

TAIFEX Mini-TAIEX Flexible Futures

Taiwan Futures Exchange
January 2023

Outline



- ⑦ Introduction to Flexible Products
- ⑦ Application Procedures and Participants Eligibility Requirements
- ⑦ Contract Specs
- ⑦ Trading Scheme
- ⑦ Clearing Mechanism

Introduction to Flexible Products



Advantages of Exchange-traded Flexible Products



Flexible Contract Specs

- ▶ Contract specs such as expiration date and strike price can be tailor-made to enable more precise execution of trading strategies.



Transparent Information

- ▶ Providing real-time quotes and transaction information, making trading convenient and information transparent.



Reduced Counter-party Risk

- ▶ As trades cleared by TAIFEX, counter-party risk can be significantly reduced.



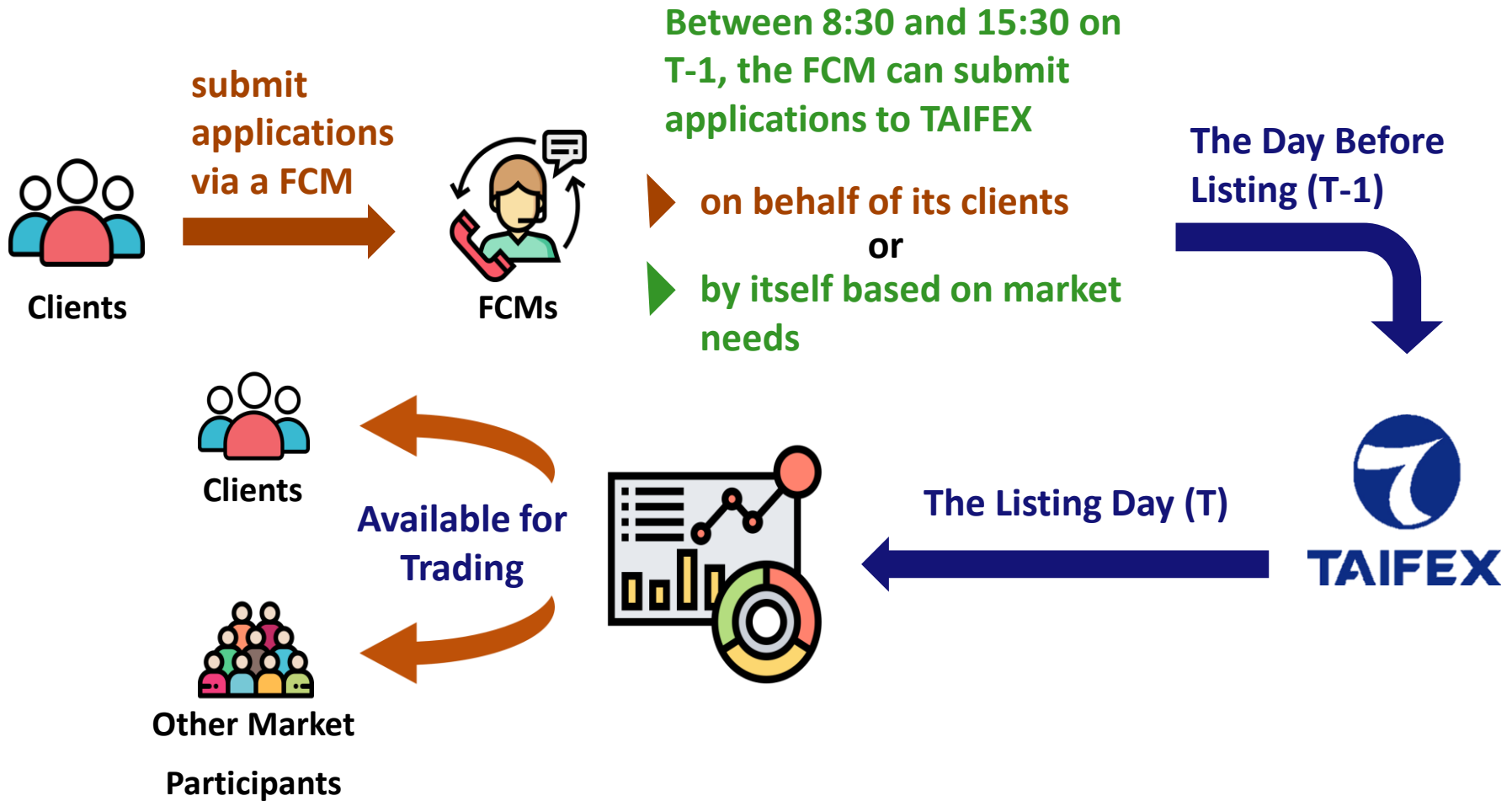
Capital Efficiency

- ▶ Availability of SPAN allows margin offsetting for greater capital efficiency.

