大连商品交易所
DALIAN COMMODITY EXCHANGE

Iron Ore Risk Control and Surveillance

Dalian Commodity Exchange

February 2018

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Iron Ore Risk Control and Surveillance Business Features

Iron Ore Risk Control and Surveillance Business Features

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Feature 3

Improve and perfect current policies specific to new subjects and conducts

A Risk Control Policy and System Covering All the Flows

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Risk Prevention Beforehand

- Margins policy
- Price limit policy
- Position limit policy
- Trading limit policy (Newly added in 2016)

Concurrent Risk Control

- Large position report policy
- Risk warning policy
- Hedging management policy
- Arbitrage management policy
- Actual control relationship management policy
- Abnormal trading management policy

Risk Disposal Afterwards

- Forced liquidation policy
- Forced reduction policy
- Abnormal circumstance handling
- Handling of violations policy

Consistency in Domestic Rules, Policies and Requirements

Risk Control and Surveillance Policy	Main Content	Domestic Clients	Overseas Clients
Risk control policy	Margins policy Price limit policy Trading limit policy Position limit policy Large position report policy Risk warning policy Forced liquidation policy Forced reduction policy Abnormal circumstance handling policy	Applicable	Applicable
Hedging management policy	Measures for Hedging Management of Dalian Commodity Exchange	Applicable	Applicable
Arbitrage trading management policy	Measures for Arbitrage Management of Dalian Commodity Exchange	Applicable	Applicable
Abnormal trading management policy	Trial Measures Against Abnormal Trading on Dalian Commodity Exchange Measures for Management of Accounts of Actually Controlling Relationship of Dalian Commodity Exchange, etc.	Applicable	Applicable
Violation handling measures	Measures for Handling of Violations of Dalian Commodity Exchange	Applicable	Applicable

Improve and perfect current policies specific to new subjects and conducts

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Add overseas brokers into the applicable scope	Incorporate overseas brokers into the relevant provisions of the Risk Management Measures and the Abnormal Trading Management Measures
Clarify overseas brokers' duties and obligations	Provide for overseas brokers' duties and obligations regarding forced liquidation, large position report, risk reminding, abnormal trading regulation and other work
Clarify overseas clients' business flows	Clarify the flows for handling overseas traders' hedging application, arbitrage application and actual control relationship accounts reporting and filing
Prolong the DCE's forced liquidation time	To facilitate overseas clients to add funds, plan to prolong the forced liquidation counting time point from 10:15 to 13:00 and to prolong the forced liquidation time from 10:30 to 13:30
Supplement certain punishments against violations	Newly add the relevant punishments regarding the violation by overseas brokers of the DCE's rules, add the public criticism and others as the disciplinary punishment means, and add the punishment rules regarding provision of false account-opening materials or any other violations

Part 02

Iron Ore Routine Risk Control Business

Risk Control Business - Margins Management

Minimum Trading Margins

Minimum trading margins standards for futures contracts

Time Gradient Margins

As of the launch on DCE, through the commodity futures contracts entering the delivery month, DCE will gradually increase the trading margins of such contracts as per the time periods. As the delivery month approaches, the contract margins will be gradually increased by 10% and finally by 20%.

Successive Price Limit Margins

In case of successive price limit to the contract, the margins will be adjusted as per the extents and ranges of the price limit.

DCE adjusts the trading margins standards (e.g., long holiday adjustment) as per the market conditions.

DCE's trading margins shall be subject to the "trading after payment" management model. The trading margins shall be a certain proportion of the contract value other than a fixed amount.
Regarding the relevant provisions for adjustment of trading margins, what to be collected will be the larger of the trading margins under such relevant provisions.
Discounts will be applicable to the position portfolios prescribed by DCE.

Risk Control Business - Price Limit Management

01

Price Limit

- DCE formulates the daily maximum price fluctuation ranges for any and all futures contracts, which is a certain proportion of the settlement price of the preceding trading day and may be adjusted by DCE as per the market conditions. Currently, the iron ore price limit is 8%.

