The TAIFEX market development

Mezhgan Qabool, Business Development Manager at Eurex, spoke with Denise Huang from the Business Development Department at TAIFEX about the Taiwanese market attributes. Topics were the regulatory landscape affecting investors, product developments including the Eurex TAIFEX Link and the future outlook for the coming years.

Mezhgan Qabool: To start, I would like to ask you to provide an overview of the Taiwanese market, and if you can please share with us details of who the major market participants are, whether you see most of them to be local or foreign investors, and take us through the trading volumes you are currently witnessing.

Denise Huang: Taiwan Futures Exchange (TAIFEX) is the only futures exchange in Taiwan. Since its inception in 1998, TAIFEX has been marking impressive performance, ranking one of the major exchanges in Asian market.

Since TAIFEX launched its first contract, the market demonstrated uptrend strength over the years, with the exception of 2012 and 2013 when both the cash and derivatives markets experienced historical low volatility. The market marked 31% and 35% growth rates in 2014 and 2015 respectively.

As of September 2015, the total trading volume of TAIFEX was more than 195 million contracts and the average daily trading volume reached more than 1 million contracts, both hitting historical highs. TAIFEX is now ranked the top 19 exchange in the world.

TAIFEX currently offers 20 products in 7 categories, focusing on equity index products and equity related products. Of all, TAIEX Options and TAIEX Futures are the two flagship products. And, 6 equity index futures contracts received No-Action Letter from US Commodity Futures Trading Commission (CFTC). The USD/CNT and USD/CNH FX futures are launched in July 2015.

For the market participation structure, TAIFEX continues to have a healthy distribution of institutional and individual investors since its introduction of TAIEX options in 2001. As of September 2015, institutions and individuals account for 54% and 46% respectively. Of institutions, futures proprietary traders are the major players, marking almost 42% and foreign investors are the second largest, around 11.57%. If we include foreign proprietary traders who set up their branch offices in Taiwan, the percentage of foreign trading will be up to around 28%.

Unlike peer exchanges in Asia, such as SGX, TAIFEX has a high retail population in futures trading which is similar to its underlying cash market. Furthermore, while global major markets are on the way to be re-regulated, Taiwan intends to be more open to foreign participants by easing limitations in one hand and introducing international practices in the other hand.

Mezhgan Qabool: With the volume developments going in the direction they are, foreign investors will naturally want to look into investing in your markets. However as with every market there is the issue of regulation to overcome. Can you take us through the current regulation on foreign investors?

Denise Huang: TAIFEX regulations for foreign investors are different from domestic investors in two respects. One is to use eligible foreign currencies as margin deposit and the other is the Taiwan Dollar (TWD) holding limit. The regulations apply to all foreign investors. Other regulations, such as on-line registering for ID account and position limits apply to both domestic and foreign investors.

For eligible foreign currencies, foreign investors participating in futures trading must deposit and withdraw margins in eligible foreign currencies, including USD, EUR, JPY, GBP, AUD, HKD and RMB.

The TWD holding by foreign investors is limited to 300 million, approximately 10 million USD for their realized gains generated from TWD denominated contracts. When exceeding, a conversion is required to make in 5 business days. After conversion, the TWD balance cannot exceed 10 million, approximately 0.3 million USD. According to statistical reports, the conversion does not happen frequently for the ceiling of TWD realized is far to exceed.

In addition, as mentioned, 6 TAIFEX stock index futures received No-Action Letters from US CFTC, including the flagship futures contract, TAIEX Futures, three sector stock index contracts, Electronic Sector Index Futures, Finance Sector Index Futures, Non-Finance No-Electronics Sub-index Futures, Mini-TAIEX Futures and the second tier stock exchange index, Taipei Exchange Stock Index. In addition, TAIFEX has granted Part 30 exemption by CFTC, indicating Taiwan futures market has paralleling regulatory environment as the US. That is, US traders can trade the 6 stock index futures contracts through US or Taiwan brokers.



Eligible Foreign Currencies

- Foreign investors participating in futures trading must deposit and withdraw margins in eligible foreign currencies, namely **USD, EUR, JPY, GBP, AUD, HKD and RMB**.
- For further information, please check the document of Participating in the Taiwan Futures Market-Clearing section.