Application Procedures and Participants Eligibility Requirements



The Application Procedures for Listing Flexible Products on TAIFEX



Participants Eligibility Requirements

Considering the features of flexible products, participants shall equip a certain level of trading experience and risk tolerance. Participants are required to meet following conditions for the FIRST TIME to apply for listing or to trade TAIFEX Flexible Products :

1 Complete a checklist of TAIFEX flexible products (Read and Sign)

2 Qualified for the trading experience and financial assessment

- Eligible to the provision of Article 4, proviso, of the Financial Consumer Protection Act, which is
 - ① Qualified institutional investors ; or
 - ② Natural person or juristic persons with a prescribed level of financial capacity or professional expertise
- Or meeting the following 2 conditions
 - ① Having executed a total of at least 10 trades of futures or options contracts within the most recent year
 - ② Being granted trading credits exceeding NTD 500,000

Contract Specs



Contract Specifications



Item	Mini-TAIFEX Flexible Futures
Underlying	Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX)
Ticker Symbol	MXFFX
Multiplier	NTD 50 (per index point)
Expiration Contracts	Any specified trading day within 1 year beginning on the listing day for trading. (The Contract shall not expire on the same day as any Mini-TAIFEX Futures.)
Final Settlement Price	Calculation method is same as MTX
Settlement	Cash settlement
Trading Hours	8:45 – 13:45 (8:45 – 13:30 on Last Trading Day), No After-Hours Trading Session

Position Limit



- The total open positions that a trader holds at any time on either the long or short side of the Mini-TAIFEX Flexible Futures contract shall not exceed the following limits :

1. **The position limit of the Mini-TAIFEX Flexible Futures contract :**

Units : contracts	Individuals	Institutional Investors	Proprietary Traders
MXFFX	500	3,000	9,000

2. **The combined position limit of TX, MTX and MXFFX :
(quarterly review)**

Units : contracts	Individuals	Institutional Investors	Proprietary Traders
TX + MTX + MXFFX	9,000	18,000	54,000

The total open positions of TX, MTX and MXFFX = (MXFFX+MTX)*1/4 + TX

Trading Scheme





Applying for Listing of Flexible Contracts

Applying for Listing of Flexible Contracts(1)

Who to Apply:

- ① general application (Initiated by end users : Traders via their FCMs, or proprietary traders to initiate application)
- ② FCM Self-Application (applications by futures proprietary traders and FCMs)

When to Apply: 8:30 AM-3:30 PM

What to Apply: Those contracts that are listed on the next trading day of the application.

How to Apply:

- ① Submit the application to the TAIFEX trading system through a host connection
- ② Submit the application via the TAIFEX website (icon.taifex.com.tw)

Submission Details :

Must transmit the FCM Code + Trading Account Number + Contract Details + Application Reference Number* + Identity Type

Applying for Flexible Contracts(2)

7 Submission Details:

Must transmit the FCM Code + Trading Account Number + Contract Details + Application Number* + Identity Type

7 Contract Details include:

- Contract Code and Expiration Date
- Example : MXFFX with expiry on December 18, 2024. FCMs should submit contact details including contract code—MXFFX and expiration date—241218 (yymmdd)

7 Application initiated by end users or self-initiated by the FCMs should be properly documented and preserved.

***The application number is a unique serial number assigned by the FCM for verification during the application process. The format can be referred to in the TAIFEX's TCPIP_TM message document, specifically in the RX19 message's flexible contract application identification field.**

Applying for Flexible Contracts(3)

7 Submission Details:

Must transmit the FCM Code + Trading Account Number + Contract Details + Application Reference Number (AR Number) + Identity Type

