

# CHAPTER 1

## BUILDING A ROBUST MARKET

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### 1-1 Growth

#### 1-1-1 Market Expansion

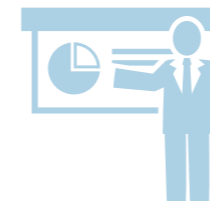
In an active international financial environment, TPEX continued to improve the multi-tiered market to protect investors' rights and maintain market order. These efforts resulted in advantages such as a high turnover rate, high P/E ratio, and high yield rate.

#### Establishing High-Quality Enterprises to Enter the TPEX Market



- Held six domestic business promotion briefings. Two of the meetings were streamed live online, with 1,463 viewers; the other four were physical meetings, with 255 participants.
- Held two foreign business promotion briefings, both of which were streamed live online, with 589 viewers.
- Held information sessions on the listing procedures, enabling companies to connect and engage in transformation and upgrading.

#### Developing and Promoting the Pioneer Stock Board



- Arranged business promotion activities, including visits to intermediaries such as securities firms and accounting firms.
- Amended relevant regulations, established trading systems, and maintained the information on the Market Observation Post System and the TPEX's website.
- Held the "Pioneer Stock Board Public Hearing" to consult intermediaries and innovative companies. The Pioneer Stock Board is expected to be launched in the 3rd quarter of 2021.

#### Continuing to Review Listing Examination Specifications



- Revised four listing criteria and regulations, covering the protection of shareholder rights, increasing diversified funding channels, improving information transparency, and IPO tolerance measures in response to the COVID-19 pandemic.

#### Continuing to Strengthen the Supervision and Information Transparency



- Revised five relevant standards and regulations for strengthening the supervision of the Emerging Stock Market, covering the protection of shareholders' rights and interests, the implementation of corporate governance, and the supervision of material information.

Considering the capital market's critical role in promoting economic development and stabilizing the financial system, TPEX worked with the competent authority to launch a three-year (2021-2023) "Capital Market Roadmap."<sup>3</sup> The Roadmap seeks to expand the market scale, promote alignment with international standards, and enhance Taiwan's capital market's competitiveness.

<sup>3</sup> The FSC launched the Capital Market Roadmap to promote the capital market's development, in response to the three major trends of ESG sustainable development, digital technologies and an aging society to forge a forward-looking and globally competitive capital market.

## 1-1-2 System Optimization

Taiwan's stock trading system underwent many significant changes in 2020, including the introduction of Continuous Trading and Intraday Odd Lot Trading.

### Continuous Trading

Considering that natural persons account for nearly 80% of transaction value, TPEX has committed to promoting a more efficient and convenient trading environment. Since March 23, 2020, TPEX has worked with the FSC to introduce the Continuous Trading System for stock transactions. In line with international standards, the Continuous Trading System improves efficiency and enhances flexibility by enabling investors to utilize the same mechanism for arbitrage, hedging, and strategic trading across products.

As a result, the transaction volume in TPEX Main Board has increased significantly with more than 60% growth rates on average daily transaction value, average daily shares traded, and average daily number of transactions. As is evidenced, these measures have effectively invigorated the stock market.

Nevertheless, due to the current Daily Price Fluctuation Limit mechanism, the issues such as concurring matching sequences between market orders and limit orders still occur during continuous trading hours. TPEX will seek to address these in future revisions while making more types of orders available to investors with enhanced flexibility.



### Continuous Trading

Instant matching upon the receipt of orders. Compared with the aggregate auction, Continuous Trading offers greater transaction velocity and efficiency, transparency, and timeliness in market information disclosure. Currently, major securities markets such as New York, London, Tokyo, Hong Kong, Singapore, and Shanghai have all adopted Continuous Trading for mid-session transactions.

### Intraday Odd Lot Trading

TPEX further launched the Intraday Odd Lot Trading on October 26, 2020, to provide investors with a small-sum investment channel during intraday trading hours that is expected to diversify capital market participants and attract younger generations. The Intraday Odd Lot Trading system also provides periodic investment channels, which is conducive to eliminating securities firms' risks of their remaining stock inventory. In the future, TPEX will assess whether to adjust the Intraday Odd Lot matching interval, and whether to permit Odd Lot Day Trading, thus providing investors with more diversified trading methods.



