumstances.

“One-Sided Market,” with respect to a particular contract, refers to situation where there are outstanding buy orders at the contract’s limit up price or outstanding sell orders at the contract’s limit down price at any time during the five minutes prior to the market close (including the closing auction), and any later order in that contract is either executed without deflecting the price away from the limit up/limit down price or cannot be executed.

**Article 6** Where, on any particular day, the Exchange adjusts the trading margin standards of a contract, then at the time of settlement on that day, all positions in that contract shall be cleared according to such adjusted standards.

**Article 7** The clearing reserve shall be managed in accordance with the *Detailed Clearing Rules of China Financial Futures Exchange*.

## Chapter III Price Limits

**Article 8** The Exchange implements price limits which are classified into circuit breakers, price bands, and limit up/limit down. The Exchange may apply one or a combination of such limits to a particular listed product, and may set and adjust the thresholds for circuit breakers, price bands, and limit up/limit down based on market conditions.

Price limits applied to each product and the specific standards thereof will be separately prescribed by the Exchange.

**Article 9** Where a futures contract is affected by One-Sided Market for two consecutive trading days (hereinafter, D1, D2 and D0 respectively refer to the first such day, the second such day, and the trading day before D1), if D2 is the last trading day, the contract shall directly proceed to settlement and delivery; if D2 is not the last trading day, the Exchange shall have the power to take one or a combination of risk management measures based on market conditions, including: raising the trading margin, suspending the opening of new positions, suspending Funds Withdrawals, requiring the close-out of positions within a prescribed time period, forced liquidation, suspending trading, adjusting the limit up/limit down, forced position reduction, etc.

## Chapter IV Position Limits

**Article 10** The Exchange implements position limits. “Position limit” refers to the maximum position that may be held by a member or client as prescribed by the Exchange.

**Article 11** If one client holds positions through different members, its total positions shall not exceed the position limit prescribed for the client.

**Article 12** The position limit for each product shall be governed by the relevant rules of the Exchange and subject to adjustment by the Exchange based on market risk conditions.

Positions for hedging and arbitrage purposes shall be governed by the relevant rules of the Exchange.

**Article 13** A member or client whose positions reach or exceed the position limit shall be prohibited from opening new positions in the direction of the position limit.

## Chapter V Trading Limit

**Article 14** The Exchange implements trading limits. “Trading limit” refers to the maximum position prescribed by the Exchange that a member or client may open in a listed product or contract within a certain time period. The Exchange may, in view of market conditions, set the intraday trading limit for different listed products and contracts and for some or all of the members and clients. The specific limit shall be separately prescribed by the Exchange.

The preceding paragraph does not apply to hedging transactions.

**Article 15** No member or client may open positions beyond the trading limit prescribed by the Exchange; failing which, the Exchange may take such actions against the member or client as alerting by telephone, requiring to report on the situation, requiring a written undertaking, suspending the opening of new positions, and requiring close-out of positions within a prescribed time period, among others.

## Chapter VI Large Position Reporting

**Article 16** The Exchange requires large position reporting. The Exchange may publish the position reporting thresholds according to market risk conditions.

Positions held by a non-futures-company member or a client under different client numbers as well as positions held by the same client through different members shall in each case be aggregated for the purpose of large position reporting.

**Article 17** When the positions held by a member or client in a particular contract reach the reporting threshold specified by the Exchange, or when required by the Exchange, the member or client shall report to the Exchange within the time period prescribed by the Exchange.

If the client fails to file such a report, its carrying member shall report to the Exchange on its behalf. When the client maintains accounts with several members, the Exchange will designate one to submit the materials required of the client. The Exchange shall have the power to request a member or client to submit a second or supplementary report.

**Article 18** A member or client whose positions reach the reporting threshold specified by the Exchange or who is otherwise required by the Exchange to file a report shall submit the following materials:

(1) the Large Position Reporting Form, containing the member's name and number, the client's name and number, contract code, positions, trading margin and available funds;

(2) statement on the source of funds;

(3) information on Actual Control Accounts;

(4) account opening materials and current day's settlement documents;

(5) delivery intention and delivery quantity;

(6) information on the underlying securities currently held; and

(7) other documents required by the Exchange.

**Article 19** A member shall review and guarantee the authenticity, truthfulness, and accuracy of the materials provided by its client.