7 Identity Type 1, 2, and 3 to classify applications that:

"1" represents a general application, "2" represents a futures proprietary trader application, and "3" represents a FCM application for itself

- Example 1-A: Initiated by end users (Traders via their futures brokers)

To submit F021000+5810167 +Contract Details + AR Number+ 1

- Example 1-B: Initiated by end users (Proprietary traders)

To submit F021999+0000000 +Contract Details + AR Number+ 1

- Example 2: Self-initiated by **authorized** proprietary traders

To submit F020999+0000000 +Contract Details + AR Number+ 2

- Example 3: Self-initiated by **authorized** FCMs

To submit F021000+0000000 +Contract Details + AR Number+ 3

Applying for Flexible Contracts(4)

⑦ System Application Quantity Limit

- To prevent malicious and excessive applications, the TAIFEX has a daily limit on the number of applications (50 contracts).
- if an FCM applies for more than 50 contracts on a given day, the application will be rejected.
- If there is a genuine trading demand from clients and an increase in quota is needed, the FCM can contact the TAIFEX to apply for temporary quota increase during trading hours.
- However, the decision to increase the quota will be made based on the situation by the TAIFEX.



Delisting of Flexible Contracts

Delisting of Flexible Contracts (1)

⑦ Delisting Review for Flexible Contracts

- Flexible contracts with any outstanding open interest (OI) for a specific period of time: Listed until expiration date.
- ⑦ To prevent the situation of listing too many flexible contracts with no trading, which may have negative impacts on the flexible market, TAIFEX will review and delist flexible contracts based on the conditions.

Delisting of Flexible Contracts (2)

7 Delisting Conditions of Flexible Contracts

- Flexible contracts with a duration of fewer than 10 trading days (including 10 trading days): The contract will remain listed until its expiration date (no need for delisting).
- Flexible contracts with a duration of more than 10 trading days: TAIFEX will examine the OI for the preceding 10 trading days. If the OI for ALL of the preceding 10 trading days is zero, the contract will be delisted.
- If there is any outstanding OI for the preceding 10 trading days, the contracts will not be delisted.



Trading of Flexible Contracts

Trading of Flexible Contracts



■ Continuous Matching (non-Block Trade)

Item	Flexible Contracts	Remarks
Order Types	Limit orders only	No market orders and MWP orders
Call-action matching	Not applicable	No prior order entry before market opening
Calendar Spread Orders/ Combination Orders	Not applicable	-
Order Qualifiers	ROD / FOK / IOC	Same as MTX
Price Stabilization Measures	Applicable	
Liquidity Providers	Applicable	

■ Negotiated Block Trade

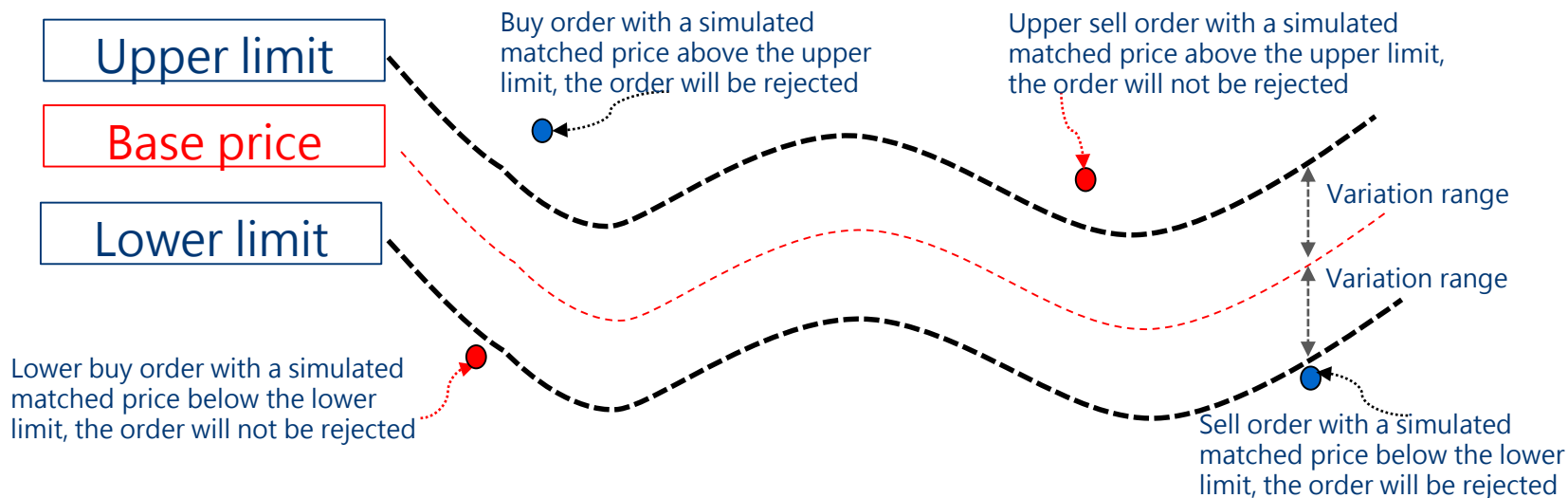
Item	Flexible Contracts	Remarks
Trading Mechanism	Negotiated block trade only	No continuous matching
Minimum Thresholds	50 lots	Mini-TAIFEX Futures 100 lots
Combination Orders	Applicable	-



