

# FORMOSA BOND MARKET

## Taiwan Foreign-Denominated International Bond Market

Q&A



GreTai Securities Market



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## — Primary Market —

- ***What are Taiwan Foreign-Denominated International Bonds?***

Taiwan foreign-denominated international bonds, so called Formosa Bonds, are publicly issued or privately placed foreign currencies denominated bonds. These bonds are issued by Taiwan domestic or Formosa issuers with competent credits, in the conditions that are not denominated in Renminbi, and are listed on GreTai Securities Market (GTSM).

- ***What are Advantages for Participating in the Market?***

1. **Efficient application process:** Any Formosa bond applicant, the application timeframe for bond issuance is less than 15 days. Moreover, part of bonds will be exempt from investigation of Financial Supervisory Commission (FSC) and central bank so that it takes only 3 days to go through the listing censorship procedure in GTSM.
2. **Reliable & advanced transaction platform:** the Formosa bond trading system (IBTS) enables bond dealers to buy and sell Formosa bonds over the counter in a public and transparent way.

3. **Low listing fee:** the Formosa bond's listing fee is lower than that of Singapore Exchange and Luxembourg Stock Exchange.
4. **High transparency of trading information:** The "Formosa bond information database" and GTSM website contains all kinds of information, including real-time trading price, news and statistics, which can be found in the website immediately.

- ***What Kinds of Formosa Bonds are Domestic Issuers Qualified to Issue?***

Foreign currency denominated corporate straight bonds and financial debentures, in terms of public offering and private placement, must be rated as BBB or higher. The rating information must be provided by credit rating agencies that are approved or recognized by the FSC.

Besides straight corporate bonds, domestic issuers also can issue convertible bonds, corporate bonds with warrants, or ECB and EWB issued overseas. For bonds issued overseas, the application can only be submitted after one month of the issuance.



- ***What Kinds of Formosa Bonds are Foreign Issuers Qualified to Issue?***

**Criteria for Exempted Issuance**

1. It is a supranational organization; or
2. A straight bond is offered and issued, or privately placed, by a foreign issuer. The foreign issuer should have a long-term credit rating as AAA or higher from a credit rating agency approved or is recognized by the competent authority and is wholly owned by the government of its home country. Or a bond from such issuer that is fully guaranteed by the government of the issuer's home country

**Criteria for Public Offering or Private Placement**

1. The issuer's stocks are listed on a foreign exchange or securities market approved by the FSC; and
2. The straight bond has received a credit rating as BBB or higher from credit rating agencies approved or recognized by the FSC.


- ***What are the Minimum Credit Rating Requirements Bonds to List in the Market?***

According to the regulations of FSC, there are major qualified rating agencies and rating levels as follows,

1. Baa2 or above given by Moody's, or
2. BBB or above given by Standard and Poor's, or,
3. BBB or above given by Fitch Ratings, or,
4. twBBB or above given by China Ratings, or
5. BBB(twn) or above given by Fitch Ratings Taiwan, or,
6. Baa2.tw or above given by Moody's Taiwan.

- ***Which organizations are Approved or Recognized by the FSC?***

1. New York Stock Exchange
2. American Stock Exchange
3. NASDAQ
4. London Stock Exchange
5. German Stock Exchange
6. Euronext Paris
7. Italy Stock Exchange
8. Euronext Netherlands
9. TSX Group
10. Australian Stock Exchange

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11. Tokyo Stock Exchange
  12. Osaka Securities Exchange
  13. JASDAQ Securities Exchange
  14. Singapore Stock Exchange
  15. Kuala Lumpur Stock Exchange
  16. The Stock Exchange of Thailand
  17. JSE Securities Exchange □ South Africa
  18. Euronext Brussels
  19. Euronext Lisbon

– Secondary Market –

• ***What are the Costs to List a Formosa Bond on GTSM?***

The issuer of a Formosa bond shall pay OTC fees to the GTSM in accordance with the following criteria:

1. At the time of the application for OTC trading, the issuer shall pay to the GTSM a fee equal to 10/1,000,000 of the total nominal value of the Formosa bond issue, provided that the minimum fee is US\$500 and the maximum is US\$2,500. In addition, an OTC process fee of US\$500 per series shall also be charged.
2. Beginning the year after OTC trading starts, the issuer shall each year pay to the GTSM annual fees for the given year before the end of January, charged at the rate of US\$250 for bonds of each



maturity. After payment is made a refund may not be requested upon the approval of suspension or termination of trading.

