



Dalian Commodity Exchange

Clearing and Settlement

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November, 2020



QCCP Status of Dalian Commodity Exchange

DCE conducts CCP clearing under Chinese laws and regulations.

Regulation on the Administration of Futures Trading

A futures exchange shall provide centralized performance guarantee for futures trading.

Interim Measures for the Administration of Overseas Traders' and Overseas Brokers' Engagement in the Trading of Specified Domestic Futures Products

Article 15 Futures exchanges that perform the functions of settlement shall, acting in the capacity of a central counterparty, uniformly organize the settlement of trades in specified domestic futures products.

Measures for Clearing Management of Dalian Commodity Exchange

Article 6 The Exchange, as a central counterparty, shall organize the settlement with respect to the futures trading, and be responsible for the margin management, the risk reserves management and the prevention of the settlement risks with respect to the futures trading.

The term "*central counterparty*" means a legal person who, upon the conclusion of a futures transaction, interposes itself between the counterparties to the futures transaction, becoming the buyer to every seller and the seller to every buyer, undertakes the clearing on a netting basis, and to provide centralized performance guarantee for such futures trading.

DCE was officially recognized as a qualifying central counterparty (QCCP) by China Securities Regulatory Commission (CSRC) on January 10, 2019.

Margin Management

Asset as Margins

- The settlement currency for all the contracts is RMB.
- RMB cash, foreign currencies, standard warehouse receipts, central government bonds are currently accepted.
- So far, the vast majority of margin deposit is in RMB cash within DCE collateral pool.

RMB

Foreign
Currency

Standard
Warehouse
Receipt

Central
Government
Bond

Risk Management

- Haircuts: 20% haircut is applied for standard warehouse receipts and government bonds, and 5% haircut for US dollars.
- Concentration Limit: maximum amount of non-cash collateral is 4 times of the Member's cash collateral.

Types of Margins

1. Trading Margins:

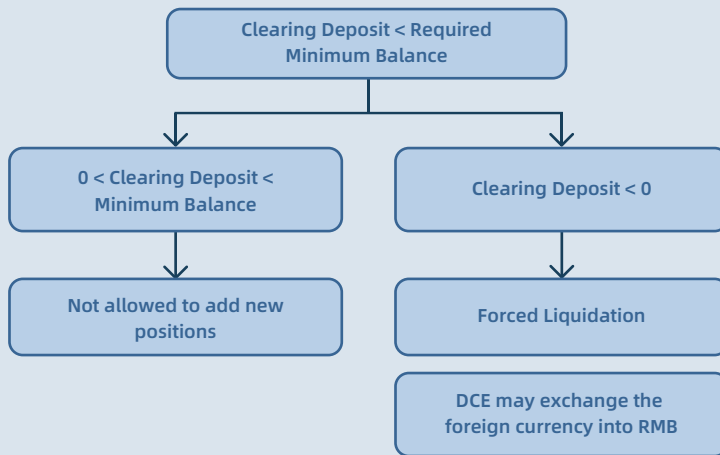
- The Trading Margins refer to the funds that a member deposits in the settlement account to meet the initial margin requirement.
- Trading Margin Rate is calculated as a percentage of the contract notional value and is adjusted based on the market conditions. A pre-defined set of offsets can also be applied with the participants' request.

2. Clearing Deposits:

- The Clearing Deposits refer to the excess funds deposited by a member in advance for the daily settlement.
- The minimum balance of the Clearing Deposit shall be prescribed and announced by DCE, currently at 2 million RMB for Futures Company Members.

Daily Mark-to-Market

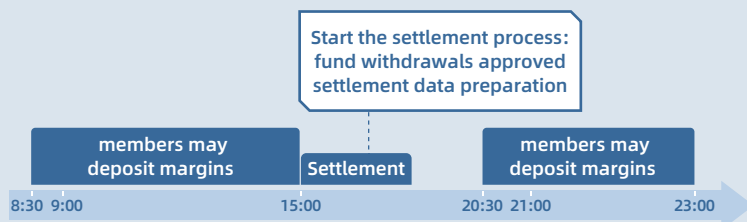
As part of the daily settlement process, DCE marks all the participant portfolios to market.



- At the end of each trading day, DCE settles profit and loss, trading margins, trading fees and other fees for all the contracts according to the settlement prices.
- The net amounts of the receivables and payables will be transferred, with the members' clearing deposits increased or decreased accordingly.

Timeline for margin collection and payment

- During the trading period -> the clearing members shall deposit the margin requirement before each transaction is executed
- During the end of day settlement process -> DCE will charge members' margins for the profits and losses of all contracts based on the latest settlement prices
- After the settlement is completed -> the members are obligated to increase the clearing deposit to the minimum balance before the market opens on the next trading day



Settlement of Physical Delivery

All the commodity futures contracts currently traded on DCE are settled through physical delivery when expire.

Delivery Settlement

- The members conduct delivery settlement with the Exchange on behalf of their clients.
- DCE processes the payment of goods and transfers the warehouse receipts' ownership.
- In case there is a delivery default, the delivery shall terminate between the buyer and the seller and the exchange will initiate the delivery default management process.

