

# TAIFEX Flexible Contracts Trading Platform

## Introduction

The Taiwan Futures Exchange (TAIFEX) has introduced an innovative platform for trading flexible contracts. The platform offers flexible Mini-TAIEX futures and enhances trading flexibility. Traders can customize the expiration date within one year from the listing date to accommodate various strategic trading needs and enable precise management of their portfolios.

Flexible contracts can be used for trading and hedging in response to specific events. Futures commission merchants (FCMs) can apply to TAIFEX for listing flexible contracts with specified expiration dates on behalf of their clients or for themselves. These flexible contracts can be traded as early as the next business day, promptly meeting trading needs. Additionally, they can be traded in combination with other products to execute a broader range of strategic trades, significantly increasing trading opportunities and diversifying the trading portfolio. Moreover, flexible contracts are centrally traded and cleared, effectively reducing counterparty default risks. They exhibit the advantages of over-the-counter customization while capitalizing on the benefits of centralized market trading.

## Product Features

### Trading Flexibility and Diverse Strategies

Flexible contracts can be listed with over 200 distinct expiration dates within a one-year period. Traders are enabled to participate in calendar spread trading, as well as spread trading between different flexible contracts and the standard Mini-TAIEX Futures and TAIEX Options. This allows access to more trading strategies, significantly enhancing trading opportunities and strategic trading portfolios.

### Precise Solutions to Financial Events

Traders can use flexible contracts with corresponding expiration dates to trade or hedge in response to various international political and economic events, including decisions from the Federal Open Market Committee (FOMC) in the United States, and releases of major countries' interest rate policies, as well as critical domestic or

international economic data. Flexible contracts can also help to mitigate risks associated with long holidays, such as Lunar New Year or other festive breaks. If traders anticipate that the Taiwan stock market may be impacted by fluctuations in international stock markets during holidays, flexible contracts are a great tool to manage their exposure in advance.

### **Centralized Market Advantages**

Flexible contracts are centrally traded at TAIFEX, offering high transparency in price information and allowing traders to access real-time market data. These contracts can be traded through FCMs, and are also applicable to negotiated block trades, providing ease of trading. They also benefit from the centralized clearing, settlement and guarantee of trades provided by TAIFEX, effectively mitigating counterparty default risk.

## **FAQ**

### **Product**

#### **Q1 : What are the required qualifications for applicants and traders of flexible contracts trading platform?**

Considering the characteristics of flexible contracts, participants are expected to possess a certain level of trading experience and risk tolerance. Prior to their initial application for listing or trading flexible contracts through an FCM, participants are required to sign the 'Checklist for Traders Participating in the TAIFEX Flexible Contracts ' as a prerequisite. Excluding qualified institutional investors, natural persons or juristic persons with a prescribed level of financial capacity or professional expertise, participants should meet the qualification criteria of having executed a total of at least 10 trades of futures or options contracts within the most recent year and being granted trading credits exceeding NTD 500,000.

#### **Q2 : What are the main differences in the contract specifications of flexible contracts compared to non-flexible contracts?**

Traders can specify the expiration date of flexible contracts. The expiration date

can be any trading day within one year from the date of listing, with the exception that Mini-TAIFEX Flexible Futures should not expire on the same day as any Mini-TAIFEX Futures.

**Q3 : What is the application process for flexible contracts?**

FCMs can apply either for themselves or on behalf of their clients for listing flexible contracts at TAIFEX during the designated application period (8:30 AM-3:30 PM on trading days). Once TAIFEX verifies that the application fulfill all requirements, the contract will be listed on the next business day for all eligible traders (not limited to applicants) to trade. Additionally, if there is no open interest for a flexible contract for ten consecutive business days, it will generally be delisted on the next business day.