The month preceding the delivery month	**4%**
Launch of a new contract	**8%**
Delivery month	**6%**

Successive price limit in the same direction

- As price limit occurs and the price limit ranges increase, the trading margins standards will be increased accordingly.

	First price limit	Second price limit	Third price limit
Price limit ranges	P	P+3%	P+5%
Trading margins standards	M	Max [M， P+5%]	Max [M1， P+7%]

02

Trading Limit Policy

➢The trading limit refers to the maximum quantity of positions during a certain period for a certain contract as prescribed by DCE for the members or the clients. DCE will formulate the trading limit for different listed products or contracts or for part or all members or clients on the market conditions.

➢For non-futures company members or clients that exceed the trading limit, DCE may take such measures as telephone reminding, request for reporting information, request for submitting a written promise, listing into a key regulatory list and suspension of opening for trading.

Iron Ore

As of August 22, 2017, the non-futures company member or client's total of the buying opening quantity and selling opening quantity as per a single contract on a single trading day shall not exceed 6,000 contracts regarding the iron ore 1801 Contract and 1805 Contract. The existence of the trading limit policy is a big difference between China's futures market and US's or other overseas markets. However, the trading limit only limits the opening quantity, does not limit the liquidation quantity, and is against speculative practices only, without affecting the hedging ones.

Position Limit Policy

The position limit policy is purported to prevent market manipulation risks, so as to prevent that the market operation is improperly affected due to a certain investor's oversized share in the market.

DCE's position limit refers to the maximum amount of the speculative position of a certain futures contract on the unilateral calculation basis that may be held by the members or clients as prescribed by DCE. (The position limit applies to the non-futures company members and clients other than futures company members and overseas brokers, subject to unilaterally calculated position and non-net position management.)

Regarding a futures contract of a certain month, varied position amounts will respectively apply during the periods of its trading course. Regarding a futures contract in a delivery month, its position limit shall be strictly controlled. There are three position limit time gradients.

The clients that have actual control relationship accounts shall report the actual control relationship, with the positions being calculated on the consolidated basis, and shall be managed as per one client.
Increase of position amount may be applied for to DCE regarding the hedging and arbitrage trading.

Risk Control Business - Hedging Application

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Hedging Business Application and Review Flows

01

Apply for the hedging qualification

•The non-futures company members and clients that engage in hedging trading shall have the production and operation qualification related to the products for hedging trading.

02

Input Physicals Scale

•Provide the client's physicals operation scale, including the operation performance of the last year and the operation plan of the then-current year.

03

Apply for the hedging amount

•Inform DCE of the maximum position amount that the client intends to hold in iron ore product (in ordinary months) or contracts (in delivery months)

