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TSR 20 FUTURES 50 Q&A

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01.What is TSR20?

TSR20 is one of the main natural rubber. Rubber can be categorized into natural rubber and synthetic rubber. Natural rubber refers to natural latex collected from Hevea brasiliensis, which is further made into solid elastics through solidification, drying and other processes. Synthetic rubber is made from highly elastic synthetic polymers, also known as synthetic elastomers. It broadly refers to rubber synthesized by chemical methods, distinguishing from natural rubber, which is collected from rubber trees. According to its form, natural rubber can be classified into two: solid natural rubber (rubber sheet and standard rubber) and concentrated latex (called "natural rubber" under the tariff item). Solid natural rubber can be made by traditional and standard methods. The traditional manufacturing method is used to produce rubber sheet (such as RSS). Standard manufacturing method, which is applied to the production of standard rubber, is also known as technically specified rubber (TSR). This type of rubber is classified according to its physical and chemical property indicators, such as impurities, ash content, nitrogen content, volatile component, initial plasticity and plastic retention index and color index. According to the national standards and the ISO standards, standard rubber is generally divided into the following categories based on its raw materials and properties: LoV (Low Viscosity Constant Viscose), CV (Constant Viscosity Rubber), L (Light-colored Rubber), WF (Whole Field Latex Rubber), TSR5, TSR10, TSR20, 10CV or 20CV.

02.How to mark, package and transport TSR20?

Marking: Rubber 20 is also known as TSR20. Specifically, a signifier "S*R 20" is used for TSR20 produced in different countries, where "S" stands for "standard", "*" stands for producing countries ("T" for Thailand, "I" for Indonesia, "M" for Malaysia and "C" for China), "R" stands for "rubber" and "20" stands for Grade 20. There is a standard rubber grade code on the front side of each rubber bag, and the grade signifier of TSR20 is marked red.

Packaging: Each TSR20 block weighs 35kg. Rubber block is wrapped by polyethylene film, the thickness of which is 30-65μ m, and its Vicat softening temperature is less than 95°C.

Each TSR20 bale consists of 36 rubber blocks. The outer package shall meet the requirements of compact palletization which can be used for shelf storage and stacking. The surface of each pack shall be signed with the standard rubber grade, net weight, name of producer, signifier code of production factory, date of production, etc.

Transportation: The bales shall be transported in dry and clean containers or carriages and covered with caravans to prevent the rubber from mildewing and deteriorating if exposed to sunlight or rain.

03.What is the production process of TSR20?

The production process for TSR20 includes raw material pre-treatment, cleaning, crushing, crepe pressing, pelletizing, drying, baling and other procedures, of which the key steps are crushing, crepe pressing and drying.

Take Thailand’s STR20 for example, the primary raw materials come from thousands of cup lumps. as well as the USS and RSS simply processed by farmers. Usually, the raw materials are mixed and processed according to a certain formula. As non-rubber substances such as sawdust and sand may be mixed into the raw materials during rubber tapping, transportation and storage, the raw materials need to go through pre-treatment procedures such as sorting and flushing before production. The raw materials also need to be washed, crushed and pressed many times during production. Such processing procedures can remove impurities from raw

materials and improve the physical and chemical properties of rubber. After the above procedures, the rubber then goes through a pelletizing machine and turns into small irregular pellets within a diameter of 0.25cm. The pellets can now enter into a drying process, and the semi-finished product from which is then baled into natural rubber units with standard weight and shape. Some factories also use “dry mix” process to produce TSR20. Such production process is relatively simple, however the product uniformity is poor. The underlying commodities for the delivery of TSR20 futures at the INE are not allowed to be made through dry mix process.

04.What is TSR20 used for?

Natural rubber has excellent performance with regard to rebound resilience, insulation, water repellency, plasticity and so on. After being properly treated, it also possesses valuable properties such as oil resistance, acid resistance, alkali resistance, heat resistance, cold resistance, pressure resistance and wear resistance, therefore it is widely used across industries. Tires, rubber tubes, rubber belts and shoe materials are the main downstream industries of natural rubber. About 70% of the world’s natural rubber is used for tire manufacturing, 10% for rubber tubes and belts, 10% for shoes, and 10% for other rubber products. About 80% of the natural rubber used in tire manufacturing is TSR20. The consumption of TSR20 has become a major indicator of the technical prowess of a country’s tire industry.