**Article 20** The Exchange shall have the right to verify the materials provided by members and clients.

## Chapter VII Forced Liquidation

**Article 21** The Exchange implements forced liquidation. "Forced liquidation" refers to the compulsory measure taken by the Exchange to liquidate the positions held by a member or client in accordance with relevant rules.

**Article 22** The Exchange shall force-liquidate the positions held by a member or client if:

(1) a Clearing Member has a negative clearing reserve balance and fails to eliminate the shortfall before the end of the morning session;

(2) the positions held by a non-futures-company member or a client exceed the position limit and the positions in excess are not closed out before the end of the morning session;

(3) forced liquidation is imposed by the Exchange due to violations or breaches;

(4) forced liquidation is required as an emergency measure of the Exchange; or

(5) there is any other circumstance where forced liquidation is deemed necessary by the Exchange.

**Article 23** Unless otherwise prescribed by the Exchange, the positions subject to forced liquidation shall be liquidated first by the relevant member before the end of the morning session; failing which, they shall be force-liquidated by the Exchange.

1. Liquidation by the member

   For forced liquidation under Subparagraph (1) or (2) of Article 22 hereof, the member shall itself determine the principles of liquidation, provided that the result of liquidation conforms to the rules of the Exchange.

2. Liquidation by the Exchange

   (1) For forced liquidation under Subparagraph (1) of Article 22 hereof:

   The Exchange performs forced liquidation based on a principle that maximizes market liquidity and the amount of margin to be released. First, contracts are ranked in descending order by open interest as of settlement on the preceding day. Second, for each contract, clients are ranked in descending order by their trading margin maintained with the relevant member. The Exchange then begins liquidating the positions in such contract order and client order. The process shall apply to futures contracts before options contracts.

   If multiple Clearing Members are subject to forced liquidation, the Exchange shall determine the sequence of these members in descending order of amount of margin call required from each member.

   (2) For forced liquidation under Subparagraph (2) of Article 22 hereof:

When the client holds positions with multiple members, the Exchange shall determine the sequence of these members by descending size of positions held through each member.

(3) For forced liquidation under Subparagraphs (3), (4) or (5) of Article 22 hereof, the Exchange shall identify the positions to be liquidated on a case-by-case basis.

If a member falls under both Subparagraphs (1) and (2) of Article 22 hereof, the Exchange shall identify the positions to be liquidated first by Subparagraph (2) and second by Subparagraph (1).

**Article 24** Procedures for forced liquidation

1. Notification

The Exchange will issue a Notification of Forced Liquidation (the “Notification”) to the relevant Clearing Members. Unless specially delivered by the Exchange, the Notification will be sent along with the day’s clearing data and can be obtained by Clearing Members through the Exchange’s system.

2. Liquidation and confirmation

(1) after the market open, the relevant members shall voluntarily liquidate the positions until the Exchange’s requirements are met;

(2) if a Clearing Member fails to complete the liquidation within the prescribed time period, the Exchange shall force-liquidate the remaining positions;

(3) the result of the forced liquidation will be sent along with the day’s transaction record and made available through the Exchange’s system.

**Article 25** The price for the forced liquidation will be generated from market transactions.

**Article 26** In the event that forced liquidation cannot be fully completed within the prescribed time period due to price limits or other market factors, the remaining positions will be liquidated on the following trading day according to the principles under Article 23 hereof until the Exchange’s requirements are met.

**Article 27** In the event that forced liquidation cannot be fully completed on the day it is requested due to price limits or other market factors, the Exchange will take appropriate actions against the Clearing Member concerned based on the day’s clearing results.

**Article 28** In the event that forced liquidation can only be completed later than required due to price limits or other market factors, any losses incurred shall be borne by the directly responsible party; if forced liquidation cannot be completed, the position holder shall continue to assume holding and delivery obligations.

**Article 29** Any profits arising from forced liquidation by a member shall be attributed to the directly responsible party; any net profits arising from forced liquidation by the Exchange and remaining after being offset with losses shall be handled in accordance with relevant State regulations. Losses arising from forced liquidation shall be borne by the directly responsible party.

If the directly responsible party is a client, the losses arising from forced liquidation shall be first borne by its carrying member, who shall acquire the corresponding right of recourse against the client.

## Chapter VIII Forced Position Reduction

**Article 30** The Exchange implements forced position reduction. "Forced position reduction" refers to the process whereby the Exchange automatically matches and executes outstanding close-out orders quoted at the day's limit up/limit down price with the positions held by non-futures-company members or clients whose net positions in the same contract are profitable at the day's limit up/limit down price in accordance with these measures.

