

## FAQ for foreign investors to trade bond and derivatives in Taiwan

Bond market plays an essential part in Taiwan's capital market, and a concrete bond market not only enhances the depth of capital market but also provide a vehicle for government or corporate to obtain their long term funding for economical development and financial market stabilization.

Below are the frequent asked questions and we have divided them into different sections:

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### **General Information** [Top](#)

#### **1. What is the sovereign rating and credit rating of Taiwan government?**

The sovereign rating and long-term local and foreign currency debt ratings of Taiwan government assessed by various international credit rating agencies are listed below:

	Moody's	S&P	Fitch
Sovereign rating	Stable	Stable	Stable
Local currency (Long Term)	Aa3	AA-	AA-
Foreign currency (Long Term)	Aa3	AA-	A+

#### **2. What are the benchmark securities? How often are they issued?**

Taiwan benchmark government bonds are 2-, 5-, 10-, 15-, 20- and 30-year bonds. GreTai Securities Market will announce benchmark bonds monthly.

Since July 1, 2002, the government bonds are issued on regular basis with certain amount around NT\$ 30~40 billions per issue. Bellow is the issuance schedule for 2013:

Month	JAN	FEB	MAR	APR	MAY	JUN
	New	New	New	Reopen	Reopen	Reopen
Type	15-year	2-year	10-year	5-year	30-year	10-year
Maturity	New	New	New	Reopen		
	5-year	30-year	20-year	20-year		
	New		(self-redeemed)			
	20-year					
Month	JUL	AUG	SEP	OCT	NOV	DEC
	New	New	New	New	Reopen	Reopen
Type	2-year	30-year	10-year	Strippable	30-year	10-year
Maturity	New			5-year		
	20-year			Reopen		
				20-year		

Note: The Government Bonds issuance program for FY2013 as the tables show. The announcement of Government

Bonds for Q1 in FY2013 will be published on Dec 22, 2012 and the other three quarter issuances will be published on

Mar. 23, Jun. 23 and Sep. 23, 2013 respectively (1 or 2 days announcement in advance in case of holiday ).

Besides regularly issuing government bonds, Ministry of Finance also implemented reopen system affected on April 15, 2003.

### 3. What types of bond are available? Where to obtain detailed issuance term and trading information?

The types of bond available in Taiwan market are government bonds, financial Debentures, corporate bonds (comprises straight bonds, bonds with warrant, convertible and exchangeable bonds), beneficiary securities, foreign bonds and foreign-currency denominated international bond. Foreign investors could browse the web site (<http://www.gretai.org.tw/en/bond/index.php>) for detailed information and statistics.

### 4. What are the special advantages for foreign investors engaged in Taiwan's bond market?

Besides of information transparency, high liquidity and real-time interest rate benchmark, foreign

investors could trade government bonds during when-issued period and hedge through diversified interest rate derivatives and bond futures. In addition, bonds obtained from investment could also be traded as a Repo with brokers to receive lending profit and reinvested capital.

## **5. Is there when-issued trading system for Taiwan's government bonds?**

Yes, when-issued trading system has been introduced in Taiwan on Dec. 2, 2002. When-issued trading period is 1 to 15 business days before issuance day and settles on issuance day.

### **Auctions**   Top

#### **1. Is Taiwan government bond strippable?**

Separate trading of principal and interests of Taiwan government bond started from July 20, 2005. The first strippable government bond is A94106 with 5-year maturity, issuance size of NT\$ 60 billion.

The second strippable government bond is A95105 with issuance size of NT\$65 billion. By the end of 2012, total trading amount of strippable bond is NT\$183 million.

#### **2. Who are the Primary Dealers (PDs) and Government bond dealers of Taiwan government bond market?**

Primary Dealers are chosen from Government bond dealers by Central Bank of Republic of China (Taiwan) and are appointed to play the role of market makers who are obligated to provide liquidity and quotation of benchmarks. Now, there are 15 Primary Dealers including 5 banks, 3 bills finance corporations and 7 securities houses.

