**Price variation limit is increased to 10% on June 1st, 2015**

**Up 10%**

**Down 10%**

Account collateral maintenance ratio of margin trading has been adjusted to 130% since May 4th, 2015

1. Vision:

Circulating securities and prospering the economy

1. Missions:

Providing expedient fundraising processes and ensuring a secure investing environment for the public

1. Strategies:

Providing more transparent corporate information

Building fairer trading mechanisms

Delivering more diversified financial products

1. Tasks: Servicing the market

Developing new products

Expanding market scale

Forging international alliances

1. Opportunities:

New products

New trading mechanisms

New markets

New information

New competition

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**Purpose of relaxation and current status**

In order to reflect the demands of the market, and to be inline with international systems, the Financial Supervisory Commission announces that the price variation limit will be increased from 7% to 10% on June 1st, 2015.

The current 7% price variation limit has been in place for many years. There are no price variation limits in major markets in Europe and the United States. Even in new markets such as Malaysia, Thailand, and Shanghai, the price variation limits are set at 10%~30%. Stock prices are nominally decided by company value and the prices acknowledged by buyers and sellers. As the current market has matured, many products such as warrants, have not been limited by a 7% price variation, and for newly listed common stocks in their first 5 days of listing and foreign ETFs, there are no price variation limits. Besides, investors may invest abroad or, by sub-brokerages through domestic securities firms, buy and sell foreign securities with lax price variation limits of their own accord.

The increase of the price variation limit to 10%will facilitate stock price responsiveness and improve market efficiency, and can be considered a measure to reflect the demands market, to increase returns in the market, and to be inline with international systems.

**Content of new rules and corresponding measures**

Under the current transaction system, many parameters are modeled on the 7% price variation limit. In addition to the increase of the price variation limit to 10% for stocks traded during the general trading period, other products and transaction methods will also be simultaneously adjusted. The corresponding adjusted measures are divided into three categories including "modestly adjusted connected items relevant to price variation limit," "risk control enhancing measures" and "marketing stability maintaining measures," and explained and summarized in the following tables.

|  |  |
| --- | --- |
| Measures relevant to the increase of price variation limit to 10% | |
| **Categories** | **Items** |
| Modestly adjusted connected items relevant to price variation limit | 1. Price variation limits of all products are adjusted at the same time. 2. Price variation limits for odd lot trading and block trading are increased from 7% to 10%. 3. Maximum tender offer price for securities finance enterprises is increased from 7%~15% to 10%~20%. |
| Risk control enhancing measures | 1. Cash collateral for settlement-driven securities borrowing is increased from 114% to 120%. 2. Account collateral maintenance ratio for margin trading is increased from 120% to 130% 3. Initial collateral ratio and collateral maintenance ratio for securities borrowing and lending handled by securities firms and securities finance enterprises is 140%, and 120% for general investors. When customers are professional institutional investors, such ratios will be negotiated with securities firms and are not restricted by the limits. 4. Collateral value maintenance ratio of the T+5 securities borrowing and lending business is adjusted from 100%~125% to 100%~130%. 5. Collateral value maintenance ratio of Half-year securities borrowing and lending business is increased from 120% to 130%. |
| **Marketing stability maintaining measures** | 1. Threshold of the intraday volatility interruption system remains at 3.5%. 2. Threshold to temporarily suspend market opening and closing remains at 3.5%. 3. Floor price for auction and ordinary reverse auction remains at 15%. 4. Cash collateral for competitive bid transactions remains at 120% of the bid securities price. 5. Collateral maintenance ratio of the TWSE's Securities Borrowing and Lending System remains at 120%. 6. Maximum unit price of competitive bid transactions in margin trading remains at 7% and maximum unit price of negotiated transactions remains at 10%.   7. Lending fee rate for covering shortfalls in securities deliverable in day trading remains at 7% without change.  8. Cash collateral maintenance ratio for settlement-driven securities borrowing remains at no less than 107%, and maximum self determined lending fee remains at 7%. |

## Modestly adjusted connected items relevant to price variation limit

**1. The price variation limit of all products is adjusted at the same time, such as:**

Call (put) warrants: calculation of a call (put) warrants’ price variation limit is adjusted synchronously in accordance with the price variation limit of the underlying securities.

Component securities are domestic securities: if the component securities of an underlying index are all domestic securities, the 7% daily market price variation multiplied by the multiple of the fund will be increased to 10%.

