

# An Introduction to the Taiwan Futures Market's After-Hour Trading Platform

Invigorating Futures Trading and Serving the Real Economy  
Fulfilling Hedging Needs and Facilitating Price Discovery

Taiwan Futures Exchange  
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# Objectives and Functions of the After-Hour Platform

- Provides clients with a comprehensive hedging channel and more trading opportunities
  - Enable clients to hedge in real time when world events occur after hours; get on track with the regular trading sessions in Europe and the US; and provide additional investment opportunities
- Enhances the Taiwan futures market's international competitiveness
  - With Japan, Singapore, and Hong Kong exchanges all already offering after-hour trading, its promotion has become a developmental trend across Asia.
- In keeping with TAIFEX' product development strategy, TAIFEX can list new products on the platform as it sees fit (flexibility)
  - TAIFEX will add further listed products in stages as market needs and liquidity demand. The initial stage will include TAIFEX' primary products, FX products, and offshore cooperative products.
- Provides convenient market participation
  - Holders of domestic futures trading accounts will be able to participate in after-hour trading immediately, and clients will be able to easily obtain market information



# Rules – Listed Products and Trading Hours

# Listed Products

- Listing principles: Products added in stages based on: market needs, product importance and liquidity, international competition, strategic development objectives, and product characteristics.
- Stage 1 products include:
  - **TAIFEX' primary products**  
Domestic stock index products: **TX, MTX, TXO (13:45 close)**
  - **FX products** (see note 1)  
FX products: **RTF, RHF, RTO, RHO, XEF, XJF (16:15 close)**
  - **International stock index products**
    - ✓ After-hour is an increasingly important time for trading cooperative products. The after-hour session provides full coverage of cash-market trading hours.
    - ✓ International stock index products: **Dow Jones and S&P 500 futures (13:45 close)**
- Stage 2 products
  - To be evaluated in light of stage one's effectiveness and market needs

# Session Start and End Times

- Start of trading: Because the regular trading session includes two different closing times (13:45 and 16:15), the beginning of the after-hour session will vary by product
  - Products closing at 13:45: **orders accepted from 14:50; session begins at 15:00** (no cancellations/modifications during the two minutes preceding the start of trading)
  - Products closing at 16:15: **orders accepted from 17:15; session begins at 17:25** (no cancellations/modifications during the two minutes preceding the start of trading)
- End of trading: the after-hour sessions will end at 05:00 on the following day
  - International exchanges are doing their utmost to extend trading hours and provide 24-hour trading for cash and futures products
  - Enabling trading until 05:00 satisfies the market's hedging, trading, and resource utilization needs by completely covering the principal cash market sessions in Europe and the US
  - Given the current structure and systems of our regular trading session, 05:00 is the latest the after-hour session can end without impacting the operations of the regular session.

