

Development of the fixed income market

In order to strengthen the intermediary function of Taiwan's capital market, attract a broader range of participation in Taiwan's fixed income market, and increase the size of our secondary fixed income market, the FSC has taken the following measures:

1. To develop Taiwan's fixed income market, the FSC has been simplifying issuance procedures for fixed income products, encouraging enterprises to join in the market and broadening objects to be securitized to provide a more diverse range of capital raising methods, as follows:

1.1 On 6 March 2006 the FSC issued an amendment to the "Regulations Governing Issuance of Beneficial Securities by Trustee Institutions and Issuance of Asset-Backed Securities by Special Purpose Companies." The amendment establishes a one-stop service window for the application review process and streamlines procedures by allowing an expanded range of public offering deals to go forward without prior approval from the competent authority (i.e. the so-called effective registration procedure). As a result, the time required for the previous two-stage review procedure has been shaved by at least 12 business days.

1.2 The FSC issued a directive on 8 August 2006 declaring that: (1) the principal only obligations held by a bond fund may be bundled together with foreign-denominated bonds and issued as beneficial securities; (2) assets may be securitized in the form of RMBS CDOs; and (3) offshore principal-protected notes can now be linked to a broader range of underliers. These steps have been taken to spur greater diversification of fixed income products.

1.3 Partial articles of Real Estate Securitization Act were amended on January 21, 2009, which allow real estate or related rights under developments to be securitized for a more diverse range of real estate securitization products.

1.4 In order to allow shelf registration of beneficiary securities or asset-backed securities for financial assets securitization, the FSC introduced the amendments to the "Regulations Governing Issuance of Beneficiary Securities by Trustee and Asset-Backed Securities by Special Purpose Company" on April 8th, 2019. According to the amendments, the scheduled issuance period shall not exceed 5 years and the issuers shall submit to the FSC for recordation and the events to terminating of shelf registration.

1.5 In order to facilitate the transition from private placement to public offering for securitization, the FSC also introduced amendments to the "Regulations Governing Issuance of Beneficiary Securities by Trustee and Asset-Backed Securities by Special Purpose Company" and "Regulations Governing the Public Offering or Private Placement

of REIT and REAT Beneficiary Securities by a Trustee” on April 8th, 2019. An issuer of beneficiary securities or asset-backed securities with private placement may submit an application for public offering three years after the delivery date under the conditions that the trust property have stable cash flow and appropriate credit enhancement mechanism.

2. Strengthen information disclosure for securitized products, create a more liquid secondary market and add a new provision of related parties duties to enhance investor protection:

2.1 Information on publicly offered securitized products is now disclosed on the Market Observation Post System website, and since August 2006 the Trust Association of R.O.C. has been disclosing information on privately placed securitized products on its website.

2.2 In order to facilitate a more liquid secondary market, the GreTai Securities Market has been disclosing real-time market trading prices of fixed income securities since 17 December 2007. The Taiwan Depository & Clearing Corporation has been disclosing information on the trading of short-term beneficial securities (asset-backed commercial paper, ABCP) since 24 March 2008.

2.3 In order to strengthen safeguards for investor interests, a new provision has been added to Real Estate Securitization Act amended on January 21, 2009 that requires the trustor of REAT, arranger, real estate management institution, trustee, and their responsible persons shall be held jointly liable for damages sustained by bona fide counterparties if the prospectus or investment memorandum has misrepresentation or concealment of material information.

2.4 Amended and promulgated Article 46-1 of ”Clauses of the Real Estate Securitization Act,” on December 6, 2017 which reasonably adjusts the civil compensation liability of participating institutions concerning the misrepresentation in prospectus in order to protect the rights and interests of beneficiaries and promote the development of the real estate securitization market.

3. Measures to build a more secure and efficient fixed-income market and enhance investor protection:

3.1 The Taiwan Depository & Clearing Corporation was established on 27 March 2006, and is working to build a more secure and efficient fixed-income market by promoting book-entry delivery.