Foreign stocks of primary listing: for foreign stocks of primary listing, the same adjustment is made as general trading, an increase from 7% to 10%.

Securities with warrants: securities with warrants are increased from 7% to 10%.

**2**. **Odd lot trading and block trading:**

For odd lot trading and block trading, the same adjustment is made as general trading, an increase from 7% to 10%.

**3. Maximum price of tender offer for securities finance enterprises:**

In current margin trading, when there is a shortfall and securities firms can not secure sufficient securities from securities finance enterprises, a competitive bid transaction process will start, and securities firms will borrow from stockholders in the market to settle the trades or to return the securities. If securities firms still cannot secure sufficient securities from the competitive bid transaction, a negotiated transaction process will start. If sufficient securities cannot be secured from the negotiated transaction, an auction process will start. Considering that in an auction process, the market lacks securities, to enhance the willingness of investors to participate said auction, the price limit of auction will be increased from 7%~15% to 10%~20%.

## Items subject to risk control

**1. Cash collateral for settlement-driven securities borrowing is increased from 114% to 120%.**

The current date of borrowing for settlement-driven securities borrowing is (T+2). If a borrowing securities firm fails to buy back on (T+1) day, it is not possible to return on (T+3) day. In borrowing day (T+2), if underlying securities limit up at closing, under the current requirement of 107% minimum collateral maintenance ratio, it is necessary to pay more collateral to cover collateral shortfall and bring the collateral maintenance ratio above 114% on next day (T+3). Therefore, this ratio is increased to 120%.

**2. Account collateral maintenance ratio of margin trading is increased from 120% to 130%**

When a stock price goes down, and an investor’s account collateral maintenance ratio of margin trading falls below 120%, securities firms or securities finance enterprises will serve notice requiring more collateral, and if the investor does not provide more collateral on the next second business day, securities firms or securities finance enterprises will dispose of collateral on the next business day, a sequence of three days. If collateral continually limits down for three consecutive days, the maximum price variation risk is 21%, and the current account collateral maintenance ration has been set at 120%.

When the price variation limit is increased to 10%, the maximum price variation risk for three continual days will be 30% and the account collateral maintenance ration will be increased to 130% to match the stock price variation and mitigate market risk.

**3. Initial collateral ratio and collateral maintenance ratio for securities borrowing and lending handled by securities firms and securities finance enterprises:**

Because major participants of securities borrowing and lending are professional institutional legal persons, it is different than securities borrowing on margin trading. Therefore, to comply with the diversification management policy of the competent authorities, if borrowing customers are not professional institutional investors, the applicable initial collateral ratio and collateral maintenance ratio will remain at 140% and 120%. If borrowing customers are professional institutional investors, a specific initial collateral ratio and collateral maintenance ratio will be negotiated between those customers and the securities firms.

**4. Collateral value maintenance ratio of securities borrowing and lending business:**

(T+5) type: For current customers who provide their purchased securities as collateral to borrowed money, the value of the collateral shall be confined to 100% to 125% of the monetary financing provided to customer by the securities firms, and the securities firms will calculate collateral value as the price at the close of the business day preceding the financing date, or as 80 percent of the face value of government strip bonds. Customers of the (T+5) type ,must apply before 11:00 A.M. of (T+2) day, and the financing term will be (T+2) day to (T+5) day. If the collateral continually limits down for three consequent days, the maximum price variation risk is 21% and the current collateral maintenance ratio is set at 125%.

When the price variation limit is increased, the risk of price variation in three consecutive days will be 30% and the collateral maintenance ratio will be adjusted to 130% to match the stock price variation and mitigate market risk.

Half-year type: For current customers who provide their purchased securities as collateral to borrowed money, securities firms shall mark-to-market the customer's collateral maintenance ratio each business day. If a customer's collateral maintenance ratio is lower than 120% due to a change in the value of the collateral, or the securities deposited to offset against margin requirements, the securities firm shall notify the customer to cover the collateral shortfall and bring the collateral maintenance ratio above 166% within 2 business days from receipt of the notice. If the customer fails to cover the collateral shortfall within 2 business days from the date upon which the notice is served and the collateral maintenance ratio remains lower than 120 percent, the securities firm will dispose of the customer's collateral beginning from the third business day, a sequence of three days. If collateral continually limits down for three consecutive days, the maximum price variation risk is 21% and the current collateral maintenance ratio is set at 120%.

When the price variation limit is increased, the risk of price variation in three consecutive days will be 30% and the collateral maintenance ratio will be adjusted to 130% to match the stock price variation and mitigate market risk.

