

OTC Derivatives Central Clearing – Phase 2

Taiwan Futures Exchange
May 25, 2023





Outline

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2. Schedule-Phase 2

3. Clearing Services and Product Scope in Phase 2

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- a) TWD NDF Contract Specification











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- b) Qualifications and Benefits of Engaging in OTC Clearing
- c) CCP Contract and Clearing Account Framework
- d) Onboarding Preparation for OTC Clearing
- e) Clearing and Margin Deposit/Withdrawal process
- f) Clearing System Function and Testing

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QCCP Status



國家	辦理進度
 EU 	<ul style="list-style-type: none">● 2022/12/31 TAIFEX has been recognized as the TC-CCP(third-country central counterparty) of ESMA.
 US 	<ul style="list-style-type: none">● 2022/9/15 CFTC granted No-Action Relief to TAIFEX. (Exempt DCO ongoing)
 AUS 	<ul style="list-style-type: none">● 2022/6/9 TAIFEX has qualified as the QCCP for OTC clearing, Australian FIs may self-recognized TAIFEX as the QCCP.
 UK 	<ul style="list-style-type: none">● 2023/1 HM Treasury's QCCP Transitional Regime allows non-UK CCPs to be treated as QCCP for 3 years. (TAIFEX will be treated as QCCP till 2024/08)
Japan 	<ul style="list-style-type: none">● TAIFEX is currently in the process of seeking an QCCP exemption from JFSA.
Canada 	<ul style="list-style-type: none">● TAIFEX is currently in the process of seeking an QCCP exemption from OSC.

Schedule – Phase 2



112/7/31 TAIFEX will launch TWD NDF & Client Clearing Service



Market Regulation (Published)

112/4 Published

- Amendments of OTC Operating Rules and OTC Enforcement Rules.
- Contract specifications of New Taiwan Dollar Non-Deliverable Forward.
- Between TAIFEX and Clearing Members (CMs):
 - TAIFEX OTC Derivatives Clearing Agreement
 - OTC Derivatives Clearing Connection Agreement
- Among TAIFEX, CMs, and Clients:
 - OTC Derivatives Clearing Connection Agreement



Agreement Template (Published)

- Between CMs and Clients:
 - 111/12 TAIFEX OTC Derivatives Client Clearing and Settlement Agreement (Sample)
 - 112/4 TAIFEX Supplement to Addendum
- 111/12 Declaration Letter
- Between Counterparties:
 - 111/12 TAIFEX OTC Derivatives Clearing Execution Agreement(Sample)



Clearing System Testing

- Weekday testing (Weekday testing environment)
112/3-112/7
- Holiday testing (Production environment)
 - (1) 7/8 (Sat.)
 - (2) 7/16 (Sun.)
 - (3) 7/30 (Sun.)

TWD NDF Contract Specification



- The contract specification has been published on April 21 2023.
- Matters concerning the receipts and payments of margin, the capital inflow and outflow, and the declaration of the nature of foreign exchange remittances shall be handled in accordance with the regulations of the Central Bank.

Items	Content
1. Product Type	NDF, Non-Delivery Forward
2. Reference Currency	TWD
3. Base Currency	USD
4. Settlement Currency	USD
5. Settlement Rate Option	The USD/TWD exchange rate published by the Taipei Forex Inc. at 11:00 a.m. Taipei time.
6. Maximum Residual Term	The period from the submission date to the settlement date of the transaction shall not exceed 2 years
7. Minimum Residual Term	The period from the submission date to the settlement date of the transaction shall be at least 2 business days
8. Relevant City for Business Day for Valuation Date	Taipei
9. Relevant City for Business Day for Settlement Date	New York
10. Valuation Date offset	2 Taipei business days

***The terms used in this specification are defined by ISDA and EMTA template.**

Clearing Member Status



- Phase 1: 11 clearing members
- Phase 2: Nearly 14 Financial institutions(FIs) are willing to apply for clearing members, with 3 local FIs having approved applications.

	Phase 1	Member Category
1	Cathay United Bank	General
2	SinoPac Securities	General
3	Taipei Fubon Commercial Bank	General
4	Yuanta Commercial Bank	Individual
5	CTBC Bank	Individual
6	Bank SinoPac	Individual
7	E.Sun Commercial Bank	Individual
8	Chang Hwa Commercial Bank	Individual
9	Shin Kong Commercial Bank	Individual
10	Taiwan Cooperative Bank	Individual
11	Bank of Taiwan	Individual

Phase 2-Expected Membership Applicants	
Local FIs	6
Foreign FIs	8
Total	14



	Phase 2	Member Category
1	Taishin International Bank	Individual
2	First Commercial Bank	Individual
3	Mega International Commercial Bank	Individual

OTC Clearing Qualifications



■ Clearing membership and client qualifications (TAIFEX OTC Enforcement Rule 2.1.3, 2.1.4)

	Individual Clearing Member	General Clearing Member
Minimum paid-in capital requirement	NT\$2 billion (Omitted below)	NT\$8 billion
Financial structure requirements	<ul style="list-style-type: none"> Banks : Capital Adequacy Ratio \geq 10.5%. Insurance enterprise : Risk-Based Capital adequacy Ratio \geq 200% and the Net Worth Ratio \geq 3%. Securities firms : Regulatory Capital Adequacy Ratio \geq 200%. Bills finance company : Capital Adequacy Ratio \geq 8%. Futures commission merchant that concurrently operates as a leverage transaction merchant : The adjusted net capital \geq 30% of the total amount of customer margins required for the open positions of futures traders. (Omitted below) 	<ul style="list-style-type: none"> Banks : Capital Adequacy Ratio \geq 10.5%. Securities firms :Regulatory Capital Adequacy Ratio \geq 200%. Futures commission merchant that concurrently operates as a leverage transaction merchant : The adjusted net capital \geq 30% of the total amount of customer margins required for the open positions of futures traders.
OTC derivatives default fund	<ul style="list-style-type: none"> Clearing members are required to contribute to TAIFEX the OTC derivatives default fund of NTD 20 million prior to engaging in clearing operations of OTC derivatives. Clearing members are required to contribute to the OTC derivatives default fund based on the amount computed by TAIFEX subsequent to engaging in clearing operations of OTC derivatives. 	<ul style="list-style-type: none"> Clearing members are required to contribute to TAIFEX the OTC derivatives default fund of NTD 30 million prior to engaging in clearing operations of OTC derivatives. Clearing members are required to contribute to the OTC derivatives default fund based on the amount computed by TAIFEX subsequent to engaging in clearing operations of OTC derivatives.