Only Government bond dealers are allowed to submit bid at the government bond auctions. However, investors can participate in auction by submitting their bids through any one of the Government bond dealers by filling in application forms that are available from them. The bids will be submitted under the name of Government bond dealers. Below is the link of the government bond dealers' list and contact information. (<http://www.cbc.gov.tw/public/Data/2102610122971.pdf>)

#### **3. How are Taiwan's government bonds issued?**

The Central Bank of Republic of China (Taiwan) issues government bonds on behalf of Ministry of Finance. Taiwan's government bonds are sold at auctions, using single rate method. Minimum bid is

100 million NT dollars and the incremental amount is 50 million NT dollars. All bids are placed in terms of percentage yield.

#### **4. Are new government bond issues announced in advance?**

At the beginning of the year, Ministry of Finance will announce on its website an auction calendar specifying what tenor of bonds will be issued. At the quarterly calendar, Ministry of Finance will specify the actual amount of bonds it will issue (Usually NT\$ 30~40 billion for one issue). Both yearly and quarterly calendar could be found in Ministry of finance's website under press release <http://www.mof.gov.tw/engweb/mp.asp?mp=2>

#### **5. How are the results of auction made available to the public?**

Notice and results of bond auction are published both on the website (<http://www.cbc.gov.tw/mp.asp?mp=2>) and major newspapers. Results of past auctions can also be found in the same website.

#### **6. How can investors purchase Taiwan's government bonds at auctions and in the secondary market?**

To participate in Taiwan's government bond market, investors need to open a book-entry and fund account with one of the approved clearing banks and open a trading account with one of the bond dealers. Investors could trade government bonds with bond dealers and submit government bond auction bid through them. The list of government bond clearing banks could be found at (<http://www.cbc.gov.tw/mp.asp?mp=2>).

### **Trading**   Top

#### **1. Is there any electronic bond trading system for government bond in Taiwan?**

Right now all book-entry (registered) government bonds are traded through GreTai Securities Market's Electronic Bond Trading System (EBTS) among bond dealers and government bonds in physical forms are traded in over-the-counter market. EBTS trading value counts about 80% to 90% of outright bond trading. EBTS could execute outright and repo trading and provide risk management at the same time.

#### **2. What are the rules for Foreign investors investing in Taiwan's bond market (Investment ranges and limitations)?**

According to Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals Article 4 and supplement letters announced by SFB on 11<sup>th</sup> of November, 2010, No. 0990064095,

1. Foreign investors are allowed to invest in government bonds, money market instruments and relative funds, OTC equity derivatives, OTC NT dollars interest rate derivatives, OTC structure notes and option trades of convertible bond asset swap. Time deposit should not be exceeded 3 month and could only be rolled over once. Investing money market instruments is limited to 90 days maturity notes.
2. **OTC NT dollars interest rate derivative** products mentioned earlier include: NT dollar Forward Rate Agreement (FRAs), Interest Rate Swap (IRS), Interest Rate Option (IRO). **OTC equity derivatives** include NT dollar or foreign currency denominated options and equity swap that links to equity of Taiwan and foreign countries. **OTC structure notes** include NT dollar or foreign currency denominated domestic or foreign equity and interest products.
3. The investment amount for securities mentioned above should not exceed 30% of remittance in amount. However, if the total amount of investment with maturity more than 1 year, bought before the supplement letter is announced, the investment is allowed to hold to maturity date, but may not be adding new positions.

