

Q&A on Posting Eligible Securities as Collateral by Futures Traders



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1. Introduction

Q1: What kind of securities may be posted as collateral?

A1: Article 47 of the "Regulations Governing Futures Commission Merchants" provides that the competent authority decides what kind of securities may be posted by futures traders as collateral. The list of securities that may be posted as collateral was drawn up by the Taiwan Futures Exchange (hereafter TAIFEX) and submitted to the competent authority for its approval, and is as follows:

Type of securities as collateral	Description
Book-entry central government bonds	Book-entry government bonds (as of June 1, 2008, there are approx. 78 series); government strip bonds not included.
Formosa Bonds	Formosa Bonds (i.e. foreign currency-denominated bonds) traded on the GreTai Securities Market. (There are currently two issues: Deutsche Bank AG and BNP Paribas AUD.)
Stocks	Component stocks of the Taiwan 50 Index, and underlying stocks of equity options (as of Sept. 18, 2008, there are 57 exchange-listed stocks).

Note: The information presented in this table is for reference purpose only. For the most updated information, see the latest announcement by the TAIFEX.)

Q2: Is the list of securities that may be posted as collateral subject to revision?

How does one get the most updated information on revisions?

A2:

- (1) The TAIFEX reports revisions to the competent authority for approval and then makes a public announcement.
- (2) The TAIFEX may adjust the list of eligible securities according to the volatility and risk or the delisting of the underlying stocks and report to the competent authority for approval and then makes the announcement. TAIFEX will announce the list at 4:00 pm via trading system and on the website at 5:00 pm on each business day. Futures traders can check the list with the FCM or on TAIFEX website.

Q3: When securities have already been posted as collateral but the TAIFEX subsequently rules them ineligible for such use, how are the securities handled?

A3: When securities have already been posted as collateral but the TAIFEX subsequently rules them ineligible for such use, the TAIFEX will first announce the change in advance and then ask the FCM to instruct the futures trader to switch the collateral at least one business day before the rule takes effect. If the futures trader fails to switch the collateral, from the effective date of the change the securities will no longer be used to calculate collateral value, and will be temporarily held in an exclusive collateral securities account by either the TAIFEX or the FCM until such time as the futures trader applies to withdraw them.

Q4: Is there an upper limit on the amount of securities that may be posted as collateral? How would one find out what the limit is, and the volume of securities that are currently posted as collateral?

A4: The TAIFEX sets limits for certain types of securities, on the aggregate amount of securities that futures traders may post as collateral. The limits are as follows:

Type of securities as collateral	Description
Book-entry central government bonds	No limit at this time.
Formosa Bonds	Must not exceed 20% of any individual bond series.
Stocks	Must not exceed 10% of total number of outstanding shares in any one stock.

After the maximum allowable amount of either Formosa Bonds or stocks as collateral is reached, the application of posting more of the same type of securities as collateral will be rejected.

At 4:00 p.m. on each business day, the TAIFEX announces on its trading system the upper limit for the amount of each individual type of securities that may be posted as collateral, and the left available amount of eligible securities may be posted as collateral on the following business day. Then at 5:00 p.m. the same information is posted on the TAIFEX website. Futures traders may contact their FCMs to obtain the information, or obtain it directly from the TAIFEX website.

Q5: What is the haircut rate and how is the net collateral value calculated for each type of eligible securities as collateral?

A5: The net value of collateral securities posted by a futures trader is equal to the market value of the securities less the amount of haircut (i.e. market value multiplied by the haircut rate). Haircut rates and collateral values are as shown below:

Type of securities as collateral	Haircut	Net collateral value
Book-entry central government bonds	5% of market price (Market price on previous business day: Weighted average price for the previous day as disclosed by the GTSM electronic bond trading system.)	Market price of the bond series minus a 5% haircut
Formosa Bonds	10% of market value (Market price on previous business day: The average price for the previous day as disclosed by the GTSM electronic bond trading system; the last transaction price) of the bonds	Market value of the bond minus a 10% haircut
Stocks	30% of closing price of a stock (Refer to opening reference price during the pre-market and in-the-market hour and closing price after the market for calculating the collateral value)	The latest closing price of the stocks minus a 30% haircut

Q6: Is there a ceiling on the percentage of clearing margin for collateral that can be posted in the form of securities? How does one calculate the value of securities posted as collateral?

