Taiwan’s Capital Market
--Features and Transformations

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Taiwan Stock Exchange
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Outline

1. Market Profile
2. Features
3. Transformations
4. Conclusion
1. Market Profile
The Structure of Taiwan’s Securities Market

Two Trading Mechanisms

Financial Products

Securities Market

Over-the-Counter

Call Auction

Derivatives

Bonds

Emerging Stocks

TWSE & GreTai listed Stocks

Stock Options

Corporate Bonds

Emerging Stocks

Gov’t Bonds

Financial Debenture

Stocks

TDRs

Warrants

ETFs

Source: TWSE
Taiwan Securities Market Overview

Market Cap NT$24.7 tn
TWSE 22.6 tn, GreTai 2.0 tn, Emerging Stocks 0.7 tn end Aug 2013

1,458 listed companies, 279 emerging stocks
813 TWSE-listed, 645 GreTai-listed end Aug 2013

Active Investors
2.6m investors Jan-Aug 2013

Total & Average Daily Turnover in 2012
NT$88.98tn & NT$355.9bn
Note: No Derivatives included

Average Daily Orders & Matched Trades
3.4m orders & 850k trades
Source: TSE (TWSE and Gre)
## Multi-level Equity Markets in Taiwan

### Taiwan Stock Exchange
- **Taiwan Blue-Chips**
  - 813 companies, with a market cap of 23 trillion NTD
    - Domestic: 785
    - Foreign: 28
  - 30 TDRs, 21 ETFs, over 8,000 warrants...

### GreTai Securities Market
- **Potential Growth Stocks**
  - 645 companies, with a market cap of 2 trillion NTD
    - Domestic: 626
    - Foreign: 19
    - 1 TDR, 1 ETF, over 2,000 warrants...

### Emerging Market
- **Startups**
  - 279 companies
  - Expected to operate in late 2013

### Go Incubation Board
- **small-sized innovative companies**

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Source: TWSE, GreTai, as of August 2013
• Nearly half consists of high-tech, others remain relatively dispersed

Source: TWSE, as of August 2013
Note: Calculated by market cap.
Investor Structure by Trading Value

- High proportion of retail investing, but yearly increase of foreign participation.

Year 2000:
- Retail Investors: 86%
- Domestic Institutions: 10%
- Foreign Institutions: 4%

Year 2012:
- Retail Investors: 62%
- Domestic Institutions: 15%
- Foreign Institution: 23%
TWSE: 50 Years in Review

At each critical turning point, TWSE leadership rose to the challenge of the present with a view to the future.

- **1960 Start**
  - Securities traded on the OTC
  - Need to manage dispersed securities leads to formation of TWSE

- **1970 Expansion**
  - Rise of capital markets → industrial development → creation of high-tech industry

- **1980 Change**
  - Adoption of computerized trading, in tandem with global trends
  - Central depository and clearing systems
  - Allow for establishment of brokerages

- **1990 Liberalization**
  - Brokerages permitted to engage in margin trading
  - Eligible foreign institutional investors may invest directly in Taiwan securities

- **2000 Outlook**
  - Advancement of international investment
  - Active endorsement of both domestic and foreign listings

Listings vs. Market Value

NT$ million

Contributions of the Capital Market to Economic Growth

- **12.41bn USD**
  - Top 20 brands of Taiwan with a value of 12.41 bn USD in 2012, 19 of which are owned by listed companies
  - Source: Interbrand

- **1,467,428 employees**
  - 1,467,428 employees hired by listed companies
  - Accounting for 13% of total employment
  - Source: TEJ, dgbas

- **21.05tn NTD**
  - Generating 21.05 tn NTD in revenue by TWSE- & GreTai-listed companies in 2012
  - Source: TWSE, GreTai

- **118.73bn NTD**
  - Raising 118.73bn NTD in capital by TWSE- & GreTai-listed companies in 2012
  - Source: TWSE, GreTai
Contributions of the Capital Market to Enterprises

Number of listed companies
- 917 in 2001
- 1,447 in 2012
Growth 57.8%

Capital issued by listed companies
- 4.78tn in 2001
- 7.07tn in 2012
Growth 47.6%

Market cap of listed companies
- 11tn in 2001
- 23tn in 2012
Growth 109%

Fundraising by TWSE-listed companies
- 53.12bn in 2001
- 77.69bn in 2012
Growth 46.2%

Note:
1. NTD-denominated
2. Fundraising through GDR not included

Maximizing Competitiveness
Building Goodwill
Increasing Employment
Boosting Revenue
2. Features
## IT Concentration