## 1-1-3 Product Diversification

In response to financial market development and participants' demands, TPEX has also launched a number of financial products and policies to meet the diverse needs of investors, expand the capital market's scale and shape a vibrant and sound financial environment.

After TPEX launched the fixed-term/fixed-amount investment of stocks and ETFs in 2017, 13 securities firms are currently undertaking these businesses. Following the "TPEX 200 Index" launch in 2019, warrants, futures and ETNs linked to the TPEX 200 Index have been successively available on the market. In 2020, TPEX added 7 new iconic ETNs. As of the end of 2020, 13 ETNs have been issued, with a total issuance amount of NT\$3.9 billion and a transaction volume of NT\$1.946 billion, which is nearly twice as much as the NT\$664 million in the first year.

TPEX has progressively introduced the tiered management for the international bonds, relaxed the foreign issuers' requirements to issue professional board international bonds in Taiwan, greatly enhancing Taiwan's international bond market's reputation. In 2020, the issuance volume of the international bonds hit a record high, with the 2020 cumulative issuance amount totaled US\$60.156 billion, a significant 136.37% increase compared to 2019 (US\$25.450 billion).

TPEX will continue to develop diversified financial products in the future, expanding investors' options and improving Taiwanese banks' ability to design financial products. These efforts shall increase Taiwan's financial industry's competitiveness, and the breadth and depth of the capital market, while satisfying investors' needs responsively.

## 1-1-4 Investor Participation

TPEX rolled out incentives and promotional activities incorporating current affairs and trending topics that meet the investors' preferences, and circulate through the TPEX website, Facebook and the media.



**Win Epidemic Prevention Gift Voucher from TPEX 200 Index**

**Performance**

3,000+ participants

**Highlights**

In response to the pandemic, TPEX encouraged investors to engage in epidemic prevention while acquiring knowledge of passive investment between April 27 and May 24, 2020, promoting the "TPEX 200 Index" and related index-linked products.



**What Kind of Financial Management Expert Are You?**

**Performance**

10,000+ participants

**Highlights**

In conjunction with the launch of the first listed Smart Beta Index, "TPEX RGA Quality 50 Index", TPEX enhanced investors' understanding of index composition features and investment risk appetites through scenario simulation games between August 31 and September 30, 2020.



**TPEX 200 Index-linked Product Incentive Event**

**Performance**

6,500+ participants

**Highlights**

TPEX promoted the TPEX 200 Index and encouraged investors to invest in linked products, giving away convenience store gift vouchers every day during the event period.



**Stock ETF Incentive Event**

**Performance**

25,000+ participants

**Highlights**

TPEX cooperated with security firms to promote TPEX stock ETFs between October 1 and December 31, 2020, and encourage investors to participate in stock ETF transactions.



**Bond ETF Investor Trading Incentive Event**

**Performance**

A total of nearly NT\$4 million in incentives were awarded to 640 participants and 4 securities firms.

**Highlights**

Investors who participated in bond ETFs and traded more than a specific number of units were eligible to participate in the lottery.

### TPEX Bond ETFs Rank First in APAC

TPEX commits to promoting bond ETFs among a wide variety of investors by providing trading incentives, securities firms competitions, investor education and subsidies, and various promotional activities. It also encourages securities firms and investment trust companies to engage with investors. In 2020, the listed bond ETFs attracted over a cumulative 58,000 investors, exhibiting an increase of 17,000 and a 42% growth. The bond ETFs' issuance scale exceeded NT\$1.3 trillion in 2020, ranking 1st among major stock exchanges in the APAC region and 7th worldwide.



Moreover, TPEX proposed the Market Maker and Liquidity Provider Programs with reference to the international practices of market makers (MM) and liquidity providers (LP). By providing fee reduction and other incentives, TPEX aims to boost Main Board stock trading volume and specifically those "high-quality and low-liquidity" stocks.