TWD Limit

- The realized TWD gain in the account may not exceed TWD $ 300 million (≒ USD $10 million).
- If the limit is exceeded, the foreign investor shall make a conversion into a foreign currency within 5 business days; the TWD balance after the conversion may not exceed TWD $ 10 million (≒ USD 0.3 million).

Procedure of Opening an Account in TWN

- Step 1- Appointing a Local Agent: Foreign investors intending to participate in Taiwan's futures market should first appoint a local agent or representative
- Step 2- Obtaining an ID: Foreign investors should obtain an ID from an on-line system through their local agent or representative.
- Step 3- Opening an Account: Foreign investors can open an **Omnibus Account** or a **Direct Account.** (The position limit applies to each ID, not the account level)
- For further information, please check The TAIFEX Handbook for Foreign Investors and Position Limit and the Exemption.

Products with CFTC No-Action Letter

1. TAIEX Futures
2. Electronic Sector Index Futures
3. Finance Sector Index Futures
4. Mini-TAIEX Futures
5. Taipei Exchange Stock Index Futures
6. Non-Finance Non-Electronics Sub-Index Futures

Mezhgan Qabool: Great. Thank you. Let's take a look at the recent developments in Taiwan which you believe has made it more attractive to invest in including any major products which should not be ignored for those looking to invest in Taiwan.

Denise Huang: From the product side, to cope with an active ETF market and an increasing scale of China related ETFs, TAIFEX launched its three ETF futures in October 2014 and added up to 7 in July 2015. Of all, 6 underlyings are stock indices. And, since launch, the ETF futures market continues to grow stably. From January to September 2015, the average daily trading volume of ETF futures is more than 9000 contracts. And, the two most active ETF futures are SSE180 ETF and CSI300 ETF, accounting for 54% and 20% of market shares.

In addition, in July 2015, TAIFEX launched two RMB FX futures. Given in thought of the strong RMB deposit of more than 300 billion, lack of RMB derivatives, growing RMB investment tools and limited access for hedging RMB exposure, RMB FX futures are therefore introduced to fulfill RMB trading needs.

TAIFEX simultaneously launched two RMB FX futures. USD/CNT uses Taiwan fixing with the contract size of USD20,000. The other contract, USD/CNH uses HK fixing with the contract size of USD100,000.

The USD/CNT FX futures and USD CNH are traded 8,752 contracts and 1,057 contracts respectively per day from July 20 to September 30, 2015. The accumulated trading volume of the two products has exceeded 500,000 contracts.

As an individual oriented market, the small RMB FX contract will be more accessible and familiar for local investors while the big contract will be more popular with international traders. In addition, as the underlying asset is offshore RMB, there are arbitrage opportunities between the two RMB contracts in TAIFEX as well as other offshore RMB futures markets.

As for the system updates, TAIFEX adopted several new measures, including extending the underlyings of single stock futures, expanding daily price limit from 7% to 10% for stock related products, expanding the strike price range of equity options to cover 15% of the underlying closing price on the previous day and adding RMB as the 7th eligible currency for futures trading by foreign investors.

And, in terms of market shares by product, stock index options and stock index futures are the two most major product categories, accounting for more 73% and 20%. The high trading derivatives population overlapped with the underlying cash market makes the stock index related contracts become the focusing products in TAIFEX.

TAIEX Futures (TX) is the largest traded futures contract in TAIFEX. As of September 2015, its average daily trading volume is 134,000 contracts, posting a 34% increase compared to 2014. According to FOW Tradedata, as of August 2015, TX ranks the top 11 contract in terms of stock index futures in the world.

TAIEX Options (TXO) is the most actively traded contract in TAIFEX. As of September 2015, its average daily trading volume is 795,000 contracts, posting a 30% increase