A6:

- (1) The value of securities posted as collateral must not exceed 50% of the required clearing margin.
- (2) The value of securities posted as collateral (c) is calculated either by method (a) or (b) below, whichever is the lesser will be regarded as the value of the collateral:
 - (a) the post-haircut value of the securities; or
 - (b) the maximum amount that can be posted as collateral in the form of securities (50% of the required clearing margin for the futures trader's open positions)

Where $a > b$, then $c = b$; where $a < b$, then $c = a$.

[Example]

Trader A wishes to post 10,000 shares in Taiwan Semiconductor Manufacturing Corporation (TSMC) as collateral. The market price of TSMC on the day in question is NT\$60 per share. The initial margin requirement on Trader A's open position is NT\$1 million. We assume that the clearing margin is NT\$730,000.

* The market value of the TSMC shares is NT\$600,000. The post-haircut value is NT\$420,000 ($60 \times (1 - 30\% \text{ haircut rate})$), and the maximum amount that can be posted as collateral in the form of securities is NT\$365,000 ($730,000 \times 50\% = 365,000$). The post-haircut value for the shares is greater than the maximum amount that can be posted as collateral in the form of securities, and the lesser amount is treated as the actual collateral value of securities posted as collateral.

* Therefore, the 10,000 shares of TSMC may be used to post NT\$365,000 worth of collateral, and the trader must post NT\$635,000 of margin deposit in cash.

Q7: In calculating the actual collateral value of securities posted as collateral, is

there any priority order when posting securities as collateral at the same time? In other words, can the futures trader identify which collateral securities are already posted and which are not yet?

A7: The actual collateral value of securities posted as collateral is calculated by taking the securities delivered by the trader aggregately and adding up the post-haircut collateral values of all the securities as collateral. This figure is then compared against the maximum amount of securities that may be posted as collateral against open positions and the lesser value will be adopted. Therefore, no indication will be given as to which securities have or have not been used as collateral.

Q8 If the net collateral value of securities delivered by a futures trader is higher than the actual collateral value of securities posted as collateral, can the difference be applied to the margin required for the trader's new orders? How is it calculated?

A8: Yes, surplus from net collateral value of securities can be applied to the margin required for a trader's new orders, and is calculated in the same manner as the actual collateral value of securities posted as collateral, i.e. when the trader places an order, the FCM checks the position, calculates the maximum amount of securities that may be posted as clearing margin required for that position, and compares the margin requirement against any surplus net collateral value of securities, and takes the smaller of the two figures as the amount of securities that may be posted as collateral against that position. This figure and any excess cash margin are then added together, and if the resulting sum exceeds the required initial margin, then the FCM may accept the order from the trader.

Q9 : When securities are posted as collateral, how does the trader deposit and withdraw the securities? What do "one-step securities deposit" and

"two-step securities deposit" mean?

A9: A futures trader who posts securities as collateral can deposit them in one of two ways. One way is a one-step securities deposit, i.e. directly depositing securities into a TAIFEX exclusive collateral securities account. The other way is a two-step securities deposit, i.e. depositing securities into an FCM exclusive collateral securities account, after which the securities are transferred from the FCM exclusive collateral securities account into TAIFEX exclusive collateral securities account.

Whether the one-step or two-step approach is used depends on what the trader and FCM agreed upon in advance in their contract. If the trader has stipulated that his securities can only be posted as collateral against his positions, then the one-step securities deposit should be used. If, on the other hand, the trader has agreed to let the FCM and clearing member post his securities with the TAIFEX as collateral to fulfill the margin requirements of the clearing member, then the two-step securities deposit should be used.

As with deposit procedure, the method by which a trader withdraws securities depends on what was stipulated in the contract between the trader and the FCM. If the trader stipulates that his securities can only be posted as collateral against his positions, then the TAIFEX will return the securities directly to the trader, but if the trader has agreed to let the FCM and clearing member post his securities with the TAIFEX as collateral to fulfill the margin requirement of the clearing member, then the TAIFEX will return the securities to the FCM exclusive collateral securities account, from whence they are then forwarded to the traders' account.