Qualified FIs can apply for Individual Clearing Members to engage in OTC clearing



Client shall sign the contract with General Clearing Member to engage in OTC clearing

Benefits of Central Clearing (1/2)



Reduce counterparty credit risk

- Comprehensive margin and risk management mechanisms.
- Submit transaction to CCP as early as possible.



Regulation (EU) No 600/2014

The trading venue shall send the information related to each transaction to the CCP within 10 sec from the conclusion of the transaction.

Article 4.2.1 & 4.2.3 of OTC Enforcement Rule

The transaction counterparties shall complete the central clearing submission procedure by 5:00p.m. on the next business day following the transaction date.

Simplify bilateral clearing process
Simplify the clearing process with different counterparties to reduce operating costs.



Release transaction quota

Release the transaction quota with the original counterparty and increase the permissible transaction volume.

Decrease capital requirement

- The minimize risk weight of transaction exposure is 2%.
- Under the International Capital Standards (ICS) regulations, centralized clearing facilitates the full deduction of trading exposure amounts (anticipated alignment with ICS 2.0 in 2026).

Alleviate margin cost

According to the Uncleared Margin Rules (UMR), the margin calculated by the ISDA SIMM model is higher than that calculated by the CCP.

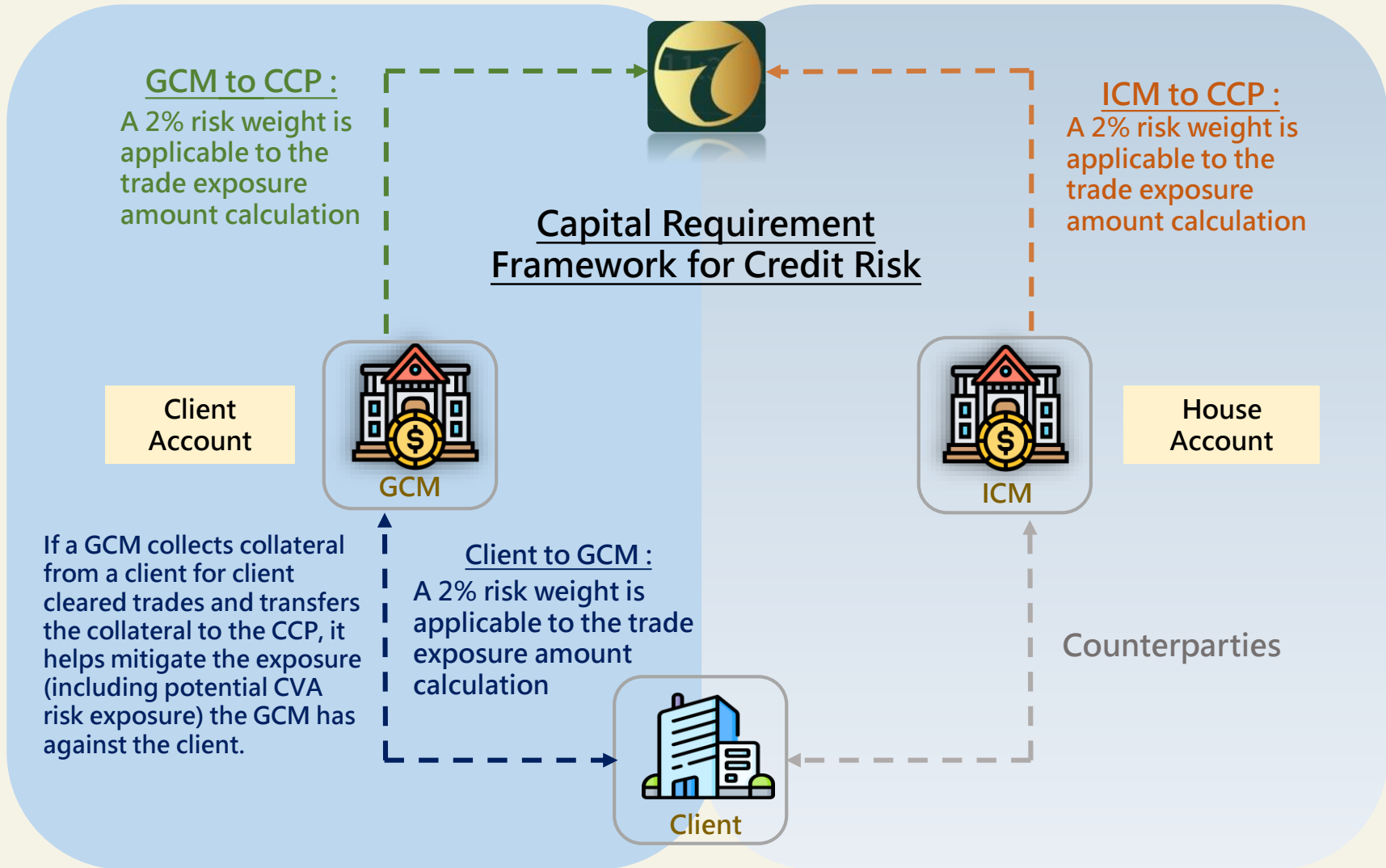
Benefits of Central Clearing (2/2)