## Items subject to unchanged current measures

1.  **Threshold of intraday volatility interruption system and temporarily suspending from market opening and closing remains at 3.5%:** both the intraday volatility interruption system and the temporarily suspension measures from market opening and closing are measures to remind investors when there are dramatic price variations. Therefore, after the price variation limit is increased, the current standards will not change.

**2. Floor price for auction and ordinary reverse auction remains at 15%:** The current range of floor prices for auction and ordinary reverse auction is 15%, which is sufficiently flexible. Therefore, after the price variation limit is increased, the current standards will not change.

**3. Cash collateral for competitive bid transaction remains at 120% of bid securities price without change:** Under current rules, a securities finance enterprise, on the same afternoon of a competitive bid loan application date, shall deposit cash collateral with the TWSE in the amount of 120 % of the closing price of the security on that day multiplied by the number of shares of the winning bids. If the securities finance enterprise fails to return securities on the second business day after winning bids, TWSE will use the deposit to buy back the same kind of securities in the market.

After the price variation limit is increased to 10%, risk of price down for 2 consequential days is still tolerable under current bids cash collateral standard. Therefore the current standards will not change.

**4.** **Collateral maintenance ratio of the TWSE's Securities Borrowing and Lending System is kept at 120% without change:**

Under the current rules, upon receipt of a notice from TWSE forwarded by a securities firm, a borrower shall provide additional collateral on the next business day to cover their shortfall.

After price variation limit is increased to 10%, risk of price down for 2 consequential days is still tolerable under current 120% maintenance ratio. the current standards will not change

**5. Maximum unit price of competitive bid transactions and negotiated transactions is kept at 7% and 10% respectively:** In current margin trading, when there is a shortfall and securities firms cannot secure sufficient securities from securities finance enterprises, a competitive bid transaction process will start. If securities firms still cannot secure sufficient securities from competitive bid transaction, negotiated transaction process will start. In consideration that participation in competitive bid transactions and negotiated transactions will not affect investors’ right to sell the lent out securities, the current maximum price of competitive bid transactions has been set at 7%, and maximum price of negotiated transactions has been set at 10% respectively. Such price should already provided sufficient incentive to investors; therefore, current standards will not change.

**6. Lending fee rate for handling shortfalls in securities deliverable in day trading:** The current maximum is 7% of the closing price. In practice, the weighted average fee rate is lower than 7% in most situations; therefore, there will be no change.

**7. Maximum self determined lending fee rate for settlement-driven securities borrowing is kept at 7%:**

Because the lending fee is determined by the lender itself, it is not directly affected by the increase of the price limit. Therefore the current standards will not change.

**8. Cash collateral maintenance ratio for settlement-driven securities** **borrowing is kept to be no less than 107%:**

To reduce the possibility securities firms elect to pay additional cash collateral for settlement-driven securities borrowing rather than buy back and return securities, this standard will not change.

## Explanation for increase of minimum account collateral maintenance ratio in margin trading

1. This system adjustment was implemented on May 4th, 2015, which was one month earlier than the effective date of the price variation limit increase. From that day forward, when an investor’s account collateral maintenance ratio is lower than 130%, the investor will receive a collateral call issued by the financing institution.
2. To provide reasonable buffer time for investors to adjust their margin trading positions, during the period of May 4th, 2015 through May 31st, 2015, if an investor’s account collateral maintenance ratio is lower than 130% and the investor fails to supplement sufficient margin for margin purchases, or fails to cover the shortfall for the margin for short sales after notice from financing institutions, the investor’s collateral will not be disposed as long as the investor’s account collateral maintenance ratio is not lower than 120%,. The investor’s collateral will be disposed after the investor’s account collateral maintenance ratio falls under 120%.
3. On June 1st, 2015, the day the increase in the price variation limit is implemented, financing institutions will reissue collateral calls again to investors whose account collateral maintenance ratio is lower than 130%. Investors shall then cover their collateral shortfall in accordance with new notice. And because the buffer time has expired by that time, the new notices will require the investors advance more margin for margin purchases or cover collateral shortfalls for short sales and bring their account collateral maintenance ratio back to no less than 130%, or the investors’ collateral will be disposed.