#### Market Maker and Liquidity Provider Programs

TPEX selects Main Board stocks of high-quality and low-liquidity and adopts a parallel mechanism for stock market makers and trading incentive participants. Expected to be launched at the end of June 2021, the mechanism seeks to provide competitive quotes, increase trading opportunities, and thereby invoke market transactions.

# 1-2 Sustainability

## 1-2-1 Market Supervision

While promoting responsive innovation, TPEX also commits to protecting the investors and shareholders and works closely with the FSC to implement securities market supervision. By implementing and strengthening the trading and settlement mechanisms, TPEX seeks to create an open, transparent, and sound TPEX market.

TPEX has rolled out many supervisory measures, including regular audits on financial reports and internal control, exceptional management checks, and audits on listed companies' information reporting. TPEX also performs tiered management for Main Board and ESB companies considering their operations, to facilitate sound corporate development and reduce investors' risks.

### 2020 Supervisory Measures and Performance

(Unit: cases)

Supervisory measure		ESB Companies	Main Board Companies
Reviewing financial report	Formal Review	All ESB Companies	Main Board Companies
	Substantive Review	<b>33</b>	<b>214</b>
When material incidents happen, performing exception management analysis in accordance with regulations		<b>1</b>	<b>697</b>
Auditing the implementation of the internal control system		<b>19</b>	<b>92</b>
Analyzing in accordance with financial and business early warning indicators		<b>62</b>	<b>161</b>
For companies that have been placed on alert, and where the latest financial information should be published according to TPEX standards, contacting the company to release material information		<b>77</b>	<b>530</b>
Auditing material information		<b>42</b>	<b>413</b>
If material information corresponding to TPEX regulations are reported in the daily news or news reports are inconsistent with the facts, notifying the company to provide an explanation through the release of material information		<b>243</b>	<b>908</b>

In addition, TPEX also strengthened the supervision of foreign issuers (KY companies) that perform primary listing. In accordance with the FSC instructions, TPEX further considered strengthening the IPO review mechanism, post-listing financial supervision, institutional investors conference disclosures, and personnel responsibility management.

### Strengthening Supervision with Technologies

To enhance the supervision's effectiveness, TPEX introduced new technologies such as artificial intelligence, big data, and robotic process automation to share information with other supervisory bodies.

## 1-2-2 Transaction Monitoring

To ensure fairness and investor protection, TPEX has issued relevant regulations that cover issuance, trading, and surveillance to maintain the order of securities market transactions.

	Description	Key Actions and Performance in 2020
 <p><b>Issuance</b></p>	<p>When an incident happens and can significantly impact a company's financial conditions and business, TPEX has formulated the trading suspension mechanism to provide ample time for the market to learn and consider the material information.</p> <p>The issuing company can apply by filling in a "trading suspension application form" stating the relevant details, and applying to TPEX via fax, email, or telephone. After being notified by TPEX, the company shall release material information through the Market Observation Post System, prepare press releases, and hold a press conference to explain.</p>	<ul style="list-style-type: none"> <li>In March 2020, in accordance with the relevant regulations for Main Board companies, TPEX added the trading suspension mechanism for ESB stock information.</li> <li>4 ESB companies and 19 Main Board companies applied for information-related trading suspension.</li> </ul>
 <p><b>Trading</b></p>	<p>To avoid the severe deviations in transaction price due to violent market fluctuations, relevant measures are in place:</p> <ul style="list-style-type: none"> <li><b>Main Board stocks:</b> TPEX adopts "Intra-day Volatility Interruption"; where the transaction price rises or falls by more than 3.5% of the reference stock price with violent stock price fluctuations from the first matching to 10 minutes before the market closes, TPEX will delay the matching for 2 minutes and continue to accept key-in, cancellation and changes of buy/sell orders within the delayed matching period, and match after the current period ends.</li> <li><b>ESB stocks:</b> TPEX has introduced the trading halt mechanism for abnormal stock price fluctuations. When the weighted average trading price of individual stocks during the trading hours of each business day rises or falls to more than 50% compared with the previous business day, trading will be halted until the end of trading hours for the day.</li> </ul>	<ul style="list-style-type: none"> <li>21,031 Intra-day Volatility Interruptions were implemented for individual Main Board stocks.</li> <li>38 trading halts were executed due to abnormal fluctuations of individual ESB stocks.</li> </ul>
 <p><b>Supervision</b></p>	<p>TPEX's supervisory measures include surveillance and early warning, and audits on illegal transactions:</p> <ul style="list-style-type: none"> <li><b>Surveillance and early warning:</b> For securities traded at abnormal prices and volumes, TPEX makes an announcement of attention or takes disposal measures. TPEX publishes daily announcements on the website regarding securities that meet the criteria. If the condition remains for consecutive days, TPEX will implement advance collection of funds and securities and extended matching time to remind investors of trading risks.</li> <li><b>Audits on illegal transactions:</b> TPEX audits abnormal securities tradings. If there is suspected illegal manipulation or insider trading, the violation shall be reported to the competent authority and judicial authority for handling to protect the investors and maintain market order. TPEX also distributes information on illegal transactions among issuers and securities firms to enhance their awareness.</li> </ul>	<ul style="list-style-type: none"> <li>Announcement of Attention Main Board Securities has been announced 3,277 times among 465 securities; Announcement of Disposition Main Board Securities has been announced 404 times among 205 securities; Announcement of Attention Emerging Stock Market Securities has been announced 77 times among 45 securities.</li> <li>TPEX also held 6 workshops on prevention of illegal transactions for securities firm practitioners as well as 5 insider ownership workshops.</li> </ul>

