

## OTHERS

### 1. Index Development

TSEC launched "TAIEX Electronics Sector Total Return Index" and "TAIEX Finance Sector Total Return Index" to complete the TAIEX series.

### 2. Market Promotion

In order to promote Taiwan to "Developed Market" status in the FTSE global index, TSEC informed FTSE country classification committee members of recent reform measures covering block-trading systems, SBL, omnibus trading accounts, registration of foreign investors and corporate governance.

### 3. International Activities

a) TSEC signed "Agreement on the use of real-time trading information for compilation of indexes" with Morgan Stanley Capital International Inc. and FTSE International Limited, respectively.

b) Through 2006, TSEC actively participated in international securities organizations and meetings, such as WFE, AOSEF and IOSCO. TSEC hosted the "25th General Assembly and Working Committee of the

AOSEF", as well as the AOSEF Market Surveillance Roundtable. To strengthen information exchange and cooperation with international securities institutions, TSEC entered into Memoranda of Understanding with SGX Group, Mongolian Securities Clearing House & Central Depository Co., Ltd., Euronext and Tokyo Stock Exchange. TSEC also held a "Taiwan Investment Forum" in Tokyo to enhance the international visibility of the Taiwan market. In addition, TSEC hosted 112 foreign guests from eighteen countries in 2006.



### 4. Investors Education

a) TSEC organized investment competition campaigns and workshops for college students and received a total of 1,118 visitors from universities and institutions. TSEC also promoted special financial and economic topics via television. In addition to TSEC's investors reading room, TSEC published brochures and posters to announce new rules and provided the public with internet access to more electronic databases.

b) TSEC held a total of 109 workshops to inform market participants of the new securities market regulations and operations. TSEC also conducted lectures through its WebPro system, the internet learning platform.



### 5. Research and Development

a) TSEC completed many research reports, including "Shares without Par Value," "Market Maker System for Taiwan ETF Market," and "Transformation of Securities Firms into Investments Banks: Taiwan Case Analysis."

b) TSEC also commissioned external research institutions for more research reports, such as "Survey of Influence on Investors' Trading Behavior and Market Performance due to Reduced Tick Size," "Feasibility Study of Compiling Listing Companies Valuation Database," and "Evaluation of TSEC's new Block-trading System."

## TRADING

### 1. Trading Mechanism Planning and Operations

- a) Each listed company was able to review and verify its ex-right/ex-dividend information through a dedicated TSEC channel. TSEC provides issuers with ex-right/ex-dividend relevant information, including reference prices, through this channel after the market closes before the ex-date, so that investors can make their inquiries easily.
- b) TSEC established an omnibus trading account system, which can be opened by securities firms. This allows fund managers to allocate the trading results to their customers at equal prices.
- c) Taiwan Depository Receipts (TDRs) were exempted from the restrictions on margin purchases and short sales. Among them, Cal-Comp Electronics (Thailand) Pcl. and ASE Test Ltd. were eligible for margin trading in 2006.
- d) Securities firms were now allowed to engage in money lending business.
- e) Securities firms were allowed to put up bank guarantees or central book-entry bonds as collateral, against which securities firms can borrow securities for settlement. TSEC further implemented "Simplified tripartite settlements on a net basis for TSEC, securities finance companies and securities firms."
- f) TSEC further planned the following adjustments to facilitate trading systems: (1) Adopting market orders; (2) Promoting listing of ETFs which link to foreign indices; (3) Adopting market makers for the ETFs market; (4) Improving the block-trading system; (5) Promoting securities borrowing and lending business (SBL) and allowing securities firms to participate in SBL; (6) Promoting the new capital adequacy requirement for securities firms; (7) Revising "Standards Governing Securities Firm Sites and Facilities"; (8) Opening an account for funds settlement in the securities market via "Central Bank Interbank Funds Transfers and Settlements System."

### 2. Management and Services of Securities Firms

- a) TSEC monitored the operations, services and financial situation of securities firms. As a result, 82 regular audits, 492 selected audits, and 17 IPO-related reviews were held in 2006.
- b) 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. TSEC conducted 16 audits on the risk management of securities firms in 2006.
- c) 4,009,489 new electronic trading accounts were opened in 2006. Total trading value by electronic trading accounts represented 17.42% of the total market. 63 securities firms were able to handle customer demand for electronic trading, and 58 of them had previously obtained certification to ensure their technical capability.
- d) TSEC simplified the registration process for foreign investment in the Taiwan stock market. Throughout 2006, 2,424 investors were admitted into Taiwan.
- e) TSEC conducted 3,275 audits on the internal auditing of securities firms branches, and held seminars periodically for staff working in securities firms in implementing internal controls.

### 3. Market Surveillance

Throughout 2006, in order to maintain order and fairness in the securities market by keeping investors informed, the following procedure was used. TSEC published the names and trading information of securities involved in abnormal transactions. If the abnormality continued, TSEC required securities firms to collect funds and securities in advance, thereby reducing the risk. Upon detecting irregular trading during trading hours, TSEC notified securities firms. If the irregularity was confirmed, TSEC reported it to the relevant authorities or law enforcement agencies.