### Share of IT Sector in Market Value

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1995</th>
<th>1999</th>
<th>2012/8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>18.3</td>
<td>21.8</td>
<td>33.3</td>
<td>20.6</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>18.3</td>
<td>17.9</td>
<td>27.9</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>10.7</td>
<td>8.8</td>
<td>19.8</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>3.5</td>
<td>6.2</td>
<td>22.9</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>12.0</td>
<td>12.9</td>
<td>18.8</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td>8.7</td>
<td>40.2</td>
<td>71.3</td>
<td>12.7</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>11.1</td>
<td>12.4</td>
<td>23.9</td>
<td>16.9</td>
</tr>
<tr>
<td><strong>Korea</strong></td>
<td>0.4</td>
<td>5.1</td>
<td>18.2</td>
<td>28.1</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td>16.0</td>
<td>10.9</td>
<td>18.0</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td>3.9</td>
<td>28.9</td>
<td>27.0</td>
<td>10.2</td>
</tr>
<tr>
<td><strong>Taiwan</strong></td>
<td>2.7</td>
<td>13.4</td>
<td>54.2</td>
<td>47.9</td>
</tr>
</tbody>
</table>

2. 2012 data from All Exchanges and Bloomberg
### Superior Dividend Yield

**Dividend payment by domestic TWSE listed companies** (in billion NTD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Dividends</th>
<th>Stock Dividends</th>
<th>Total Dividends</th>
<th>Dividend Yield</th>
<th>Deposit Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>464</td>
<td>91</td>
<td>555</td>
<td>2.38%</td>
<td>0.90%</td>
</tr>
<tr>
<td>2010</td>
<td>718</td>
<td>116</td>
<td>834</td>
<td>3.14%</td>
<td>1.13%</td>
</tr>
<tr>
<td>2011</td>
<td>892</td>
<td>163</td>
<td>1,055</td>
<td>4.85%</td>
<td>1.35%</td>
</tr>
<tr>
<td>2012</td>
<td>715</td>
<td>173</td>
<td>888</td>
<td>3.48%</td>
<td>1.35%</td>
</tr>
</tbody>
</table>

**Dividend Yield Rate (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>TW</th>
<th>JP</th>
<th>HK</th>
<th>KR</th>
<th>SG</th>
<th>SH</th>
<th>SZ</th>
<th>NY</th>
<th>LN</th>
<th>BZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.38</td>
<td>1.79</td>
<td>2.46</td>
<td>1.37</td>
<td>2.85</td>
<td>1.22</td>
<td>0.54</td>
<td>2.64</td>
<td>3.47</td>
<td>2.63</td>
</tr>
<tr>
<td>2010</td>
<td>3.14</td>
<td>1.96</td>
<td>2.72</td>
<td>1.43</td>
<td>2.59</td>
<td>1.49</td>
<td>0.57</td>
<td>2.48</td>
<td>3.17</td>
<td>3.45</td>
</tr>
<tr>
<td>2011</td>
<td>4.85</td>
<td>2.55</td>
<td>3.71</td>
<td>1.49</td>
<td>4.12</td>
<td>2.21</td>
<td>1.02</td>
<td>2.60</td>
<td>3.92</td>
<td>4.24</td>
</tr>
<tr>
<td>2012</td>
<td>3.48</td>
<td>1.96</td>
<td>3.12</td>
<td>1.29</td>
<td>2.93</td>
<td>2.51</td>
<td>1.14</td>
<td>2.65</td>
<td>3.95</td>
<td>4.23</td>
</tr>
</tbody>
</table>

Note: The deposit rate is the average of the 1-year fixed deposit rates of Bank of Taiwan, Land Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, and Hua Nan Commercial Bank.

Source: Bloomberg, CBC
Taiwan: Good Fundamentals

- Taiwan has highest cash dividend yield in Asia, on par with developed markets of U.S. and Europe
- Reasonable P/B Ratio

![Graph showing Dividend Yield vs. PB Ratio with Taiwan highlighted and labeled. Source: Bloomberg, updated Feb 2, 2013.](image-url)
# High Liquidity, Reasonable P/E

## Turnover Rate among Main Markets

<table>
<thead>
<tr>
<th>Year</th>
<th>TW</th>
<th>JP</th>
<th>HK</th>
<th>KR</th>
<th>SG</th>
<th>NY</th>
<th>LN</th>
<th>SH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>136.74</td>
<td>109.64</td>
<td>62.17</td>
<td>176.31</td>
<td>53.30</td>
<td>130.19</td>
<td>76.13</td>
<td>178.47</td>
</tr>
<tr>
<td>2011</td>
<td>119.87</td>
<td>123.74</td>
<td>69.22</td>
<td>194.19</td>
<td>45.91</td>
<td>138.46</td>
<td>69.22</td>
<td>159.51</td>
</tr>
<tr>
<td>2012</td>
<td><strong>97.33</strong></td>
<td>101.48</td>
<td>42.33</td>
<td>138.08</td>
<td>48.69</td>
<td>93.43</td>
<td>55.74</td>
<td>106.56</td>
</tr>
</tbody>
</table>

## P/E Ratio among Main Markets

<table>
<thead>
<tr>
<th>Year</th>
<th>TW</th>
<th>JP</th>
<th>HK</th>
<th>KR</th>
<th>SG</th>
<th>NY</th>
<th>LN</th>
<th>SH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>16.04</td>
<td>45.00</td>
<td>16.67</td>
<td>18.96</td>
<td>12.70</td>
<td>17.50</td>
<td>12.14</td>
<td>21.62</td>
</tr>
<tr>
<td>2011</td>
<td>15.76</td>
<td>21.00</td>
<td>9.68</td>
<td>10.90</td>
<td>7.67</td>
<td>14.55</td>
<td>10.06</td>
<td>13.40</td>
</tr>
<tr>
<td>2012</td>
<td><strong>23.62</strong></td>
<td>24.90</td>
<td>10.50</td>
<td>12.92</td>
<td>10.78</td>
<td>15.10</td>
<td>11.52</td>
<td>12.30</td>
</tr>
</tbody>
</table>

