Access to Mainland China Commodities Futures/Options

QFII vs Internationalized Products

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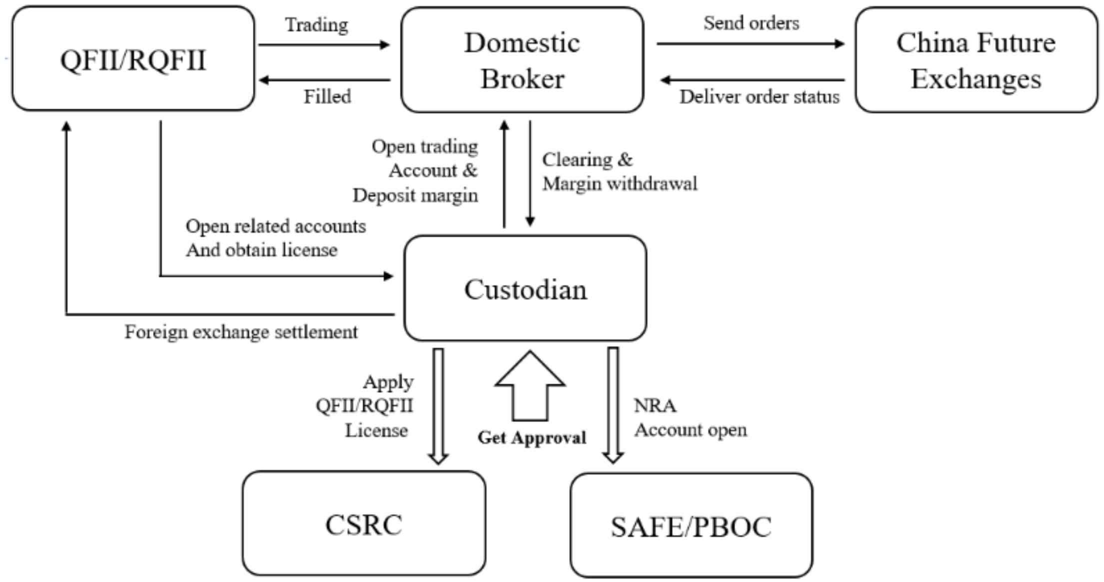
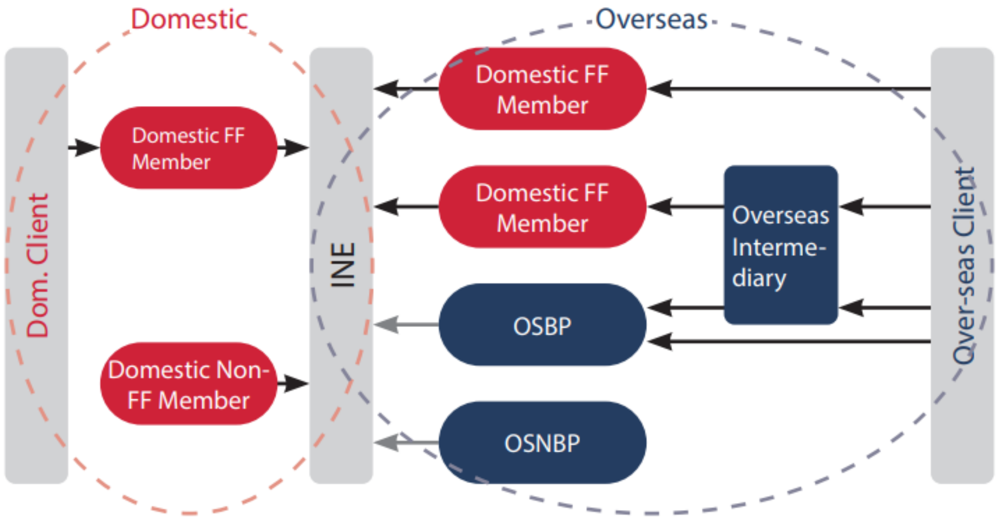




Note: Black arrows indicate direct access of trading, clearing and settlement. Grey arrows indicate direct access of trading directly, but clear and settle trades through a carry broker who must be a domestic FF Member.

