TAIWAN
STOCK EXCHANGE

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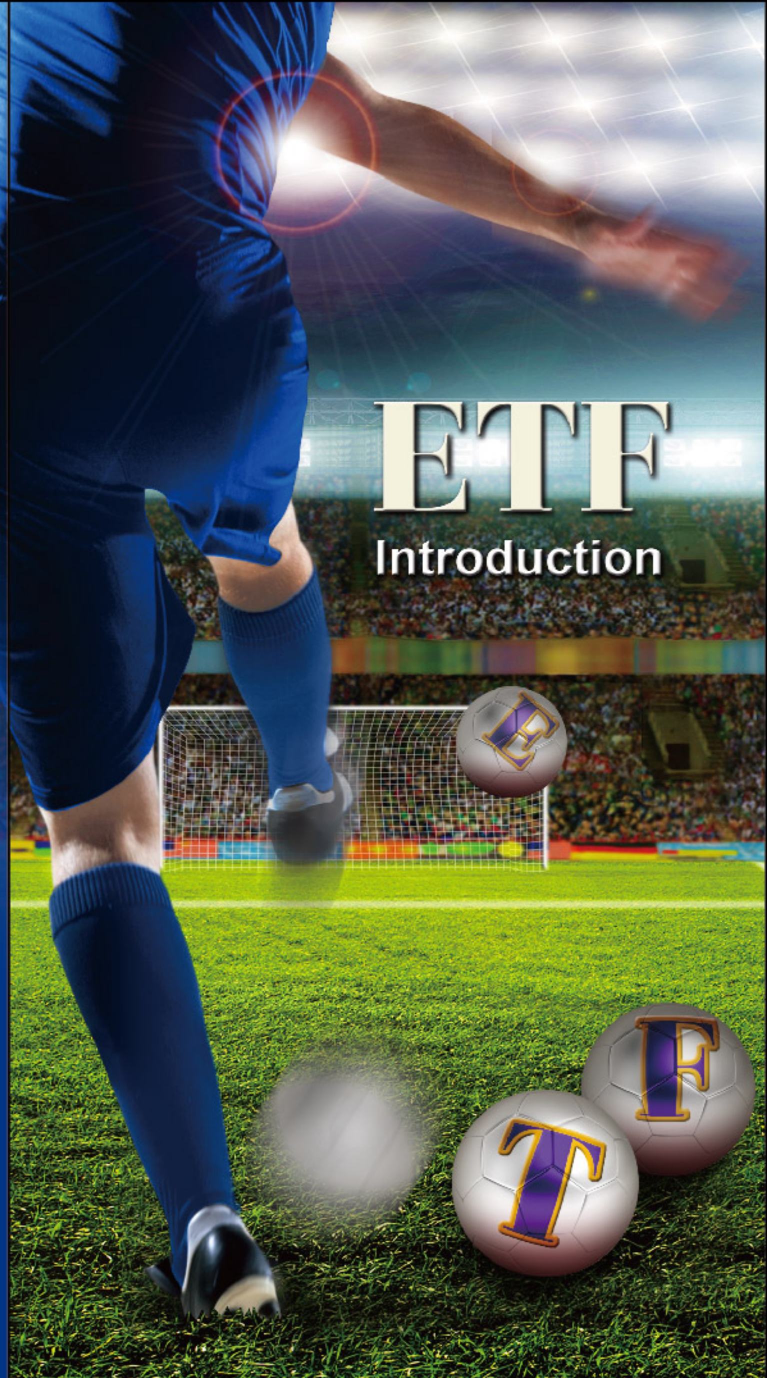

ETF
Introduction

Taiwan Stock Exchange

Add：9F, No.7, Sec.5, Xinyi Rd.,
Taipei, Taiwan 11049, Republic of China
Tel：886-2-8101-3101
http：//www.twse.com.tw/
E-mail：serv@twse.com.tw

TAIWAN STOCK EXCHANGE

At Your Service

Content

I.What is an ETF?

An exchange traded fund, or ETF, is a fund which tracks the performance of an underlying index and can be traded on a stock exchange. In other words, an ETF is a fund that performs like an index and can be traded like stocks.

II.Types of ETFs

According to Taiwan's current regulatory landscape, ETFs can be divided into Securities Investment Trust ETFs, Futures-based ETFs, and Offshore ETFs.

III.Securities Investment Trust ETFs are ETFs offered and issued by domestic securities investment trust enterprises (SITEs), and traded on a stock exchange in Taiwan under the Regulations Governing Securities Investment Trust Funds.

1.Definition (Excluding Leveraged and Inverse ETFs)

Securities Investment Trust ETFs invest in a basket of stocks, through which they track, simulate or replicate the performance of an index.

2.Characteristics of Securities Investment Trust ETFs (Excluding Leveraged and Inverse ETFs)

Investors holding a certificate of an ETF actually invest in a basket of stocks. By investing in a number of companies, ETFs effectively diversify investment risks, greatly reducing the risks from individual companies and industries.

3.Categories of ETFs

◎**ETF Comprising Only Domestic Securities**

The constituents of the ETF's underlying index are all domestic securities.

