

Shanghai Metals Market Management of Illiquid Benchmarks Policy

1. INTRODUCTION AND BACKGROUND INFORMATION

To ensure that the Shanghai Metals Markets Benchmarks (the “Benchmarks” or “SMM Benchmarks”) are constructed, maintained and operated to the highest standards, the administrator of the SMM Benchmarks, Shanghai Metals Markets (“SMM” or “the administrator”) employs a robust governance framework to manage the Benchmarks, approve new indices and approve changes to the methodologies of existing indices.

1.1. Oversight

The SMM Benchmark Management Committee (“the Committee”) is responsible for the oversight of all aspects relating to the provision of benchmarks administered by SMM. It acts as the “Oversight Function” as defined in the IOSCO Principles for Financial Benchmarks (the “ISOCO Principles”) and undertakes all the duties and responsibilities as laid out in the IOSCO Principles. Its members are drawn from SMM management and staff.

The Committee reports to Board of Directors and receives updates from first-line internal governance forums in the consideration of their business, where appropriate.

1.2. Responsibilities

Day-to-day management of the SMM Benchmarks is undertaken by the SMM.

This management of illiquid benchmarks policy is owned by the SMM Benchmark Management Committee, and will be reviewed and updated whenever SMM becomes aware of regulatory or business changes, and in any case reviewed no less than on an annual basis.

2. MANAGEMENT OF ILLIQUID BENCHMARKS

In line with the principles and practices laid out in the IOSCO Principles, SMM Benchmarks are designed to capture the maximal amount of relevant liquidity in the underlying markets they seek to measure. However, due to circumstances outside of SMM’s control, these markets may become temporarily or systemically less liquid. This policy documents SMM’s approach to such events.

This document should be read in conjunction with the suite of documents maintained by SMM to ensure ongoing compliance with the IOSCO Principles.

3. DETERMINATION OF WHEN A BENCHMARK IS ILLIQUID

When we find that data submitters are unable to submit data to our analysts and that the number is below 30% of normal, we consider the current market illiquid.

4. ACTIONS IN TEMPORARY AND STRUCTURALLY ILLIQUID MARKETS & REMEDIATION FOR BENCHMARKS IN AN ILLIQUID MARKET

SMM's objective is always to collect data reflecting arm's length spot market activity. Types of data collected can include:

1. Concluded transactions
2. Firm bids that are available to the whole marketplace, with market accepted terms
3. Firm offers that are available to the whole marketplace, with market accepted terms
4. Expressions of interest to trade, with market accepted terms
5. Third party reports of transactions
6. Any other data that may be relevant to SMM benchmarks (prices or indices)

SMM's benchmarks are calculated based on data (listed above) for the current day, unless there is insufficient liquidity in these to provide a robust data sample. If this is the case, fallback procedures are employed which utilize the previous day's submissions and potentially the other types of data listed above to ensure the data sample used for the benchmarks calculation is sufficiently robust. These other types of data may reduce weightings in the benchmarks calculation compared to concluded transactions on the current day.

The procedures followed for calculating SMM's benchmarks and, if necessary, employing fallback procedures are described in Section 4.1. The guides of fallback procedures are freely available on SMM's website for public review.

4.1. Fallback Procedures

Fallback procedures are deployed when needed to increase the number of submissions in a final core data set. The number of submissions is increased by including transactions other than those concluded in the current day. Other categories of submissions are included in sequence according to a defined prioritized hierarchy, until the final core data set is sufficiently statistically robust for the benchmarks calculation to proceed. These additional categories in order of priority are shown below and employed in the sequence in which they are shown until a sufficiently robust final data set is achieved. Once the data set is sufficiently robust, no further fallback steps are used:

1. Normalized submissions of firm bids and offers for the current day.

2. Submissions used to calculate the previous day's benchmarks. All submissions used in the calculation of the previous day's benchmarks are "rolled forward" into the final data set, except for any submissions superseded by a submission of the same product by the same Data Provider(submitter) on the current day.
3. Transactions/bids/offers reported by third parties. The final data set is supplemented by transactions/bids/offers reported by third-parties. These are transactions that were not concluded by the data provider themselves, but that they have been independently observed in the market.

The types of data above may reduce weightings in the benchmarks calculation compared to concluded transactions on the current day. S011pecific weight settings are detailed in the methodology.

Once there is evidence to suggest, or it is otherwise reasonable to expect, a benchmark to become based on a long-term illiquid market, the upgrade program will commence. The upgrade program will look to change the production rules of the benchmark maintain a long-term liquid market basis or, if this is not feasible, consideration will be given to stopping the benchmark. For further details, please refer to SMM's consultation policy, change to methodology policy and review policy. In the event that any such circumstance occurs, SMM will endeavor, whenever feasible, to communicate publicly any changes including but not limited to its publication schedule and assessment periods, with as much advance notice as possible.