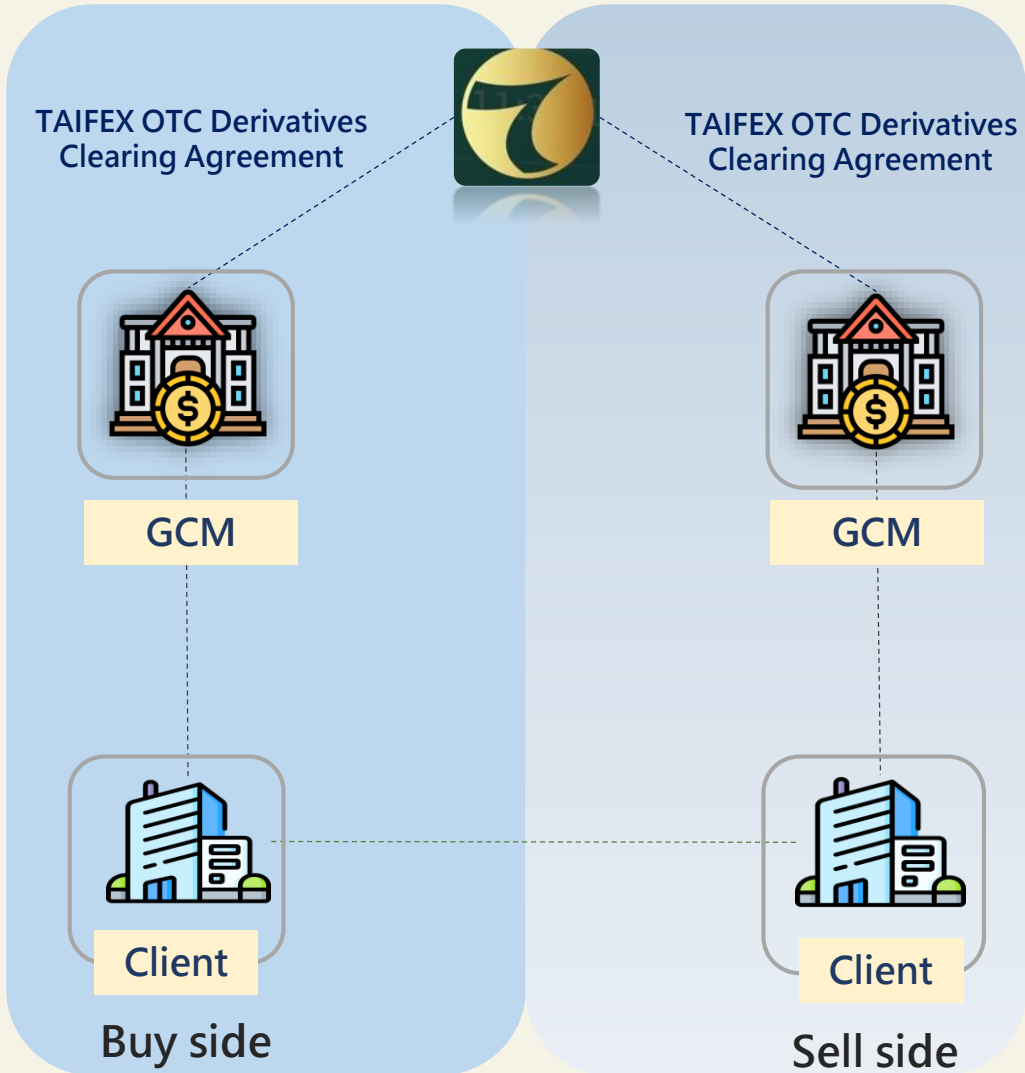
■ Significantly reduced margin and capital requirement

	Non-centrally clearing (Bilateral)	Central clearing (CCP)
Credit Value Adjustment (CVA)	Capital requirement is based on the credit rating of the counterparty	No Capital Requirement
Risk Weight	20%-150%	2%-4%
Margin Requirement	The Basel Committee on Banking Supervision (BCBS) has implemented the Uncleared Margin Rule (UMR), which imposes higher margin requirements. (at least cover the expected loss of net present value changes over 10 business days)	Lower margin requirements of CCP for clearing members (at least cover the expected loss of net present value changes over the certain period) <ul style="list-style-type: none">• Proprietary accounts : 5 business days• Client accounts : 7 business days

Capital Requirement for Credit Risk



CCP Contract Framework



• Between trading parties:

- ① ISDA Master Agreement + CDEA
- ② General Agreement for Derivatives+ TAIFEX OTC Derivatives Clearing Execution Agreement

• Between clients and GCMs:

- ① ISDA Master Agreement, Client Cleared OTC Derivatives Addendum, TAIFEX Supplement to Addendum, and Declaration Letter
- ② General Agreement for Derivatives, TAIFEX OTC Derivatives Client Clearing and Settlement Agreement, and Declaration Letter

*CDEA-ISDA/FIA Cleared Derivatives Execution Agreement

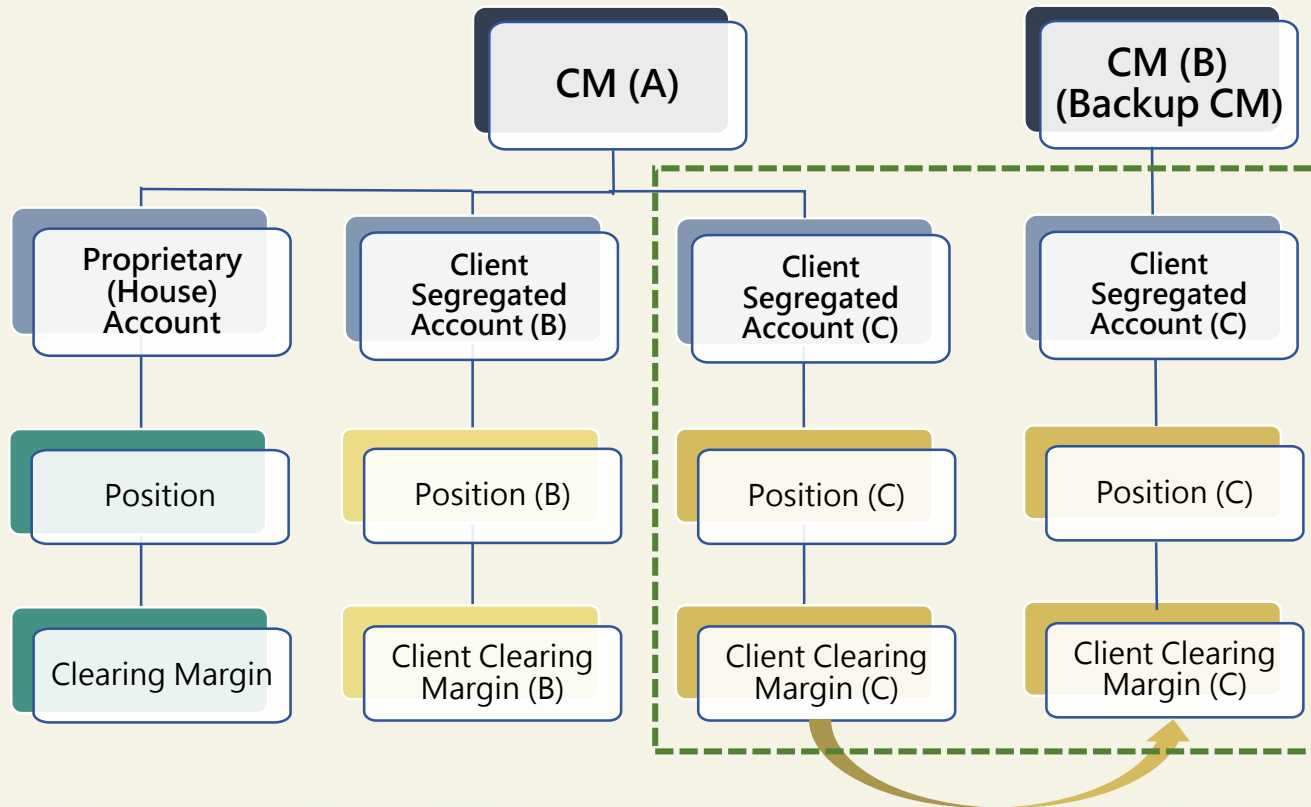
*Addendum-Client Cleared OTC Derivatives Addendum