3.2 Since July 2006, book-entry delivery has been required for all newly issued financial bonds and exchange-listed/OTC-listed corporate bonds.

3.3 In order to expedite paperless operation of short-term notes' primary market and meet the demand of businesses for issuing commercial papers in dematerialized form, the President promulgated the amendments to Article 26 and Article 66 of the Act Governing Bills Finance Business on May 3 2017. These amendments are expected to increase the efficiency and operating security of the monetary market.

3.4 The Taiwan Depository & Clearing Corporation held the ceremony of "Dematerialized Issuance of commercial papers (CP2) " and officially commenced it on September 18, 2017.

3.5 The FSC recorded the "The Republic of China Bills Finance Association Members Self-Disciplinary Regulations for Engagement in the Business of Non-Guarantee Commercial Paper" on February 21, 2019 for reference, which restricts the amount of non-guarantee commercial papers (CP2) held by bills finance companies, sets up the minimum amount of underwriting by bills houses, and enhances information disclosure to investors in order to reduce the risk of holding non-guarantee CP2 by the bills finance companies and to protect investors.

3.6 In order to strengthen the risk concentration management of commercial papers guarantee business of bills finance companies and maintain the stability of the financial market, the FSC issued regulations on 17 December 2021 declaring the ratio of the guarantee balance of bills finance companies for commercial papers issued by real estate industry to the total guarantee balance shall not exceed 30%.

4. Stronger functions for fixed income market makers:

In order to boost trading volume in the fixed income market, the FSC on 20 October 2006 began allowing bills finance companies to concurrently broker and deal in fixed income securities. Then, on 23 October 2007, the FSC began allowing bills finance companies to broker, deal and invest in foreign bonds. These moves are designed to allow fixed income market makers to play a more important role.

5. Measures to broaden participation in the fixed income market:

5.1 The FSC now allows bills finance companies to offer long-term securities and bonds issued by international financial institutions.

5.2 The FSC now allows banks, bills finance companies, and securities firms to sell fixed-income securities (including foreign currency denominated bonds) of all different maturities.

- 5.3 The FSC amended the “Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies” in December 2008, allowing bills finance companies to engage in asset swap of exchangeable or convertible bonds and transactions of foreign exchange derivatives for the purpose of hedging.
- 5.4 The FSC approved the municipal note issued by the New Taipei City Government as short-term bills on 10 September 2012.
- 5.5 The FSC amended the “Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies” in September 2017 , allows bill finance companies entering a trading contract as a customer or as a dealer where the value of the contract is derived from interest rate, not limited to NT dollars.
- 5.6 The FSC amended the “Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies” in February 2018, deleted the maximum limit of US\$50 million of “upper limit on foreign currency risk” in order to developing foreign currency bond business of bills finance companies.
- 5.7 The FSC on 16 July 2020 issued an official interpretation to include bills finance companies among "other financial institutions" stipulated in the "Offshore Banking Act", in order to allow bills finance companies to trade foreign currency denominated bonds (including repo trades) with offshore banking units (OBUs) and offshore securities units (OSUs); and allow bills finance companies to engage in interbank foreign currency lending with OBUs. The purpose of this deregulation is to enhance bills finance companies’ funding ability when they conduct their foreign currency denominated bond transactions.
6. Measures to establish a market for foreign-denominated bills:

To establish Taiwan as a regional financial center, the FSC plans to develop a market for long- and short-maturity foreign denominated instruments. Toward this end, in addition to continually developing the market for long-maturity foreign denominated bonds, there is also a need for accelerated establishment of a foreign-denominated short-maturity bills market. The FSC has approved a report, with regard to the establishment of a foreign currency denominated bills market, submitted by the Bills Finance Association, and has amended the relevant regulations and directions as well. The foreign currency denominated bills market was successfully established on 6 December 2010.