

TAIFEX FTSE4Good TIP Taiwan ESG Index Futures

Introduction

It has been a growing demand for sustainable or ESG (Environmental, Social and Governance) investment across the globe. According to the Global Sustainable Investment Alliance's *Global Sustainable Investment Review 2018*, sustainable investment worldwide has amounted to USD 30.7 trillion, an increase of 34% in two years. And, from the research institution, ETFGI's statistics, the value of global ESG Exchange-Traded Products (ETPs) as of September 2019 was approximately USD 47.33 billion, rising 111% from USD 22.47 billion in 2018.

In Taiwan, institutional investors have been continuing to put more focus on social responsibility and sustainable investment. In 2017, Taiwan Index Plus Corporation (TIP) and FTSE Russell jointly introduced "FTSE4Good TIP Taiwan ESG Index (F4G TIP TW ESG Index)," which is a domestic discretionary investment benchmark for the Labor Pension Fund by the Bureau of Labor Funds, Ministry of Labor, with a total investment amount of NTD 42.0 billion. Meanwhile, domestic asset management companies have issued relevant ESG ETFs, demonstrating the strong demand from Taiwanese investors to incorporate sustainable investment into their portfolios.

To align with global trend and cope with the strong demand in Taiwan's market, the Taiwan Futures Exchange (TAIFEX) will launch "FTSE4Good TIP Taiwan ESG Index Futures (F4G TIP TW ESG Index Futures)" in June 2020.

Product Features

The Best Hedging and Trading Tool for Taiwan ESG Investment

The underlying of TAIFEX F4G TIP TW ESG Index Futures represents the performance of Taiwanese companies with leading corporate responsibility practices. The underlying index embraces the IOSCO Principles and appeals to both international and domestic institutional investors, making the TAIFEX F4G TIP TW ESG Index Futures the best hedging and trading tool in Taiwan ESG investment.

Tapping into the Global ESG Futures Market

To date, the global ESG futures products are mainly listed in European and U.S. markets, such as NASDAQ OMXS30 ESG Responsible Index Futures, EUREX STOXX® Europe 600 ESG-X Index Futures, and CME E-mini S&P 500 ESG Index Futures. With the launch of F4G TIP TW ESG Index Futures, TAIFEX not only extends its product line to ESG investment but also takes TAIFEX ESG derivatives to a global level.

Low trading threshold facilitates greater participation

TAIFEX F4G TIP TW ESG Index Futures features leveraged characteristics with a low threshold for trading, enabling traders to hedge, trade, and arbitrage at relatively low costs with higher capital efficiency.

The Products

Q1 : What is the underlying of TAIFEX F4G TIP TW ESG Index Futures?

Launched on December 18, 2017, the F4G TIP TW ESG Index is the first ESG investing index in Taiwan compiled by TIP and FTSE Russell, and takes into account a combination of ESG factors and financial indicators (such as ROE). The index constituents are selected from the companies listed on the Taiwan Stock Exchange (TWSE) that meet the inclusion standards of the FTSE4Good Emerging Index, with consideration of their financial performance, and then weighted by their free-float market capitalization. The FTSE4Good Emerging Index is constructed with FTSE Russell's ESG Ratings Model, based on more than 300 indicators covering three pillars – Environmental, Social, and Corporate Governance, and 14 themes, to evaluate overall ESG performance of exchange-listed companies.

Q2 : What are the trading hours of TAIFEX F4G TIP TW ESG Index Futures?

TAIFEX F4G TIP TW ESG Index Futures are traded from 08:45 to 13:45 (Taiwan time, regular session). For expiring contracts, trading ends at 13:30 on the last trading day.

Q3: What are the last trading day and the final settlement price of TAIFEX F4G TIP TW ESG Index Futures?

The last trading day of TAIFEX F4G TIP TW ESG Index Futures is the third Wednesday of the delivery month. The next business day following the last trading day of the expiring contract shall be the initial trading day for the contracts of the new delivery month. In the event that the last trading day coincides with a national holiday in Taiwan, or a force majeure event (e.g. a typhoon) prevents trading on the last trading day, the last trading day is adjusted to the next business day. The final settlement day is the same day with the last trading day.

The final settlement price of TAIFEX F4G TIP TW ESG Index Futures is the simple average price of the underlying index during the 30 minutes of trading before the TWSE market close on the final settlement day.

Q4 : What are the contract value and the minimum price fluctuation of TAIFEX F4G TIP TW ESG Index Futures?

The multiplier of TAIFEX F4G TIP TW ESG Index Futures is NTD 100. For example, at the index level of 5,200, the contract value of TAIFEX F4G TIP TW ESG Index Futures is NTD 520,000, which makes this product a relatively small-sized contract. The minimum price fluctuation is 1 index point (NTD 100).

Q5 : What is the daily price limit of TAIFEX F4G TIP TW ESG Index Futures?

The daily price limit of TAIFEX F4G TIP TW ESG Index Futures is +/-10% of the previous day's settlement price.

Q6 : What are the delivery months of TAIFEX F4G TIP TW ESG Index Futures?

Delivery months are spot month, the next two calendar months, and the next three quarterly months of the March, June, September, and December cycle.