05. What are the similarities and differences between TSR20 and WF?

TSR20 and WF are both natural rubber, but there are some differences in terms of primary raw materials, processing technology, trade mode, end use and VAT rates. In terms of raw materials, WF is made from raw coagulum, with low impurity content and simple production process. TSR20 mainly uses cup lump, as well as USS and RSS simply processed by growers as raw materials. The diversity in raw materials can lead to more scalable production of TSR20. Due to the difference in raw materials, the production processes of WF and TSR20 mainly differ in pretreatment.

In terms of end use, WF is mainly used for rubber products made with light-colored rubber and tires. At present, TSR20 is widely used in the tire industry.

In terms of VAT rates, according to Announcement on Policies for Deepening the VAT Reform jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on March 21, 2019, the VAT rate for imported natural rubber (TSR20) is reduced from 16% to 13%, and that of domestic natural rubber (WF) is reduced from 10% to 9% effected from April 1, 2019.

06.What are the laws, regulations and policies relating to natural rubber?

(1) Government departments: The natural rubber industry is supervised and supported by the Ministry of Agriculture and Rural Affairs, the Ministry of Commerce, the Ministry of Ecology and Environment, the National Forestry and Grassland Administration and the General Administration of Customs.

(2) Tariff: China levies tariff on imported natural rubber; the General Administration of Customs issues relevant tariff rules for importers and tax rebate policies for exporters.

(3) National reserve policy: China has established a national reserve system for natural rubber to stabilize market by increasing or selling reserves when the price of rubber fluctuates sharply.

(4) Forest Law of the People's Republic of China and its enforcement regulations: Rubber trees are of economic value; therefore, their breeding, planting, logging, utilization and management should follow the Forest Law of the People's Republic of China and its enforcement regulations.

(5) Policy and planning for the tire industry: Tire manufacturing is a main downstream industry of TSR20, and therefore, its industrial policy and planning will have an important impact on TSR20.

Global Supply, Demand and Trade of TSR20

07.What is the global production of TSR20?

In 2018, the global output of TSR20 has exceeded 8.7 million tons, of which Thailand, Indonesia and Malaysia are the main contributors, accounting for 70% of the total. The TSR20 industry presents a pattern of monopolistic competition to varying degrees, given the domestic industrial layouts of the three leading producers.

There are only a few areas in China with suitable geographical and climatic conditions for rubber planting. They are mainly located in Hainan, southern Yunnan, Guangdong and other limited number of places. China's natural rubber factories mainly use field coagulum as raw material to produce various standard rubbers with SCR WF as the main product. The output of TSR20 is relatively small, accounting for about 15% of the total output. Some private enterprises also participate in the processing and production of natural rubber.

08.How is the global consumption of TSR20?

The world consumes more than 13 million tons of natural rubber per year. China, Europe, India, East Asia (including Japan and South Korea) and the United States are the top five consuming countries/regions, accounting for 40%, 9%, 9%, 8% and 7% of the total consumption, respectively. The top five consuming countries (regions) account for a combined 73% of the world's total consumption.

Tire manufacturing for transportation is the main rubber-consuming industry. About 70% of the world's natural rubber is used in tire manufacturing, of which about 80% is TSR20. In 2018, the global consumption of TSR20 was nearly 8.3 million tons. China, Europe, India, East Asia and the United States accounted for about 50%, 10%, 7%, 9% and 8% of the total consumption respectively. The top five consuming countries (regions) accounted for a combined 83% of the world's total consumption.

09.How is the trade of TSR20 in China?

China is dependent on imported natural rubber due to its limited production capacity. The imported natural rubber mainly comes from Thailand, Malaysia and Indonesia, which account for over 70% of the total imports.

The TSR20 is mainly transported from Southeast Asian countries such as Thailand, Malaysia and Indonesia to China’ s coastal areas. Some of them are made into tires for export, while others are distributed inland from the coast. Qingdao, Shanghai, Hangzhou, Ningbo, Tianjin and Nanjing are China’ s main ports for TSR20 importation.

The trade flow of TSR20 presents an increasingly diversified pattern. TSR20 can be traded directly between producers and manufacturers via long-term orders, or by wholesalers or distributors.

Factors Influencing the Price of TSR20

10.What is the price fluctuation of TSR20?