**Q4 : What is the trading mechanism for flexible contracts?**

TAIFEX offers continuous matching and negotiated block trades for flexible contracts. During the continuous matching period, there is no call-auction matching, no prior order entry before market opening, and no acceptance of calendar spread/combo orders. Additionally, neither market orders nor MWP (Market-With-Protection) orders are available; only limit orders are accepted, with the Dynamic Price Banding Mechanism applied to the trading. The minimum threshold for negotiated block trades is 50 lots. The mechanism is the same as that of the current block trades, but combination orders are available only for flexible contracts.

**Q5 : Where to access market information of the flexible contracts?**

Market information of flexible contracts can be accessed via TAIFEX's Real-Time Snapshot Quotes (<https://mis.taifex.com.tw/futures/>), which automatically updates and provides both quote and trade information.

**Q6 : How is the transaction tax calculated for flexible contracts?**

The same as Mini-TAIEX Futures, the trading of Mini-TAIEX Flexible Futures is subject to the futures transaction tax, which levies 0.002% on the market value of each transaction.

### ❖ Contract Specifications

| Item                             | Mini-TAIEX Flexible Futures  |
|----------------------------------|--|
| <b>Underlying</b>                | Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX)  |
| <b>Ticker Symbol</b>             | MXFFX  |
| <b>Multiplier</b>                | NTD 50 (per index point)   |
| <b>Trading Hours</b>             | 8:45 – 13:45 (8:45 – 13:30 on the Last Trading Day); no prior order entry before market opening and no after-hours trading session       |
| <b>Expiration Contracts</b>      | Any specified trading day within one year from the listing day; the Contract shall not expire on the same day as any Mini-TAIEX Futures. |
| <b>Minimum Price Fluctuation</b> | Same as Mini-TAIEX Futures   |
| <b>Daily Price Limit</b>         | Same as Mini-TAIEX Futures   |
| <b>Final Settlement Price</b>    | Same calculation method as Mini-TAIEX Futures  |
| <b>Settlement</b>                | Cash settlement  |

### Trading

#### Q1: What are the trading hours and how to trade Mini-TAIEX Flexible Futures?

- (1) Trading Hours: From 8:45 AM to 1:45 PM.
- (2) How to trade: The trading can be conducted through continues matching and negotiated Block Trades. For continues matching, only limit orders are

accepted. The following order conditions, including FOK (fill or kill), IOC (immediate or cancel), ROD (rest of the session) are allowed. Orders placed 15 minutes prior to the market opens (8:30 AM to 8:45 AM) are not accepted, and the opening auction is not applicable. Spread orders are not applicable. In addition, negotiated Block Trades method follows the same practice as the standard contract for Mini-TAIEX futures. It allows for single orders (single contract) and combination orders (2 to 10 contracts), with a minimum threshold of 50 contracts.

**Q2: Is the "Mini-TAIEX Flexible Futures " subject to dynamic price banding?**

**What does the mechanism work?**

- (1) Mini-TAIEX Flexible Futures are subject to dynamic price banding.
- (2) The basic operation is the same as the current standard contract for Mini-TAIEX futures. For each new order, the possible execution price is calculated based on the order book at that time. If the order is a buy order and the possible execution price is higher than the upper limit of the real-time price band, the order will be rejected. If the order is a sell order and the possible execution price is lower than the lower limit of the real-time price band, the order will be rejected. The variation range is calculated using the following formula: the most recent closing price of underlying index  $\times$  outright rejection threshold (2%)

**Q3: What fees does the TAIFEX charge for " Mini-TAIEX Flexible Futures," and what is the fee structure?**

- (1) When the FCMs apply for listing Mini-TAIEX Flexible Futures contracts, the TAIFEX will charge an application fee of 100 NT dollars per contract.
- (2) In addition to the regular transaction fee (7.5 NT dollars per contract) and clearing/settlement fee (5 NT dollars per contract) that FCMs are required to pay, the TAIFEX will charge an additional surcharge for flexible contracts. This surcharge is 2 NT dollars per contract for both buying and selling parties in each transaction.

