

Introduction

The Taiwan Futures Exchange (TAIFEX) has taken another step forward in its ongoing internationalization of Taiwan's futures market. Having already successfully exported its first Taiwanese futures product to a foreign market via the May 2014 introduction of Daily Futures on TAIEX Futures and Options at Eurex, TAIFEX launched TOPIX Futures in December 2015. The new product, which takes the Tokyo Stock Price Index (TOPIX) as its underlying, is the first foreign equity index futures listed on the Taiwan's futures market, further invigorating the gradually maturing market for domestic equities products, and providing investors with still more trading and hedging strategies.

Product Strengths

☑ TWD-Denominated, No FX Risk

TAIFEX TOPIX Futures is TWD-denominated, enabling investors to participate in the Japanese equity market without FX risk.

☑ A Convenient Channel for Participating Japanese Equity Market

The launch of the product enables domestic investors who wish to participate in Japanese futures market can trade TOPIX futures in Osaka Exchange via a sub-broker, or choose to trade TAIFEX TOPIX Futures. This creates a more convenient and cost-effective way of trading.

☑ Completely Covers Trading Hours of Japanese Stock Market

Trading hours for TAIFEX TOPIX Futures run from 8 a.m. to 4:15 p.m., a period which covers the trading session of Tokyo Stock Exchange (TSE).

☑ Near-month and Distant-months Contracts Facilitate Diversified Trading Strategies

The Osaka Exchange (OSE) does not offer a near-month TOPIX Futures. Investors can use the TAIFEX near-month TOPIX Futures contract in conjunction with the near-month contracts of other products, such as TAIEX Futures or the OSE's TOPIX Options, to execute a variety of trading strategies. Investors can use TAIFEX TOPIX Futures to participate in the Japanese equity market, as well as to engage in intermarket and inter-product strategies. Issuers of and investors in domestic TOPIX ETFs will also be able to use the TAIFEX TOPIX Futures to hedge their positions.

The Product

Q1 : What is the product's underlying index?

The underlying index of the TOPIX Futures is the TOPIX. TOPIX is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section. It is a comprehensive index that fully reflects the performance of the Japanese equity market. The index's base date is 4 January 1968. It closed at 1580.25 on 30 November 2015.

Q2 : What are the product's trading days and trading hours?

The trading days for TOPIX Futures are TAIFEX business days. Investors should note that it is

therefore possible that the product may be tradable on days when its underlying market (the TSE) is closed. It is also possible that the product may be untradable on days when its underlying market is open.

The trading hours for TOPIX Futures run from 8 a.m. to 4:15 p.m.. The product begins trading at the same time as its underlying market, which is 45 minutes before TAIEX Futures and other domestic equities index futures. The trading hours for TOPIX Futures end 2.5 hours after the close of trade in domestic equities index futures, and at the same time as trading in RMB Futures and ETF futures on China stock indices, enabling the product to fully cover its underlying market's trading hours.

Comparison of Taiwan-Japan Trading Hours

Exchange	Product	Trading Hours (Taiwan Time)
TAIFEX	TOPIX Futures	8 a.m. – 4:15 p.m.
TSE	TOPIX (cash market)	8 a.m. – 10:30 a.m., 11:30 a.m. – 2 p.m.

Q3 : What currency is the product denominated in?

TAIFEX TOPIX Futures are denominated in TWD. The contract multiplier is TWD200. The minimum tick size is 0.25 points and the value of minimum price fluctuation is TWD50.

Q4 : What is the product's daily price limit?

The TOPIX Futures' daily price limit is +/-16% of the previous day's settlement price. This limit is based on the OSE -listed TOPIX Futures' price limit.

Q5 : What is the product's last trading day? How is it adjusted if a holiday or force majeure event prevents trading on the original date?

In principle, the last trading day of TAIFEX TOPIX Futures is the business day immediately preceding the second Friday of the contract month, that is, the day before the final settlement price is determined. It usually falls on the second Thursday. When the determination of the final settlement price occurs at an earlier date, the last trading day is adjusted to the preceding business day.

If the last trading day falls on a national holiday in Taiwan, it will be moved to the preceding business day. If a force majeure event such as a typhoon prevents trading on the original last trading day, the last trading day will be postponed to the TAIFEX business day immediately preceding the second TSE business day following such event. Please see the examples below:

1. The last trading day falling on a national holiday in Taiwan:

- (1) In 2016, the second Friday in June falls on 10 June, which is an "adjusted holiday" for 9 June's Dragon Boat Festival. The ROC's Directorate-General of Personnel Administration has declared both dates are holidays. Therefore, the last trading day of TAIFEX June TOPIX Futures will be moved forward to 8 June (Wednesday), and its final settlement price would, in principle, be determined on 9 June (Thursday);
- (2) In this circumstance, the date on which the final settlement price for the TAIFEX TOPIX

Futures would be determined (9 June) would differ from that of the OSE June TOPIX Futures (10 June);

- (3) Since both 9 June and 10 June are national holidays in Taiwan, the settlement and delivery operations would therefore be postponed to 13 June (Monday).

2. The last trading day falling on a typhoon day:

- (1) Taking 2016 as an example, the last trading day for TAIFEX March TOPIX Futures is 10 March (Thursday). In the event that a typhoon causes the market to be closed on that date, the last trading day would be postponed to 11 March (Friday) and the final settlement price determination date would be moved to 14 March (Monday).
- (2) In this situation, the final settlement price determination date of TAIFEX March TOPIX Futures (14 March) would differ from the of the OSE March TOPIX Futures (11 March).

Q6 : Where can investors obtain information on TOPIX?

