



## Major Progress in 2005

TSEC's achievements in the development of the securities market in 2005 included:

### LISTING

#### 1. Listing Promotion

13 companies became newly listed on TSEC in 2005. A total of 165 companies were preparing for their initial listing, under the guidance of securities underwriters, as of the end of 2005.

#### 2. Monitoring of Listed Companies

- (a) TSEC implemented the establishment of independent board directors and supervisors in listed companies, and encouraged them to engage in expertise-advanced study.
- (b) TSEC cooperated with GreTai Securities Market to establish "Database System of Listed Companies".
- (c) TSEC reviewed and discussed the functions of the listing screening committee.
- (d) TSEC conducted 50 exceptional audits on listed companies in 2005.
- (e) Disclosure of Material Information  
TSEC listed companies were required to timely disclose material information. 28,099 such announcements were made in 2005, and 411 of them were made in the form of a press conference. TSEC also conducted 706 audits to ensure that all records and documents with regard to these events were in good order.
- (f) Investigation of Stock Transfers by Insiders  
TSEC conducted 19,458 investigations on stock transfers by insiders of listed companies in 2005.
- (g) Reviews of Financial Reports and Forecasts  
TSEC implemented 2,784 form reviews and 219 substance reviews of listed companies' financial reports, as well as 93 form reviews and 26 substance reviews of listed companies' financial forecasts.

#### 3. Promotion of the listing of securitized real estate products

Three Real Estate Investment Trust (REITs) beneficiary securities were listed on TSEC.

#### 4. Planning and promotion of primary market system in line with international development trends

- (a) TSEC introduced a new underwriting system, and a new underwriting pricing mechanism to replace the original formula commonly used in the market.
- (b) To meet market demand and in line with international trends, TSEC compelled domestic accounting principles to meet international accounting standards.
- (c) TSEC participated in a taskforce set up by Financial Supervisory Commission to promote "fair value accounting".

#### 5. Planning for "International Securities Market Board"

In order to enlarge the scale of the Taiwan securities market and attract foreign companies to apply for initial listing or dual-listing in Taiwan, under the guidance of the relevant authorities, TSEC assigned a taskforce to plan the establishment of an "International Securities Market Board", on which securities transactions are priced in US dollars. In 2005, TSEC completed the draft rules and regulations regarding the listing and trading of this international board.



## **TRADING**

### **1. Monitoring of Securities Firms**

- (a) TSEC intensively monitored the operations and services of securities firms. As a result, 89 regular audits, 566 selected audits, and 26 IPO-related reviews were held in 2005.
- (b) 346,215 new internet trading accounts were opened in 2005. Total trading by internet accounts represented 17.36% of the total market. 62 securities firms were able to handle customer demand for internet trading, and all of them had previously obtained certification to ensure their technical capability.
- (c) TSEC simplified the registration process for foreign investment in the Taiwan stock market. Throughout 2005, 1,780 cases were admitted into Taiwan.
- (d) To comply with the audit operations of the information and communication safety guidelines of the Executive Yuan, TSEC rearranged the audit operations into ten major operational items set up by the audit service team of the Executive Yuan, in addition to stipulating the audit items for "establishing an inspection mechanism for information and communication safety for securities firms".
- (e) In order to prevent material default in the market, TSEC calculated the daily value at risk (VaR) of the outstanding position of securities firms, to be settled after market closing.

### **2. Trading System Planning and Operations**

- (a) TSEC reduced the minimum up/down tick size of price movement to provide investors with more optional prices to place their orders, reduce transaction cost, and stabilize market stock prices.
- (b) TSEC lifted the daily price fluctuation limit on initial public offerings for the first five trading days after listing, allowing the stock price to better reflect market demand and supply.
- (c) In line with the relevant authority's lifting of the ban on the purchase of odd lots of stock by foreign investors, TSEC has made the following adjustments to the odd lot transaction system: (1) Adjusting the previous time slot of 3:00~4:00 pm for the placement of odd lot transaction orders to 1:40~2:30 pm; (2) Changing the conclusion date of odd lot transactions from the next business day to the order placement date; (3) Changing the price range of selling or buying placement orders from a fixed price equal to the daily closing price minus 0.5% to the same as that of the regular trading session; and (4) Allowing the conclusion to be carried out by virtue of order matching on a one-time call auction basis after 2:30 pm.
- (d) TSEC Taiwan 50 Index constituents were exempted from the restriction that the short sale price not below previous close. This exemption contributed to the enhancement of margin trading turnover for TSEC Taiwan 50 Index constituents.
- (e) TSEC reviewed and improved the securities borrowing and lending (SBL) business, including (1) Abolishing the earlier requirement that an SBL transaction has to be in connection with a "strategic purpose"; (2) Adopting a "Total short selling volume limit"; (3) Relaxing the on-shore collateral requirement imposed upon negotiated transactions where the borrower and the lender involved are both foreign investors; and (4) Increasing underlying securities for securities borrowing and lending.
- (f) "Simplified tripartite settlements on a net basis for TSEC, securities finance companies and securities firms" were enhanced and completed. TSEC further planned to include "settlement sum receivable by securities finance companies from securities firms" into the simplified tripartite operations, and drew up "consignment contract of collection and payment of settlement sum derived from margin trading".
- (g) TSEC further simplified the registration process and related documentation for foreign investors. Registration from overseas Chinese and foreign nationals using the simplified process has grown rapidly.

