



臺灣期貨交易所
TAIWAN FUTURES EXCHANGE

OTC Central Clearing FAQs

2025.1.13

Contents

Chapter 1	Clearing Member and Client Application.....	5
	Q1: Who are the current General Clearing Members?	5
	Q2: What are the preliminary requirements for participating in clearing operations as a client, and how long does it take from preparation to becoming operational?	5
	Q3: What legal documents must be executed when participating in clearing as a client? Is signing the CDEA a mandatory requirement?.....	6
Chapter 2	Submission for Clearing	7
	Q4: How to submit trades for central clearing to TAIFEX? What verification processes are involved after submission?	7
	Q5: What is the deadline for trade submission? By what time must a transaction be submitted at the latest?	8
	Q6: What’s the difference between the submission of new trades and backloading trades?	9
	Q7: What Approved Trade Affirmation Platforms can participants choose to submit trades to TAIFEX?	9
	Q8: When using MarkitWire, participants can choose between Dealer and End User. How should participants decide which role to select?	9
	Q9: If the two counterparties use different Approved Trade Affirmation Platforms, how can they submit the trade to TAIFEX?	10
	Q10: Apart from self-submission by participants, what other methods are available for submitting trades to TAIFEX? Are there any limitations?	10
	Q11: Who can be consulted for issues related to the use of Approved Trade Affirmation Platforms?	10
	Q12: What do the different clearing contract statuses displayed in the OTC Clearing System, such as “Received,” “Accepted,” and “Cleared,” represent?	11
	Q13: If a participant’s internal system manages trades using internal reference numbers, how can they maintain this information in TAIFEX’s OTC Clearing System?.....	11

Q14: During holiday testing, is it necessary to install a new testing environment for TPEX TR system and MarkitWire system?	12
Q15: What are the trade submission hours for the testing environment?	12
Chapter 3 Trade Reporting	12
Section 1 Taipei Exchange (“TPEX”).....	12
Q16: What items need to be reported to TPEX TR system after a new trade is submitted to TAIFEX?	12
Q17: What items need to be reported to TPEX TR system after a backloading trade is submitted to TAIFEX?	13
Section 2 Swap Data Repository (“SDR”).....	13
Q18: What types of data are reported to SDR from TAIFEX?	13
Q19: Who is obligated to report to SDR?	14
Q20: If a participant needs to report a trade to a foreign SDR, what is the UTI generated by TAIFEX?	14
Chapter 4 Margin	14
Q22: What are the settlement banks for OTC Derivatives Clearing Margin Accounts, and what is the maximum number of accounts allowed?	14
Q23: What are the requirements of the financial institution for opening an “OTC Derivatives Client Margin Account” for General Clearing Members?	15
Q24: What types of collateral are eligible for the required clearing margin?	16
Q25: What is the difference between “Physical Account No.” and “Virtual Account No.”?	16
Q26: How to deposit and withdraw the clearing margin for clearing members and clients?	17
Q27: What is the collateral ratio and haircut rate for eligible security collateral?.....	19
Q28: Which report provides information on the daily cash deposit and cash withdrawal results, as well as the cash balance in TAIFEX?	19
Q29: How is Used Non-Cash Collateral Value calculated?	20
Q30: How is Deposited Margin calculated?	20
Chapter 5 Risk Management.....	20

Q31: Can banks benefit from lower capital requirements by participating in central clearing?	20
Q32: When is the data on the hypothetical capital requirement for a CCP (“KCCP”) published, and how can it be accessed?	20
Q33: What is the method and timing for TAIFEX’s daily valuation of NTD IRS contracts?	21
Q34: How is the “Initial Margin” calculated?	22
Q35: What is the “Mark-to-Market Difference”/ “Variation Margin”?	22
Q36: How is the “Liquidity risk margin” calculated?	23
Q37: What are the position concentration standards and additional margin requirements?	23
Q38: What is the deadline for fulfilling a margin call?.....	24
Chapter 6 Clearing and Settlement	24
Q39: What is settlement amounts?	24
Q40: What is the process of settlement payment? Do clearing members need to transfer cash to TAIFEX daily?	25
Q41: Under what circumstances can a “Position Transfer” be applied?	25
Q42: What is the difference between “Position Netting” and “Compression”?	26
Chapter 7 OTC Derivatives Default Fund (“OTC Default Fund”)	26
Q43: How is the OTC Default Fund contribution calculated, and how often is it determined?	26
Q44: How to deposit and withdraw the OTC Default Fund?.....	27
Q45: What are the investment targets of the OTC Default Fund?	28
Chapter 8 Interest and Fees.....	28
Q46: What is the process for the payment of interest on securities?	28
Q47: How are the interest for the clearing margin and the OTC Default Fund calculated?.....	29
Q48: How often is the clearing margin interest disbursed, and to which account of the clearing member is it paid?	29

Q49: How often is the OTC Default Fund interest disbursed, and to which account of the clearing member is it paid?	29
Q50: What are the frequency and methods of payment for the registration fee, clearing service fees and connection fees?	29
Q51: How does PAI and PAA apply to the provisions of Articles 88 and 89 of the Income Tax Act?.....	30
Chapter 9 Others	31
Q52: What is the maximum number of administrative accounts (with Admin privileges) that a clearing member can have for the OTC Web Portal?	31
Q53: What is the maximum number of house accounts a clearing member is permitted to open?.....	31
Q54: What should be noted on a make-up working Saturday?	31
Q55: What are the principles for adjusting fixing dates and settlement dates of cleared trades in the event of a typhoon or other unscheduled holidays?.....	31

Taiwan Futures Exchange

OTC Central Clearing FAQs

Chapter 1 Clearing Member and Client Application

Q1: Who are the current General Clearing Members?

A: The current list of General Clearing Members can be found on TAIFEX website at <https://www.taifex.com.tw/enl/eng5/ccpCMList2>.

Q2: What are the preliminary requirements for participating in clearing operations as a client, and how long does it take from preparation to becoming operational?

A: The preliminary requirements for participating in clearing operations as a client are as follows:

1. Engage in contractual discussions with a General Clearing Member regarding the terms and conditions of the OTC Derivatives Client Clearing Agreement (“Client Clearing Agreement”).
(Estimated timeline: approximately 3 months.)
2. Trade Submission Testing and OTC Central Clearing System Development:
(Estimated Timeline: 3 months)
 - (1) Complete connectivity and trade submission testing with Approved Trade Affirmation Platforms (MarkitWire or TPEX TR).
 - (2) Establish middle and back-office systems for clearing operations, including position and margin report reconciliation with General Clearing Members.
3. After Executing the Client Clearing Agreement with the General Clearing Member:
 - (1) Apply for a client account through the General Clearing Member.
 - (2) Designate bank accounts for cash or securities transfers.

- (3) Deposit sufficient client margin before submitting trades.

