

TAIFEX-listed USD/RMB FX Futures:

An Industry FAQ

(August 1, 2016)

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1. Product-related Questions

	Question	Answer
1	What is the difference between the USD/CNT FX Futures (RTF) and the USD/CNH FX Futures (RHF)?	<p>The primary differences are contract sizes and the calculation of final settlement prices:</p> <p>(1). The USD/CNT FX Futures (RTF) is a USD20,000 contract; the USD/CNH FX Futures (RHF) is a USD100,000 contract. Consequently, a one tick change in the RMB's price (RMB0.0001:USD) results in a RMB2 change in the value of an RTF contract, but a RMB10 change in the value of an RHF contract.</p> <p>(2). The final settlement price of the USD/CNT FX Futures (RTF) is calculated using the Taiwan fixing rate for offshore RMB (CNT fixing) published by the Taipei Foreign Exchange Market Development Foundation at 11:15 am on the final settlement date. The final settlement price of the USD/CNH FX Futures is calculated using the USD/CNY (HK) Spot Rate published by the Hong Kong Treasury Markets Association at 11:30 am on the final settlement date.</p>
2	What is Taiwan fixing	The Taipei Foreign Exchange Market

	rate for offshore RMB (CNT fixing), published by the Taipei Foreign Exchange Market Development Foundation?	Development Foundation determines CNT fixing based on the last interbank transaction completed via Taipei Forex, Inc. prior to 11am. Thomson Reuters publishes this rate at 11:15am, determining the CNT fixing using the same method it currently employs for the NTD:USD rate. Thomson Reuters's code for the CNT fixing rate is <CNTFIX=>. Unlike CNH, CNT fixing is based on actual transaction prices.
3	What is the Hong Kong USD/CNY (HK) Spot Rate, published by the Hong Kong Treasury Markets Association?	The Hong Kong Treasury Markets Association uses all eligible transactions between 10:45 am and 11:15 am Hong Kong time to calculate a volume-weighted median price as the USD/CNY (HK) Spot Rate. Eligible transactions are transactions with an amount of at least US\$1 million and executed through an Approved Money Broker that has dedicated FX spot business. Its code for the USD/CNY (HK) Spot Rate is <CNHFIX=>.
4	What are the reasons for TAIFEX to simultaneously list two RMB forex futures contracts?	(1). To meet the needs of both international and domestic investors: Since CNT uses transaction prices for fixing and offers more real-time information, we expect it to be more easily adapted by domestic investors . On the other hand, since Hong Kong's offshore RMB

		<p>market developed earlier and is larger in scale, we believe international investors are more familiar with CNH.</p> <p>(2). For product differentiation, and to meet respective needs of institutional and retail investors: the smaller (USD20,000) size of USD/CNT FX Futures (RTF) reduces product's barriers for ordinary investors. The larger (USD100,000) size of USD/CNH FX Futures is more in keeping with international investors' expectations.</p> <p>(3). To provide the market with more diversified hedging channels and spur strategic trading between the two products: traders can choose proper contract in consideration of their capital and trading customs. In addition, since both products use offshore RMB as their underlyings, their trend should be highly correlated, providing arbitrage opportunities.</p>
5	Where can I obtain information of CNT and CNH?	<p>Investors can find information on Thomson Reuters. To facilitate this, TAIEX also provides the following:</p> <p>(1). On CNT: TAIEX has obtained license from Taipei Forex, Inc. and the Taipei Foreign Exchange Market</p>

		<p>Development Foundation, and will use TAIFEX Real-Time Snapshot Quotes website (http://info512.taifex.com.tw) to provide real-time information of Taipei Forex's best-bid, ask, and transaction prices for CNT, as well as of its daily fixing rate published at 11:15 am.</p> <p>(2). On CNH: TAIFEX has obtained license from Hong Kong Treasury Markets Association, and will use TAIFEX Real-Time Snapshot Quotes website (http://info512.taifex.com.tw) to provide the information of USD/CNY (HK) Spot Rate at 11:30 am every day.</p> <p>(3). The above both refer to interbank rates. In accordance with market practices, fixing rates (and spot rates) generally reflect the settlement prices of T+2. Therefore, the final settlement prices of these two USD/CNH FX Futures products represent the fixing rate on the date on which settlement is undertaken: T+2 of the final trading day.</p>
6	<p>What are the products' trading hours? When are the contracts settled?</p>	<p>(1) The products trade on banks' business days.</p> <p>(2). Unlike TAIFEX's current stock index</p>