### 3. Where can we obtain real-time quotations and market news?

Foreign investors could assess real-time quotation and market news through following media:

1. GreTai Securities Market : <http://www.gretai.org.tw/en/bond/>
2. Reuters : Quotation 「A92110=BF」, 「A93104=BF」, trade confirmation 「A92110=TWO」, 「A93104=TWO」
3. Bloomberg : 「TGB+F2+<GO>」, 「QRM+<GO>」
4. MoneyLine : Best bid/ask and trade info 「TW#OTC A93104.C」, 6 best bid/ask quotations 「ZoomDynaQ + TW#OTC A93104.C」
5. Sysware : Quotation 「6351」, trade confirmation 「6350」

Note : A92110、A93104 are sample bond codes

#### **4. Who are the main participants of Taiwan's bond market?**

The main participants are securities firms, bills finance corporations, banks, insurance companies, mutual funds and institutions investors. Bond dealers include the first three groups who obtained license from Securities and Futures Bureau and sign Electronic Bond Trading System contract with GreTai Securities Market.

#### **5. Do foreign investors need to open an account or sign a contract before investing in Taiwan's bond market?**

If foreign investors want to trade registered government bonds, they need to open a book-entry account and fund account with a clearing bank. The book-entry account should be under the name of "XXX fund under trust of XYZ custodian institution". If foreign investors want to conduct RP/RS trade, they are obligated to sign a Repurchase Master Agreement first.

#### **6. When is the bond trading hour?**

Electronic Bond Trading System (among government bond dealers): Monday to Friday

Outright Trading: 9 am to 1:30 pm

Repo Trading: 9 am to 1:30pm, 2:00pm to 3:00pm

Comparison System: 1:30pm to 4:00pm.

Over-the-counter Market:

Monday to Friday, 9 am to 3 pm

#### **7. Is there any government bond index in Taiwan?**

GreTai Securities Market has compiled Taiwan Government Bond Index on the 2<sup>nd</sup> of January 2005 and on June 29, 2005 Citigroup compiled a Taiwan Government Bond Index (TGBI) for Taiwan region. The compile method of TGBI is the same as that of World Government Bond Index (WGBI). After Citigroup introduces TGBI into Taiwan, it not only increases the transparency of Taiwan bond market but also builds a channel to cope with the mature markets, furthermore to promote our bond market internationally.

#### **8. Has Taiwan government bonds been included in any world indices?**

On January 1, 2006, treasury securities denominated in Taiwan dollars had been included in the Lehman Brother's flag index, Lehman Global Aggregate Index and Asian-Pacific Aggregate Index. (Now change name to Barclays/Lehman Brothers Fixed Income Indices)

## **Settlement** Top

### **1. What is the settlement date for Taiwan's government bonds?**

Taiwan's government bonds trade through EBTS system are settled in T+2 on a delivery against payment basis.

OTC trades are settled within T+2.

Repo /Reverse repo trade in practice is settled on trading day.

### **2. Where are the government bonds kept?**

Since most of the government bonds are paperless, investors need to have a book-entry account (bond passbook) to record the ownership of the bonds. Paperless bonds are registered in Central Bank of Republic of China (Taiwan) through clearing banks and physical bonds are kept in custodian banks.

## **Activity** Top

### **1. Where can find Taiwan's government bonds daily and monthly trading information?**

Average daily closing price and trading value, monthly trading volume and historical data could be found in GreTai Securities Market website (<http://www.gretai.org.tw/en/bond/index.php>).

### **2. What are the special features of Taiwan's bond market to attract foreign investors?**

In the continuing efforts of our competent authority, Taiwan's bond market has followed the trend and becomes the most active market in Asia. Market features are as followed-

- (1) Transparent information: All securities firms trade via electronic platform, which offers real-time quotation and trade confirmation.
- (2) High volatility: 10-year government bond is the most traded benchmark.

2007 benchmark's interest rate is between 1.919%~2.799%.

2008 benchmark's interest rate is between 1.335%~2.831%.

2009 benchmark's interest rate is between 1.312% ~1.69%.

