BONDED COPPER FUTURES
40 Q&A

2020

CONTENTS

I.Fundamentals

01 What is copper cathode?

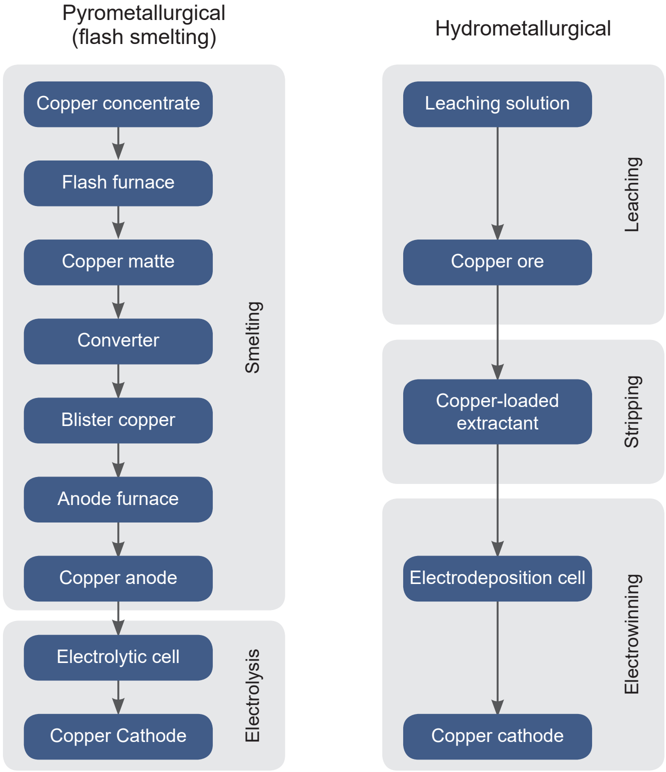
Copper is a metallic element with the symbol Cu. It has an atomic weight of 63.55, a specific gravity of 8.96, and a melting point and boiling point of 1,083.4±0.2 ºC and 2,567 ºC, respectively. Featuring a light-rose or pinkish-red color in its natural state and a purple bronze color after oxidation, copper is one of the first metals discovered by man.

Copper cathode, also known as refined copper, is high-purity copper produced from copper concentrates through electrorefining or electrowinning (electrolytic deposition). Copper cathode standards include GB/T 467-2010 (China), BS EN 1978:1998 (Europe), and ASTM B115 (U.S.).

02 How is copper cathode produced?

Today copper cathode is mainly produced by two types of processes: pyrometallurgical (flash smelting) and hydrometallurgical. The pyrometallurgical method mainly involves melting and electrorefining. As such, the resulting refined copper is also called electrolytic copper. This method is generally suitable to high-grade copper sulfide ore, and accounts for 85% of the world's copper cathode production. The hydrometallurgical route is suitable for lower-grade ores (i.e., ores with complex compositions) and oxide ores, and is a comparatively cheaper process. The final product is also called electrowon copper.

Fig. 1: Copper Cathode Production Process



03 What is copper cathode mainly used for?

Due to its excellent electrical and heat conductivity, malleability, and corrosion and abrasion resistance, copper cathode is often processed into copper wires, bars, sheets and strips, foils, pipes, and various alloys, which are widely used in power, electronics, transportation equipment, machine manufacturing, construction, national defense, medical, organic chemicals, and other industries. Copper cathode is the most consumed nonferrous metal in China after aluminum.

II.Overview of Copper Markets

04 What is the current state of global copper production?

Statistics of the World Bureau of Metal Statistics (WBMS) show that, in 2019, the global output of refined copper totaled 23.724 million metric tons, with a year-on-year growth of being 0.32%. The top five producers are China, Chile, Japan, U.S., and Russia, together accounting for 64.46% of the world’s total. Asia as a whole is a dominant producer; and the Americas and Africa are the main output areas for hydrometallurgy-produced copper. China has been a major contributor to the global growth in output in recent years. Given the rapid expansion of its refining capacity, its high output level is expected to continue in the coming two years. According to China Nonferrous Metals Industry Association (CNMIA), in 2019, production of copper in China hit 9.784 million metric tons (or 9.447 million metric tons according to WBMS), equaling 41.24% of the world’s total.