#### **Q4: How does the FCM apply for listing of "Mini-TAIFEX Flexible Futures"?**

- (1) The channel for the FCMs to apply for Flexible Mini-TAIFEX Futures contracts is as follows: (1) Transmit the contract details to the TAIFEX's trading system for application through a server connection; (2) Submit the application through the TAIFEX's website ([icon.taifex.com.tw](http://icon.taifex.com.tw)).
- (2) The transmitted content of the application by the FCMs shall include information such as the FCM code, trading account number, contract details, application number, and identity type. After a check by the TAIFEX's system, the result of the application will be provided. If accepted, a code indicating acceptance will be issued; if the application does not comply with the regulations, relevant error codes will be provided. After the TAIFEX accepts the application, the flexible contract will be listed on the next business day.
- (3) Explanation of the transmitted content is as follows:
  1. FCM Code, Trading Account number: If a general trader commissions an FCM to apply for flexible Mini-TAIFEX Futures contracts, the FCM needs to input the trader's FCM code and trading account number. For example, if Mr. Chen (assuming account number 1234567) commissions an FCM (F001000) to apply for flexible Mini-TAIFEX Futures contracts, the FCM needs to input Mr. Chen's FCM code and trading account number: F001000 and 1234567.
  2. Contract Content: This must include fields such as contract symbol and expiration date. For example, if applying for flexible Mini-TAIFEX Futures contracts expiring on September 20, 2024, the contract content should be input as MXFFX240920.
  3. Application Number: 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.

4. Identity Type: Only "1," "2," "3" are allowed. "1" represents a general application, "2" represents a futures proprietary trader application, and "3" represents a FCM application for itself. If it's a general application, the FCM can apply directly through the mentioned channels. For "2" and "3" applications by futures proprietary traders and FCMs, they need to apply for system permissions in advance. The process involves entering basic information on the TAIFEX's website ([icon.taifex.com.tw](http://icon.taifex.com.tw)), filling in account settings under the FCM code, printing relevant setup data, and mailing the application along with the "FCM Self-Application for Flexible Contract Application" form. After approval by the TAIFEX, the FCM can then apply for flexible contracts.

(4) System Application Quantity Limit: To prevent malicious and excessive applications, the TAIFEX has a daily limit on the number of applications (50 contracts). Therefore, 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.

**Q5: How will the expiration date of "Flexible Mini-TAIEX Futures" be handled in the event of a market closure due to force majeure, such as a natural disaster?**

If the expiration date of a flexible contract coincides with a market closure due to force majeure (e.g., a market closure caused by a typhoon), or if the expiration date, which was a working day at the time of application, is subsequently declared a holiday by the government, the expiration date will be extended to the next business day.

**Q6: What are the position limits regulations for "Flexible Mini-TAIEX Futures"?**

## **set by the TAIFEX?**

Traders engaging in transactions of Flexible Mini-TAIEX Futures contracts must comply with both individual position limits for Flexible Mini-TAIEX Futures and the combined position limits calculated by combining Flexible Mini-TAIEX Futures with TAIEX Futures and Mini-TAIEX Futures. The regulations are explained as follows:

(1) Individual Position Limits for Flexible Mini-TAIEX Futures:

Individual: 500 contracts

Institution: 3,000 contracts

Proprietary traders/Market Maker: 9,000 contracts

(2) Combined Position Limits for Flexible Mini-TAIEX Futures, TAIEX Futures, and Mini-TAIEX Futures:

The combined positions of Flexible Mini-TAIEX Futures contracts and Mini-TAIEX Futures contracts for the same entity, after adjusting for a four-to-one conversion based on contract size, are combined with the positions of TAIEX Futures. The total must comply with the position limits standards for TAIEX Futures.

## **Q7: Has the TAIFEX implemented additional support mechanisms for "Flexible Mini-TAIEX Futures"?**

To assist the FCMs in executing offsetting on behalf operations, the TAIFEX has introduced mechanisms such as "Special Quote Request" and "Assistance for Offsetting on Behalf Service Hotline." The details are as follows:

(1) Special Quote Request Mechanism:

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. Institutional investors in the market who receive the quote request message may provide quotes, enhancing the probability of completing offsetting transactions.



