

# **Measures for the Administration of Abnormal Trading Behaviors of Zhengzhou Commodity Exchange**

## **Chapter 1 General Provisions**

**Article 1** These Measures are formulated in accordance with relevant regulations under the Trading Rules of Zhengzhou Commodity Exchange for the purposes of enhancing the management of the futures market, regulating the futures trading activities and protecting the legitimate rights of the participants in futures market.

**Article 2** The Zhengzhou Commodity Exchange (hereinafter “the Exchange”) shall regulate the futures trading activities and may, upon the discovery of any abnormal trading behaviors, conducting measures against the abnormal trading behaviors and implement self-regulatory measures against relevant members, overseas brokers or clients.

**Article 3** The futures brokerage members (hereinafter “FB members”) and overseas brokers shall duly monitor the trading activities of its clients, report and stop the abnormal trading behaviors of their clients promptly; and shall not condone, induce, encourage or support clients to engage in abnormal trading activities.

**Article 4** The non-futures brokerage members (hereinafter “non-FB members”) and clients shall comply with applicable laws, regulations, administrative rules and the business rules of the Exchange when engaging in futures trading, accept the Exchange’s self-regulatory supervision and consciously regulate their own trading

behaviors. The clients shall also accept the legal compliance opinion of FB members and overseas brokers on their trading behaviors.

## **Chapter 2 Determination of Abnormal Trading Behaviors**

**Article 5** Any of the following trading behaviors shall be determined as abnormal trading behaviors by the Exchange:

I. self-matching. Namely a member or client, by acting as its own counterparty, sells and buys the same futures contract;

II. frequently placing and cancelling orders;

III. placing and cancelling large orders. Namely a member or client places and cancels large orders for many times;

IV. aggregated positions in the actually controlling accounts exceeded the position limit. Namely the quantity of the aggregated positions in a group of accounts involving actual controlling relationship being identified by the Exchange exceeds the position limit prescribed by the Exchange;

V. program trading which may disrupt normal trading practice. Namely a member or client uses computer programs to place orders which may adversely affect the security of the Exchange's system or the normal trading practice at the Exchange;

VI. other behaviors prescribed by China Securities Regulatory Commission or

identified by the Exchange.

**Article 6** If any of the following circumstances occurs to a client or any group of accounts involving actual controlling relationship, the trading behaviors of such client or holders of such accounts shall be deemed as the abnormal trading behaviors of self-trading, frequently placing and cancelling orders, placing and cancelling large orders, exceeding position limit, etc.:

I. conducting self-matching for 5 times or more in the same contract within one trading day;

II. cancelling orders for more than 500 times in the same contract within one trading day; or cancelling buy (sell) orders at the limit up (down) price for more than 100 times when the contract reaches the price limit on a trading day;

III. cancelling orders for more than 50 times in the same contract within same trading where the order volume is more than 800 lots;

IV. the quantity of the aggregated positions in a group of accounts involving actual controlling relationship exceeds the position limit prescribed by the Exchange.

**Article 7** The trading activities among the clients within the same group of accounts involving actual controlling ownerships shall be deemed as self-trading.

**Article 8** Behaviors such as self- matching, frequently placing and cancelling orders and placing or cancelling large orders for hedging purpose shall not be deemed as abnormal trading behaviors.

**Article 9** Behaviors such as self-matching, frequently placing and cancelling orders and placing or cancelling large orders due from market orders and calendar spread orders shall not be deemed as abnormal trading behaviors.

Behaviors such as self-trading, frequently placing and cancelling orders and placing

or cancelling large orders due from fill-or-kill (FOK) orders and fill-and-kill (FAK) orders shall not be deemed as abnormal trading behaviors.

**Article 10** Behaviors such as frequently placing and cancelling orders due from market-making trades shall not be deemed as abnormal trading behaviors.

**Article 11** If a client or actual controlling owner of a group of accounts conducted behaviors such as self-matching, frequently placing and cancelling orders and placing , cancelling large orders in two (2), more contracts in a single trading day or the aggregated positions of such clients or those accounts exceed the position limits on two or more contracts with behaviors recognized by exchange as abnormal trading behaviors, then the same kind of abnormal trading behaviors conducted in these different contracts shall be deemed as a single occurrence of abnormal trading behaviors.