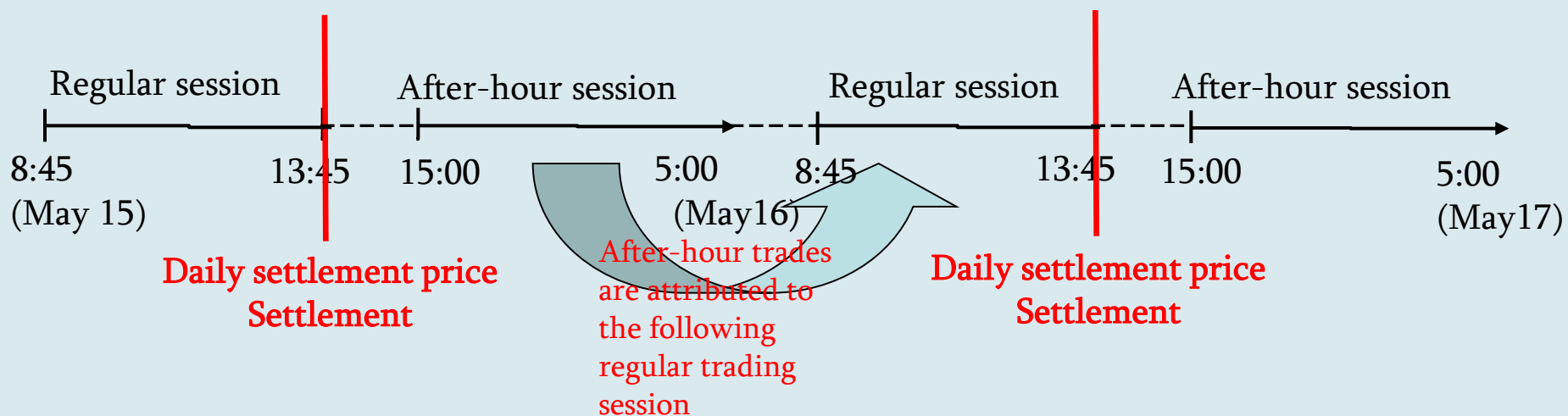


# Rules and Processes for After-hour Trading

# After-Hour Trading Principles

- Each day's trading session will consist of a **regular trading session** and an **after-hour trading session**.
- The close of the regular trading session will be the point of demarcation for daily trading and settlement operations. Trading in the after-hour session will be attributed to the following regular trading session.
- Unless otherwise provided, the trading and settlement operations of the after-hour trading session shall be recorded in the following regular trading session.

Take TX as an example:



# Trading Rules and Procedures - 1

- In principle, the trading rules for the after-hour session are the same as those for the regular session. However, we have changed rest-of-day (ROD) orders to rest-of-session orders and reduced the pre-market-order time period to 10 minutes.
- Matching
  - The same as the regular session: a call auction prior to the start of the trading session, and continuous matching during the session.
- Order types
  - The same as the regular session
  - The effective period of ROD orders has been changed to the duration of the session in which the order is placed (that is, the ROD order has become a rest-of-session order).
  - Clients placing buy/sell orders or using market orders should be aware of price risk.
- Listing months and series
  - Contracts for every month. **However, no expiration-month contracts or series are listed on the last trading day** (just as on JPX, SGX, and HKEx)



# Trading Rules and Procedures - 2

- Listing times for new contract months and series
  - New contract months are listed **in the regular trading session of the trading day** immediately following contract expiration.
  - New options series are listed **in the regular trading session of the trading day**.
- Opening reference price
  - The daily settlement price from that day's regular trading session (just as on SGX and JPX).
- Price limits
  - Each product's price limit is the same as that for the next day's regular session (just as on SGX and JPX).
- Position limits
  - The same as for the regular trading session.
  - Position-limit changes become effective at the start of the regular trading session.
- Block trading
  - If a product currently eligible for block trading is tradable in the after-hour session, it may be block traded in the after-hour session (just as on JPX, SGX, and HKEx).

# Trading Rules and Procedures - 3

- Market-making rules
  - TAIFEX has market-making mechanism for the regular session and for the after-hour session. For those products that have no market-making mechanism in the regular session, TAIFEX has established price-quote awards for the after-hour session
- Adjustments to trading operations
  - Time for resolving out trades and account number corrections:
    - ✓ Trades from the regular session: handled during that trading session or prior to the close of the next regular trading session.
    - ✓ Trades from the after-hour session: handled prior to the close of next regular trading session or prior to the close of the second-next regular trading session.
  - Default report disclosure: **The futures market default information for a given day is disclosed at 18:00 of that day.** In accordance with Article 25 of the Regulations Governing Futures Commission Merchants and Article 47 of the Operating Rules of the Taiwan Futures Exchange Corporation, FCMs must control the placement of orders to open new positions by defaulting traders.
  - Trading data and statistics, and online announcements: Trading data for the after-hour session is combined with the trading data for the next regular session.

