

GBP/USD and AUD/USD FX Futures Q&A

Introduction

In response to market demand, Taiwan Futures Exchange (TAIFEX) has launched a number of FX products, including USD/CNT and USD/CNH FX futures and options, EUR/USD FX futures and USD/JPY FX futures since 2015. Through our efforts to provide investors with FX hedging and trading capabilities, and invigorate the domestic futures market, TAIFEX FX products' trading volumes marked steady growth.

The active trading of GBP/USD and AUD/USD in Taiwan's FX markets and their high price volatility have created the need for hedging and trading in both currencies as well. TAIFEX responds to the need and completes the domestic futures market's FX derivative offerings by launching two new products: GBP/USD FX Futures (XBF) and AUD/USD FX Futures (XAF).

Product Strengths

a. Provide a convenient channel for hedging and trading GBP/USD and AUD/USD

Importers, exporters, holders of foreign-currency assets and traders can use GBP/USD FX Futures (XBF) and AUD/USD FX Futures (XAF) to reduce their exposure to FX rate fluctuations and to trade on market trends. XBF and XAF contracts can also be used in conjunction with similar products listed on other exchanges to carry out intermarket-spread and arbitrage trades, as well as a variety of intermarket strategies.

b. Low barriers to trading, efficient capital utilization

TAIFEX's XBF and XAF futures have contract sizes of GBP 20,000 and AUD 25,000, respectively, which represent a much lower barrier of trading than the GBP 100,000 and AUD 100,000 contract sizes of most bank-offered FX derivative products. In addition, with leveraged characteristics, they enable investors to hedge, trade, and arbitrage at relatively low financial costs, allowing them to make more efficient use of their capital.

c. Centralized market, transparent pricing, convenient trading

Investors trading over-the-counter FX derivatives products usually have to request quotes and compare prices with each financial institution. They also face high bid-ask spreads when volumes are low, and must contend with the highly customized OTC contracts. An investor needing capital or wanting to make adjustments to a position has few choices but to negotiate with the original counterparty for terminating the contracts. TAIFEX FX futures are traded in a highly transparent centralized market. Trading is convenient, and investors are able to open or offset positions at any time.

The Product

Q1: What are the underlyings of the two products? How are prices quoted?

1. The underlying for the GBP/USD FX Futures (XBF) contract is the GBP/USD exchange rate. In line with the trading conventions of FX markets, quotes are in terms of USD per GBP. For example, a GBP/USD exchange rate of 1.3322 indicates a rate of USD 1.3322 per GBP 1. Therefore, a rising GBP/USD exchange rate means that the GBP has appreciated and the USD depreciated, while a declining GBP/USD exchange rate indicates that the GBP has depreciated and the USD appreciated.
2. The underlying for the AUD/USD FX Futures (XAF) contract is the AUD/USD exchange rate. In line with the trading conventions of FX markets, quotes are in terms of USD per AUD. For example, an AUD/USD exchange rate of 0.7676 indicates a rate of USD 0.7676 per AUD 1. Therefore, a rising AUD/USD exchange rate means that the AUD has appreciated and the USD depreciated, while a declining AUD/USD exchange rate indicates that the AUD has depreciated and the USD appreciated.

Q2: What currencies are the XBF and XAF denominated in? What is their tick value?

1. XBF contracts are GBP 20,000 in size. Because prices are quoted in terms of USD per GBP, quotes are in USD. Each tick is USD 0.0001. When multiplied by the size of the contract, each tick is worth USD 2.
2. XAF contracts are AUD 25,000 in size. Because prices are quoted in terms of USD per AUD, quotes are in USD. Each tick is USD 0.0001. When multiplied by the size of the contract, each tick is worth USD 2.5.

Q3: What are the XBF and XAF's contract months?

The contract months are the four consecutive quarterly months (March, June, September, and December).

Q4: What are the XBF and XAF's trading hours? What are their last trading days?

The trading days for the XBF and XAF contracts are the same as banks' business days. The regular trading hours are from 8:45 a.m. to 4:15 p.m., and the after-hours trading is from 5:25 p.m. to 5:00 a.m. the next day. For expiring contracts, trading ends at 2:00 p.m. on the last trading day.

A contract's last trading day is the third Wednesday of the contract month. In the event that the third Wednesday is a domestic national holiday, or WM/Refinitiv is unable to provide a spot rate at 2:00 p.m. (Taipei time) because international FX markets are closed, the last trading day will be moved to the next business day.

Q5: What are the XBF and XAF's final settlement prices?

The final settlement price for an XBF contract is the mid rate of the WM/Refinitiv intraday spot rate for GBP/USD at 2:00 p.m. (Taipei time) on the last trading day (rounded to four decimal places). The final settlement price for an XAF contract is the mid rate of the WM/Refinitiv intraday spot rate for AUD/USD at 2:00 p.m. (Taipei time) on the last trading day (rounded to four decimal places).

