

Domestic and Foreign Equity Index Futures

Dynamic Price Banding Mechanism

What is **Dynamic Price Banding Mechanism**? Understand how it works.

- To prevent abnormal price fluctuations due to erroneous trades or fat finger events, TAIEX launches Dynamic Price Banding Mechanism to reduce abnormal price fluctuations and protect market participants.



Applicable Products

Domestic Equity Index Futures

Nov 19, 2018

Go online

- TAIEX Futures
- Mini-TAIEX Futures
- Electronics Sector Index Futures
- Finance Sector Index Futures
- Non-Finance Non-Electronics Sub-Index Futures
- Taiwan 50 Index Futures
- Taipei Exchange Stock Index Futures
- TPEX 200 Futures*

All contract months and calendar spreads are applicable
*Scheduled to be launched on Sept 30, 2019

Foreign Equity Index Futures

Sept 30, 2019

Go online

- TOPIX Futures
- DJIA Futures
- S&P 500 Futures
- Nasdaq-100 Futures

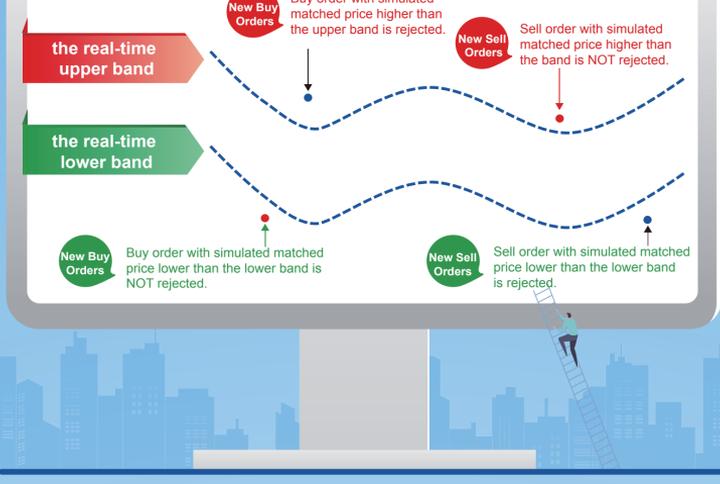
All contract months and calendar spreads are applicable

How it works

Buy Buy order's simulated matched price > the upper limit of dynamic price band → rejection

Sell Sell order's simulated matched price < the lower limit of dynamic price band → rejection

The Mechanism only rejects new **buy (sell)** orders that may cause abnormal price spikes (crashes). Orders buying (selling) at low (high) prices will not be rejected.



How to calculate the upper (lower) limits of dynamic price band?

Upper limit of price band=

Base Price + Variation Range

Adjusted in real time during trading hours Calculated daily before the market opens and stays the same during trading hours

Lower limit of price band=

Base Price - Variation Range

Adjusted in real time during trading hours Calculated daily before the market opens and stays the same during trading hours

Base Price Selection Priority

Step 01

The last effective traded price

Step 02

Effective mid-price of bid and ask

Step 03

Decided by TAIEX

Base Price Selection Priority

Variation Range Calculation	Domestic Equity Index Futures	Foreign Equity Index Futures
Outright contract	<ul style="list-style-type: none"> • Spot Month and Next Calendar Month Contracts of TAIEX and Mini-TAIEX Futures: the most recent closing price of underlying index × 1% • Third Calendar Month and Next Three Quarterly Months Contracts of TAIEX and Mini-TAIEX Futures and all contract months of Electronic Sector Index, Finance Sector Index, Non-Finance Non-Electronic Sub-Index, Taiwan 50, Taipei Exchange Stock Index and TPEX 200 Futures: the most recent closing price of underlying index × 2% 	The most recent daily settlement price of the nearest month contract of the foreign equity index futures × 2%
Calendar Spread	The most recent closing price of underlying index × 1%	The most recent daily settlement price of the nearest month contract of the foreign equity index futures × 1%

Example

Example 1

- Assuming the last closing price of Finance Sector Index is 1,450 pts, the variation range is 29 pts.
- If the base price (the last effective traded price) is 1,450 pts, the upper limit of price band is 1,479 pts (=1,450+29).
- If an investor submits an ROD limit order to buy 15 lots of the TF spot month contract at 1,490 pts.
- According to the order book at the time, the simulated matched prices are 1,450 pts (10 lots), 1,480 pts (2 lots), and 1,482 pts (3 lots).
- The 1,450 pts 10 lots are matched. The remaining 5 lots are rejected due to simulated matched price higher than the upper limit.