05 What is the current state of global copper consumption?

According to WBMS, in 2019, the world’s total consumption of copper was 23.8183 million metric tons, down by 0.45% year-on-year. The top five consumers were China, U.S., Japan, Germany, and South Korea, consuming 17.226 million metric tons, accounting for 72.32%of the global total. Region-wise, Asia was still the world’s largest consumer. China remained a major driver for global consumption growth. CNMIA reports that China consumed 12.08 million metric tons (or 12.7995 million metric tons according to WBMS) of copper in 2019, representing 50.72% of the worldwide consumption. Most of the European and American countries recorded stable or slightly higher consumption levels, also boosting the world’s total. Compared with the global production level, there was a supply gap of about 89,200 metric tons in 2019.

06 What is the current state of global copper trade?

WBMS data indicates that, in 2019, global refined copper import amounted to 8.2718 million metric tons, down by 9.11% year-on-year. Top four importers were China, U.S., Italy, and Germany, which together accounted for 63.13% of the world’s total and were also among the largest copper consumers.

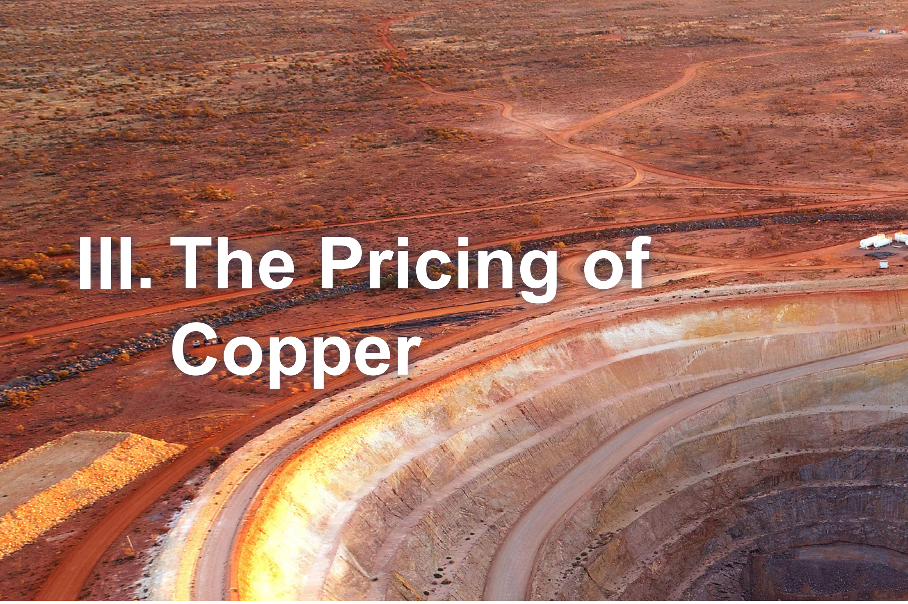
According to China Customs, China’s import of refined copper, blister copper, and copper concentrates surged to 3.753 million metric tons in 2018, a new record, caused by the reduced supply of scrap copper resulting from policy tightening on the dismantling and import of scrap copper, and a substantial increase in copper smelting capacity. Import volume fell in 2019; in particular, import of refined copper showed a 5.40% year-on-year decrease to 3,550,300 million metric tons. This contrasted with the export of refined copper in the same year, which rose by 12.39% to 316,500 metric tons.

In terms of export, WBMS data shows that, in 2019, global export volume shrunk by 7.90% to 7.7488 million metric tons. Top three exporters were Chile, Russia, and Japan, together accounting for 44.39% of the world's total.

07 What is the current state of copper trade and inventory in bonded areas?

According to the Shanghai Customs, China imported an average of 3.5708 million metric tons of refined copper each year between 2015 and 2019. Data of Shanghai Ganglian E-Commerce Holdings shows that the Shanghai Customs handled 2.3883 million metric tons of these imports each year during this period, representing 66.88% of the yearly total.

