

Clearing and Settlement

Clearing Department
July 2020

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DCE currently conducts the 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.

Measures for Clearing Management of Dalian Commodity Exchange

- 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.

Measures for Administration of the Futures Company Members Entrusted by Overseas Brokers with Futures Trading Business of Specified Domestic Futures Products

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

QCCP

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DCE has been recognized as a QCCP by CSRC

- DCE is regulated by China Securities Regulatory Commission(CSRC), China's statutory regulator for the securities and futures markets.
- DCE has been recognized as a qualifying central counterparty (QCCP) by CSRC since January 2019.

Public Disclosure

- DCE updates and discloses information at regular intervals, in response to the Principles for Financial Market Infrastructures (PFMI) issued by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO).
- DCE updates and publishes the evaluation report required by the PFMI every year.
- DCE publishes its quantitative disclosure every quarter.

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RMB cash is used for daily settlement and various collaterals are accepted to ensure the performance of contracts.

Assets as Margins

- The settlement currency for all the contracts is RMB cash.
- RMB cash, foreign currencies, and the standard warehouse receipts are currently accepted as initial margin collateral. Treasury bonds and other negotiable securities with stable value and high liquidity will be accepted in the near future.
- The vast majority of current initial margin deposit in RMB cash.

Risk Management

- Haircuts: DCE has maintained stable and conservative haircuts. A 20% haircut is applied for the standard warehouse receipt used as margin, and a 5% haircut for the US dollar used as margin.
- Proportion limit: DCE sets the maximum amount of non-cash collateral to be at most 4 times of the Member's cash collateral.

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Margins include the Trading Margins and the Clearing Deposits.

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 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.

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 2MM RMB for Futures Company Members.

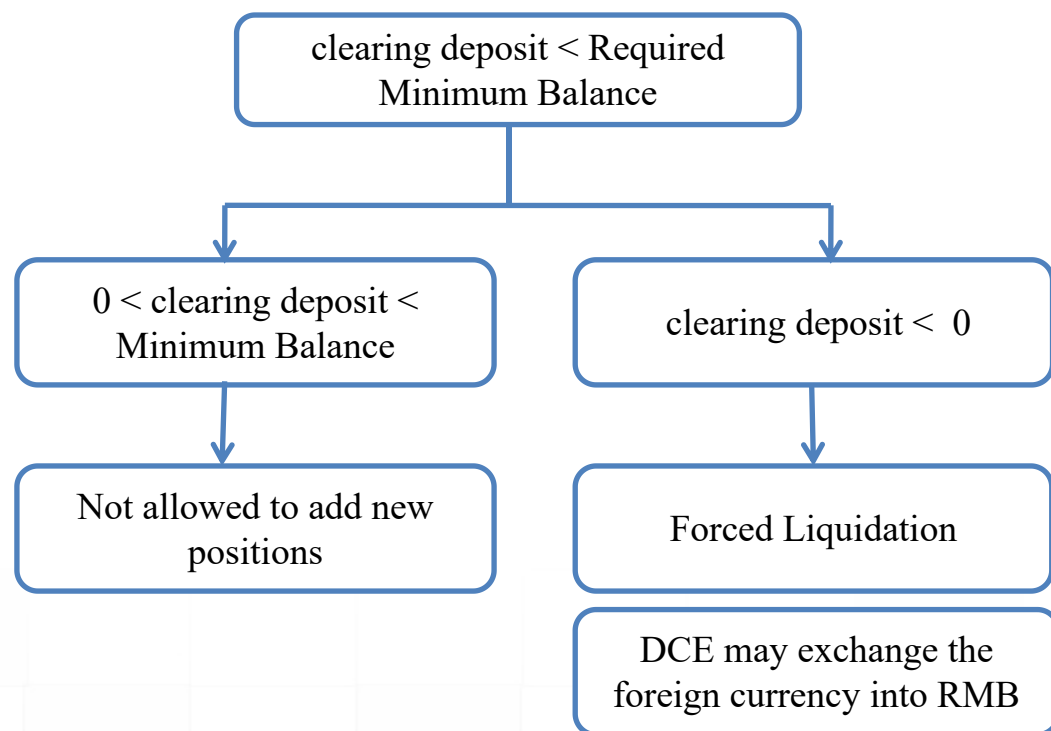
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As part of the daily settlement process, DCE marks all the participant portfolios to market.



- 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 on the day.
- The net amounts of the receivables and payables will be transferred, with the members' clearing deposits increased or decreased accordingly.

