Taipei Exchange
Principles for Financial Market Infrastructure
Information Disclosure Report
(TR)

Responding institution: Taipei Exchange
Jurisdiction(s) in which the FMI operates: Republic of China (Taiwan)
Authority(ies) regulating, supervising or overseeing the FMI: Financial Supervisory Commission, R.O.C
The date of this disclosure is 2016.01.04.
This disclosure can also be found at http://www.tpex.org.tw
For further information, please contact server@tpex.org.tw

I. Executive summary

This report is a disclosure document that presents the results of a self-assessment conducted by Taipei Exchange ("TPEx") as a TR operator in accordance with the Principles for Financial Market Infrastructures published by CPSS-IOSCO in April 2012 and its latest Disclosure Framework and Assessment Methodology published in December the same year.

To determine whether the TPEx has been observing the Principles for Financial Market Infrastructures (PFMI) in operating the TR system, the scope of assessment examined PFMI that apply to the TPEx's TR system, including Principle 1 to 3, 15, and 17 to 24. Reference materials used by the TPEx in the process of this assessment included internal and external materials, such as laws and regulations, information on the TPEx’s board of directors, corporate governance information, and internal operating procedures.

The TPEx created a Financial Derivatives Trading Information Repository System (“TR system”) according to an administrative commission by the competent authority, the Financial Supervisory Commission. Pursuant to the said commission and the Regulations Governing Securities Firms prescribed by the competent authority, banks (including branches of foreign banks in Taiwan), bills finance companies, insurance companies, and securities firms are required to report their over-the-counter derivatives transactions to the TR system.

The TR system only accepts reporting of derivatives trading information from financial institutions, and is not involved in the payment, clearing, or settlement of such transactions. The TPEx established the TR system in accordance with the law to assist the competent authority in carrying out its market supervision duties. The TPEx does not charge financial institutions any fees for use of services provided through the TR system.

II. Summary of major changes since the last update of the disclosure

This is the first disclosure made in accordance with Principle 23 "Disclosure of rules, key procedures, and market data" after the Disclosure Framework and Assessment Methodology was announced by CPSS-IOSCO in December 2012.

III. General background on TPEx

General description of the TPEx and the markets it serves

Taipei Exchange (TPEx) is a multifunctional market for the issuance and trading of financial products with many unique features. The TPEx operates in a similar capacity to the Taiwan Stock Exchange in that it provides a central exchange market for the trading of listed stocks. In addition, the TPEx offers over-the-counter trading mechanisms for the TPEx Emerging Stock Market (ESM), government and corporate bonds, and derivatives, making it a diverse provider of financial trading services.

Over-the-counter trading of securities in Taiwan was launched in February 1988 under the management of the Taipei Securities Dealers Association (TSDA). To build a more robust capital market and enhance over-the-counter trading functions, the Ministry of Finance (MOF) began holding a number of meetings in 1993 to thoroughly examine the system, functions, and organizational framework of the over-the-counter market. The MOF decided to set up an over-the-counter center as a non-profit body to promote the development of the over-the-counter market.

In 1994, after a succession of sponsor meetings, the organizational charter and initial business plan were drafted. On July 20, 1994, the MOF Securities Exchange Commission appointed 20 members to a preparatory committee to work on the establishment of the TPEx. The first board of directors' meeting was called on July 28, 1994. The organization was registered as a juristic person on September 26, 1994 and formally established on November 1 of the same year to take over the business of over-the-counter market pursuant to the Securities and Exchange Act. The TPEx's new electronic trading system was also launched on December 30 that year to increase the efficiency of trading.

General organization of TPEx

The TPEx called its first board of directors' meeting on July 28, 1994, was registered as a juristic person on September 26, 1994, and formally established on November 1 the same year. The initial fund of the TPEx was donated by three sponsors, namely the Chinese Securities Association, Taiwan Stock Exchange, and Taiwan Depository & Clearing Association.

The TPEx’s board of directors is independent and serves the public interest. The board of directors is composed of 15 directors who are appointed by the Financial Supervisory Commission and selected by sponsors from among sponsors, experts, scholars and securities professionals. Directors serving as a representative of a sponsor of the organization shall not be more than one third of all directors. Directors serving as a member representative of the Chinese Securities Association shall not be less than one third of all directors. Directors serve a term of three years and may be re-appointed.