04

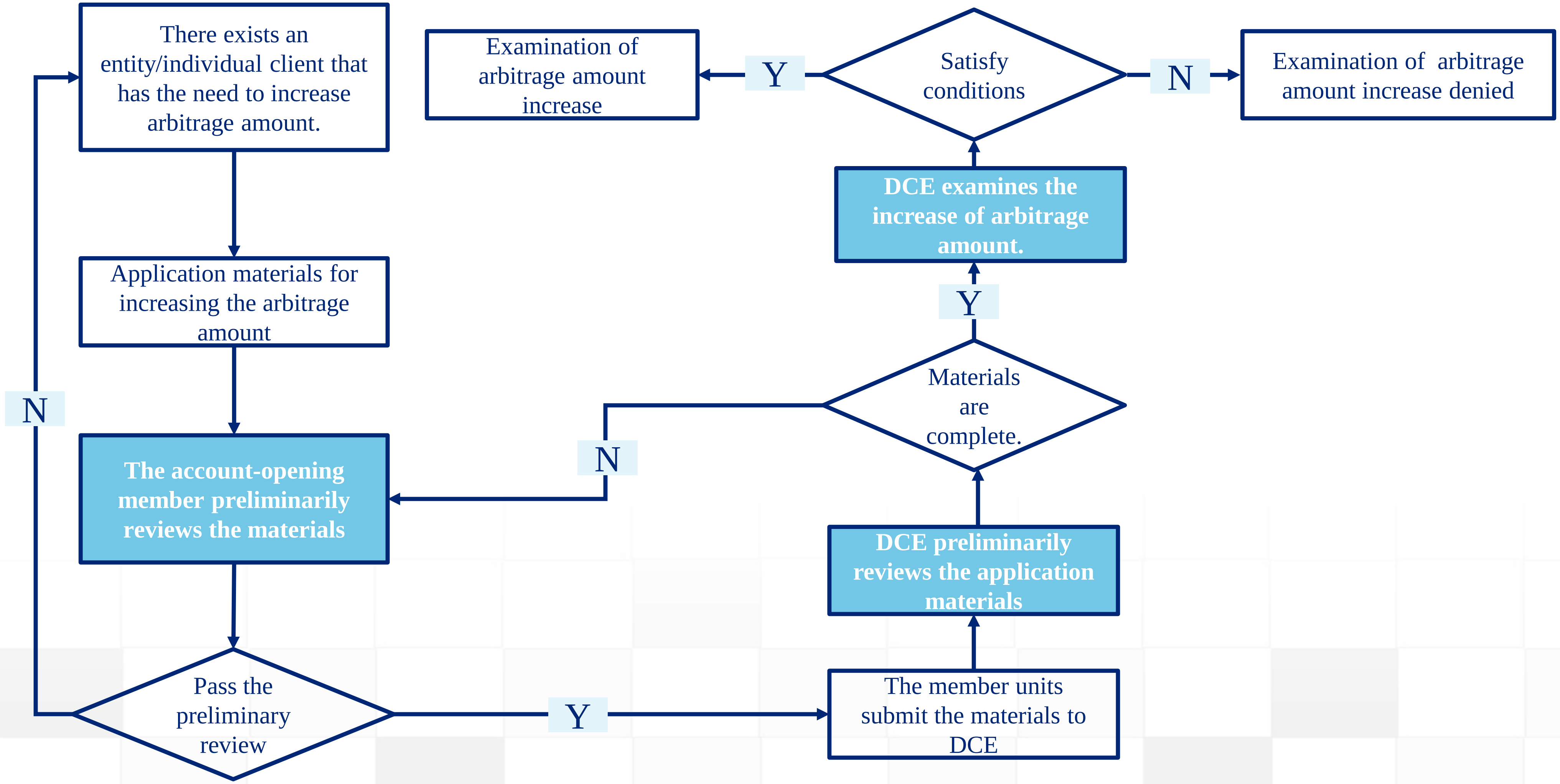
DCE's Examination

•In ordinary months, the DCE system automatically calculate the client's positionable amount as per the position quantity of each contract under the product and on the basis of the client's physicals operation scale and the client's hedging needs.

•In delivery months, to be jointly discussed by DCE's relevant departments

Risk Control Business - Arbitrage Amount Application

Arbitrage Amount Application and Review Flows



Risk Control Business - Large Position Report Policy

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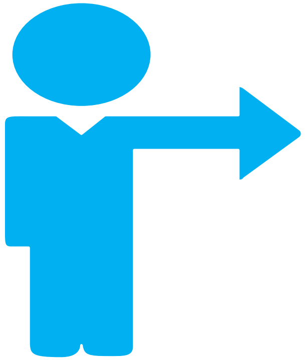

- There is a large position report requirement.
- The reporting standards shall be no less than 80% of the speculative position quantity limit.
- The reporting standards shall contain fund and position information.
- The reporting flows are as follows**: (i) The clients report through a futures company member; and (ii) The clients that engage an overseas broker to conduct futures trading shall report through its overseas broker which then report through the futures company member.** (The names of the clients of the overseas brokers will be kept confidential from the members.)

- Reporting timeframe: 15:00 on the immediately following trading day
- In case of successive satisfaction of reporting standards:

  In case of necessitating a second or supplemental reporting, DCE will notify the relevant members.