# Trading Rules and Procedures - 4

- Market closures from typhoons and other natural disasters
  - When a day's regular session is suspended, the following after-hour session will also be suspended.
  - When the regular session opens:
    - But the Taipei City Government announces before 14:00 that all Taipei City public and educational institutions will be closed in the afternoon or evening, the day's after-hour session will be suspended. When necessary, TAIFEX may respond to the conditions of the moment by announcing a continuation of trading.
    - But the Taipei City Government announces after 14:00 that all Taipei City public and educational institutions will be closed in the afternoon or evening, the day's after-hour session will be held.
- No after-hour session will be held on adjusted working days that fall on Saturday (just as with SGX's MSCI Taiwan Index)
- The after-hour session will be held on the last day of trading before the Lunar New Year (just as with SGX's MSCI Taiwan Index)



# After-Hour Trading Settlement Rules and Procedures

# Margin Deposits and Withdrawals

## ■ Margin Deposits

TAIFEX has added a computerized mechanism for receiving margin deposits from clearing members to make the margin deposit process both easier and more efficient. As soon as TAIFEX receives deposit information from a clearing bank, it enters the deposit amount into the clearing member's equity, increasing the member's excess margin.

- Responding to the establishment of after-hour trading rules, TAIFEX has adjusted the hours in which it processes margin deposits to **07:00 to 05:00 on the following day**.
  - **07:00-19:30** May handle incoming funds via bank accounts and virtual accounts. Please visit TAIFEX' online reporting system to check each clearing member's virtual account.
  - **19:30-05:00 of the next day: Only virtual accounts may be used to provide clearing margins.**
  - If clearing members provide clearing margins after 19:30, these margins are entered into equity on the next business day.
- After-hour trading session liquidity procedures will be set in a timely manner after observing the services provided by the banks. We will ask clearing members to consult with the financial institutions with which they do business and will recommend that they contribute adequate margin during the financial institutions' business hours to facilitate after-hour trading.

# Margin Deposits and Withdrawals-continued

## ■ Margin withdrawals (identical to current)

TAIFEX processes clearing margin withdrawals from 08:45 to 16:30

- Same-day withdrawal application cut-off points: 09:00, 11:00, 14:00, and 14:45
- Next-day withdrawal cut-off point: 16:30

# Position Management and New System Queries

## ■ Position management

- After-hour trading positions are combined with the next regular session's positions. Positions transacted in the after-hour session are transferred into the clearing system's calculated positions prior to the opening of **the next regular trading session (T+1)**, and are processed in accordance with the procedures for handling the opening of new positions/closing of specified positions. Futures positions are automatically offset.
- No position management is provided during the after-hour session.  
**From 07:00 of the next trading day (T+1)**, FCMs can use the MTS system to execute position management processes, including mutual offsets, specified position offsets, specified position combinations, and position adjustments.

## ■ New clearing system queries

- Clients' after-hour transaction volume
- Clearing members' excess margin utilization rate
- Clearing members' real-time risk warning

# Daily Financial Reports

- Daily financial reports (identical to current)
  - After-hour positions are combined with positions from the next regular session (T+1), so gains/losses from after-hour trades are not counted towards the same day's (T) equity.
  
  - Futures firm daily financial report items (**the cut off time is 19:30**):
    1. Adjusted net capital (ANC) calculation worksheet
    2. Forex settlements and margin account equity for offshore overseas Chinese and foreign clients, and Mainland Area clients
    3. Margin account deposit balance and book-entry central government bonds
    4. Margin account total equity value



# Daily Settlement Price

- **Daily settlement price procedures (identical to current)**
  - **The regular session daily settlement price is published daily**

The after-hour session and the next day's regular trading session are deemed to comprise the same trading day. TAIEX publishes a daily settlement price for only the regular trading session. This is the price used for settlement.
  - **The daily settlement price is set using trading data from the regular session**

In principle, this price is the volume-weighted average of all trades executed in the last minute before market close.
  - **No daily settlement price is published for the after-hour session, nor is any settlement carried out.**
- **Margin adjustment (identical to current)**
  - **Takes place after the conclusion of the regular trading session on the business day following the announcement**

Example: March 7 TAIEX announces margin adjustments for TAIEX Futures (TX), Mini TAIEX Futures (MTX), Electronics Sector Futures (TE), and Finance Sector Futures (TF).

March 8 The adjusted margin is applied to open positions remaining after the conclusion of the day's regular trading session. TX and MTX can be traded after hours. **When the day's after-hour session begins, margin on new orders for TX and MTX will be collected based on the adjusted margin amount.**

# Clearing member order quantity control and margin calls

## ■ Order quantity control

- The clearing margin required by new clearing-member positions shall not exceed the clearing member's total excess clearing margin.