Options contracts are not subject to forced position reduction.

**Article 31** Procedures for forced position reduction

1. If a non-futures-company member or a client holds both long and short positions in the contract, the close-out orders corresponding to its net position shall enter the forced position reduction process, while the remaining close-out orders are automatically offset against the positions held in the opposite direction.

2. Determination of the size of orders pending liquidation

   "The size of orders pending liquidation" ("Pending Liquidation Quantity") refers to all the positions that (i) have been quoted at the limit up/limit down price for close-out but have remained outstanding in the Exchange's system by market close on D2 and (ii) are held by any non-futures-company member or any client whose unit loss on its net position is equal to or greater than a certain percentage (10% for equity index futures, 0.5% for 2-year China government bond ("CGB") futures, 1.2% for 5-year CGB futures, 2% for 10-year CGB futures, and 3.5% for 30-year CGB futures) of the contract's settlement price on D2.

   Any non-futures-company member or any client unwilling to liquidate its positions in the aforementioned manner may cancel its orders before market close.

3. Determination of the unit profit or unit loss of a non-futures-company member's or a client's net positions in a particular contract

   The "unit profit" or "unit loss" of a non-futures-company member's or a client's net positions in a particular contract refers to the total profits or losses on the positions held by the non-futures-company member or the client in the said contract divided by its net positions, where "total profits or losses" refer to the profit or loss on all the positions it holds in said contract calculated based on (i) the difference between the D2 settlement price and the D0 settlement price for all trades executed on or before D0; and (ii) the difference between the D2 settlement price and the actual execution price for all trades executed on D1 and D2.

4. Determination of the scope of liquidation for non-futures-company members or clients with a unit profit

The net positions held by a non-futures-company member or a client with a unit profit as calculated by the aforementioned methods shall be included in the scope of the liquidation.

5. Principles for allotting the Pending Liquidation Quantity

(1) Pending Liquidation Quantity is allotted to positions of three profitability levels.

Pending Liquidation Quantity shall be first allotted to positions with level one profitability (positions with unit profit greater than or equal to 10% of the D2 settlement price for equity index futures, greater than or equal to 0.5% for 2-year CGB futures, greater than or equal to 1.2% for 5-year CGB futures, greater than or equal to 2% for 10-year CGB futures, and greater than or equal to 3.5% for 30-year CGB futures), then to the positions with level two profitability (positions with unit profit between 6% (inclusive) and 10% (exclusive) of the D2 settlement price for equity index futures, between 0.25% (inclusive) and 0.5% (exclusive) for 2-year CGB futures, between 0.6% (inclusive) and 1.2% (exclusive) for 5-year CGB futures, between 1% (inclusive) and 2% (exclusive) for 10-year CGB futures, and between 1.75% (inclusive) and 3.5% (exclusive) for 30-year CGB futures), and finally to positions with level three profitability (positions with unit profit between 0 (exclusive) and 6% (exclusive) of the D2 settlement price for equity index futures, between 0 (exclusive) and 0.25% (exclusive) for 2-year CGB futures, between 0 (exclusive) and 0.6% (exclusive) for 5-year CGB futures, between 0 (exclusive) and 1% (exclusive) for 10-year CGB futures, and between 0 (exclusive) and 1.75% (exclusive) for 30-year CGB futures).

(2) The Pending Liquidation Quantity (or remaining Pending Liquidation Quantity) shall be allotted to the positions available for close-out at each profitability level (or vice versa as applicable) as follows:

Where the quantity of the positions with level one profitability is greater than or equal to the Pending Liquidation Quantity, the Pending Liquidation Quantity shall be allotted to the positions with level one profitability at the ratio of the former to the latter.

Where the quantity of the positions with level one profitability is smaller than the Pending Liquidation Quantity, the positions with level one profitability shall be allotted to the non-futures-company members or clients that have placed the close-out orders, at the ratio of the positions with level one profitability to the Pending Liquidation Quantity. The remaining Pending Liquidation Quantity shall be successively allotted to the positions with level two profitability and the positions with level three profitability in the aforementioned manner; the remaining Pending Liquidation Quantity after that, if any, shall not be allotted any further.

6. Execution of forced position reduction

Forced position reduction shall be executed after market close on D2; the results shall be part of the trading results of the member on D2.