Clients Clearing Account Features

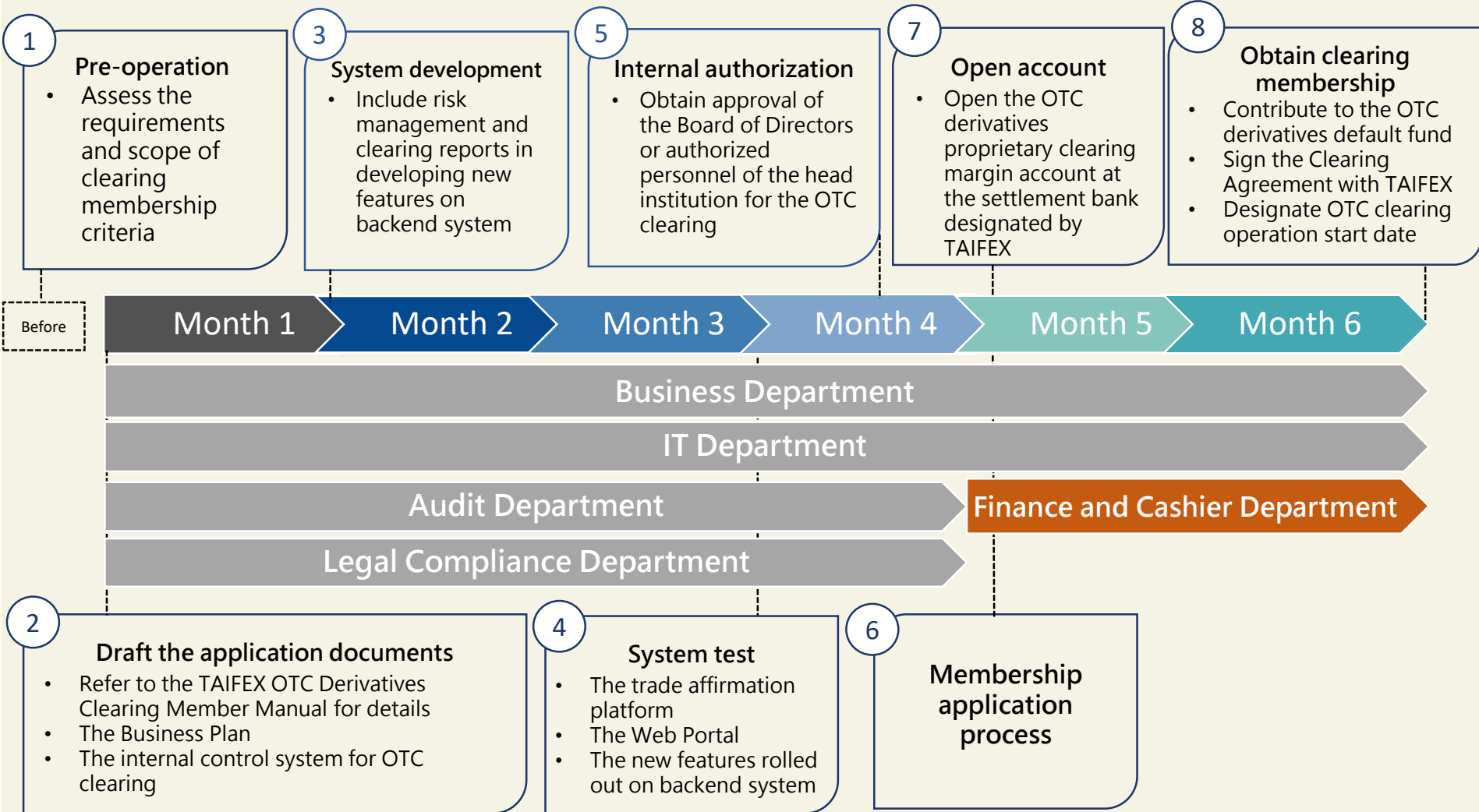


■ The segregation and portability of clients position and collateral

- Segregation of clearing member margins in proprietary and client accounts (Article 17 of OTC Rules).
- Client may designate other clearing member as backup clearing members. All rights and obligations derived from cleared transactions will be transferred to backup clearing members if the current clearing member default (Articles 3.3.4 and 11.2.1 of OTC Enforcement Rules).