The entire process—from selecting a General Clearing Member, negotiating Client Clearing Agreements, implementing the system, to executing the first cleared trade—typically takes approximately 6 months to complete.

Q3: What legal documents must be executed when participating in clearing as a client? Is signing the CDEA a mandatory requirement?

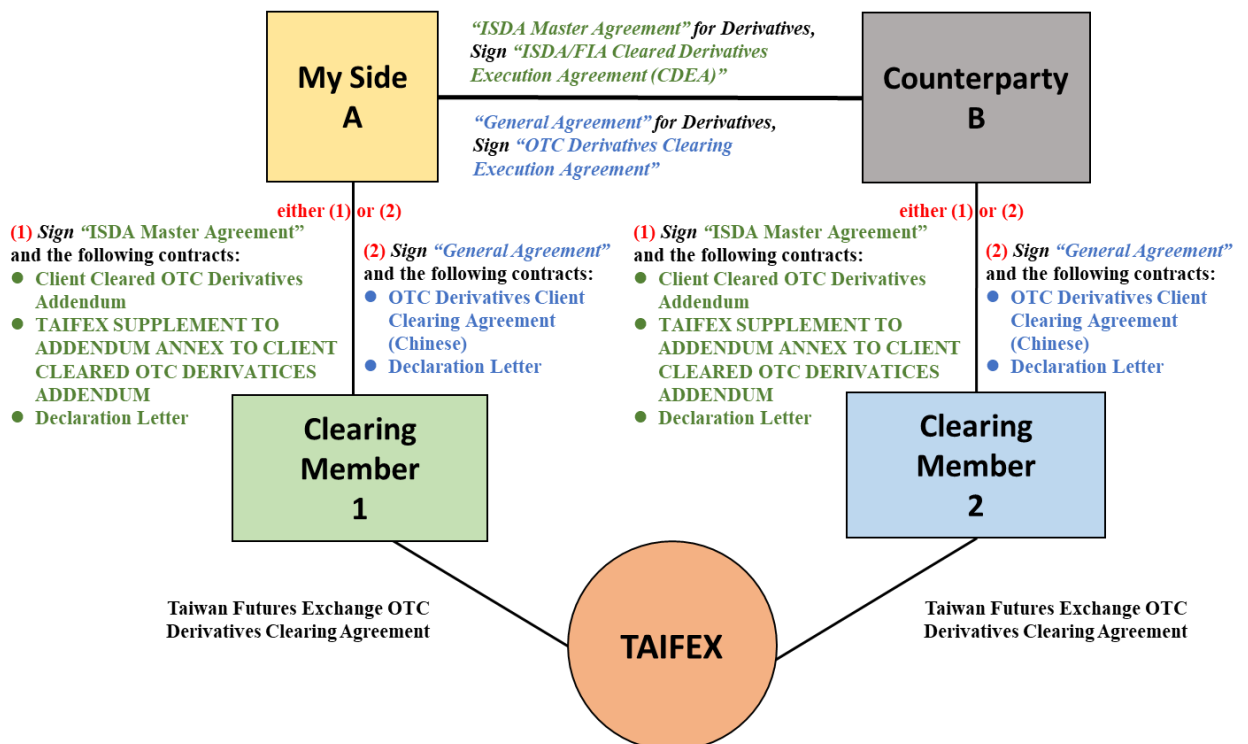
A:

1. Required Documentation between Client and General Clearing Member (Choose either option (1) or (2)):
 - (1) English Version Documentation Set:
 - (a) Client Cleared OTC Derivatives Addendum
 - (b) TAIFEX Supplement To Addendum Annex To Client Cleared OTC Derivatives Addendum
 - (c) Declaration Letter
 - (2) Chinese Version Documentation Set:
 - (a) Client Clearing Agreement
 - (b) Declaration Letter
2. For clients who have executed an “ISDA Master Agreement” or General Agreement for Financial Transactions (Chinese Version) with their counterparties, it is recommended to additionally execute either an “ISDA/FIA Cleared Derivatives Execution Agreement (“CDEA”)” or an OTC Derivatives Clearing Execution Agreement (Chinese Version). While these agreements supplement the rights and obligations between parties regarding trade submission for clearing, **they are not mandatory prerequisites for such submission.**
3. For templates of the aforementioned documents:
 - (1) TAIFEX Supplement To Addendum Annex To Client Cleared OTC Derivatives Addendum
 - (2) Declaration Letter

- (3) Client Clearing Agreement (Chinese version)
- (4) OTC Derivatives Clearing Execution Agreement (Chinese Version)

Please refer to TAIFEX website at <https://www.taifex.com.tw/enl/eng5/ccpArgeeTemplate>.

4. For the legal contractual framework among clients, counterparties, and clearing members, please refer to the example diagram below:



Chapter 2 Submission for Clearing

Q4: How to submit trades for central clearing to TAIFEX? What verification processes are involved after submission?

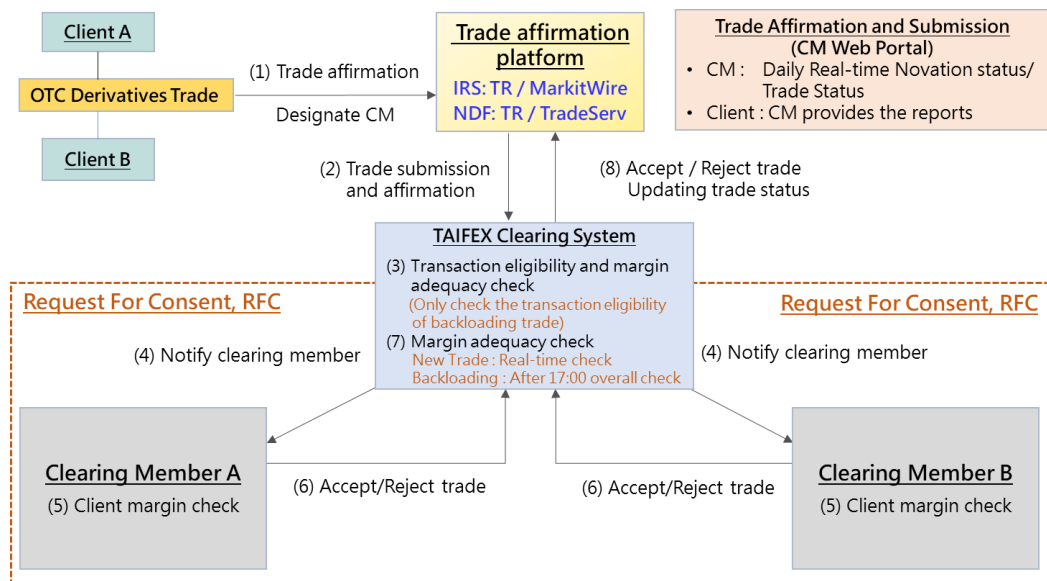
A:

1. After both parties complete a trade and agree to submit it to TAIFEX, the trade shall be sent to TAIFEX via an Approved Trade Affirmation Platform. TAIFEX will verify the corresponding clearing account information, contract eligibility, and margin adequacy. Once verified, the clearing status of the contract will be updated to "Cleared."