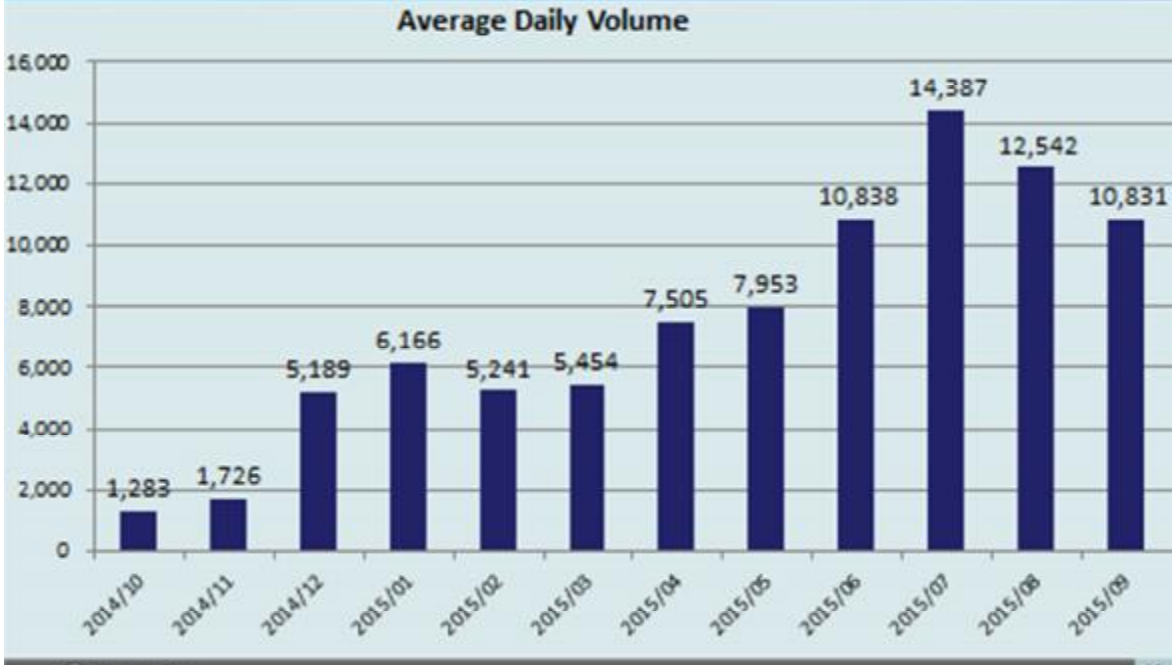
compared to 2014. According to FOW Tradedata, as of August 2015, TX ranks the top 6 contract in terms of stock index options in the world.

The underlying of TAIEX futures and TAIEX options is Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX), the well known index in Taiwan. There are five contract months listed for the two products.

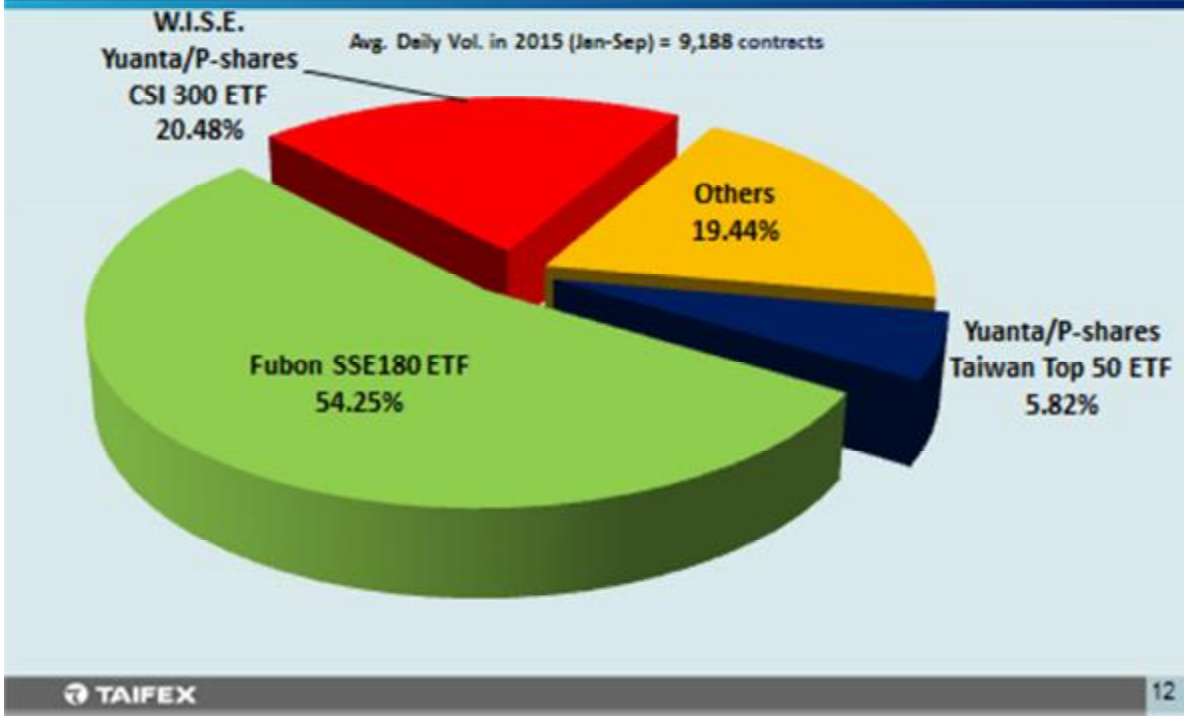
The trading hours is from 8:45 in the morning till 1:45 in the afternoon. With a total of 5 trading hours, it is relatively short compared to world major markets. To cover the core trading hours when TAIFEX market is closed, the Eurex/TAIFEX Link model is therefore introduced to extend the trading hours of TAIEX futures and TAIEX options.



