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The Taiwan Securities Markets

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Asian Development Bank Institute

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Chairman Allan Cameron, my dear colleagues:

It's my great pleasure for me to attend this Round Table on Capital Market Reform in Asia, organized by OECD. First of all, I would like to express my gratitude to our host who has successfully arranged this significant event. Now let me briefly introduce highlights of my country note to you.

I. Macroeconomic Development Indicators, end of 2001

- Economic Growth Rate: -1.91%
- Consumers Price Index: -0.01%
- External Balances: Exports: US\$ 122.902 Billion; Imports: US\$ 107.243 Billion
- Foreign Exchange Reserves: US\$122.2 Billion
- Gross Fix Capital Formation Growth Rate:-18.17%
- Personal Saving Rate:24.3%
- Unemployment Rate: 4.57%
- Exchange Rate Movements (NT\$/US\$):
27.49(1996), 32.64(1997), 32.21(1998), 31.39(1999), 33.01(2000),
34.99(2001)

Due to the globalization of international trade and of capital markets, economic problems are closely inter-linked among all countries of the world. Last year, the Chinese Taipei's economic growth rate was – 1.91%. Its foreign exchange reserves increased to US\$ 122.2 billion and trade surplus totaled US \$15 billion . It is expected that the economic growth rate for this year will maintain 2.29%. All of these figures indicate that the economic fundamentals of Chinese Taipei are quite sound and robust.

II. Chinese Taipei Securities and Futures Industries Administration and Regulations

The Securities and Futures Commission is the official regulatory agency under the Ministry of Finance. The organization of the SFC includes the commission, the chairman, vice chairman, standing and ex-officio commissioners, secretary general, staff for the eight operating divisions, as well as 7 supporting offices.

According to the organizational law of the Commission, its responsibilities may be divided into four categories:

- (1)Administrative Responsibilities: This duty involves approving the initial public offering of securities, and the subsequent issuance of securities for increased capitalization; supervising the transactions of listed securities and authorized futures products; granting of permits for the establishment of securities and futures exchanges and intermediary firms.
- (2)Supervisory Responsibilities: Our duties here include supervision of businesses and the operations of listed companies, securities brokers, dealers associations, securities and futures exchanges and other related industries.
- (3)Redress Responsibilities: The redress and implementation of corrective actions against listed companies, securities brokers, exchanges, futures intermediaries and related associations for the non-compliance of regulations, administrative procedures, or executive orders, are also undertaken by the Commission.
- (4)Punitive Responsibilities: The Commission is also responsible for he issuing of punishment against securities-listed companies, securities brokers, exchanges, futures intermediaries, related associations and accountants, as well as the employees of such institutions when there is misconduct against law, regulations, procedures or executive orders.

Although the “Securities and Exchanges Law” allows for the establishment of a membership-based stock exchange, the TSE is incorporated as a for-profit company limited by shares. However, the distribution of profits is highly regulated by the SFC. With the authorization of the SFC, the TSE oversees the marketplaces by disciplining contracting securities firms and listed companies. The TSE therefore exercises de-facto and delegated regulatory power, under the close supervision of the SFC.

For the over-the-counter market, the Over-The-Counter Securities Exchange (ROSE) is organized as a non-profit institution. With the authorization of the SFC, the ROSE has similar regulatory powers as the TSE, i.e. they oversee the market issuers and intermediaries under the close supervision of the SFC. Both the TSE and the ROSE are self-regulatory entities.

III. Capital Market Structure.

The development of Chinese Taipei securities market may be divided into two stages. Before 1962, there was no centralized trading place for securities transactions. Trading was done through the over-the-counter market. The establishment of the Taiwan Stock Exchange (TSE) in 1962 laid the groundwork for the later robust and fast-growing trading in Taiwan's capital market.

The TSE is a venue for centralized securities trading. Equity shares of listed companies account for over 99 percent of total trading at the TSE. Beneficiary certificates of mutual funds, warrants, Taiwan depository receipts (TDRs), government bonds, and corporate bonds are also traded on the TSE. Chinese Taipei stock market started to soar in 1988, when SFC started to issue new licenses for brokerage firms and the TSE installed the Computer-Assisted Trading System (CATS).

The OTC market was established in 1989 but its development has been hampered by several restrictions, including the lack of computerized trading, forcing traders to carry out all transactions manually. At the end of 1994, Chinese Taipei's over-the-counter market entered into the computer era with the inauguration of a new computerized trading system. The computerization is a landmark that would have encouraged the market's rapid and stable development.

