

Capital Market Roadmap (Development Plan)

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Capital Market Roadmap

Foreword

Capital markets play a crucial role in the financial system, maintaining the stability and prosperity of a country's economy. To continuously expand the scope of capital markets, bring market systems in line with international practices, and boost the competitiveness of Taiwan's capital market, the Financial Supervisory Commission (FSC) has promoted a number of market reforms and beneficial measures in recent years, including fixed period and fixed amount purchase of individual stocks and ETFs in 2017; relaxed regulations for listing and fund raising and dynamic price stabilization measures in 2018; issuance of ETNs by securities firms and establishment of an Islamic Sukuk fixed return security issue system in 2019; introduction of continuous trading across the board on March 23, 2020; and the launch of "Corporate Governance 3.0 – Sustainable Development Roadmap" on August 25, 2020.

In light of the current status of the capital market and international developments, three main trends look to have significant impact on future capital market development:

1. Environmental, social and governance (ESG) trends:

The growing importance of ESG and responsible investing in recent years has seen countries around the world urge

companies to work toward shared prosperity with society and the environment through sustainable management. Between 2005 and 2020, the number of UN Principles for Responsible Investment (PRI) signatories jumped to 3,038, representing over US\$100 trillion in AUM.

The overarching idea behind responsible investing is to consider ESG issues when making investment decisions. This means that, in addition to a company's operations and outlook, their responses to social and environmental issues should be incorporated into investment practices.

According to data from Morningstar, the total number of global sustainable funds stood at 3,774 in Q3 2020 with a net inflow of US\$80.5 billion, showing significant growth from Q2 inflow of US\$71.1 billion. Total ESG fund assets reached a new high of US\$1.2 trillion at the end of September, signaling continued interest by institutional investors in ESG issues.

2. Digital technology trends:

The technology trends of digitalization, internet connectivity, and mobile networking will have a huge impact on capital markets and the operating environment of financial intermediaries. No longer bound by traditional business models, financial intermediaries should embrace visionary methods of utilizing digital technologies and AI to provide innovative new financial services, expand existing services, and uplift the sector's competitiveness. Digital technology applications can also serve to strengthen market monitoring and alerts by the use of SupTech

by the supervisory authority to safeguard the rights of the investing public. Furthermore, digital technology can be deployed in investor education, providing multiple channels through which various age groups and types of investors can easily access information regarding finance, risk awareness, investment, and wealth management, thereby fulfilling the objective of financial inclusion for all.

3. Aging society trends:

According to data released by the National Development Council (NDC) in October 2020, Taiwan will become a super-aged society by 2025, meaning that one in five citizens will be aged over 65. As of 2019, the percentage of those older than 65 has already exceeded 15%.

An overview of the age distribution of individual investors conducting securities transactions in Taiwan's centralized market shows that a majority of investors skew older. From 2010 to 2015, the age 41-60 demographic accounted for 58% of individual investors. In 2018 and 2019, the same demographic stood at 50-52%, yet the 61-70 year age group has grown consecutively from 14.9% to 17.91% in 2018, and to 18.9% in 2019. In other words, population aging is also reflected in the makeup of Taiwan's individual investors.

With an aging society and pervasively low interest rates, funding a retirement through interest alone is no longer feasible. Instead, as Taiwan is expected to become a super-aged society, the elderly are making preparations for retirement by investing in

financial products tailored to their needs – low-risk and fixed returns. In fact, this issue does not just affect the elderly, but affects Taiwan as a whole.

Corporate governance is the foundation of a sound capital market and the key to attracting sustainable investment. To this end, the FSC launched the 5-year Corporate Governance Roadmap in 2013 to accelerate the development of Taiwan’s corporate governance practices and bring them in line with international standards. This was followed up by the 3-year New Corporate Governance Roadmap (2018-2020) and expanded upon with the announcement of the Corporate Governance 3.0 – Sustainable Development Roadmap in August 2020.