2. Futures traders

Q10: Does a futures trader have to enter into a contract with an FCM in order to post securities as collateral?

A10: Before posting securities as collateral for the first time, a futures trader shall enter into an agreement with an FCM. An account executive at the FCM must provide the trader with detailed information on their rights and obligations as well as all relevant procedures that the trader would need to know about.

Q11: What are the key points of the agreement that a futures trader and FCM enter into?

A11: The key points of such an agreement are as set out below; the trader must read the agreement carefully and have a good understanding of both parties' rights and obligations before signing:

- (1) The agreement stipulates that any interest, dividends, or other interests generated by the securities belong to the futures trader.
- (2) The agreement stipulates whether the securities can: (a) only be posted as collateral against his own open and new positions; or (b) be posted with the TAIEX as collateral to fulfill the margin requirements on the positions or new orders of other persons.
- (3) The agreement stipulates the manner in which collateral securities are to be deposited and withdrawn.
- (4) The agreement sets out the circumstances under which collateral securities can be disposed of, and clarifies related rights and obligations.

Q12: When a futures trader posts stocks or Formosa Bonds as collateral, how does he arrange for their transfer to the FCM or TAIEX exclusive collateral securities account? How can a trader tell whether an exclusive

collateral securities account belongs to the TAIFEX or the FCM?

A12: A trader who has opted for method of one-step securities deposit needs to transfer the stocks or Formosa Bonds to the appropriate exclusive collateral securities account opened by the TAIFEX with Taiwan Depository & Clearing Corporation (hereafter TDCC). The account name is "Exclusive Collateral Securities Account", and the account number is "0050-89000001". On the other hand, a trader who has opted for two-step securities deposit needs to transfer the stocks or Formosa Bonds to the appropriate exclusive collateral securities account opened by the FCM with the TDCC; so called "Exclusive Collateral Securities Account", and the account number is "XXXX-89000001" (where XXXX is the ID code of the FCM depository participant). The TDCC will issue an ID code for the FCM depository participant when the FCM formally applies to become a TDCC participant.

The last eight digits in TAIFEX and FCM exclusive collateral securities accounts are intended to facilitate the identification of each account. FCMs are required to disclose the account numbers for TAIFEX and FCM exclusive collateral securities accounts in a prominent location at their places of business.

Q13: When a futures trader posts government bonds as collateral, how are the bonds transferred to the FCM or TAIFEX exclusive collateral securities account? How can a trader tell whether an exclusive collateral securities account belongs to the TAIFEX or the FCM?

A13: A trader who has opted for method of one-step securities deposit needs to transfer the bonds to the appropriate exclusive securities account for government-bond collateral, opened by the TAIFEX with one of the settlement banks listed below. The account name is "Exclusive Collateral Securities Account", and the account numbers are shown as below:

Bank name	Branch	Account number
Bank of Taiwan	Business Department	003502001966

Bank name	Branch	Account number
Hua Nan Bank	Nanmen Branch	117290000208
Chang Hwa Bank	Headquarters Branch	51856100017000
Cathay United Bank	Business Department	218762000291
Mega International Commercial Bank	Foreign Department	00752000180
Chinatrust Commercial Bank	Corporate Finance Division	90100000000097

A trader who has opted for method of two-step securities deposit needs to transfer the bonds to the exclusive securities account for government-bond collateral opened by the FCM with one of the settlement banks designated by the TAIFEX (the same banks shown in the table above). After the FCM opens the account accordingly, it is required to announce, in a prominent location at its places of business, the account numbers for this account as well as the exclusive securities account for government-bond collateral.

Q14: Is it secure for a futures trader to deposit securities in an FCM exclusive collateral securities account? In particular, when a trader goes to a settlement bank to transfer securities to a government bond exclusive margin collateral account, he/she must complete a "transfer registration." Is there any risk in that?

A14: Article 70 of the Futures Trading Act provides that creditors of an FCM or the TDCC or a settlement bank with an exclusive collateral securities account are not allowed to file an attachment suit or claim any rights on the exclusive collateral securities account. At the same time, the competent authority has issued directions governing the usage and management of the FCM's exclusive collateral securities account. The TAIFEX, the institutions with which such accounts have been opened, and FCMs are all required to abide by the directions.

