

**Disclaimer:** This English translation of Business Guidelines (2019 Revision) is for information purpose only. Should there be any discrepancy between contents in Chinese and English versions, the Chinese version always prevails.

# **Business Guidelines on Custodial Business of Guangdong Carbon Emission Allowances (2019Revision)**

## **Contents**

Chapter One General Rules.....	1
Chapter Two Application Procedures.....	1
Chapter Three Risk Control, Supervision and Management.....	3
Chapter Four Supplementary Rules.....	8

## **Chapter One General Rules**

**1.1** These Rules are formulated in accordance with *the Tentative Management Measures for Carbon Emissions in Guangdong Province, Trading Rules on Carbon Emission Allowances of China Emissions Exchange (2018 Revision), Membership Management Provisional Measures of China Emissions Exchange (2017 Revision)* for the purpose of standardizing custodial business procedures and protecting various participants' interests of custody business.

**1.2** Companies or organizations performing custodial business at China Emissions Exchange (hereinafter referred to as "the Exchange") shall comply with relevant national and provincial laws, rules and policies, shall be based on the principles of integrity and good faith, openness, fairness, free will and equality, and shall never infringe upon the others' legitimate rights and interests or harm the social public interests.

**1.3** Custodial business in this document refers to carbon assets management business in which compliance companies in Guangdong province and investment institutions of the Exchange (hereinafter referred to as the Principal) entrusting self-owned emissions allowances (hereinafter referred to as "Allowance") to institutional members of the Exchange (hereinafter referred to as the Custodian) to hold or trade on their behalf and agree on custodial target.

**1.4** The quantitative proportion of free Allowance available for custody granted to compliance companies of the current year shall be restricted within 50%, but the remaining Allowance of other years is not subject to this restriction when obligation is fulfilled. Within the custodial term, the act of transferring Allowance from the Principal to the Custodian shall not change the ownership of the Allowance.

## **Chapter Two Application Procedures**

**2.1** Institutional members shall apply for custodial business qualification and sign letter of commitment on business when performing custodial business.

Net asset of the Custodian shall not be less than RMB 5,000,000 Yuan.

**2.2** The Exchange shall review the business application and letter of commitment submitted by the applicant within five working days upon receipt, put on record after passing the application and publish the list of institutions with qualification in custodial business to the public.

**2.3** The principal shall sign the risk disclosure statement provided by the Exchange and sign custody agreement upon negotiation and submit it to the Exchange for record.

The custody agreement shall involve but not limit to the custodial target, the amount of Allowance entrusted, the agreed due date, the agreed allocation methods of profits, the amount of Allowance returned and the sharing ratio of losses as well as the compensation method once trading target cannot be realized.

**2.4** Compliance companies under the same group are encouraged to conduct carbon asset management business for the group, where they can entrust one or more companies held by the group to manage their Allowance. The list of Group Companies which is allowed to conduct group carbon asset management business is attached at the end and the Group Companies which are on the list shall firstly apply to the Exchange to be included in the list

The Custodian applying for carbon asset management for a group shall put into record the letter of entrustment issued by the group which entrusts the company to manage carbon asset for the compliance companies under the group.

**2.5** The Custodian shall open an account for custodial purposes at the Exchange and the account is independent from existing proprietary accounts.

**2.6** After the custodial agreement document is recorded by the Exchange, the Principal transfers the Allowance entrusted into the custodial account of the Custodian through the trading system. The Principal shall not require the Custodian to manage its fund.

**2.7** Within the custodial term, the Exchange will freeze the function of fund withdrawal and carbon withdrawal of the custody account. After the custody agreement expires, the Custodian and relevant principal will jointly apply to unfreeze the function. If unfreezing beforehand is needed, the Custodian and relevant principal shall jointly put forward the application, and the Exchange will implement the unfreezing operation after completing review.

**2.8** Upon expiry of custodial period and after review of the Exchange, the Custodian transfers the Allowance entrusted and fund into corresponding account through the trading system as required in the agreement. In case of default, it will be disposed according to the agreement.

**2.9** After all assets of the account are allocated, the Exchange will freeze or cancel the custodial account.

## **Chapter Three Risk Control, Supervision and Management**

**3.1** The Allowance entrusted by the Principal shall have clear ownership without being mortgaged, pledged, or put under other trading agreement with a third party.

**3.2** Margin system is implemented for custodial business in order to prevent market risks. The Custodian shall pay initial business margins to the Exchange within five trading days after the Exchange puts the custodial agreement into record and the standards are shown as follows:

initial business margins  $\geq$  quantity of initial allowance entrusted  $\times$  price of the Allowance  $\times$  20%

Price of the Allowance above is counted based on closing price of listing and picking for the Allowance of previous trading day of the day submitting initial business margins.

With approval of the Principal, the Custodian could use its self-own allowances with equivalent value as collateral to offset business margins. Value of the

Allowance=amount of the Allowance × the closing price of listing and picking for the Allowance of previous trading day of the day submitting guaranteed allowances.

**3.3** The Exchange conducts dynamic supervision system on margins according to assurance maintenance ratio during the implementation of custodial business.