2. In any of the following circumstances, TAIFEX will immediately send a rejection message to both parties. The parties may correct the relevant fields or supplement the required margin and resubmit the trade for central clearing:

- (1) Contract does not meet TAIFEX’s eligibility criteria for acceptance.
- (2) Clearing account information for either party contains errors.
- (3) Margin in either party’s clearing account is insufficient. (To minimize resubmission costs due to insufficient margin, TAIFEX provides an OTC Derivatives Margin Simulation System (<https://ccpwif.taifex.com.tw/whatif/#/auth/en/login>). For further details, please visit TAIFEX website.)
- (4) If either of the parties is a client, the client’s trade has not been approved by its General Clearing Member.

3. Trade Submission Process:



Q5: What is the deadline for trade submission? By what time must a transaction be submitted at the latest?

A: TAIFEX accepts trade submissions daily from 9:00 AM to 5:00 PM. Submissions are not accepted during unscheduled holidays or make-up working Saturdays.

Q6: What's the difference between the submission of new trades and backloading trades?

A:

1. **New Trades:** New trades refer to those in which the submission date (S) is either the trade date (T) or the next business day (T+1). TAIFEX processes new trade submissions on a trade-by-trade basis. Once a trade passes the verification process, its status is updated to "Cleared."
2. **Backloading Trades:** Backloading trades are those submitted more than one business day after the trade date ($S > T+1$). For backloading trades, TAIFEX first verifies the contract eligibility upon submission. After the submission deadline, all backloading trades submitted on that day undergo batch margin verification. Trades that pass the margin verification become effective on the next business day (S+1) with a status of "Cleared." On make-up working Saturdays, trades submitted and verified on the preceding business day become cleared positions on the Saturday.

Q7: What Approved Trade Affirmation Platforms can participants choose to submit trades to TAIFEX?

A: The Approved Trade Affirmation Platforms recognized by TAIFEX are categorized by eligible products as follows:

1. **IRS:** TPEx TR, MarkitWire
2. **NDF:** TPEx TR, TradeServ

Q8: When using MarkitWire, participants can choose between Dealer and End User. How should participants decide which role to select?

A:

1. **General Clearing Members:** For those engaged in client clearing, it is recommended to register as a Dealer to enable the clearing broker function.
2. **Individual Clearing Members:** Depending on their needs, Individual Clearing Members can register with MarkitWire as either a Dealer or an End User.

3. **Participants as Clients:** Clients may register as a Dealer or an End User on MarkitWire based on their specific requirements. Additionally, they must apply for basic data setup for client clearing and designate their General Clearing Member (clearing broker).
4. **Pre-Trade Setup:** Both counterparties to the trade must complete the clearing permission setup before executing the trade and submitting it for central clearing.

Q9: If the two counterparties use different Approved Trade Affirmation Platforms, how can they submit the trade to TAIFEX?

A: TAIFEX's OTC Derivatives Clearing System ("OTC Clearing System") does not support single-sided trade submission, nor does it allow cross-platform submissions between different Approved Trade Affirmation Platforms. To submit a trade to TAIFEX, both counterparties must agree on and use the same Approved Trade Affirmation Platform after finalizing the trade.

Q10: Apart from self-submission by participants, what other methods are available for submitting trades to TAIFEX? Are there any limitations?

A: All our Approved Trade Affirmation Platforms, including TPEX TR, MarkitWire, and TradeServ, support broker-assisted submissions. After finalizing a trade, counterparties may either submit the trade themselves or authorize a broker to submit it to TAIFEX on their behalf. However, broker-assisted submissions are subject to certain limitations: both counterparties must have access to the chosen platform. For instance, if one party does not have access to MarkitWire, the trade cannot be submitted through a broker on MarkitWire.

Q11: Who can be consulted for issues related to the use of Approved Trade Affirmation Platforms?

A: For issues related to the use or installation of Approved Trade Affirmation Platforms, please contact the respective platform representatives:

1. **TPEX TR:** Ms. Li, Bond Department, TPEX
Phone: +886-2-2366-5966

Email: Kellie@tpex.org.tw

2. **MarkitWire:** Shumei Fu

Phone: +65 69224319

Email: shumei.fu@osttra.com

3. **TradeServ:** Clinton Mak

Phone: +60 19 592 5589

Email: clinton.mak@osttra.com

Q12: What do the different clearing contract statuses displayed in the OTC Clearing System, such as “Received,” “Accepted,” and “Cleared,” represent?

A:

1. **“Received”:** TAIFEX has received the trade information from the Approved Trade Affirmation Platform, but the verification process has not yet started.
2. **“Accepted”:** Trade has passed the eligibility verification. For client trades, it also means that the General Clearing Member has consented the trade. However, margin verification has not yet been completed.
3. **“Cleared”:** TAIFEX has completed all verifications, and the contract has officially completed novation process, with TAIFEX replacing the original counterparty.

Q13: If a participant’s internal system manages trades using internal reference numbers, how can they maintain this information in TAIFEX’s OTC Clearing System?

A: The internal reference number generated by the participant during submission will be retained in the “Internal Trade ID” field of the corresponding clearing contract. Participants can subsequently modify this field via the OTC Derivatives Clearing System Web Portal (“OTC Web Portal”), either manually or through batch uploads, to facilitate trade reconciliation.

Q14: During holiday testing, is it necessary to install a new testing environment for TPEX TR system and MarkitWire system?

A: Testing for TPEX TR system can be conducted through the existing production environment (please refer to TPEX TR website at <https://tr.tpex.org.tw/Login.aspx>). For any issues, please contact TPEX support team. Testing for MarkitWire system can be conducted through the existing test environment (please refer to MarkitWire website at <https://mw.uat.markit.com>). For any issues, please contact MarkitWire support team.

Q15: What are the trade submission hours for the testing environment?

A:

1. **Weekday Testing Environment:** TAIFEX accepts trade submissions in the testing environment daily from 9:00 AM to 4:00 PM.
2. **Holiday Testing Environment:** The trade submission hours are determined based on the test scenario announced by TAIFEX for that specific session.

Chapter 3 Trade Reporting

Section 1 Taipei Exchange (“TPEX”)

Q16: What items need to be reported to TPEX TR system after a new trade is submitted to TAIFEX?

A: Financial institutions’ reporting requirements to TPEX TR system vary depending on the Approved Trade Affirmation Platform used:

1. **Submitted via TPEX TR System:** According to TPEX regulations, financial institutions submitting trades with IRS or FXD templates through TPEX TR system, which are cleared by TAIFEX, are exempt from reporting an EVENT to update the counterparty to the CCP.
2. **Submitted via MarkitWire or TradeServ Systems:** Financial institutions must first report the bilateral IRS or FXD contract to TPEX TR system. Subsequently, they must report, an EVENT to update the counterparty to the

CCP. If the financial institution has applied for TAIFEX to assist with EVENT reporting, it is still required to report the bilateral IRS or FXD trade.