The price of TSR20 fluctuates frequently with high volatility. From 2010 to 2018, the price of STR20 at Qingdao bonded area fluctuated between a maximum of 38,205 yuan/ton and a minimum of 7,185 yuan/ton (data source: www.315i.com), with the highest annual volatility of 106%. In terms of yield, the daily yield fluctuated between a highest point of 10.89% and a lowest point of -6.86%, averaging -0.03% with a standard deviation of 1.39%. In 2010, a global liquidity surplus led to a rise in the price of TSR20 to 38,205 yuan/ton in early 2011 and the prices of commodities increased across the board. From 2011 to the first half of 2016, the price of TSR20 showed a downward trend due to an oversupply caused by harvesting previously planted rubber trees. From the second half of 2016 to the first quarter of 2017, as global commodity prices rebounded, the concerns over rubber supply caused by floods in Thailand led to a rapid hike in TSR20 price. Starting from the second quarter of 2017, as the Thai government release reserved natural rubber to the market, the price of TSR20 trended down. In 2018, due to Sino-US trade friction, the price of TSR20 edged down while fluctuating within a narrow range.

11.What are the factors influencing the price of TSR20?

Natural rubber has attributes of agricultural, industrial, and financial products. There are many factors that affect the price of TSR20, including the domestic and global supply and demand of TSR20, the domestic and global economic environment, the trend of the major rubber-consuming industries, the production and application of synthetic rubber, natural factors, exchange rate fluctuation, and policies.

12.What is the significance of listing TSR20 futures?

After more than 20 years of development, the natural rubber futures market of Shanghai Futures Exchange (SHFE) has developed rapidly, featuring active trading and rapid growth in trading volume and positions. The SHFE natural rubber futures has a growing influence on the pricing in the spot market and performs well its designed functions. TSR20 futures is the second product available for foreign traders at the Shanghai International Energy Exchange (hereinafter referred to as the INE). Given the huge natural rubber market in China, the listing of TSR20 futures is beneficial to the establishment of a pricing system in the global natural rubber market, as well as to the development of China’s rubber industry. It would accelerate the upgrading of China’s tire manufacturing industry, and help domestic enterprises to venture abroad. The listing is also conducive to promoting the opening-up of China’s futures market to the outside world and to further expand the influence of China’ s natural rubber futures market, which is also a powerful measure to support the Belt and Road Initiative.

13.What are the general principles behind the contract design of TSR20 futures?

The TSR20 futures will be traded on the basis of “international platform, net pricing, bonded delivery, and RMB denomination” to allow for a full engagement of overseas traders.

As another futures product in China made available to foreign investors after crude oil futures, iron ore futures, and PTA futures, TSR20 futures will be regulated by similar rules and policies of crude oil futures, including the policies of the Ministry of Finance, the State Administration of Taxation, the People's Bank of China, the State Administration of Foreign Exchange, the General Administration of Customs and other relevant ministries and commissions on VAT, foreign exchange management, cross-border settlement, corporate income tax and personal income tax, customs supervision of futures bonded delivery.

14.What are the differences and correlations between TSR20 futures and the existing natural rubber futures listed on Shanghai Futures Exchange?

The natural rubber futures listed on Shanghai Futures Exchange has been traded for many years. The market is generally stable and functions well. It has become a main pricing reference in the spot market for domestic products such as WF and latex. Its steady operation provides a good example for the listing of TSR20 futures. The natural rubber futures of SHFE reflects the supply and demand relationship in the domestic natural rubber market, while the TSR20 futures mainly reflects the supply and demand relationship of natural rubber in the world. The two are complementary and can create synergy for balanced development.

15.How will TSR20 serve the real economy?

In the past decades, China’ s leading natural rubber companies have invested in natural rubber planting and processing industry in Southeast Asian countries such as Thailand, Malaysia, Indonesia, Vietnam, Cambodia, Myanmar, Laos and African countries such as Cote d 'Ivoire and Cameroon. It is estimated that the overseas natural rubber resources owned by these Chinese companies are 2.5 times of that inside China. Meanwhile, in order to overcome the shortage of natural rubber resources in China, some tire manufacturers have set up multiple rubber plantations and rubber processing factories abroad.

While China’s leading natural rubber companies ventures abroad more quickly and the rubber resources owned overseas increases, TSR20 – as the main variety produced and used overseas – is subject to increasing exposures of pricing and operation risks. From 2010 to 2018, the price of TSR20 fluctuated between a maximum of 38,205 yuan/ton and a minimum of 7,185 yuan/ton with an annual average volatility of 48%. The TSR20 futures can serve as a price risk management instrument for companies in the rubber industry by helping them to lock costs, keep profits and improve the competitiveness of China’s natural rubber industry.

16.What are the risk management measures for TSR20 futures?

