

## **A Glance at Chinese Taipei's Economy and Securities Markets**

### **Economy**

Located at the geographic center of the Asia-Pacific region, Chinese Taipei, with its comprehensive industrial infrastructure, plentiful human resources and ample research and development capabilities, Chinese Taipei, in 2002, has become the world's 17<sup>th</sup> largest economy, 14<sup>th</sup> largest exporter and has the third largest foreign exchange reserves, with almost 50 percent of GDP derived directly and indirectly from exports, which are dominated by heavy and technology-intensive products. Additionally, Chinese Taipei, In January 2002, became the 144<sup>th</sup> member of the World Trade Organization (WTO). This exposes Chinese Taipei to external competitive forces, including the expansion of external trade through barrier-free access to the economies of other WTO members and the lowering of domestic consumer prices.

### **Securities Regulator**

The Securities and Futures Commission (SFC) is the capital markets regulator. It is a government agency under the supervision of the Ministry of Finance. The SFC implements the market administration and management, including the approval of new issues of securities, the overseeing of secondary trading on the exchange and GTSM, the licensing of securities professionals, the regulation of market intermediaries and rule making.

So far, the SFC has signed mutual information exchanged MOU with 19 worldwide securities and futures authorities. According to these MOUs, private information exchange will be provided only when it is reciprocal and approved by law or by both parties.

#### **A.Principal and Alternative Stock Market**

To improve the management of a rapidly growing stock market, the Chinese Taipei Stock Exchange Corp (TSEC) and GreTai Securities Market (GTSM) were established and acted as auction markets for listing stocks. To maintain a stable stock market, the daily price fluctuation limits of stocks, beneficiary certificates and convertible bonds are set at 7% of the closing price of the preceding business day. Day trade is allowed only for investors with margin accounts. And the clearing and settlement for the trades executed in the TSEC/GTSM are carried out by the Clearing Department.

## **B. Principal Derivatives Market**

After five years of evolutions, Chinese Taipei Futures Exchange (TAIFEX) was founded through the strenuous joint efforts of the Government and the private sector. The derivatives market enables market participants to manage their funds and market risk more effectively through interaction between the spot and futures market. Currently, the order limit is 100 contracts and subject to alteration at the discretion of the TAIFEX based on the market condition.

## **C. Bond Market**

The Chinese Taipei bond market has been going through a rather quick period of expansion due to the rapid buildup on the supply side of the market, the active pursuit of bond business from traders and the ongoing downward trend in benchmark interest, which has precipitated the capital shift from the stock market to the bond market. and bonds are traded by negotiation the same as those in the international arena. GTSM was authorized to take over market surveillance from 1994.

There are several categories of bond listed in the primary market, including government bonds, corporate bonds, financial debentures, convertibles and foreign bonds issued by foreign financial institutions, denominated in US dollars, Japanese Yen, and New Chinese Taipei dollars. As for the secondary Market, the debut of GTSM's Electronic Bond Trading System (EBTS) provided a one-stop trading environment for dealers, from quotes, transaction, risk management, to clearing and settlement all in one platform since July 2000. A Bond Comparison System was implemented to integrate market settlement mechanism in October 2001. On top of that, GTSM, in July 2002, implemented a computerized negotiation trading system to improve efficiency in the

bond market, and to establish real-time and transparent benchmark indication.

## **Outlook of Securities Markets' Performance**

### **A. Stock Market**

In December, 2002, the indexes of Chinese Taipei Stock Exchange Corporation (TSEC) and GTSM closed at 4,452.45 and 94.38 points 【(or a 19.79% drop and 30.72% drop year over year (YoY))】 , respectively, due to worldwide economic downturn. However, with the improving growth in the United States and the European Union and the expansion of public construction projects, indexes of TSEC and GTSM in September 2003 climbed to 5,611.41 and 111.05 points or a 26.03% and 16.60% increase respectively. The number of TSEC-listed companies in 2003 increased to 663, a 3.91% increase YoY. The corresponding total capital amount increased from 2002's NT\$4.44 trillion to Sep. 2003's NT\$4.60 trillion, a 3.60 % increase YoY, and total trading value of the TSEC securities in Sep. 2003 is NT\$15.07 trillion, compared with 2002 trading value NT\$21.98 trillion. Meanwhile, the number of GTSM-listed companies in 2003 also increased to 399, a 3.9% increase YoY, but the corresponding total capital amount decreased from 2002's NT\$627.29 billion to 2003 Sep.'s NT\$615.24 billion.