- In case a client has more than one trading code at different futures companies, and if the total of the positions held under all the trading codes arrives at the reporting limit, DCE will specify and notify the relevant futures company member which will then be responsible for reporting and submitting the relevant materials of the information that shall be reported by such client.

Risk Control Business - Forced Liquidation

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To be adjusted to be 13:30

20:55

Regarding products without night trading session, the members may liquidate by themselves within the first trading session.

10:30

Regarding products with night trading session, the members may liquidate by themselves within the first trading session during night.

10: 15

In case the member fails to complete the liquidation within the prescribed timeframe, DCE will conduct forced liquidation.

To facilitate overseas clients' additional payment of funds, the plan is to prolong the forced liquidation time-point to 13:00.

Forced Liquidation Policy

- The forced liquidation refers to one of the compulsory measures under which DCE conducts liquidation against the relevant position upon the member's or client's violation.
- The circumstances of forced liquidation cover those caused by the member's insufficiency in funds, the client's excess position, violation or any other reasons.
- The execution price of the forced liquidation is formed through the market trading.
- The quotation price of the forced liquidation is the price limit prices.
- On account of overseas clients' time difference and inconvenient fund transfer, the forced liquidation time is prolonged to 13:30.

Risk Control Business - Forced Reduction

01 There occur three successive same-direction price limits regarding a futures contract, without successive quotations.

02 The clients which satisfy the loss conditions post a liquidation engagement at the price limit.

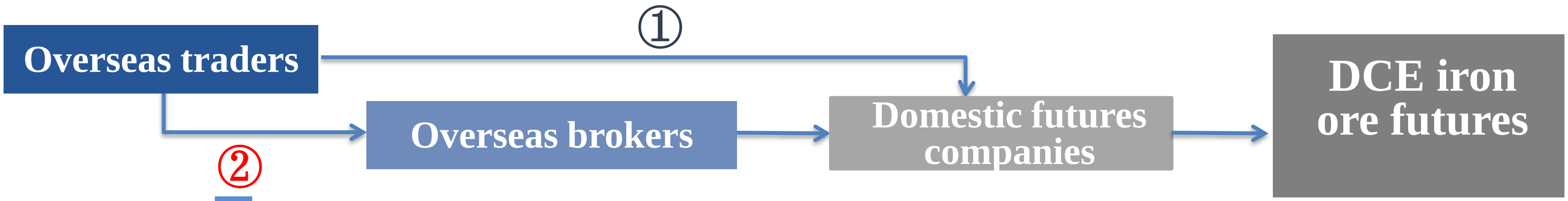
03 Match the qualified profitable client with the qualified losing client.