### 1-2-3 Securities Firm Audit

To maintain the transaction order, TPEX paid routine or special visits to securities firms to check their financial and business conditions and risk management mechanism.

In terms of routine audits, TPEX works with TWSE to perform audits on the financial, business, internal audit, and other operational aspects of securities firms. There are also routine audits on securities firms operating only equity crowdfunding, those only security token offering, and those only operating bonds and leverage transactions.

In terms of special audits, TPEX acts according to the "Operational Guidelines for Follow-up, Assessment, and Guidance in Regard to Securities Firm Audit Deficiencies." As for the risk management appraisal, TPEX also works with TWSE to perform annual evaluations on the securities firms that concurrently operate securities brokerage, underwriting, and proprietary business.

Furthermore, TPEX and TWSE held 18 "2020 Newly Amended Standards for the Internal Control Systems of Securities Firms Promotional Seminars" between July 13 and August 21, 2020, across Taiwan. Attended by 1,600 participants, these seminars supported securities firms in establishing a comprehensive and effective internal control and audit system.

#### TPEX Audits of Securities Firms



TPEX will continue to progressively revise regulations on securities firms' risk management and evaluation operations, and incorporate matters related to risk limit control, profit and loss limit monitoring, exception management approval procedures, and stress testing into the appraisal indicators. In response to emerging technological development and the competent authority's Financial Cybersecurity Action Plan, TPEX will include issues of information security and relevant server services into future audits.

### 1-2-4 Investor Protection

TPEX commits to creating an open, transparent, and reliable TPEX market on top of striving for transaction safety and market stability. Through continuous education and promotion, supervision and information transparency enhancement, and appropriate disposal measures, TPEX seeks to comprehensively protect the investors' rights and interests.



#### Continuous Education and Promotion

- From September 28 to October 30, 2020, TPEX held the online "Workshops on Requirements to Be Fulfilled by Main Board and ESB Companies," covering "Corporate Governance 3.0," "Newly Amendment Regulations on Material Information," "Key Reminders for Information Reporting," "Important Issues of Internal Control," "Key Amendments to Laws and Regulations," and "Laws and Cases Related to Insider Trading."
- From May 25, 2020 to June 30, 2020, TPEX held the online "Bond Market Laws and Regulations Promotional Seminar" with 77 bond dealers and 1,899 participants, strengthening the regulatory compliance.