In addition to launching the “Corporate Governance 3.0 – Sustainable Development Roadmap” earlier this year, the FSC is developing a roadmap for Taiwan’s capital market in response to international capital market developments, the increasing challenges they bring, and the three main trends of ESG, digital technologies, and an aging society. To forge a forward-looking and globally competitive capital market, the new roadmap aims to create an ecosystem for market participants to achieve shared wellbeing and prosperity, thereby fulfilling the vision of a fair, efficient, diverse, and internationalized capital market with a focus on innovation and openness. In its commitment to enhancing sound market development, safeguarding investors, and maintaining orderly markets, the FSC is focusing on the four main objectives of “sustainable development,” “financial

inclusion,” “enhanced competitiveness,” and “investor protection” in the 3-year Capital Market Roadmap. With an emphasis on the five major strategies of “strengthen primary market functions to support real economic development,” “activate the market and increase efficiency and liquidity,” “attract foreign investment and improve international visibility,” “boost functions and competitiveness of financial intermediaries,” and “encourage financial innovation and diversity,” the roadmap will enhance capital market functions and stimulate Taiwan’s economic growth.

I. Framework of the Capital Market Roadmap

Building on the core value of creating an environment for capital market participants to unlock shared potential and achieve shared prosperity, the FSC has outlined the Capital Market Roadmap as follows:

One Vision: Fair, efficient, diverse, and internationalized capital market with focus on innovation and openness

Two Missions: Enhance sound market development; safeguard investments and maintain orderly markets

Three Trends: ESG; digital technology; aging society

Four Main Objectives:

1. Sustainable development

The rights of investors are deeply intertwined with the sustainable operations of corporations, and investors are now more concerned than ever with corporate sustainability and social responsibility. In light of this international trend, the creation of a sound ecosystem for sustainable development that benefits corporations, investors, and stakeholders alike is hoped to stimulate environmental sustainability, advance the development of green finance, and contribute to successful economic growth, environmental protection, and social prosperity.

2. Financial inclusion

The FSC is dedicated to promoting financial inclusion, an issue strongly advocated by the World Bank and other international organizations. In the formulation and implementation of policies, the FSC seeks to guide market

development toward the ultimate goal of financial inclusion, including several measures aimed at creating a friendly development environment, enhancing financial services, and promoting technological innovation by startups. By meeting the needs of corporations and the investing public with an expansive range of diversified financial products, financial inclusion in the capital market can be achieved through convenience and accessibility for all.

3. Enhanced competitiveness

By addressing the developmental trends of all aspects of the capital market, from issuance, trading, intermediaries, to product development, the various specific measures of the Capital Market Roadmap aim to enhance market soundness and boost overall competitiveness.

4. Investor protection

The functional operation of the capital market, which is a major source of fundraising for companies and the bedrock upon which the national economy is built, is driven by investor confidence. A fair and just market is critical to ensure investor confidence, protect investor rights, and increase investment in the capital market. Thus, the protection of investor rights is critical to the sound development and upgrade of Taiwan's capital market.

Five Major Strategies

In response to the rapidly changing conditions of the capital market, the FSC has laid out the three-year Capital Market Roadmap on the principles of openness and innovation. To bring

Taiwan's capital market in line with international standards, the Roadmap sets out policy guidance and objectives through the following five major strategies, under which the specific measures will be implemented.

Strategy 1: Strengthen primary market functions to support real economic development

Strategy 2: Activate the market and increase efficiency and liquidity

Strategy 3: Attract domestic and foreign investment and improve international visibility

Strategy 4: Boost functions and competitiveness of financial intermediaries

Strategy 5: Encourage financial innovation and product diversity

II. Development Action Plan

1. Phase 1: The FSC, together with the Taiwan Stock Exchange, Taipei Exchange, TDCC, and Taiwan Futures Exchange, as well as the Securities and Future Investors Protection Center, Securities and Futures Institute, and other associated agencies have compiled and studied the critical issues and pressing needs of our current capital market. In response, the Capital Market Roadmap was launched on September 24, 2020 comprising 25 key items under five major strategies.
2. Phase 2: Three strategic working groups are convened to evaluate the specific content, procedures, and timeline for the 82 specific measures, which will be carried out within the next

one to three years. By the end of 2020, the Development Plan for the Capital Market Roadmap will be finalized and ready for implementation.

3. Regular review and revision: Implementation of the Roadmap's specific measures will be reviewed each year on a regular basis with rolling updates and revisions deployed as needed.