		<p>futures, the products trading hours are 8:45am to 4:15pm, i.e. their trading hours conclude 2.5 hours after the close of trade for stock index futures. The products' trading hours on their final trading day also differ from those of stock index futures, running from 8:45am to 11:00am. Investors should take careful note of the differences in the trading hours.</p> <p>(3). The products' final trading day and final settlement day are identical to those of stock index futures: the third Wednesday of every month.</p>
7	<p>What is the transaction tax rate on trading USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF)?</p>	<p>We are currently discussing this matter with the Ministry of Finance. We will announce the rate to the market as soon as it is determined.</p>

2. Trading-related Questions

	Question	Answer
1	Is block trading available for USD/CNT FX Futures (RTF) and the USD/CNH FX Futures (RHF)?	Yes, block trading is available for both the RTF and RHF. The minimum block-trading quote is for 50 contracts of the same type. Please see the Operational Regulations for Block Trading for details.
2	Are there position limits on USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF)?	Yes, there are position limits on both the RTF and the RHF. These position limits are managed separately for each product. An investor's total open positions in the products held on either the long or short side of the market may not at any time exceed the limits announced by TAIFEX. The position limits are 1,000 contracts for the individual, 3,000 contracts for the institutional investors and 9,000 contracts for the proprietary trader or market maker.
3	What method is used to calculate the protected range for market orders with protection on USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF)?	The protected range on market orders with protection is calculated using 0.1% for a single order and 0.05% for a spread order. The calculation is based on the daily settlement price of the nearby month contract on the previous day, unless the previous day is the final trading day, in which case the daily settlement price of the next nearby month contract is used. Example: If the previous day's settlement

		<p>price for the nearby month contract is 6.2001, the protected range on a single order would be 0.1% of that, or 0.0062001. Therefore, if the best bid at the time the order is placed is 6.1005, a buy order would be converted into a limit order at 6.1068 (the best bid of 6.1005 plus the protected range of 0.0062001 equals 6.1067001, which would be rounded up to four decimal places.</p>
4	<p>What are the transaction fees and clearing fees on TAIFEX's USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF)?</p>	<p>On the RTF, the transactions fees are NTD3/contract and the clearing fees are NTD2/contract, for a total of NTD5/contract. On the RHF, the transaction fees are NTD14.4/contract and the clearing fees are NTD9.6/contract, for a total of NTD24/contract.</p>

3. Clearing and Settlement-related Questions

	Question	Answer
1	How do FCMs collect margin when they accept orders for USD/RMB Futures?	<p>(1). Margins and profits and losses on USD/RMB FX Futures are denominated in RMB. Regardless of whether the investor engaged in trading USD/RMB FX Futures is a domestic investor, or offshore overseas Chinese or foreign investor (hereinafter, “offshore foreign institutional investor”), the investor must pay the initial margin with its own proprietary RMB.</p> <p>(2) FCMs will manage the overall risk on an investor’s account, but, when receiving an order from an investor, should also check whether the “available balance in RMB” and “combined available balance in each currency” in the investor’s domestic futures trading account is sufficient to cover the margin before accepting that order. The margin check guidelines for each product are as follows:</p> <p>A. RMB-denominated products: Min(available RMB margin, overall</p>

		<p>available margin)</p> <p>B. NTD-denominated products: Min(available NTD margin, overall available margin – available RMB margin)</p> <p>C. USD-denominated products: Min(USD+NTD available margin, overall available margin – RMB available margin)</p>
2	<p>What risk management measures do FCMs utilize on USD/RMB FX Futures?</p>	<p>FCMs combine USD/RMB FX Futures with other domestic futures products and enter them into investors’ domestic futures accounts to carry out risk management (using NTD equivalent for domestic investors and USD equivalent for offshore foreign institutional investors). When necessary, FCMs will send intraday high-risk-account notifications, and make after-hours margin calls.</p> <p>(1). Intraday high-risk-account notifications: When an investor’s overall equity falls below the maintenance margin level during the intraday session, the FCM will notify the investor in person, via telephone, by SMS message, through</p>

