

**Taiwan Depository & Clearing Corporation**  
**Principles for Financial Market Infrastructure**

**Disclosure Report**

**(SSS)**

**(For Emerging Stocks traded over the  
Emerging Stock Market  
and Bonds traded over the counter)**

**Taiwan Depository and Clearing Corporation PFMI Information**  
**Disclosure Report (SSS)**

**(For Emerging Stocks and Bonds through negotiated transactions  
over the counter at securities firms)**

Responding institution: Taiwan Depository and Clearing Corporation (TDCC)

Jurisdiction(s) in which the FMI operates: Taiwan

Authority(ies) regulating, supervising or overseeing the FMI: Securities and  
Futures Bureau, Financial Supervisory Commission

The date of this disclosure is September 4, 2014

This disclosure can be found at <http://www.tdcc.com.tw>

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## **I. Executive Summary**

This report has been prepared by Taiwan Depository and Clearing Corporation (TDCC) based on its role as a securities settlement system (SSS) for Emerging Stocks and bonds traded through negotiated transactions over the counter at securities firms in Taiwan. In this report, TDCC discloses assessment of its compliance to each of the 24 principles of the report the Principles for financial market infrastructures (PFMI) published by CPSS-IOSCO in April 2012, and to the Disclosure Framework and Assessment Methodology published in December 2012.

TDCC is incorporated under the "Regulations Governing Centralized Securities Depository Enterprises" (Governing Regulations), a law created based on Article 18, Paragraph 2 of the "Securities and Exchange Act." There is high degree of certainty in the laws that regulate TDCC's activities. TDCC has placed the market's safety and efficiency as the top priority of its operating objectives and strives to maintain the company's financial stability while addressing other relevant public interest. TDCC has adopted risk management policies and procedures that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by TDCC. TDCC's risk management framework is reviewed on a regular basis.

TDCC does not guarantee the settlement of Emerging Stocks and

bonds traded through negotiated transactions over the counter at securities firms; it is unlikely to be exposed to the credit risks of its participants. During TDCC's settlement operations, in the event where a buyer of Emerging Stocks is short on cash or if the seller has insufficient securities to deliver, TDCC will simply deny the settlement for the buyer's securities firm and the seller's and produce new settlement statements to settle transactions for those securities firms. As a result, TDCC does not bear participants' liquidity risks. Where the negotiated OTC bonds trade of the securities firms settled by TDCC via delivery versus payment (DVP), cash deliveries are cleared through the CBC (Central Bank of the R.O.C.), with regards to the settlement of Emerging Stocks, cash deliveries are cleared through accounts opened under Cathay United Bank with credit risks and liquidity risks strictly monitored.

All Emerging Stocks and bonds held in custody by TDCC are registered and delivered in dematerialized form, and TDCC no longer allows participants to make physical deliveries. In addition, TDCC has established appropriate rules and procedures to ensure the accuracy and completeness of security issuance and book-entry transfers.

TDCC has set objective and clear requirements for participation according to relevant regulations. By organizing public hearings, attending industry association meetings, visiting participants and conducting satisfaction surveys, TDCC is able to exchange opinions with the participants to understand what the market needs and to ensure the efficiency and effectiveness of its services. Furthermore, through various activities such as website announcements, correspondence, service guidance, seminars and training sessions (including the e-training system), TDCC has given the authority, the participants and their customers a transparent understanding towards TDCC's services, procedures and policies.

With regards to general business risks and operational risks, TDCC has implemented robust risk management policies and systems supported by effective accounting system, custody procedures and internal control systems to control risks associated with the securities and cash settlement processes. Overall, TDCC's settlement services for Emerging Stocks and

bonds traded through negotiated transactions over the counter at securities firms are efficient and safe.

## **II. Summary of major changes since the last updates of the disclosure**

This is the first disclosure made in accordance with PFMI's 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 of TDCC**

### **General description of TDCC and the market it serves**

The payment system of Taiwan's securities market is largely based on the CBC (Central Bank of the R.O.C.) Interbank Funds Transfer System (CIFS). CBC's CIFS connects with the securities settlement system run by Taiwan Stock Exchange Corporation (TWSE) and the bond system run by GreTai Securities Market (GTSM) to form a payment system.

Currently, there is no exclusive clearing institution operating for the stock exchange market of Taiwan. In terms of the clearing and settlement process, Articles 138 and 153 of the "Securities and Exchange Act" require TWSE to specify in its operating rules details regarding the dates and manners of clearing and settlement, and TWSE's procedures for handling situations where any buyer/seller fails to fulfill its delivery obligation. Therefore, TWSE concurrently serves as the clearing institution for Taiwan stock exchange market, and according to Article 101 of TWSE's operating rules, the trading of securities transacted on TWSE exchange shall be cleared and centrally settled by TWSE's Clearing Department. Meanwhile, TDCC is commissioned by TWSE to handle processes that involve securities delivery. With regards to the trading of securities transacted on GTSM, Article 7 of the "Regulations Governing Securities Trading on the GreTai Securities Market" requires GTSM to prescribe its Rules Governing Securities Trading on the GreTai securities market by including the way to execute transactions, the timing and method of clearing and settlement, etc. Accordingly, the trading of

securities transacted on GTSM shall be cleared and settled by GTSM. Meanwhile, TDCC is commissioned by GTSM to handle processes that involve securities delivery. In other words, clearing and settlement of securities traded on TWSE and GTSM exchanges is governed by the regulations of the respective exchanges, whereas TDCC's role is to handle book-entry transfers of traded securities.