ETF Futures Trading Volume



ETF Futures Market Share



FX Futures

- TAIFEX launched two RMB FX Futures on July 20, 2015
  - USD/CNT FX Futures
  - USD/CNH FX Futures

Contract	Total Trading Volume	Average Daily Volume
USD/ CNT FX Futures	446,328	8,752
USD/ CNH FX Futures	53,921	1,057
Total	500,249	9,809

FX Futures Contract Specs

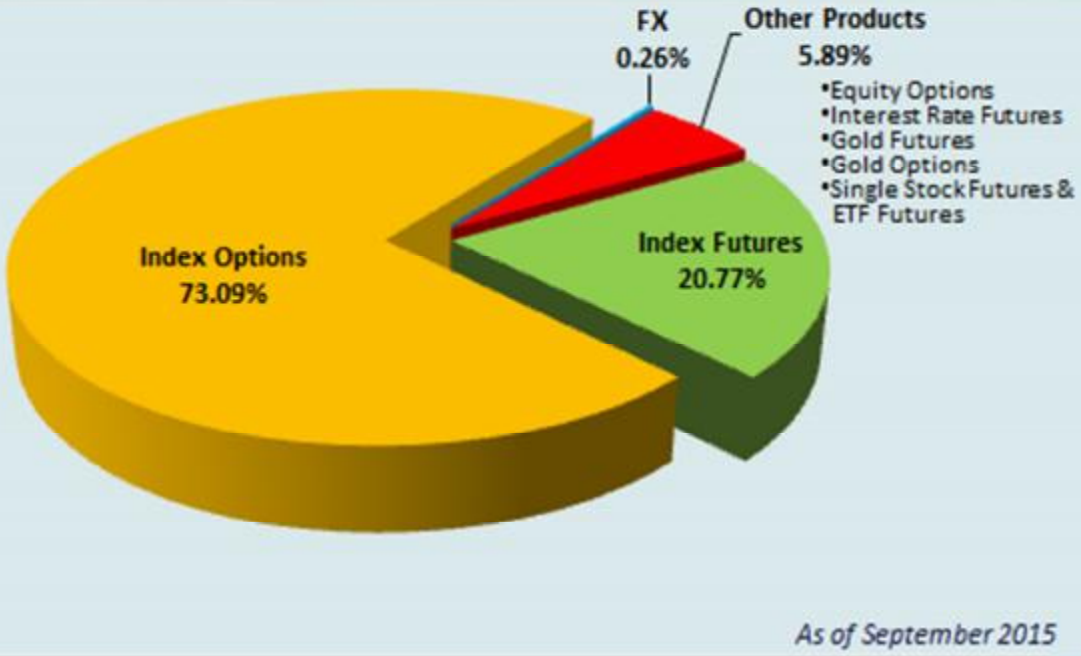
Name	USD/CNT FX Futures	USD/CNH FX Futures
Ticker Symbol	RTF	RHF
Underlying	USD/ RMB FX rate	
Trading Hours	Trading days are the same as banking days in Taiwan 08:45AM-4:15PM Taiwan time 08:45AM-11:00AM on the last trading day for the delivery month contract	
Contract Size	USD 20,000	USD 100,000
Delivery Months	Spot month, the next calendar month, and the next four quarterly months.	
Price Quotation	RMB per USD	
Tick Value	0.0001 (RMB 2)	0.0001 (RMB 10)
Last Trading Day	The third Wednesday of the delivery month. New contracts will be listed on the next business day.	
Final Settlement Day	The same day as the last trading day	
Final Settlement Price	Spot USD/CNY (TW) fixing published at 11:15 AM on the Last Trading Day by Taipei Foreign Exchange Market Development Foundation	Spot USD/CNY (HK) fixing published at 11:15 AM on the Last Trading Day by Treasury Markets Association (TMA) of Hong Kong