- (h) In order to make it easier for foreign institutional investors to transfer assets, TSEC simplified the assets transfer operation procedures for foreign institutional investors with different investment IDs, and developed a registration system for asset transfers. Approval of applications for asset transfers has increased substantially.

### **3. Market Surveillance**

Throughout 2005, in order to maintain order and fairness in the securities market by keeping investors informed, the following procedure was used. TSEC publishes the names and trading information of listed companies involved in abnormal stock transactions. If the abnormality continues, TSEC requires securities firms to collect funds and securities in advance, thereby reducing the risk. Upon detecting irregular trading during trading hours, TSEC notifies securities firms. If the irregularity is confirmed, TSEC reports it to the relevant authorities or law enforcement agencies.

## **COMPUTER APPLICATIONS AND INFORMATION SERVICES**

### **1. Upgrading Trading Operation System**

In order to enhance the operational stability of the Fully Automated Securities Trading (FAST) platform and to meet the development needs of the trading system, TSEC completed nine systems in the main and backup centers, and upgraded the operating system to the new G06.24 version.

### **2. Integrating On-line Market Surveillance System Database**

TSEC developed a new on-line market surveillance system to integrate various information types, including early-warning information, real time market trading information, and real time news from the internet and data vendors, into the same system structure. The integration aims to create a workstation with a multi-functional user-friendly interface, thus simplifying the working process and enhancing efficiency.

### **3. Planning "Internet Learning Platform"**

In order to allow the efficient transmission of experience and knowledge over time and space barriers, and at a lower cost, TSEC planned an "Internet Learning Platform" to supply various education programs.

### **4. Renovating TSEC's Website**

TSEC enriched the website, added to the contents of the English version of the website, and reorganized the structure of the site and the site map to make it easier for site users to find the information they are looking for.

### **5. Integrating TSEC's Database Resources**

In order to improve the dispersive database structure, TSEC created a cross-platform data system to allow easy inter-access to data from different computer systems.

### **6. Management of Trading Information**

- (a) Visits to Information Vendors
  - TSEC conducted spot checks on information users, such as domestic and overseas data vendors, news/media, telecommunications enterprises, and internet companies, as well as cable TV operators. In 2005, TSEC visited seven head offices and 29 computer centers.
- (b) Publication and Dissemination
  - TSEC worked on urging users to sign an "Agreement on the Supply and Use of Trading Information" for the dissemination of trading information. 38 information users have signed this agreement with TSEC.



# Strengthening Cooperation with International Institutions



## **OTHERS**

### **1. Index Development**

TSEC launched "NonFinance NonElectronics Sub-Index" to complete the TAIEX series, and provide investors with a new performance benchmark of general industries listed on TSEC.

### **2. International Promotion**

In order to help with the promotion of Taiwan's country classification status to "Developed Market" by FTSE, TSEC held promotion workshops in Singapore, Hong Kong, London, Edinburgh, New York, and Boston to create a better understanding of the reformatory and deregulation measures of Taiwan securities market.

### **3. Internationalization of Securities Market**

In 2005, TSEC actively participated in international securities organizations and meetings, such as WFE, AOSEF and IOSCO. TSEC also assisted the relevant authorities to host various seminars, including: "Seminar on Valuation Requirements and Practices of U. S. Listed Companies", "2005 IOSCO Emerging Markets Regional Training Seminar", and "2005 Taiwan Global Investment Forum". To strengthen information exchange and cooperation with international securities institutions, TSEC entered into a Memorandum of Understanding regarding the exchange of information on market management with Chicago Mercantile Exchange, and signed a letter of intent to cooperate with Euronext. In addition, TSEC was the host for a total of 99 foreign guests from eight countries in 2005.

### **4. Promotion Activities and Research Report**

(a) TSEC held seminars on operational issues for securities firms, published brochures and posters to announce new rules and orders, received visitors from universities and institutions, and hosted competition campaigns. TSEC also promoted special financial and economic topics via television, cooperated with the relevant authorities and media to hold four large promotion exhibitions, cooperated with the media to hold "Enlarging Foreigners' Participation in Domestic Securities Market Seminar", and provided the public with internet access to the electronic database at TSEC's Investors Reading Room.

(b) TSEC held 68 workshops to inform market participants of new securities market regulations and operations.

(c) TSEC completed research reports on its own, including "A Research on the Exiting Mechanism of Listed Companies in Taiwan", "A Study on Improving the Types of Placing Orders in Taiwan Securities Market", and "A Research on the Development of Securities Borrowing and Lending Market in Taiwan Following the Amendment of Article 60 of Securities and Exchange Act" etc. TSEC also contracted external research institutions for more research reports, such as "The Analysis and Guidelines for Merger and Acquisition of Listed Companies", "A Survey and Research on the Satisfaction of Securities Firms and Investors Regarding the Services Provided by Taiwan Stock Exchange", and "The Influence on the Volatility of Stock Market Resulting from Allowing Securities Firms to Conduct Securities Borrowing and Lending Business, and the Deregulation of Market Participants" etc.