To fulfill its mission of “serving the development of the real economy”, the INE has conducted in-depth market research and analysis in the process of the listing of TSR20 futures. It has also carried out risk assessment in trading, settlement, delivery, monitoring and technology, and formulated targeted risk prevention and management measures. Based on the characteristics of the TSR20 futures market, the INE has set clear rules regarding the risk management of TSR20 futures, such as the trading margin system, the price limit system, the position limit system, the large trader reporting system, the forced liquidation system, and the risk warning system to ensure the smooth listing and stable operation of TSR20 futures.

17.What other exchanges in the world have listed the TSR20 futures contract?

The exchanges that carry out natural rubber futures trading in the world are Japan’s Tokyo Commodity Exchange (TOCOM), Singapore Exchange (SGX), Thailand Futures Exchange (TFEX), and the National Multi Commodity Exchange of India (NMCE). All four exchanges carry out RSS futures trading.

Most companies in the rubber industry and downstream tire factories refer to the SGX’s TSR20 futures price as the benchmark price when signing long-term supply agreements or contracts of TSR20.

Trading Access to TSR20 Futures

18.Why are foreign participants introduced to TSR20 futures trading?

The natural rubber market is highly globalized and is characterized by open trade and multilateral trade flows. The purpose of the INE establishing an international futures market for TSR20 is to reflect a more accurate reality of the TSR20 spot market and thus better serve China's real economy. China imports 80% of natural rubber it uses domestically, being the largest buyer in the natural rubber market. With the full participation of overseas traders, the market price of TSR20 will become the "barometer" of the supply chain and can accurately reflect the supply and demand relationship in the TSR20 market. This would also improve the price formation mechanism, magnify the function of the futures market, and enhance China's influence in the international natural rubber market.

19.Can the Unique Client Code system provide a solutions for distinguishing the trading management among different sub-accounts of the same trading institution?

The INE adopts the Unique Client Code system to prohibit aggregation or netting of clients' positions. FF members, Overseas Special Brokerage Participants (OSBPs) and Overseas Intermediaries shall apply for an exclusive code for each of their clients. Special institutional Clients that manage assets under segregated accounts pursuant to the PRC laws, regulations and applicable rules and measures may apply for a trading code with the Exchange for each of the segregated accounts.

20.How can overseas institutions and individuals access and trade in China's TSR20 futures market?

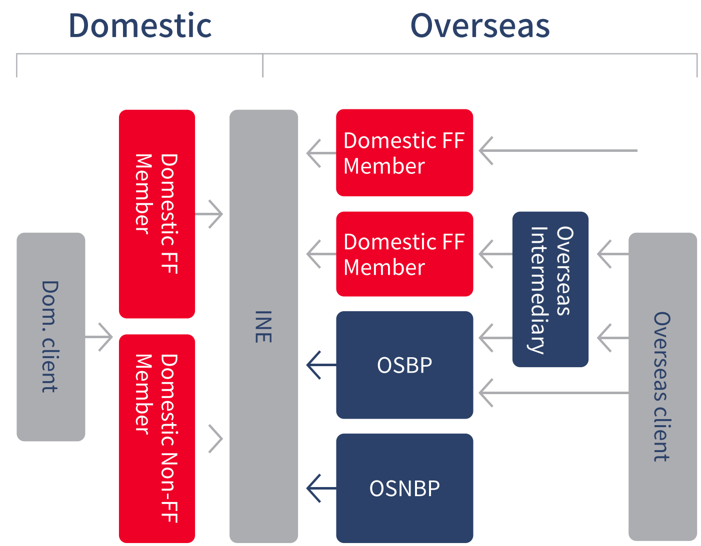
The four ways of trading access include:

Access 1: Global clients may trade through a domestic Futures Firm Member (FF Member) of INE;

Access 2: An INE-recognized Overseas Intermediaries may help its global customers execute and clear trades through a carrying broker, either a domestic FF Members or an Overseas Special Brokerage Participant (OSBP) of INE;

Access 3: An INE OSBP having direct trading access on the Exchange may help their global clients execute trades on the Exchange but clear and settle trades through its contracted carrying broker, who must be an INE' s FF Member;

Access 4: Or being an Overseas Special Non-Brokerage Participants (OSNBP) of INE that trades directly on the Exchange but clear and settle trades through its contracted carrying broker, who must be an INE's FF Member



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

21. What are the eligibility criteria for investors to participate in TSR20 futures trading?

Any investors intending to participate in China’s TSR20 futures market shall meet the requirements set in the Futures Trading Participant Eligibility Management Rules of Shanghai International Energy Exchange (as shown in the following table). A Client eligible for trading other listed products under the Futures Trading Participant Eligibility Management Rules is entitled to partial exemption clauses while applying for the trading code or trading access to TSR20 at INE. A Client eligible for crude oil futures shall automatically be entitled to trade TSR 20 futures. Clients entitled to options trading or trading access to other domestically specified products or financial futures products shall be exempted from the eligibility review while opening account in a same institution; opening accounts in different institutions shall be exempted from requirements on basic knowledge, trading experience or capital threshold.