New Measures

- Extend underlyings of Single Stock Futures
- Expand daily price limit, from ±7% to ±10%, for stock related products
- Expand the range of strike price in Equity Options to cover ±15% of the base price
- Add RMB as the 7th eligible currency for foreign investors to engage in futures



Market Share by Products



As of September 2015

Volume, ADV & OI of TAIEX Futures (TX)

Year	Total Trading Volume (Unit: 1,000 contracts)	Average Daily Volume (Unit: 1,000 contracts)	OI (Unit: 1,000 contracts)	OI (% of Trading Volume)	World Ranking (Stock Index Futures)
2015 (As of Sep.)	23,992	134	75	56%	11*
2014	24,760	100	71	71%	14
2013	22,693	92	59	72%	14
2012	24,642	99	64	65%	13
2011	30,612	124	73	59%	10
2010	25,333	101	63	63%	14

*Data Source: FOW Tradedata as of August

Volume, ADV & OI of TAIEX Options (TXO)

Year	Total Trading Volume (Unit: 1,000 contracts)	Average Daily Volume (Unit: 1,000 contracts)	OI (Unit: 1,000 contracts)	OI (% of Trading Volume)	World Ranking (Stock Index Options)
2015 (As of Sep.)	142,328	795	1,109	139%	6*
2014	151,621	611	1,109	181%	6
2013	109,312	445	887	202%	6
2012	108,458	434	927	214%	6
2011	125,768	509	1,122	220%	5
2010	95,667	381	866	233%	5

*Data Source: FOW Tradedata as of August

Trading Costs for TAIEX Futures & Options

Trading Cost

	Transaction Tax		FCM Commission	Minimum Total Trading Cost
	Rate	Amount	Negotiable (Based on Exchange Fee[1])	
TAIEX Futures	0.002%[2]	NT$ 32 (0.2bp)[3]	Exchange Fee, NT$ 20 (0.125bp)	NT$ 52 (0.325bp)
TAIEX Options	0.1%[4]	Premium x 0.1%	Exchange Fee, NT$ 10	NT$ 10 + Premium x 0.1%

1. TAIFEX fee schedule: http://www.taifex.com.tw/eng/eng4/FeeSchedules.asp
2. The tax on futures transactions is calculated by multiplying the market value per contract by the transaction tax rate.
3. The transaction tax has been calculated based on the underlying index of 8,000.
4. The tax for option transactions is calculated by multiplying the market value per contract (based on premium) by the transaction tax rate.