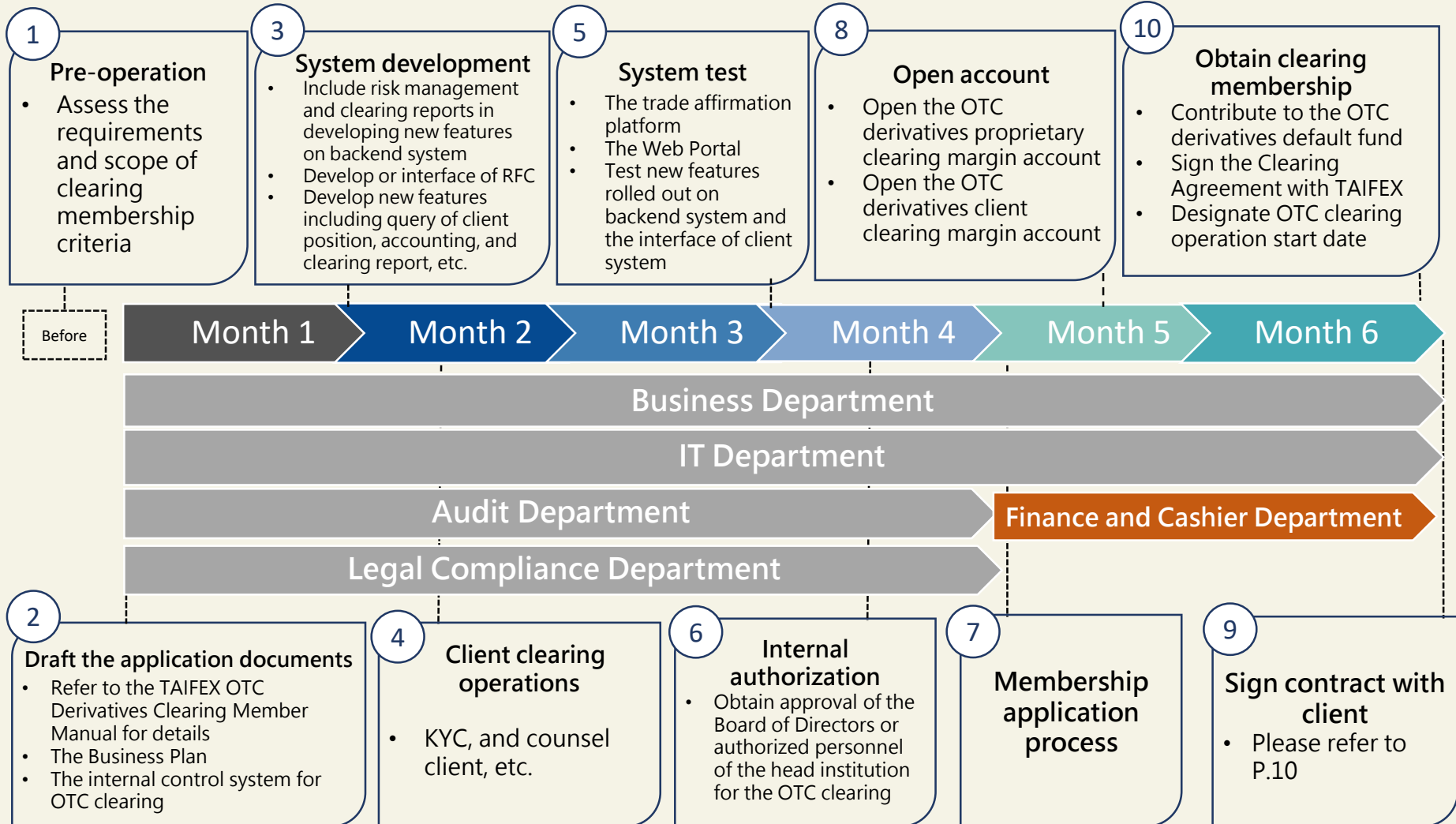


ICM Onboarding Preparation



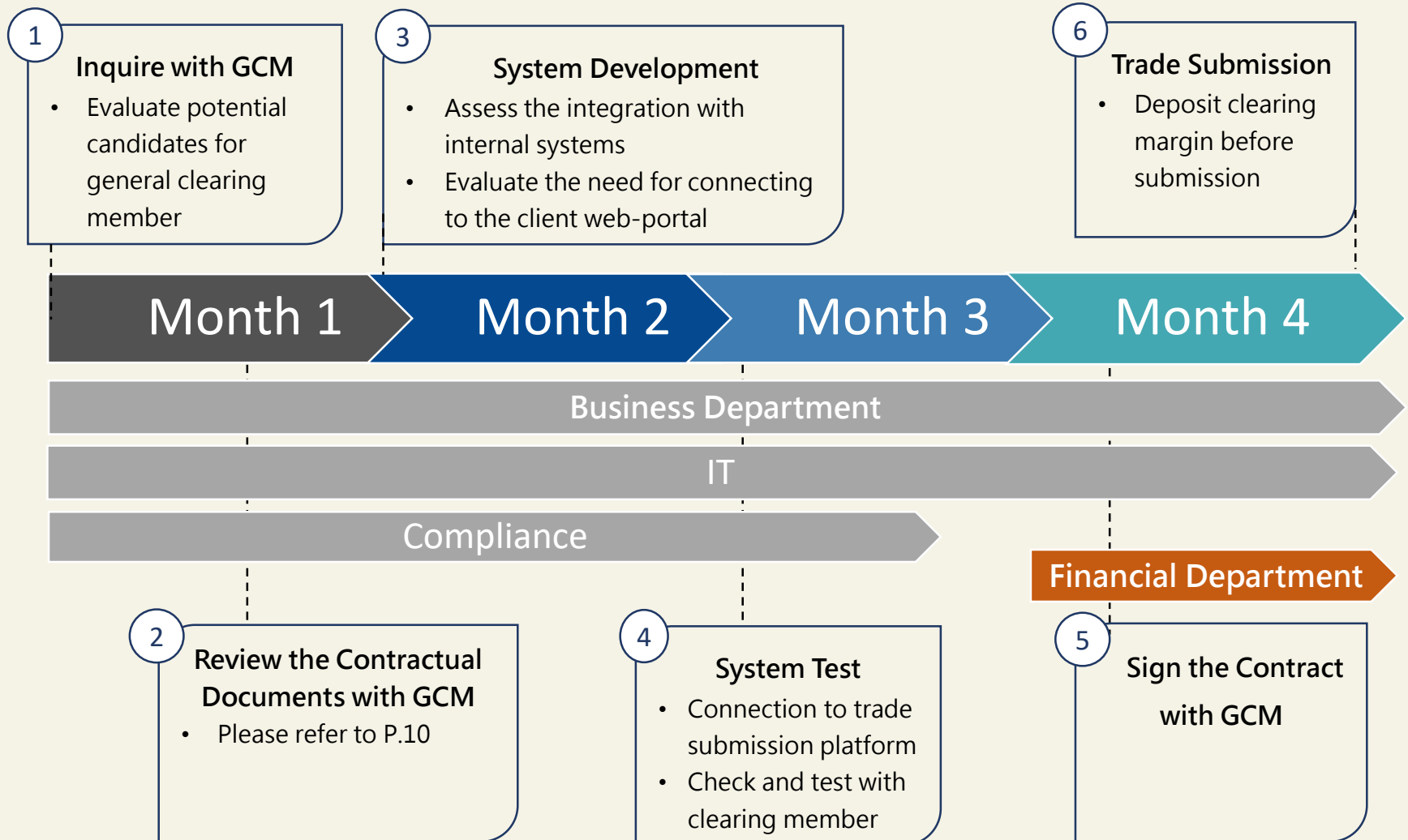
* Please refer to OTC Derivatives Clearing Member Manual (<https://reurl.cc/ZXRX86>)