Q17: What items need to be reported to TPEX TR system after a backloading trade is submitted to TAIFEX?

A: Financial institutions' reporting requirements to TPEX TR system vary depending on the Approved Trade Affirmation Platform used:

1. **Submitted via TPEX TR System:** According to TPEX regulations, financial institutions submitting trades with IRS or FXD templates through TPEX TR system, which are cleared by TAIFEX, are exempt from reporting an EVENT to update the counterparty to the CCP.
2. **Submitted via MarkitWire or TradeServ Systems:** An EVENT must be reported in TPEX TR system to update the counterparty to the CCP. If the financial institution has applied for TAIFEX's assistance with EVENT reporting, no further reporting is required, as the trade is an existing transaction (the IRS or FXD trade has already been reported beforehand).

Section 2 Swap Data Repository ("SDR")

Q18: What types of data are reported to SDR from TAIFEX?

A:

1. Pursuant to 17 C.F.R. (CFTC regulation) § 39.6 (d), if TAIFEX accepts for clearing a swap that has been reported to a swap data repository, TAIFEX shall report to a swap data repository data regarding the 2 swaps resulting from the novation of the original swap, and TAIFEX shall also report the termination of the original swap to the swap data repository to which the original swap was reported.
2. Life-cycle-event data reporting.
3. Daily valuation data reporting.

Q19: Who is obligated to report to SDR?

A: Entities obligated to report under 17 C.F.R. (CFTC regulation) § 45, such as registered Swap Dealers and registered Major Swap Participants, etc.

Q20: If a participant needs to report a trade to a foreign SDR, what is the UTI generated by TAIFEX?

A: To simplify the display of fields in reports and the OTC Web Portal, only CCP trade ID is retained in the OTC Clearing System. If reporting to a foreign SDR is required, the UTI field can be constructed as follows: TAIFEX's LEI (20 characters) + 0000000 + CCP trade ID (e.g., 549300J778QS7XTS74400000000 IR2023061500003).

Q21: To comply with CFTC reporting requirements, which SDR does TAIFEX report to?

A: Depository Trust and Clearing Corporation (“DTCC”).

Chapter 4 Margin

Q22: What are the settlement banks for OTC Derivatives Clearing Margin Accounts, and what is the maximum number of accounts allowed?

A: Clearing members shall open separate “OTC Derivatives Proprietary Clearing Margin Accounts” and “OTC Derivatives Client Clearing Margin Accounts” for NTD, multiple currency, and securities deposits, based on the settlement currency of the cleared trades and the need for securities collateral, at the settlement banks designated by TAIFEX (First Commercial Bank, Hua Nan Commercial Bank, Chang Hwa Commercial Bank, Mega International Commercial Bank and Cathay United Bank). The number of such institutions to be named by each clearing member with TAIFEX shall not exceed 2.

Q23: What are the requirements of the financial institution for opening an “OTC Derivatives Client Margin Account” for General Clearing Members?

A: General Clearing Members shall open an “OTC Derivatives Client Margin Account” at a designated financial institution to deposit client margin. The financial institutions must be a bank approved by the Financial Supervisory Commission (“FSC”) to engage in foreign exchange or deposit business, or a settlement bank entrusted by the Central Bank to handle the registration of book-entry central government bonds, and shall meet the following conditions:

1. For domestic banks (including the subsidiaries of foreign banks registered under the Banking Act of R.O.C.), the common equity Tier 1 ratio, Tier 1 capital ratio, and capital adequacy ratio must not be lower than the standards specified in Article 5 of the Regulations Governing the Capital Adequacy and Capital Category of Banks. If the bank’s capital adequacy ratio is increased in accordance with Article 6 of the same regulations, it shall be governed by those provisions.
2. For branches of foreign banks in R.O.C., the credit rating of their parent company shall meet one of the following standards:
 - (1) Rated by Standard & Poor’s Ratings Services, the long-term debt rating must be BBB– or above, and the short-term debt rating must be A–3 or above.
 - (2) Rated by Moody’s Investors Service, Inc., the long-term debt rating must be Baa3 or above, and the short-term debt rating must be P–3 or above.
 - (3) Rated by Fitch Ratings Ltd., the long-term debt rating must be BBB– or above, and the short-term debt rating must be F3 or above.
 - (4) Rated by Taiwan Ratings Corporation, the long-term debt rating must be twBBB– or above, and the short-term debt rating must be twA–3 or above.
 - (5) Rated by Taiwan Branch of Fitch Ratings Ltd., the long-term debt rating must be BBB– (twn) or above, and the short-term debt rating must be F3 (twn) or above.

Q24: What types of collateral are eligible for the required clearing margin?

A:

1. Domestic financial institutions, domestic juridical persons and onshore foreign institutions (including the branches established within the territory of the R.O.C. by the foreign financial institutions), may deposit the required clearing margin in NTD, USD and book-entry central government bonds.
2. Foreign institutional investors and offshore head offices/branches of foreign institutions shall deposit the required clearing margin in USD.

Q25: What is the difference between “Physical Account No.” and “Virtual Account No.”?

A: Clearing margin shall be deposited into the margin accounts opened by TAIFEX at the settlement banks (First Commercial Bank, Hua Nan Commercial Bank, Chang Hwa Commercial Bank, Mega International Commercial Bank and Cathay United Bank). The account numbers are divided into “Physical Account No.” and “Virtual Account No.”. Cash can be deposited into either a physical or virtual account number, while securities can only be deposited into a physical account number.

1. **Physical Account No.:** These are cash and securities margin accounts opened by TAIFEX at the settlement banks. However, TAIFEX cannot directly identify the depositor based on the account number. After transferring cash or securities, clearing members shall also submit a “Cash Deposit Application” or “Security Deposit Application” through the OTC Web Portal.
2. **Virtual Account No.:** TAIFEX creates unique account numbers for each clearing member to help identify the depositor based on the account number.
 - (1) **By Clearing Account Type:** Each clearing member has a unique account number for each clearing account type (House/Client). After transferring cash, clearing members shall submit a “Cash Deposit Application” through the OTC Web Portal.
 - (2) **By Clearing Account:** Each clearing account has a unique account number. Therefore, after transferring cash, clearing members do not need to submit a “Cash Deposit Application” through the OTC Web Portal.

3. Clearing members can query the above account numbers through the “Margin Deposit and Withdrawal” in the OTC Web Portal.

Q26: How to deposit and withdraw the clearing margin for clearing members and clients?