TX & TXO Specs

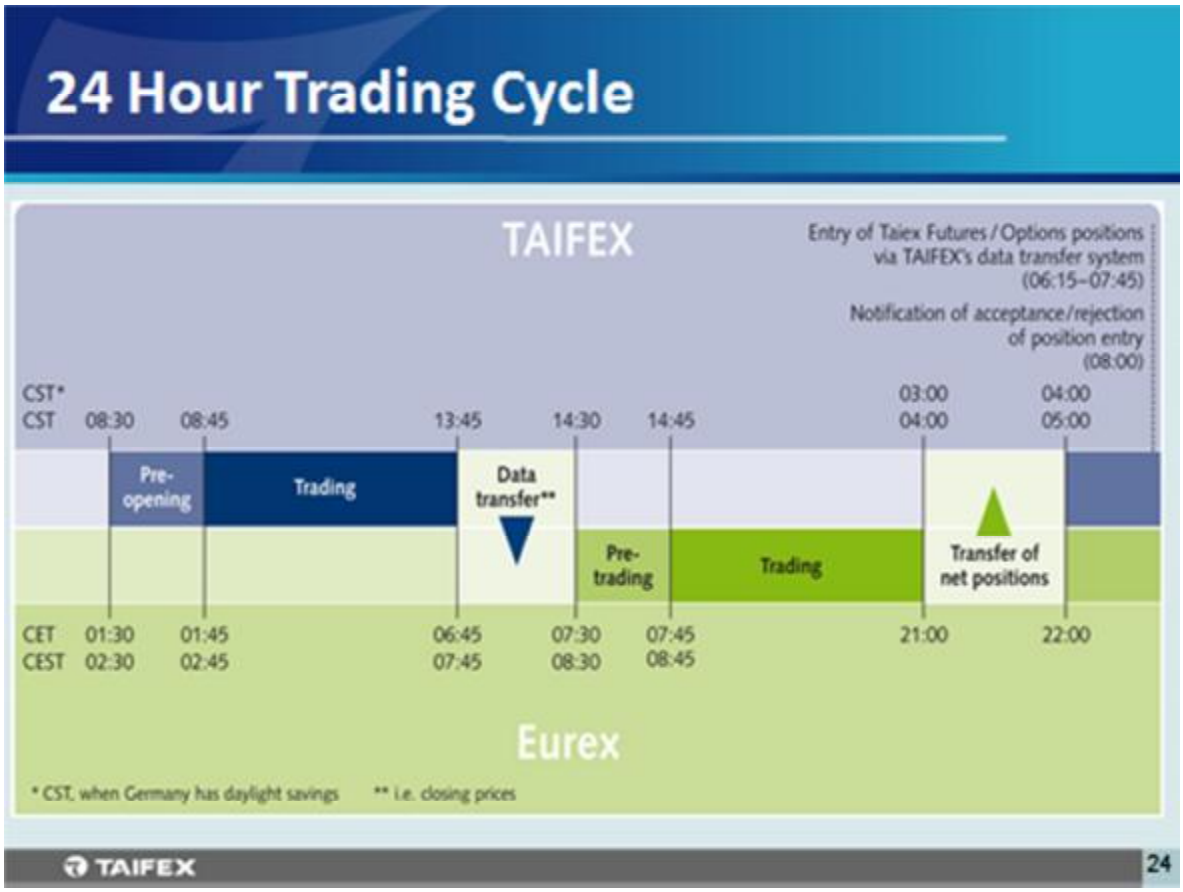
Item	TAIEX Futures	TAIEX Options
Ticker Symbol	TX	TXO
Multiplier	TWD 200 (per index point)	TWD 50 (per index point)
Contract Months	2 nearest serial months and the next 3 quarterly months	3 nearest serial months and the next 2 quarterly months. Moreover, the weekly options will be listed each Wednesday and expire the following Wednesday, except for the second Wednesday of the month.
Underlying Index	Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX)	
Trading Hours (Taiwan Time)	Regular trading day: 08:45am - 1:45pm **(EST 08:45 pm - 1:45 am)** Last trading day: 08:45am - 1:30pm	
Last Trading Day Final Settlement Day	For the weekly options, the last trading day is the next Wednesday of its listing day. For other products, the last trading day is the third Wednesday of the delivery month.	
Final Settlement Price	The average price of the underlying index disclosed within the last 30 minutes prior to the close of trading on the final settlement day.	



Mezhgan Qabool: As part of these major projects I would like to talk you through the Eurex Taifex link which was launched on 15 May 2014.



Taiex Futures and options are among the most heavily traded contracts in Asia. The Eurex/Taifex link was set up to make these contracts tradeable after Taiwanese trading hours. The Eurex/TAIFEX Link simultaneously extends the trading hours for Taiwanese investors and gives Eurex Participants and their customers world-wide immediate access to the Taiwanese equity derivatives market.



This creates a 24 hour trading cycle. Trading hours on Eurex commence at 7.45 am CET and continues until 9pm CET, whereby the transfer of the net positions take place. If there are any net open positions at the end of the trading, this results in delivery of the corresponding position into Taiex futures or Taiex options at the start of the next trading session on Taifex. This means, you can use the Eurex session directly to open or close positions in the active futures contract or options series at the beginning of the subsequent TAIFEX trading day. This set up was created to achieve the goal of making the products fungible with the Taifex contracts.