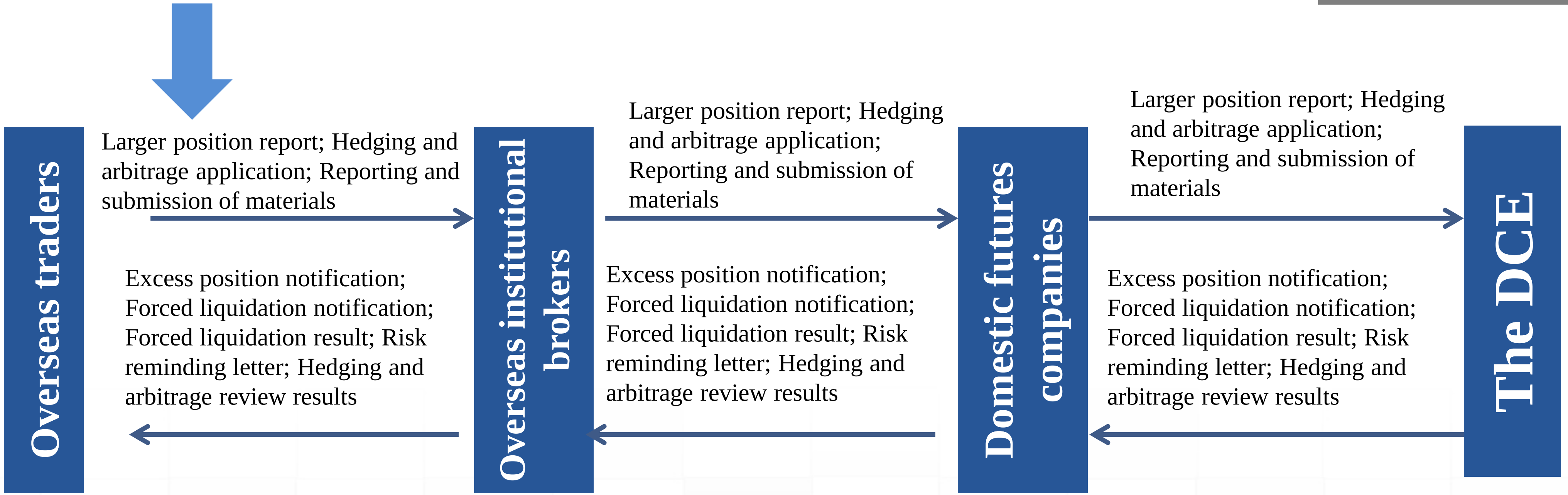
04 The liquidation is conducted as per the price-limit price.

Iron Ore Product Forced Reduction Circumstances

- **The forced reduction is only one of the risk disposal measures under the circumstance that there occur three successive same-direction price limit regarding the iron ore contract.**
- **As of the launch of iron ore, DCE has never taken the risk control measure of forced reduction against the iron ore.**

Risk Control Business - Business Handling Flows for Clients That Trade Through Overseas Brokers





The names of the clients of the overseas brokers in such risk control business flows as the larger position report, excess position, forced liquidation result, risk reminding letter and other flows will be kept confidential from the members. However, the client names and other information cannot be kept confidential on account that the relevant certification materials shall be submitted through the members regarding hedging and arbitrage applications.

Part 03

Iron Ore Routine Market Surveillance Business

Iron Ore Routine Market Surveillance Business

Surveillance Business

Programmed trading shall be reported to DCE.

The actual control relationship accounts shall be proactively reported to DCE.

There are regulatory provisions for self-transaction, frequent submission and withdrawal of orders.

There are punishment provisions for violations by the members, overseas brokers, clients and other futures market participants, to be detailed in the Violations Handling Measures.