7. Price for forced position reduction

Forced position reduction shall be executed at the limit up/limit down price of the contract for D2.

Losses incurred from forced position reduction executed in accordance with this Article shall be borne by the members or clients.

**Article 32** If the risks associated with the contract are not mitigated after the aforementioned measures, the Exchange will declare an extraordinary situation and take emergency measures pursuant to relevant rules.

## Chapter IX Guarantee Fund

**Article 33** The Exchange implements a Guarantee Fund, which is a common guarantee fund jointly contributed to by Clearing Members as required by the Exchange for the purpose of addressing the default risks of Clearing Members.

**Article 34** The Guarantee Fund comprises a Basic Guarantee Fund and a Variation Guarantee Fund. The Basic Guarantee Fund refers to the minimum amount of Guarantee Fund required of a Clearing Member to participate in clearing and delivery at the Exchange. The Variation Guarantee Fund refers to the part of Guarantee Fund that exceeds the Basic Guarantee Fund and is adjusted in proportion to the volume of business of the Clearing Member. Contributions to the Guarantee Fund shall be made in cash.

(1) Basic Guarantee Fund requirements for different types of Clearing Members are: RMB 10 million for a Trading Clearing Member, RMB 20 million for a General Clearing Member, and RMB 30 million for a Special Clearing Member. A Clearing Member shall deposit the Basic Guarantee Fund in the Exchange's Dedicated Guarantee Fund Account before the close of the morning session on the fifth trading day after signing the *Clearing Member Agreement of China Financial Futures Exchange*.

(2) On the first trading day of each quarter, the Exchange determines the market-wide base contribution amount of the Guarantee Fund as the basis for calculating each member's share in the Guarantee Fund.

Based on the base contribution amount, the Exchange calculates each member's share for the current quarter in proportion to their respective volumes of business. A Clearing Member's share in the Guarantee Fund for the current quarter = the base contribution amount of the Guarantee Fund × (20% × average daily notional trading value of the Clearing Member in the preceding quarter / average market-wide daily notional trading value in the preceding quarter + 80% × average daily trading margin of the Clearing Member in the preceding quarter / average market-wide daily trading margin in the preceding quarter).

Each Clearing Member's required contribution to the Guarantee Fund for the current quarter shall be the greater of its share in the Guarantee Fund and its Basic Guarantee

Fund. After the close of the morning session on the fifth trading day of a quarter, the Exchange will transfer any excess amount in the Guarantee Fund to, and any required additional amount from, the Clearing Member's Dedicated Guarantee Fund Account.

Any Clearing Member that has a Guarantee Fund shortfall shall deposit the required additional amount in its Dedicated Guarantee Fund Account no later than the close of the morning session on the fifth trading day of the current quarter.

(3) The Exchange may adjust the collection time and base contribution amount of the Guarantee Fund based on market risk conditions and shall have the right to raise the Guarantee Fund required of particular Clearing Members.

**Article 35** Where a Clearing Member's clearing reserve is negative and the shortfall is not eliminated within the prescribed time period, if the Clearing Member holds no positions and its clearing reserve remains negative after forced liquidation by the Exchange, the Exchange is entitled to utilize the Guarantee Fund of the Clearing Member to cover the shortfall which, if still remaining after such use, will be covered by the Guarantee Funds of other Clearing Members on a proportionate basis.

The proportion for each such other Clearing Member shall be equal to the ratio of its Guarantee Fund balance to the total remaining amount of the Guarantee Fund.

**Article 36** After a Clearing Member's Guarantee Fund is utilized under Article 35 hereof, the Clearing Member shall deposit the required additional amount in its Dedicated Guarantee Fund Account before the close of the morning session of the fifth trading day thereafter, after which morning session the amount will be deducted by the Exchange from such Dedicated Guarantee Fund Account through bank transfer.

For any non-defaulting Clearing Member who is required to make additional contribution to the Guarantee Fund, the cumulative amount of such required additional contribution over the 30 consecutive calendar days up to and including the day its Guarantee Fund is utilized shall not exceed the original amount of Guarantee Fund required of the Clearing Member.

**Article 37** Any Clearing Member that fails to contribute to the Guarantee Fund within the prescribed time period shall be handled in accordance with the *Measures of China Financial Futures Exchange on Dealing with Violations and Breaches*.