Exhibit 10: Accesses of Participation of Overseas Investors

Source: Shanghai International Energy Exchange

QFII VS Internationalized Products

	QFII	Internationalized Products
Eligibility	QFII/RQFII	Oversea clients(Institution/ Individual)
Checking of qualification	CSRC	No need to check by CSRC
Account Opening Entity	Futures Company	Futures Company、OSBP、OI(Oversea Intermediary)
Currency for Margin	CNY	CNY、USD
Investment Scope	46 (27 Futures 、19 Options)	23(14 Futures、9 Options)
Physical Delivery	Not allowed currently	Entity clients that cannot receive or issue VAT invoices shall not engage in the delivery

QFII VS Internationalized Products

Five China futures exchanges announced the product lists that are in scope for QFII trading. In total 23 commodity futures, 16 commodity options listed on DCE/ZCE/SHFE/INE and 3 equity index options listed on CFFEX are on the list.

- **No hedging requirement** for commodity futures/options trading
- **Hedging is required** for CFFEX listed options

QFII

ZCE
- PTA Futures & Option
- Methanol Futures & Option
- White Sugar Futures & Option
- Rapeseed Oil Futures & Option
- Polyester Staple Fiber Futures

DCE
- No. 1 Soybean Futures & Option
- No. 2 Soybean Futures & Option
- Soybean Meal Futures & Option
- Soybean Oil Futures & Option
- RBD Palm Olein Futures & Option
- Iron Ore Futures & Option
- LLDPE Futures & Option

INE
- Crude Oil Futures & Option
- TSR 20 Futures
- Low Sulfur Fuel Oil Futures
- Bonded Copper Futures

SHEF
- Gold Futures & Option
- Silver Futures
- Copper Futures & Option
- Aluminium Futures & Option
- Zinc Futures & Option
- Steel Rebar Futures
- Hot rolled coils Futures

CFFEX
- CSI300 Index Futures
- SSE50 Index Futures
- CSI500 Index Futures
- CSI1000 Index Futures
- CSI1000 Index Options
- CSI300 Index Options
- SSE50 Index Options

Internationalized Products

ZCE
- PTA Futures
- Rapeseed Oil Futures & Option
- Rapeseed Meal Futures & Option
- Peanut Kernel Futures & Option

DCE
- No. 1 Soybean Futures & Option
- No. 2 Soybean Futures & Option
- Soybean Meal Futures & Option
- Soybean Oil Futures & Option
- RBD Palm Olein Futures & Option
- Iron Ore Futures & Option

INE
- Crude Oil Futures
- TSR 20 Futures
- Low Sulfur Fuel Oil Futures
- Bonded Copper Futures

To access domestic China commodities futures/options

二、通过合格境外投资者渠道开展的商品期货、商品期权、股指期权交易将严格按照向中国证监会备案的投资计划开展，不涉及结构性产品业务和证券公司跨境衍生品业务及有关对冲交易，如有重大变更或调整将向中国证监会事前更新投资计划；

Investors, which trade commodities futures, commodities options or index futures options as QFIIs, should strictly follow the investment plans submitted to CSRC. The investors are prohibited to involve in structured products business and cross-border derivatives business of securities firm and related hedging trading. If there are significant change or adjustment in investors' trading business, the investors need to file to CSRC to renew the investment plans in advance.

☐ If trade commodities futures/option as QFII,

From the custodian bank side, the client needs to renew the investment plan to CSRC via custodian bank, the client needs to clarify what products would like to trade additionally, and what investment strategies would like to trade.
There is obstacle that CSRC requires the investors who trade commodities futures, commodities options, index options as QFIIs are prohibited to involve in structured products business and cross-boarder derivatives business.

Then from the futures company side, the client needs to apply for the trading authority of the commodities futures exchanges(only some paper work)

☐ If trade commodities futures via internationalized products channel, the client needs to open the NRA account with one domestic designated depository bank, meanwhile, to open another futures account with SYWG futures .

Or the client can choose to trade via one oversea intermediary.