GCM Onboarding Preparation



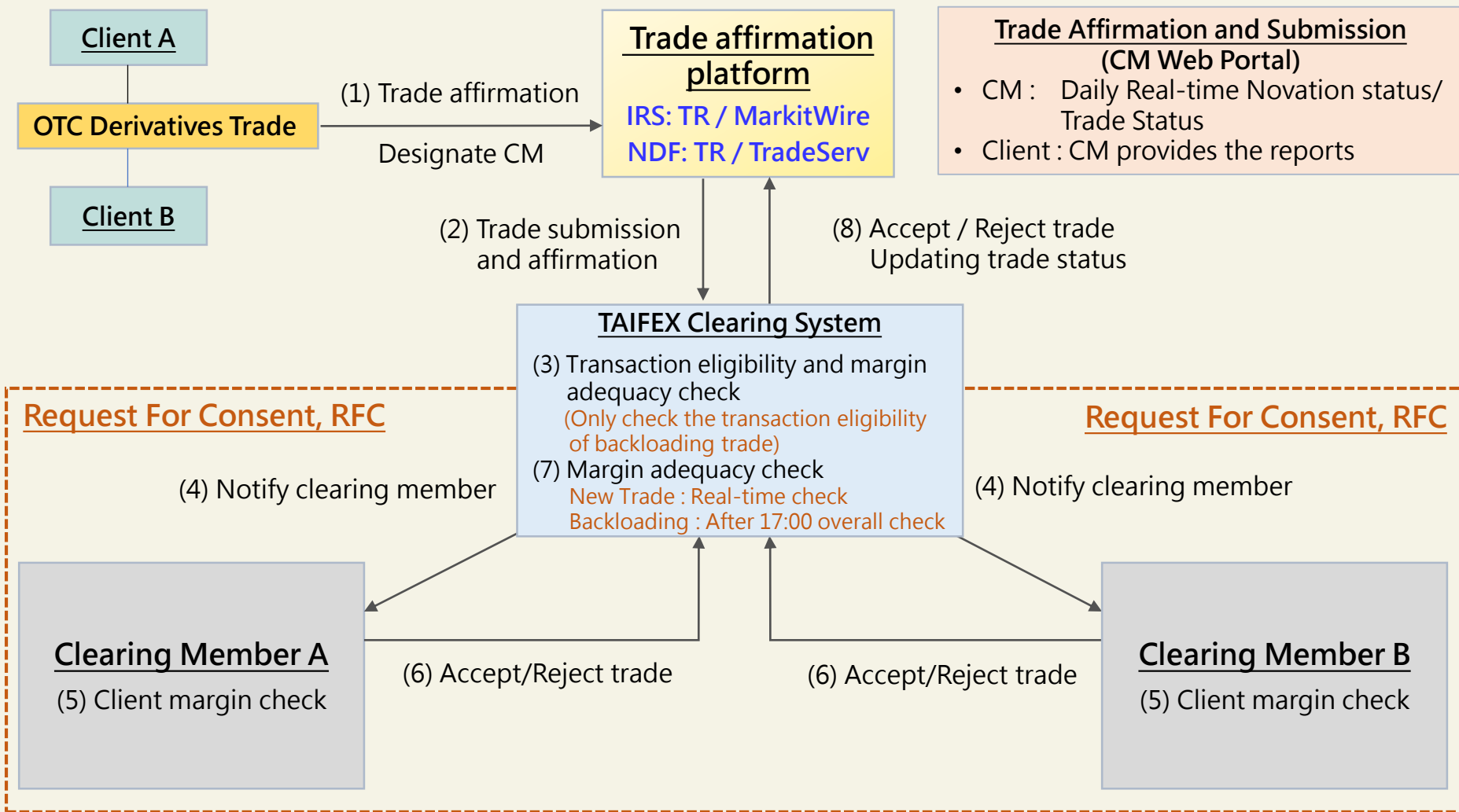
* Please refer to OTC Derivatives Clearing Member Manual (<https://reurl.cc/ZXRX86>)

Client Onboarding Preparation



*Please refer to OTC Derivatives Clearing Member Manual (<https://reurl.cc/2LoxVn>)

Client Clearing Process



Margin Deposit



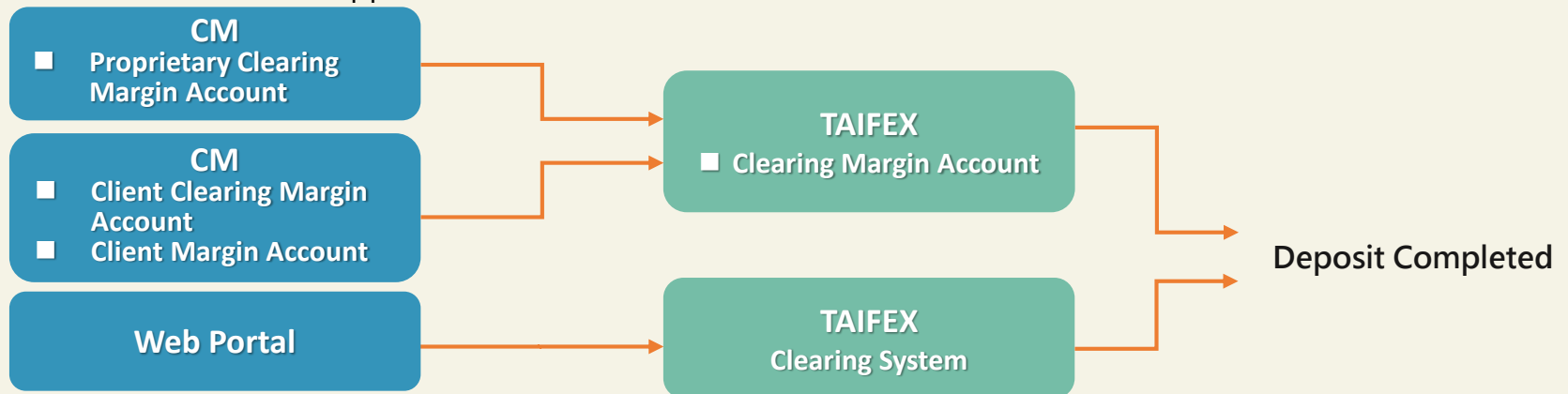
	Deposit of cash and securities
Business hours	8:30 am to 5:30 pm on business days
Settlement bank	TAIFEX opens clearing margin accounts with the following settlement banks: First Commercial Bank, Hua Nan Commercial Bank, Chang Hwa Commercial Bank, Mega International Commercial Bank, Cathay United Bank
Eligible collateral	<ul style="list-style-type: none"> ■ TWD, USD, Taiwan government bonds ■ For overseas Chinese or a foreign national, only USD
Virtual A/C NO	<p>CM can query virtual A/C NO information(14 digits) on Web Portal 【Margin Deposit and Withdrawal / Account Numbers for Cash Deposit Query】</p> <ul style="list-style-type: none"> ■ Virtual A/C NO for Clearing Account Type Corporate identity Number(5)+<u>CM Number (7)+House-9/Client-0 (1)+Checksum (1)</u> → TAIFEX cannot identify the specific clearing account the CM wants to deposit into from the A/C NO, thus CM needs to apply to TAIFEX and fill in the relevant account details. ■ Virtual A/C NO for Individual Clearing Account Corporate Identity Number(5)+<u>CM Number (2)+House-9/Client-0 (1)+Clearing Account Number(4)+Virtual A/C NO type-1(1)+Checksum (1)</u> →The A/C NO. already contains the information of the specific clearing account, thus the deposit application is not required.