China's major bonded facilities for copper are located in Shanghai, Guangdong, Jiangsu, Fujian, and Tianjin. Starting from 2016, facilities outside Shanghai began to record inventories, which totaled 10,000–30,000 metric tons, and except for small amount of import, were mostly export products under processing trade contracts. According to the statistics of Shanghai Mysteel Group, from 2013 to 2019, copper inventory in Shanghai-based bonded facilities was as high as 1.008 million metric tons and as low as 217,500 metric tons.



III. The Pricing of Copper

08 How much does the price of copper change?

From 2010 to 2019, the market price of copper was on an inverted V trajectory. Specifically, global economic recovery, China’s four-trillion-yuan stimulus package, and quantitative easing and fiscal expansions by European and American economies pushed the copper price to a peak in 2011. It then fluctuated widely and eventually lost ground when production of copper concentrates oversaturated market demand as a result of worldwide economic slowdown, European debt crisis, and China’s austerity policy. Then in 2017, the copper price rebounded due to declining inventory and economic recovery. From 2018, however, the copper price has generally been volatile under the combined effectinfluence of the China-U.S. trade war, macroeconomic downturn, and , among others, consumption stagnation caused by the reverse globalization and macroeconomic downturn.

Fig. 2: Copper Price Trend in Domestic and Overseas Markets 2010–2019

Source: SHFE, Wind, and Shanghai Metals Market (SMM)

09 What factors influence the price of copper?

Copper is one of the most important commodities on the market today. There are four major factors that influence its price.

First, fundamental factors. In the medium- and long-term, supply of copper concentrate has a negative correlation with copper price, while downstream copper consumption changes have a positive correlation with it. Other factors that affect supply and demand are seasonal changes in the operating rate of copper consuming industries, and changes in policy on recycled copper and in domestic and overseas inventories.

Second, macroeconomic factors. In general, the price of copper is influenced by the economic environment – giving the metal strong financial attributes. Its production and consumption are both closely related with the macro-economy, and therefore its price, often acts as a “barometer” accordingly, a function that has given the metal the moniker of “Doctor Copper.”

Third, monetary factors. Copper price is often negatively correlated with the U.S. Dollar Index and is influenced by momentary shift in market expectations on demand and inflation, following a change in interest rate, total social financing to the real economy, and M1/M2 – three widely monitored indicators for financial environment and liquidity.

Fourth, sentimental factors. Changing market sentiment in response to unexpected events will intensify the volatility of global asset prices, including copper price.

IV. Design of Bonded Copper Futures Contract

10 How will INE's bonded copper futures support the real economy?

The launch of bonded copper futures is necessary for the continued growth of China's copper industry. And with the more opened-up economy, it also enables the futures market to better support the copper industry, not least by providing it with an international risk management tool. Specifically, the product offers enterprises in every segment of the industry a tool to avoid price risks in international trade, thus boosting their operational stability. It will also boost China's influence in the global pricing of copper, accelerates the internationalization of renminbi, and helps build China into an international pricing center for copper.

11 What are the general principles behind the design of bonded copper futures contract?

Shanghai International Energy Exchange (INE) is due to launch its latest product, the bonded copper futures (product symbol: BC), also referred to as international copper futures. Bonded copper futures will be listed and traded on the basis of “international platform, net pricing, bonded delivery, and RMB denomination” to fully engage overseas traders.

As yet another futures product in China accessible to foreign investors (i.e., “specified domestic (futures) product”) after crude oil, iron ore, PTA, TSR 20, and low-sulfur fuel oil (LSFO) futures, bonded copper futures will be regulated by the same set of tax, foreign exchange, and customs policies as for crude oil futures, TSR 20, and LSFO futures.

12 Why does the internationalization of copper futures use a “dual contract” model?

The principal consideration behind the bonded copper futures is to introduce it as a specified product without changing the existing copper futures listed on Shanghai Futures Exchange (SHFE). China imposes export duty and VAT on copper and other major nonferrous metals, which in effect has created two spot markets for copper: a tax-included domestic market and an on-shore (in bonded areas) bonded market.