WM/Refinitiv is an internationally renowned financial-benchmark-calculating institution (currently owned by Refinitiv). It has been providing FX benchmarks since 1994 and is overseen by the UK's Financial Conduct Authority. The XBF and XAF contracts use the 2:00 p.m. spot rate to conform to the time of price comparison used by Asian banks for FX derivatives.

Q6: What are the XBF and XAF's daily price limits?

The XBF and XAF apply a 3-Level Price Limits at $\pm 3\%$, $\pm 5\%$ and $\pm 7\%$ of the daily settlement price of the preceding regular trading session; for the delivery month contract, the $\pm 7\%$ Price Limit will be replaced by $\pm 12\%$ starting from the after-hours trading session preceding the last trading day, to the close of trading on the last trading day upon expiration. TAIFEX may adjust the daily price limits of the XBF and XAF contracts as it deems necessary based on market conditions and the volatility in the FX market.

To keep in line with XBF's and XAF's daily price limits, TAIFEX applies 3-Level Price Limits to all TAIFEX currency futures contracts. The daily price limits of USD/CNT FX Futures (RTF), USD/CNH FX Futures (RHF) and EUR/USD FX Futures (XEF) are adjusted to $\pm 3\%$, $\pm 5\%$ and $\pm 7\%$ of the daily settlement price of the preceding regular trading session. And the daily price limits of USD/JPY FX Futures (XJF) are the same as those of the XBF and XAF.

Trading

Q1: What information is disclosed and when are orders accepted before the market opens?

Buy and sell orders are accepted beginning at 8:30 a.m. in the regular trading session and 5:15 p.m. in the after-hours trading session. During the 15-minute pre-market period (8:30-8:45 a.m.) of the regular trading session and the 10-minute pre-market period (5:15-5:25 p.m.) of the after-hours trading session, the trading system uses simulated matching to estimate and display the opening price and volume, the best five bid/ask prices and their corresponding volumes, the total number of bid/ask orders, and the cumulative quantity of bid/ask orders, every five seconds. During the two minutes immediately preceding market open (8:43-8:45 a.m. for regular trading session and 5:23-5:25 p.m. for the after-hours trading session), orders may be placed but may not be canceled or modified.

Q2: Is block trading available for the products?

The minimum buy/sell block-trading quote volume for the products is 50 contracts of the same type. Please see the “Taiwan Futures Exchange Corporation Operational Regulations for Block Trading” for details.

Q3: What are the position limits on the products?

An investor’s aggregate long or short same-side open positions may not exceed the limit standards announced by TAIFEX. In the initial launch phase, the minimum position limit will be 1,000 contracts for natural persons and 3,000 contracts for institutions. The position limit for futures proprietary traders and market makers in the product will be 9,000 contracts.

TAIFEX will announce the applicable position limit standards every three months or as occasioned by market conditions, based on the higher of the daily average trading volume or the open position volume of the contracts during that period, with the benchmark set at 5 percent thereof for individuals and 10 percent thereof for institutional investors.

Q4: What method is used to calculate the protected range on market-with-protection orders for the products?

The protected range on market-with-protection orders is calculated as a percentage of the reference price, which is the previous day’s daily settlement price for the nearest-month XBF and XAF contracts. If the previous day is the final settlement day, the reference price becomes the previous day’s daily settlement price for the first-back-month XBF and XAF contracts. The percentage for single orders is 0.5%, and for calendar spread orders is 0.25%.

For example, assuming the previous day’s daily settlement price for the nearest-month XBF contract is 1.3211. The protected range for a single order would be 0.5% of that amount, or 0.006606. If, at the time the order is placed, the best bid were 1.3225, the buy order would become a limit order at

1.3292 (1.3225 plus the protected range of 0.006606 = 1.329106, rounded up to four decimal places = 1.3292).

Q5: When will the daily price limits of XBF and XAF expand to the next level?

From the market opening to 10 minutes before the market closes, the 3-Level Price Limits of XBF and XAF will work as follows:

1. If the transaction price of the nearest-month contract touches the $\pm 3\%$ daily price limit, the daily price limit will expand to $\pm 5\%$ of the daily settlement price of the preceding regular trading session after 10 minutes;
2. If the transaction price of the nearest-month contract touches the $\pm 5\%$ daily price limit, the daily price limit will expand to $\pm 7\%$ of the daily settlement price of the preceding regular trading session after 10 minutes. For the delivery month contract, the aforementioned $\pm 7\%$ daily price limit will be replaced by $\pm 12\%$ starting from the after-hours trading session preceding the last trading day, to the close of trading on the last trading day upon expiration.

On the last trading day, the aforementioned nearest-month contract which acts as the benchmark to calculate the daily price limit shall be substituted with the next nearest-month contract in the regular trading session on the last trading day. The daily price limit in the regular trading session shall be the same as the previous after-hours trading session. For more details about the daily price limits, please refer to XBF's and XAF's trading rules.

Settlement

Q1: What currencies can be used to pay the margins on the products? What issues should investors be aware of?

