

Index Transition Policy and Procedure

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INTRODUCTION

A variety of factors, including external factors beyond the control of Shanghai Metals Market, may mean that one or more of its indices may cease to be a suitable representation of its underlying market, and therefore may require material changes to its methodology.

This document sets out the policy by which the Shanghai Metals Market Index Management Committee ensures that the Shanghai Metals Market Indices are compliant with Principle 13 of the IOSCO Principles for Financial Benchmarks (“the Principles”), regarding benchmark transition. The policy is proportionate to the breadth and depth of the contracts and instruments that reference the indices, and comprises three phases: consultation, assessment and execution.

Shanghai Metals Market encourages users, especially stakeholders who have or trade contracts or financial instruments that reference a Shanghai Metals Market Index, to ensure that those contracts or instruments have robust fall-back provisions (for example, the capacity for early redemption of financial instruments issued on the indices) in the event of material changes to, the referenced Index.

This is a public document, applicable to all stakeholders of the Shanghai Metals Market Indices and published on Shanghai Metals Market’s website. It will be updated as necessary.

PROCESS

Any Shanghai Metals Market staff member or department can identify the potential need for and submit a substantiated proposal for a material change to a Shanghai Metals Market Index to the Index Management Committee, who will decide on whether to progress the proposal.

As administrator, Shanghai Metals Market shall in all cases where a Shanghai Metals Market Index is proposed to be amended, consider whether it is possible to address the issues raised in connection with the Index, including for example:

- a decline in the liquidity of the underlying market referenced by the Index
- a loss of partial input data, such as several tenors of a curve

Initially Shanghai Metals Market will investigate whether the issues raised can be resolved by implementing changes to the Index’ calculation methodology. Only in cases where the Index

Management Committee considers that it is not possible to address the issues raised through a change to the methodology, will it further consider a proposal to cease a Shanghai Metals Market Index and therefore to create or identify an alternative index according to the process set out below under 'Assessment'.

CONSULTATION

Shanghai Metals Market shall as administrator assess the potential impact a material change to an Index may have on users and stakeholders, and if appropriate and proportionate to the nature of the Index, arrange for a survey of users and stakeholders to be undertaken to gather feedback. A decision to survey users and stakeholders will generally be taken by the Index Management Committee including on its scope and duration.

ASSESSMENT

Before deciding whether to materially change an Index, Shanghai Metals Market shall as the administrator, consider:

- the potential impact on users and stakeholders
- any consultation feedback received from users and stakeholders
- if an alternative index is required, criteria to guide the selection or creation of a credible alternative index, including:
 - that the alternative index seeks to match, to the extent possible, the existing Shanghai Metals Market Index's characteristics, objectives, and current constituents and weights
 - that products referencing the alternative index are likely to be (where appropriate) tradable
 - that the cost to transition is likely to be reasonable
 - that the alternative index has an appropriate transparent, objective methodology with suitable governance arrangements
 - that the alternative index is or is expected to be compliant with the IOSCO Principles for Financial Benchmarks
 - if the alternative index is not an existing or new Shanghai Metals Market Index, that the alternative index administrator has an appropriate reputation as an administrator
 - the extent to which users and stakeholders may wish to transition to an alternative index, and if so, the practicability of maintaining a parallel Shanghai Metals Market Index (for example, the existing to-be-terminated Index) for a defined time period in order to accommodate an orderly transition to a new index
- the timing requirements for index users to adjust to a materially changed methodology, or for them to transition to an alternative index.
- the procedures that it shall follow if a suitable alternative index cannot be identified, including informing users and stakeholder as set out below under 'Execution'.

EXECUTION

The Index Management Committee will oversee the implementation of any proposed change to a Shanghai Metals Market index. All discussions and decisions of the Index Management Committee in the course of the implementation will be documented.

The Index Management Committee shall endeavour to provide at least three months' notice to index users and stakeholders should it decide to discontinue the publication of a Shanghai Metals Market

index. Shanghai Metals Market shall issue a notification on its relevant website(s) and shall make its best efforts to notify index users, giving detailed information about the nature and rationale of the material change, as well as the date on which the Index is to be changed. If appropriate, the notification will inform users and other stakeholders that there will be no replacement of the Index and whether Shanghai Metals Market suggests the use of alternative indices.