

Overview of the Required Conditions When Applying for Position Limit Exemption as Stipulated in Point 4, Paragraph 2 of the “Guidelines Governing Applications by Institutional Investors to Increase Position Limits”

Jul 2, 2018

- I. According to Paragraph 2 of Point 4 of the Taiwan Futures Exchange Corporation Guidelines Governing Applications by Institutional Investors to Increase Position Limits, the institutional investor applying to raise its position limit to either 2 times or 3 times the limit shall meet the specified standards as follows:
 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. After TAIEX has approved the increase of position limits, 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 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.
- II. According to Point 5 of the Guidelines, the TAIEX may decide the amount, time period and the means of transaction 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.
- III. Whether the institutional investor apply to raise its position limit to either 2 times or 3 times the limit, the above two subparagraphs in Paragraph 2 of Point 4 of the Guidelines shall both be met. The following is an example of an increase of two times the institutional investor limit.

Criterion 1	<p>Based on the foreign institutional investor's total position in its direct accounts and its sub-account under the omnibus accounts¹, the number of long or short open positions² it has held have been more than one-half the institutional investor position limit for one-half or more of the business days during the following periods:</p> <p>(1) The preceding 12 months (2) The preceding 6 months (3) The preceding 1 month</p> <p>Note 1: According to Point 7 of the Guidelines, during the effective period of the increase for an institutional investor that has received a position limit increase pursuant to these Guidelines, that investor, except where otherwise provided, may not carry out futures trades through an omnibus account, provided that this restriction shall not apply to the handling of trades for pre-existing open positions.</p> <p>Note 2: If TAIEX Futures is the underlying contract applied for position limit exemption, Mini-TAIEX Futures based on one-to-four contract scale shall be added to the number of open positions.</p>
Criterion 2	<p>Based on the foreign institutional investor's month-end total market values of spot positions in the preceding 12 months¹, the mean value in the preceding 12 months has not been less than one-half</p>

the value² of the institutional investor position limit contracts.

Note 1: The month-end total market value after deducting the security lending balance shall be provided by the foreign institutional investor or its local agent. The total market value of spot positions shall be based on the underlying stocks or individual stocks of products applied for position limit exemption. For example, if such product is Finance Sector Index Futures, spot positions shall be limited to Taiwan Stock Exchange Finance Sector Index constituent stocks. If the product is Taipei Exchange Stock Index Futures, spot positions shall be limited to Taipei Exchange listed stocks.

Note 2: The value of the institutional investor position limit contracts shall be calculated by the TAIFEX as follows:

Futures—Value of the institutional investor position limit contracts (NT\$) = Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months × contract multiplier × institutional investor position limit (lot)

Options—Value of the institutional investor position limit contracts (NT\$) = Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months × contract multiplier × institutional investor position limit (lot) × hedge ratio (Delta), where Delta = 0.5

IV. Example of Criterion 1

	Date	Period	Number of business days	1/2 of the business days	Number of business days when the institutional investor's open positions (long or short) are more than 1/2 of position limit	Check (Yes/No)
Example 1	April 30, 2015	the Preceding 12 months (May 1, 2014– April 30, 2015)	246	123	73	No
		the Preceding 6 months (October 31, 2014– April 30, 2015)	120	60	7	
		the Preceding 1 month (March 31, 2015– April 30, 2015)	21	10.5	7	
Example 2	August 22, 2013	the Preceding 12 months (August 23, 2012– August 22, 2013)	247	123.5	167	Yes
		the Preceding 6 months (February 23, 2013– August 22, 2013)	124	62	44	
		the Preceding 1 month (July 23, 2013– August 22, 2013)	22	11	0	

V. Example of Criterion 2

【FUTURES】

- Computing formula

Value of the institutional investor position limit contracts (NT\$) = Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months × contract multiplier¹ × institutional investor position limit (lot)²

Note 1: The contract multiplier is stipulated in the TAIFEX Trading Rules for each contract

Note 2: The institutional investor position limit is stipulated in the latest position limit for each contract set by the TAIFEX

- Example

Unit: Lot, NT\$

	Contract applied for position limit exemption	Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months	Contract multiplier	Institutional investor position limit	1/2 of value of the institutional investor position limit contracts	The mean value of the month-end total market value of spot positions in the preceding 12 months	Check (Yes/No)
Example 1	TAIEX Futures (TX)	Taiwan Stock Exchange Capitalization Weighted Stock Index (February 5, 2014–January 30, 2015) 9045.81	200	12,000	10,854,972,000	14,500,184,000 ¹	Yes
Example 2	Finance Sector Index Futures (TF)	Taiwan Stock Exchange Finance Sector Index (January 23, 2012–January 22, 2013) 804.62	1,000	1,000	402,310,000	847,811,250 ²	Yes

Note 1: The mean value of the month-end total market value after deducting the security lending balance of Taiwan Exchange listed stocks in the preceding 12 months (February 2014–January 2015).

Note 2: The mean value of the month-end total market value after deducting the security lending balance of Taiwan Stock Exchange Finance Sector Index constituent stocks in the preceding 12 months (January 2012–December 2012).

【OPTIONS】

◎ Computing formula

Value of the institutional investor position limit contracts (NT\$) = Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months × contract multiplier¹ × institutional investor position limit (lot)² × hedge ratio (Delta)³

Note 1: The contract multiplier is stipulated in the TAIFEX Trading Rules for each contract

Note 2: The institutional investor position limit is stipulated in the latest position limit for each contract set by the TAIFEX

Note 3: Hedge ratio (Delta) = 0.5

◎ Example

Unit: Lot, NT\$

	Contract applied for position limit exemption	Simple arithmetic mean of the daily closing price of the underlying index or stock in the preceding 12 months	Contract multiplier	Institutional investor position limit	Hedge ratio (Delta)	1/2 of value of the institutional investor position limit contracts	The mean value of the month-end total market value of spot positions in the preceding 12 months	Check (Yes/No)
Example 1	TAIEX Options (TXO)	Taiwan Stock Exchange Capitalization Weighted Stock Index (August 1, 2012– July 31, 2013) 7759.5	50	95,000	0.5	9,214,406,250	11,649,805,000 ¹	Yes
Example 2	TAIEX Options (TXO)	Taiwan Stock Exchange Capitalization Weighted Stock Index (June 9, 2011– June 8, 2012) 7651.09	50	90,000	0.5	8,607,476,250	10,454,706,567 ²	Yes

Note 1: The mean value of the month-end total market value after deducting the security lending balance of Taiwan Exchange listed stocks in the preceding 12 months (August 2012–July 2013).

Note 2: The mean value of the month-end total market value after deducting the security lending balance of Taiwan Exchange listed stocks in the preceding 12 months (June 2011–May 2012).