#### Supervision and Information Transparency Enhancement

- In March 2020, TPEX introduced the Information-Related Suspension Mechanism for ESB Companies to realize supervision and prevent the incidents that may materially affect the investors.
- TPEX implemented a mechanism for the withdrawal of Main Board companies with poor operating statuses in 2020 to urge listed companies exhibiting low net value or experiencing difficulties to actively improve.
- TPEX held a number of listed and registered company performance briefings have been organized to allow investors to keep abreast of the companies' latest developments.
- TPEX began managing the issuance of "International Bonds with Total Loss-absorbing Capacity." Issuance qualifications of foreign issuers, issuance conditions and investor qualifications and restrictions have been additionally formulated, and issuers are required to strengthen information disclosure.
- TPEX expanded the scope of disclosing fair prices for US dollar-denominated international bonds, established a calculation system for the theoretical price of fixed-rate US dollar-denominated international bonds, and provides daily theoretical prices for various redemption and interest-bearing US dollar-denominated international bonds on the TPEX website.



#### Appropriate Disposal Measures

- If a company violates relevant regulations, TPEX may send a letter requesting the company to improve, include the company in the regular financial information disclosure and key financials sections, impose breach penalties, execute altered trading, or suspend trading of the company's securities.
- If there is a violation of relevant laws and regulations such as the Securities and Exchange Act, TPEX will hand over the case to the competent authority for relevant administrative adjudication. Suppose the violation involves illegal securities trading, insider trading, or stock price manipulation, since the criminal investigation and public prosecution are under the jurisdiction of the Ministry of Justice. In that case, the illegal evidence is transferred to the Bureau of Investigation of the Ministry of Justice or the Prosecutors Office through the competent authority for criminal investigation or prosecution. TPEX will also assist in providing relevant information to the investor protection center.



#### Key Financials Section

TPEX is responsible for maintaining important financial information disclosed on the Market Observation Post System, and setting the nine indicators that reflect the companies' operational and financial status. When the listed circumstances happen, the system will highlight the corresponding indicators to alert investors.

# 1-3 Collaboration

## 1-3-1 Participation in Associations

TPEX is currently a member of 17 domestic associations. In addition to participating in regular meetings, TPEX also actively attends activities and seminars organized or co-organized by various associations. For instance, TPEX participated in the two charity carnivals organized by the Taiwan Financial Services Roundtable, the "2020 Taiwan Sustainable Finance Forum" hosted by BCSD Taiwan, and the "Biotechnology Forum" hosted by the Taiwan Bio Industry Organization.

### Domestic Association Membership

Name of Entity	Participation Status
Taiwan Financial Services Roundtable	Member/Director
Securities Analysts Association, Chinese Taipei	Member/Director
Accounting Research and Development Foundation	Member/Director
Taiwan Corporate Governance Association	Member
The Institute of Internal Auditors, R.O.C.	Member
The Business Council for Sustainable Development of Taiwan	Member
Chinese Association of Intangible Assets Valuation	Member
Chinese International Economic Cooperation Association, Taiwan	Member
Chinese National Association of Industry and Commerce, Taiwan	Member
Corporate Operation Association	Member
Taiwan Stock Affairs Association	Member
Taiwan Mergers & Acquisitions and Private Equity Council	Member
Banking Education Association of Taiwan	Member
Taiwan Bio Industry Organization	Member
Financial Planning Association of Taiwan	Member
Taiwan Finance Association	Member
Financial Engineering Association of Taiwan	Member

## 1-3-2 International Interactions

Due to the pandemic's impacts in 2020, almost all physical activities have been postponed. However, TPEX is still actively participating in virtual conferences, forums and seminars to learn international trends and maintain international engagements.

### International Organization Membership

Name of Organization	Participation Status
The World Federation of Exchange, WFE	Full member
Asian and Oceanian Stock Exchanges Federation, AOSEF	Full member
The International Organization of Securities Commissions, IOSCO	Affiliated member (FSC, the competent authority, is a full member)
The Global Association of Central Counterparties, CCP12	Full member
Climate Bonds Initiative, CBI	Partner
Task Force on Climate-Related Financial Disclosures, TCFD	Became signatory in October 2020