### **B. Futures Market**

The Chinese Taipei Futures Exchange (TAIFEX) demonstrated impressive growth in year 2002 in terms of trading volume, participation from the institutional investors, and overall market scale. The total trading volume for Sep. 2003 achieved an all-time record of 20,748,560 contracts, representing an increase of 161.17 %, compared with 7,944,254 contracts of year 2002. The average daily trading volume for year 2003 is 107,165 contracts, representing a growth of 300.35 %, compared to 32,033 contracts of year 2002.

### **C. Bond Market**

Outstanding government bonds reached US\$ 63 billion in 2002 and by the end of Sep. 2003, the balance advanced had to US\$ 74 billion. Trading volume of outright purchase and sale (OP/OS) also increased dramatically. The trading scale for 2002 amounted to US\$ 2.6 trillion, representing 64.16% of total bond trading.

### **( I ) Primary Market**

In Sep. 2003, the outstanding amount of bond market has exceeded US\$ 118 billion. Of this government bond represented US\$ 74 billion (78 issues), outstanding corporate bond represented US\$ 23.5 billion (2,614 issues), convertible bond represented US\$ 3.5 billion (218 issues), bond with warrant amounted to US\$ 12.7 million (2 issues), and foreign debenture reached US\$ 4.5 billion (166 issues). (Exchange rate: US\$: NT\$=1:33.8).

### **( II ) Secondary Market**

With GTSM's electronic trading platform, the OP/OS trading value increased to US\$ 3 trillion and the average daily trading value reached to US\$ 14.65 billion. With the above systems, trading volume and the quality of the trading information disclosed were significantly improved.

## **Recent Important Measures**

Facing the challenges of globalization and fierce competition from international capital markets, Chinese Taipei's securities and futures markets have been reformed in term of the following areas.

### **A. Market Surveillance**

Firstly, the "Corporate Governance Best-Practice Principles" was published as a guide for listed companies to protect the equities of shareholders and interested parties. Price integrity and market transparency in trading systems are strictly ensured in terms of market surveillance systems. The securities lending system is planned to facilitate the follow-up operations of promoting new derivative products.

## **B. Information Disclosure and Corporate Governance**

Secondly, to improve the disclosure of information and promote corporate governance, the SFC promulgated the revision of the "Criteria Governing Information to be published in Public Offering and Issuance Prospectuses", requiring extensive disclosure in the following areas:

- Directors, supervisors, and managers.
- Corporate governance of listed companies.
- Review, analysis and risk management of corporate financial status and operating results.
- Employee bonuses.
- Remuneration of directors and supervisors.

## **C. Innovations of Financial products**

Thirdly, a cooperation agreement with FTSE International Limited ( "FTSE" ) was entered into for compiling a new tradable index, the TSEC Chinese Taipei 50 Index, as the underlying target of developing index related derivative products. Additionally, the TAIEX has launched the Chinese Taipei 50 Stock Index Futures, new narrow-based stock index futures in June 2003, in relation to the Chinese Taipei Stock Exchange's launch of the Chinese Taipei 50 ETF product.

## **D. Foreign Investment**

To further expand Chinese Taipei's securities markets, speed up market internationalization, and facilitate the influx of foreign investment, Chinese Taipei's government has announced newly amended "Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals" ("the new Regulation"). A new registration system, streamlined process and documentation, cost reduction, deregulation, and facilitated operation are the five pivotal measures adopted to facilitate foreign investment under the new Regulation.

## **E. Investors Protection**

The "Securities Investors and Futures Traders Protection Law" was announced on

July 17, 2002, and took effect in January 2003. The law requires that a Securities and Futures Investors Protection Center be established to provide consultation, complaint-filing and mediation services as well as help investors file class-action lawsuits. In addition, the Center is required to set aside an investor protection fund to compensate good-willed investors should they fail to receive their money from financially troubled securities and futures firms.

### **Concluding Remarks**

The march towards globalization has changed international investment methods and business management paradigms, and Chinese Taipei government, therefore, not only offers numerous incentives to business and industry but is also implementing new technologies and regulation to ensure on-line trading, market structure and financial architecture. We also cooperate with worldwide securities and futures authorities in information sharing and capital market activities so as to risk in reduce cross-border transactions risks and enhance confidence. Improving regulatory transparency and fairness in capital markets is also an essential step for block of Chinese Taipei's economy to supply funds for economic growth and job creation. In addition, we are dedicated to the development of innovative financial products so as to attract worldwide investment, satisfy the needs of international investors and develop open but sound and efficient financial markets.