Type of Investor	Requirements
Institutional Investors	1. Having relevant business professionals who understand the essentials of futures trading and the rules of INE;
	2. Having recognized trading experiences and records of futures, options and centrally cleared derivatives;
	3. Having a balance of no less than RMB 100,000 or its equivalent in foreign currency in its margin account for five (5) consecutive business days before applying for the trading code or the trading access;
	4. Having sound internal control and risk management systems;
	5. Never be prohibited the access to the market or restricted from futures trading.
Individual Investor	1. Understanding the essentials of futures trading and the rules of INE;
	2. Having recognized trading experiences and records of futures, options and centrally cleared derivatives;
	3. Having a balance of no less than RMB 100,000 or its equivalent in foreign currency in its margin account for five (5) consecutive business days before applying for the trading code or the trading access;
	4. Never be prohibited the access to the market or restricted from futures trading.

22. Does an overseas individual trader have to open a NRA account to participate in the trading of TSR20 futures?

An overseas individual trader may participate in China’s TSR20 futures market at INE through (1) a domestic FF Member or (2) an OSBP. If it’s done through a domestic FF Member, the overseas individual trader must open the Exchange’s special settlement account in a designated depository bank within the territory of China, and such account must be a “non-resident RMB bank settlement account” or “non-resident foreign currency (domestic) account”. If it’s done through an OSBP, the overseas individual trader does not have to open a bank account in China.

23.If an Europe-registered investor participates in China’ s TSR20 futures market through a European or US Broker, is it required for the investor to file to the relevant authority as stipulated by the European Market Infrastructure Regulation (EMIR)?

At present, the INE has completed registration in Hong Kong and Singapore, and has acquired ATS and RMO qualifications respectively. INE will continue to strengthen cooperation with international markets.

Given the many countries in Europe as well as the dual regulation of EU and regulators of home countries, the European and US brokerage companies shall well manage the client eligibility. Also, they shall conduct legitimate concerning business according to the local laws and regulations. Futures firms that cooperate with those European and US brokers shall study the overseas legal system (including the General Data Protection Regulation, GDPR, etc.) in advance so as to legitimately conduct business.

24.Can a Domestic Non-FF Member of INE use other futures broker(s) to execute their trades on INE?

According to Article 37 of Membership Management Rules of the Shanghai International Energy Exchange, that states "except otherwise approved by the Energy Exchange, a Non-FF Member shall not open another account as a Client to engage in futures trading," A trader, as the same legal person entity that has already gained the status of being an INE’ s non-FF member shall not trade through a broker as a client.

25.Mutual funds can design various products such as ETF, which are conducive to increase the position and liquidity of forward contracts. Can mutual funds participate in the trading of TSR20 futures?

Domestic mutual funds have been included in the category of special institutional clients and can open special institutional client accounts to participate in the trading of TSR20 futures. For overseas mutual funds, China Futures Market Monitoring Center has already begun to accept applications of overseas special institutional clients to open accounts.

26.Are English documents of the business activities and document signing acceptable at the INE? Can regulations, rules, notices and circulars be provided in English?

The INE accepts English feedbacks on the drafting and revision of business rules. In terms of account opening and application documents from overseas intermediaries and OSPs, the INE accepts bilingual application documents in both Chinese and English. According to Article 41 of the Overseas Special Participants Management Rules of the Shanghai International Energy Exchange, the Chinese version of written documents submitted to the INE by overseas intermediaries and OSPs shall prevail. The INE will try its best to provide Chinese and English versions of laws, rules, notices and circulars, but as legal texts, the Chinese version shall prevail.

27.For overseas clients, which overseas trading platforms have access to TSR20 futures trading at the INE?

Currently, overseas trading platforms such as CQG, PATs, Bloomberg, Tradex, FIS, ATP, Esunny have access to TSR20 futures trading at the INE. The INE maintains continuous communication with major international trading platforms to give more of them access to the trading of TSR20 futures at the INE.

Settlement and Risk Management of TSR20 Futures Trading

28.How are the daily settlement price and final settlement price of China's TSR20 futures contract determined?