◎**ETF Comprising Foreign Securities**

ETFs comprising foreign securities are ETFs issued by a domestic SITE, and whose constituents include one or more foreign securities. Another type of ETF in this category is the Feeder ETF, in which a domestic SITE repackages an offshore ETF and issues a newly listed ETF in Taiwan. However, due to the time difference between foreign and Taiwan markets, if any significant events affect foreign securities, and thus ETFs comprising foreign securities, Taiwanese investors will not be able to react to these events until TWSE trading hours.

IV.Futures-based ETFs are ETFs offered and issued by domestic futures trust enterprises, and traded on a stock exchange in Taiwan under the Regulations Governing Futures Trust Funds.

1.Definition

Futures-based ETFs invest in futures contracts to track, simulate or replicate the performance of a futures index. Like traditional ETFs, they can be bought and sold intraday on an exchange and created and redeemed in the primary market.

Based on the different underlying futures indices that can be tracked, there is a diverse range of Futures-based ETFs, including commodity futures ETFs, currency futures ETFs, and VIX (Volatility Index) futures ETFs, each fulfilling a different investment need. For example, ETFs tracking VIX futures indices may only be suitable for short-term hedging risk from a black swan event. If the ETF is held for a longer period, the investor will suffer continuing losses due to vanishing time value and rollover costs of futures contracts. Therefore, first-time investors* in futures-based ETFs must sign a risk disclosure statement before they place orders in securities firms.

2.Characteristics of Futures-Based ETFs

◎Roll Costs and Contango

Since Futures ETFs track futures indices, ETF fund managers must roll their contract positions ahead of expiry into new ones based on the underlying index rules. When new futures contracts are more expensive than the expiring contracts (longer-dated futures prices are higher than near-dated futures, a situation known as contango), then fund managers have to sell out their maturing contracts at lower prices and reinvest in the new futures contracts at higher prices. The loss resulting from rollover cost may be unavoidable.

◎The Risk of Investing in Europe/North America resulting from Time Differences

For futures-based ETFs tracking foreign futures indices, the time differences can pose some risk, since the NAV for these ETFs will be calculated by the market prices in European or North American markets. In accordance with the TWSE disclosure rules, ETFs issuers are required to make relevant information public and post investor alerts.

◎Divergence between Futures Prices and Spot Prices

Futures-based ETFs track the performance of the underlying markets by investing in futures contracts of futures indices. Investors should note that there may be diverging movement between futures prices and spot prices.

V.Leveraged and Inverse ETFs (including both Securities Investment Trust ETFs and Futures-based ETFs)

1.Definition

Leveraged ETFs are ETFs that seek to deliver a positive multiple of the daily return of its underlying index. For example, a leveraged 2x ETF can rise 2% when the underlying index goes up by 1%.; likewise a leveraged 2x ETF will drop 2% when the underlying index goes down 1%.

Inverse ETFs, on the other hand, seek to deliver a negative performance of the daily return of its underlying index. For example, an inverse -1x ETF will drop 1% when the underlying index goes up 1%; likewise an inverse -1x ETF can rise 1% when the underlying index goes down 1%.

2.Investor Qualifications:

First-time investors* in leveraged and inverse ETFs must sign a risk disclosure statement, and should have at least one of the following qualifications:

i.Have a margin account;

ii.Have at least 10 transactions on call (put) warrants within the most recent 12 months;

iii.Have at least 10 transactions on futures and/or options listed on TAIFEX within the most recent 12 months.

3.Characteristics of Leveraged and Inverse ETFs:

◎Products Suitable for Short-term Trading Purpose

Leveraged and inverse ETFs offer investors more diversified investment options. Margin trading is allowed. In addition, these new products also enhance the trading flexibility. If investors are betting on a market rally or particular asset class, they can achieve the excess return of the positive multiple performance of the underlying index via investing in leveraged ETFs. On the other hand, inverse ETFs allow investors to hedge their exposure and exercise diverse trading strategies. It is important to note that leveraged and inverse ETFs differ from traditional ETFs in that they are designed to achieve their stated positive or negative multiple returns on a daily basis. If investors hold leveraged and inverse ETFs for more than one day, the ETF's return may deviate from its stated performance objective due to the effect of compounding. Consequently, leveraged and inverse ETFs are not suitable for long-term holding and best used as short-term tactical trading instruments.

◎Tracking Error Resulting from Contango and Backwardation

Because ETF managers typically hold futures to achieve the fund's stated leveraged and inverse returns, Contango, Backwardation, and the ability to fund operations could affect the tracking error of the ETF.

◎Daily Dynamic Resets Erode Profitability

Leveraged and inverse ETFs reset daily to reach their stated investment objectives.

These daily resets could result in higher trading costs that erode the profitability of the fund and effect a larger divergence between the intraday indicative NAV (iNAV) and the closing actual NAV than the divergence for traditional ETFs.

◎Positive or Negative Multiple Returns Available Only on a Daily Basis

Leveraged and inverse ETFs pursue a positive or negative multiple of index returns only on a daily basis. Under daily compounding calculations, the long term return of leveraged and inverse ETFs will deviate from the positive or negative multiple of the underlying index returns.