The difference between CFFEX and other exchanges

Trading Code Application Form for Overseas Institutional Client

Date of application:

Futures Firm or Overseas Broker	
Internal Funds Account	
Principal-Agent Relations	None
Trading Code Requested and Type	☐ SHFE ☐ ZCE ☐ DCE CFFEX ☐ Hedging ☐ Arbitrage ☐ Trading ☐ INE

☐ One difference for QFIIs trading index futures and commodities futures is , when the clients apply for the trading code of CFFEX, the clients need to determine which type of trading code would like to apply for (as CFFEX divides the trading code into three types, hedging, trading and arbitrage) ,

While for other commodities futures exchanges, there is only one type of trading code.

That is to say, for QFII trading index futures/index options, after the trading code approved, the clients need to apply for hedging quota ahead of starting trading.

But for commodities futures/options, the clients can trade once the trading code approved, no restriction on trading strategies.

Position Limit & Margin Ratio of Commodities Futures

Time-dependent position limit and margin rate:
Position limit varies based on which stage a contract is in during its lifecycle. Nearby delivery month contracts (i.e., contracts close to the delivery month) are subject to more stringent position limits.

For example:

product	From the Day of Listing to the last Trading day of the Third Month Before the Delivery Month	The Second Month Before the Delivery Month	The Month Before the Delivery Month
SC	Position Limits(lots)	Position Limits(lots)	Position Limits(lots)
	3000	1500	500

Period of Trading	Min. Trading Margin as % of TSR 20 Contract Value
As of listing	7%
As of the 10th trading day of the 2nd month before the delivery month	10%
As of the 10th trading day of the month before the delivery month	15%
As of the 2nd trading day before the last trading day	20%

Risk Management - Risk Rate, Margin Call & Liquidation

Calculation of Margin and risk

- Client Equity: The total amount of funds in client's margin account
- Trading Margin: The margin which is occupied by position holding
- Risk Rate = Trading Margin / Client Equity *100%

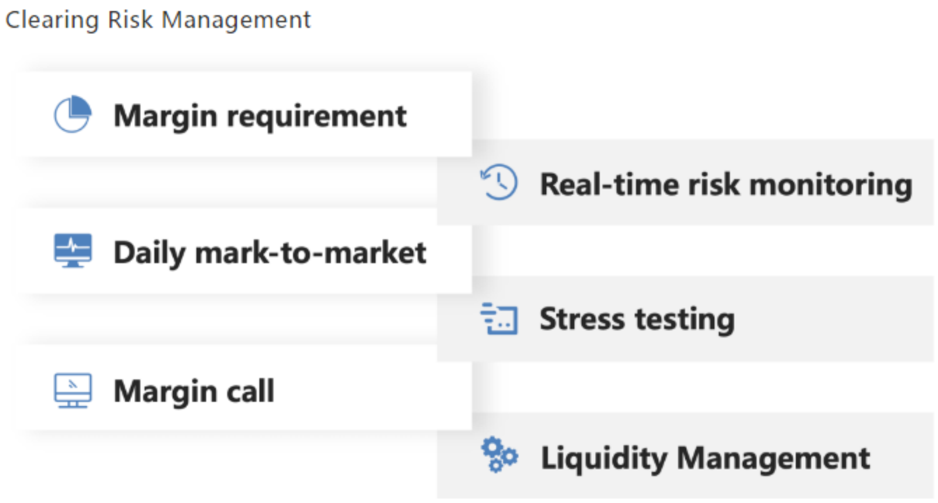
a. *SHFE/INE/CFFEX: 'One-side, larger amount margin' rule*

b. *DCE/ZCE: compositive margin rule*

Margin Call

When the Risk Rate ≥ 100%, there will be margin call.