The board of directors is the highest governing body of the TPEx. The chairman of the board calls and chairs board meetings. The chairman represents the TPEx externally, and the president is tasked with overseeing the business direction of the TPEx as determined by the board of directors. The TPEx has one to two senior executive vice presidents and a secretary-general to assist the president. The TPEx has eleven departments: Startup Incubation, Listing Examination, Listing Supervision, Trading, Market Surveillance, Bond, Information, Intermediaries Service, Administration, and Strategy & International Relations, as well as an Internal Audit Office directly under the board of directors.

Legal and regulatory framework

The TPEx TR system is built on an administrative commission by the competent authority and relevant regulations, including the Regulations Governing Securities Firms. The competent authority refers to the Financial Supervisory Commission (FSC). Pursuant to Article 2 of the Organic Act Governing the Establishment of the Financial Supervisory Commission, the FSC shall be the competent authority for development, supervision, regulation, and examination of financial markets and financial service enterprises. The FSC is an independent agency that exercises independent power provided by law. It is the highest supervisory authority in Taiwan’s financial market.

System design and operations

The TPEx established the TR system according to an administrative commission by the competent authority, the Financial Supervisory Commission. Pursuant to the said commission and the Regulations Governing Securities Firms prescribed by the competent authority, banks (including branches of foreign banks in Taiwan), bills finance companies, insurance companies, and securities firms are required to report their over-the-counter derivatives trading information to the TR.

According to the TPEx’s Administration Rules for Financial Derivative

Trade Database, domestic financial institutions can becomes a TR participant by signing a Contract for Financial Derivative Trade Database with the TPEx, and report trading information in a timely manner according to the aforementioned Administration Rules. The TR system only accepts reporting of derivatives trading information from financial institutions, and is not involved in the payment, clearing, or settlement of such transactions. The TPEx established the TR system in accordance with the law to assist the competent authority in carrying out its market supervision duties. The TPEx does not charge financial institutions any fees for use of services provided through the TR system.

The TPEx produces market information reports and supervisory reports based on the information filed by participants for use by the public and the competent authority. The TPEx designs supervisory reports in line with the needs of the competent authority. The competent authority can download supervisory reports via an online system. The TPEx also regularly discloses trading information, transaction volumes, and outstanding balance on its website according to the market information reports approved by the competent authority, which are freely available for inquiry by the public.

IV. Principle-by-principle summary narrative disclosure

Principle-by-principle summary narrative disclosure	
Principle 1: Legal basis An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.	
Summary narrative	All of the TPEx's activities relating to the collection, processing, and use of over-the-counter derivatives trading information have a well-founded and clear legal basis, and these legal bases have regulatory priority. The rules, procedures and contracts drawn up by the TPEx have all been reviewed and approved by the competent authority. Hence, actions taken by the TPEx under these rules and procedures have a high degree of certainty, which ensures that the TPEx will not encounter issues such as service activities being suspended or

	deferred.
Principle 2: Governance An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.	
Summary narrative	The TPEx gives high priority consideration to system security and efficiency and explicitly supports financial stability and other relevant public interest concerns. The TPEx's organizational charter specifically outlines the operating procedure for board of directors, and clearly defines the authority and responsibility of the board of directors and the management. Members of the board of directors comprise senior executive officers of the TPEx, representatives of the business associations, representatives of the competent authorities, and scholars. Directors and supervisors with a conflict of interest should recuse themselves from making relevant decisions. The chairman calls and chairs board meetings. Except where otherwise provided in the charter, any resolution made by the board must have the consent of at least the majority of directors present in a meeting attended by at least the majority of all directors. To uphold the interests of stakeholders, all major decisions of the TPEx are clearly communicated to stakeholders and disclosed to the public. The TPEx's Internal Audit Office reports directly to the board of directors. In addition, the oversight of the competent authority and the TPEx's own comprehensive corporate governance are sufficient to support its financial stability and enhance security and efficiency to facilitate the TPEx's development and promote the public interest.
Principle 3: Framework for the comprehensive management of risks An FMI should have a sound risk-management framework for	

comprehensively managing legal, credit, liquidity, operational, and other risks.	
Summary narrative	The TR system collects and processes reported information. It is not connected to other FMIs and not subject to legal, credit, liquidity or operational risks. In the management of operational risks, standard operating procedures are established and offsite redundancy mechanism is in place to ensure quick service recovery.
Principle 4: Credit risk An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.	
Summary narrative	Not related to TR
Principle 5: Collateral An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.	
Summary narrative	Not related to TR
Principle 6: Margin A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and	