A:

1. Clearing Members

- (1) Deposit

- (a) Cash

- **Physical Account No.:** After transferring cash, clearing members shall submit a “Cash Deposit Application” through the OTC Web Portal to designate the clearing account for the deposit.
- **Virtual Account No. by Clearing Account Type:** After transferring cash, clearing members shall submit a “Cash Deposit Application” through the OTC Web Portal to designate the clearing account for the deposit.
- **Virtual Account No. by Clearing Account:** After transferring cash, clearing members do not need to submit a “Cash Deposit Application” through the OTC Web Portal to designate the clearing account for the deposit, because TAIFEX can directly identify it based on the account number.

- (b) Security

- **Physical Account No.:** After transferring securities, clearing members shall submit a “Security Deposit Application” through the OTC Web Portal to designate the clearing account for the deposit.

- (2) Withdrawal

Clearing members shall submit a “Cash and Security Withdrawal Application” through the OTC Web Portal. Upon approval, TAIFEX will transfer the cash or securities to the clearing member’s designated account.

2. Clients

(1) Deposit

- (a) **Cash:** Clients may transfer cash to the General Clearing Member’s designated “OTC Derivatives Client Margin Accounts”, after which the General Clearing Members will transfer cash to TAIFEX. Alternatively, clients may directly transfer cash to TAIFEX via virtual account number by clearing account, without requiring the General Clearing Member to submit a “Cash Deposit Application” through the OTC Web Portal.
- (b) **Security:** Based on the agreement between the General Clearing Member and the client, clients may transfer securities to the General Clearing Member’s “OTC Derivatives Client Margin Accounts”, after which the General Clearing Members will transfer securities to TAIFEX. Alternatively, clients may directly transfer securities to TAIFEX, and requiring the General Clearing Member to submit a “Security Deposit Application” in the OTC Web Portal.

(2) Withdrawal

- (a) **Cash:** Clients shall request withdrawals through their General Clearing Members, who will apply to TAIFEX. TAIFEX will then transfer the cash to the General Clearing Member’s designated margin account, after which the General Clearing Member will transfer the cash to the client’s account.
- (b) **Security:** Based on the agreement between the General Clearing Member and the client, TAIFEX may transfer the securities to the General Clearing Member’s designated margin account. Alternatively, TAIFEX may directly transfer the securities to the client’s account designated by the General Clearing Member.

	Deposit	Withdrawal
Situation	1. Before submission for clearing 2. Margin is recalculated daily based on position risk. Clearing members will be notified to make additional deposit if there is a shortfall.	If there is an excess clearing margin, clearing members may apply to withdraw it.

<p>Method</p>	<p>Clearing members/Clients transfer cash or securities to TAIFEX's margin accounts.</p>	<p>Clearing members apply to withdraw the excess clearing margin through the OTC Web Portal. TAIFEX will transfer cash or securities to the clearing member's designated account (limited to the 5 settlement banks).</p> <p>For client's securities, based on the agreement between the General Clearing Member and the client, TAIFEX may directly transfer the securities to the client's account designated by the General Clearing Member.</p>
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Q27: What is the collateral ratio and haircut rate for eligible security collateral?

A: Currently the eligible security collateral is only book-entry central government bonds. The collateral ratio is 100%, unless otherwise stated by the FSC or TAIFEX. TAIFEX reviews haircut rates on a quarterly basis and announces in TAIFEX website at <https://www.taifex.com.tw/enl/eng5/ccpCollateralStand>. TAIFEX plans to add additional types of securities as collateral in the future.

Q28: Which report provides information on the daily cash deposit and cash withdrawal results, as well as the cash balance in TAIFEX?

A: After deposit and withdrawal applications are reviewed and approved by TAIFEX, with the status updated to "Application Passed," the details can be found in the M8-2 Settlement Report of Single Clearing Account:

1. **Field "Cash Margin Deposit/Transfer In"**: Displays the daily cash deposit amount.
2. **Field "Cash Margin Withdraw/Transfer Out"**: Displays the daily cash withdraw amount.
3. **Field "Today Cash Margin Balance"**: Displays the clearing member's cash

balance in the clearing account as of the end of the day.

Q29: How is Used Non-Cash Collateral Value calculated?

A: Used Non-Cash Collateral Value = Min (Required Clearing Margin, Non-Cash Collateral Value)

Q30: How is Deposited Margin calculated?

A: Deposited Margin = Today Cash Margin Balance + Used Non-Cash Collateral Value.

Chapter 5 Risk Management

Q31: Can banks benefit from lower capital requirements by participating in central clearing?

A: According to the Basel Committee on Banking Supervision's ("BCBS") guidelines on capital requirements for bank exposures in respect of OTC derivatives, a bank must allocate risk capital for counterparty credit risk. For bilateral transactions, the risk weight ranges from 20% to 150%, depending on the counterparty's credit rating. If a transaction is submitted to TAIFEX for central clearing, and as TAIFEX has been recognized by the FSC as a Qualified Central Counterparty ("QCCP"), a risk weight of 2% could be applied to the bank's trade exposure to TAIFEX. This significantly reduces the capital requirements for banks.

Q32: When is the data on the hypothetical capital requirement for a CCP ("KCCP") published, and how can it be accessed?

A: KCCP data for the end of each quarter will be available for clearing members to access via the OTC Web Portal, approximately on the 5th business day following the end of the quarter.

Q33: What is the method and timing for TAIFEX’s daily valuation of NTD IRS contracts?

A: TAIFEX performs the valuation of NTD IRS contracts in the following sequence:

1. Intraday and End-of-Day Valuation Curves:

In accordance with Article 5.1.2 of the OTC Derivative Clearing Enforcement Rules (“OTC Enforcement Rules”), TAIFEX establishes and publishes intraday and end-of-day valuation curves on every business day starting from 11:00 AM and 4:00 PM, respectively. These curves are determined based on the sampling and methodology specified in Article 5.2.1 of the OTC Enforcement Rules and are available on TAIFEX website (please refer to TAIFEX website at <https://www.taifex.com.tw/enl/eng5/ccpEvalYieldCurve>).

Using the end-of-day valuation curve, TAIFEX calculates the net present value (“NPV”) of cleared contracts. These calculations serve as the basis for determining Variation Margin and Mark-to-Market Differences, facilitating the settlement of these items with clearing members. The valuation curves constructed by TAIFEX are designed for settlement purposes between TAIFEX and its clearing members. Individual market participants may continue using their internal valuation methodologies for bilateral transactions, as required for operational management.

2. Calculation of NPV:

(1) TAIFEX calculates the NPV using the valuation curve to discount the following cash flows to the present value:

(a) **Fixed Leg NPV:** The present value of all cash flows from the next business day to the maturity date, based on the notional principal and fixed interest rate specified in the contract.

(b) **Floating Leg NPV:** The present value of all cash flows from the next business day to the maturity date, based on the notional principal, fixing rate, and forward rates derived from the valuation curve.