## ■ Mark-to-market principles

- Regular session products: Identical to current—gains/losses are calculated using market prices (the most recent transaction price)

- After-hour products:

Products TAIFEX has ruled exempt from liquidation on a principal's behalf (e.g. TX, MTX, TXO, RHF, RHO, RTF, RTO) use that day's daily settlement price for each contract to calculate gains/losses. Other products (e.g. UDF, SPF, XEF, XJF) follow current practice and use market price (the most recent transaction price) to calculate gains/losses.

# Clearing member order quantity control and margin calls-continued

## ■ Margin calls

- In the overlap between regular trading and after-hour trading (15:00–18:15):
  - After-hour trading session margin calls are handled together with that day's regular trading session intraday margin calls. When a clearing member has insufficient clearing margin, TAIFEX issues a margin call notice.
- During the after-hour trading session following the conclusion of the regular trading session for all products (18:15 – 05:00):
  - **Margin calls are not issued.** Clearing members may become aware of margin situations in a timely manner via TAIFEX' clearing-member excess margin use-ratio warning notices, or may use the system to inquire about excess margin usage.

# Risk Control Measures for Clearing Members - 1

## ■ Clearing-member excess margin utilization-ratio warning notice

### ● Pre-market reminder

When the market undergoes a significant event, TAIFEX will send a notice to clearing members that it anticipates will experience relatively large order quantities and low margin levels (based on the clearing members' margin levels and historical trading volume). These notices remind them to deposit margin in advance and to be aware of increases in their order quantity.

### ● Intra-session warning notice

- When a clearing member's new order margin reaches a given percentage of its excess margin (e.g. 60%, 80%, 100%, or the threshold for limiting orders), TAIFEX' information system will issue a warning notice and provide the clearing member with a query function.
- Methods by which the system issues a warning notice:
  1. Notification via email and SMS to the designated contact window registered with the TAIFEX online reporting system
  2. Automatic notification from TAIFEX' system to the clearing member to download a document via the FTP
  3. The TAIFEX online reporting system provides intra-session warning-notification data for the clearing member to download.
- The system immediately sends the notification information when a clearing member reaches the limit threshold and must restrict its orders. The system then waits for the clearing member's order margin to fall below the threshold. When the order margin does so, the system notifies the member that the order limit has been lifted.

# Risk Control Measures for Clearing Members - 2

- When a clearing member has insufficient excess margin on deposit with TAIFEX, TAIFEX may, for clearing members whose excess margin is within the 20% limit, temporarily refrain from limiting the member's new orders to avoid affecting the right of clients whose margins are paid in full to place new orders.
- Under TAIFEX' Rules Governing the Surveillance of Market Positions, when a clearing member's new positions require clearing margin exceeding the member's excess clearing margin, TAIFEX shall, except where necessary to resolve currently outstanding trades, temporarily suspend clearing and settlement.
- To maintain the right of clients under Article 43 of the Regulations Governing Futures Commission Merchants to pay in full and in advance the margin required by an order, and to avoid clearing members having insufficient excess margin on deposit with TAIFEX as a result of being unable to deposit funds at night, in the event that the clearing margin required by a new position exceeds a clearing member's excess margin after the cut off time for making deposits to cover margin calls for the regular trading session, TAIFEX may temporarily refrain from limiting the member's new orders within a given amount until the end of the after-hour session (05:00 on the following day).
- **Amount basis**  
**20% of the clearing member's excess margin at the time of the daily post-market cutoff for covering a margin call (19:30)**

# Risk Control Measures for Clearing Members - 3

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- Clearing members whose excess margin is less than the margin required by their new orders and whose order placement TAIFEX has temporarily refrained from limiting **shall file the relevant documents with TAIFEX prior to the close of the next regular trading session.**
- **Unless there is a breakdown or interruption of electronic transmissions or of the margin deposit system or equipment, a breakdown of or maintenance to online banking systems or equipment, or some other force majeure event that prevents a clearing member or its consigned FCM from depositing clearing margin in TAIFEX' clearing margin account, TAIFEX may take the following measures:**
  1. Notify the clearing member to make up or rectify the situation within a given time period;
  2. Assess a default penalty of not less than TWD 10,000 and not more than TWD 50,000;
  3. Temporarily suspend the clearing member's temporary permission to trade within the 20% of excess margin limit;
  4. Except where necessary to deal with currently outstanding trades, temporarily suspend clearing and settlement.