SHFE’s copper futures are aimed at the former, and reflect the domestic supply and demand of refined copper. Its price has become a benchmark for spot copper trades in China. By contrast, the bonded copper futures are designed for the tax-excluded markets outside Chinese customs, including on-shore bonded areas and the markets of countries and regions in the Far Eastern time zones. These markets reflect the copper supply and demand in the international markets. The dual-contract model enables the introduction of an internationally oriented product for the bonded market and the market of the Far Eastern time zones, without disrupting the domestic market. This helps providing the global copper industry with a better risk management tool.

13 What are the main similarities and differences between bonded copper futures and SHFE copper futures in contract design?

The bonded copper futures contract is modeled after the SHFE copper futures contract, with certain changes that make it suitable for listing and trading as an international productdesigned in line with the international best practice and based both on the domestic market and, to a larger degree, the Far Eastern market. As a result, the two contracts are identical in contract size, minimum price fluctuation, contract months, trading hours, and last trading day, but different in delivery period, the grade and quality specifications of deliverables, how price is to be quoted, and position limit, etc.

Table 1: Comparison of Bonded Copper Futures and SHFE Copper Futures

No.	Item	Same or Different	INE Bonded Copper Futures	SHFE Copper Futures
1	Price quotation	Different	(RMB) Yuan /metric ton (exclusive of tax).	(RMB) Yuan /metric ton (inclusive of tax).
2	Grade and quality specifications	Different	Copper cathode compliant with the specifications for Grade-A (Cu-CATH-1) set out in GB/T 467-2010 or CR001A (Cu-CATH-1) in BS EN 1978:1998.	Standard deliverables: No. 1 standard copper cathode (Cu-CATH-2) as prescribed in GB/T 467-2010. Substitute: Copper cathode compliant with the specifications for Grade-A (Cu-CATH-1) set out in GB/T 467-2010 or CR001A (Cu-CATH-1) in BS EN 1978:1998.
3	Position limit	Different	Regular months: 70,000 lots Delivery month / the month before delivery month / from contract listing to the last day of trading of the second month before delivery month: 700/3,500/7,000 lots.	Regular months: 80,000 lots Delivery month / the month before delivery month / from contract listing to the last day of trading of the second month before delivery month: 1,000/3,000/8,000 lots.
4	Large trader position reporting	Different	A member, OSP, or client whose general position in a futures contract reaches the general position limit set by INE, or an Overseas Intermediary whose general position in a futures contract reaches 60% of its general position limit set by INE, should report its positions to INE.	A member or client whose speculative position in a contract reaches 80% or more of its speculative position limit imposed by SHFE should report its positions to SHFE.
5	Deliverable brand	Different	Only commodities of registered brands are allowed in delivery. INE plans to permit the delivery of certain SHFE-registered copper brands. There are no delivery-related premiums and discounts.	Only commodities of registered brands are allowed in delivery. Delivery premiums imposed on five registered brands.
6	Delivery mode	Different	Bonded delivery	Duty-paid delivery and bonded delivery

No.	Item	Same or Different	INE Bonded Copper Futures	SHFE Copper Futures
7	Delivery facilities	Different	Delivery facilities are located in China and, based on contract needs, overseas delivery facilities may be offered at a later date.	Delivery facilities are located in China
8	Quality inspection agency	Different	Foreign quality inspection agencies introduced	Chinese quality inspection agencies
9	Market makers	Different	Yes	No
10	Product symbol	Different	BC	CU
11	Trader eligibility	Different	Trader eligibility requirements are enforced	No trader eligibility requirements
12	Transaction fees	Different	No higher than 0.001% of trading turnover	No higher than 0.005% of trading turnover
13	Minimum price fluctuation	Same	10 Yuan/ metric ton	10 Yuan/ metric ton
14	Listed contracts	Same	January, February, March, April, May, June, July, August, September, October, November, December	January, February, March, April, May, June, July, August, September, October, November, December
15	Trading hours	Same	9:00 a.m. to 11:30 a.m., 1:30 p.m. to 3:00 p.m., and other hours specified by INE.	9:00 a.m. to 11:30 a.m., 1:30 p.m. to 3:00 p.m., and other hours specified by SHFE.
16	Last trading day	Same	The 15th day of the delivery month (postponed accordingly if it is a public holiday or rest day. INE may adjust the last trading day in view of public holidays and rest days).	The 15th day of the delivery month (postponed accordingly if it is a public holiday or rest day. SHFE may also adjust the last trading day in view of public holidays and rest days).
17	Daily price limit	Same	Within ±3% of the settlement price of the preceding trading day	Within ±3% of the settlement price of the preceding trading day
18	Minimum trading margin	Same	5% of contract value	5% of contract value
19	Final settlement price	Same	Settlement price of the last trading day	Settlement price of the last trading day
20	Compulsory exit of individual clients from positions	Same	By market close on the 3rd trading day before the last trading day of the contract.	By market close on the 3rd trading day before the last trading day of the contract.