TAIFEX has been authorized by the TSE to provide real-time information on the underlying TOPIX via TAIFEX Real-Time Snapshot Quotes website (<http://info512.taifex.com.tw/>). Investors may also obtain information via other systems, including Bloomberg (symbol: TPX<INDEX>) and Thomson Reuters (symbol: .TOPX), or via the TSE's own website (<http://www.jpx.co.jp/english/>).

Trading

Q1 : When are orders accepted, and what information is disclosed prior to market open?

Buy and sell orders are accepted beginning at 7:45 a.m. on every trading day. During the 15-minute pre-market period (7:45-8:00 a.m.), the trading system uses simulated matching to estimate the opening price and volume, and displays this information, as well as the best five bid/ask prices, their corresponding volumes, the total number of bid/ask orders, and the cumulative quantity of bid/ask orders, every five seconds. During the two minutes prior to market open (7:58-8:00 a.m.), orders may be placed, but may not be cancelled or modified.

Q2 : What method is used to calculate the protected range on market-with-protection orders for the product?

The protected range on market-with-protection orders is calculated as a percentage. On single orders, this percentage is 0.5%; on spread orders, it is 0.25%. The basis of calculation is the previous day's settlement price for the near-month contract.

Q3 : What are the position limits on the product?

An investor's aggregate open long or short same-side positions may not exceed the limit standards announced by TAIFEX. In the initial launch phase, the minimum position limit is 1,000 contracts for natural persons and 3,000 contracts for institutional investors. For futures proprietary traders and market makers of this product, the position limit is three times the position limit for institutional investors.

Q4 : Is block trading available for the product?

There is no block trading for TAIFEX TOPIX Futures.

Settlement

Q1 : What is the product's daily settlement price?

The daily settlement price for TAIFEX TOPIX Futures is the volume-weighted-average price of all trades in the final minute of that day's trading session. In the event that there is no transaction price during this period, the settlement price will be set using "Taiwan Futures Exchange Corporation Trading Rules for Tokyo Stock Price Index (TOPIX) Futures Contracts."

Q2 : What is the product's final settlement price? How is the final settlement price

determination date adjusted if it falls on a day on which the Tokyo Stock Exchange is closed?

The final settlement price of TAIFEX TOPIX Futures is the TOPIX Special Quotation (TOPIX SQ) calculated on the final settlement price determination day (the TSE business day following the last trading day). The TOPIX SQ is the free-float adjusted market capitalization-weighted average of that day's first transaction price for each constituent of the index. Because the method uses the first transaction price of each of the constituent equities, the SQ cannot be calculated until the first transaction prices of all the TOPIX constituents are confirmed at the end of the index's trading day (2 p.m., Taiwan time). In the event that a constituent does not have a transaction price on that day, its opening reference price is used instead. The TOPIX SQ is calculated to two decimal places. Its minimum price fluctuation is 0.01, which differs from the 0.25 minimum price fluctuation of the TAIFEX TOPIX Futures.

In principle, the final settlement price determination day for TAIFEX TOPIX Futures is the same as that of the OSE TOPIX Futures: the second Friday of the expiration month. If the TSE is closed on the second Friday, the final settlement price determination day will be moved forward to the preceding TSE business day (usually, the second Thursday of the expiration month).

For example, suppose that the second Friday in August is 14 August. If the TSE were closed on that day, the final settlement price determination day for TAIFEX TOPIX Futures would be moved forward to the preceding day, 13 August (Thursday), and the last trading day would become 12 August (Wednesday).

Q3 : What is the product's final settlement day? What adjustments are made if a force majeure event prevents settlement?

The final settlement day of TAIFEX TOPIX Futures is the business day following the last trading day. However, TAIFEX may adjust this day if other factors affect settlement. For example, in the event that a typhoon or other exceptional circumstance resulted in TAIFEX's closure on the final settlement day, the final settlement day would be postponed to the next business day. However, if the TSE were open on such a day and calculated TOPIX SQ, the final settlement price determination day for TAIFEX TOPIX Futures would remain unchanged.

For example, suppose the last trading day for the August TOPIX Futures is 13 August (Thursday), the final settlement day would be 14 August (Friday). If a typhoon caused TAIFEX to be closed on 14 August, the final settlement day would be postponed to 17 August (Monday). However, if the TSE were open on 14 August, the final settlement price would remain the TOPIX

SQ that TSE calculated on 14 August.

Q4 : When do the product's expiration and settlement occur?

The expiration, settlement and delivery of TAIFEX TOPIX Futures take place between 2:30 p.m. and 5 p.m. on the final settlement day.

However, if the final settlement price determination day precedes the final settlement day (see Q3 above), and TAIFEX is able to obtain the TSE's TOPIX SQ before 9:30 a.m. on the final settlement day, expiration, settlement, and delivery will take place at 9:30 a.m. on the final settlement day.

Q5 : How are margins on the product calculated and collected?

TOPIX Futures contracts are denominated in TWD. Domestic investors pay initial margins in TWD; offshore foreign investors may pay these margins in one of the seven foreign currencies announced by TAIFEX. Investors may arrange with their FCMs to use SPAN margining or strategy-based margining system.

1. SPAN margining system:

SPAN margining system evaluates an investor's overall portfolio risk, giving consideration to risk reductions generated by combination positions. The investor's margin is then calculated based on each product's margin currency.

2. Strategy-based margining system:

Margin calculation for spread position combinations of the same contract with different contract months: for combination positions consisting of one long (buy) and one short (sell) TOPIX Futures contract, the margin collected is for one TOPIX Futures contract.

Q6 : Can an account simultaneously hold long and short same-month TOPIX Futures positions?

In principle, TAIFEX TOPIX Futures are handled just like other stock index futures contracts: short and long positions in the same product with the same expiration are automatically offset.

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