Surveillance Business - Programmed Trading Reporting Management

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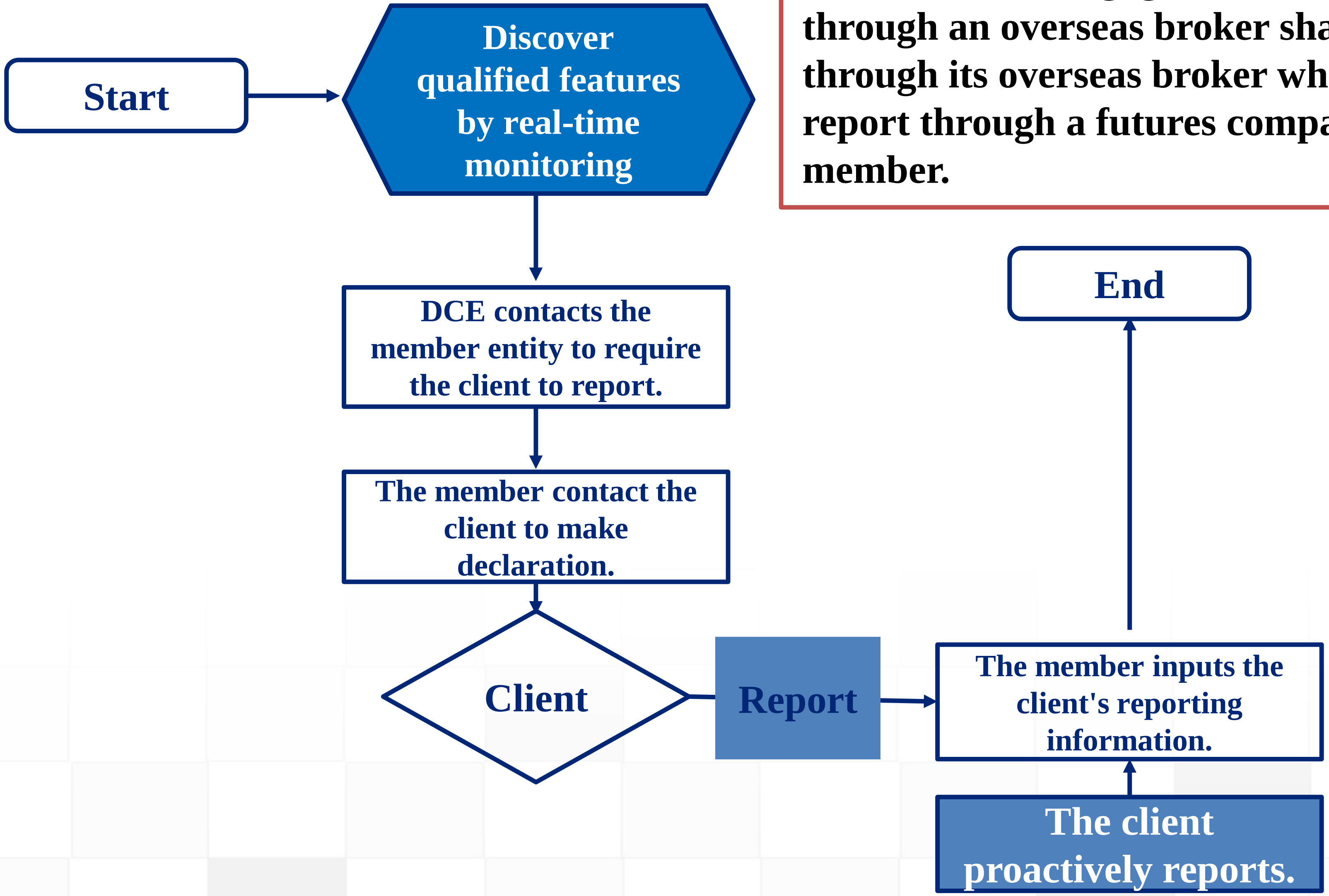
Programmed Trading Reporting Work Flows

The client that engages in futures trading through an overseas broker shall report through its overseas broker which then report through a futures company member.



