

# **Taiwan Futures Exchange Corporation Trading Rules for DJIA Index Futures**

- Article 1        These Rules are adopted to maintain orderly trading of Dow Jones Industrial Average<sup>®</sup> (DJIA) Index Futures Contracts ("the Contracts") on the Taiwan Futures Exchange (TAIFEX), to ensure security and fairness in trading of the Contracts.
- Article 2        Futures commission merchants that engage in trading of the Contracts shall do so in accordance with the provisions of these Rules, in addition to the Futures Trading Act and related laws and regulations. Matters on which these Rules are silent shall be handled in accordance with the bylaws and rules, public announcements, and circulars of the TAIFEX.
- Article 3        The Contracts are abbreviated as "DJIA Futures" with the ticker symbol "UDF."
- Article 4        The underlying of the Contracts is the DJIA Index (hereinafter, the "Index"). Matters related to the Index calculation formula, sample stocks, base periods, and adjustments thereto shall be as prescribed by S&P Dow Jones Indices LLC (SPDJI).
- Article 5        The value of each contract shall be 20 New Taiwan Dollars multiplied by the index point of DJIA Futures.
- Article 6        The minimum unit of price fluctuation ("tick") in trading orders for the Contracts shall be one index point. Each index point shall have a value of 20 New Taiwan Dollars.
- Article 7        Prior to the close of the last trading day, a futures trader may settle rights and obligations under the Contracts by selling or buying back on the TAIFEX centralized exchange market part or all of the quantity originally bought or sold.
- Article 8        The trading days for the Contracts are the same as those of the TAIFEX. The trading hours for the Contracts are as follows:
1. Regular trading session: from 8:45 am to 1:45 pm.
  2. After-hour trading session: from 3 pm to 5 am of the following day.
- However, if the TAIFEX has made other provisions, those provisions shall prevail.
- When for any reason the exchange on which the component stocks of the

Index are listed announces a halt of trading, or when other factors affect trading of the Contracts, the TAIFEX may announce a halt of trading based on the current situation, and report the halt to the competent authority for recordation on the next business day.

Trading orders and matching methods following halts of trading and resumption of trading pursuant to the preceding paragraph shall be handled in accordance with Article 2, paragraph 2, and Article 5 of the Taiwan Futures Exchange Corporation Handling Measures in Response to Halts of Trading in Securities Markets.

When other factors affect trading of the Contracts, or in response to a suggestion by a futures industry association or the National Federation of Futures Industry Associations, the TAIFEX may change the trading hours for the Contracts after reporting to the competent authority for approval.

#### Article 9

The delivery months for the Contracts are the four consecutive quarterly months of March, June, September, and December, listed and traded concurrently. The last trading day for contracts of a particular delivery month is the third Friday of the delivery month of the contract. Trading of contracts at expiry will cease at market close of the regular trading session on the last trading day.

If any of the following circumstances occurs on the last trading day as referred in the preceding paragraph, 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 DJIA 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 DJIA 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 DJIA Index is scheduled to be published, shall be the last trading day. Trading of contracts at expiry may not be tradable on the after-hour trading session of the original last trading day.

The next business day following the last trading day of the Contracts is the final settlement day for a contract at expiry, provided that the TAIFEX may adjust the date if other factors affect the settlement of the Contracts.

The contract of new delivery month shall commence trading from the regular trading session of the next business day following the last trading day of an expiring contract.

The TAIFEX may change the delivery months, final settlement days, last trading days, and first trading days of the preceding four paragraphs as it deems necessary after reporting to and receiving approval from the competent authority.

Article 10 Buy and sell orders for the Contracts, unless otherwise provided, will be matched automatically by computer.

Matching shall be done by call auction at market opening, followed by continuous trading during market hours.

Article 11 Open positions held by traders are marked-to-market daily after the close of the regular trading session based on the daily settlement price published by the TAIFEX.

The daily settlement price as referred in the preceding paragraph shall be set on the basis of the market information from the regular trading session and the following principles:

1. The price is the volume-weighted average price of all trades during the last minute before market close.
2. When there is no trade price during the last minute before market close on the given day, the average of the highest unexecuted bid and lowest unexecuted ask prices quoted at market close will be taken as the daily settlement price.
3. When there is no quoted bid price, the lowest quoted ask price will be taken as the daily settlement price; when there is no quoted ask price, the highest quoted bid price will be taken as the daily settlement price.
4. When there is neither a quoted bid price nor a quoted ask price for a distant-month futures contract, then the price difference between the settlement price of the spot-month futures contract and the settlement price of the distant-month futures contract on the previous business day will be used as the basis of calculation, by adding that price difference to the current day's settlement price for the spot-month futures contract to obtain the daily settlement price of the distant-month contract.
5. If a daily settlement price cannot be determined on the basis of

subparagraphs 1 to 4, or if the settlement price determined on that basis is obviously unreasonable, then the settlement price will be set by the TAIFEX.

Article 12 With exception of the conditions described in paragraph 2, paragraph 3 and paragraph 4, the daily price limit of the Contracts is 7 percent above and below the daily settlement price of the preceding regular trading session.

From the market opening to 10 minutes before the market closes, if the transaction price of the nearest-month contract touches the  $\pm 7\%$  daily price limit, or the best bid price of the nearest-month contract touches the  $+7\%$  daily price limit, or the best offer price of the nearest-month contract touches the  $-7\%$  daily price limit, the daily price limit will expand to  $\pm 13\%$  of the daily settlement price of the preceding regular trading session after 10 minutes.