		<p>email, or by other means designated by that investor to immediately supplement the investor's equity to a margin level sufficient to obviate the need to offset positions, and will remind the investor to be aware of changes to the investor's equity.</p> <p>(2).After-hours margin-call notifications: When an investor's overall after-hours equity is below the maintenance margin level, the FCM will notify the investor of a margin call in person, via telephone, by SMS message, through email, or by other means designated by the investor. The after-hours margin-call notification will include the account equity and the amount of the margin call. In addition, because the FCM may not act on the investor's behalf to exchange RMB into other currencies (NTD or USD) to cover a margin call, the FCM should be aware of the shortfall to be made up in each currency to avoid a situation in which the investor's account holds negative equity in NTD or USD. (3). Offsetting</p>
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		<p>positions on behalf of the investor:</p> <p>A. When the risk index of an investor's account falls below the ratio set by the FCM (it may not be lower than 25%), the FCM will offset all of the investor's positions. Since index futures and single stock futures stop trading at 1:45pm, in the event that an investor's risk index falls below the set level after 1:45pm, the FCM will offset all of the investor's open positions in products that are still trading.</p> <p>B. If an investor fails to meet an after-hours margin call by the deadline to do so, the FCM will offset the investor's positions in the sequence agreed upon with the investor, continuing to do so until the investor's overall equity meets or exceeds the initial margin required by the remaining open positions.</p> <p>C. If an investor's risk index remains below the set ratio (e.g. positions could not be offset because of a lack of liquidity) at the market's 4:15pm close, the FCM will issue an after-hours</p>
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		<p>margin call. At the next business day's market open, the FCM will mark the investor's positions to market and evaluate the account. In the event that the risk index remains below the set ratio, the FCM will offset all of the account's positions.</p>
3	<p>How can an FCM exchange RMB for an investor?</p>	<p>(1). According to the Regulations Governing Foreign Exchange Business of Banking Enterprises in the case of a natural person buying or selling RMB, neither individual transactions nor the daily total amount of RMB bought or sold through the account may exceed RMB20,000.</p> <p>(2). When an investor's open positions in USD/RMB FX Futures produce RMB margin calls or losses, these can be paid in other currencies (domestic traders may use NTD or USD; offshore foreign institutional investors may, in accordance with TAIFEX's announcement, use USD, EUR, JPY, GBP, or AUD), which will then be converted into RMB in the FCM's client</p>

		<p>segregated margin account.</p> <p>(3). When an investor is paying handling fees, transaction taxes, margin calls or losses on trades involving non-RMB-denominated products, the FCM may not convert excess RMB margin in the investor's account into other currencies to make the payment. Instead, the investor must make the payment using its proprietary holdings of the relevant currency (NTD or USD). However, in the event that a domestic trader defaults, the FCM may convert the investor's proprietary funds balance (including RMB) into the relevant currency to pay the default.</p> <p>(4). Offshore foreign institutional investors trading non-RMB-denominated products can pay margin in seven foreign currencies, including RMB. Therefore, if an offshore foreign institutional investor's account has RMB available margin, the investor can handle it in accordance with the Directions for Futures Trading by Overseas Chinese and Foreign</p>
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		Nationals.
4	Given that USD/RMB FX Futures trade until 4:15pm, how should futures traders handle transfers after banking hours?	In addition to monitoring the margin amounts and risk indices of their own accounts, futures traders may make use of the Internet and other non-counter methods to transfer funds from their accounts to designated segregated margin accounts of futures brokers (because these involve foreign currency transfers and remittances, the timing of the account entry will depend upon each bank's hours of operations).
5	When an investor places a USD/RMB futures order, what currency should the investor pay margin in and what other matters should the investor be aware of?	<p>(1). Margins and gains/losses on USD/RMB futures are denominated in RMB. Investors must pay initial margins on RMB forex futures in their own proprietary RMB regardless of whether the investor is a domestic investor or an offshore overseas Chinese and foreign national ("offshore foreign investor").</p> <p>(2). Domestic investors should note that because the Regulations Governing Foreign Exchange Business of Banking Enterprises state that in the case of a natural person buying or selling RMB, the total amount of RMB bought or sold in cash and through the account during the course of a single day may not exceed RMB20,000. TAIFEX therefore recommends that before trading RMB forex futures domestic investors should</p>

