

FSC Announces Mandatory Clearing Order for TWD IRS, Effective July 1.

The Financial Supervisory Commission (FSC) has announced that the mandatory clearing regulations for New Taiwan Dollar Interest Rate Swap (TWD IRS) will take effect on July 1, 2025. Starting from this date, banks, securities firms, bills finance companies, insurance companies, trust enterprises, leverage transaction merchants, and other financial institutions designated by the FSC will be required to submit their TWD IRS transactions, accepted for clearing by the Taiwan Futures Exchange (TAIFEX), for central clearing.

TAIFEX has been designated by the FSC as the clearing institution for over-the-counter (OTC) derivatives and has been officially recognized as a Qualifying Central Counterparty (QCCP) by the FSC. In addition, TAIFEX has obtained relevant clearing institution qualifications from international regulatory bodies, including the European Securities and Markets Authority (ESMA), the U.S. Commodity Futures Trading Commission (CFTC), and the Financial Services Agency of Japan (JFSA). These recognitions affirm that Taiwan's regulatory framework and clearing system meet international standards, facilitating foreign institutional participation in the OTC derivatives market. With QCCP status, both domestic and foreign financial institutions will benefit from a reduced counterparty credit risk capital charge of as low as 2% when calculating capital requirements for cleared contracts. This effectively lowers capital costs and improves capital utilization efficiency.

Since launching OTC clearing services in July 2022, TAIFEX has continuously enhanced market infrastructure to ensure that the clearing system meets the needs of financial institutions. TAIFEX has also provided one-on-one guidance and assistance to help financial institutions smoothly participate in central clearing. Currently, 45 banks and securities firms have already joined as clearing members or clients, and three more financial institutions are set to join by the end of March, demonstrating that market participants are well-prepared for compliance with the mandatory clearing requirements. The FSC's

announcement of the implementation of the TWD IRS mandatory clearing mechanism is expected to proceed smoothly.

TAIFEX reminds firms that do not currently engage in TWD IRS transactions to onboard as either clearing members or clients before conducting such transactions. Additionally, financial institutions should ensure that their counterparties are also eligible for central clearing to comply with regulations. TAIFEX will continue to offer guidance and consultation services to assist new participants in adapting to the central clearing mechanism. Relevant information is available on the TAIFEX website under the OTC Central Clearing InfoHub.

Central clearing is a global trend, as regulators worldwide mandate financial institutions to clear specific OTC derivatives to mitigate systemic risk. With the support and guidance of regulatory authorities, Taiwan's upcoming implementation of the TWD IRS mandatory clearing requirement will further enhance market resilience, improve capital efficiency for financial institutions, and ensure alignment with international financial markets.