### Participation in International Securities Conferences and Seminars

#### Participation in Related Organizations and Activities in the International Securities Market

<b>WFE</b>	<ul style="list-style-type: none"> <li>· The 2020 Working Committee in London (physical event);</li> <li>· WFE-IOMA Clearing &amp; Derivatives Conference online seminar</li> </ul>
<b>IOSCO</b>	<ul style="list-style-type: none"> <li>· Affiliated Members Consultative Committee (AMCC) 2020 video conference;</li> <li>· AMCC 2020 video seminar and annual meeting;</li> <li>· AMCC mid-year meeting in 2020;</li> <li>· IOSCO 2020 World Investor Week (WIW) Video Conference</li> </ul>
<b>CCP12</b>	<ul style="list-style-type: none"> <li>· 2020 Annual Conference Video Conference</li> <li>· Special Annual Meeting Video Conference</li> </ul>

#### Participation in Meetings of Other Securities-Related Organizations

Asian Securities Industry and Financial Market Association (ASIFMA)	Five video seminars
International Capital Market Association (ICMA)	Three video seminars
Nasdaq	One video seminar
The Institute of Internal Auditors (IIA)	2020 Annual Conference Video Conference
Asian Corporate Governance Association (ACGA)	2020 Annual Conference Video Conference

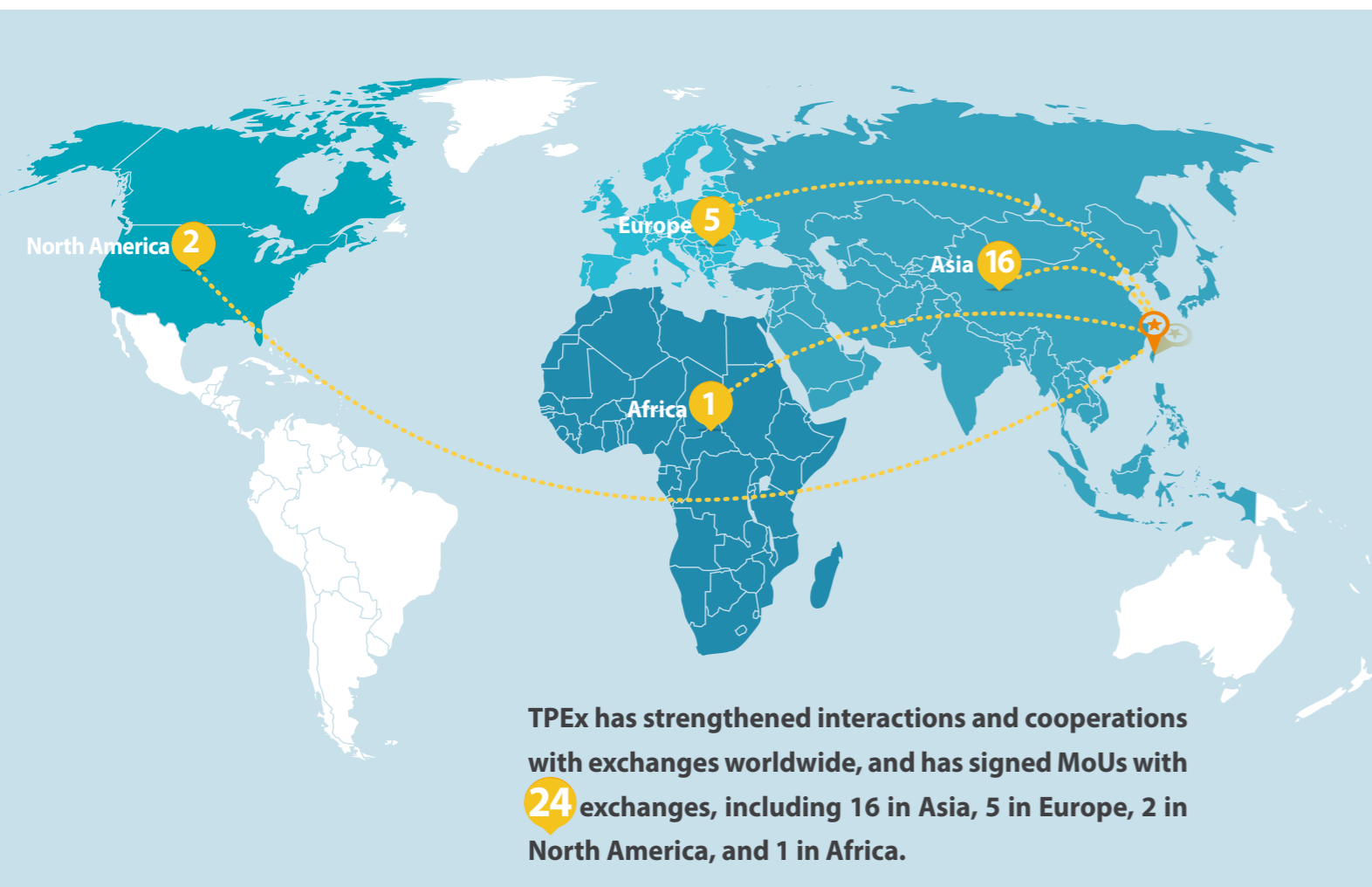
### Interview with WFE FOCUS

TPEX Chairman accepted an exclusive interview with WFE FOCUS to introduce how TPEX creates an open and innovative environment to assist emerging and growing businesses in raising funds, and develop new financial products and indexes, and is committed to sustainable development. The interview was published on the WFE website in the January 2020 issue, greatly enhancing the international visibility of the TPEX market.



### Collaboration with Exchanges Worldwide

TPEX has signed memorandums of understanding (MoU) with 24 exchanges worldwide. Although the pandemic affected face-to-face dialogues, TPEX still maintained good interaction with and learned from partner exchanges through video and email.



### Exchanges with Foreign Enterprises

TPEX has been actively encouraging the finest foreign companies to become listed on Taiwan's TPEX market. On September 14, 2020, three Malaysia-based businessmen visited TPEX and engaged in detailed conversations on entering Taiwan's capital market. TPEX introduced the TPEX market's advantages and how to enter, thereby encouraging companies run by Taiwanese businessmen to return to Taiwan.