(2) The NPV is calculated as follows:

NPV of Floating Rate Payer = Fixed Leg NPV – Floating Leg NPV

NPV of Fixed Rate Payer = Floating Leg NPV – Fixed Leg NPV

3. Calculation of Adjusted End-of-Day NPV (“Adjusted EOD NPV”):

(1) Adjusted EOD NPV (for business day T) is calculated as:

$$\text{Adjusted EOD NPV}_T = \text{EOD NPV}_T - [\text{Coupon Payment on T+1} \\ \times \text{Discount Factor (T, T+1)}]$$

(2) Differences between the Adjusted EOD NPV and EOD NPV only occur when interest payments are due on the next business day; otherwise, the values are identical.

Q34: How is the “Initial Margin” calculated?

A: TAIFEX calculates the Initial Margin both intraday and at the end of each business day. This calculation is based on the historical fluctuations of interest rates and exchange rates over the past 5 years, which are used for the valuation of cleared contracts. For the clearing contracts in clearing members’ house accounts and client accounts, TAIFEX separately estimates the potential loss values that cover a 99.5% confidence interval for NPV fluctuations over a specified period, as well as potential loss values during stress periods selected by TAIFEX, to determine the Initial Margin for each clearing account.

The specified periods mentioned above are 5 business days for clearing members’ house accounts and 7 business days for client accounts.

Q35: What is the “Mark-to-Market Difference”/ “Variation Margin”?

A:

1. Clearing accounts are categorized by daily settlement type into Settled-To-Market (“STM”) and Collateralized-To-Market (“CTM”). The daily NPV changes for STM accounts are referred to as Mark-to-Market Difference, while the daily NPV changes for CTM accounts are referred to as Variation Margin.
2. The calculation method for Mark-to-Market Difference and Variation Margin is the same, as shown in the formulas below:
 - (1) **Intraday:** $\text{NPV}_T - \text{Adjusted EOD NPV}_{T-1}$
 - (2) **End-of-Day:** $\text{Adjusted EOD NPV}_T - \text{Adjusted EOD NPV}_{T-1}$

Q36: How is the “Liquidity risk margin” calculated?

A:

1. TAIFEX may require an additional liquidity risk margin for the cleared transactions in both clearing members’ house accounts and client accounts if the change in NPV, resulting from a basis point change in interest rates or exchange rates, or notional amount, exceeds of the threshold set by TAIFEX for the corresponding maturities.
2. The threshold and the level of liquidity risk margin for the corresponding maturities will be determined by TAIFEX based on bid/ask spreads and relevant information provided by clearing members, as required by TAIFEX.

Q37: What are the position concentration standards and additional margin requirements?

A: In accordance with Letter No. 1110301232 from TAIEFX, dated July 19, 2022, titled “Position Concentration Standards and Additional Margin Requirements for OTC Clearing Members,” the following standards apply:

1. **Warning Standard:** If the position concentration of a clearing member reaches 15%, and the required clearing margin reaches NTD 2 billion, TAIFEX may notify clearing members to monitor their position concentration.
2. **Disposition Standard:** If the position concentration of a clearing member reaches 20%, and the required clearing margin reaches NTD 2 billion, TAIFEX may take further action, including notifying the clearing member to monitor position concentration and imposing additional margin or other necessary measures. The additional margin requirements are as follows:
 - (1) For position concentration from 20% to less than 30%, an additional 5% of the required clearing margin will be applied.
 - (2) For position concentration from 30% to less than 40%, an additional 10% of the required clearing margin will be applied.
 - (3) For position concentration from 40% to less than 50%, an additional 15% of the required clearing margin will be applied.
 - (4) For position concentration from 50% to less than 60%, an additional

20% of the required clearing margin will be applied.

- (5) For position concentration of 60% or more, an additional 25% of the required clearing margin will be applied.

Q38: What is the deadline for fulfilling a margin call?

A:

1. If the clearing margin balance of a clearing member's clearing account is lower than the required clearing margin, TAIFEX will issue a margin call to the clearing member for the shortfall. The calculation and procedures for such margin calls are determined by TAIFEX.

If the client margin balance of a clearing member's client clearing account is lower than the required client margin stipulated in the client clearing and settlement agreement, the clearing member must issue a margin call to the client. The calculation and procedures for such margin calls shall follow the provisions of the client clearing and settlement agreement between the clearing member and the client.

2. Method of Issuing Margin Calls:

Margin calls are issued through the OTC Clearing System and supplemented by telephone notifications to clearing members. Clearing members may also utilize the OTC Web Portal to set up email and SMS notification recipients.

3. Deadlines for Fulfilling Margin Calls:

- (1) **End-of-Day Margin Call:** By 11:00 AM
- (2) **Intraday Margin Call:** By 3:30 PM
- (3) **Ad-hoc Margin Call:** Within 2 hours after the ad-hoc margin call notification is issued.

Chapter 6 Clearing and Settlement

Q39: What is settlement amounts?

A: At closing each business day, TAIFEX calculates settlement amounts for each

clearing account. Clearing members must make payments or receive amounts from TAIFEX in the contract's settlement currency.

1. When the daily settlement type for a clearing account is CTM, the settlement amount includes: Variation Margin, Price Alignment Interest ("PAI"), IRS Coupon Amount, NDF Settlement Amount and Other payable or receivable amounts on a cleared transaction.
2. When the daily settlement type for a clearing account is STM, the settlement amount includes: Mark-to-Market Difference, Price Alignment Amount ("PAA"), IRS Coupon Amount, NDF Settlement Amount and Other payable or receivable amounts on a cleared transaction.

Q40: What is the process of settlement payment? Do clearing members need to transfer cash to TAIFEX daily?

A: TAIFEX calculates the settlement amounts for the following business day during the daily closing process (approximately from 6:00 PM to 7:00 PM). Payments and receipts are completed by 8:30 AM the next business day using the cash margin deposited by clearing members with TAIFEX, that is

1. If the settlement amount is receivable on the settlement day, the cash margin balance increases, and clearing members may apply to withdraw excess margin.
2. If the settlement amount is payable on the settlement day, the cash margin balance decreases. As long as the cash margin balance is sufficient to cover the settlement amount, clearing members do not need to make additional cash transfers to TAIFEX. If the cash balance is insufficient, the clearing member will be notified and must deposit additional cash margin by 11:00 AM.

Q41: Under what circumstances can a "Position Transfer" be applied?

A: Unless otherwise approved by TAIFEX in special circumstances, Position Transfers are limited to transfers between different accounts under the same entity and cannot be transferred to another party. Common scenarios include:

1. The entity participates in central clearing as a client and maintains more than one clearing account, transferring positions between its accounts.

2. The entity initially participates in central clearing as a client and later transitions to clearing member, transferring positions from the original account to the new account.
3. The entity initially participates in central clearing as a clearing member and later transitions to client status, transferring positions from the original account to the new account.