		<p>first prepare an amount of RMB sufficient to pay both the margin required by the investor’s order and to cover any losses on the investor’s positions.</p> <p>(3). Because FCMs manage investors’ portfolios as a whole, when an investor places a USD/RMB futures order, the investor must have in the investor’s domestic futures trading account an “available RMB balance” and a “combined available balance in each currency” sufficient to cover the necessary margin.</p>
6	<p>How does an FCM carry out the offset of USD/RMB futures positions on behalf of an investor?</p>	<p>(1). The FCM implements risk control measures on the basis of an investor’s portfolio as a whole.</p> <p>(2). Investors should be aware of changes to their equity levels during the trading session. If an investor’s portfolio risk index drops below the ratio set by the FCM (it may not be lower than 25%) prior to 1:45pm, the FCM will offset all of the investor’s open positions. If it does so after 1:45pm, the FCM will offset all of the investor’s open positions in products that are still trading. If an investor fails to meet an after-hours margin call by the deadline to do so, the FCM will offset the investor’s positions in the sequence</p>

		<p>agreed upon with the investor, continuing to do so until the investor's overall equity meets or exceeds the initial margin required by the remaining open positions.</p> <p>(3). If an investor's risk index remains below the set ratio (e.g. because a lack of liquidity prevented positions from being offset) at the market's 4:15pm close, the FCM will issue an after-hours margin call. If, after marking the account to market on the next business day's market open, the risk index remains below the set ratio, the FCM will continue offsetting all of the account's positions.</p>
7	<p>How are margins on USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF) calculated and collected?</p>	<p>Margins on USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF) are calculated and collected in RMB. Futures traders may reach an agreement with their FCM to use SPAN or a strategy-based margin calculation method.</p> <p>(1). SPAN calculation and collection: SPAN bases its margin calculations on its evaluation of an investor's overall portfolio risk. It considers the risk reductions generated by combination positions in USD/CNT FX Futures</p>

		<p>(RTF) and USD/CNH FX Futures (RHF), and then calculates the margin an investor should have based on each product's margin currency.</p> <p>(2). Strategy-based calculation and collection of margins</p> <p>A. Margin calculation for spread position combinations of the same contract with different final settlement dates: for combination positions consisting of one long (buy) and one short (sell) USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF) contract, the margin collected is for one USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF) contract.</p> <p>B. Margin calculation for spread position combinations consisting of different contracts: for combination positions consisting of one sell (buy) USD/CNH FX Futures contract and one buy (sell) USD/CNT FX Futures contract, the margin collected is for one USD/CNH FX Futures contract or one USD/CNT FX Futures contract, whichever is higher.</p>
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8	How are final settlement prices set for USD/CNT FX Futures (RTF) and USD/CNH FX Futures (RHF)?	<p>(1). The final settlement price for the USD/CNT FX Future is set based on the Taiwan fixing rate for offshore RMB (CNT fixing rate) published by the Taipei Foreign Exchange Market Development Foundation at 11:15am on the future's final settlement date. In the event that something prevents the announcement of the fixing rate at 11:15am, or that the fixing rate is unreasonable, TAIFEX will set the price based on the USD/RMB rates published on major financial information services (such as Thomson Reuters and Bloomberg).</p> <p>(2). The final settlement price for the USD/CNH FX Future is set based on the USD/CNY (HK) Spot Rate published by the Hong Kong Treasury Markets Association at 11:30 am on the final settlement date. In the event that on the final settlement date that there is incident interferes with the normal publication of the USD/CNY (HK) Spot Rate, the reference index for the final settlement price of the USD/CNH</p>
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		<p>Future will be set as follows:</p> <p>A. By using the Taiwan fixing rate for offshore RMB published by the Taipei Foreign Exchange Market Development Foundation at 11:15am on the same date.</p> <p>B. If the preceding reference indices is unavailable, or if the reference index is unreasonable, TAIFEX will set the final settlement price based on the USD/CNT rates published on major financial information services (such as Thomson Reuters and Bloomberg).</p>
9	<p>With regard to the SPAN system, how will margins for onshore and offshore foreign institutional investors be calculated and collected once USD/CNT FX Futures (RTF) and USD/CNH Futures (RHF) products have listed?</p>	<p>(1). Onshore foreign institutional investors</p> <p>A. Positions in NTD-denominated products: margins will be calculated and collected in NTD.</p> <p>B. Positions in USD-denominated products: margins will be calculated and collected in USD.</p> <p>C. Positions in RMB-denominated products: margins will be calculated and collected in RMB.</p> <p>(2). Offshore foreign institutional investors</p> <p>A. Positions in NTD-denominated products: margins will be converted into an equivalent amount of USD and collected in USD.</p>

		<p>B. Positions in USD-denominated products: margins will be calculated and collected in USD.</p> <p>C. Positions in RMB-denominated products: margins will be calculated and collected in RMB.</p>
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