Margin Deposit Process-CM



■ Deposit Funds + Deposit Application on Web Portal

- ✓ Deposit : CM deposits cash or securities into TAIFEX physical A/C NO, or deposits cash into TAIFEX Virtual A/C NO for Clearing Account Type
- ✓ Notification: CM applies to TAIFEX and fills in the relevant account details on Web Portal



■ (NEW) Virtual A/C NO for Individual Clearing Account, enhancing the efficiency

- ✓ Deposit: CM deposits cash into TAIFEX Virtual A/C NO for Individual Clearing Account
- ✓ Notification: When margin deposit completed, TAIFEX informs CM by mail

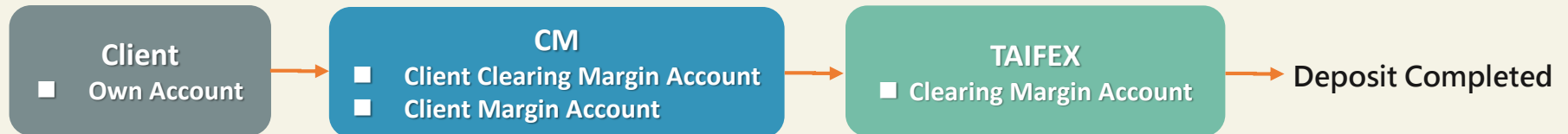


Margin Deposit Process-Client



■ Client deposits margin to CM, then CM deposits margin to TAIFEX: **Cash and Securities**

- ✓ Deposit : Client deposits cash or securities into CM' s client clearing margin account or client margin account
- ✓ Notification : Client informs CM in agreed way



■ Client deposits margin to TAIFEX directly: **Only Cash**

- ✓ Virtual A/C NO for Individual Clearing Account: If CM and its client reach an agreement that client can deposit margin to TAIFEX directly, then CM provides the corresponding A/C NO to its client
- ✓ Deposit : Client deposits cash into TAIFEX Virtual A/C NO for Individual Clearing Account
- ✓ Notification: When margin deposit completed, TAIFEX informs CM by mail



Margin Withdrawal



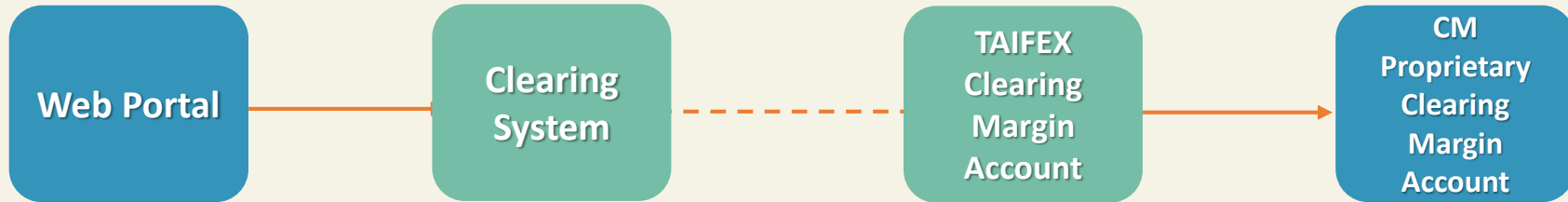
Withdrawal of cash and securities

Business hours	8:30 am to 2:00 pm on business days
Methods of application	<p>CM requests to withdraw clearing margin:</p> <ul style="list-style-type: none"> ■ Web Portal application online ■ written application (Please affix the original seal)
Withdrawal Rules	<ul style="list-style-type: none"> ■ Total excess margin of the clearing account after withdrawal $>=0$ ■ The balance of all collateral after withdrawal $>=0$ ■ Shall not be in default as defined under Article 53, Paragraph 1 of the OTC Operating Rules
Designated clearing margin account	<p>TAIFEX transfers the funds to <u>the OTC clearing margin account designated by CM</u> (The number of designated clearing margin accounts shall not exceed two for house and client account individually)</p>
Time	<p>Where CM requests to withdraw the clearing margin by 11:00 am, TAIFEX will transfer the funds to CM at 12:00 pm on the same day.</p> <p>Where CM requests to withdraw the clearing margin by 2:00 pm, TAIFEX will transfer the funds to CM at 3:00 pm on the same day.</p>

Margin Withdrawal Process



CM



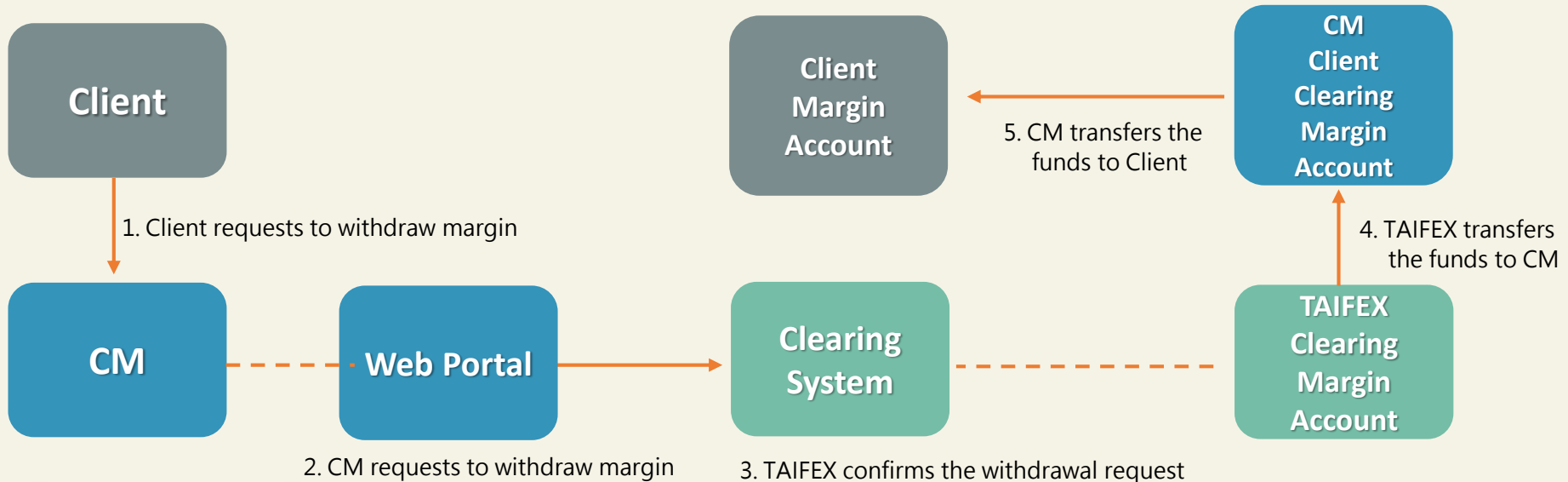
1. CM requests to withdraw margin

2. TAIFEX confirms the withdrawal request

3. TAIFEX transfers funds to CM

Client

- Client requests margin withdrawal from CM
- CM transfers the funds to margin account designated by Client