Access to the link is simple.



You can either trade through an account opened via a Eurex member, who has the required business relationship with at least one TAIFEX member in order to facilitate the delivery of the daily futures on the contracts. This will obviously require participants to adhere to the Eurex rules and regulations.

Or you can access via a TAIFEX member who must also have a business relationship with Eurex to facilitate the outbound orders from Taiwan. There may be additional margin requirements via these accounts depending on the KYC rules at Taifex.

We do have lists of members on both Eurex and Taifex who can facilitate the access and who are technically ready for trading which we can make available to you.

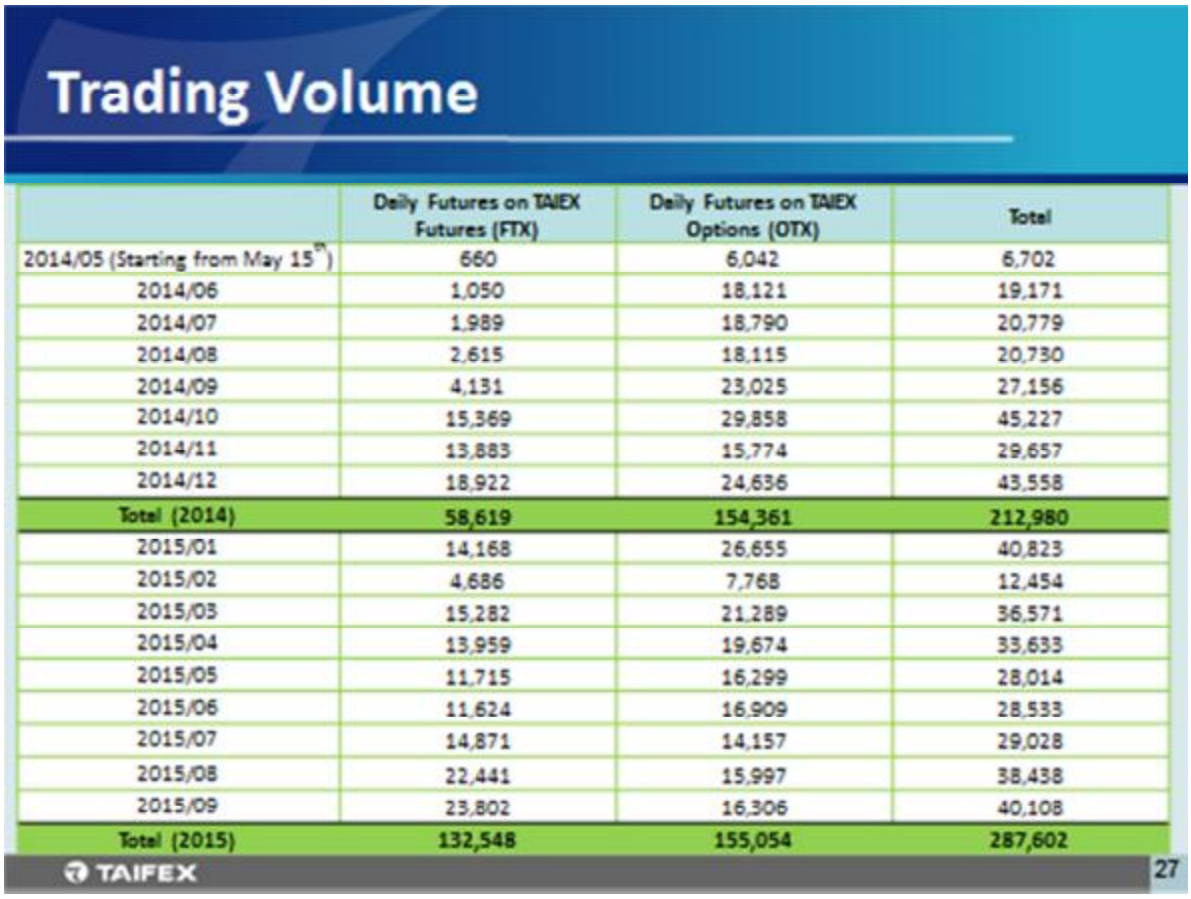


With regards to Margining: Intra-day margin in one of the Eurex clearing currencies will be collected by Eurex Clearing.