The assurance maintenance ratio indicates the ratio between total value of asset value in custody account and business margins and value of the Allowance entrusted. The computational formula works as follows:

Assurance Maintenance Ratio=(Total allowance in account × the price of the Allowance+Total fund in account-Total add fund in account+Margins+guaranteed allowance × Price of the Allowance)/(Total allowance of business × Price of the Allowance)

Thereinto, “account” refers to the custodial account; “price of the Allowance” refers to closing price of listing and picking for the Allowance of the same day; “total add fund in account” refers to all of custodian’s self-own fund transferred into custodial account; “total allowance of business” refers to the total allowance of the Principal managed by the Custodian in the custodial account.

The initial assurance maintenance ratio of custodial business for the Custodian shall not fall below 1.20.

When the assurance maintenance ratio has been lower than 1.13 for five consecutive trading days, the Custodian shall add business margins or guaranteed allowances timely after receiving tips from the Exchange(including the trading system) within three trading days.

When the assurance maintenance ratio has been higher than 1.40 for five consecutive trading days, the Custodian could apply to unfreeze part of business margins or guaranteed allowances, decreasing the ratio to at least 1.20.

**3.4** When the Custodian trades or conducts repurchase trading and forward trading, it shall ensure that assurance maintenance ratio keeps at least 1.13 after completing

trading or businesses.

**3.5** For the Custodians of group carbon asset management and the Principal within the same group, they can decide voluntarily whether margins shall be paid and its amount, proportion and form.

**3.6** When the custodial targets are not achieved, business margins submitted by the Custodian shall be used in priority according to relevant regulations in custody agreement when making compensation to the Principal. When the margins are not sufficient to compensate, the Principal shall continue to recover the insufficient part from the Custodian through other legal channels.

**3.7** The custodial period for compliance companies participating in custodial business shall in principal fall within the same year performing obligation. The custodial period of custodial business without participation of compliance companies shall not exceed the end date of Guangdong carbon emissions trading pilot.

**3.8** The investment scope for custodial business shall be agreed upon by both the Custodian and the Principal and shall not violate laws, administrative regulations and relevant rules of competent department, and shall be compatible with the Principals' risk recognition, tolerance capabilities, investment experience, management capabilities and risk control levels of the Custodian. The scale of assets for custodial business shall be appropriately controlled.

**3.9** When the Custodian and Principal have major changes such as stopping doing business or stopping production, etc, the Custodian and Principal shall inform the Exchange and stakeholders in a timely manner. The Exchange reserves rights to freeze the custodial account in accordance with practical conditions and coordinate the processing of account assets as well as custodial matters according to relevant laws and regulations as well as custody agreement.

**3.10** When the Principal have great changes in business plan affecting the target of custodial business, the Principal shall inform the Exchange and the Custodian and make adjustment in trading target accordingly.

**3.11** The Custodian shall have comprehensive trading plan of the Allowance entrusted and risks control measures and shall trade according to custodial agreement in custodial period.

**3.12** The Custodian shall take good care of documents, materials and data such as contracts on custodial business, information of the Principal and trading record. No one shall conceal, forge, distort or destroy them.

**3.13** The Custodian shall establish systems such as comprehensive investment decisions, fair trading, accounting, risks control and compliance management in order to regulate business operations, control business risks and protect customers' legal rights and interests.

**3.14** The Custodian shall promise to keep entrusted assets and self-owned assets independent from each other and assets of different Principals independent from each other. The Custodian shall establish independent accounts, achieve independent accounting and split account management for different Principals' entrusted assets .

**3.15** The same Custodian's custodial accounts and proprietary account or different custodial accounts are forbidden to trade with each other.

**3.16** The Custodian and the Principal shall not trade with each other through the custodial business or transfer the Allowance ignoring the purpose of custodial business.

**3.17** The Exchange reserves the right to suspend or cancel the Custodian's business qualification once the following behaviors occur:

- (1) Embezzle the Principal's assets;
- (2) Fail to pay business margins or guaranteed allowances as required by the exchange or fail to add business margins or guaranteed allowances within time limit;
- (3) Manipulate the market alone or collaborately;
- (4) Provide false information to the Exchange and the Principal or disclose the

Principals' information.;

(5) Hold the Allowance in trust in mortgage or pledge;

(6) Hide illegal purposes or circumvent regulatory requirements by means of signing supplementary agreement;

(7) Fail to build up account, and achieve independent accounting as well as split account management among assets entrusted of different Principals;

(8) Fail to pay relevant fees as required by the Exchange and refuse to pay with reasonable warning;

(9) Be revoked business license by the department of administration for industry and commerce;

(10) Be taken over or suspended business for rectification because of poor management;

(11) Company's self-dissolution or entering bankruptcy proceedings;

(12) Other circumstances forbidden by laws and regulations;

**3.18** The Exchange reserves the rights to conduct compliance review on Custodian's implementation of relevant business regulations and systems. Once the Custodian has incompliant behaviors violating relevant regulations and systems, the Exchange can require the Custodian to correct and handle in a timely manner and report to competent authority.

**3.19** If the Custodian and the Principal have economic disputes when conducting custodial business, the two parties shall solve them upon self-negotiation. The Exchange shall not undertake legal responsibility accordingly.

## **Chapter Four supplementary Rules**

**4.1** The Exchange reserves the right to interpret and revise the Rules.

**4.2** The guideline shall come into force from the date of publication.

China Emissions Exchange

January 9<sup>th</sup>, 2019