The daily settlement price of China’s TSR 20 futures is the volume-weighted average price of all trades executed in a trading day and the final settlement price is the volume-weighted average price of all trades in the last five trading days that have trades executed. In other cases, it is suggested to refer to Articles 34 and 35 of the Clearing Rules of the Shanghai International Energy Exchange (hereinafter referred to as the Clearing Rules).

29.How should FX be conducted for TSR20 futures trading?

TSR20 futures are priced and settled in RMB. Overseas traders and brokers may use RMB or directly use USD as margin, but USD-denominated margin can only be used for clearing trades after being exchanged into RMB.

The settlement and purchase of FX shall be based on the actual results of TSR20 futures trading by overseas traders and brokers, and shall only be used for specific purposes including the settlement of profits and losses of futures trading, payment of transaction fees, payment of goods for delivery, and FX conversion to make up for the deficiency of the settlement currency.

30.What's the flow of inbound/outbound fund transfer for TSR20 futures trading?

TSR20 is a specific futures variety made available to overseas investors. 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), offshore investors and overseas brokers may remit offshore RMB or USD to onshore bank account to participate in the TSR20 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 trading of domestic specific futures products. Remittance of fund shall observe the scope of receipts and payments as prescribed in relevant policies.

31. What is the margining methodology for the China's TSR20 futures market? How is it different from that for major TSR20 futures in the world?

The INE applies different rates of trading margin for a futures contract based on different periods of trading from its listing to its last trading day. The INE may, in its sole discretion, adjust the trading margin for a futures contract in response to market risk conditions, and it shall issue a public announcement of the adjustment. Clearing deposit shall be managed in accordance with the Clearing Rules of the Shanghai International Energy Exchange.

Both SGX and TOCOM use CME's proprietary margining system – the Standard Portfolio Analysis of Risk (SPAN) system to calculate margin.

32.Will trading positions of multiple trading accounts that are owned separately by related entities under same business group be combined together in the risk management or managed separately?

Positions held by clients, non-FF members, or OSNBPs that have actual control relationship with each other shall be calculated in aggregation in accordance with applicable risk management rules. The open positions held in aggregate by a client through multiple trading codes with different FF members, OSBPs or overseas intermediaries shall not exceed the position limit set by the INE. The INE calculates each trader’s position in a gross base method, i.e. long and short positions of different contracts will be summed up individually and does not manage net positions. For accounts with actual control relationship, non-FF members, or OSNBPs shall declare to the INE while clients shall declare to China Futures Market Monitoring Center (CFMMC). The INE obtains the information of the accounts with actual control relationship through CFMMC according to the applicable rules, and combines the positions of these accounts held by a client through multiple trading codes in risk management.

33.What are the principles for evaluating and approving the hedge quota applications for TSR20 futures?

The INE applies the hedging positions approval system to TSR20 futures trading. If total positions held by a client is not enough for hedging, the concerning client can apply for hedge quota at the INE. As for the principles guiding the grant of hedge quota amount and approval, , the INE will take into consideration an applicant’s true production, trading, and consumption, as well as spot and futures market conditions. An applicant shall provide information about its TSR20 production plan, trade agreement or processing plan, etc.

When a contract enters into “nearby delivery months”, the trading system will automatically adjust the value of approved hedge quota for the regular month to the one of position limit of nearby-delivery-month contract, if the original approved hedge quota is higher than the nearby-delivery-month position limit. The measure is implemented for the INE to better manage the market risk for the nearby-delivery-month contracts. However, if a commercial client has higher hedge trading needs than the position limit described above, it may apply for hedge quota for the nearby delivery months separately to the Exchange.

34. The position limit for the delivery month is 200 lots (unilateral). Can the position limit be increased to facilitate the participation of relevant institutions in the industry?

Position limits are set for ordinary trading clients. For companies in actual trade of physicals that need to hedge against spot price fluctuations, they can provide corresponding application materials recognized by the INE such as spot trade contracts or production plans, and apply to the INE for the hedge quota within the prescribed application period. Upon approval, they can go beyond the position limit of 200 lots (unilateral).

35. Is it applicable for letter of credit being posted as margin collateral?

At current stage, INE does not accept letter of credit as margin collateral.

36. Can OSNBPs and overseas clients post FX funds as margin collateral?

OSNBPs and overseas clients can use foreign exchange funds as margin. If foreign exchange funds are used as margin, the RMB central parity rate on the same day published by China Foreign Exchange Trading Center (CFETC) shall serve as the reference price for calculating the market value of the FX funds. At the current stage, the INE stipulates that USD is the only foreign currency that can be used as margin, with a discount rate of 0.95.