Q7 : How is transaction tax calculated for TAIFEX F4G TIP TW ESG Index Futures?

Trading of TAIFEX F4G TIP TW ESG Index Futures is subject to the futures transaction tax, which levies 0.002% on the market value of each transaction.

Q8 : Where to obtain cash market information for the F4G TIP TW ESG Index?

Traders can access the market information via websites of TAIFEX Real-Time Snapshot Quotes (https://info512.taifex.com.tw/EN/index_home.aspx) and Taiwan Index Plus Corporation, and other market data providers, such as Bloomberg (symbol: TWF4GTTE<INDEX>) and Mitake APP.

Trading

Q1: How do orders of E4F Futures before market open and information disclosure work?

1. Before market open, from 8:30 to 8:45, the system accepts orders, and discloses the total number of bid/ask orders, the cumulative quantity of bid/ask orders, the calculated opening prices and volume, the best 5 bid/ask prices and corresponding volumes of simulated matching every 5 seconds for each contract.
2. 2 minutes prior to opening of trading session(8:43am~8:45am), orders can only be entered, but not deleted or modified.

Q2: How to calculate protection points of Market with Protection(MWP) Orders for E4F

Futures?

The MWP Order protection points for E4F Futures for outright order is $\pm 0.5\%$, and for spread order is $\pm 0.25\%$, of the closing price of the underlying index on previous trading day.

Q3: What is the position limits for E4F Futures ?

The position limit thresholds for E4F Futures are 1,000 lots for Individual, 3,000 lots for Institution and 9,000 lots for Proprietary Trader/Market Maker.

Q4: Is E4F Futures applicable for block trades?

Yes, E4F Futures is applicable for block trades and the minimum block trade thresholds for E4F Futures is 200 lots.

Clearing

Q1: What currency shall trader deposit for required margin of F4G TIP TW ESG Futures?

What's method for calculating required margin?

F4G TIP TW ESG Futures (E4F) is NTD-denominated. Regarding the required margin, the domestic traders who participate in E4F trading shall deposit NT Dollars; the offshore foreign traders shall pay in 7 foreign currencies announced by TAIFEX.

The futures commission merchant shall stipulate with the trader that the margin shall be collected in accordance with the standards prescribed by the TAIFEX or the standards as prescribed under the SPAN margin calculation method. A trader who wishes to participate in SPAN margining shall meet the requirements of Chinese National Futures Association Self-Regulatory Rules for Adoption by Customers of SPAN Methodology for Calculating Margins and enter into an agreement with the futures commission merchant.

Q2: Are F4G TIP TW ESG Futures applicable to spread trading?

F4G TIP TW ESG Futures (E4F) are applicable to spread trading with identical product (with different expiry dates) and different products (with the same or different expiry dates).

Buying one E4F and selling one E4F with different expiry dates, traders should deposit margin of one E4F position.

Buying one E4F and selling one TX (or TE, TF, MTX), or selling one E4F and buying one TX (or TE, TF, MTX), traders should deposit margin of one E4F position or margin of one TX (or TE, TF, MTX), depending on which one is higher.

Q3: How to calculate the final settlement price of F4G TIP TW ESG Futures?

The final settlement price of F4G TIP TW ESG Futures shall be determined based on the simple arithmetic mean index of FTSE4GOOD TIP Taiwan ESG Index during the last 30 minutes of trading before market close of the Taiwan Stock Exchange on the final settlement day.

Q4: What's the business hours of the trade position settlement at expiration for F4G TIP TW ESG Futures? what's the settlement process?

The final settlement date of F4G TIP TW ESG Futures (E4F) are the same as the final trading date, as the third Wednesday of the delivery month. Identical to the domestic index futures contracts, the business hours for settling E4F are from 2:30 p.m. on the final settlement day.

The Contracts shall be settled in cash with the trader delivering or receiving the net amount of the

price differential based on the final settlement price on the final settlement day. Each contract value of the expiry position is the final settlement price of the contract multiplied the value of each point of the index.

TAIFEX “FTSE4Good TIP Taiwan ESG Index Futures” Contract Specification

Item	Description
Underlying Index	● FTSE4Good TIP Taiwan ESG Index
Ticker Symbol	● E4F
Trading Hours	<ul style="list-style-type: none"> ● 08:45AM-1:45PM Taiwan time Monday through Friday of the regular business days of the Taiwan Stock Exchange ● 08:45AM-1:30PM on the last trading day for the delivery month contract
Contract Size	● NTD 100 x TAIFEX F4G TIP TW ESG Futures Price
Delivery Months	● Spot month, the next two calendar months, and the next three quarterly months
Daily Settlement Price	● The daily settlement price is the volume-weighted average price, which is calculated by dividing the value of trades by the volume within the last one minute or otherwise determined by TAIFEX according to the Trading Rules.
Daily Price Limit	● +/- 10% of previous day's settlement price
Minimum Price Fluctuation	● 1 index point (NTD 100)
Last Trading Day	● The third Wednesday of the delivery month
Final Settlement Day	● The same day as the last trading day
Final Settlement Price	● The average price of the underlying index disclosed within the last 30 minutes prior to the close of trading on the final settlement day. The method used to calculate the final settlement price is prescribed by TAIFEX.
Settlement	● Cash settlement

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