### 1-3-3 Promoting TPEX Services

TPEX promotes its services through various channels to inform capital market participants:

Promotional Channel	Description
<b>TPEX Official Website</b> 	<ol style="list-style-type: none"> <li>1. Considering the participants' diversity in the capital market, "Focus Areas" was set up on the homepage. Visitors can browse according to their identity or the topics they are interested in.</li> <li>2. The "TPEX Events" and "Media Gallery" sections were set up to promote relevant policies, key businesses, and recent activities.</li> </ol>
<b>Facebook Fan Page</b> 	<ol style="list-style-type: none"> <li>1. Considering that the younger generations are more familiar with Facebook, a social media manager has been appointed to actively interact with the public, promote key products or systems, and disseminate information in an interesting way.</li> <li>2. Posts on the fan pages of competent authorities are shared on the TPEX fan page to facilitate policy communication.</li> </ol>
<b>TPEX Sustainability Section</b> 	<p>TPEX establishes a Sustainability Section on its official website in 2020 to strengthen communication with stakeholders, and present TPEX's sustainability actions and performance more comprehensively and timely.</p>
<b>Promotional Seminars</b>	<p>TPEX promotes various important businesses, systems, and the latest revised regulations for companies, investors, and securities firms.</p>
<b>On-Site Visits</b>	<p>TPEX makes on-site visits to domestic and foreign companies to introduce the multi-tiered capital market.</p>
<b>Networking/ Matchmaking Activities</b>	<p>TPEX regularly organizes business promotion networking and matchmaking activities for enterprises in the TPEX market.</p>
<b>Media</b>	<p>TPEX promotes its services and products through the media.</p>
<b>Investor Hotline/Fax</b>	<p>TPEX upholds a professional stance and a fair and objective attitude in processing investor complaints, petitions or consultations, in a timely manner. All investor emails received in 2020 were forwarded to the relevant business departments for processing after receipt.</p> <ul style="list-style-type: none"> <li>· Investor service hotline: 886-2-2366-6100</li> <li>· ESB market investor consultation hotline: 886-2-2369-6102</li> </ul> <p>Email address of Investor Mailbox: Click on "Contact Us" on the TPEX official website to access the Investor Mailbox</p>