The OTC fees stated above may be paid in foreign currency equivalents, using the denominating currency of the bond issuance.

- ***Shall Foreign Issuers of Engage in an Agent in Taiwan to Handle Matters Related to its Formosa Bond Issuance?***

A foreign issuer may engage in an agent institution within the territory of the ROC to handle matters in connection with its Formosa bond issuance, and shall report the agent institution's business place and contacting information, including any amendment thereto, to the GTSM.



## — Secondary Market —

- ***How shall Bond Dealers Carry out The Formosa Bonds Outright or Repo Transactions?***

1. Through the International bond trading system (“the IBTS”), a subsystem of the GTSM Electronic Bond Trading System (EBTS).
2. Through OTC negotiation trading. Outright transactions in Formosa bonds between securities firms shall be carried out only through the IBTS. However, bond dealers can buy or sell bonds through OTC negotiation if these bonds are already listed on overseas exchanges as well.

- ***What are the Trading Hours and Settlement Date of Formosa Bonds?***

Trading hours for Formosa bonds are as follows:

1. Outright transactions can be executed via the IBTS from 9 am to 1:30 pm, and for repo transactions from 9:00 am to 1:30 pm and 2 to 3 pm.
2. For negotiated transactions at securities firms, hours are from 9 am to 3 pm, provided that trading hours are not limited if the Formosa bonds being traded are already listed on an overseas exchange.

Settlement date for Formosa bonds are as follows:

1. The IBTS performance and settlement date is the third business day after the transaction date.
2. When a trade in an Formosa bond is transacted at a securities house's business place, a trade confirmation statement, delivery statement, and performance and settlement statement shall be produced at the time of the transaction, and after transferring to the client for signing, payment and delivery shall be completed directly with the client by the third business day following the transaction. Where the securities firm applies to and receives approval from the GTSM, it may be allowed until the seventh business day following the transaction to complete payment and delivery

- ***What are the Minimum Trading Unit/ Volume of the Formosa Bonds?***

To trade through the IBTS system, the minimum order is one hundred thousands U.S. dollars or the equivalent, and no maximum volume limit of its multiples.

To trade through traditional OTC negotiation, the minimum order is ten thousands U.S. dollars or the equivalent, and no maximum volume limit of its multiples.

- ***When a Bond Dealer Engages In a Privately Placed Formosa Bond Trading at its Place of Business, its Trading Counterparts shall Comply with One of the Following:***

1. The provisions of Article 43-6, paragraph 1, subparagraphs 1 to 3 of the Securities and Exchange Act.
2. Requirements, as set out in circulars of the competent authority, relating to issuer identity in private bond placements by foreign issuers.

- ***How can Overseas Chinese and foreign nationals outside the ROC invest in the Formosa bonds?***

Overseas Chinese and foreign nationals outside the ROC who would like to invest in ROC securities shall apply to the Taiwan Stock Exchange Corporation, TSEC, for registration in accordance with TSEC operating rules and bylaws by submitting the relevant documents; provided, however, that this requirement shall not apply to overseas Chinese and foreign nationals within the ROC investing in government bonds, financial debenture that do not confer equity rights, ordinary corporate bonds, or open-ended beneficiary certificates.

- ***How and what will foreign investors be taxed to invest in the Formosa bonds?***

The taxations that apply to foreign investors depend on two factors, the nationality of issuers and investors of the Formosa bonds. For those foreign investors,

1. The Capital Gain Tax: Exempt. If the Formosa bonds are issued by domestic issuers, or by foreign issuers with public offering, however, private placement bonds issued by foreigners do not apply.
2. Trading Tax: Exempt.

### 3. Interest Income Tax:

- If a foreigner individual invests in bonds issued by foreign issuers, there is no withholding tax.
- If a foreigner individual invests in bonds issued by domestic issuers, and the individual not staying in Taiwan more than 183 days in a year, then the tax rate is 20%, however, if the individual staying in Taiwan more than 183 days in a year, then the investor needs to disclaim income tax yearly like domestic investors do.
- For those foreign institutional investors with no fixed operation offices in Taiwan, investing in bonds issued by foreign issuers, there is no withholding tax.
- If those foreign institutional investors invest in bonds issued by domestic issuers, the tax rate is 20%. As for those foreign institutional investors with fixed operation offices in Taiwan, investing in bonds issued by foreign issuers, the tax rate is 10% fixed and then the rest income needs to be disclaimed for income tax. If those foreign institutional investors investing in bonds issued by domestic issuers, they need to disclaim interest income yearly for income tax just as domestic institutional investors.





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