Invoicing

- For tax-paid delivery, when DCE processes the payment of goods, the seller should submit the invoice to buyer in time.
- Through the bonded delivery process of iron ore futures 5 parties are involved in issuing invoices. As part of the process, the exchange issues an invoice to the buyer's member and takes an invoice from the seller's member; the buyer's member issues an invoice to the buyer, and the seller issues an invoice to the seller's member. Value-added-tax (VAT)-included invoice are used in all procedures, except that an overseas trader or broker can issue a receipt voucher in place of the VAT-included invoice as a seller.

Designated Depository Banks

Under Chinese futures market regulation, customer funds must be deposited in designated depository banks.

- So far, there are 16 DCE-designated depository banks, among which 12 can provide service for international clients.
- Depository banks need to meet certain requirements to ensure financial strength and safety of customer funds. The *Measures for Designated Depository Banks Management of Dalian Commodity Exchange* specifies the business and technical requirements for DCE-designated depository banks.



Opening accounts and accepting deposits

- DCE maintains Dedicated Settlement Accounts in different currencies at the designated depository banks to deposit the members' margins.
- The members maintain Dedicated Margin Accounts in different currencies at the designated depository banks to deposit the clients' margins.
- The overseas brokers and clients who directly entrust Chinese futures company maintain dedicated accounts to handle the fund transfers.

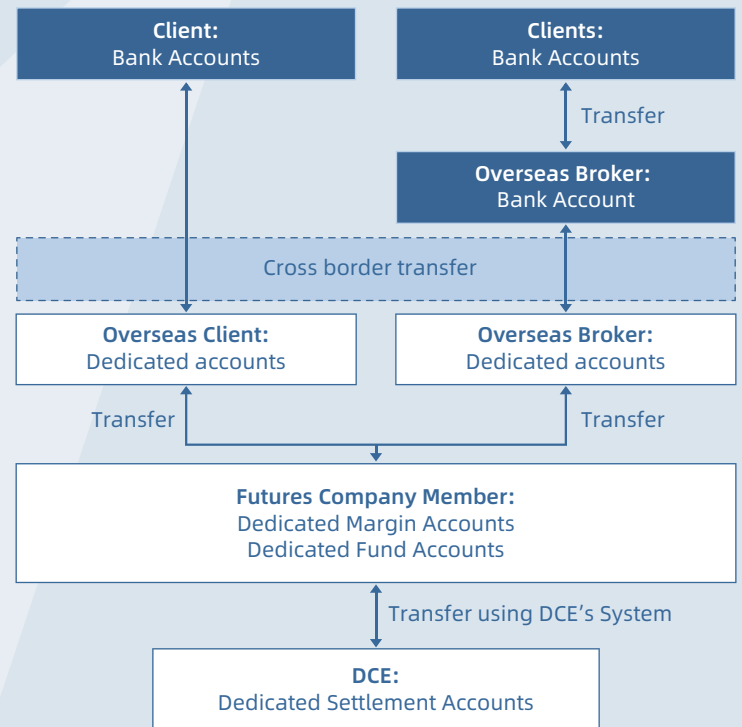
Settlement and purchase of foreign exchanges

Regulation:

- Circular of the State Administration of Foreign Exchange on Foreign Exchange Administration for Overseas Traders and Brokers Engaging in Futures Trading under Specific Domestic Categories. (Reference number, Huifa No. 35 [2015])
- Published by State Administration of Foreign Exchange (SAFE) .

FX settlement and purchase

- The FX settlement and purchase only involve profit or loss from futures trading, payment of service fees, delivery of payment for goods, as well as call for payment of gaps in settlement currency.
- If overseas clients or brokers choose to denominate their profit or loss in USD, Futures Company Member will calculate the demand of FX transactions. Designated Depository Banks will process the FX settlement and purchase, and the relevant fund transfer.



Default Waterfall

DCE applies the following default waterfall once a Member failed to perform obligations.



- The Risk Reserves refer to the funds set up by DCE to provide financial guarantees for the normal operation of the futures market and to cover the losses caused by unforeseeable risks.

FAQ

1. Does trading margin increase as the open positions in a contract grows?

A: No. Tiered margin mechanism has been canceled since 2013. However, the Exchange might adjust margin rates depending on market conditions.

2. Is trading margin applied on both buy-side and sell-side of a transaction?

A: Yes.

3. Does DCE provide margins offsets across contracts?

A: Yes. DCE provides a set of margin discount for certain portfolios, including calendar spread, inter-products, straddle, strangle, etc. For more details, please refer to DCE website - "Portfolio Margins" for most updated parameters.

4. What are the marketable securities allowed to be used as collateral besides government bonds?

A: Standard warehouse receipts (other than those of egg and No.2 soybean futures).

5. Is there any concentration limit for each collateral type?

A: The amount of non-cash collateral shall not be higher than 4 times of the Member's cash collateral.

6. Can a warehouse owner use warrant of his/her warehouse as collateral?

A: No.

7. Are the margin accounts maintained in the name of DCE, the member or the underlying clients of the member?

A: The dedicated settlement accounts opened in the depository banks by DCE for deposit of the Member's margins and relevant payments are maintained in the name of the exchange; also, a member shall open a dedicated margin account in a depository bank. Under China's regulations, customer margins can only flow within a "closed-circle" that constitutes the margin accounts of a futures company in depository banks and its margin accounts at futures exchanges.

8. Can overseas clients participate in physical delivery for specified futures products?

A: Yes