QCCP

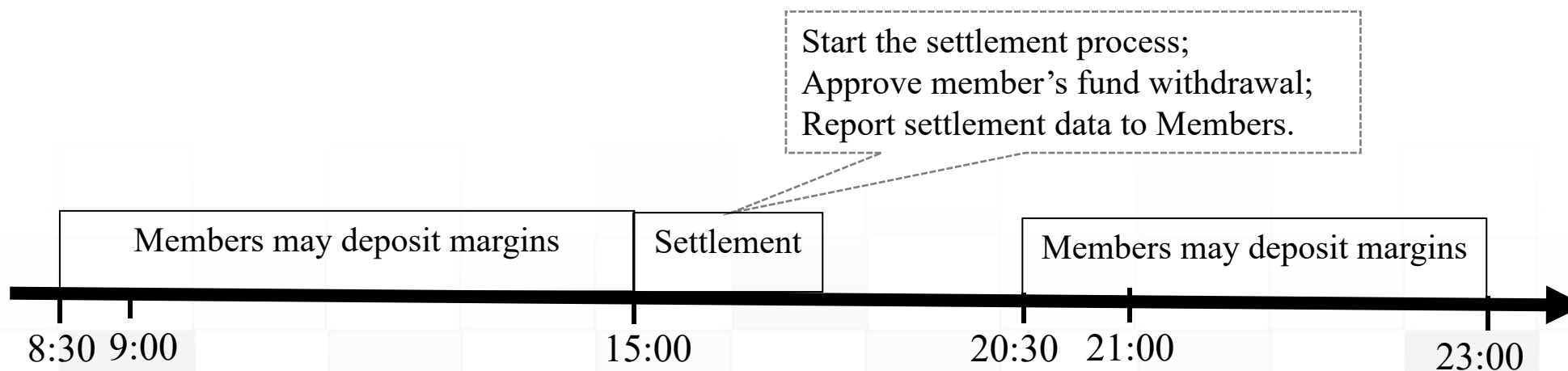
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The timetable for margin collection and payment is:

- 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.



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

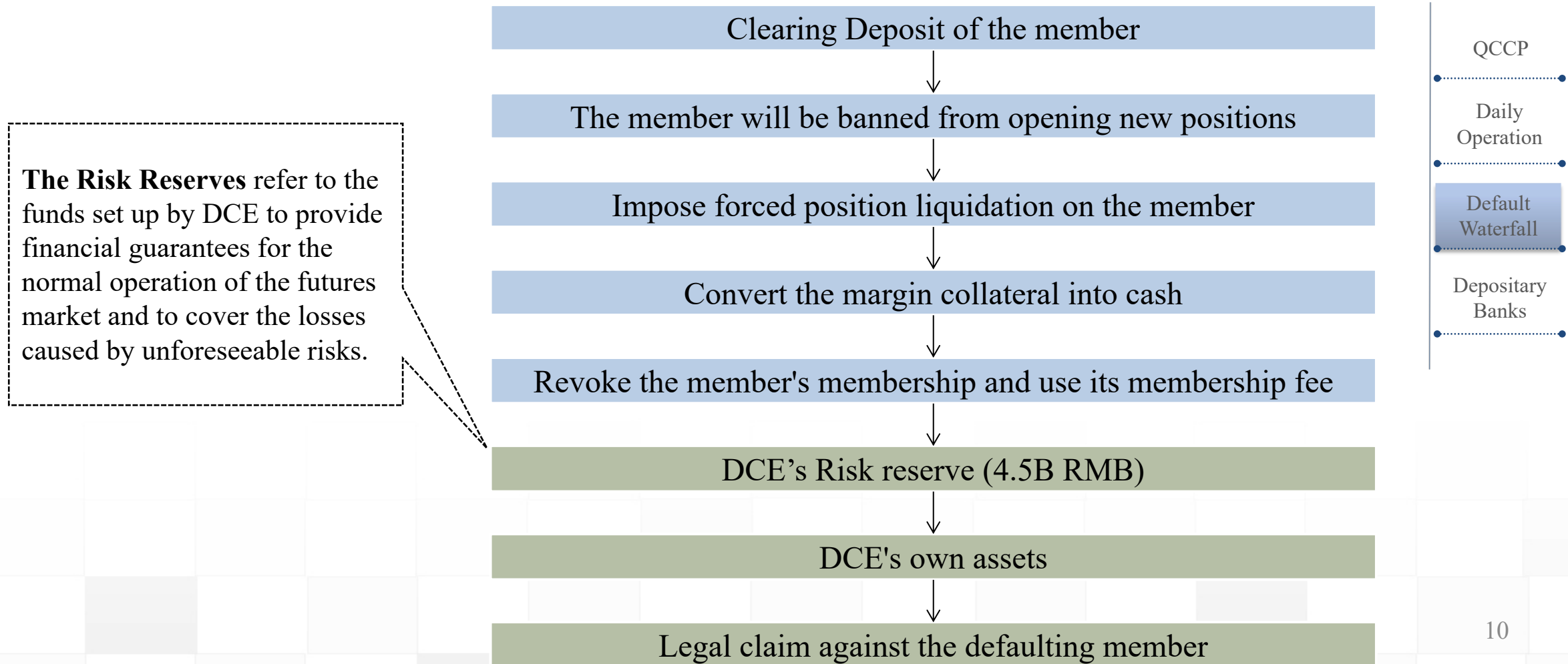
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DCE applies the following default waterfall once a Member failed to perform obligations.