# Risk Control Measures for Clearing Members - 4

- If the margin required by a clearing member's new orders exceeds the excess margin plus the 20% of excess clearing margin limit at the post-regular-trading-session cut off to cover a margin call (19:30), TAIFEX will implement measures to limit orders
- When a clearing member lacks adequate excess margin, TAIFEX may not implement new order limits within a certain amount, and may use existing mechanisms to automatically deduct funds from the margin accounts of the clearing member's clients to ensure that it receives adequate margin on the next business day.
  - Prior to market open on the next business day, TAIFEX will mark positions to market and issue a margin call notice. The clearing member should then cover its margin shortfall by the deadline to do so.
  - If the clearing member has not covered its margin shortfall by the deadline, TAIFEX may use existing mechanisms to automatically deduct funds from the clearing member's client margin accounts.
  - The clearing bank will carry out transfers based on the margin account book-entry transfer information compiled by TAIFEX. If there are insufficient funds in the clearing member's clearing margin account, it will nonetheless deduct the entirety of the remaining balance in the clearing member's clearing margin account.
- Provide clearing members with a real-time risk warning query function to facilitate risk preparedness
  - Once after-hour trading begins, TAIFEX will mark positions to market at regular intervals and provide clearing members with real-time risk warnings based on market prices to better enable members to understand their real-time margin situation and prepare accordingly.

# FCM Control of Client Risks - 1

## ■ Margin collection for products traded after hours

Futures and options: the same as regular trading (the rules on reduced margins for day trading do not apply)

## ■ Margin check when new orders are placed

- The same as the regular session

## ■ Products exempt from liquidation on a principal's behalf in the after-hour session

- In consideration of the after-hour session's impact on clients' work and rest, and of the amount of fluctuation in the prices of product underlyings, TAIFEX has designated certain products exempt from liquidation during the after-hour session.
- These include: TAIEX Futures (TX), TAIEX Options (TXO) Mini TAIEX Futures (MTX), USD/CNT FX Futures (RTF), USD/CNH FX Futures (RHF), USD/CNH FX Options (RHO) and USD/CNT FX Options (RTO).



# FCM Control of Client Risks - 2

- **Products not exempt from liquidation on a principal's behalf in the after-hour session**
  - In consideration of the fact that the after-hour trading session corresponds to the normal trading hours of the local market for the underlyings of certain products, TAIFEX does not exempt these products from liquidation on a principal's behalf in either the regular trading session or the after-hour session.
  - These products include: EUR/USD FX Futures (XEF), USD/JPY FX Futures (XJF), Dow Jones Futures (UDF), and S&P 500 Futures (SPF)
- **Clients must sign a document prior to trading products not exempt from liquidation on a principal's behalf in the after-hour session**
  - To remind clients of the risk control principles that apply to products not exempt from liquidation on a principal's behalf in the after-hour session, FCMs must provide clients with the "List of Key Points Regarding Futures Clients Participating in Trading in the Taiwan Futures Exchange After-hour Trading Session," which clients should then read carefully and sign.
  - Clients that have not signed the review list may not, in either the regular session or the after-hour session, trade products not exempt from liquidation on a principal's behalf.

# FCM Control of Client Risks - 3

- **Principles for calculating “floating gains or losses on open futures positions” in equities**
  - During the regular and after-hour session: both use the market price.
  - Between the close of the after-hour session and the start of the regular session: after-hour products exempt from liquidation on a principal’s behalf use the settlement price; other after-hour products use the closing price
- **Risk indicator (FCM calculations of the contents of the risk indicator are handled differently in the after-hour and regular sessions)**
  - For after-hour products exempt from liquidation on a principal’s behalf, the settlement price is used and the floating gains or losses on open futures positions are not calculated. For after-hour products not exempt from liquidation, the market price is used and the floating gains or losses on open futures positions must be calculated.
  - Calculating the margin required by open positions is similar to calculating the risk indicator of positions liquidated on behalf of a principal. Clients should understand that the calculation of the margin required on after-hour-session open positions is as follows:
    - (1) Futures contracts: based on TAIFEX’ announced margin.
    - (2) Options contracts: The margin calculation differs from that of the regular session. For after-hour products exempt from liquidation on a principal’s behalf, the settlement price is used. For after-hour products not exempt from liquidation, the market price is used.