## COMPUTER APPLICATIONS AND INFORMATION SERVICES

1. TSEC developed an internet platform for brokerage firms to report error trades, default settlements and first-hand stock consigned for sale.
2. TSEC integrated the electronic certificate authentication systems of securities and futures data uploading to respective organizations to improve efficiency and reduce costs.
3. TSEC upgraded to ISO27001 ver.2005 certification of the information security management system.
4. TSEC developed "WebPro." This provides market participants with real-time information which can be used for a variety of workshops and diversified training courses.
5. Management of Trading Information
  - a) Visits to Information Users

TSEC conducted spot checks on market data wholesalers and major users, such as domestic and overseas data vendors, news/media, telecommunications enterprises, and internet companies, as well as cable TV operators. In 2006, TSEC visited seven information vendor head offices and 28 switch centers.
  - b) Legal Access to Data

TSEC advocated information users to sign an "Agreement on the Supply and Use of Trading Information." A total of 34 information users have signed this agreement with TSEC.
  - c) TSEC developed an "International News Release Platform" in cooperation with Central News Agency to assist listed companies in releasing their latest information to both domestic and overseas media. TSEC also committed to take part in BT Radianz's shared market infrastructure, by which TSEC can distribute data and conduct cross-border trading with other Exchanges.

## INVESTORS SERVICES

1. Direct Market Access (DMA) has been in practice since June 2006
2. TSEC worked on establishing an "Individual Information Query System" for investors who then can use their electronic certificates to make inquiries directly via the web.

### 3. Investor Protection

To protect investors' rights and interests, TSEC conducted 135 investigations into securities firms and staff reported by investors. TSEC also conducted 4,469 selected audits. Furthermore, a total of 2,385 inquiries were made by investors to look up their account information at TSEC's office.



## Major Progress in 2006

TSEC's achievements in the development of the securities market in 2006 included:

### LISTING

#### 1. Listing Promotion

11 companies became newly listed on TSEC in 2006, three of which were formerly listed on the GTSM. A total of 152 companies were preparing for their initial listing, under the guidance of securities underwriters, as of the end of 2006.

#### 2. Listed Companies Supervision

- a) TSEC amended "Taiwan Stock Exchange Corporation Direction for Auditing Internal Control Systems of Listed Companies" and listed the operations of board of directors as one of the requisite audited items.
- b) TSEC adjusted the industry categories of listed companies and expanded the number of categories from 20 to 29. TSEC also revised the profit criteria when considering adjustment of the industry category of a listed company.
- c) In line with the newly amended "Securities and Exchange Act" concerning inside trading regulations, TSEC amended the "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Listed Companies" and other related rules.
- d) TSEC established the "Directors' and Supervisors' Compensation Report System" to enhance information disclosure.
- e) TSEC conducted 221 regular audits and 19 exceptional audits on listed companies in 2006.
- f) Disclosure of Material Information  
TSEC listed companies are required to timely disclose material information. 22,584 such announcements were made in 2006, and 335 of them were made in the form of a press conference. TSEC also conducted 708 audits to ensure that all records and documents with regard to these events were in good order.
- g) Investigation of Stock Transfers by Insiders  
TSEC conducted 15,489 investigations on stock transfers by insiders of listed companies in 2006.
- h) Reviews of Financial Reports and Forecasts  
TSEC implemented 2,761 form reviews and 221 substance reviews of listed companies' financial reports, as well as 39 form reviews and 20 substance reviews of listed companies' financial forecasts.

#### 3. Planning and promotion of primary market systems in line with international development trends

- a) TSEC encouraged newly listed companies to issue scripless (book-entry) securities.
- b) TSEC conducted research on developing a dual-listing mechanism in order to enhance the international visibility of the domestic market.
- c) TSEC conducted research on developing an upgraded information environment for listed companies to report their financial statements by using XBRL. (eXtensible Business Reporting Language)

#### 4. Implementation of Corporate Governance

- a) TSEC amended the "Taiwan Stock Exchange Corporation Rules Governing Review of Securities Listings," "Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies," and other related regulations in accordance with the revised "Securities and Exchange Act".

- b) TSEC updated the "Corporate Governance" section on TSEC's website to provide market participants with complete corporate governance information.

#### 5. Promotion of listing warrants

A total of 945 new call/put warrants were issued in 2006. TSEC shortened the lead time to at least two business days prior to the scheduled listing date for warrant issuers to send their listing applications to the exchange.

#### 6. Promotion of the listing of Exchange Traded Funds (ETFs)

Two Exchange Traded Funds (ETFs) beneficiary certificates were listed on TSEC. TSEC allowed investment trust companies to send the listing application of ETFs which are not linked to the indices compiled by TSEC.

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

Four Real Estate Investment Trust (REITs) beneficiary securities were listed on TSEC, and one application of REITs was under review at the end of the year.