V. Trading Access to Bonded Copper Futures

14 Can the arrangement of “one trader with one trading code” help distinguish the trades among different sub-accounts of the same trading entity?

INE adopts the trading code system to prevent inadvertent or intentional aggregation or netting of client positions. Futures Firm Members (FF Members), Overseas Special Brokerage Participants (OSBPs), and Overseas Intermediaries must apply for a unique trading code for each of their clients. Special Institutional Clients that are required by Chinese laws, regulations, and applicable rules and measures to manage client assets under segregated accounts, may apply to INE for a trading code for each of the segregated accounts.

15 How can overseas institutions and individuals access and trade the INE bonded copper futures?

There are four ways to trade at INE:

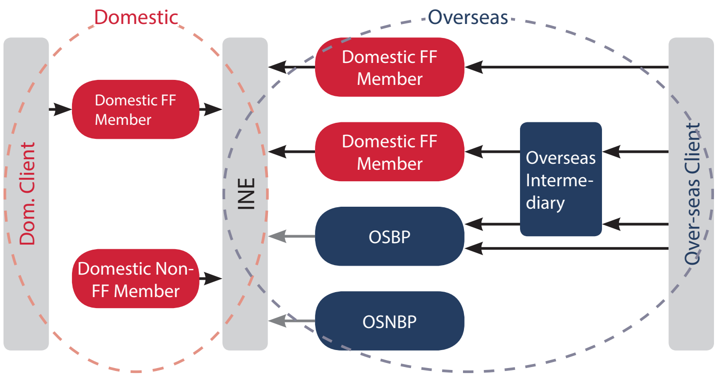
Model 1: Overseas clients may trade through an FF Member of INE;

Model 2: An INE-recognized Overseas Intermediary may help overseas clients execute and clear trades through a carrying broker, either an FF Member or an OSBP of INE;

Model 3: An OSBP having direct trading access at INE may help overseas clients execute trades, which are cleared and settled through its carrying broker who must be an FF Member;

Model 4: Become an Overseas Special Non-Brokerage Participant (OSNBP) of INE, which can trade directly at INE but clearing and settlement must be conducted through a carrying broker who must be an FF Member.

Fig. 3: Trading Accesses to International Copper Futures at INE



Note: Black arrows indicate trading, clearing, and delivery. Grey arrows indicate direct access to trading at INE, but overseas special participants (OSPs) must participate in clearing and delivery through domestic FF Members.

16 What are the eligibility criteria for investors intending to trade bonded copper futures?

Investors intending to trade the bonded copper futures should meet the eligibility requirements under the INE Futures Trading Participant Eligibility Management Rules (referenced in the table below). In addition, an investor eligible to trade other listed products subject to the eligibility rules of other trading venues in China may be exempted from certain requirements while applying for a trading code or bonded copper trading access at INE. A client with trading access to crude oil futures, TSR 20 futures, or LSFO futures is automatically entitled to trading bonded copper futures. A client with trading access to options, other specified domestic products, or financial futures may be exempted from the eligibility review while opening accounts at the same account-opening institution, and from basic knowledge, trading experience, and capital requirements while opening account at a different account-opening institution.