Not allowed to open new trades, but can close-out to release margin



Liquidation

margin call at T day. For QFII clients, usually Futures company set the

funds transfer cut off time T+1 2pm,

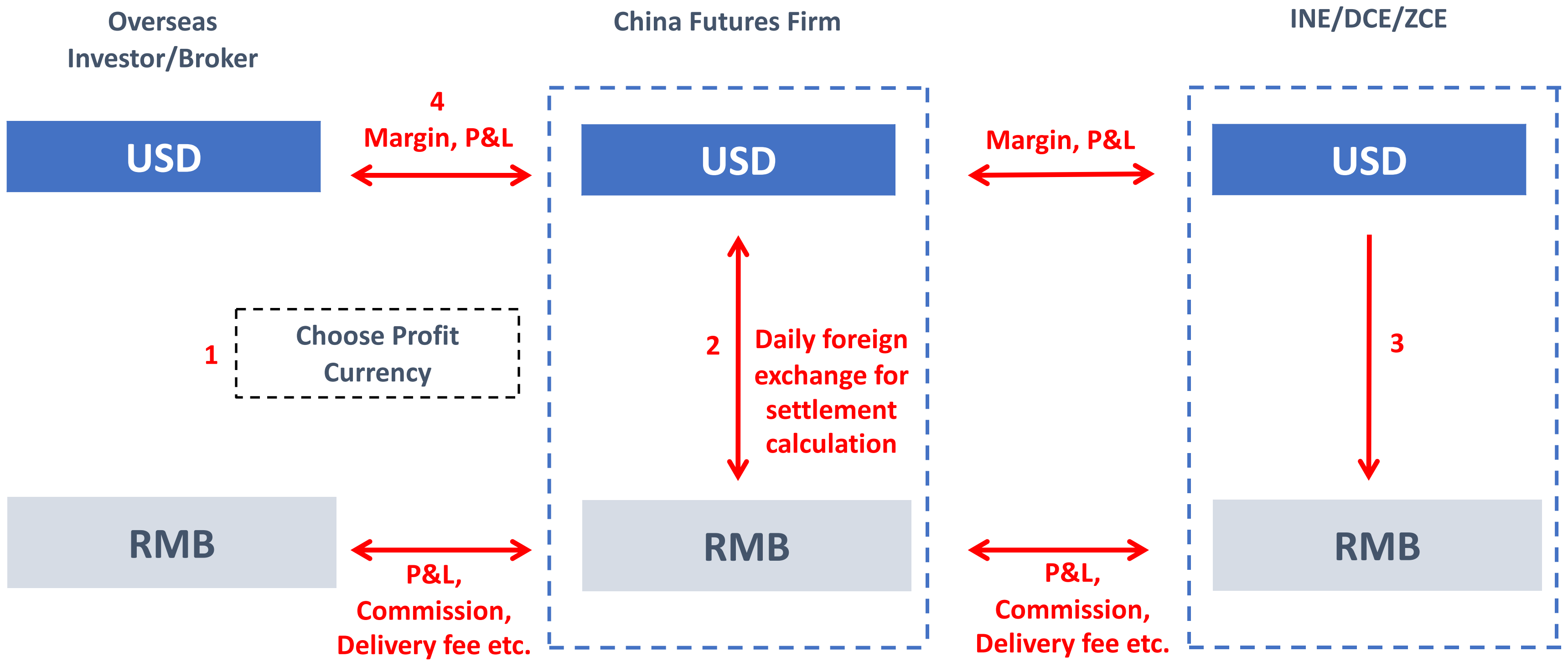
forced liquidation to low Risk Rate down below 100%.

Defaults

China adopts Pre-Margin Mechanism,

the defaults do not happen too often like overseas that use Credit/post-margin.

Foreign Exchange of Internationalized Products



1. Trading profit could be either in RMB or dollar. Overseas clients can adjust the currency every half year.
2. Futures Company will use RMB central parity rate published by China Foreign Exchange Trade System (http://www.chinamoney.com.cn/english/) to calculate client's daily trading margin. Trading deposit =USD* RMB central parity rate* 0.95(5% hair cut).
3. When RMB margin is not sufficient and client is not able to remit margin to RMB account on time, Futures Company will automatically change client's USD margin to RMB account based on the best exchange rate among custodian banks.
4. If client choose USD as profit currency, Futures Company will automatically change client's profit from RMB to USD.