<table>
<tr><td colspan="2">regularly reviewed.</td></tr>
<tr><td>Summary narrative</td><td>Not related to TR</td></tr>
<tr><td colspan="2">Principle 7: Liquidity risk
An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.</td></tr>
<tr><td>Summary narrative</td><td>Not related to TR</td></tr>
<tr><td colspan="2">Principle 8: Settlement finality
An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.</td></tr>
<tr><td>Summary narrative</td><td>Not related to TR</td></tr>
<tr><td colspan="2">Principle 9: Money settlements
An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</td></tr>
<tr><td>Summary narrative</td><td>Not related to TR</td></tr>
<tr><td colspan="2">Principle 10: Physical deliveries
An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.</td></tr>
<tr><td>Summary narrative</td><td>Not related to TR</td></tr>
<tr><td colspan="2">Principle 11: Central securities depositories
A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their</td></tr>
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transfer by book entry.	
Summary narrative	Not related to TR
Principle 12: Exchange-of-value settlement systems If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.	
Summary narrative	Not related to TR
Principle 13: Participant-default rules and procedures An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.	
Summary narrative	Not related to TR
Principle 14: Segregation and portability A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.	
Summary narrative	Not related to TR
Principle 15: General business risk An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.	
Summary narrative	The TPEx TR provides a platform for participants to report trading information. It is not linked to other FMIs, and hence does not pose a risk to the TPEx's business operations. In addition, the TPEx is financially sound with liquid net assets that can cover up to 24 months of current operating expenses. The TPEx also examines its business operations periodically to properly manage its

	general business risks.
Principle 16: Custody and investment risks An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.	
Summary narrative	Not related to TR
Principle 17: Operational risk An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.	
Summary narrative	The TR system is an internally developed system provided for use by participants who have entered a contract with the TPEx. The TR system is not involved in payment, clearing, or settlement of transactions, nor is it linked to other FMIs. It also comes with an offsite redundancy and crisis management mechanism. Therefore, the TR system is highly secure and reliable, and able to handle potential operational risks.
Principle 18: Access and participation requirements An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.	
Summary narrative	TR participants report derivatives transactions as required by the competent authority. Financial institutions are direct participants that may use the TR services after signing a contract with the TPEx. The relevant rules and information are available on the TPEx website. The TPEx periodically examines the compliance with participation requirements by participants. Participants who no longer meet the requirements of the competent authority may

	terminate the contract with the TPEx and cease participation.
Principle 19: Tiered participation arrangements An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.	
Summary narrative	Not applicable. No tiered participation arrangements applicable to TPEx's TR.
Principle 20: FMI links An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.	
Summary narrative	Not applicable. Based on the supervisory framework of the competent authority, currently there is no need or plan to establish interconnection with other FMIs.
Principle 21: Efficiency and effectiveness An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.	
Summary narrative	TR-related systems are designed to meet the supervisory needs of the competent authority and to facilitate use by participants, and electronic processing is employed to enhance efficiency, and hence has achieved the objectives of efficiency and effectiveness.
Principle 22: Communication procedures and standards An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.	
Summary narrative	The TR adopts client-server architecture for participants and uses internationally accepted communication protocols by allowing participants to upload files in CSV or TXT format. The TR also adopts the FIX (Financial Information eXchange) protocol to meet internationally accepted communication standards. Currently, the TR system does not involve cross-border payment, clearing, settlement, or recording operations.
Principle 23: Disclosure of rules, key procedures, and market data	

An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.	
Summary narrative	The TPEx has established comprehensive and clear rules and procedures for the TR system and clearly defined the rights and obligations of system participants. Such information is disclosed on the TPEx website and available for inquiry by participants and the public. The TPEx has held many sessions of workshops to help participants understand system design and key procedures. The TPEx also produced a written guide to help participants use the system accurately.
Principle 24: Disclosure of market data by trade repositories A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.	
Summary narrative	The TPEx designed the supervisory report in line with the needs of the competent authority. The competent authority can download supervisory reports via the connection system. The TPEx also discloses regularly on its website trading information, transaction volumes and outstanding amounts according to the market information reports approved by the competent authority for free inquiry by the public. The TR has a robust information system and provides timely, accurate and easily accessible data to the competent authority and the public, which helps enhance market transparency and supports the policy objectives of the competent authority.

V. List of publicly available resources

Law and Regulation

1. Securities and Exchange Act
2. Regulations Governing Securities Firms
3. Taipei Exchange Regulations Governing Over-the-Counter Trading of Financial Derivatives by Securities Firms
4. Taipei Exchange Administration Rules for Financial Derivative Trade Database

Publications

Annual Report of Taipei Exchange

Website

Taipei Exchange: http://www.tpex.org.tw