The market value of FX funds before the closing of the market on the same day shall be calculated according to the RMB central parity rate published by CFETC on the previous trading day. During daily settlement, the market value of FX funds used as margin shall be re-determined and discounted according to the above methods.

37. Is it necessary for an FX for the futures trading be conducted in a Designated Depository Bank? Can FX be conducted in one bank that offer better rate and then transferred into the account of the designated depository bank that such customer has account with?

Foreign exchange for futures trading must be conducted in a Designated Depository Bank. When an Exchange Member conducts foreign exchange, it may check rates offer by different Designated Depository Banks and choose the one with best bid/offer rate to conduct the foreign exchange.

38.For a trader who holds long and short positions at one time, is his/her position margined on a gross or net base, or using the principle of "Combined Commodity Group"?

INE adopts margining on long or short side of position that has bigger nominal value.

According to Article 28 of the Clearing Rules of the Shanghai International Energy Exchange, the Exchange may collect trading margin from one side only under the following circumstances:

1. For a Client holding both long and short positions in the same product and on the books of the same Member or OSBP, the Exchange may collect trading margin solely from the side for which a larger amount of trading margin is required, except for the contract held after the closing of the fifth (5th) trading day prior to the last trading day;

2. For a Non-FF Member or an OSNBP holding both long and short positions in the same product, the Exchange may collect trading margin solely from the side for which a larger amount of trading margin is required, except for the contract held after the closing of the fifth (5th) trading day prior to the last trading day.

39.According to Articles 39 and 40 of the Clearing Rules of the Shanghai International Energy Exchange, If, after the completion of daily clearing, the clearing deposit balance of any internal ledger of a Member with the Exchange is lower than the prescribed minimum requirement, such clearing result shall be deemed as the Exchange's margin call to the Member, and the gap between the two amounts shall be the amount of additional funds required by the margin call. ...... If a deficiency still exists, the Member shall make it up prior to the market opening of the next trading day. What action will the Exchange take, if a Member fails to make up and meet the margin requirement?

As prescribed in Article 40 of the Clearing Rules of the Shanghai International Energy Exchange, in the event that a Member fails to make up the clearing deposit balance as required, the Exchange will take action against the member, including the corresponding Member or OSP of such internal ledger shall not open any new position, if the clearing deposit balance of the Member with the Exchange is no less than zero; and the Exchange will implement forced position liquidation or take other measures according to the Risk Management Rules of the Shanghai International Energy Exchange, if the clearing deposit balance of any internal ledger of the Member with the Exchange is lower than zero.

40. After a Member completes the internal endorsement procedure for making such payment, will the fund remittance made by such member from its margin account to the Exchange’s dedicated settlement account be instant transfer?

A member can submit the fund remit request on the INE’s Member Service System, using the function of electronic fund transfer, for fund transfer between such Member’s dedicated fund account and the Exchange’s dedicated settlement account.

Fund deposit instruction into the Exchange's dedicated settlement account during market hours will be automatically processed in real time. For fund withdrawal instruction from the Exchange's dedicated settlement account, it will only be processed after daily clearing and settlement on the same day.

41. Is it required for an offshore institutional investor who trades at INE through an overseas/domestic broker to set up a dedicated bank account for futures trading purpose?

If an overseas trader or an overseas brokerage institution directly authorizes a domestic futures firm for settlement (or trading and settlement), it’s required for such trader or institution to open a futures settlement account in a designated depository bank that has the qualification of overseas clients.

42. Can a non-FF Member set up foreign exchange account for trading the TSR20 futures?

No.

According to the SAFE’s circular of Huifa [2015] No. 35, overseas traders, overseas brokers, or FF Members and other institutions that can execute and clear trades for its overseas clients who trade on behalf of themselves or conduct brokerage business (execute trades for its customers) are allowed to set up foreign exchange account for specific purpose.

43.Is it true that an OSP can only post FX fund as margin collateral, and the trading expenses and daily mark-to-market result from futures trading can only be settled in RMB?

Yes.

As a specific futures variety, TSR20 shall be subject to the applicable rules of Announcement No.19 [2015] of the People' s Bank of China:

“Rule No.2: Domestic crude oil futures transactions shall be priced and settled in RMB.… Rule No.9: Any Overseas Trader or Overseas Broker may directly use its foreign exchange as margin. Or the foreign exchange fund balance on such person's margin account must be exchanged into RMB before it can be used to settle trades involving domestic crude oil futures. ... Rule No.13: This Announcement shall apply, mutatis mutandis, to the cross-border settlement of transactions in futures of other specific varieties approved by the China Securities Regulatory Commission.”