1. Domestic investors and foreign institutional investors with a local presence:
 - (1). For domestic investors and foreign institutional investors with a local presence trading XBF and XAF contracts, margins and gains/losses are denominated in USD. Investors may pay margins on the products in the currency in which the product is denominated, or may reach an agreement with their FCM to pay the margins in TWD, USD or JPY, which the FCM will then exchange on their behalf. In addition, because FCMs are not allowed to exchange RMB into other currencies (e.g. TWD, USD, or JPY) on behalf of domestic investors, margins can not be paid in RMB.
 - (2). Because FCMs manage investors' portfolios as a whole, when an investor places an order for XBF or XAF, the investor's domestic futures trading account must contain a "combined available balance in each currency excluding its available balance in RMB" sufficient to cover the necessary margin.

2. Offshore overseas Chinese investors, foreign investors, and mainland area investors:

When overseas Chinese and foreign nationals trade XBF and XAF, they may pay their margins in one of the seven foreign currencies announced by TAIFEX. However, gains/losses on positions are denominated in USD. In the event of losses, the FCM will handle any currency conversions.

Q2: When paying margins related to XBF and XAF trades in a foreign currency, what matters do investors need to be aware of?

When trading XBF or XAF contracts and making a margin payment to an FCM's client segregated margin account from another institution, an investor can request its bank to utilize Taiwan's Foreign Currency Settlement Platform to make the payment as a means of shortening time and improving the efficiency of the remittance.

Q3: Given that the 4:15 p.m. close of the XBF and XAF regular trading session and the whole after-hours trading session are after the end of banking hours, how do investors handle account transfers?

In addition to monitoring the margin amounts and risk indices of their own accounts, investors may make use of the Internet and other non-counter methods to transfer funds from their accounts to the designated segregated margin account of their futures broker. (Because such transfers involve foreign currency transfers and remittances, the timing of the account entry will depend upon each bank's

hours of operations).

Q4: How does an FCM exchange USD for a domestic investor or a foreign institutional investor with a local presence?

When domestic investors and foreign investors with a local presence trade XBF and XAF, they may, in addition to paying margins in USD, arrange with their FCM to pay in TWD and JPY, and may authorize their FCM to exchange currencies on their behalf to make deposits, open new positions, pay margin calls and withdraw excess amount in the margin account. Foreign exchange settlement operations are handled in accordance with the Central Bank of the Republic of China's "Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions" and Point 28, Appendix 11 of the CBC's "Directions for Banking Enterprises on Assisting Customers to Declare Foreign Exchange Receipts and Disbursements or Transactions."

Q5: How are margins assessed and collected?

Margins on XBF and XAF contracts are assessed and collected in USD. Investors may arrange with their FCMs to use SPAN or a strategy-based method to calculate their margins.

1. SPAN-based margin assessment and collection:

The SPAN-based method evaluates an investor's overall portfolio risk giving consideration to risk reductions generated by combination positions. The investor's margin is then calculated in each product's margin currency.

2. Strategy-based margin assessment and collection:

For combination positions consisting contracts of the same product with different final settlement dates:

- (1). For combination orders consisting of one XBF long (buy) contract and one XBF short (sell) contract, the margin collected is that for one XBF contract.
- (2). For combination orders consisting of one XAF long (buy) contract and one XAF short (sell) contract, the margin collected is that for one XAF contract.

Q6: How are final settlement prices set for XBF and XAF contracts?

1. The final settlement price for an XBF contract is the mid rate of the WM/Refinitiv intraday spot rate for GBP/USD (rounded to four decimal places) at 2:00 p.m. (Taipei time) on the last trading day. If for any reason this fixing rate is unavailable before TAIFEX executes the procedures for settlement at expiration, or if the final settlement price is obviously unreasonable, TAIFEX will determine the final settlement price by referring to the market GBP/USD exchange rates published through major financial information systems (such as Refinitiv or Bloomberg).

2. The final settlement price for an XAF contract is the mid rate of the WM/Refinitiv intraday spot rate for AUD/USD (rounded to four decimal places) at 2:00 p.m. (Taipei time) on the last trading day. If for any reason this fixing rate is unavailable before TAIFEX executes the procedures for settlement at expiration, or if the final settlement price is obviously unreasonable, TAIFEX will determine the final settlement price by referring to the market AUD/USD exchange rates published through major financial information systems (such as Refinitiv or Bloomberg).

Q7: When does settlement at expiration take place?

Settlement at expiration for XBF and XAF contracts takes place at 2:30 p.m on the final settlement day (the last trading day).

Q8: What issues should investors be aware of when they trade the XBF and XAF?

XBF and XAF are available for trading in both the regular and after-hours trading sessions, and they are products exempt from liquidation on behalf of a principal during the after-hours session. FCMs should notify investors of relevant risk control mechanisms for those products.

Investors are required to review and sign the “List of Key Points Regarding Futures Clients Participating in Trading in the Taiwan Futures Exchange After-hours Trading Session” before trading XBF and XAF. Investors that have not signed the review list may not, in either the regular session or the after-hours session, trade products not exempt from liquidation on a principal’s behalf (including, but not limited to XBF and XAF).