

# **Measures for the Administration of Hedging Activities of Zhengzhou Commodity Exchange**

## **Chapter 1 General Provisions**

**Article 1** These Measures are formulated in accordance with the Trading Rules of Zhengzhou Commodity Exchange and relevant regulations for the purposes of standardizing the development of hedging activities and fully developing the hedging function.

**Article 2** The review and approval system shall be applicable to the quota for hedging positions of Zhengzhou Commodity Exchange (hereinafter “the Exchange”).

According to different contract months, the hedging quota shall be classified into quota for regular months (which, in these Measures, shall refer to the period starting from the listing day to the 15th calendar day of the month preceding the delivery month) and quota for nearby months (which, in these Measures, shall refer to the period starting from the 16th calendar day of the month preceding the delivery month to the last trading day of the contract).

According to different directions of the hedging quota approved by the Exchange, the hedging quota shall be classified into the long hedging quota and short hedging quota. The long hedging quota shall be applicable to the hedging positions including long positions in futures contracts, long positions in call option contracts and short positions in put option contracts. The short hedging quota shall be applicable to the

hedging positions including short positions in futures contracts, short positions in call option contracts and long positions in put option contracts.

**Article 3** The clients who need to conduct hedging activities shall apply to futures brokerage members (hereinafter “FB members”) where their accounts were opened. The FB members shall review the applications and submit the applications to the Exchange according to these Measures; the non-FB members shall directly apply to the Exchange. In case that the clients who appoint overseas brokers to engage in the Exchange’s futures trading would like to conduct hedging activities, they shall appoint the overseas brokers to handle the application process, and then the overseas brokers shall appoint relevant FB members to handle the relevant matters.

**Article 4** FB members and non-FB members may submit applications for hedging quota and relevant documents electronically or in paper form to the Exchange.

If the applications are submitted electronically, the FB members shall submit relevant application materials provided by their clients to the Exchange via the member service system; the non-FB members shall submit relevant application materials to the Exchange directly via the member service system. The written application materials of the clients and the non-FB members shall be properly filed by members for future unscheduled check conducted by the Exchange.

**Article 5** The non-FB members or clients applying for hedging quota shall have relevant business qualifications for the products involved in hedging activities.

**Article 6** The members, overseas brokers and clients who conduct hedging activities on the Exchange shall comply with these Measures.

## **Chapter 2 Application and Approval for Hedging Quota for Regular Months**

**Article 7** The non-FB members or clients applying for the hedging quota for regular months shall fill in the Application Form for the Hedging quota for Regular Months of Zhengzhou Commodity Exchange (for Review and Approval) and submit to the Exchange the following supporting documents:

I. a copy of the Business License for Enterprises or Certificate of Incorporation which could certify business scope;

II. the business performance of the enterprise in the physical market in recent two years;

III. the hedging strategy of the enterprise (including the analysis of the risk exposure, the objectives for hedging activities and the quantity of positions expected to be delivered or liquidated);

IV. other documents required by the Exchange.

**Article 8** The applications for the hedging quota for regular months shall be submitted no later than the 5th calendar day of the month preceding the delivery month of the contract for hedging. Any overdue application shall not be accepted by the Exchange. Members and clients may apply for the hedging quota for regular months for multiple contracts at a time.

**Article 9** In terms of the applications for the hedging quota for regular months, the Exchange shall verify the qualifications of the applicants and determine the quota based on whether the products for hedging, the positions held, the buying and selling

quantities and the hedging period are consistent with their production and operation scales, their historical operation performance and their financial conditions or not, and the approved quota shall not exceed the quota having been applied for in the supporting documents.

**Article 10** Upon receiving the applications for the hedging quota for regular months, the Exchange shall, within five (5) trading days, review the applications and make decisions according to the following circumstances:

I. shall approve the applications satisfying the requirements for hedging and notify the applicants of the results;

II. shall not approve the applications failing to satisfy the requirements for hedging and notify the applicants of the results;

III. shall request for additional supporting documents from the applicants if current supporting documents are not sufficient for the approval of the applications.

### **Chapter 3 Application and Approval for Hedging Quota for Nearby Months**

**Article 11** The non-FB members or clients applying for the hedging quota for nearby months shall fill in the Application Form for the Hedging quota for Nearby Months of Zhengzhou Commodity Exchange (for Review and Approval), submit the copy of the Business License for Enterprises or Certificate of Incorporation which could certify business scope and the following supporting documents based on the nature of their

enterprises.

Required supporting documents for manufacturing enterprises:

I. the manufacturing plan of the previous year;

II. for those applying for the short hedging quota, they shall provide the corresponding physical warehouse receipts which can match the quota being applied for or other documents (purchase and sales agreements or invoices) which can prove their ownership of the physical commodities.