There are 16 DCE-designated depository banks.

 交通銀行 BANK OF COMMUNICATIONS ★	 中国工商银行 INDUSTRIAL AND COMMERCIAL BANK OF CHINA ★
 中国建设银行 China Construction Bank ★	 中国农业银行 AGRICULTURAL BANK OF CHINA ★
 中国银行 BANK OF CHINA ★	 浦发银行 SPD BANK ★
 兴业银行 INDUSTRIAL BANK OF CHINA ★	 中国民生银行 CHINA MINSHENG BANK ★
 Bank 中国光大银行 ★	 中信银行 CHINA CITIC BANK ★
 招商银行 CHINA MERCHANTS BANK ★	 中国农业发展银行 AGRICULTURAL DEVELOPMENT BANK OF CHINA ★
 中国平安 平安银行 PING AN BANK ★	 广发银行 CGB ★
 中国邮政储蓄银行 POSTAL SAVINGS BANK OF CHINA ★	 HSBC ★

- The “Measures for Designated Depository Banks Management of Dalian Commodity Exchange” specifies the business and technical requirements for DCE-designated depository banks.
- The Depository service to traders is classified into 2 types: domestic traders’ margin depository and overseas traders’ margin depository.
- All the designated depository banks are well capitalized and very reputable.

QCCP

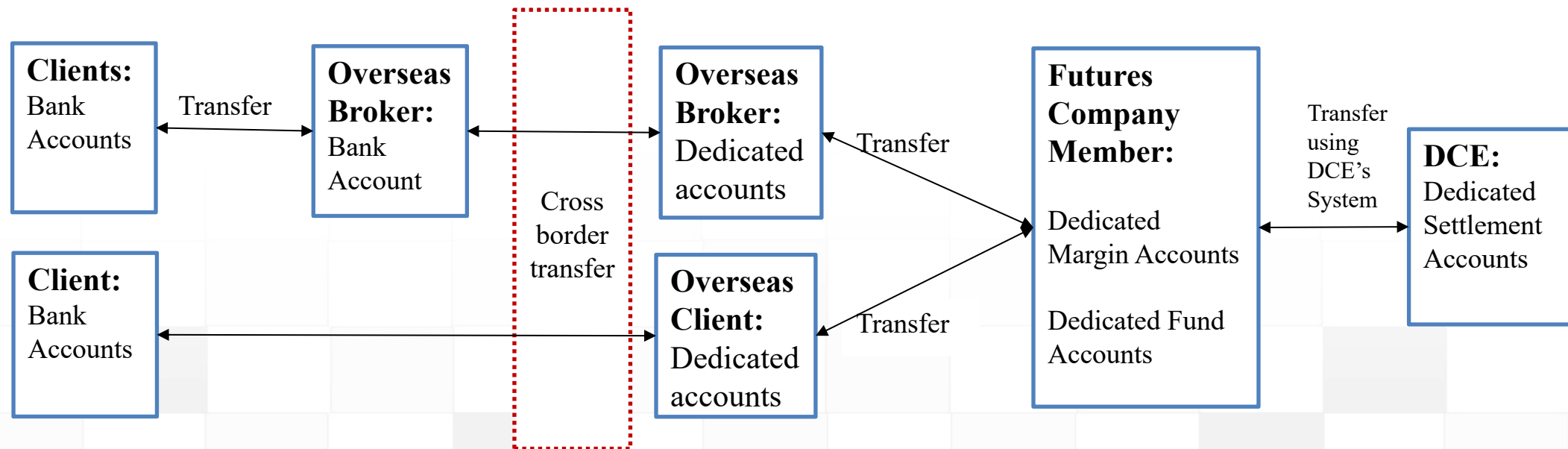
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Designated Depository Banks are responsible for opening accounts and accepting the deposits.

- 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.



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Designated Depository Banks process the settlement and purchases of foreign exchange based on the actual results of futures trading.

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 involves 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.

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Thank You



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