Q15: When dividends, bonuses, or other interests are distributed by the issuer

for the securities that have been posted as collateral, how is the situation handled? Does the trader need to take any exclusive action to claim the distribution?

A15: When dividends, bonuses, or other interests are distributed by the issuer for the securities that have been posted as collateral, the trader does not need to take any exclusive action to claim the distribution. Interest generated by the securities in question belongs to the trader, and is delivered to the trader in the manner described below:

(1) Stocks and Formosa Bonds

For stocks and Formosa Bonds deposited to TAIFEX exclusive collateral securities accounts, the TAIFEX provides an itemized list of traders who deposit securities as collateral; when they are posted to an FCM's exclusive collateral securities accounts, the FCM provides an itemized list of traders who deposit securities as collateral to the TDCC for transferring.

(2) Government bonds

When interest is paid on government bonds, according to the current regulations, it is required that the interest be deposited directly into the exclusive collateral securities account of any trader who does not take action to claim it. For a trader who has opted for method of one-step securities deposit, the TAIFEX pays interest to the trader less interest income tax. For a trader who has opted for method of two-step securities deposit, the TAIFEX pays interest to the FCM, which then withholds interest income tax and forwards the difference to the trader.

Q16: When a futures trader posts securities as collateral, under what circumstances can the securities be disposed of?

A16: When a futures trader posts securities as collateral, the securities may be disposed of under either of the following two circumstances (if the trader and

FCM have contractually agreed to it):

- (1) After an FCM closes out all futures trading contracts of a futures trader, if the futures trader's balance of the margin account is negative and the futures trader fails to settle the difference in cash within three business days of notification by the futures commission merchant, the futures commission merchant may sell off securities in the amount necessary to offset the negative equity.
- (2) Where the futures trader opts to allow the FCM or clearing member to post his securities as collateral to fulfill the margin requirements not limited to his own positions, if the clearing member defaults on its obligations to the TAIEX, the TAIEX is entitled to dispose of securities deposited by the trader.

Q17: When a futures trader agrees to allow an FCM or clearing member to use the securities he posts as collateral, are there any points that the trader needs to be aware of?

A17: When a futures trader and an FCM agree contractually that his collateral securities can be used by the FCM or clearing member, the use of the collateral securities is then not limited to fulfilling margin requirements on the trader's own positions. If the clearing member defaults on its obligations to the TAIEX, the TAIEX is entitled to dispose of securities delivered by the trader. Therefore the FCM must enter into a contractual agreement with the trader to obtain the trader's consent in advance.

Q18: Can an institutional trader enter into a contractual agreement with an FCM whereby the institution allows the FCM or clearing member to use its securities?

A18: An institutional trader that posts securities as collateral may or may not enter

into a contractual agreement with an FCM whereby it grants permission to the FCM or clearing member to post its collateral with the TAIFEX to fulfill clearing margin requirements. According to the contract, when the clearing member defaults, the right to dispose of the securities is granted beforehand to a third party, therefore it would be necessary to see: (1) whether the competent authority with the relevant jurisdiction has issued any regulations prohibiting the institutional trader from entering into such an agreement (as, for example, a regulation stating that it is not allowed to create pledge upon another party's property); or (2) whether an institutional trader is required to obtain approval from the relevant competent authority before it can enter into such an agreement with an FCM.

Q19: Can a futures trader directly post physical scrip as collateral?

A19: No, a futures trader may not directly post physical scrip as collateral. Stocks and Formosa Bonds must be deposited via a securities firm depository account, while government bonds must be deposited via a settlement bank.

Q20: Can a futures trader pair up securities posted as collateral with a short call position on equity options to create a covered call?

A20: The switch from physical delivery to cash settlement for equity options put an end to the covered call practice, whereas a covered call practice remains in effect for equity options with physical delivery. A trader who wishes to create a covered call must transfer the securities into an exclusive covered call deposit account. Neither the TAIFEX nor an FCM would take the initiative to deposit collateral securities for a covered call practice.

