

TAIFEX Nasdaq-100 Futures

2019.9.3

Introduction

The market capitalization and daily trading value of stocks in the electronic sector account for more than 50% in Taiwan's stock market. The leading companies in Taiwan's electronic industry, such as the TSMC, and technology companies in the US have formed a healthy ecosystem, which leads to higher correlation between the two markets. In addition, fund managers in Taiwan have issued ETFs tracking the performance of technology stocks in the US, creating further trading and hedging demand for Nasdaq-100 futures. To provide investors a convenient and efficient tool to hedge their exposure to US technology shares, Taiwan Futures Exchange (TAIFEX) is licensed by CME Group to launch the TAIFEX Nasdaq-100 futures on September 30, 2019, which is the first Nasdaq-100 futures contract listed outside of the US.

Product Features

Opportunity to take part in the development of tech companies in the US

Nasdaq-100 Index's constituents include well-known companies such as Microsoft, Amazon, Apple, Alphabet (Google) and Facebook. The weighting of technology sector in Nasdaq-100 Index accounts for 55%, which is much higher than that of Dow Jones Industrial Average Index (DJIA) and S&P 500 Index, making it the most representative stock index for technology stocks in the US. When breaking news about US technology sector comes out, Nasdaq-100 Index is a better tool than DJIA and S&P 500 Index to chase the performance of US technology shares.

The first Nasdaq-100 Futures outside of the US

TAIFEX is the second exchange in the world, and the first exchange outside of the US that lists Nasdaq-100 Futures.

TWD denominated to eliminate FX risk

The TAIFEX Nasdaq-100 Futures are denominated in TWD, allowing investors to participate in the US equity market without bearing FX risk.

Trading hours completely cover those of the US equity market

The trading hours for the TAIFEX Nasdaq-100 Futures are 08:45-13:45 (Taipei time, regular session) and 15:00-05:00 of the next day (Taipei time, after-hour session). By completely covering the US equity market's trading hours, this product makes it easy for investors to grasp opportunities, control their risk, and make position adjustments. Investors can use their existing account(s) with FCMs to conveniently and cost-effectively trade this product.

Strategy diversity

The listing of TAIFEX Nasdaq-100 Futures not only attracts participation from investors with an interest in US markets, but also provides domestic issuers and investors in ETFs on the US technology sector with a convenient hedging channel. As CME has already listed futures on the same underlying, investors will also be able to utilize cross-market strategies to further vitalize and diversify their capital utilization.

The Product

Q1 : What is the underlying of the TAIFEX Nasdaq-100 Futures?

Nasdaq-100 Index[®] was launched and compiled by Nasdaq in January 1985. The Nasdaq-100 Index is calculated under a modified capitalization-weighted methodology, and represents the largest non-financial securities listed on Nasdaq based on market capitalization. As of May 2019, it consists of 103 leading companies on Nasdaq, including Apple, Facebook, Amazon, Alphabet, Microsoft and Intel. In terms of sector breakdown, the top 3 sectors in Nasdaq-100 Index are Technology (55.22%), Consumer Services (30.23%) and Health Care (8%).

Q2 : What are the TAIFEX Nasdaq-100 Futures trading days? What are their trading hours?

The TAIFEX Nasdaq-100 Futures trade from 08:45-13:45 (Taiwan time, regular session) and from 15:00 of that business day to 05:00 on the following day (Taiwan time, after-hours session). On the last trading day, trading of expiring contracts ends at 13:45. These hours completely cover the trading hours of the underlying's market, making it easier for investors to take advantage of hedging and strategic-trading opportunities, manage their risk, and adjust their positions in a timely fashion (The US cash market trades from 21:30 to 04:00 on the following day Taiwan time, and from 22:30 to 05:00 on the following day Taiwan time during the winter). The product's trading days are the same as TAIFEX's business days. It is therefore possible that the products might be tradable on days on which the US cash market is closed, and might be untradeable on days on which the US cash market is open.

Q3 : What are the last trading day and final settlement price for TAIFEX Nasdaq-100 Futures?

If the product cannot be traded on the last trading day due to a holiday or force majeure event, how is that day adjusted?

In principle, the last trading day for the TAIFEX Nasdaq-100 Futures is the same as that of the CME Group's E-mini Nasdaq-100 Futures: the third Friday of the contract month. In the event that the last trading day coincides with a national holiday in Taiwan, or a scheduled non-trading day for the underlying (i.e. Nasdaq holidays), the last trading day is adjusted to the first preceding day that is both a scheduled trading day for the underlying and a business day for TAIFEX. In the event that a force majeure event (e.g. a typhoon) prevents trading on the last trading day, the date is adjusted to the first following day that is both a scheduled trading day for the underlying and a business day for TAIFEX.

In principle, the final settlement price for the product is the same as that of the CME Group's E-mini Nasdaq-100 Futures. The final settlement price is the Special Opening Quotation of the Nasdaq-100 Index to be determined by Nasdaq on the last trading day. The Special Opening Quotation of the Nasdaq-100 Index shall be based on the Nasdaq Official Opening Price (NOOP) of Nasdaq-100 Index stocks.

Q4 : In what currency are TAIFEX Nasdaq-100 Futures denominated? What are their tick value?