Bid	Ask	Price
	1,486	10
	1,484	10
	1,482	3
	1,480	2
	1,450	10
5	1,449.8	
2	1,449.6	
3	1,449.4	
10	1,449.2	
10	1,449	

Upper limit of price band 1479

Example 2

- Assuming the last closing price of Finance Sector Index is 1,450 pts, the variation range is 29 pts.
- If the base price (the Effective mid-price of bid and ask) is 1,450 pts, the lower limit of price band is 1,421 pts (=1,450-29).
- If an investor submits an IOC market order to sell 15 lots of the TF spot month contract.
- According to the order book at the time, the simulated matched prices are 1,449.8 pts (5 lots), 1,420 pts (3 lots), and 1,418 pts (7 lots).
- The 1,449.8 pts 5 lots are matched. The remaining 10 lots are rejected due to simulated matched price lower than the lower limit.

Bid	Ask	Price
	1,450.8	10
	1,450.6	10
	1,450.4	7
	1,450.2	5
5	1,449.8	10
3	1,420	
7	1,418	
10	1,416	
5	1,414	

Lower limit of price band 1421

Dynamic Price Banding Mechanism Special situations resulting in adjustment or suspension of dynamic price band, when the quantitative or non-quantitative standards listed below are met:

Non-Quantitative standards

- In the event of a natural disaster, riot, war or other force majeure events that may affect the trading at TAIEX.
- For other circumstances deemed necessary.

Quantitative standards

- When the futures trading volatility index reaching the limit set at TAIEX' discretion.
- When domestic or foreign futures market or spot market raise or decline more than a certain ratio set by TAIEX.

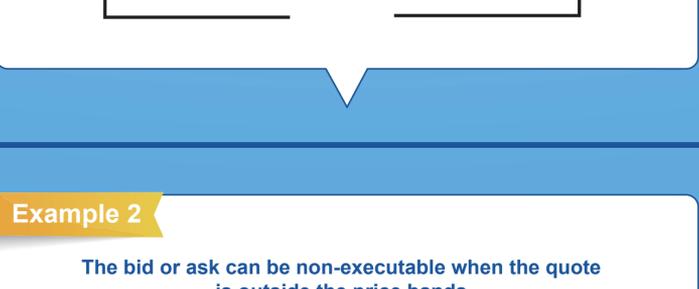


Warning

Example 1

Each new order is checked base on the simulated matched price and the real-time upper/lower limit of price band at the time of entry. Therefore, even for two consecutive orders with the same buy/sell price, their results may differ in fast market.

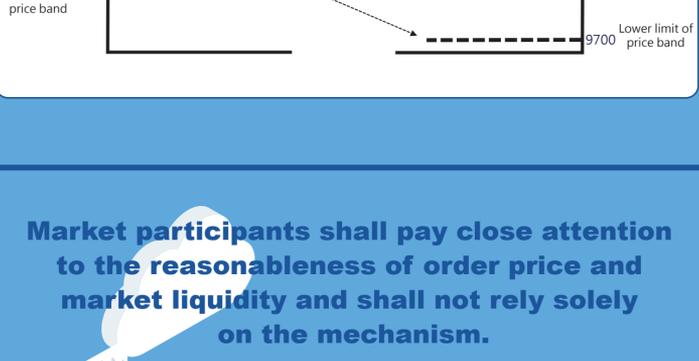
EXAMPLE: An investor submits two 10300 limit orders to buy TAIEX Futures.



Example 2

The bid or ask can be non-executable when the quote is outside the price bands.

EXAMPLE: the quote is outside the price bands due to volatile market



Market participants shall pay close attention to the reasonableness of order price and market liquidity and shall not rely solely on the mechanism.



The Dynamic Price Banding Mechanism can only provide price stability within a certain range. Market participants shall still pay attention to the reasonableness of various order types and order prices when trading.

The operation of Dynamic Price Banding Mechanism may differ as the variation range (or price band) may be expanded due to special market condition, or the mechanism may be suspended due to malfunction. Market participants shall pay close attention to the reasonableness of order price and market liquidity and shall not rely solely on the mechanism.