Q21: When a futures trader chooses to post strategy-based margins, how is the

collateral value of the securities calculated? How is the futures trader, who only knows the amount of the initial margin requirement, supposed to find out the clearing margin requirement for his/her positions?

A21: There are two margining systems. Traders can choose whichever they prefer, whether it be SPAN or strategy-based margining. However, regardless whether a trader opts for SPAN or strategy-based margins, the maximum amount that can be posted as collateral in the form of securities will be 50% of the clearing margin calculated by SPAN rules. Therefore, a trader who wishes to find out the maximum amount of securities he can post as collateral, the actual collateral value of his securities, or the requirements for initial margin and clearing margin, can do so by using any of the following three methods:

1. Traders can inquire by telephone with an FCM, or use service provided by an FCM to check.
2. Actual collateral value of securities posted as margin and the maximum amount of margin that can be posted in the form of securities will be disclosed in the trading statements delivered by FCMs to traders.
3. Traders can use a telephony speech system to inquire about their own positions and requirements for initial margin and clearing margin. To apply to use the telephony speech system, please go to an FCM and submit an application together with a National ID and seal-of-record (or signature-of-record). A password and authorization will then be issued to use the system. The service can be used on that same day as soon as customer records are verified.

Q22: In accepting securities as margin deposit, can an FCM in its own discretion stipulate collateral types, haircut rates, and collateral securities limits?

A22: The collateral types, haircut rates, and collateral securities limits set out in rules and regulations provided by the competent authority and the TAIEX, must be complied with by all FCMs. However, an FCM may apply stricter standards with respect to specific traders based on their financial capacity of different

traders.

3. Futures commission merchants

Q23: Does an FCM necessarily have to open an exclusive collateral securities account under all circumstances?

A23: When a futures trader opts for method of two-step securities deposit for stocks and Formosa bonds that are posted as collateral, the FCM must open an exclusive collateral securities account with TDCC. At the same time, the FCM must become a participant of TDCC and enter into a contract for computer connection. For government bonds as margin collateral, the FCM must open an exclusive collateral securities account with a TAIFEX-designated settlement bank. The abovementioned accounts must be clearly identified as exclusive collateral securities accounts and used for collection, delivery, and custody of collaterals.

Q24: What is the nature of an FCM's exclusive collateral securities accounts? Is it required that the accounts be reported or publicly announced?

A24: An FCM's exclusive collateral securities accounts are among several types of customer margin accounts, therefore the FCM is required under Article 4 of the "Regulations Governing Futures Commission Merchants" and Article 14 of the "Operating Rules of the Taiwan Futures Exchange Corporation" to report the accounts to the TAIFEX in the same manner as it reports customer margin accounts. In addition, FCMs are required to display the account numbers of TAIFEX and FCM exclusive collateral securities accounts in a prominent location at their places of business

When an FCM opens an exclusive collateral securities account with a settlement bank, the contract that they enter into must specify the information that the settlement bank is required to provide upon request from the TAIFEX, and the

FCM must agree that if any of the circumstances set out in Article 75, paragraph 1 of the Futures Trading Act arises the TAIFEX is allowed to notify the settlement bank to refrain from any withdrawal of the securities from the exclusive margin collateral account and the settlement bank must, upon instruction from the TAIFEX, transfer the securities in the exclusive collateral securities account to a TAIFEX-designated exclusive account.

Q25: What is a margin collateral code number? What procedures must be followed when posting securities as collateral?

A25: Where a futures trader opts for method of one-step securities deposit, the TAIFEX assigns a margin collateral code number of "1"; where a futures trader opts for method of two-step securities deposit, the TAIFEX assigns a collateral securities code number of "2". For those with a code number of "2", the FCM must submit a photocopy of the contractual agreement and report to the TAIFEX via MTS. An FCM account executive must inform traders that they must deliver their collateral securities in the required manner, otherwise they will be deemed incorrectly delivered, and then be rejected.

Q26: Is an FCM free to refuse to allow a trader to deposit securities as collateral? Among the securities (as publicly announced by the TAIFEX) that traders are allowed to deposit as collateral, can an FCM refuse to accept certain types as collateral in view of a particular trader's status?