Surveillance Business - Programmed Trading Reporting Management

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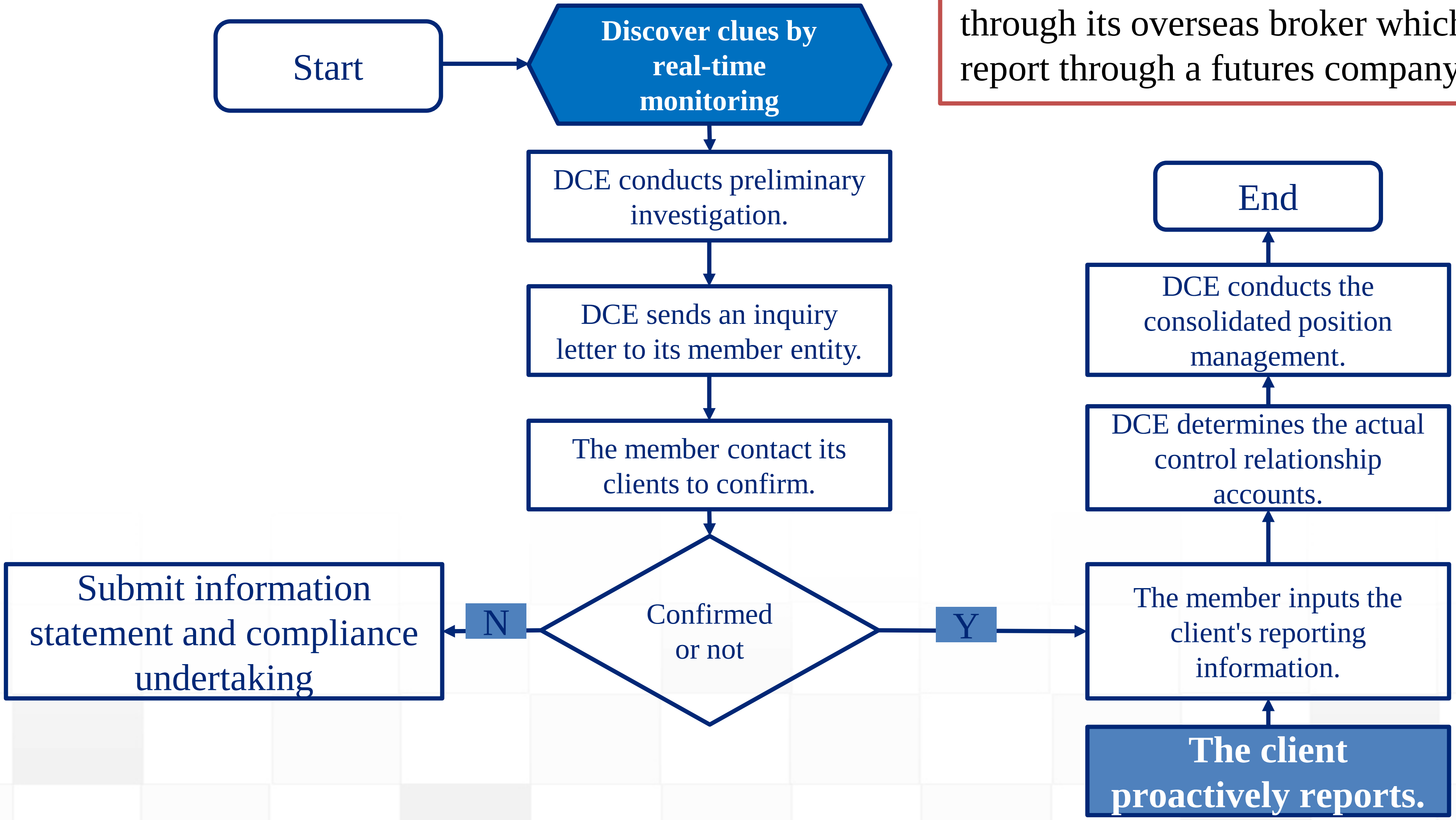
Actual Control Relationship Accounts Management Flows

The client that engages in futures trading through an overseas broker shall report through its overseas broker which then report through a futures company member.



Surveillance Business - Abnormal Trading Management

Abnormal Trading

1 Frequent submission or withdrawal / Large-amount submission or withdrawal

•Frequent submission or withdrawal
•Large-amount submission or withdrawal

2 Self-transaction

•Conduct self-sale and self-purchase many times by taking itself as the trading subject

3 Programming

- Place orders in batch or quickly by computer programs, affecting the DCE's system security or normal trading order

4 Actual control relationship accounts

•The trading by taking each other as the counterpart for many times within the group of the actual control relationship accounts as determined by DCE
•The consolidated position of the group of the actual control relationship accounts as determined by DCE exceed the position limit as prescribed by DCE