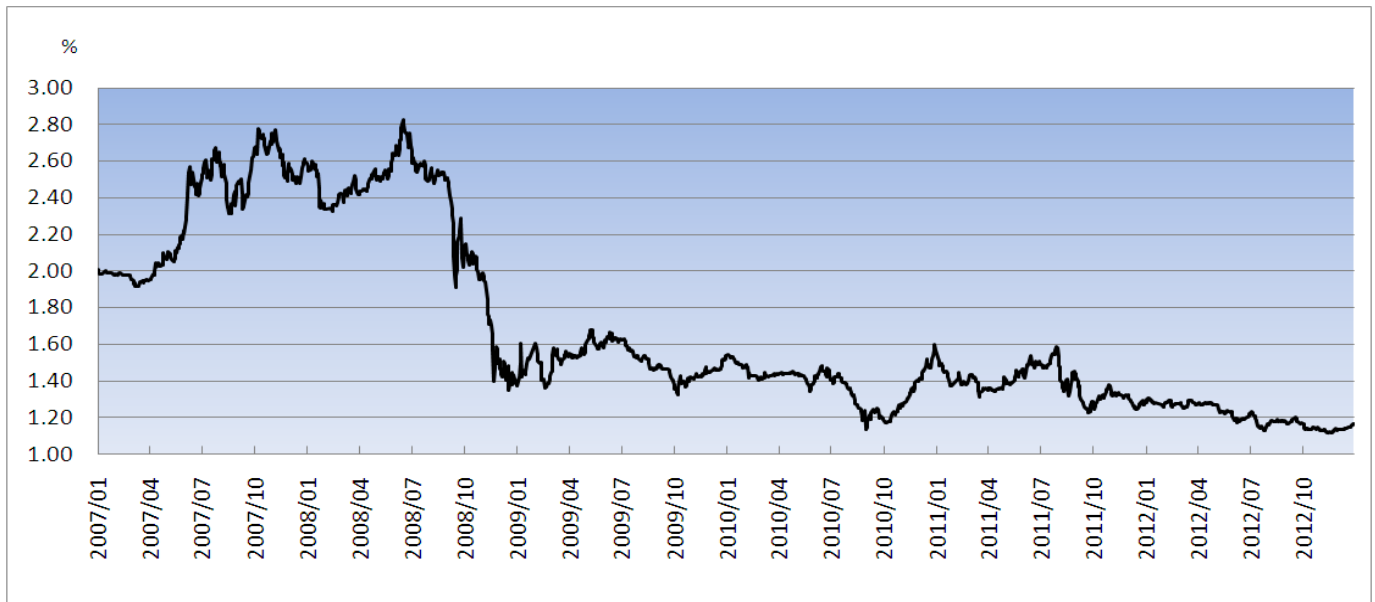
2010 benchmark's interest rate is between 1.136% ~1.61%

2011 benchmark's interest rate is between 1.221%~1.595%

2012 benchmark's interest rate is between 1.116%~1.312%

- (3) Low levies: Securities transaction tax and securities income tax is exempted. Foreign investors are required to pay 15% withholding tax of their interest income from government bonds, financial debentures, and corporate bonds. Under Article 24 of Income Tax Law, if foreign investors have operating agents in Taiwan, the agents need to calculate the income of whole year transactions and report the tax.
- (4) Transaction fee and dealing brokers: Investors could place order to foreign brokers, local securities firms, bills companies and banks without needing to pay transaction fee.

From 2007~2012



## **Hedging** [Top](#)

### **1. What instruments are available to hedging interest rate risks in Taiwan?**



NT\$ interest rate derivative products available in Taiwan now are Forward Rate Agreement, Interest Rate Swap, Interest Rate Option, special issued RS, bond borrowing and lending, government bond futures and bond options.

## **Legislation** [Top](#)

### **1. What are the regulatory authorities and supervisory authorities of Taiwan's bond market?**

Under Ministry of Finance, National Treasury Agency is responsible for regulating public treasury systems and supervise the treasury administration at all levels of government.  
<http://www.nta.gov.tw/en/index.asp>

Central Bank of Republic of China (Taiwan) is in charge of government securities auction and registration job. Relative regulations could be found in Treasury Regulation Section.  
<http://www.cbc.gov.tw/mp2.html>

Secondary market is regulated and supervised by Financial Supervisory Commission. GreTai Securities Market is a public agency that is in charge of managing secondary bond market. Secondary market regulations could be found at Law Retrieval System <http://eng.selow.com.tw/>

### **2.Is the PSA/ISMA global master repurchase agreement adopted in Taiwan?**

Taiwan's Repo market does not adopt PSA nor ISMA master repurchase agreement.