III. Implementation items

Strategy 1: Strengthen primary market functions to support real economic development

(18 specific measures)

1. Establish new innovation board to provide more channels for fundraising

- (1) Evaluate and establish suitable listing standards and requirements for innovative startups based on their business models and financial conditions
- (2) Adopt simplified public offering mechanism to accelerate the entry of innovative startups into the capital market
- (3) Taking international stock market systems into consideration, establish investor qualifications, consultation services for securities firms, and mechanisms for issuers transferring between Boards

2. Optimize IPO and SPO financing regulations and enhance capital market fundraising

- (1) Examine IPO review regulations and simplify IPO application
- (2) Study shelf registration for issuance of new shares
- (3) Examine and loosen regulations for primary TWSE/TPEX-listed companies and foreign emerging stock board companies to issue corporate bonds on the Professional Board of TPEX
- (4) Examine and loosen SPO review regulations

3. Enhance supervision and information transparency of TWSE/TPEX-listed companies

- (1) Utilize SupTech to enhance supervision efficacy of TWSE/TPEX-listed companies
- (2) Enhance management of primary TWSE/TPEX-listed companies

- (3) Improve quality of disclosure of material information
- (4) Optimize accessibility of the Market Observation Post System to enhance freedom of information

4. Expand responsibilities and management of securities market specialists

- (1) Establish higher standards for specialist reports on ESG
- (2) Establish higher standards for specialist reports on the acquisition and disposal of assets or public tender offers for securities of public companies
- (3) Evaluate strengthening management and increasing responsibilities of IPO and SPO specialists

5. Improve audit quality

- (1) Enhance transparency of CPA firms' governance
- (2) Establish differentiation supervision of CPA firms
- (3) Improve quality of professional accounting practices and revise current standards in line with international frameworks
- (4) Enhance self-discipline of accountants and revise standards of professional ethics

Strategy 2: Activate the market and increase efficiency and liquidity

(10 specific measures)

1. Promote intraday odd lot trading and expand market participation

- (1) Study odd lot trading conditions and feasibility of shorter matching cycles
- (2) Expand participation of securities firms and discuss additional measures for odd lot trading

2. Develop market-making system and stimulate market trading

Promote Taiwan market-making system; evaluate market-making criteria, qualifications, and other items following launch

3. Enhance clearing and settlement fund system, strengthen stock market risk management

- (1) Establish maximum limit borne by clearing and settlement fund, revise order of priority in disposal of funds in cases of violation
- (2) Evaluate adjustment of clearing and settlement fund calculation method

4. Improve market transparency and investor risk management

- (1) Evaluate improvement of pre-trading information disclosure quality
- (2) Evaluate additional information disclosure in the period of disposition measures

(3) Evaluate the addition of MWP orders to enhance risk management for individual investors

5. Establish investment-friendly taxation, creating win-win for market momentum and tax revenue

(1) Lower securities transaction tax for securities firms engaging in hedging trades for legal market making activities

(2) Consider urging MOF to extend day trading tax cut

Strategy 3: Attract domestic and foreign investment and improve international visibility

(15 specific measures)

1. Improve convenience and efficiency for foreign investment

- (1) Provide user-friendly English query system and enhanced English information disclosure
- (2) Establish electronic operation platform and paperless environment
- (3) Allow foreign investment in ETN
- (4) Add applicable products with dynamic price banding mechanism
- (5) Enrich after-hours futures trading
- (6) Study overseas Chinese and foreign investment with domestic leverage transaction merchants in leverage contracts

2. Promote Taiwan capital market and strengthen international cooperation to improve international visibility

- (1) Enhance exchange and cooperation with international securities and futures institutions
- (2) Continue hosting investment promotion events to promote Taiwan's spot and futures markets
- (3) Actively participate in organizations, conferences, and events related to international securities and futures markets
- (4) Encourage international financial institutions to expand operations and put down roots in Taiwan

3. Increase investor protection and education

- (1) Lay out comprehensive education for promoting securities investment and futures trading in line with the trend of aging society, using digital fintech and targeting various investor types
- (2) Enhance functions of the Securities and Futures Investors Protection Center in line with the amended Securities Investor and Futures Trader Protection Act and Commercial Case Adjudication Act; empower shareholder activism
- (3) Encourage TWSE/TPEX-listed companies to improve shareholder meetings and communications