Deposit and Withdrawal Result Query-CM



■ Web Portal: Clearing procedure / Settlement report of single clearing account

Clearing procedure / Settlement report of single clearing account

Clearing Member: 0990000 BAU測試CM二
Clearing Account: 9000014 BAU測試CM二修改
Data Date: 2023/06/05

Query

Download M8-2

Margin Balance | Next-day Settlement Amount

Data Date	Download Date	Download Time	USD/TWD Exchange Rate
2023/06/05	2023/06/05	11:36:52	30.716

Clearing Account ID	Clearing Account Name	Account Type	Daily Settlement Type	Settlement Currency	Today Cash Margin Balance (A)	Previous Day Cash Margin Balance	Today Settlement Amount	Cash Margin Deposit/Transfer in	Cash Margin Withdraw/Transfer out
9000014	BAU測試CM二修改	House	STM	TWD	4,224,749,941	4,230,765,111	-6,065,170	50,000	0
9000014	BAU測試CM二修改	House	STM	USD	145,378.37	157,533.63	-12,155.26	0.00	0.00
9000014	BAU測試CM二修改	House	STM	TWD(Basis Currency)	4,229,215,383	4,235,603,914	-6,438,531	50,000	0

Items Per Page - 10 1 - 3 of 3

■ Operation Reference: [CM Web Portal User Manual](#)

Deposit and Withdrawal Result Query-Client



Client can query the deposit and withdrawal result in the following ways:

- Client Web Portal: Margin Overview / Margin Balance and Settlement Amount

Margin Overview / **Margin Balance and Settlement Amount**

Date: 2023/06/05 CmNo: 0970000 BAU測試CM四 AccNo: 0000017 交易提交-客戶 [Query](#) [Download M15-2-1](#)

Margin Balance Details of Next-day Settlement Amount-IRS Details of Next-day Settlement Amount-NDF

Date	Download Date	Download Time	USD/TWD Exchange Rate
2023/06/05	2023/06/05	11:27:54	30.716

Clearing Member ID	Clearing Member Name	Clearing Account ID	Clearing Account Name	Settlement Currency	Today Cash Margin Balance(A)	Previous Day Cash Margin Balance	Today Settlement Amount	Cash Margin Deposit/Transfer in	Cash Margin Withdraw/Transfer out
0970000	BAU測試CM四	0000017	交易提交-客戶	TWD	4,062,361,164	4,057,129,265	5,221,899	10,000	0
0970000	BAU測試CM四	0000017	交易提交-客戶	USD	-2,804,862.24	1,147,073.55	-3,951,935.79	0.00	0.00
0970000	BAU測試CM四	0000017	交易提交-客戶	BAS/TWD	3,976,207,015.00	4,092,362,776.00	-116,165,761.00	10,000.00	0.00

Items Per Page : 10 1 - 3 of 3

- CM provides the reports to its clients

Clearing Member Web Portal



TAIWAN FUTURES EXCHANGE 臺灣期貨交易所

登入資訊: 0960000_wendy 登入時間: 2023/05/19 17:36:36

- 回首頁
- 平台管理
- 結算會員及結算帳戶基本資料
- 交易提交管理
- 部位管理
- 擔保品管理
- 風險管理
- 結算作業
- 銀行出入金作業
- 部位集中度

結算會員基本資料查詢	當日提交交易狀態查詢	個別結算帳戶實際 抵繳金額查詢	歷史評價曲線查詢	New Trade提交查詢	Trade Level查詢	Account Level查詢
訂價確認報表查詢	日內例行	日終例行	保證金模擬試算	單一結算契約結算 明細表	單一結算帳戶結算 明細表	結算會員結算明細 表
現金存入申請查詢/維護	有價證券存入申請 查詢/維護	現金及有價證券提 領申請查詢/維護	有價證券抵繳手續 費月報表	結算服務費月報表		

■ Operation Reference: [CM Web Portal User Manual](#)

Client Web Portal



Position Overview



Margin Overview



Dummy Trades
Margin simulation



登入資訊: 12345678_wade.hsu 登入時間: 2023/05/18 20:30:38

回首頁

部位概況 / 部位概況

IRS

NDF

資料日期

2023/05/19

契約交易日(起)

2023/05/19

契約交易日(迄)

2023/05/19

結算會員

全部

結算帳戶

全部

結算契約狀態

已結算

結算契約代碼

查詢

下載查詢結果

下載M15-1-1

Version:2.0.20230517-1

System Testing



■ Weekday testing(Testing environment 3/13-7/28) :

Web Portal function

Trade
Submission
(RFC)

Margin
Deposit and
Withdrawal

Risk
Management

Clearing
Procedure

Web Portal

7/31

Phase 2
Service

■ Holiday testing(Production environment) :

Testing schedule

- 7/8 (Sat.)
- 7/16 (Sun.)
- 7/30 (Sun.)

Testing scenario

Unscheduled
holiday
(Typhoon)

Business day
7/31 · 8/1

TWD NDF

&

Client
Clearing

*Please refer to [OTC Derivatives Clearing Information](#)

Clearing Fees



■ Clearing fees for clearing members (including proprietary and client transactions)

- The fees for new trades and backloaded trades are the same.
- No annual fee.

	IRS	NDF												
Registration Fee	<p>Charged according to the nominal principal and the maturity of the cleared transaction.</p> <table border="1"> <thead> <tr> <th>Transaction Maturity</th> <th>NT\$/million notional principal</th> </tr> </thead> <tbody> <tr> <td>0-3 year</td> <td>8</td> </tr> <tr> <td>3-6 year</td> <td>12</td> </tr> <tr> <td>6-9 year</td> <td>14</td> </tr> <tr> <td>9-12 year</td> <td>16</td> </tr> <tr> <td>12-15 year</td> <td>18</td> </tr> </tbody> </table>	Transaction Maturity	NT\$/million notional principal	0-3 year	8	3-6 year	12	6-9 year	14	9-12 year	16	12-15 year	18	<p>Charged according to the notional principal of the cleared transaction. (The registration fee will be announced separately once approved by the competent authority)</p>
Transaction Maturity	NT\$/million notional principal													
0-3 year	8													
3-6 year	12													
6-9 year	14													
9-12 year	16													
12-15 year	18													
Maintenance Fee	<ul style="list-style-type: none"> • Charged according to the nominal principal balance of surviving cleared transactions. • The annual maintenance fee on a per-million notional principal basis is NT\$10 	No												
Incentive measures	<ul style="list-style-type: none"> ■ 7/25/2023-6/30/2024 Registration fee, maintenance fee, netting fees, and position transfer fee are exempted in the first year from the date of launching clearing operation. ■ 7/1/2024-6/30/2025 The registration fee and maintenance fee will be announced separately by TAIFEX. 	Free registration fee from the launch date of NDF clearing to 6/30/2025												



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Thanks for Listening