The payment and receipt of variation margin will be made in Taiwanese Dollar at a Taiwanese settlement bank in Taiwan by Eurex Clearing.

As mentioned before, after Eurex trading hours, expired positions are physically delivered as Taiex futures or Taiex options.

We are happy to provide more detail on the process of getting access and the functionalities of the link if you would like to take a closer look and we have a contact list at the end of this presentation for that purpose.



Before we move on, a quick look at the volumes will show the link getting more traction since it's inception as it has more than doubled the volumes in the futures since 2014 and the year is not over yet.

We currently have 16 Clearing and Non-Clearing Members admitted to the link. There are 4 Market Makers who continuously quote the products to ensure the necessary market liquidity. Additional member firms are in the admission process.

- **The current order flow we are witnessing also indicates a healthy mix of active end-client demand as well as market liquidity provided by market makers. 87% of customer volume originates from Taiwanese retail clients.**

Mezhgan Qabool: As a continuation of the access we just spoke about with regards to the Eurex Taifex link, what are some of the access requirements clients around the world has to take into account when considering investing or trading in Taiwan?

Denise Huang: TAIFEX adopts an ID system, that is, the end-client needs to register an ID. As foreign investors do not have physical presences in Taiwan like local investors, they need to appoint a local agent to process on their behalf for account opening. In this case, it takes three steps for account opening. First is to appoint a local agent. The agent can be banks, futures brokers and related agencies. Step 2 is to obtain an ID from the on-line system through the agent or representative. Step 3 is to open an account, including direct account or omnibus account. Under the ID system, the position limit applies to each ID by aggregating all the positions in its different trading accounts. Investors can apply for position exemption by providing stated documents according to the TAIFEX Handbook for Foreign Investors and Position Limit and the Exemption.



Eurex/TAIFEX Link Operations

- For Eurex Non Clearing Members (NCMs) :
  - NCMs are required to enter into a business relationship with at least one associated TAIFEX members to establish the futures/options position resulting from the Link product in the TAIFEX system.
  - NCMs need to ensure the readiness of the said TAIFEX members and ISVs for the Link products.
  - Clearing Members (CMs) need to co-sign NCMs' participation form "Application for Participation for the Trading of Eurex TAIFEX Products".



Mezhgan Qabool: Thank you. Can you please outline Taifex's near future plans which we should all be aware of?

Denise Huang: In terms of product development, by December 2015, TAIFEX plans to launch ETF options and TOPIX Futures. ETF options will based on the same underlyings of ETF futures. With an active options market and an increasing liquidity in the ETF underlying market, the ETF options are expected to attract great attention from the potential market participants. For TOPIX Futures, it will be denominated in TWD with two nearest and three quarterly months. Other products, including long-term contracts for providing more tradable contracts, Volatility index related products and other foreign equity indices products and FX products will be under evaluation.

In addition, block trade facility will be facilitated to more products. The relaxation of pre-margin practice and introduction of Give-up will be under study. To be more competitive with peer exchanges, TAIFEX will continue to propose to low futures transaction tax rate. And, TAIFEX will evaluate the feasibility of central clearing of OTC derivatives.

TAIFEX has developed its own IT system since its establishment. The new generation trading system scheduled to launch in 2016 will use a Linus-based platform. The order matching speed will be up 200 microsecond from 800 microsecond. In 2017, TAIFEX will have a new IT center. The co-location service will be planned along with the set up of new IT center.



New Products

- ETF options (December 2015)
- TOPIX futures(December 2015)
- Long-term contracts (1 to 2 years)
- Volatility index related products
- Other products associated with foreign equity indices
- Other FX futures & options

New Measures & Services

- Increase eligible products to use block trade facility *(now limited to TX, MTX, TXO, STF, RHF and RTF)*
- Evaluate feasibility of central clearing of OTC derivatives
- Study the feasibility of relaxing pre-margin and introduce Give-up system
- Propose to lower futures transaction tax rate



Mezhgan Qabool: With that I would like to thank Denise for her time and valuable information.



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