4. Achieve status of QCCP for domestic futures CCP under Basel III framework

Urge relevant competent authorities to recognize QCCP status of TAIEX OTC derivative clearing operations

5. Continue to attract domestic capital

Encourage companies to host or participate in investor conferences to improve visibility

Strategy 4: Boost functions and competitiveness of financial intermediaries

(27 specific measures)

1. Integrate fintech to promote digital transformation and SupTech

- (1) Optimize process of opening accounts online
- (2) Provide asset integrated information services for investors
- (3) Encourage securities and futures sector to promote open securities
- (4) Promote digital transformation by assisting securities firms to set up virtual service points or provide digital financial services at physical locations
- (5) Encourage technological development in investment trust and consulting sector
- (6) Strengthen monitoring of investment trust and consulting sector through technological applications
- (7) Enhance real-time monitoring mechanism of TWSE and TPEX on financial products offered by securities firms and related risks
- (8) Utilize SupTech to establish futures market oversight and information platform
- (9) Supervise TDCC to promote securities and futures market digital supervision mechanism

2. Support securities firms to develop investment banking in line with international trends and improve global competitiveness

- (1) Upgrade securities firms' role in direct financing, reinvigorating the real economy
- (2) Propel asset management services forward to stay on top

of new fintech developments

- (3) Loosen regulations on sub-brokerage and international securities to capitalize on diversified financial opportunities
- (4) Improve securities firms' utilization of funds to expand new financing channels
- (5) Encourage securities firms to develop diverse financial products to invigorate new system for product listing

3. Encourage expanded operations of investment trust and consulting to boost competitiveness

- (1) Explore allowing securities investment trust sector to launch and manage REITs
- (2) Advise securities investment trust sector to take ESG factors into consideration in investment process, risk management, and other internal controls for asset management
- (3) Encourage securities investment trust sector to join centralized clearing platform for onshore funds

4. Stimulate development in futures operations to serve the real economy and provide effective hedging

- (1) Explore allowing futures dealers and their subsidiaries to engage in warrants, hedging, and other related businesses on the London Metal Exchange (LME)
- (2) Strengthen risk management mechanism of futures market and assess adjusting ANC ratio formula of futures dealers
- (3) Evaluate expanding leverage contracts of leverage transaction merchants

5. Enhance information security and ensure transaction network security

- (1) Improve standards of information security to ensure safety of online services and uninterrupted operation
- (2) Enhance information security of peripheral agencies
- (3) Strengthen network security of securities and futures market, evaluate and certify transaction network security to ensure security and normal operation of market transactions

6. Cultivate financial professionals, enhance training and employment environment

- (1) Conduct training of professional talent in line with policies by the competent authority
- (2) Enhance professional competencies of those in the securities and futures sector
- (3) Cultivate international and fintech talents
- (4) Enhance cultivation of college and university talents for the capital market

Strategy 5: Encourage financial innovation and product diversity

1. Establish sustainability board and raise awareness of sustainable development

- (1) Establish comprehensive bond market for sustainable development
- (2) Promote related futures derivatives in line with development of sustainable products on spot market
- (3) Promote green sustainable investment and fundraising

2. Expand scope of asset management and product development

- (1) Set up market for REIT funds
- (2) Promote sound and diverse development of ETFs

3. Set up central clearing system of OTC derivatives in line with international practices

- (1) Launch CCP clearing services for New Taiwan Dollar interest rate swap (IRS)
- (2) Evaluate launch of CCP clearing services for New Taiwan Dollar non-deliverable forwards (NDF)
- (3) Facilitate establishment and implementation of information transmission mechanism from Taipei Exchange TR to Taiwan Futures Exchange CCP

4. Promote the development of diverse financial products for securities and futures markets for comprehensive range of financial products

- (1) Evaluate the launch of diversified products
- (2) Examine and promote the development of new products for centralized and OTC futures markets
- (3) Promote long-term retirement investment plans for aging

society

- (4) Relax scope of financial products and services offered by securities investment trust and consulting industry to high-asset customers and high net worth juristic persons