Table 2: Types of Investors and Eligibility Requirements

Type of Investor	Requirements
Institutional Investors (Institutions)	1. Having relevant business professionals who understand the essentials of futures trading and the rules of INE;
	2. Having recognized trading experiences and trading records in 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 consecutive business days before applying for the trading code or trading access;
	4. Having sound internal control and risk management systems;
	5. Having not been prohibited from entering the futures market or restricted in futures trading.
Individual Investors	1. Understanding the essentials of futures trading;
	2. Having recognized trading experiences and trading records in 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 consecutive business days before applying for the trading code or trading access;
	4. Having not been prohibited from entering the futures market or restricted in futures trading.

17 Does an overseas individual trader have to open an account at a bank in China to trade bonded copper futures?

An overseas individual trader may trade bonded copper futures at INE through an FF Member or an overseas broker. In the case of an FF Member, the overseas individual trader must open a dedicated futures settlement account at a Designated Depository Bank in China. In the case of an overseas broker, there is no need to open an account at a bank in China.

18 If a Europe-registered investor participates in China's bonded copper futures market through a European or U.S. broker, is the investor required to report transactions to a trade depository as stipulated in the European Market Infrastructure Regulation (EMIR)?

At present, INE has completed registration in Hong Kong and Singapore and acquired ATS and RMO licenses respectively, and is committed to strengthening its cooperation with international markets.

Given the large number of countries in Europe as well as the dual regulation of EU and home-country authorities, European and U.S. brokerage firms should take special care in managing client eligibility and in conducting businesses according to local laws and regulations. Similarly, futures firms that have partnered with European or U.S. brokers should familiarize themselves with the overseas legal system (including the General Data Protection Regulation (GDPR)) in advance to maintain operational compliance.

19 Can a domestic Non-FF Member trade on INE through one or more futures firms?

Article 37 of INE Membership Management Rules provides that "except otherwise approved by the Exchange, a Non-FF Member shall not open another account as a Client to engage in futures trading." Therefore, a Non-FF Member corporate entity may not trade through a broker as a client.

20 Can mutual funds trade bonded copper futures?

Domestic mutual funds have been recognized as a type of Special Institutional Clients and, as such, can open special institutional client accounts to trade bonded copper futures. China Futures Market Monitoring Center (CFMMC) is now accepting account-opening applications from overseas Special Institutional Clients.

21 Does INE accept English documents in business activities and document signing? And does INE provide English versions of regulations, rules, notices, and circulars?

The INE accepts feedbacks in English during rule-making and amendment, and bilingual (Chinese and English) documents during account opening as well as for other application materials relating to Overseas Intermediaries and Overseas Special Participants (OSPs). According to Article 41 of the *INE Overseas Special Participant Management Rules*, for all application materials submitted by Overseas Intermediaries and OSPs to INE, the Chinese version shall prevail. INE will try its best to publish laws, rules, notices, and circulars in both Chinese and English; but as legal texts, the Chinese version shall prevail.

22 For overseas clients, which overseas trading platforms have access to bonded copper futures at the INE?

Currently, CQG, PATs, Bloomberg, Tradex, FIS, ATP, and Esunny have access to bonded copper futures trading at INE. INE actively works with major international trading platforms to further expand the range of options.

VI. Clearing and Risk Management of Bonded Copper Futures Trades

23 How are the daily settlement price and final settlement price of the bonded copper futures contract determined?

The daily settlement price of a bonded copper futures contract is the volume-weighted average price of all trades in that contract executed on a trading day. The final settlement price, which is the benchmark price for final settlement, is equal to the settlement price of the contract on the last trading day.

For special-case situations, please refer to Articles 34 and 35 of the *INE Clearing Rules*.

24 How to perform currency exchange while trading bonded copper futures?

Bonded copper futures are priced and settled in RMB. Overseas traders and overseas brokers may post margin in RMB or directly in USD, but USD-denominated margin can be used for clearing purposes only after it is exchanged into RMB.

For overseas traders and overseas brokers, the purchase and sale of RMB must be based on the actual results of their trades in bonded copper futures, and may only be performed for payments in connection with the trading of bonded copper futures, such as the settlement of profits and losses, payment of transaction fees, making or receiving of delivery payment, and deposit of additional cash funds for clearing purposes.