**Article 38** After utilizing the Guarantee Fund, the Exchange has the right of recourse against the defaulting member.

## Chapter X Resolution of Extraordinary Situations

**Article 39** Upon the occurrence of any of the following situations during the course of futures trading, the Exchange shall take emergency measures to mitigate risks and may declare an extraordinary situation:

(1) trading, settlement, delivery, exercise, assignment and other business cannot be normally carried out due to force majeure events including earthquake, floods, fires or IT system failure, etc.;

(2) settlement, delivery, exercise, assignment crisis occurs, which is causing, or will cause a significant impact on the market;

(3) if an One-Sided Market occurs or if market risks have noticeably increased, and risks are still not mitigated after corresponding actions have been taken;

(4) other situations prescribed by the Exchange.

In the case of extraordinary situation (1) above, the Chief Executive Officer of the Exchange may take such emergency actions as adjusting the market opening and closing times, suspending trading, adjusting the trading hours, suspending the listing of new contracts, adjusting the last trading day, maturity day or last delivery day or any other date of relevant contracts, adjusting options exercise and assignment, adjusting hedging business, adjusting business related to margin paid with securities, canceling the relevant business application that has not been processed, adjusting execution time of forced liquidation, adjusting the margin requirement and method of collecting, adjusting the limit up/limit down, adjusting the daily settlement price, adjusting the rate standards and payment time of relevant fees and charges, adjusting the method of clearing data releasing, among others. In the case of extraordinary situation (1) above and the trading order and/or transaction data are erroneous or lost and cannot be recovered, the Chief Executive Officer of the Exchange may decide to cancel the trading order that has not been filled, and the Board of Directors of the Exchange may decide to cancel the transaction.

In the case of extraordinary situations (2), (3), or (4) above, the Board of Directors of the Exchange may take such emergency as adjusting the market opening and closing times, suspending trading, adjusting the limit up/limit down, raising the trading margin standard, requiring the close-out of positions within a prescribed time period, executing forced liquidation, suspending Funds Withdrawals, etc.

**Article 40** The Exchange shall inform the CSRC before declaring an extraordinary situation and taking emergency measures.

**Article 41** In the event that the Exchange suspends trading following declaration of an extraordinary situation, the suspension period shall not exceed three trading days, unless an extension is approved by the CSRC.

## Chapter XI Risk Warning System

**Article 42** The Exchange issues risk warnings. The Exchange may, when it deems necessary, take one or a combination of the following measures to warn against and mitigate risks: requiring a member and client to report on a situation, giving a verbal reminder, issuing a written admonishment, and releasing a risk warning announcement, etc.

**Article 43** The Exchange shall have the right to arrange a meeting with the officers of a member or a client to give a verbal reminder, or require the member or client to report on the situation, if:

(1) there is an abnormal futures price movement;

(2) the member or client engages in abnormal trading activities;

(3) there is abnormality in the member or client positions;

(4) there is abnormality in member's funds;

(5) the member or client is suspected of any violation or breach;

(6) the Exchange receives a complaint against the member or client;

(7) the member is involved in a judicial investigation; or

(8) there are any other circumstances identified by the Exchange.

**Article 44** In the case of a face-to-face verbal reminder, the Exchange shall notify the member or client in writing of the time, place and relevant requirements one day in advance; the staff of the Exchange shall keep the contents of the meeting confidential.

The client shall attend the meeting in person and be accompanied by a representative designated by the member. If attendance is not possible due to special circumstances, the requested attendee shall inform the Exchange in advance and, upon approval of the Exchange, appoint another person in writing to attend the meeting as a replacement. A requested attendee shall make truthful statements and not withhold any facts.

**Article 45** When, through situation reports and meetings, a member or client is under suspicion of a violation and poses significant risks with its positions, the Exchange shall be entitled to issue a Letter of Risk Warning to the member or client.

**Article 46** The Exchange shall have the right to issue a risk warning announcement to warn all members and clients of relevant risks in the event of:

(1) any abnormal futures price movement;

(2) a significant disparity between the futures price and cash price;

(3) a member or client is suspected of a violation or breach;

(4) significant risks in the transactions of a member or client; or

(5) any other circumstance identified by the Exchange.

## Chapter XII Ancillary Provisions

**Article 47** For the purpose of these *Measures*, "positions" refer to the positions corresponding to each client number.

**Article 48** 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 49** The Exchange reserves the right to interpret these *Measures*.

**Article 50** These *Measures* shall come into effect on April 21, 2023.