01 Clearing Participants
02 Fundamental Principles for Clearing
03 CCP Status of Exchange
04 Daily Clearing Business
05 Changes of Delivery and Settlement Business
Clearing Participants

Client

Overseas Trader

Overseas Broker

Member

Futures Company Member (151)

Non-futures Company Member (15)

Exchange

Depository Bank (14)

China Futures Market Monitoring Center (CFMMC)
Mode 1: direct agency of domestic futures company

Mode 2: secondary agency
Fundamental Principles for Clearing

➢ RMB-denominated pricing and Clearing
➢ Directly use foreign exchange as margin
➢ Allow use of relevant capital for settlement and purchase of foreign exchange

- Clearing of profit and loss in futures trading; payment of handling fees; delivery payments; recover capital gap of clearing currency, etc.

- CSRC Decree No. 116 Document: “Provisional Measures on Management of Trading of Specified Domestic Futures Products by Overseas Traders and Brokers”
- PBC [2015] No. 19 Announcement
- SAFE Hui Fa [2015] No. 35 Document and Policy Q&A
### Requirements for Depository Bank

#### Depository Qualification
- Domestic client
- Overseas client
  - Registered capital
  - Total asset and net capital
  - Direct or indirect participant in relevant large-amount real-time payment systems, setting up branches in one or more global or regional financial centers

#### Business & System
- Rules for depository business of specified domestic futures products
- NRA account management
- Cross-border capital remittance and transfer
- Bank futures capital system
- System of settlement and sale of foreign exchange
- Data reporting

#### Regulatory Reporting
- Fulfillment of obligations of anti-money laundry and anti-terrorism financing
- Examination on authenticity and compliance
- Reporting to RCPMIS the account information and the cross-border RMB capital receipt and payment information
- Fulfillment of obligation of reporting international balance of payments
- Data reporting, including relevant accounts, settlement and sale of foreign exchange and others
Settlement Account System

**Exchange**
- dedicated RMB Settlement Account
- dedicated Foreign-exchange Settlement Account

**Futures Company Member**
- dedicated RMB Margin Account
- dedicated Foreign-exchange Margin Account

**Overseas Broker**
- NRA RMB Futures Settlement Account
- dedicated NRA Foreign-exchange Futures Settlement Account

**Overseas Trader**
- NRA RMB Futures Settlement Account
- dedicated NRA Foreign-exchange Futures Settlement Account
Daily Clearing – Capital Remittance and Transfer

- Overseas Trader
  - Overseas Account

- Bank Cross-border Payment System

- Overseas Broker
  - dedicated Futures Settlement Account (NRA RMB and Foreign Exchange)

- Bank futures capital transfer system

- Domestic Futures Company
  - dedicated Capital Account (RMB and Foreign Exchange)
  - dedicated Margin Account (RMB and Foreign Exchange)

- Exchange
  - dedicated Settlement Account (RMB and Foreign Exchange)

- Electronic System of Fund Withdrawal and Deposit

- CFMMC

- Closed Operation of Margin
New Businesses of Futures Companies

- Sign a brokerage contract
- Select a type of currency for profit

Account Opening

- Abide by foreign-exchange policies
- Exchange’s clearing system and rules

Capital transfer and settlement and purchase of foreign exchange

Data Reporting

- Reporting of International balance of payments D05-2 and E01 Forms
- Foreign-countries-related receipt and payment (contract purchase and sale, and physical delivery)
- Exchange (monthly report)
Daily Clearing - Settlement & Purchase of Foreign Exchange

Overseas Trader
Overseas Broker

US dollar

Margin

US dollar

• Select profit payment currency by client

RMB

Profit and loss, handling fee etc.

Delivery Payments

Domestic Futures
Company

US dollar

• Daily settlement and purchase of foreign exchange

RMB

Net amount of single client

Exchange

US dollar

Margin

US dollar

Compulsory foreign exchange swap due to insufficient RMB amount to meet margin call

RMB

Profit and loss, handling fee etc.

Delivery Payments

RMB

Profit and loss, handling fee etc.