Dynamic Price Banding Mechanism

How Dynamic Price Banding Works(1)

- ⑦ The same as the standard contracts, TAIFEX checks each new order and simulates matched prices based on the order book at the time.
 - Buy Orders: simulated matched price $>$ the upper limit of dynamic price band \rightarrow reject order
 - Sell Orders: simulated matched price $<$ the lower limit of dynamic price band \rightarrow reject order
 - Only new orders that may cause abnormal price movements will be rejected; other transactions remain unaffected.



How Dynamic Price Banding Works(2)

- ⑦ The dynamic price banding for MXFFX contracts works the same way as standard contracts, except that the variation range for flexible contracts is set at the most recent closing price of the underlying index \times rejection threshold (2%).

Disclosure of Dynamic Price Banding

- 🔗 <https://mis.taifex.com.tw/futures/>
- 🏠 Home → Regular Trading Session → Dynamic Price Banding Mechanism

Home / Regular Trading Session / Dynamic Price Banding Mechanism / Flexible Futures

Symbol: MXFFX | Request FCMs: All | Expiration of a Period: All

Contract	Status	Upper/Lower Limit	Variation Range	Relaxation of Variation Range	Multiplier of Relaxation	Suspend the Dynamic Price Banding Mechanism due to Qualitative Indicators	Time Point	Suspend the Dynamic Price Banding Mechanism due to System Failure	Time Point	Suspend the Dynamic Price Banding Mechanism due to individual applicable contract base price program failure	Time Point
MXFFX240115	AP	Upper	350.70980		1.0						
MXFFX240115	AP	Lower	350.70980		1.0						
MXFFX240116	AP	Upper	350.70980		1.0						
MXFFX240116	AP	Lower	350.70980		1.0						



Special Quote Request Mechanism for Flexible Contracts

Special Quote Request Mechanism for Flexible Contracts

- ⑦ TAIFEX introduce an “**Special Quote Request**” mechanism specified for the FCMs to conduct offsetting on behalf operations for flexible contracts.
- ⑦ **Special Quote Request:**
 - When an FCM conducts offsetting on behalf operations for flexible contracts with an offsetting mark on their order, if the order is not fully executed after placement, the TAIFEX’s trading system will automatically send out a special quote request message to the market..
- ⑦ If TAIFEX sends the quote request messages to the market, the website will display “QR” in the Status column. (<https://mis.taifex.com.tw/>)

Market Data Display on TAIFEX MIS Website

- Trading Information (continuous trading and negotiated block trade) of Flexible Contracts will be displayed on a MIS dedicated webpage.