A26: In keeping with the "know your customer" principle, an FCM may decide on a case-by-case basis whether to accept collateral securities from any given trader depending on the financial status of, and risks posed by, that particular trader. And within the scope of eligible collateral securities as publicly disclosed by the TAIFEX, an FCM may decide whether or not to accept any particular securities as collateral.

Q27: When a futures dealer wishes to post proprietary securities as collateral, how does it deliver the securities?

A27: To post proprietary securities as collateral against a proprietary position, a futures proprietary merchant can transfer the securities directly from its own account into the TAIFEX exclusive collateral securities account, without routing them via an FCM customer's margin account. Note, however, that in order to keep futures proprietary trading strictly segregated from brokering, and because Article 19 of the "Regulations Governing Futures Commission Merchants" prohibits FCMs from providing assets for use as collateral by others, a futures proprietary merchant may not allow a clearing member to post its securities with the TAIFEX as collateral against positions other than its own.

Q28: What are the operation and reporting requirements on FCMs and clearing members with respect to accepting securities as margin collateral?

A28 :

(1) Where the securities posted by a futures trader are transferred directly into a TAIFEX exclusive collateral securities account, the TAIFEX computer system transmits the information of securities deposits of FCMs and clearing members, FCMs and clearing members may use the MTS system to access and print out itemized data of securities deposited with the TAIFEX.

(2) Where an FCM opens a margin account with the TDCC or a settlement

bank in order to deposit securities as collateral, it must set up an exclusive account to manage and record itemized information, which it reconciles daily with the TDCC, the settlement bank and TAIFEX.

- (3) Where an FCM or clearing member handles the deposit of securities as collateral, they must report to the TAIFEX regarding interest earned by traders and FCMs, funds' accounts, and tax withholding matters.
- (4) Where collateral securities posted by an FCM are transferred from the FCM exclusive collateral securities account to a TAIFEX exclusive collateral securities account when the FCM makes the interest payment distributed by the securities issuer to the futures trader entitled as well as when the FCM disposes of securities in accordance with Article 14 of the "Operational Guidelines for the Posting of Securities as Collateral by Futures Commission Merchants and Clearing Members" the FCM must obey legal requirements regarding the withholding of taxes owed by traders.

Q29: After an FCM, acting in accordance with contractual provisions, withdraws or disposes of securities deposited as collateral by a futures trader, what are the follow-up procedures?

A29: When an FCM applies to the TAIFEX to withdraw the aforementioned securities, it must fill out an application form and submit it together with the necessary supporting documents. However, where the trader agrees to allow an FCM or clearing member to use the trader's securities as collateral for margin requirements on the positions of other parties, the matter must be agreed to by the clearing member.

When an FCM applies to the TAIFEX to withdraw securities, or has securities transferred into its exclusive disposal account, the volume and value of the securities are limited to that amount necessary to make up for the negative equity value in the futures trader's margin account.

The FCM must open an exclusive disposal account with a securities house or settlement bank, and within three business days after the securities are transferred into its exclusive disposal account, the FCM must dispose of the securities and count the proceeds toward the equity value of the trader's margin

account. If the equity value of the trader's margin account remains negative after disposal, or if disposal is not possible, then a default must be reported in accordance with Point 2 of the "Rules for Futures Commission Merchants in Reporting Default by Principals."

4. Procedures for the posting of securities as collateral

Q30: When a futures trader posts securities as collateral, can securities be used as collateral from the day they are transferred to the Exclusive Collateral Securities Account?

A30: A trader posting securities as collateral is required to transfer them to an exclusive collateral securities account at either the TAIFEX or an FCM during the time while the TDCC participant or settlement bank is processing the securities transfer, and the securities can be used as collateral on the same day that the FCM back-office system records the transfer. If the trader's securities are deposited into a TAIFEX exclusive collateral securities account and the deposit is confirmed by the TAIFEX before 3:30 p.m., the deposit will be dated that same day; if confirmed after 3:30 p.m., the deposit will be dated the following day.

Q31 : After securities have been deposited as collateral, are there any regulations governing the size of the units in which they may be subsequently transferred?