Delivery Payments
➢ Qualified CCP (QCCP)

➢ Article 15 in the “Provisional Measures on Management of Trading of Specified Domestic Futures Products by Overseas Traders and Brokers”

➢ Abide by “Principles of Financial Market Infrastructure” (PFMI)
**Fundamental Clearing System**

### Margin System
1. Trading margin and clearing deposit
2. Assets taken as margin

### Mark-to-market System
1. Daily settlement price
2. Minimum balance of clearing deposit

### Risk Reserve System
1. 20% of income from handling fee of members
2. Other incomes abiding by state financial policies
Management on Clearing Risk

Trading Process
- Risk control sum by sum for opening position
- Trading order - freezing of position-opening margin
- Successful trading - margin occupied for holding positions
- In-session risk measurement

Handling After Market Closing
- EFP liquidation
- Option exercise
- Delivery matching
- Delivery settlement (receive payments for goods from the buyer and warehouse receipt from the seller)
- After-session fund withdrawal

Clearing Settlement
- Change of positions
- Change of trading margin
- Change of mortgage value
- Profit and loss and handling fee
- Balance of clearing deposit
- Notice of forced liquidation
- Margin call
- RMB call

Delivery
- Warehouse receipt transferred to buyer
- Pay goods payments to seller
- Invoice flow
- Treatment of delivery default
## Take Foreign Exchange As Margin

<table>
<thead>
<tr>
<th>Content</th>
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<tbody>
<tr>
<td><strong>Deposit &amp; Withdrawal</strong></td>
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<tr>
<td>• Electronic Fund Deposit &amp; Withdrawal System</td>
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<tr>
<td>• The business handling time is consistent with that of RMB capital.</td>
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<tr>
<td><strong>Actual Available Balance</strong></td>
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<td>• Valuation: value of foreign exchange is the RMB amount calculated according to the discount ratio</td>
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<tr>
<td>• Benchmark Price: The central parity of foreign exchange against RMB on the very day released by China Foreign Exchange Trade System (CFETS)</td>
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<tr>
<td>• Currency and Discount Ratio: subject to the Exchange’s announcement</td>
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<td><strong>Actual Currency Capital</strong></td>
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<tr>
<td>• Actual currency capital = RMB capital + converted amount of foreign capital</td>
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<tr>
<td>• The interest of unoccupied foreign exchange capital is calculated according to the interest rate for demand deposits.</td>
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</table>
**Daily Clearing - Mark to Market**

- **clearing deposit < Required Minimum Balance**
  - A member shall supplement to the minimum balance of clearing deposit before market opening on the next trading day.

- **0 < clearing deposit < Minimum Balance**
  - **Restriction of Opening New Positions**

- **clearing deposit < 0**
  - **Forced Liquidation**
    - The exchange may carry out forced settlement of foreign exchange.

- The minimum balance of clearing deposit shall be CNY two million (2,000,000) for a Futures Company Member, which shall be paid with the Member's own funds.
Daily Clearing – Time Limit for Margin Call

- **Commencement of Day-session Trading Fund Deposit**: 8:30 a.m.
- **Supplement Margin to Full Amount**:
  - Session 1: 9:00 a.m. - 10:15 a.m.
  - Session 2: 10:30 a.m. - 11:30 a.m.
  - Session 3: 12:00 p.m. - 1:00 p.m.
- **Deadline for Margin Call**: 1:30 p.m.
- **Commencement of Night-session Trading**:
  - Trading Fund Deposit: 23:30
  - End of Applying for Fund Withdrawal: 15:10
  - End of Day Settlement: 15:00

**Important Dates**:
- **Settlement Supplement Margin to Full Amount**:
  - Session 2: 10:30 a.m.
  - Session 3: 12:00 p.m.

**Time Zones**:
- **Session 1**: 9:00 a.m. - 10:15 a.m.
- **Session 2**: 10:30 a.m. - 11:30 a.m.
- **Session 3**: 12:00 p.m. - 1:00 p.m.

**Non-trading Time**:
- 20:30 - 21:00
- 13:00 - 13:30
Bonded EFP, one-off delivery, transfer of standard warehouse receipt are all settled by the Exchange.

Bonded delivery payments + premium and discount, settled together, payment in a lump sum

VAT tax free policy: The domestic institution issues a VAT common invoice, and the overseas institution offers a receipt.

Five-party issuance mode: selling client → selling member → exchange → buying member → buying client

Time of invoice submission, invoice margin charged at 5% of payments for goods
Business Process of Iron Ore’s Bonded Delivery

Seller

Overseas

Domestic

Non-futures company member

DCE

Futures company member

Iron Ore

Futures company member

Non-futures company member

Buyer

Overseas

Domestic

Non-futures company member

Overseas Client

Overseas Client

Overseas Client

Overseas Broker

Overseas Client

Overseas Client

Domestic Client

Overseas Client

Overseas Client

Overseas Client

Overseas Broker

Overseas Client

Overseas Client

Domestic Client
**Size of Risk Reserve**
- The biggest credit exposure covering the simultaneous defaults of two participants
- RMB4 Billion
Thank You!

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