Home / Regular Trading Session / Flexible Trading / Continuous Matching and Block Trade Negotiation Information

Symbol: MXFFX | Request FCMs: All | Export to excel

Expiration of a Period: All

TAIEX: 17,465.63 (-69.86) | High: 17,499.43 | Low: 17,459.40 | Total Vol: 483,387

Contract	Status	Bid	Bid_V	Ask	Ask_V	Price	Change	Recent Volume	Continuous Matching Volume	Ref.	Time	Block Trade Negotiation Volume
MXFFX240115		17,470	1	17,521	6	17,465	-190	5	820	17,655	13:38:53	--
MXFFX240116	QR	16,000	510	--	--	16,840	-792	2	61	17,632	14:00:29	--
MXFFX240118		15,824	4	17,850	1	17,000	-582	1	53	17,582	13:45:02	--
MXFFX240119		15,797	5	17,000	500	16,847	-705	15	65	17,552	13:45:03	--
MXFFX240122	QR	16,200	1	--	--	16,860	-682	2	54	17,542	12:39:25	--

Clearing Mechanism



Margining Requirements and Adjustment

- Margin Requirements
 - MXFFX is the same as MTX
 - ◆ As the underlying index of MXFFX is the same as MXF, so is the multiplier
- TAIFEX may adjust the margin level of MXFFX at the same time as the adjustment of MTX. The adjustment shall be implemented after the close of trading of the next regular trading session following the announcement date.
- TAIFEX calculates and collects required margin from clearing members based on the Standard Portfolio Analysis of Risk (SPAN) method.
 - TX,MTX, MXFFX and TXO are set as the same combined commodity(TX).
- Futures commission merchants shall stipulate traders to deposit the margin based on the standards prescribed by TAIFEX or on the SPAN margining system(limited to the professional institutional investor).

Margining Requirements for flexible contracts

- Margining requirements to individual investors and non-professional juristic investors

Futures Combination		Margin requirements
Single future position(buy or sell)		Collect margin for one MXFFX contract
Futures contract portfolios	Same contracts	Collect margin for one MXFFX contract
	Different contracts	Not Applicable(Collect margin for each position) (E.g. Long one MXFFX and short one MXF require collecting margin for 1 MXFFX and 1 MXF)
Day trade		Not Applicable



Margin Add-On to Clients

■ Liquidity Risk Margin Add-On

- Traders should be aware of liquidity risk. Liquidity risk margin applies to individual investors and non-professional juristic investors.

Domestic Stock Index Contracts Futures	Futures Liquidity Add-On	Flexible Futures MXFFX Liquidity Add
Spot month, the next two calendar months	NA	Add on 25% of the margin
Contracts "beyond" the three nearest months	Add on 20% of the margin	

■ Position Limit Margin Add-On

- Exceeding the 5% position limit of MXFFX will result in the imposition of additional margin requirements. Position Limit Margin Add-On applies to individual investors and non-professional juristic investors.

Risk Management to Clearing Members

- **Order Management Procedure (The same as current practice)**
 - The required clearing margin of new orders of the clearing member shall not be greater than its excess margin.
- **Intraday Mark-To-Market Calculations**
 - TAIFEX calculates the intraday profit and loss based on the market prices.
- **Position Concentration Management(The same as current practice)**
 - If the risk exposure of the clearing member's open positions reaches 20 percent of the risk exposure of all open positions in the whole market and exceeds NT\$200 million, the TAIFEX may collect extra clearing margin.
- **The flexible contracts combined with non-flexible contracts will be conducted with various risk management procedures as current practice.**

Risk Management of FCMs to Clients

- **Margin Check of a New Order (The same as current practice)**
 - A trader can put a new order when the trader's excess margin is greater than the required initial margin.
- **Intraday Mark-To-Market Calculations**
 - FCM calculates the intraday profit and loss based on the market price.
- **High-risk-account notification (The same as current practice)**
 - If a trader's equity falls below the maintenance margin of the trader's open positions, the FCM shall issue a high risk-account notification to the trader.
- **Liquidation on behalf of a trader(The same as current practice)**
 - If a trader's risk indicator drops below the standard(ex:25%) stipulated with the FCM, the FCM shall liquidate all open positions of the trader in products that are still trading.
- **Risk Notification**
 - FCMs must provide clients with the "Checklist for Traders Participating in the TAIFEX Flexible Contracts ", which clients should then read carefully and sign.

Daily Settlement Price/Final Settlement Price

■ The daily settlement price of MXFFX

- The price is the volume-weighted average price of all trades during the last minute before market close.
- When there is no trade price, the highest unexecuted bid and lowest unexecuted ask prices quoted at market close will be taken into account for determination of the daily settlement price.
- If the settlement price determined thereunder is obviously unreasonable, then the settlement price shall be set by the TAIFEX.