<table>
<tr><th colspan="2">ETF Classifications</th><th>Price Fluctuation Limits</th><th>Risk Disclosure Statement</th><th>Special Qualifications for Investors</th><th>Creation/ Redemption</th><th>Transaction Costs</th></tr>
<tr><td rowspan="3">Securities Investment Trust ETF</td><td>Leveraged and Inverse ETF</td><td>For leveraged and inverse ETFs seeking a multiple return based on the performance of a domestic index, price fluctuation limits would be in multiples of 10%. For example, the Yuanta Daily Taiwan 50 Bull 2X ETF would have a price fluctuation limit of 20%. The price fluctuation does not apply to leveraged and inverse ETFs with one or more foreign constituent stocks.</td><td>Required</td><td>Required</td><td>Cash-basis</td><td rowspan="7">Brokerage commissions and the 0.1% transaction tax.</td></tr>
<tr><td>ETF Comprising Only Domestic Securities</td><td>10%</td><td>Not Required</td><td>Not Required</td><td>In-kind</td></tr>
<tr><td>ETF Comprising Foreign Securities</td><td>Not applicable</td><td>Not Required</td><td>Not Required</td><td>Cash-basis</td></tr>
<tr><td rowspan="2">Futures-based ETF</td><td>Futures ETF</td><td rowspan="2">Not applicable for those tracking foreign futures indices</td><td rowspan="2">Required*</td><td>Not Required</td><td rowspan="2">Cash-basis</td></tr>
<tr><td>Leveraged and Inverse Futures ETF</td><td>Required</td></tr>
<tr><td colspan="2">Offshore ETF</td><td>Not applicable</td><td>Not Required</td><td>Not Required</td><td>Cash-basis</td></tr>
</table>

*First-time investors must sign different Risk Disclosure Statements for futures-based ETFs and securities investment trust ETFs.

VI.Dual-Currency Trading Mechanism

Listed ETFs may add beneficiary certificates to be traded in other currency. The Dual-Currency Trading Mechanism (DC-ETFs) allows investors to buy or sell in two different currencies on the market, and convert their ETFs in one currency into the ETFs in the other currency. The initial phase makes available CNY ETFs that may be added on to TWD ETFs, enabling investors to familiarize themselves with DC-ETFs and the two-way conversion mode.

Investors* must open a foreign currency deposit account at a bank designated by their securities firm and sign a risk disclosure statement before trading foreign currency denominated ETFs. In addition to the restrictions on margin trades, day trades, borrowing or lending of securities, and borrowing or lending of funds, investors must deposit enough funds in their foreign currency accounts before trading foreign currency denominated ETFs.

VII.Advantages of ETF Investment

1.Convenience

As long as investors have a securities account, they can trade ETFs during the same trading hours and in the same way as stocks.

2.Low Transaction Tax

The securities transaction tax for ETFs is only 0.1%, lower than the tax rate of 0.3% levied for stocks.

3.Asset Allocation

The listed ETFs on TWSE track various domestic, foreign markets and futures, allowing investors to easily allocate assets in Taiwan, Japan, Korea, China, Hong Kong, India, the US, Europe, and commodity markets.

4.Strategic Trading

The TWSE offers a wide range of ETF products, some of which are suitable for long-term investment, and some of which are more appropriate for short-term trading, allowing investors to hedge risk or benefit their investment position.

5.Information Transparency

Each ETF is required to disclose information regarding its constituent securities and futures contracts on a daily basis, leading to much better information transparency compared to mutual funds. With the disclosure of up-to-date information, investors can trade with peace of mind.

VIII.Access to ETF-related Information

1. Investors should read the prospectus to gain key information about an ETF prior to trading. The prospectus and daily portfolio composition file of an ETF can be found on the issuer's website or through links on the TWSE ETF webpage.
   http://www.twse.com.tw/ETF/en/
2. An ETF's market price is the price at which shares of the ETF can be bought or sold on the exchange, while the net asset value (NAV) is calculated based on the market prices of the fund's portfolios. In theory, the market price and NAV should be quite close, but deviations may occur due to market supply and demand. Investors can grasp whether the market price is in line with the NAV by referring to the real-time estimated NAV of an ETF via the Market Information System, which is updated every 15 seconds.
   http://mis.twse.com.tw/stock/group_etf.jsp?ind=B0&ex=tse&currPage=0&type=null

Investors*
refer to investors excluding professional institutional investors , privately placed securities investment trust funds managed by SITEs; futures trust funds offered by futures trust enterprises to persons with prescribed qualifications; discretionary investment accounts managed by SITEs, securities investment consulting enterprises, or securities brokers concurrently operating securities investment consulting enterprises; and discretionary investment accounts managed by futures management enterprises.

3. Investors can access the Market Observation Post System (MOPS) for the most up-to-date NAVs and trading premiums or discounts published by the securities investment trust companies. Weekly portfolio composition, the list of monthly top five holding investment assets, and the ratio of the total of these top five holding investment assets to the NAV of the ETF are also available on the MOPS website.
   http://mops.twse.com.tw/mops/web/index