### **Chapter 3 Handling of Abnormal Trading Behaviors**

**Article 12** The Exchange may, according to the following procedures, take measures against a client conducting abnormal behaviors such as self-trading, frequently placing and cancelling orders and placing or cancelling large orders:

I. where the client's behaviors are identified as abnormal trading behaviors for the first time, the Exchange may notify the FB member appointed by the client on the current day and require the FB member to promptly forward the Exchange's notification to the client, to educate and guide the client, and to dissuade and prevent the client from engaging in abnormal trading activities;

II. where the client's behaviors are identified as abnormal trading behaviors for the second time, the Exchange may put it on the watch list;

III. where the client's behaviors are identified as abnormal trading behaviors for the third time, the Exchange may, after the market close of the current day, suspend the client from establishing new positions for no less than one (1) month.

**Article 13** Where a client cancels buy (sell) orders for more than 100 times at the limit price on the trading day when the contract reaches the price limit and the contract volume covered by these cancelled orders has exceeded 10,000 lots in total, the Exchange shall determine such behavior as serious abnormal behavior and shall suspend the client from establishing new positions after the market close of the current day for no less than one (1) month.

**Article 14** Where the abnormal trading behaviors of a client such as self- matching, frequently placing and cancelling orders and placing or cancelling large orders take place through two or more FB members, the Exchange shall notify the FB member through which the client conducted such trading behaviors most frequently.

**Article 15** The Exchange may, according to the following procedures, take measures against a non-FB member conducting the abnormal trading behaviors such as self-trading, frequently placing and cancelling orders and placing or cancelling large orders:

I. where the non-FB member's behaviors are identified as abnormal trading behaviors for the first time, the Exchange may notify the non-FB member;

II. where the non-FB member's behaviors are identified as abnormal trading behaviors for the second time, the Exchange may conduct an interview with the senior management personnel of the non-FB member;

III. where the non-FB member's behaviors are identified as abnormal trading

behaviors for the third time, the Exchange may suspend the non-FB member from establishing new positions for no less than three (3) months.

**Article 16** The Exchange may take measures according to the provisions from **Article 12** to **Article 15** of these Measures against a group of accounts involving actual controlling relationship if abnormal trading behaviors such as self-trading, frequently placing and cancelling orders and placing or cancelling large orders occur to such accounts.

**Article 17** If the quantity of the aggregated positions covered by a group of accounts involving actual controlling relationship exceeds position limit, the Exchange shall, after the market close of the current day, notify the FB members appointed by the clients and require the clients to liquidate relevant positions. If the clients appoint more than one FB member, the Exchange may notify the FB member appointed by the client holding the largest quantity of such positions.

Where the clients fail to liquidate relevant positions within a prescribed time limit, the Exchange shall conduct forced liquidation on the positions.

After conducting forced liquidation on relevant positions, the Exchange shall take self-regulatory measures against the group of accounts involving actual controlling relationship and suspend all accounts within the group from establishing new positions for no less than one (1) month.

**Article 18** The Exchange shall, in addition to the measures taken according to the provisions of **Article 17**, handle the violations of position limit by a group of accounts involving actual controlling relationship according to the following procedures:

I. where the quantity of the aggregated positions covered by a group of accounts involving actual controlling relationship exceeds the position limit for the first time, the Exchange shall put such accounts on the watch list;

II. where the quantity of the aggregated positions covered by a group of accounts involving actual controlling relationship exceeds the position limit for the second time, the Exchange may, on the next trading day, suspend the accounts within the group from establishing new positions for no less than ten (10) trading days;

III. where the quantity of the aggregated positions covered by a group of accounts involving actual controlling relationship exceeds the position limit for the third time, the Exchange may, on the next trading day, suspend the accounts within the group from establishing new positions for no less than six (6) months.

**Article 19** Where the quantity of the aggregated positions in a contract covered by a group of accounts involving actual controlling relationship exceeds the position limit of the current day at the time of clearing, but does not exceed the position limit of the previous trading day at the time of clearing on the previous trading day, such accounts shall be exempted from the self-regulatory measures mentioned in **Article 18** of these Measures.

