

CLEARING AND SETTLEMENT

TSEC adopts multilateral netting and T+2 rolling settlement convention. Clearing report is sent through computer-link devices to the back offices of the brokers/dealers on the trade (T) day. TSEC also contracted to perform cash settlement for stocks traded in GTSM starting August 4, 2003. The cash settlement of TSEC and GTSM is netted again since the participants are the same in both markets.

The settlement mechanism underwent a historical change in 1990 when Taiwan Securities Central Depository Co., Ltd. (TSCD) was established and the new book-entry settlement mechanism became feasible. Since February 4, 1995, it has become mandatory that investors have book-entry securities depository account as well as a bank account before the trade starts.

SECURITIES LENDING

In 1996, TSEC initiated a Securities Borrowing and Lending (SBL) System to facilitate securities settlement. To further improve the efficiency of Taiwan's financial market, TSEC introduced a parallel system on June 30, 2003 to facilitate strategy trading. The acceptable trading strategies include hedging, arbitraging and exercising. Eligible participants who hold ETFs, Taiwan 50 index portfolios, ADRs, GDRs, CBs, ECBs, options or futures are allowed to borrow securities from the

new SBL system. Under this new SBL system, a security lending/borrowing transaction may be consummated by either one of the following trading mechanism:

- (1) fixed-price basis,
- (2) competitive auction basis or
- (3) negotiated basis.

TSEC validates transactions executed through the new SBL system.

TSEC also assumes the role of guarantor for transactions executed on the bases of fixed-price or competitive auction.

Qualified institutional market participants including securities dealers, ETF issuers, foreign institutional investors, and futures proprietary traders are eligible to register with the SBL as borrowers. Those who are currently eligible to become lenders are foreign institutional investors, securities investment trust enterprises, futures proprietary traders, insurance companies and banks.