25 How are fund transfers handled for bonded copper futures trading?

Bonded copper futures are classified as a specified domestic product. According to PBOC’s Announcement [2015] No. 19 and SAFE’s Circular Huifa [2015] No. 35 and related Q&As, overseas investors and overseas brokers may transfer offshore RMB or USD to onshore bank accounts to trade bonded copper futures. These funds will be deposited in segregated accounts, protected from unauthorized operations while in China, and may not be used for any purpose other than the trading of specified domestic products. Fund transfers should comply with the scope of payments and receipts prescribed by relevant policies.

26 What is the margin system for bonded copper futures? How is it different from SHFE's margin system for copper futures?

INE sets different trading margin requirements based on the particular stage a futures contract is in during its lifecycle (i.e., from listing to the last trading day). INE may also adjust the rate of trading margin based on market risk conditions through a public circular. The clearing deposit is managed in accordance with the *INE Clearing Rules*.

27 For risk management purposes, will the positions held by subsidiaries of the same parent company be managed separately or aggregated and managed on a net basis?

For risk management purposes, positions held by a group of clients, Non-FF Members, or OSNBPs that have actual control relationship with each other are aggregated in accordance with applicable rules. Accordingly, the total positions held by a client under multiple trading codes through different FF Members, OSBPs, and Overseas Intermediaries may not exceed the position limit set by INE, where, for the purpose of position limit, each trader's positions are calculated on a single-counted basis (i.e., long only or short only) without netting. Additionally, Non-FF Members and OSNBPs are required to report accounts with actual control relationship to INE; while clients should do so with CFMMC. INE obtains information about these accounts from CFMMC, and aggregates and manages relevant positions accordingly.

28 What are INE’s rules for determining and approving the hedging quota for bonded copper futures?

Hedging with bonded copper futures requires prior approval from INE. If a trader believes that the regular position limit is too low to meet its hedging needs, it may apply to INE for a hedging quota. INE determines and approves such quotas based on two factors: the applicant’s bona fide production, trading, and consumption volume of physicals, and market conditions. An applicant should submit the necessary supporting materials, such as its production plan, sales contract, or processing plan.

When a futures contract enters the “nearby delivery months”, INE’s trading system will automatically adjust the hedging quota to the lower of the previously approved hedging quota for regular months and the general position limit for the contract in nearby delivery months. This adjustment converts the hedging quota for regular months to hedging quota for nearby delivery months, and is done to help manage market risks as the contract approaches the delivery month. However, if any trader finds the adjusted level is not sufficient to cover its hedging needs, it may separately apply to INE for a higher hedging quota for nearby delivery months.

29 The position limit for the delivery month is 700 lots (long only or short only). Can this limit be raised for enterprises in certain industries?

The 700-lot position limit only applies to general positions. Enterprises that are engaged in bona fide commerce trades or need to hedge against risks in the spot market may apply to INE for a hedging quota. The application should meet the requirements specified in the INE Trading Rules. For example, it should be accompanied by the corresponding spot trade contract, production plan, or other documentations recognized by INE, and be submitted before the relevant deadline. Once this application is approved, the applicant may hold positions beyond the 700-lot limit (long only or short only).

30 Can OSNBPs and overseas clients post foreign currency as margin collateral?

OSNBPs and overseas clients can use foreign currency as margin. If foreign currency is used, the day's CNY (RMB) central parity rate published by the China Foreign Exchange Trade System (CFETS) will be used to calculate the market value of the foreign currency. At present, INE rules state that USD is the only foreign currency accepted as margin, at a haircut of 0.05.

Before the closing of market, the market value of foreign currency is provisionally determined by the CNY central parity rate published by CFETS on the previous trading day. This value will be revised and discounted during daily clearing according to the rules above.

31 Does currency exchange for futures trading have to be performed at a Designated Depository Bank?

The purchase and sale of currencies for futures trading must be completed at a Designated Depository Bank. When exchanging currencies, a Member may check with multiple Designated Depository Banks and choose one that offers the best exchange rate.

32 For a trader who holds both long and short positions, is its trading margin based on the gross positions, net positions, or the portfolio?