Q42: What is the difference between “Position Netting” and “Compression”?

A:

1. **Position Netting:** If the positions in a single clearing account meet the application conditions for Position Netting (please refer to TAIFEX website at <https://www.taifex.com.tw/enl/eng5/ccpPositionNetting>), the clearing member can apply for Position Netting on the OTC Web Portal. The application of Position Netting will take effect at the end of day on the day of application. In addition, the cash flow will not change after the application of Position Netting takes effect.
2. **Compression:** Compression is an operation involving multiple clearing members and clearing accounts. It allows for the simultaneous termination of multiple cleared trades to reduce both the notional amounts and the number of trades. The success of compression depends on the selection of positions involved and the risk tolerance of participants.

Chapter 7 OTC Derivatives Default Fund (“OTC Default Fund”)

Q43: How is the OTC Default Fund contribution calculated, and how often is it determined?

A:

1. Base OTC Default Fund:

Prior to engaging in clearing and settlement operations, each clearing member is required to make a fixed contribution to the OTC Default Fund. Individual Clearing Members are required to contribute NTD 20 million, while General Clearing Members are required to contribute NTD 30 million.

2. Additional OTC Default Fund:

Additional contributions to the OTC Default Fund are determined as follows:

(1) Estimation of total OTC Default Fund:

TAIFEX estimates the total amount of the OTC Default Fund by calculating the sum of the 2 largest potential default losses for clearing members (Cover 2) through stress testing. If the total amount of the OTC Default Fund exceeds the base amount, all clearing members must contribute additional funds.

(2) Calculation Frequency:

At the beginning of January, April, July, and October, TAIFEX calculates the additional OTC Default Fund contributions for each clearing member based on the ratio of their average daily required clearing margin over the past 3 months relative to the average daily required clearing margin of all the clearing members.

(3) Deposit Adjustments:

If a clearing member's required contribution exceeds the amount already deposited, the clearing member shall deposit the difference. Conversely, if the required contribution is lower than the amount already deposited, the clearing member may withdraw the difference upon notification by TAIFEX.

(4) Deposit or Withdraw Deadline:

Each clearing member shall deposit or withdraw the amount as specified in the preceding paragraph within 3 business days, counting inclusively from the date of TAIFEX's notification.

Q44: How to deposit and withdraw the OTC Default Fund?

A:

1. **Deposit:** Clearing members shall deposit a fixed amount before the start of operations (General Clearing Member: NTD 30 million; Individual Clearing Member: NTD 20 million). TAIFEX calculates the amount of contribution to and withdrawal from the OTC Default Fund on a quarterly basis. If the contribution is required, clearing members shall transfer the specified amount

to TAIFEX's OTC Default Fund account upon notification.

2. **Withdrawal:** Clearing members shall submit a withdrawal application through the OTC Web Portal if it is able to withdraw the OTC Default Fund based on the quarterly calculation. TAIFEX will then transfer the specified amount to the clearing member's designated account.

Q45: What are the investment targets of the OTC Default Fund?

A: TAIFEX shall open a dedicated account for the OTC Default Fund. Investments for the OTC Default Fund will be limited to the following:

1. Bank deposits
2. Treasury bills and government bonds
3. Other uses approved by the FSC

The portion of the OTC Default Fund held in instruments described in subparagraph 2 of the previous paragraph is subject to a maximum of 50% of the OTC Default Fund's balance.

Chapter 8 Interest and Fees

Q46: What is the process for the payment of interest on securities?

A: On the day TAIFEX receives the interest, TAIFEX will transfer the interest to the clearing member's designated margin account. For client's securities, based on the agreement between the General Clearing Member and the client, TAIFEX may transfer the interest to the General Clearing Member's designated margin account, after which the General Clearing Member will transfer the interest to the client's account. Alternatively, TAIFEX may directly transfer the interest to the client's account designated by the General Clearing Member.

Q47: How are the interest for the clearing margin and the OTC Default Fund calculated?

A:

1. **Clearing Margin Interest:** TAIFEX calculates clearing margin interest on a daily basis. After deducting necessary expenses and taxes, the interest is disbursed to clearing members. The standard for interest calculation is determined by TAIFEX and communicated to clearing members.
2. **OTC Default Fund Interest:** The interest generated from the OTC Default Fund is calculated by TAIFEX. After deducting necessary taxes and expenses, the interest is disbursed to clearing members.

Q48: How often is the clearing margin interest disbursed, and to which account of the clearing member is it paid?

A: The clearing margin interest is disbursed semiannually (in January and July each year). The client and house accounts are calculated separately based on their respective currencies. Prior to disbursement, TAIFEX will notify clearing members of the payment date, and on the payment date, the interest will be disbursed to the designated bank accounts for client and house accounts as reported by the clearing member at the time of registration.

Q49: How often is the OTC Default Fund interest disbursed, and to which account of the clearing member is it paid?

A: The OTC Default Fund interest payment is disbursed semiannually (in January and July each year). Before disbursement, TAIFEX will notify clearing members of the payment date. On the payment date, the interest will be disbursed to the designated accounts for the OTC Default Fund as reported by the clearing member at the time of registration.

Q50: What are the frequency and methods of payment for the registration fee, clearing service fees and connection fees?

A:

1. **Registration Fee:** TAIFEX will notify clearing members of the payment

account and account name prior to the commencement of their operations.

2. **Clearing Service Fees:** TAIFEX calculates the clearing service fees payable for the clearing member's house and client accounts on a monthly basis. At the beginning of the following month, TAIFEX will notify clearing members to deposit the fees by the 15th of that month. Clearing members can also download electronic invoices through the OTC Web Portal.
3. **Connection Fees:** At the end of each month, TAIFEX sends an invoice to clearing members regarding the connection fees for the next month. Clearing members are required to deposit the fees by the 10th of the next month. Clearing members can also download electronic invoices through the OTC Web Portal.

Q51: How does PAI and PAA apply to the provisions of Articles 88 and 89 of the Income Tax Act?

A:

1. According to Letter No. 1132007334 from National Taxation Bureau of Taipei, Ministry of Finance dated August 29, 2024:
 - (1) TAIFEX's payment of PAI to clearing members is interest income specified in Category 4, Paragraph 1 of Article 14 of the Income Tax Act.
 - (2) TAIFEX's payment of PAA to clearing members is the other income stipulated in Category 10, Paragraph 1 of Article 14 of the Income Tax Act.
 - (3) Under the Income Tax Act, a taxpayer having payment of interest income shall withhold a tax payable at the time of payment of income according to the prescribed withholding rates. The total amount paid during the year in accordance with the prescribed form to the competent tax authority by the end of January of each year.
2. This Letter also applies to the payment of PAI and PAA between clearing members to the TAIFEX and the payments between clearing members and clients.

Chapter 9 Others

Q52: What is the maximum number of administrative accounts (with Admin privileges) that a clearing member can have for the OTC Web Portal?