# FCM Control of Client Risks - 4

## ■ High-risk-account notifications

- If a client's equity falls below the maintenance margin of the client's open positions during the after-hour session, the FCM will issue a high-risk-account notification. However, the FCM will not issue a high-risk-account notification if the open positions include only products TAIFEX has designated as exempt from liquidation on a principal's behalf (e.g. TX, MTX, TXO, RHF, RHO, RTF, and RTO).
- If an account that has been issued a margin call notice after the conclusion of the regular session still has equity amounting to less than the maintenance margin in the after-hour session, and still has open positions that must be liquidated on behalf of the principal, the FCM will again issue a high-risk-account notification effective until the end of the after-hour session.

# FCM Control of Client Risks – 5

## - Margin call notification

### ■ Margin call notification

- A “margin call notification” refers to a margin call issued when, after the end of the regular trading session, a client’s equity is less than the maintenance margin required by the client’s open positions.
- Such margin calls are only calculated on regular trading session positions. After-hour transactions are incorporated into the next business day’s calculations. Therefore, even if after-hour session market movements, or client offsets of a portion of the client’s open positions, or other factors cause the client’s equity to rise above the maintenance margin required by the client’s open positions, the FCM will still issue a margin call for that day.
- A client receiving such a margin call must handle it in accordance with the resolution conditions specified therein.

### ■ Margin call resolution

- Deposit required margin.
- The client’s equity must be greater than or equal to the initial margin by the designated time.
- Liquidate open positions from the previous regular trading session prior to deadline for covering shortfall.

# FCM Control of Client Risks – 6

## -Liquidation on behalf of a principal

- What triggers an FCM's liquidation of positions on behalf of a principal?
  - An account's risk indicator falls below the level specified in the FCM's rules (the risk indicator specified in the FCM's rules may not be lower than 25%).
  - A post-session margin call remains unresolved by the deadline to do so.
- Liquidation on behalf of a principal in the after-hour session
  - **Principles for liquidation on behalf of a client:** When in any trading session a client's risk indicator exceeds an FCM's standard for liquidation on behalf of a principal, the FCM will liquidate the client positions. The principles for doing so are as follows:
    - Liquidating all open positions in products that are still being traded, **except those that have already begun trading in the after-hour session and which are exempt from liquidation on a principal's behalf.**
    - ✘ Products TAIEX has designated as exempt from liquidation on behalf of a principal during the after-hour session (e.g. TX, MTX, TXO, RHF, RHO, RTF, and RTO) will not be liquidated on behalf of a principal during the session. Open positions in products that TAIEX has not designated as exempt from liquidation on behalf of a principal during the after-hour session (e.g. UDF, SPF, XEF, and XJF) will be entirely liquidated if the conditions for liquidation on behalf of a principal are met.

# FCM Control of Client Risks – 7

## -Liquidation on behalf of a principal (continued)

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- If during the after-hour session there remain open positions in products that TAIFEX has designated as exempt from liquidation on behalf of a principal, and the client's equity is not less the maintenance margin required by the client's open positions, the FCM will not carry out liquidation on behalf of the principal.
- If a client has not resolved a post-session margin call by the deadline to do so, the FCM will follow the process described in its client agreement to liquidate the client's positions to the point that the client's equity equals or exceeds the maintenance margin required by the client's remaining open positions.