A31: Stocks can only be transferred in units of 1,000 shares. For other types of securities, it depends on the rules of the depository institution. Book-entry central government bonds, for example, can only be transferred in units of NT\$100,000. The two Formosa Bonds currently listed on the GreTai Securities Market can only be transferred in units equal to the bond's face value, i.e. of 10,000 dollars of the foreign currency in which they were issued.

Q32: Are collateral securities and any surplus portion that has not been used as collateral, counted into the equity value of the FCM and clearing member?

A32: When a futures trader posts securities as collateral, the actual collateral value of securities posted as collateral, which is calculated on the basis of the trader's

positions, is calculated by the FCM into the equity of the trader's margin account. Any surplus net value, however, is not counted into the trader's margin account equity.

Q33: After securities have been posted as collateral, do they still have to be marked to market?

A33: Collateral securities are part of the trader's margin. Open positions still present a risk of default, so mark-to-market is handled the same way regardless whether margin is posted in the form of cash or securities. The FCM must mark open positions to market during the trading session and after the market is closed. When price movements in the market go against the trader and cause a shortfall of required margin, the FCM shall issue a margin call.

Q34: When a futures trader goes to an FCM to withdraw securities, is it possible to take possession the same day?

A34: A futures trader must apply to an FCM before 2:00 p.m. to withdraw securities. After the FCM confirms that the trader's margin account has sufficient equity it will transfer the collateral securities into the trader's account. If the trader's securities are deposited in a TAIFEX exclusive collateral securities account, the FCM will apply with the TAIFEX to withdraw them. The TAIFEX batch processes all such applications after 2:00 p.m. and either transfers securities to trader's accounts (in the case of traders who have opted for method of one-step securities deposit) or transfers them to FCM exclusive collateral securities accounts (in the case of traders who have opted for method of two-step securities deposit).

Q35: When withdrawing securities, can a futures trader have them transferred into another party's account? Or withdraw physically?

A35: Collateral securities are transferred to the trader's account, and may not be diverted to another party's account or withdrawn physically

Q36: Where collateral securities are posted in the form of stock, how is it handled if the issuer carries out a capital reduction or is involved in a statutory consolidation?

A36: Where stock is posted as collateral and the issuer carries out a capital reduction or is involved in a statutory consolidation, the FCM or clearing member must replace the stock with cash collateral or other eligible securities within five days of the book closure date (counting the book closure date itself), and the FCM must notify the futures trader to replace the stock with other eligible securities or cash. That stock will no longer be treated as collateral and cannot be used as margin for the placement of new orders.

Q37: Where bonds are deposited as margin, how is it handled when the bonds mature or there is a partial payback of principal? If the trader fails to make withdrawal, what will be done?

A37: Where bonds are deposited as margin and the bonds mature or there is a partial payback of principal, the FCM or clearing member must replace the bonds with cash collateral or other securities within five days of the date of maturity or partial payment of principal (counting the date itself), and the FCM must notify the futures trader to replace the bonds with cash collateral or other securities. Those bonds will no longer be treated as collateral and cannot be used as margin for the placement of new orders. However, beginning from the next business day after partial payback of principal, bonds that have not yet matured may be posted once again as collateral.

If the trader fails to make withdrawal, when the trader has sufficient cash collateral, the TAIEX or the FCM will transfer the bonds directly into the trader's account one business day prior. If the trader does not have sufficient cash collateral, the TAIEX or FCM will treat the amount of the principal payment as cash collateral.

Q38: When the securities that a futures trader posts with the TAIEX as collateral are the underlying instrument of a TAIEX futures contract that settles through physical delivery, if the trader holds a position in the

contract and it expires, how is settlement of the contract handled?

A38: The FCM and the TAIFEX must confirm that the equity value of the trader's and clearing member's margin accounts, respectively, is in compliance with regulations. After that, they will agree to allow the trader to use the collateral securities in question to handle settlement at expiration. When the FCM and clearing member handle settlement at expiration, they must report online to the TAIFEX in accordance with the provisions of the "Operational Key Points of Clearing and Settlement for Futures Commission Merchants and Clearing Members." The underlying securities delivered to the TAIFEX exclusive collateral securities account will be used for delivery, and the TAIFEX will transfer them to the TAIFEX settlement account.