FAQ

1	For QFIIs who have previously opened trading accounts with CFFEX, what do they need to do before trading commodity futures ?	**A:** QFIIs shall update their investment plan with CSRC (to include commodities futures, etc.) before applying for commodity futures trading accounts.
2	Is it mandatory that QFII open accounts via a Futures Company Member of Exchanges?	**A:** YES
3	Can QFIIs open accounts via overseas intermediaries ?	**A:** No
4	How do the eligibility rules apply to QFIIs?	**A:** According to Measures for management of suitability of securities and futures investors, QFIIs are defined as professional investors, and therefore are exempted from some of the trader suitability requirements as per management measures on futures trader suitability.
5	If an entity has been trading domestic specified products as an overseas participant, can it, as a qualified foreign investor, then open another trading account via the QFII scheme?	**A:** Yes, and in such case, two trading codes will be granted. The participant will be identified as having actual control over the two trading codes and shall follow the reporting and filing procedures in accordance with the Management Measures for accounts involving actual control relationship.

FAQ

6	In the above scenario, is is allowed to transfer funds between the two margin accounts?	**A:** No
7	Is it mandatory for a QFII to open a depository bank account to place the margins?	**A:** The custodian bank can act as the margin depository bank for QFIIs, if the custodian is one of the recognized QFII depository bank of the exchange.
8	Can QFIIs deposit USD for margins?	**A:** No, only RMB is accepted for QFIIs.
9	What is the settlement currency of the internationalized products?	**A:** The internationalized products are priced and settled with CNY. The settlement of transaction profit or loss, commission fees and delivery payment shall be completed in CNY.
10	What types of assets can be used as margins?	**A:** CNY, foreign currency (for now, only USD is available), standard warehouse receipts, China's government bonds are currently accepted by exchanges as margins.

FAQ

11	How to use foreign currency as margins?	**A:** At present, USD is the foreign currency that can be used as margins , with a haircut of 5%. Before the market close of each trading day, the exchange will use the central parity rate of CNY announced by China Foreign Exchange Trading System(CFETS) on the previous day as the benchmark price to calculate the market value of foreign currency funds. When settling on the then-current day, the central parity rate of CNY on such day announced by CFETS will be used as the benchmark price to adjust the market value and discounted amount of foreign currency funds.
12	Who are not qualified to participate in physical delivery of the exchange?	**A:** Entity clients that cannot receive or issue VAT invoices shall not engage in the delivery.
13	How do I prove that I am a qualified entity client for physical delivery ?	**A:** As entity clients, you need to submit related documents to prove that you are capable of receiving or issuing VAT invoices.
14	What if unqualified entity clients enter into the rolling delivery and one-off delivery? Any consequences?	**A:** If the positions held by entity clients that cannot receive or issue VAT invoices are matched during the rolling delivery and one-off delivery, then a fine of 20% of the contract value calculated at the delivery settlement price would be imposed before the market close on the handover day.

FAQ

15	What's the requirement on money exchange offshore participants in the crude futures trading?	**A:** The crude futures on INE is denominated in Renminbi (RMB) and it's cleared and settled in RMB as well. Overseas investors and qualified overseas brokers can also post USD as margin. Any purchase and sales of foreign exchange shall match the crude futures' trading result of an offshore traders or a qualified overseas brokers. The money exchange can only be executed for mark to market for crude futures trading, futures trading related fees, physical delivery, and other money exchange needs related to cruder futures trading.
16	What's the flow of inbound/outbound fund transfer for crude oil futures trading? ?	**A:** According to the PBOC Circular [2015] No.19 of People Bank of China (PBOC) and the Circular of Huifa [2015] No. 35 of the State Administration of Foreign Exchange (SAFE) and its relevant provisions of the [Policy Q & A], offshore investors and overseas brokers may remit offshore RMB or USD to onshore specific-purpose bank account to participate the crude futures trading. Such funds shall be placed in segregated accounts and isolated from unauthorized access and operations while they are within China, and may not be used for any purpose other than futures trading. Remittance of fund in a specific-purpose bank account shall observe the scope of receipts and payments as prescribed in relevant policies.