Where the quantity of the aggregated positions covered by a group of accounts involving actual controlling relationship exceeds the position limit of the current day at the time of clearing, and the positions could not be liquidated on the next trading day due to market conditions and the quantity of the positions still exceeds the position limit at the time of clearing on the next trading day, then such accounts shall be exempted from the self-regulatory measures mentioned in **Article 18** of these Measures on the next trading day.

Notwithstanding a group of accounts involving actual controlling relationship could be exempted from the self-regulatory measures prescribed in **Article 18** under the situations mentioned in the foregoing two paragraphs, the quantity of positions in excess of the applicable position limit shall remain subject to the provisions of **Article 17**.

**Article 20** Where the clients place trading orders by engaging in program trading, which may adversely affect the Exchange's system security or normal trading, the Exchange may take self-regulatory measures against the clients such as arranging interviews and suspending them from opening positions.

**Article 21** In addition to handling the abnormal behaviors of a client in accordance with the procedures prescribed in these Measures, the Exchange may also take self-regulatory measures against the client such as requiring the client to submit written explanation, issuing a warning letter, arranging an interview, restricting fund withdrawal, requesting to liquidate positions within a prescribed time period, suspending the client from establishing new positions and conducting forced liquidation, etc.; where the circumstances of the client's abnormal behaviors are serious, the Exchange shall take measures against the client in accordance with the Measures for Penalties for Violations of Zhengzhou Commodity Exchange.

## **Chapter 4 Supervisory Responsibilities**

**Article 22** The FB members and overseas brokers shall constantly monitor the trading activities of their clients, proactively prevent the possible abnormal trading behaviors of their clients and guide their clients to participate in trading in a rational and compliant manner.

If the FB members or overseas brokers find their clients engaging in any abnormal trading activity prescribed in **Article 5** of these Measures, they shall notify, dissuade and stop the clients.

**Article 23** After the Exchange has taken self-regulatory measures against the clients having abnormal trading behaviors, the FB members and overseas brokers shall promptly notify the clients and take effective measures to regulate the trading activities of the clients.

If a client is found engaging in any of the abnormal trading activity prescribed in **Article 5** of these Measures, the Exchange may, depending on the severity of the situation, take regulatory measures of notifying, arranging an interview, issuing regulatory warning letters and issuing regulatory opinion letters against relevant FB members and overseas brokers.

**Article 24** Where the FB members and overseas brokers have any of the following behaviors, the Exchange shall take self-regulatory measures against the FB members and overseas brokers such as ordering them to make corrections, notifying, arranging interviews, issuing regulatory warning letters and issuing regulatory opinion letters, etc.; where the circumstances of their abnormal behaviors are serious, the Exchange shall take measures against the FB members or overseas brokers in accordance with the Measures for Penalties for Violations of Zhengzhou Commodity Exchange.

I. failing to promptly and accurately communicate to the clients the self-regulatory measures taken by the Exchange;

II. failing to take effective measures to stop the abnormal trading behaviors of the clients;

III. condoning , inducing, encouraging or supporting the clients to engage in abnormal trading behaviors;

IV. failing to duly assist in the investigations of the suspected violations of laws or regulations as per the Exchange's requests, or willfully obstructing the investigation progress and concealing or omitting facts on purpose;

V. other situations prescribed by the Exchange.

**Article 25** If the FB members have received regulatory warning letters twice from the Exchange for neglect of duties of the FB members and overseas brokers, then, for the third occurrence of such neglect, the Exchange shall issue regulatory opinion letters to the FB members.

## **Chapter 5 Supplementary Provisions**

**Article 26** The non-FB members shall be subject to the provisions applicable to the clients unless other provisions are stipulated in these Measures.

**Article 27** The term “futures trading” as mentioned in these Measures shall refer to the trading activities of the futures contracts and options contracts.

**Article 28** The number of times of abnormal behaviors has occurred and the regulatory measures has taken by the Exchange which are prescribed by these Measures shall be calculated yearly.

**Article 29** The terms of “more than” and “less than” as mentioned in these Measures shall include the given figures.

**Article 30** The Exchange shall reserve the right to interpret these Measures.

**Article 31** 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.)**