

Regulatory Criteria and Handling Procedures for Abnormal Trading Activities Related to Equity Index Options under the Measures of China Financial Futures Exchange on the Management of Abnormal Trading

To enhance supervision over abnormal trading activities in the equity index options market and boost members' management of their clients' trading activities, the regulatory criteria and handling procedures for abnormal trading activities under the *Measures of China Financial Futures Exchange on the Management of Abnormal Trading* are set out as follows:

I. Self-trade, Frequent Placement and Cancellation of Orders and Placement and Cancellation of Large Orders

(1) Regulatory Criteria

1. If a client executes five or more self-trades in the same contract in a single trading day, the act shall constitute the abnormal trading activity of “large or frequent transactions between one’s own accounts by acting as its own counterparty (including trades among Actual Control Accounts)”.

2. If a client cancels trading orders in the same contract for 500 or more times in a single trading day, the act shall constitute the abnormal trading activity of “frequent placement and cancellation of orders”.

3. If a client cancels trading orders in the same contract for 100 or more times in a single trading day, and the size of a single order so cancelled reaches 80% of the maximum size of a single limit order prescribed by the Exchange, the act shall constitute the abnormal trading activity of “placement and cancellation of large orders”.

4. If a client reaches the threshold for the Exchange to take actions as a result of self-trade, frequent placement and cancellation of orders or placement and cancellation of large orders in multiple contracts of the same product in a single trading day, the act shall be deemed as a single occurrence of abnormal trading activity.

5. When calculating the number of times of self-trade, frequent placement and cancellation of orders and placement and cancellation of large orders by a client, self-trade resulting from fill-or-kill (FOK) orders, fill-and-kill (FAK) orders, and market orders shall not be included into the number of times of self-trade. Cancellation of orders resulting automatically from fill-or-kill (FOK) orders, fill-and-kill (FAK) orders, and market orders shall not be included into the number of times of frequent placement and cancellation of orders or placement and cancellation

of large orders. Cancellation of orders initiated by a client shall be counted into the number of times of order cancellation.

Self-trade, frequent placement and cancellation of orders and placement and cancellation of large orders resulting from hedge trading shall not be deemed as abnormal trading activities.

Frequent placement and cancellation of orders resulting from market making shall not be deemed as abnormal trading activities.

6. Self-trade, frequent placement and cancellation of orders and placement and cancellation of large orders between Actual Control Accounts shall be determined on an aggregate basis and subject to the same regulatory criteria as applicable to a single client.

(2) Handling Procedures

If a client reaches, for the first time, the threshold for the Exchange to take actions due to its self-trade, frequent placement and cancellation of orders or placement and cancellation of large orders, the Exchange will issue an alert via telephone to the client's carrying member on the same day; if a client reaches the threshold for the second time, the Exchange will place the client on the priority regulatory watch list; and if a client reaches the threshold for the third time, the Exchange will, after market close on the same day, take the regulatory measure of suspending the opening of new positions by the client generally for no less than one month.

II. Aggregate Position Held through Actual Control Accounts Exceeding Applicable Position Limit

(1) Regulatory Criteria

"Two or more trading codes with suspected actual control relationship" refers to accounts affiliated by an actual control relationship as identified according to the criteria under applicable rules of the Exchange.

The Exchange determines positions held through Actual Control Accounts on an aggregate basis.

If a group of Actual Control Accounts reaches the threshold for the Exchange to take actions as a result of the aggregate positions in multiple options contracts of the same product held through the Actual Control Accounts exceeding applicable position limit, the act shall be deemed as a single occurrence of abnormal trading activity.

(2) Handling Procedures

1. If the aggregate positions held through a group of Actual Control Accounts exceed the applicable position limit for the first time, the Exchange will place such group of Actual Control Accounts on the priority regulatory watch list and, after market close on the same day, notify the clients' carrying members, and require the clients to voluntarily close out their positions.

If the clients fail to voluntarily close out their positions before the end of the morning trading session on the following trading day, the Exchange will carry out forced liquidation on their positions until the aggregate positions are no higher than the position limit prescribed by the Exchange and, after market close on the day of forced liquidation, take the regulatory measure of suspending the opening of new positions by the clients generally for no less than one month.

2. If the aggregate positions held through the group of Actual Control Accounts exceed the position limit for the second time, the Exchange will, after market close on the same day, notify the clients' carrying members and require the clients to voluntarily close out their positions. If the clients voluntarily close out their positions, the Exchange will suspend the opening of new positions through such group of Actual Control Accounts generally for no less than 10 trading days.

If the clients fail to voluntarily close out their positions before the end of the morning trading session on the following trading day, the Exchange will carry out forced liquidation on their positions until the aggregate positions are no higher than the position limit prescribed by the Exchange and, after market close on the day of forced liquidation, take the regulatory measure of suspending the opening of new positions by the clients generally for no less than one month.

3. If the aggregate positions held through the group of Actual Control Accounts exceed the position limit for the third time, the Exchange will, after market close on the same day, notify the clients' carrying members and require the clients to voluntarily close out their positions. If the clients fail to voluntarily close out their positions before the end of the morning trading session on the following trading day, the Exchange will carry out forced liquidation on their positions until the aggregate positions are no higher than the position limit prescribed by the Exchange. Additionally, the Exchange will take the regulatory measure of suspending the opening of new positions through such group of Actual Control Accounts generally for no less than six months and may take further measures if necessary.