INE implements larger-side margining.

According to Article 28 of the *INE Clearing Rules*, INE may collect trading margin on only the long positions or only the short positions 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, INE may collect trading margin solely from the side for which a larger amount of trading margin is required, except for any contract held after the closing of the 5th trading day prior to its last trading day;

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

33 Articles 39 and 40 of the *INE Clearing Rules* state that, "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 INE take, if a Member fails to make up for the difference following the margin call?

Article 40 of the *INE Clearing Rules* lists the actions INE will take in the event that a Member fails to meet the required clearing deposit balance on any internal ledger: if the balance is zero or positive, the corresponding Member or OSP will be prohibited from opening new positions; if the balance is negative, INE will carry out forced liquidation or take other necessary measures according to the *INE Risk Management Rules*.

34 Is it required for an overseas company that trades through an overseas (or China-based) futures broker to open a dedicated bank account for futures trading?

If an overseas trader or overseas broker directly engages a domestic futures firm for clearing (or trading and clearing) services, it must open a futures settlement account at a Designated Depository Bank that is qualified to offer margin depository services for overseas clients.

35 Can a domestic Non-FF Member open a foreign exchange account for trading bonded copper futures?

The short answer is “no.”

According to SAFE Circular Huifa [2015] No. 35, only overseas traders, overseas brokers, as well as futures firms and other institutions that are qualified to clear trades and are providing trading, clearing, and other related services to overseas traders and overseas brokers in relation to specified domestic products, may open a foreign exchange account for those purposes.

36 Is it true that for Overseas Special Participants, foreign currency can only be used as trading margin, while all expenses and profits and losses resulting from futures trading must still be settled in RMB?

Yes.

As a specified domestic product, bonded copper futures are subject to the following provisions of PBOC's Announcement [2015] No. 19:

"II. Domestic crude oil futures transactions shall be priced and settled in RMB….

"IX. A foreign trader or foreign brokerage agency may directly use foreign [currency] as the margin, and the foreign [currency] margin may not be used for the settlement of domestic crude oil futures funds until it has been settled [i.e. exchanged into RMB]….

"XIII. This Announcement shall apply, mutatis mutandis, to the cross-border settlement of transactions in other specified domestic futures products approved by the China Securities Regulatory Commission."

In addition, Article 23 of the *INE Clearing Rules* provides that "the clearing currency at INE is RMB; subject to the approval of INE, foreign currencies and assets with stable value and high liquidity, such as standard warrants and treasury bonds, may be used as margin collateral".

VII. Delivery for Bonded Copper Futures

37 How are the deliverables for bonded copper futures managed?

Commodity registration is required for the deliverables of bonded copper futures. The rules for commodity registration will be separately released by the INE.

38 Where are the delivery storage facilities for bonded copper futures located?

For the location of delivery storage facilities, INE preferentially selects areas that are close to consumption and distribution hubs. For this reason, INE plans to select the first group of delivery storage facilities for bonded copper from the most qualifying Chinese and foreign-funded facilities in the Shanghai Free-Trade Zone. Once the contract is listed for trading, the location of delivery storage facilities will be optimized based on contract and market needs.

39 What are the contract size and delivery unit of bonded copper futures?

The contract size of bonded copper futures is 5 metric tons per lot and the delivery unit is 25 metric tons. Delivery should be made in integral multiple(s) of the delivery unit.

40 What quality specifications should the deliverables of bonded copper futures meet?

The deliverables of international copper futures should meet the specifications for Grade-A (Cu-CATH-1) set out in GB/T 467-2010 or CR001A (Cu-CATH-1) in BS EN 1978:1998.

Tolerance and pound difference for each standard warrant should not exceed ±2% and ±0.1% respectively. Copper cathodes underlying each standard warrant must be: (1) of the same manufacturer, grade, registered brand, quality grade, and shape, and secured into bundles of similar weight; and (2) of an INE-registered brand or SHFE-registered brand recognized by INE, accompanied by quality certificates. Standard warrants are issued after the commodities pass the inspection of the Designated Delivery Storage Facilities of INE.

DISCLAIMER

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