Required supporting documents for processing enterprises:

I. the manufacture plan of the previous year and the corresponding processing orders of no less than the quota being applied for;

II. for those applying for the short hedging quota, they shall provide the corresponding physical warehouse receipts which can match the quota being applied for or other documents (purchase and sales agreements or invoices) which can prove their ownership of the physical commodities;

III. for those applying for the long hedging quota, they shall provide the corresponding purchase and sales plans (contracts) of no less than the quota being applied for.

Required supporting documents for the enterprises engaged in trading and other businesses:

I. for those applying for the short hedging quota, they shall provide the corresponding warehouse receipts which can match the quota being applied for or other documents (purchase and sales contracts or invoices) which can prove their ownership of the physical commodities;

II. for those applying for the long hedging quota, they shall provide the corresponding purchase and sales plans (contracts) of no less than the quota being applied for.

Besides the above documents, other supporting documents the Exchange deemed as necessary shall also be provided by the members and clients.

**Article 12** The applications for the hedging quota for nearby months shall be submitted between the 20th calendar day of the second month preceding the delivery month and the 5th calendar day of the month preceding the delivery month. The Exchange shall not accept any overdue application.

The Exchange shall review the applications within five (5) trading days after the submission deadline and make decisions based on the following circumstances:

I. shall approve the applications satisfying the requirements for hedging and notify the applicants of the results;

II. shall not approve the applications failing to satisfy the requirements for hedging and notify the applicants of the results;

III. shall request for additional supporting documents from the applicants if current supporting documents are not sufficient for the approval of the applications.

**Article 13** In terms of the applications for the hedging quota for nearby months, the Exchange shall determine the quota based on the members' or the clients' positions (long and short) and the quantities of positions, their operation conditions in physical market, their outstanding positions in the corresponding futures and option contracts, the stocks of the deliverable commodities in the designated warehouses and whether the futures prices and spot prices are deviating from each other or not, and the approved quota shall not exceed the quota having been applied for in the supporting documents.

The aggregated hedging position quota of a futures contract for nearby months in the whole year shall not exceed the applicant's production capacity and quantity stated in production plan of the underlying commodity in the current year or the applicant's operated quantity of the commodity in the previous year.

## **Chapter 4 Hedging Activities**

**Article 14** The members or clients with approved hedging quota shall establish hedging positions by executing trading orders directly or by confirming the historical speculative positions as hedging positions.

**Article 15** The hedging positions in an option contract shall be converted into those in the corresponding futures contract when the option contract is exercised.

**Article 16** Hedging quota shall not be used repetitively from the 1st trading day (including the day) of the delivery month.

**Article 17** The Exchange shall adopt preferential measures in terms of the margins and service charges for hedging activities.

## **Chapter 5 Supervision and Administration over Hedging Activities**

**Article 18** The Exchange shall supervise and manage the use of the approved hedging quota of members or clients.

**Article 19** The Exchange shall, from time to time, supervise and investigate the members' and clients' production and operation conditions, their credit profile and trading activities in physical and futures markets. The members and clients shall assist and cooperate with the Exchange during such process.

The Exchange shall be entitled to require the members or clients with approved hedging quota to report their trading activities in the physical, futures and options markets.

**Article 20** Members or clients, within validity period of hedging quota, shall promptly inform the Exchange if significant changes have happened to corresponding enterprises. The Exchange shall be entitled to adjust the approved hedging quota of the members or clients according to market conditions and the operation conditions of the enterprises.

**Article 21** Members or clients shall timely apply in paper form to the Exchange for quota adjustments if they need to adjust the hedging quota.

**Article 22** If the members or clients with approved hedging quota frequently open and liquidate positions by using the hedging quota to affect or attempt to affect market prices, the Exchange shall interview and alert them, issue warning letters, adjust or cancel its hedging quota, suspend from opening new positions, request to liquidate positions within a specified time period or conduct forced position liquidation.

**Article 23** If the Exchange was to conduct forced position reduction on members or clients, then their speculative positions shall be reduced before the hedging positions.

**Article 24** In case of frauds occur to the members, clients or violating the Exchange's rules when applying for hedging quota or conducting hedging activities, the Exchange

shall be entitled to reject their applications for hedging quota, adjust or cancel their quota and deal with such behaviors in accordance with the Measures for Penalties for Violations of Zhengzhou Commodity Exchange.

## **Chapter 6 Supplementary Provisions**

**Article 25** The Exchange shall reserve the right to interpret these Measures.

**Article 26** These Measures shall enter into force from November 9, 2018.

**(The English version is for reference ONLY. The Chinese version shall prevail if there is any inconsistency.)**