In fact, market players have adapted the Master Repurchase Agreement offered by GreTai Securities Market while they deal with repo transactions.

## **Taxation** [Top](#)

### **1. What are the regulations of transaction fee and tax if investing in Taiwan's bond market?**

Foreign investors do not need to pay transaction fee if dealing with brokers; Foreign Institutional Investor (FII) which have no operating location in Taiwan are exempted from securities transaction tax and securities income tax, but are obligated to pay 15% withholding tax of their interest income from government bonds, financial debentures and corporate bonds.

## **Interest rate derivatives** [Top](#)

### **1. The rules for foreign investors to invest interest rate derivatives market**

According to Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals Article 4 and supplement letters announced by SFB on 11<sup>th</sup> of November, 2010, No. 0990064095,

1. Foreign investors are allowed to invest in government bonds, money market instruments and relative funds, OTC equity derivatives, OTC NT dollars interest rate derivatives, OTC structure notes and option trades of convertible bond asset swap. Time deposit should not be exceeded 3 month and could only be rolled over once. Investing money market instruments is limited to 90 days maturity notes.
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### **2. Which securities firms have obtained approval to trade NT dollar interest rate derivative products?**

Approval list could be found at GreTai's website at <http://www.gretai.org.tw/en/bond/index.php>

### **3. Which NT dollar interest rate derivative products are allowed to trade?**

NT dollar contracts like Forward Rate Agreements (FRAs), Interest Rate Swap (IRS) and Interest Rate Option (IRO) are allowed to trade.

### **4. What are the procedures for trading NT dollar interest rate derivatives?**

First, sign the relevant contracts including ISDA, schedules, a power of attorney etc. with securities firms or banks, and then sign trade confirmation after transactions.

## **5. Where to obtain the NT dollar interest rate quotation and interest rate derivatives**

### **market information?**

Reuters short-term interest rate (TWCPBA) and interest rate swap (TWDIRS, TWDIRS1) offers market quotations; investors could also access market quotation through Telerate's short-term interest rate (6165) and interest rate swap (15452).

## **6. What is the taxation for foreign institutions to trade interest rate derivatives in Taiwan?**

Foreign investors' premium revenue and net interest settlement revenue from interest rate derivatives transaction is taxable to 20% withholding tax. However, the premium cost and settlement expense is not tax-deductible. If foreign investors have operating agents, the agents need to file tax for whole year transactions according to the Article 24 of Income Tax Law.

## **Convertible bond asset swap** [Top](#)

### **1. What is the trading quota for foreign institutions investing in convertible bond asset swap option?**

The maximum amount for foreign institutions to invest in convertible bond asset swap option is limited to 30% of the remitted in amount to Taiwan; this limitation amount also includes the government bonds, time deposit and money market instruments, bond derivatives, bond structure notes and bond equity derivatives. The investment amount of convertible bond asset swap option is calculated by the premium paid to obtain the option.

### **2. Do foreign institutions need to pay counterparty securities firms transaction fee or securities transaction tax for trading convertible bond asset swap options? While exercise the options, do they need to pay any transaction fee or tax?**

Foreign institutions invest in options on convertible bond asset swap do not need to pay any transaction fee nor securities transaction tax to the counterparty securities firms. Neither do they need to pay anything while exercising the options.

**3. Do foreign investors trade convertible bond asset swap option count as OTC trading? When exercise the options, do convertible bonds deliver through Taiwan Deposit and Clearing Corporation's (TDCC) book-entry transfer system?**

Yes, foreign institutions who are engaged in convertible bond asset swap option belong to OTC trading group. When exercise the options, dealers also need to deliver convertible bonds through TDCC's book-entry transfer system.