A: Members may determine the number of administrative accounts for the OTC Web Portal based on their needs. In principle, TAIFEX does not place any restrictions.

Q53: What is the maximum number of house accounts a clearing member is permitted to open?

A: Members may determine the number of house accounts to establish based on their needs. In principle, TAIFEX does not place any restrictions.

Q54: What should be noted on a make-up working Saturday?

A: A make-up working Saturday is considered a regular business day. However, in accordance with Article 4.2.1 of the OTC Enforcement Rules, TAIFEX does not accept trade submissions for clearing on these days. Regarding trade submission, if there is a 2-business-day gap between the trade date and the effective date, Saturday will also be regarded as a business day. For example, February 17, 2024 (Saturday) is a make-up working day. For a trade with a trade date of February 16, 2024 (Friday), the effective date will be February 19, 2024 (Monday).

Q55: What are the principles for adjusting fixing dates and settlement dates of cleared trades in the event of a typhoon or other unscheduled holidays?

A: In accordance with Letter No.1130302184 from TAIFEX dated November 22, 2024, titled “Response Measures for TAIFEX OTC Derivatives Clearing Operations in the Event of Natural Disasters” (please refer to TAIFEX website at <https://www.taifex.com.tw/file/taifex/eng/eng8/ccpNoticeEn/台期結字第1130302184號函.pdf>):

1. Principles for Adjusting Fixing and Settlement of NTD IRS:
 - (1) Fixing Date Adjustment:

In principle, the fixing date is 2 business days prior to the start of each interest calculation period, but it shall not be earlier than the trade date. Examples are provided in the table below:

(a) The fixing date falls on the unscheduled holiday.

	2024/10/30	2024/10/31	2024/11/1	2024/11/4
Before	Business Day	Business Day	Business Day	Business Day
		Fixing Date		Accrual Start Date
After	Business Day	<i>Unscheduled Holiday</i>	Business Day	Business Day
	<i>Fixing Date</i>			Accrual Start Date

(b) The first fixing date does not align with the trade date but falls on the business day immediately preceding the unscheduled holiday.

	2024/10/29	2024/10/30	2024/10/31	2024/11/1
Before	Business Day	Business Day	Business Day	Business Day
		Fixing Date		Accrual Start Date
After	Business Day	Business Day	<i>Unscheduled Holiday</i>	Business Day
	<i>Fixing Date</i>			Accrual Start Date

(c) The first fixing date aligns with the trade date and falls on the business day immediately preceding the unscheduled holiday.

	2024/10/29	2024/10/30	2024/10/31	2024/11/1
Before	Business Day	Business Day	Business Day	Business Day
		Trade Date & Fixing Date		Accrual Start Date
After	Business Day	Business Day	<i>Unscheduled Holiday</i>	Business Day
		<i>Trade Date & Fixing Date</i>		Accrual Start Date

(2) Settlement Date Adjustment:

- (a) **“Following” Business Day Convention:** The settlement date falls on the unscheduled holiday (10/31).

	Fixing Date	Accrual Start Date	Accrual End Date	Settlement Date
Before	2024/7/29	2024/7/31	2024/10/31	2024/10/31
	2024/10/29	2024/10/31	2025/1/24	2025/1/24
After	2024/7/29	2024/7/31	2024/11/1	2024/11/1
	2024/10/29	2024/11/1	2025/1/24	2025/1/24

- (b) **“Modified Following” and “Following” Business Day Convention:** The settlement date falls on the unscheduled holiday but not at the end of the month (10/2 and 10/3).

	Fixing Date	Accrual Start Date	Accrual End Date	Settlement Date
Before	2024/7/1	2024/7/3	2024/10/3	2024/10/3
	2024/10/1	2024/10/3	2025/1/3	2025/1/3
After	2024/7/1	2024/7/3	2024/10/4	2024/10/4
	2024/9/30	2024/10/4	2025/1/3	2025/1/3

- (c) **“Modified Following” and “Preceding” Business Day Convention:** The settlement date falls on the unscheduled holiday at the end of the month (10/31).

	Fixing Date	Accrual Start Date	Accrual End Date	Settlement Date
Before	2024/7/29	2024/7/31	2024/10/31	2024/10/31
	2024/10/29	2024/10/31	2025/1/24	2025/1/24
After	2024/7/29	2024/7/31	2024/10/30	2024/10/30
	2024/10/28	2024/10/30	2025/1/24	2025/1/24

- (3) Calculation for Deferred Interest:

Deferred Interest = [Coupon Amount × Interbank Overnight Call-loan Rate (announced by the Central Bank of R.O.C.) on the Preceding Business Day × Deferred Days (the number of days between the actual settlement date and the adjusted settlement date based on the business day convention)] / 365.

The Deferred Interest will be recorded in the field “Other Settlement Amount” in the settlement reports.

*In scenario (2)(c), the settlement date was initially scheduled for 10/30 but was deferred to 11/1 after adjustment. The Deferred Interest will be calculated based on the Interbank Overnight Call-loan Rate on 10/30, covering the period from 10/30 to 11/1.

2. Principles for Adjusting Valuation and Settlement of NTD NDF:

- (1) **Valuation Date Adjustment:** If the valuation date falls on the Taipei (“TP”) unscheduled holiday, it will be deferred to the following Taipei business day. If the adjusted valuation date aligns with the settlement date, the settlement date will be deferred to the following Taipei and New York (“NY”) business day.

	2023/6/29 TP+NY	2023/6/30 TP	2023/7/3 TP+NY	2023/7/4 TP	2023/7/5 TP+NY
Before	Valuation Date		Settlement Date		
After	<i>Unscheduled Holiday (TP)</i>	<i>Adjusted Valuation Date</i>	Settlement Date		

	2023/6/29 TP+NY	2023/6/30 TP	2023/7/3 TP+NY	2023/7/4 TP	2023/7/5 TP+NY
Before	Valuation Date		Settlement Date		
After	<i>Unscheduled Holiday (TP)</i>	<i>Unscheduled Holiday (TP)</i>	<i>Adjusted Valuation Date</i>		<i>Adjusted Settlement Date</i>

- (2) **Settlement Date Adjustment:** If the settlement date falls on the Taipei unscheduled holiday, it will be deferred to the following Taipei and New York business day.

	2023/6/29 TP+NY	2023/6/30 TP	2023/7/3 TP+NY	2023/7/4 TP	2023/7/5 TP+NY
Before	Valuation Date		Settlement Date		
After	Valuation Date		<i>Unscheduled Holiday (TP)</i>		<i>Adjusted Settlement Date</i>

3. Clearing Operation on the Unscheduled Holiday:

TAIFEX will regenerate the end-of-day settlement reports for the preceding business day, recalculate the settlement amounts for the following business day, and complete the settlement process by 8:30 AM on the following business day.