Handling Flows for Satisfaction of Abnormal Trading

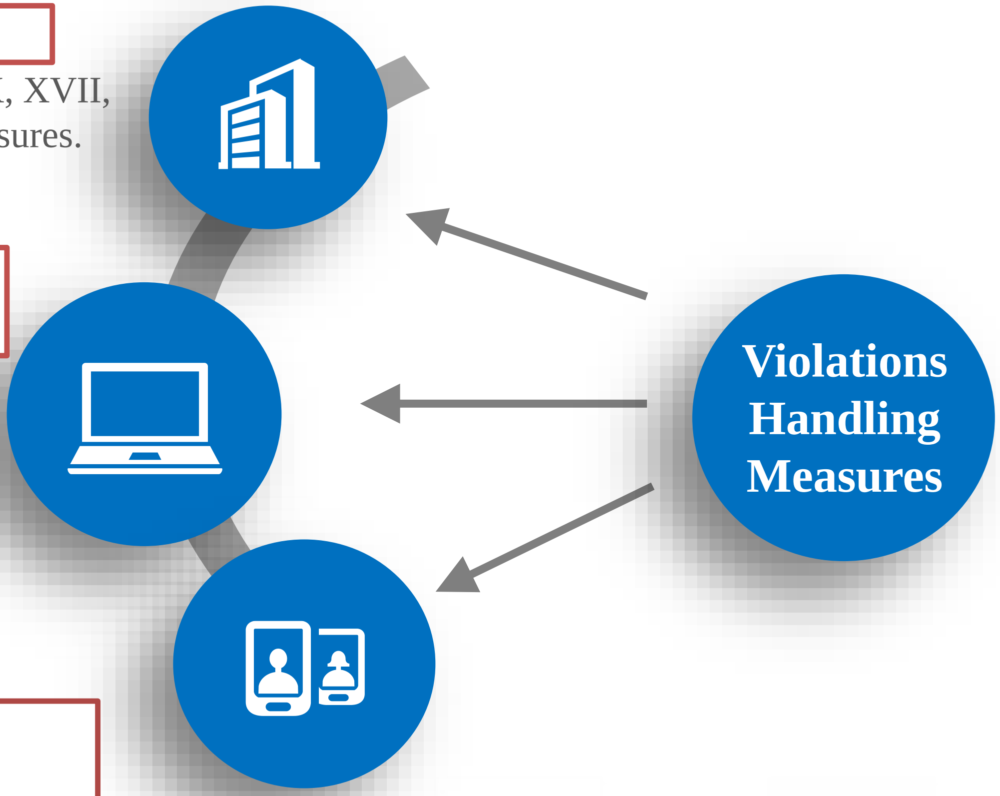
There are varied disposal measures respectively for the first, second and third abnormal trading satisfaction.

The relevant regulatory measures taken, or the relevant written decisions made, by DCE against the client which has the abnormal trading will be issued to such client through the futures company member with which the client is affiliated. In case the overseas broker is involved, the overseas broker shall assist the futures company member to timely contact the relevant client, informing the DCE's relevant regulatory information and written decisions.

Surveillance Business - Violations Handling

Add Overseas Brokers Into Relevant Provisions as A New Subject

Mainly, overseas brokers are added as a new subject into Articles II, IV, VI, VII, VIII, IX, XVII, XXVI, XXVII, XXX, XL, XLII, LI and LIV of the amended Violations Handling Measures.



Clarify Punishment Provisions against Any Possible Violations after Introduction of Overseas Subjects

Mainly including:

- Take as the violations, and punish, using futures trading for money laundering, swaping foreign exchange maliciously and failing to perform overseas brokers' filing obligations.
- Add the punishments against overseas brokers' refusing cooperation with DCE to investigate into clients' violations, committing any suspected violations, having any significant risks or violating the suitability management rules.

Other Amendments (Add Violations Punishment Provisions and Applicable Punishment Measures)

Newly added applicable violations punishment measures mainly include:

- Circulated criticism
- Public censure
- Compensation of loss
- Suspension of partial futures business
- Adjustment of the then-current day settlement price and delivery settlement price, etc.

Newly added violations punishment provisions mainly include:

- Punishment provisions regarding providing false account-opening materials
- Punishment provisions regarding illegally stealing other futures market participants' transaction information, settlement funds information or other information
- Punishment provisions regarding issuing false invoices or falsifying other notes or certificates
- Punishment provisions regarding the designated testing agencies' conducting measurement or test against the applicable provisions or issuing, or assisting to issue, false test reports, etc.
- Punishment provisions regarding the designated depository banks' failing to perform the relevant obligations

Thank you!

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