From the daily price limit expanding to  $\pm 13\%$  of the daily settlement price of the preceding regular trading session to 10 minutes before the market closes, if the transaction price of the nearest-month contract touches the  $\pm 13\%$  daily price limit, or the best bid price of the nearest-month contract touches the  $+13\%$  daily price limit, or the best offer price of the nearest-month contract touches the  $-13\%$  daily price limit, the daily price limit will expand to  $\pm 20\%$  of the daily settlement price of the preceding regular trading session after 10 minutes.

The daily price limit of the regular trading session will be the expanded daily price limit if the conditions described in paragraph 2 or paragraph 3 are met in the previous after-hour trading session.

TAIFEX may adjust the daily price limits of the Contracts described in the preceding paragraphs as it deems necessary based on market conditions.

Article 13 The final settlement price of the Contracts is set at the Special Opening Quotation (SOQ) for the Index as calculated by SPDJI on the Last Trading Day.

If for any reason the SOQ is not provided, the final settlement price of the Contracts will be the most recent SOQ published by SPDJI after market close of the Last Trading Day, provided that the TAIFEX may adjust that price in view of market circumstances.

Article 14 The Contracts shall be settled in cash with the trader delivering or

receiving the net amount of the price differential in cash on the final settlement day based on the final settlement price.

Article 15

A futures commission merchant engaging in brokerage trading of the Contracts, prior to accepting an order, shall first collect a sufficient trading margin based on the aggregate total of the brokerage trading order, and from the date of the trade until the expiry of the settlement period, shall mark to market on a daily basis the balance of equity in the positions held by each principal based on the daily settlement price, and credit the aggregate total to the balance of the margin account of the client.

When the balance in a principal's margin account is lower than the required maintenance margin, the futures commission merchant shall immediately notify the principal to deposit cash funds within a specified time frame sufficient to cover the difference between the balance in the margin account and the total amount of the trading margins required for the principal's open positions. If a principal fails to make the deposit within the prescribed time limit, the futures commission merchant may offset the positions on the principal's behalf.

The trading margin and the maintenance margin as referred in the preceding two paragraphs 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.

Article 16

The total open positions that a trader holds in the Contracts at any time on either the long or short side of the market may not exceed the limits publicly announced by the TAIFEX.

Every three months, or as occasioned by market conditions, the TAIFEX will announce the applicable position limit standards under the preceding paragraph, according to the levels given below, based on the higher of the daily average trading volume or open interest of the Contracts during that period, with the benchmark set at 5 percent thereof for individuals and 10 percent thereof for institutional investors. However, the lowest position limit shall be 1,000 contracts for individuals, and 3,000 contracts for institutional investors:

1. When the benchmark is 1,000 or more contracts, the position limit

is the benchmark rounded down to the nearest integral multiple of 200 contracts.

2. When the benchmark is 2,000 or more contracts, the position limit is the benchmark rounded down to the nearest integral multiple of 500 contracts.
3. When the benchmark is 5,000 or more contracts, the position limit is the benchmark rounded down to the nearest integral multiple of 1,000 contracts.
4. When the benchmark is 10,000 or more contracts, the position limit is the benchmark rounded down to the nearest integral multiple of 2,000 contracts.

The position limit for a proprietary trader or a market maker for the Contracts shall be three times the position limit for an institutional investor set out in paragraph 2. The TAIFEX, however, may adjust this limit for market makers for the Contracts as it deems necessary in view of market conditions.

When the TAIFEX examines the applicable position limit levels, if the increase or decrease in the daily average trading volume or open interest for the period, as compared to that at the time of the previous adjustment, does not exceed 2.5 percent, no adjustment will be made even if the level for adjustment has been reached.

Any raising of the position limit will take effect from the regular trading session of the next trading day following the TAIFEX announcement. Any lowering of the position limit will take effect from the regular trading session of the next trading day following the expiration of the next-nearest month contract that is already listed on the announcement date. The TAIFEX, however, may adjust this according to circumstances.

When a position limit is lowered under the preceding paragraph, a position held by a trader prior to the effective date that surpasses the lowered limit may be held until the expiration date of the contract, provided that no new position may be added until the lowered limit has been complied with.

Total open positions in the Contracts held in an omnibus account are not subject to the limits of paragraph 2, with the exception of undisclosed omnibus accounts, which are subject to the limits for institutional investors.

An institutional investor may apply to the TAIFEX for relaxation of the limits on positions for hedging purposes.

In addition to the provisions of this article, the limits on open positions in the Contracts held by traders shall also conform to the Taiwan Futures Exchange Corporation Rules Governing Surveillance of Market Positions.

Article 17 A futures commission merchant engaging in proprietary or brokerage trading of the Contracts shall, unless otherwise provided, be subject to a limit of 100 contracts on the quantity of each trading quote.

The TAIFEX may make adjustments to the limit on the quantity of per order in the preceding paragraph in view of market trading conditions.

Article 18 Where any circumstance under Article 31 of the Operating Rules of the Taiwan Futures Exchange Corporation requires suspension of trading or delisting of the Contracts, the TAIFEX shall make a public announcement 30 days prior to implementation, with the exception of termination of the index licensing agreement by SPDJI, which results in suspension of trading or delisting of the Contracts.

All open positions shall be liquidated by the announced implementation date for the suspension of trading or delisting. Any positions still open on the implementation date will be settled at the settlement price of the trading day preceding the implementation date.

Article 19 These Rules and any amendments hereto shall be implemented following submission to and approval by the competent authority.