Trading on ROSE listed shares must take place either through negotiated pricing at dealer's locations or through ROSE's computerized matching system. Investors must be trading over 100,000 shares if they use the former method. Moreover, to provide investors with accurate and continuous information on trading, the exchange also established the "ROSE Weighted Index", in December, 1995.

The bond market in Taiwan include three types of product: government bonds, financial debentures, and corporate bonds. Government bonds and bonds issued by international financial institutions approved by the Ministry of Finance enjoy less stringent screening procedures in applying for bond issuance. Companies may apply for the listing of their bonds on the TSE. However, the application for the listing of convertible bonds is confined to companies which have already been listed on TSE or OTC Exchange.

Taiwan Securities Central Depository Co., Ltd. (TSCD) is the central securities depository. According to the "Regulation Governing Centralized Depository Enterprises", the services provided by the TSCD include: Securities custodial services; Book-entry for securities settlement or pledge; Information processing for securities book-entry

system; Agent services for registrar of publicly-held companies; and other services authorized by SFC.

The Taiwan International Futures Exchange (TAIFEX) was officially incorporated on September 10, 1997. It started operation and inaugurated its maiden stock index futures contract on the Taiwan Capitalization Weighted Index (TCWI) on July 21, 1998. The launch of the TCWI futures was a smooth one, and trading activity has been growing steadily. In 2001, the trading volume in TAIFEX was 4,3 million lots. Foreign investors are permitted to trade, but a foreign investor's trading volume may not exceed 30 percent of total inwardly remitted capital.

Chinese Taipei's stock market displayed exceptional volatility in 2001. The Taiwan Weighted Share Price Index peaked at 6198 points in February 2001, slamed to 3411 in September,2001, and at year end it closed at 5,551 points.

Despite all the negative factors working against most of, the markets in the Region, we still experienced considerable achievements in 2001. The number of listed company gained substantial growth, investment made by overseas Chinese and foreign investors exceeded 7% of aggregate market trading value and 13% of market capitalization respectively. Total trade volume was NT20,747 billion dollars. The internet trade volume as percentage of total trade volume was 8.3%. In 2001 there are totally 917 companies listed on TSE and OTC market. The investor's structure consists of domestic professional institutions (8.5%), foreign professional institutions (7%), and native retail investors (84.5%).

IV Corporate Governance

The Asian financial crises provide lessons for Chinese Taipei to learn the importance of corporate governance. Knowing that inadequate corporate governance is identified as one of the key facts that Asian corporations could not build up competitiveness in world financial markets. SFC has tried its best to emphasize the importance of advocating corporate governance to publicly held companies since 1998. It believes that greater transparency as to corporate governance is needed for enterprises to control risks. Securities and Futures Institute founded under direction of SFC as a quasi-public organization for research, training and protecting investors, together with Taiwan Stock Exchange (TSE), and OTC exchange introduce the system of independent directors and independent supervisors. They also establish "code of best practices" in Chinese Taipei in the future, all the above-mentioned organizations

will continue to put their efforts in helping corporations by adopting best practices as infrastructural tools of corporate governance

In 2001, my commission strengthened full disclosure policy for better corporate governance. This policy implemented the requirement for publicly held companies to disclose financial reports, annual reports and prospectuses on the Securities and Futures Institute's web site, and established the Quiet Period System, thereby regulating issuers' conduct when disclosing information.

V Issuers

In order to efficiently provide enterprises with necessary capital and protect investors' interest with a full disclosure system, my Commission has endeavored to streamline rules and regulations to improve market efficiency.

According to the "Guideline for Offering and Issuance of Securities by Publicly Held Companies", issuers must either be approved by or have filed registration with the Commission to commence offering and issuing securities.

Raising money by way of issuing new shares to collect funds from the market is one of the corporate finance options to issuers, it is important to supervise how the proceeds are used in order to protect both investor's interests and the procedure's integrity. Therefore, the issuers should publish a quarterly report conveying the utilization of the proceeds on TSE or OTC exchanges' web-site. A track record of the use of proceeds is then used as a reference by the Commission when either approving or rejecting the issuer's future application.

According to the "Guideline for Offering and Issuance of Securities by Publicly Held Companies", issuers must have a cautious and healthy plan in place. My Commission is responsible for supervising and tracking issuers' action regarding any proceeds either used inappropriately or in allocating the raised fund in establishing investment companies used for cross holding.

My dear colleagues, as you can see from my presentation, We are committed to working closely with regulators in other markets and to abide by the rules or guidelines of international organizations such as the OECD and IOSCO. I believe our open discussion will be beneficial for all participants of this Conference. I look forward to your comments and suggestions. Thank you very much.

