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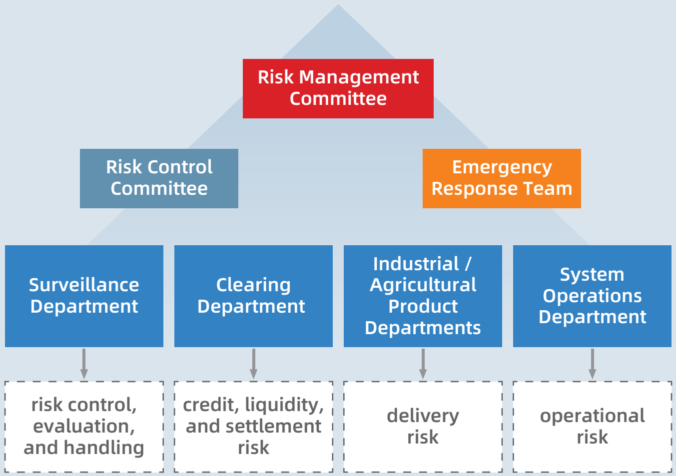
Dalian Commodity Exchange

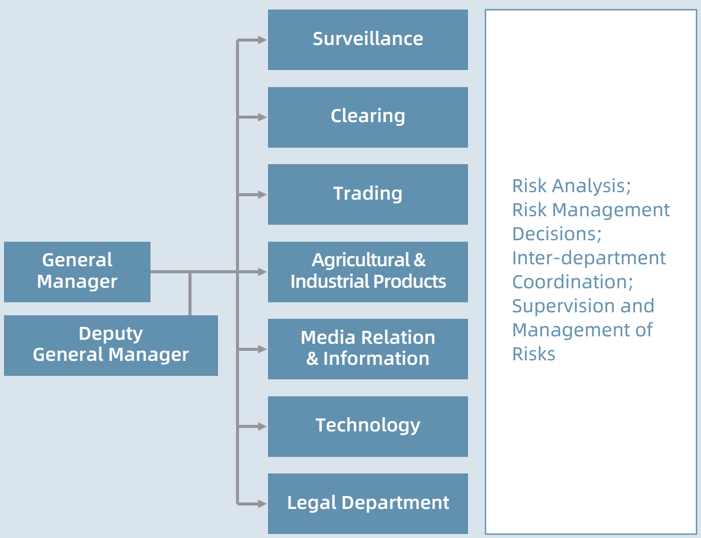
Risk Management

November, 2020

DCE Risk Management Framework



DCE Risk Control Committee

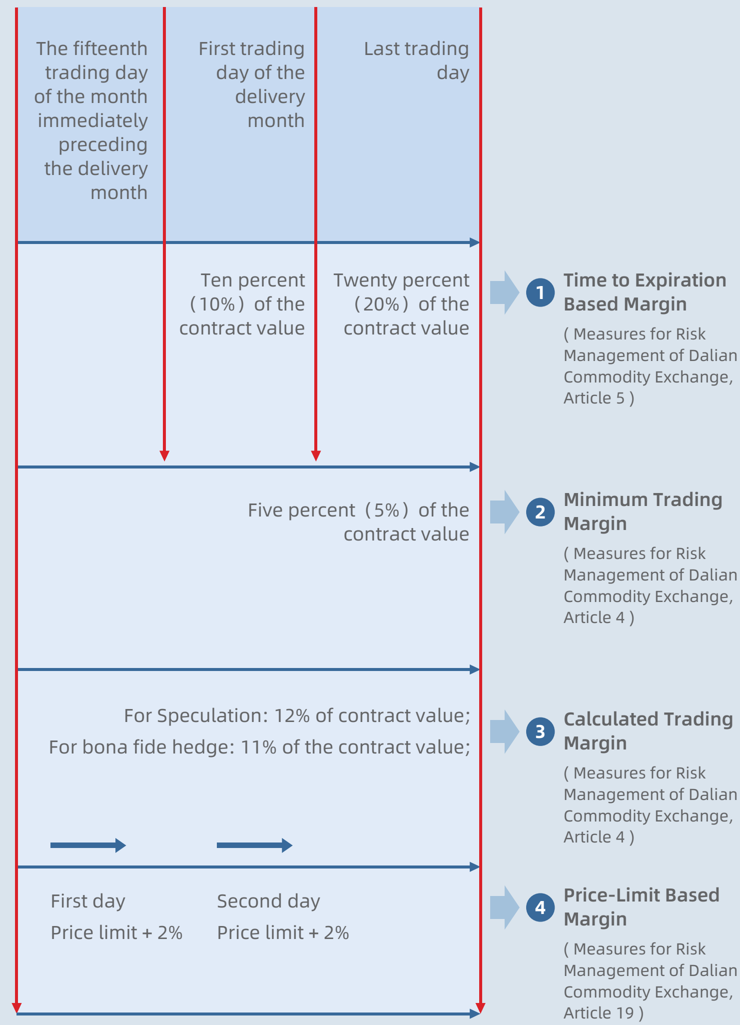


DCE Risk Management Approach

- Margin
- Price Limit
- Position Limit
- Trading Limit
- Large Position Report
- Forced Position Liquidation
- Mandatory Tear-up

01 Margin

- Pre-order check for margin sufficiency
- A certain percentage of the contract notional value instead of a fixed amount
- Adjust the trading margins based on the market conditions (before long holiday, volatile market condition, etc.)
- Different margin rate between general month and delivery month



Effective margin rate = MAX (①, ②, ③, ④)