In addition, according to Article 23 of the Clearing Rules of the Shanghai International Energy Exchange, the clearing currency of the Exchange is RMB. Once approved by the Exchange, foreign exchange and assets with both stable value and high liquidity, including standard warrants and treasury bonds, may be used as margin collateral.

TSR20 Futures Delivery

44.Why does TSR20 futures implement commodity registration?

Major TSR20 brands in Thailand, Malaysia and Indonesia have obtained their recognition and reputation in the spot market over many years. On the other hand, downstream tire manufacturers are accustomed to using particular brands of TSR20 based on their production formula and convention. Therefore, to adapt to the spot trade and satisfy the purchasing demands of tire manufacturers, TSR20 futures adopts the system of registered commodities for delivery. The INE will pay close attention to the market trend of TSR20 and adjust registered commodities appropriately.

45.What are the locations of the delivery warehouses for TSR20 futures?

The delivery warehouses for TSR20 futures are selected according to the principle of proximity to consumption places and distribution centers, as well as serving the construction of Hainan Free Trade Port. The consumption places and distribution centers of TSR20 in China are mainly concentrated in Shandong, Jiangsu, Zhejiang, Anhui and Shanghai. In 2018, China imported 4.4 million tons of TSR20, of which Qingdao, Shanghai, Nanjing, Hangzhou, Dalian and Ningbo are the main import ports. Since there are large tire companies around the above ports, the consumption of TSR20 is also larger than that of other parts of China. The INE will select designated delivery warehouses for TSR20 futures in Shandong, Shanghai, Zhejiang, Hainan and other regions. After the listing of TSR20 futures, the INE will appropriately adjust the delivery warehouses based on the dealings and market demand.

46.What are the contract size and delivery unit of TSR20 futures?

The contract size of TSR20 futures at the INE is 10 ton/lot. The delivery unit for the standard TSR20 futures contract is 10 tons, and the delivery quantity shall be integral multiple(s) of the delivery unit.

47.What are the delivery months for TSR20 futures contracts?

The delivery months of TSR20 futures at the INE cover every month from January to December. Since China’s tire manufacturers have a long-term demand for TSR20, they usually make production plans on an annual basis. Therefore, their monthly demand is relatively stable with a monthly import volume above 200,000 tons. Import volume decreases in February each year due to China’s lunar New Year holidays. In terms of TSR20 production, since the raw material of TSR20 has strong storability, so the production can go uninterrupted even in the deciduous season of rubber trees. In view of the production from the three major producing countries, TSR20 output in March, April and May is slightly lower than that in other months, but the total output throughout a year is relatively stable.

48. How to set the valid period of standard warrant for TSR20 futures?

The range of manufacturing dates of TSR 20 underlying each standard warrant shall not exceed thirty (30) days, the earliest of which shall be taken as the manufacturing date for the standard warrant. A standard warrant for TSR 20 is valid for twelve (12) months from the manufacturing date.

Any TSR 20 for physical delivery shall be loaded in within ninety (90) days of the date of manufacturing, after which no standard warrant shall be issued for such TSR 20.

An inspection report of TSR 20 loaded in for generating standard warrants is valid for one hundred and eighty (180) days following issuance, and the inspection report for stored commodities is valid for ninety (90) days following issuance. After the valid date, the corresponding commodity shall be re-inspected and delivered only after passing the new inspection. The holder of the bonded standard warrant shall be solely liable for the quality of the loaded-in TSR 20 if it fails the new inspection, unless the Designated Delivery Storage Facility is liable.

49. Will RMB denomination and settlement affect the customs declaration and import of TSR20 bought from the futures market?

With the national support of cross-border RMB settlement, import declaration of physical products can be processed with RMB-denominated documents. The TSR20 futures is denominated and settled in RMB which not affect its import declaration.

50. If the TSR20 products obtained through physical delivery need to be declared for import, which price will be used to calculate the customs duty? Is it the bonded final settlement price or the price at which the buyer opened its futures position?

According to the Announcement No. 121 [2019] of the General Administration of Customs, if the TSR20 futures is to be delivered under a Bonded Standard Warrant, the dutiable value shall be sum of (a) bonded final settlement price for TSR20 futures as determined by the INE, and (b) any delivery premiums and discounts.

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