

Taiwan Futures Exchange Corporation Guidelines Governing Applications by
Institutional Investors to Increase Position Limits
法人機構申請放寬部位限制作業要點

1 These Guidelines are adopted pursuant to the Taiwan Futures Exchange ("TAIFEX") trading rules for various listed futures trading contracts ("trading rules").

2 An institutional investor that applies to increase position limits shall submit the following documents to prove that it has actual hedging needs:

1. If engaged in trading stock futures or options contracts, the institutional investor shall provide the total market value of its holdings of Taiwan Stock Exchange (TWSE) or Taipei Exchange (TPEX) listed company stocks, bond conversion entitlement certificates, convertible corporate bonds, and beneficial certificates for exchange-listed equity funds, exchange-listed index funds, and exchange-traded funds (ETFs) that have TWSE or TPEX listed stocks as their underlying, evidentiary documents for related financial product transactions, or other relevant information.
2. Those engaged in trading foreign exchange futures or options contracts shall provide their holding of the assets and liabilities corresponding to the foreign exchange, evidentiary documents for related foreign exchange financial product transactions, or other relevant information.
3. Those engaged in trading commodity futures or options contracts shall provide their holding of the assets and liabilities corresponding to the commodity, evidentiary documents for related commodity transactions, or other relevant information.

3 An institutional investor with a need to hedge risk may submit the "Application for Institutional Investors to Increase Position Limits for TAIFEX Futures Contracts" ("the application form"; see Attachment), its risk hedging plan, and related evidentiary documents to apply to the TAIFEX for an increase in the institutional investor position limit under TAIFEX trading rules to reach the hedging amount needed. The position limit may be increased only after receiving approval from the TAIFEX. From the day on which the institutional investor receives approval for an increase in a position limit, the open position it holds for any delivery month of the given contract may not exceed the following amount:

1. The amount of the position limit approved pursuant to the provisions of the preceding paragraph.
2. The equivalent number of contracts or value of the futures trading contracts represented by the underlying item being hedged.

4 When the open positions of any TAIFEX listed futures trading contract and the inventory of securities of the type underlying the contract that are held by an institutional investor reach specified standards, the institutional investor may submit an application form and relevant evidentiary documents and apply to the TAIFEX to raise its position limit to either 2 times or 3 times the limit set out in the trading rules.

The specified standards of the preceding paragraph are:

1. For an increase of two times the institutional investor limit, the institutional investor must meet the requirements of the following two subparagraphs:
 - A. For one-half or more of the business days during the preceding 12 months, the preceding 6 months, or the preceding 1 month, the number of open positions it has held have been more than one-half the institutional investor position limit.
 - B. The total market value of spot positions held in the preceding 12 months has not been less than one-half the value of the institutional investor position limit contracts.
2. For an increase of three times the institutional investor limit, the institutional investor must meet the requirements of the following two subparagraphs:
 - A. For one-half or more of the business days during the preceding 12 months, the preceding 6 months, or the preceding 1 month, of the period after the increase has been approved by the TAIFEX, the number of open positions it has held have been more than the institutional investor position limit.
 - B. The total market value of spot positions held in the preceding 12 months has not been less than the value of the institutional investor position limit contracts.

5 When an institutional investor has applied to increase a position limit in accordance with Point 3 or Point 4, the TAIFEX may decide the amount, time period, and trading method of the increase in position limit based on the amount applied for by the institutional investor, the risk exposure amount of the hedged item, the institutional investor's trading conduct on the futures market or spot market, the market environment of the futures trading contract, or other factors.

If an increase in a position limit for an institutional investor has been approved by the TAIFEX pursuant to Point 3 or Point 4, then from the date of approval, the open positions of the institutional investor shall conform with the limit amount approved pursuant to Point 3 or Point 4.

6 When an institutional investor's application for a position limit increase has been approved by the TAIFEX pursuant to Point 3, the period of the increase shall be limited to 1 year; when an institutional investor's application for a position limit increase has been approved by the TAIFEX pursuant to Point 4, the period of the increase shall be limited to 2 years, provided that if the institutional investor has not held the number of open positions required for its particular bracket for one-half or more of the business days during the most recent 12-month or 6-month period, the period of the position limit increase shall be limited to six months.

An institutional investor that has qualified for a position limit increase shall submit a new application in the event it has need of a continuing position limit increase prior to the expiry of the period for the position limit increase; if it does not submit a new application prior to the expiry of the period for the position limit increase, or if its application is not approved, then the limit on positions it holds of individual listed TAIFEX futures trading contracts shall be as per the institutional investor position limits in the TAIFEX trading rules.

7 During the effective period of a position limit exemption received by an institutional investor pursuant to these Directions, that investor, except where otherwise provided, may not carry out futures trades in contracts involved in the position limit exemption

through an omnibus account, provided that this restriction shall not apply to the handling of trades for pre-existing open positions.

8 If an institutional investor applies for a position limit increase, the TAIFEX may deny approval under any of the following circumstances:

1. Application documents are incomplete, particulars are filled in fraudulently or falsely, or conceal the truth.
2. The applicant has failed to duly provide explanations or corrections within a prescribed period.
3. The applicant has violated relevant provisions of futures regulations or the exchange's rules.
4. Within the most recent two years, the TAIFEX has terminated the applicant's eligibility for position-limit increases.
5. The amount applied for by the institutional investor, the risk exposure amount of the hedged item, the institutional investor's conduct on the futures market or spot market, the market environment of the given contract, or other factors make it inadvisable to increase the position limit.

9 Either when processing an institutional investor's application for a position limit increase, or during a period when an institutional investor is engaging in futures trading, the TAIFEX may require the institutional investor to submit written explanations or supplementary documents concerning relevant matters within a time limit, and the institutional investor shall not evade or refuse to comply.

10 After approving an institutional investor's application for a position limit increase, if it is discovered that the institutional investor has violated the limits under these Guidelines, futures trading laws or regulations, or an applicable provision of the rules of the TAIFEX, or that the institutional investor's application documents are fraudulent or false, or there is concealment, or that there has been a material change in the institutional investor's solvency, or that the institutional investor has violated a declaration made on the application form, or that the futures market environment has undergone a significant change, or that the circumstances set forth in any one of the subparagraphs of Article 116 of the TAIFEX Operating Rules exist, the TAIFEX may take the following measures at any time:

1. Notifying the institutional investor to immediately address the situation and make improvements.
2. Requesting by letter that the institutional investor provide an explanation and make improvement within a specified period of time.
3. Temporarily suspending the institutional investor's eligibility for limit increases for a specified period.
4. Adjusting the amount, period, or trading method of the increase in the institutional investor's position limit.
5. Terminate the institutional investor's eligibility for limit increases.

11 These Guidelines, and any amendments hereto, shall take effect after approval by the competent authority.