02 Price Limit

- Maximum price range for a futures contract in each trading session
- Measured in percentage against the settlement price of the previous day
- Different price limit for delivery month and other months
- DCE may adjust price limits based on the market conditions
- When markets hit the price limit, the price limits will be expanded automatically on the next trading day

	First Price Limit (Day One)	Second Price Limit (Day Two)	Third Price Limit (Day Three)
Price Limit	P1	P2 = P1+3%	P3 = P2+3%
Trading Margins	M1	M2 = Max [M1, P2+2%]	M3 = Max [M2, P3+2%]

03 Price Limit

- Aim to prevent the market order from being improperly affected by investors with oversized market share
- The maximum amount of its speculative position on a certain futures contract which may be held by the member or the clients as prescribed by DCE
- Calculated for each side of positions
- Different position limits are applied for different periods of trading
- Apply only to the Non-Futures Company Members and clients
- No position limits for futures members and overseas brokers

Positions for Each Side

Keep both long and short positions for each client

Each side checked against the position limit

Example: Client A long 40,000 lots, short 40,001 lots i2101 and the position limit is 40,000 lots.

Client A violates position limit.

04 Trading Limit

- Aim to prevent excessive speculation
- The maximum amount of trading volume for a certain contract for members or clients specified by the exchange in a certain period
- Only apply to the position opening, not liquidation
- Only apply to speculative trading, but not hedging
- Measures against trading limit breach: verbal warning, request of information reporting, request of submitting a written promise, list on regulatory list, suspension of position opening for trading

05 Large Position Report

- The reporting threshold shall be no less than 80% of the speculative position limit
- The reporting contents shall include funding information and position information
- Non-Futures Company Members or clients shall report to the exchange before 15:00 on the next trading day if the position reaches the reporting threshold
- Accounts involving actual control relationship accounts are treated as one account
- If 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 reach the reporting threshold, DCE will notify all the relevant futures company members
- Clients shall report directly through a Futures Company Member
- Clients of an overseas broker shall report through its overseas broker which then report through the Futures Company Member

06 Forced Position Liquidation

The exchange may carry out forced position liquidation against a Member or a client in below and other circumstances prescribed in the rulebook

- the Member's clearing deposit is below zero and fails to be fully paid up within the required period

4:00pm Day 1: Settlement
Clearing Member A's clearing deposition < 0

→ Day 1 night ~ Day 2 morning (Add fund to the account)

1:00pm Day 2
Clearing Member A's clearing deposition still less than zero

→ **1:30pm Day 2**
The exchange liquidates position automatically

The forced position liquidation shall be carried out against all clients of the Member under the principle of equal ratio liquidation on the basis of the trading margin.

$$\text{Liquidation} = \frac{\text{Trading margin which shall be additionally paid by the Member}}{\text{Total amount of the Member's trading margins}} \times 100\%$$

Trading margins to be released =
total amount of the client's trading margins × liquidation ratio

- the open interest held by the Non-Futures Company Member and the client exceeds their position limits

3:00pm Day 1: Market Close

Client A's position > position limits

During the night trading session on day one and the morning session on day two, close out the over-limit positions by yourself or your clearing member

1:30pm Day 2

The exchange liquidates the over-limit positions automatically

- The forced liquidation refers to the coercive measure of liquidation carried out by the Exchange against the relevant position in case the Member or client commit a violation.
- The trade price of the forced liquidation is formed through market trading.
- The order price of the forced liquidation is the relevant limit price.

- it is subject to the punishment of forced position liquidation imposed by the Exchange due to any violation
- any circumstance under which the forced liquidation shall be carried out on the basis of the Exchange's emergency measure(s)
- any other circumstance under which the forced position liquidation shall be carried out

07 Mandatory Tear-up

- One of the last risk mitigation measures when the price of a contract hits price limits in the same direction for 3 times
- The Exchange shall publish a Notice to investors if decided to do so
- The clients who have satisfied the loss conditions and post liquidation orders at the limit price
- The exchange will match the qualified profitable clients with the qualified losing clients
- The liquidation is conducted at the relevant limit price

FAQ

1. Is the trading parameters (margin rate, price limit, etc.) prescribed in the contract specifications the actual value?

A: No. The contract spec table only lists the minimum price limit range and minimum trading margin, which are lowest level of the related parameters and are set by the regulators. Please visit DCE website for latest trading parameters for each contract.

2. Will the position limit increase as the total open interest of a contract increase?

A: Yes.

3. Regarding large position report, when an overseas client report through the overseas intermediary, who then report to the exchange via the authorized Chinese futures company member, will the member be informed of the client name?

A: No. The client name, in above circumstance, will be kept confidential from the member.

4. What is so-called "one-direction non-continuous quotation under the price limit"?

A: It means during the last five minutes of the trading day, there are only purchase orders at the trading limit price and no sell orders at the trading limit price, or all the sell orders are instantly filled at the limit price without opening of the trading limit price (price limit up) and vice versa (price limit down).

5. Will the trading margin increase as the price limit expands when it occurs?

A: Yes. For instance, if on day 1, price limit was reached, the price limit for day 2 would be 3% more than the previous price limit, and the margin rate would be 2% higher than the price limit on day 2; If the price limit on the same direction is hit on day 2, the price limit on day 3 will be 2% more than that on day 2 and the margin rate would be 2% higher than the price limit on day 3.

6. If a client has both long and short positions of a contract, can the long and short side positions be netted for position limit calculation purpose?

A: No. Each side of a clients' positions is checked against the position limit.