

## Major Progress in 2001

TSEC, under the supervision of the SFC (Securities & Futures Commission), accomplished a number of important measures to develop the securities market in 2001, as detailed below:

### PRIMARY MARKET

#### 1. Listing Promotion

A total of 459 companies prepared for Listing in 2001. Among these, 21 companies submitted formal applications which were approved by TSEC. There were 69 new listed companies, including 48 that transferred from the OTC market. Also, there were 57 warrants newly listed in 2001.

#### 2. Continued Review of Listing Companies

##### a) Regular & Spot Audits

TSEC conducted 75 regular audits and 33 spot audits in 2001.

##### b) Significant Event Announcements

For the purpose of improving the accuracy and timeliness of information provided by listed companies, there were 30,013 significant event announcements and 511 news conferences in 2001. Additionally, TSEC spot-checked significant event information a total of 628 times.

##### c) Spot Check of Stock Transfers by Insiders

There were a total of 11,454 spot checks of stock transfers by insiders of listed companies in 2001.

##### d) Financial Report & Forecast Reviews

TSEC implemented 2,161 form reviews, 102 substance reviews, and 636 financial forecast reviews of listed companies' financial reports in 2001.

#### 3. Corporate Governance Implementation by Listed Companies

TSEC educated and assisted listed companies in establishing corporate governance systems, including independent board members and supervisors.

#### 4. New Listing Rules for Financial Holding Companies

TSEC devised listing rules for newly-created financial holding companies following the Taiwan parliament's ratification of the Financial Holding Company Law on June 27.

### SECONDARY MARKET

#### 1. Administration of Securities Firms

TSEC scrutinized securities firms' operational risks by calculating and checking alerting indicators on a weekly basis. Based on the outcome of this analysis, TSEC conducted 19 field audits in 2001.

In addition, TSEC completed 68 regular audits, 815 selected audits, 41 IPO-related reviews of securities firms, 340 financial report reviews, and 2,029 monthly financial data.

The accumulated number of Internet trading accounts opened reached 1,962,579 in 2001, with the ratio of Internet trading value rising to 8.20% of the total market figure. Of those securities firms that conducted Internet trading, 76 had completed the Internet certification authentication requirement.

TSEC also requested trading agents to report their basic information in order to regulate their behavior. This information will also be provided to the market surveillance department for reference.

Other:

- 1) TSEC simplified the application process for qualified foreign investors, approving 810 investment cases from overseas Chinese and foreigners in 2001.
- 2) TSEC implemented measures for opening discretionary accounts for high-value investors.
- 3) TSEC improved the efficiency of its audit system in co-operation with OTC market.

#### 2. Trading Mechanism

##### a) Trading Hours Extended

To satisfy investors' needs, daily trading hours were extended by 90 minutes to four-and-a-half hours (9:00 a.m. to 1:30 p.m., Monday to Friday). Trading on Saturdays was cancelled.

##### b) Plans for T+1 Settlement

In line with international moves to shorten the settlement cycle and introduce next-generation trading systems, TSEC prepared plans for its own T+1 settlement system.

##### c) Adjustments to Current Auction Market System

TSEC prepared plans to adjust the auction market system by lifting the current two ticks limitation, and disclosure of price/volume by a five best bid-ask system.

#### 3. Market Surveillance

TSEC announced 3,085 alerts on 374 stocks during 2001. Of these, 119 stocks faced disciplinary actions a total of 195 times. Meanwhile, 142 surveillance reports were completed to check for evidence of insider trading or price manipulation, with 38 reports submitted to the SFC and other law enforcement agencies for action. Moreover, by monitoring news reports and Internet chat rooms during trading sessions, TSEC requested listed companies to announce significant event information or clarify any unconfirmed rumors for 52 times. TSEC also provided cross-market surveillance information a total of 10 times.

### COMPUTER APPLICATION & INFORMATION SERVICES

#### 1. Plans for Next-Generation Trading System

By the end of 2001, TSEC had established an initial plan for establishing a next-generation trading system that will meet internationally acceptable standards. The next step will be to develop operational rules and procedures for the system's procurement bidding process.

#### 2. Other Computer Applications

- a) Developed a full capacity back-up computer system to ensure normal trading would continue if the main computer center experiences operational difficulties.
- b) Improved the transmission efficiency of information disclosure for centralized market trading.
- c) Simplified the process for securities firms by providing a one-stop contact window to report personnel changes.
- d) Maintained the TSEC's Internet website. Provided more search functions and content, including improved public access to market information through the addition of a "Investors Education and Protection" section.
- e) Helped improved the OTC market's trading security system and also established a full-capacity back-up computer system for the OTC market.
- f) Enhanced the security features of TSEC's computer operating system.
- g) Established a centralized Internet monitoring system and a database, as well as internal firewall protection.
- h) Prepared plans for a high-quality, multi-function computer room at the TSEC's future head office in the International Financial Center (currently under construction)
- i) Set up an online procurement bidding system to simplify the application process and increase operational efficiency.
- j) Implemented a computerized auditing system to monitor securities firms' market activities.
- k) Completed the "Internet Search and Monitoring System" in cooperation with the OTC market.

#### 3. Management of Trading Information

##### a) Visits to Information Users

TSEC started regular visits to its information users, such as domestic information vendors, news and media, telecom and cable TV operators. In 2001, TSEC visited 46 head offices and 91 computer centers. After these visits, a total of 23 firms were asked to make improvements in their information

usage TSEC will continue to track their performance in the long-term.

##### b) Publicize and Disseminate Information

TSEC endeavored to prevent information being used illegally without prior permission and so actively encouraged information vendors to sign formal usage contracts. So far, 45 have signed up.

##### c) Modify Rules for Trading Information Users

TSEC modified its rules for trading information users as regards Internet transmission methods.

### OTHERS

#### 1. International Cooperation

In 2001, TSEC actively participated in international securities organizations and meetings, such as WFE, IOSCO, EAOSEF, and ASAF. Of particular note, TSEC co-hosted the "Second APEC Task Force for Computer Accounting and Finance", and also hosted the "WFE 2001 Information Management and Marketing Workshop." In addition, TSEC was a member of the "Taiwan Investment Forum" that traveled to Europe during the year for business promotion. In order to strengthen its working relationship with international stock exchanges, TSEC has signed MOUs on information exchange agreements with 17 stock exchanges.

#### 2. Promotion Activities

- a) TSEC held workshops to inform and educate market participants about new securities market regulations and products.
- b) 73 seminars on new operation instructions were held for securities firms in 2001.

#### 3. Stock Price Index Committee Set Up to Review Current Index Rules

#### 4. Research and Development

- a) TSEC completed 17 research reports, including "Research on Calculation Methods of the Stock Market Closing Price", "Feasibility of ETFs in Taiwan", "Evaluation of the Establishment of an Offshore Capital Market in Taiwan", among others.
- b) External research institutions wrote 6 reports for TSEC, including "The WTO's Impact on Taiwan's Capital Market", "Study of Margin Trading in Taiwan", "Analysis of TSEC's Global Competitive Strategy", among others.
- c) Collected and published statistics relating to the securities industry.
- d) The 2000 version of the ISO 9000 training program was completed in order to maintain the quality of TSEC's systems.