

TAIWAN
STOCK
EXCHANGE



CLEARING AND SETTLEMENT

CLEARING AND SETTLEMENT PROCESS

SECURITIES BORROWING AND LENDING SYSTEM

CLEARING AND SETTLEMENT

► CLEARING AND SETTLEMENT PROCESS

TSEC operates multilateral netting and T+2 rolling settlement conventions. Clearing reports are sent through computer-linked devices to the back offices of the brokers/dealers on the trade (T) day. TSEC is also contracted to perform cash settlement for stocks traded in GTSM, starting August 4, 2003. Cash settlement for 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 the Taiwan Securities Central Depository Co., Ltd. (TSCD) was established, and the new book-entry settlement mechanism became operational. Since February 4, 1995 it has become mandatory for investors to have a book-entry securities depository account as well as a bank account before trading starts.

► SECURITIES BORROWING AND LENDING SYSTEM

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. 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 completed by either one of the following trading mechanisms: (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 auctions.

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.

Table 16. Securities Borrowing and Lending monthly Statistics 2004

Month	Volume (Thousand Shares)	Value (NT\$ Thousand)
Total	3,048,953	81,255,152
Jan.	67,600	2,080,725
Feb.	309,340	7,911,123
Mar.	326,390	8,962,990
Apr.	453,444	11,359,443
May	74,909	2,766,706
Jun.	171,114	4,486,303
Jul.	236,145	7,287,841
Aug.	269,025	6,641,228
Sep.	372,201	8,800,702
Oct.	257,370	7,520,482
Nov.	319,565	8,258,754
Dec.	191,850	5,178,855

Table 17. Securities Borrowing and Lending Statistics 2004

Transaction Type	Volume (Thousand Shares)	Value (NT\$ Thousand)
Fixed-price	205,230	5,037,751
Competitive auction	2,598,173	69,210,336
Negotiated	245,550	7,007,065
Total	3,048,953	81,255,152

* Based on the closing price of each loan stock on trading day.

Fixed price transactions : A transaction for which the SBL fee is based on a fixed rate announced by TSEC.

Competitive auction transactions: A transaction for which SBL fee is determined through bids and offers quoted by participants. The SBL fee rate shall not exceed 20% per annum.

Negotiated transactions: A negotiated contract is decided by counterparties. The criteria such as SBL fee, lending period, collateral types, collateral ratio, etc. are negotiable. The rate shall not exceed 20% per annum.