The TAIFEX Nasdaq-100 Futures are denominated in TWD, with a contract multiplier of TWD 50. Taking the current price level of CME's E-mini Nasdaq-100 Futures, 7,315.5 points, as an example, the TAIFEX Nasdaq-100 Futures' contract value is TWD 366,000, which makes this product a relatively small-sized contract. The tick size of TAIFEX Nasdaq-100 Futures is 1 index point, making the tick value TWD 50.

Q5 : What are their daily price limits?

The TAIFEX Nasdaq-100 Futures utilize a three-phased price-limit mechanism, with limits at $\pm 7\%$, $\pm 13\%$, and $\pm 20\%$ of the previous regular trading session's daily settlement price. If the daily price limit is expanded in the after-hours session (to 13%, for example), then the expanded price limit will continue to apply to the following regular session.

Q6 : What are the delivery months of TAIFEX Nasdaq-100 Futures?

Delivery months are five months in the March quarterly cycle (March, June, September and December). Upon expiration of the nearest quarterly contract, new contract will be listed for trading beginning on the next regular session.

Q7 : How are transaction taxes calculated on TAIFEX Nasdaq-100 Futures?

The transaction taxes on TAIFEX Nasdaq-100 Futures are calculated in the same fashion as those on TAIEX Futures: 0.002% of the market value per contract on each transaction.

Q8 : Where can investors obtain cash market information for the TAIFEX Nasdaq-100**Futures?**

Investors can access the information through a domestic or foreign financial website, such as cnYES (<https://www.cnyes.com/usastock/stocks/NDX.html>), Yahoo Finance (<https://tw.stock.yahoo.com/us/q?s=^NDX>), CNBC (<https://www.cnbc.com/us-markets/>) or MARKET WATCH (<https://www.marketwatch.com/investing/index/ndx>); an information vendor, such as Bloomberg (NDX<INDEX>) or Thomson Reuters (.NDX); or Nasdaq's official webpage (<https://indexes.nasdaqomx.com/Index/History/NDX>).

❖ Contract Specification of TAIFEX Nasdaq-100 Futures

Item	Description
Underlying Index	Nasdaq-100 Index [®]
Ticker Symbol	UNF
Trading Hours (Taipei Time)	<ul style="list-style-type: none"> Trading days conform to regular exchange trading days Regular Session: 8:45~13:45 After-hours Session: 15:00~5:00; no after-hours trading session on the last trading day for the delivery month contract
Contract Size	TWD 50 x TAIFEX Nasdaq-100 Futures Price
Delivery Months	<ul style="list-style-type: none"> Five months in the March Quarterly Cycle (Mar, Jun, Sep, Dec) Upon expiration of the nearest quarterly contract, new contract will be listed for trading beginning on the next regular session.
Daily Settlement Price	The daily settlement price is the volume weighted average price, which is calculated by dividing the value of trades by the volume within the last one minute, or as otherwise determined by TAIFEX according to the Trading Rules.
Daily Price Limit	3-Level Price Limits at $\pm 7\%$, $\pm 13\%$ and $\pm 20\%$ of the daily settlement price of the preceding regular trading session
Minimum Price Fluctuation	1 index points (TWD 50)
Last Trading Day	The third Friday of the contract expiration month (If the third Friday is a non-business day of TAIFEX or a day on which Nasdaq-100 Index [®] is not scheduled to be published, the Last Trading Day shall be the preceding

Item	Description
	business day at TAIFEX and on which the Nasdaq- 100 Index [®] is scheduled to be published)
Final Settlement Day	The first business day following the last trading day
Final Settlement Price	Special Opening Quotation (SOQ) of the Nasdaq-100 Index [®] on the Last Trading Day
Settlement	Cash settlement
Position Limit	<ul style="list-style-type: none"> • Any investor's aggregate open same-side positions in the Contract for various delivery months at any time shall not exceed the limit standards announced by TAIFEX. • Institutional investors may apply for an exemption from the above limit on trading accounts for hedging purposes. • These position limits are not applicable to omnibus accounts, with the exception of undisclosed omnibus accounts, which accounts are subject to the limits for institutional investors.
Margin	<ul style="list-style-type: none"> • The trading margin and the maintenance margin may not be lower than the publicly announced TAIFEX standard for the initial margin and the maintenance margin. • The initial margin and maintenance margin announced by the TAIFEX shall be based on the clearing margin calculated according to the Taiwan Futures Exchange Corporation Methods and Standards for Receipt of Clearing Margins plus a percentage prescribed by the TAIFEX.

If any of the following circumstances occurs on the last trading day, the last trading day shall be adjusted accordingly as follows, provided that the TAIFEX may adjust that date in view of circumstances:

1. If the third Friday of the delivery month is a non-business day of the TAIFEX or a day on which Nasdaq-100 Index[®] is not scheduled to be published, the last trading day will be changed to the preceding business day of the TAIFEX and on which the Nasdaq-100 Index[®] is scheduled to be published.
2. If trading on the last trading day cannot proceed due to a force majeure event or other factors, the next following business day, both on TAIFEX and on which the Nasdaq-100 Index[®] is scheduled to be published, shall be the last trading day.

(For further information, please refer to the “Taiwan Futures Exchange Corporation Trading Rules for Nasdaq-100 Index Futures Contracts”)

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