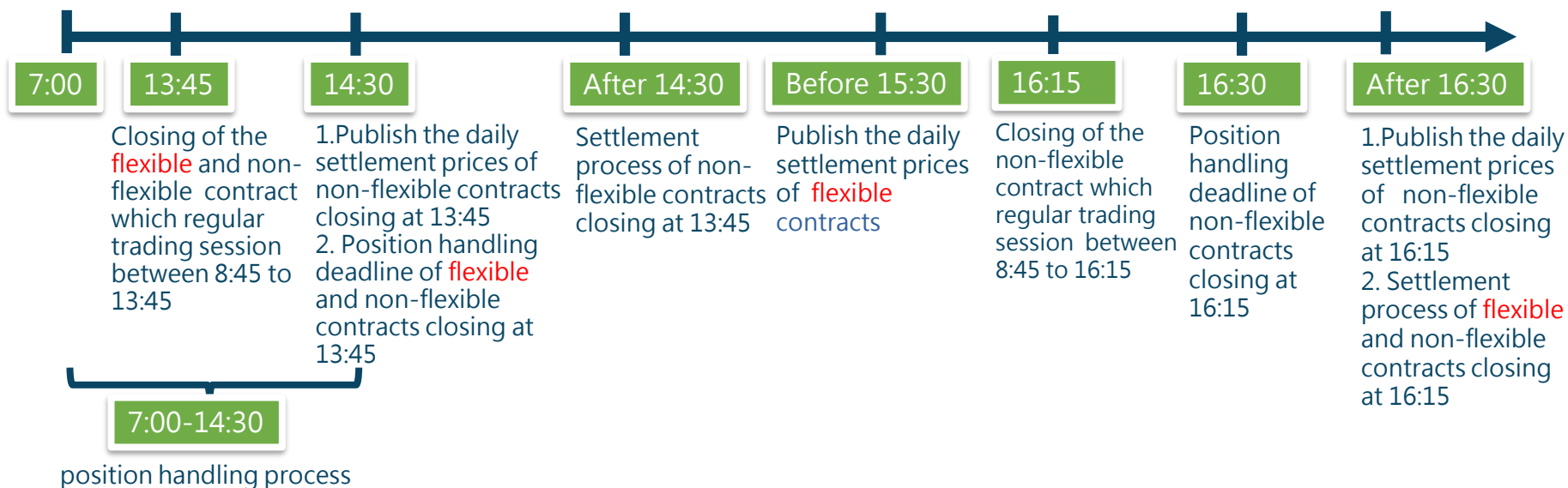
■ The final settlement price of flexible contracts

- The final settlement price of MXFFX shall be determined based on the simple arithmetic mean index of TAIEX Index during the last 30 minutes of trading before market close of the Taiwan Stock Exchange on the final settlement day, consisting of each disclosed underlying index during the trading period from 1:00 p.m. to 1:25 p.m. and the last index.

Daily/Expiration Date Settlement Operation

■ Daily Settlement Operation

1. The daily settlement prices will be published after the daily settlement prices of non-flexible contracts close at 13:45 are published, in general, **no later than 15:30**.
2. SPAN parameters files will be sent to FCMs after the daily settlement prices of flexible contracts are published.
3. The business hours of daily settlement is the same as the contracts which close at **16:15**.



■ Settlement on the Expiration Date: flexible contracts shall be settled in cash

- The settlement and the contract value calculation of the expiry position is the same as current equity index products.

Position handling



■ Time of Position handling

- The business hours of TAIFEX for processing position handling applications for flexible products are the same as those for non-flexible contracts which close at 13:45 (starting from 7:00 to 14:30).

■ Position handling operation

1. Futures contract spread positions

- ◆ MXFFX contracts with different expiration dates can be combined to spread positions. **(The spread position combination between flexible products and other contracts (e.g. MTX) is not applicable).**

2. Position netting

- ◆ The position netting between flexible products and non-flexible contracts (e.g. MTX) is not applicable .

3. Position adjustment (e.g. out-trades handling)

- ◆ The adjustment of out-trade positions follows the same procedure as the current process.



Thank you



TAIFEX