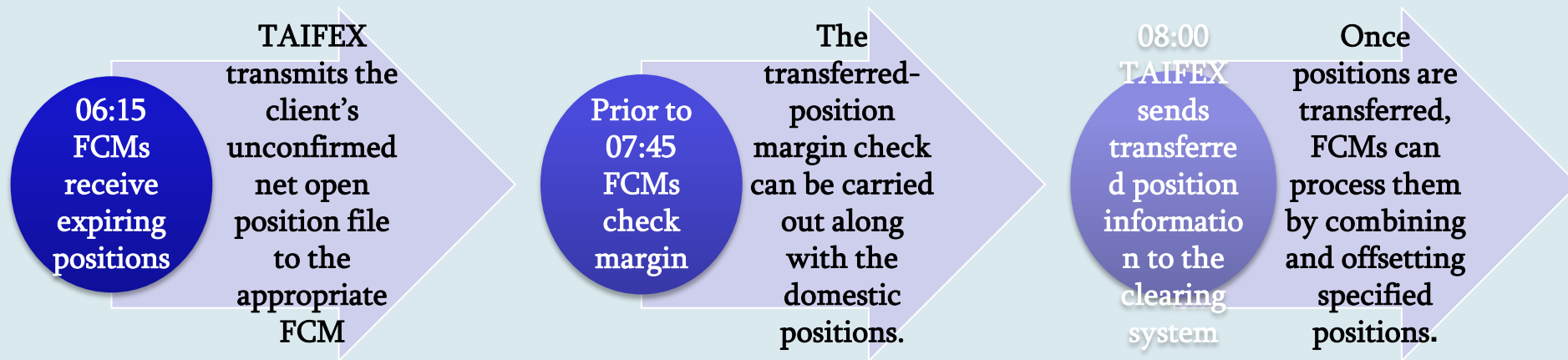
**Note: The definition and method of calculation of the “risk indicator” are set by the Chinese National Futures Association.**

# Risk Control and Position Transfers for Eurex/TAIFEX Link Products Following the Launch of the After-hour Session

## ■ Risk management and margin verification

TXF and TXO are domestically controlled. FTX and OTX are foreign-controlled. When clients open new positions in FTX and OTX, FCMs do not check the client's domestic offsetting positions in TXF and TXO. In addition, margin is assessed on the client in accordance with Eurex and the Chinese Futures Association's margin-collection rules.

## ■ Eurex/TAIFEX Link Product Transfers (same as current)



- When the after-hour session concludes, TAIFEX transfers the client's after-hour transactions into the settlement system, combines them with the positions from the regular session, and then at 07:00 begins accepting FCMs' processing of positions. FCMs shall therefore first process the after-hour trading positions, wait for TAIFEX to transfer the FTX and OTX positions, and then at 08:00 can process the positions for a second time.

# Information Systems

## ■ Trading System

- To heighten the security and reduce the complexity of IT operations, and avoid interfering with the operations of the regular trading session, including trading, settlement, and post-close dissemination of trading information, TAIFEX has built an independent trading system for the after-hour session. FCM must therefore establish other logins for their login systems. Trading message and file formats remain unchanged.

## ■ Trading information

- Delivered via a different Multicast Group than that of the regular trading session.

## ■ Market Information Website

- Adds market-information disclosures for the after-hour session, and retains the closing information from the regular session.

## ■ Clearing System

- To coordinate with after-hour-trading product risk controls and provide clearing members and FCMs with query functions, the clearing system will establish after-hour trading functions within the original platform and will work in conjunction with the new after-hour trading platform to receive transaction data, and facilitate other file-delivery functions



# Addendum: Explanation of Regular and After-Hour Products

| Trading Time                                       | Regular Products  | After-hour Products   |
|--|---|---|
| Before 15:00                                       | All products  | None  |
| 15:00-16:15<br>(After-hour overlap trading)        | Mainland ETF futures and options, FX futures and options, gold futures and options, TOPIX futures, Nifty 50 futures | TX, MTX, TXO, UDF (US DJIA), SPF (US S&P 500)                               |
| 16:15-17:25<br>(After-hour overlap trading)        | Nifty 50 futures  | TX, MTX, TXO, UDF (US DJIA), SPF (US S&P 500)                               |
| 17:25-18:15<br>(After-hour overlap trading)        | Nifty 50 futures  | TX, MTX, TXO, UDF (US DJIA), SPF (US S&P 500), RHF, RHO, RTF, RTO, XEF, XJF |
| 18:15-05:00 T+1<br>(Purely the after-hour session) | None  |   |



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Thank you for your attention.  
We welcome your comments.