## Sequence diagram for increase of margin trading’s minimum account collateral maintenance ratio

|  |  |
| --- | --- |
| May 4th, 2015  Implementation day | Account collateral maintenance ratio in margin trading is increased from 120% to 130% |
| May 4th, 2015~May 31st, 2015  Buffer period | ●When an investor’s account collateral maintenance ratio is lower than 130%, the investor will receive collateral calls.  ●If an investor does not supplement sufficient margin for margin purchases or cover shortfall for the margin for short sales according to notice from financing institutions, when the investor’s account collateral maintenance ratio is lower than 130% but higher than 120% (inclusive), the investor’s collateral will not be disposed. The investor’s collateral will be disposed if the investor’s account collateral maintenance ratio falls under 120%. |
| June 1st, 2015  Effective day of increased price variation limit (The end of buffer period) | ●Financing institutions will make another collateral call to investors whose account collateral maintenance ratio is lower than 130%.  ●After receipt of the notice from the financial institutions issued from June 1st, 2015, investors shall supplement sufficient margin for margin purchases or cover the shortfall for the margin for short sales according to the notice to bring the account collateral maintenance ratio of margin trading back to no less than 130%, or the investors’ collateral will be disposed. |

# Q&A

**Q1 What kinds of products or trading will this price variation limit increase apply to?**

A1: With regard to the applicable products, in addition to the adjustment of the stock price variation limit from 7% to 10%, price variation limits of various products such as primary listing foreign stocks, beneficiary certificates of closed-end securities investment trust funds, beneficial securities, TDRs, convertible bonds and bond conversion entitlement certificates, ETFs with domestic components securities, domestic leveraged and inverse ETFs, and securities with detachable warrants are also adjusted from 7% to 10%.

Because the price variation limits of call (put) warrants are calculated in accordance with the underlying securities, and the price variation limit of underlying securities will be adjusted from 7% to 10%, the price variation limit of call (put) warrants will be adjusted as well.

Current products without price variation limits, such as secondary listing foreign stocks, new listed common stocks in the first 5 days of listing, ETFs with foreign components securities, offshore ETFs beneficial certificates, futures ETFs beneficial certificates, and foreign leveraged and inverse ETFs will continue to not be subject to price variation limits.

And except for general trading, price variation limits for odd lot trading and block trading are increased from 7% to 10%.

**Q2. To be in line with the increase of price variation limit from 7% to 10%, the account collateral maintenance ratio in margin trading is adjusted from 120% to 130%. When is the date for implementation?**

A2: In order to help investors adapt to new rules as early as possible, adjustment of the collateral maintenance ratio has been implemented on May 4th, 2015, which was 1 month earlier than the effective day of the price variation limit increase. After market closing on May 4th, every financing institution will require investors with account collateral maintenance ratio lower than 130% to supplement sufficient collateral.

**Q3. On May 4th, 2015, the account collateral maintenance ratio have already been adjusted to 130%. If investors do supplement sufficient margin for margin purchases or cover shortfall for the margin for short sales according to the notice issued by financing institutions, will the investors' collateral be disposed?**

A3: To provide a reasonable buffer time for investors to adjust their trading positions, the buffer period is set as from May 4th, 2015 to May 31st, 2015. For investors with account collateral maintenance ratios lower than 130% but not under 120% (inclusive) that do not supplement sufficient margin for margin purchases or cover shortfall for the margin for short sales according to the notice issued by financing institutions, their collateral will not be disposed until their account collateral maintenance ratio falls under 120%.

**Q4 During the period from May 4th, 2015 to May 31st, 2015, if an investor'saccount collateral maintenance ratio is between 120% and 130%, will such investors receive collateral calls issued by financing institutions?**

A4: Minimum account collateral maintenance ratio has been adjusted to 130% on May 4th, 2015. During the buffer period, financing institutions will issue collateral calls to investors with account collateral maintenance ratios lower than 130% requesting them to supplement sufficient margin for margin purchases or cover shortfall for the margin for short sales. However, financing institutions will only dispose the collateral of investors whose account collateral maintenance ratio is under 120%. As such, during buffer period, if an investor's account collateral maintenance ratio is between 120% and 130%, the investor will still receive collateral calls issued by financing institutions.

**Q5 Since June 1st, 2015, if investors do not supplement sufficient margin for margin purchases or cover shortfall for the margin for short sales according to the notice issued by financing institutions, and their account collateral maintenance ratio is lower than 130%, will their collateral be disposed?**

A5: Because the buffer period has expired by that time, if investors receive collateral calls issued by financing institutions from June 1st, 2015 and do not cover collateral shortfall to bring their account collateral maintenance ratio back to 130% or higher, their collateral will be disposed on the next business day.