Source: Major Indicators of Securities & Futures Market, SFB, FSC, Taiwan
Growing Foreign Investors’ Participation

- Mkt. value held by foreign investors (%, end of August 2013): 34.0%
- Trading value by foreign investors (%, Jan to Aug 2013): 25.8%

Source: Taiwan Stock Exchange
Friendly Listing Process

- Fast and transparent review process, effective supervision

**Application Process**

- Review Time: 2.5~3 months
- Initial Listing Review Fee: NT$500,000
- Annual Listing Fee: NT$450,000
  - NT$100,000

Easy and cost effective
Resources for Retail Investors

Investor Protection Mechanisms
- Corporate Governance Center
- Securities and Futures Investors Protection Center
- Market Observation Post System (MOPS)

Investor Education Campaign
- Campus Investment Simulation Contests
- Investment Training Seminars
- In-house and on-line “Investor Library”
3. Transformations
Transformation: via 4 Action Plans

- Servicing the Market
- Innovating New Products
- Expanding Market Scale
- Forging International Alliances

internationalization, liberalization, market expansion
Servicing the Market

Trading System

- Transparent
- Orderly
- Market Surveillance
- Fair
- Efficient
- Cost-saving
- Responsive

Trading Environment
Innovating New Products

Innovative products → T-shares → Warrants → ETFs → New Products → Cross-border products
Expanding Market Scale

- Reduce market operating costs
- Boost appeal of local investor
- Engage large scale enterprises

High-quality Financing Environment
Forging International Alliances
Looking Ahead: 5 Opportunities

- New Products
- New Mechanisms
- New Markets
- New IT
- New Competition

5 Opportunities

4 Action Plans

- Servicing the Market
- Innovating New Products
- Expanding Market Scale
- Forging International Alliances
New Products

1. Innovative products (ETFs, warrants)
   - Provide investors more channels for financial instruction, varying levels of service
   - Future-based ETFs, synthetic ETFs, and new type warrants

2. T-shares
   - Allow companies with 30%+ of Chinese ownership file IPOs
   - Allow China-registered companies file IPOs and issue TDRs

3. RMB products
   - Build a trading platform for foreign currency-denominated products
   - R-QFII ETFs probably will be the first listed RMB product
New Mechanisms

1. Matching Interval Decrease
   • Matching Interval 20 sec ➔ 15 sec in July 1, 2013
   • ➔ 10 sec in Feb 2014
   • ➔ 5 sec in late 2014

2. Information Disclosure
   • Implementation slated for late 2014
   • More information disclosure during opening and closing sessions

Other Ongoing Reforms
   • Relax SBL restrictions
   • Prepare day trading
   • Introduce continuous trading
New Markets

- Mainland China
- Europe/North America
- ASEAN
- Other emerging markets

Source: Google map
1. Next Generation Trading System
   - Open-ended system
   - Latency 50 ms. → 5 ms.
   - Per second capacity 3000 trades → 10000 trades

2. Banqiao Computer Center
   - New Taipei City
   - Approx. 28,656 sq. meters (7 floors, 3 basement floors)
   - Shockproof (Level 7), stand-alone building, LEED certification at Silver

3. Cloud Service
   - Work with Chunghua Telecom in order to save on initial investing
   - Build a platform which allows participants to develop apps on it
New Competition

• Further deregulation for more globally mobile funds

By 2011, the web of cross-border investment assets had grown significantly in breadth and depth. Width of lines shows total value of cross-border investments between regions as percent of global GDP^1

1 Includes total value of cross-border assets; GDP in 2011 = $70 trillion.

NOTE: Only select lines are shown.

SOURCE: McKinsey Global Institute Bilateral Foreign Investment database
4. Conclusion
Dynamic Economic Growth – Capital Flows

TWSE listings: 813
GTSM listings: 645

TWSE market cap: NT$23 trill
GTSM market cap: NT$2 trill

TWSE proceeds: NT$9.6 bill
GTSM proceeds: NT$ 22.8 bill

TWSE op income: NT$19.65 trill
GTSM op income: NT$1.40 trill

TWSE turnover: NT$20.24 trill
GTSM turnover: NT$2.95 trill

Note: Listings, market cap values as of Aug 2013, proceeds raised (incl. GDR), operational income, turnover, as of year-end 2012
Source: Financial Supervisory Commision, TWSE, GreTai Securities
Liquid securities, vibrant economy

- Securities firms
- Investors
- Securities Market
- Lawyers/Accountants
- Listed companies
- Securities related industries
- Regulators

- Revenue increases
- New opening of channels
- Employment rises
- Economy prospers
Thank You!

Transparency · Fairness · Diversification