(2) Assistance for Offsetting on Behalf Service Hotline:

If an FCM is unable to complete offsetting on behalf operations for flexible contracts by the closing time, they can call the TAIEX's Assistance for Offsetting on Behalf Service Hotline after the market close. The FCM can provide information about the contracts they intend to offset, and the TAIEX will send out quote request messages. Interested institutional investors can then quote prices on the next trading day to enhance the probability of completing offsetting transactions.

**Q8: Will the TAIEX continue to list "Flexible Mini-TAIEX Futures" after FCMs apply, or is there a mechanism for early termination?**

After an FCM applies for a flexible contract, market participants typically hold positions during trading. Therefore, the flexible contract will have open interest, and in this situation, the flexible contract can continue to be listed until its expiration date.

However, to prevent market manipulation or excessive and malicious applications for a large number of flexible Mini-TAIEX Futures contracts, the TAIEX has implemented an early termination checking mechanism. After the market closes each day, the TAIEX will check the open interest of all outstanding positions for Flexible Mini-TAIEX Futures contracts. If the OI for a flexible contract remains zero for 10 consecutive trading days, the listing of that contract will be terminated.

## Clearing

**Q1 : What are the margin requirements for Mini-TAIEX Flexible Futures (MXFFX)?**

The margin requirement for MXFFX is the same as MTX.

**Q2 : What currency shall trader deposit for the required margin of MXFFX?  
What's the method for calculating the required margin?**

MXFFX is NTD-denominated. Regarding the required margin, the domestic

traders who participate in MXFFX trading shall deposit NT Dollars; the offshore foreign traders shall pay in 7 foreign currencies announced by TAIFEX.

Futures commission merchants shall stipulate traders to deposit the margin based on the standards prescribed by TAIFEX or on the SPAN margining system. Traders wishing to adopt SPAN margining shall sign agreements with FCM's and meet the requirements of Chinese National Futures Association Self-Regulatory Rules for Adoption by Customers of SPAN Methodology for Calculating Margins.

**Q3 : Is MXFFX applicable to spread trading margining?**

MXFFX is applicable to spread trading with identical product (with different expiry dates).

Buying one MXFFX and selling one MXFFX with different expiry dates, traders should deposit margin of one MXFFX position.

| <b>Order and Combination</b>      | <b>Margin requirement</b>      |
|-----------------------------------|--------------------------------|
| Buy one MXFFX , Sell one<br>MXFFX | Margin of one MXFFX<br>positon |

**Q4 : Is MXFFX applicable to day trade margins?**

MXFFX is not applicable to day trade margins.

**Q5 : How to calculate the final settlement price of MXFFX?**

The final settlement price of MXFFX shall be determined based on the simple arithmetic mean index of the Taiwan Stock Exchange Capitalization Weighted Stock Index (TAIEX) during the last 30 minutes of trading before market close of the Taiwan Stock Exchange on the final settlement day.

**Q6 : What position-handling processes could be conducted for MXFFX? (e.g. position adjustment, the combination of spread positions in futures contracts)**

MXFFX allow for conducted position adjustments and the combination of spread positions in futures contracts. According to the calculation principle of margin,

MXFFX is only applicable to the combination of spread positions in futures contracts with identical product (with different expiry dates).

**Q7 : What are the business hours for MXFFX conducting the position-handling processes?**

The closing time for MXFFX is at 1:45 p.m. According to Article 5 and Article 13 of TAIEX Operational Key Points of Clearing and Settlement for Futures Commission Merchants and Clearing Members, if the trading hours for the contract close at 1:45 p.m., the business hours for position handling are 7:00 a.m. to 2:30 p.m.

**Q8 : What is the time for clearing members to inquire about the settlement amount of the clearing margin for MXFFX?**

Clearing members may inquire about the settlement amount of the clearing margin for MXFFX via the Message Transform System (MTS) after 16:30.