TDCC is a central securities depository incorporated under the "Governing Regulations," and provides book-entry transfer services in accordance with "Regulations Governing Book-Entry Operations for Centrally Deposited Securities." In addition to completing book-entry transfers of the aforementioned securities trading settlements for TWSE and GTSM, TDCC's other services that are relevant to this assessment include: custody of securities, book-entry transfers for deliveries of pledged securities, computer process of book-entry transfers for securities, book-entry operations for distribution of securities, clearing and settlement of Emerging Stocks, and registration of securities issued in dematerialized form.

Below are statistics relevant to TDCC's settlement for Emerging Stocks and bonds traded through negotiated transactions over the counter at securities firms in 2013:

1. TDCC handled book-entry operations for 7,027,501,000 shares of emerging stocks processed through GTSM, with a daily average of 28,567,000 shares. The total trading volume was TWD 278.7 billion, with a daily average of TWD 1.2 billion.
2. TDCC handled delivery versus payment (DVP) settlement for fixed income securities with a total turnover in both the primary and secondary markets of TWD 2.128 trillion. TDCC handled book-entry DVP transfers for TWD denominated fixed-income securities in the amount of TWD1.9977 trillion; account transfers for negotiated over-the-counter outright purchases and sales of TWD1.2907 trillion; and bond passbook transactions representing TWD7.4277 trillion. TDCC carried out account transfers for 30 OTC negotiated outright trades in AUD-denominated international bonds of AUD 1.16 million. TDCC carried out transfers for 8 OTC negotiated outright trades in

USD-denominated international bonds of USD 9.5 million, and 121 bond passbook transactions of USD 59.52 million. TDCC carried out 4 transactions of RMB-denominated international bonds through the GTSM bond trading system with a value of RMB22 million; transfers for 74 OTC negotiated outright trades of RMB 901.05 million; 162 passbook transactions of RMB 1.22683 billion; 4 RMB inward remittances of RMB 300 million; 1 outward remittance of RMB 85 million; and transfer for 1 OTC negotiated outright trades of JPY-denominated international bonds of 2 billion.

### **General organization of TDCC**

TDCC's Memorandum of Association was created in accordance with the Company Act of the Republic of China. The company has one Chairman and one President and the Chairman represents the company. Under the President, there are two senior vice presidents assigned to supervise all departments of the company, and one secretary general is assigned to supervise documentation and coordination across departments. Headed by one senior vice president who is assigned clear, segregated responsibilities and authorities, each department carries out its businesses with subordinate functional divisions. Details regarding corporate governance have been disclosed on the company's website and in annual reports. TDCC's board of directors functions in accordance with the Company Act by which their conflicts of interest are governed. The board consists of seven members elected through a shareholders' meeting. That TDCC's Internal Audit Department reports directly and regularly to the board of directors provides effective internal supervision. Coupled with external supervision from the authority, TDCC is deemed to have exercised adequate corporate governance to support the stability of its financial system and protect the interests of the public and stakeholders.

### **Legal and regulatory framework**

TDCC's services for Emerging Stocks and bonds traded through negotiated transactions over the counter at securities firms are governed by Regulations Governing Book-Entry Operations for Centrally Deposited Securities. The Securities and Futures Bureau of the Financial

Supervisory Commission serves as the direct authority of TDCC. The bureau is responsible for supervising both securities and futures markets. Financial Supervisory Commission is the ultimate financial authority within the R.O.C.

## **System design and operations**

TDCC settles Emerging Stocks and bonds traded through negotiated transactions over the counter at securities firms using a "two-tiers settlement process." The first tier of the settlement process requires buyers and sellers to deliver payments and securities to their respective securities firms (or bond dealers in the case of bonds), whereas the second tier requires securities firms (or bond dealers in the case of bonds) to complete the settlement in the following methods:

### 1. Settlement of Emerging Stocks:

Once the buyer and the seller have negotiated a deal through their securities firms, GTSM will notify TDCC of trading details and settlement methods. TDCC will then carry out the subsequent payment and settlement operations as described below based on the GTSM notice:

- (1) Trade-for-trade: Buyers and Sellers complete settlements on the trade day.
  - A. Free of payment (FOP) settlement: After payment is received from the buyer, seller must notify TDCC to transfer the Emerging Stock in request from the seller's securities account to the buyer's account.
  - B. Delivery versus payment (DVP) settlement: Broker or dealer will represents the buyer on processing the payment to the designated bank account specified by TDCC, and then submits its remittance details to TDCC when complete. After all information are received and confirmed, TDCC then transfers the securities from seller's account to buyer's, and then remits the required funds into the seller's bank.
- (2) Netting: Buyers and sellers complete settlements with TDCC on T+2.

- A. For Securities firms with payment payable are required to remit the funds into TDCC settlement account by 10:00AM on T+2.
- B. For securities firms with securities payable, TDCC debits their account on T+1.
- C. For securities firms with payment receivable, TDCC remits the funds into their designated settlement account from 10:00AM on T+2.
- D. For securities firms with securities receivable, TDCC transfers the securities into their account on T+2 after confirming required payment being made.

2. Settlement of negotiated bond trades:

TDCC offers FOP and DVP settlement for negotiated bond trades. Settlements are completed on an RTGS basis according to the instructions given by buyer's and seller's bond dealers.

**IV Principle-by-principle summary narrative disclosure**

<b>Principle-by principle summary narrative disclosure</b>	
<b>Principle 1</b>	
<b>An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.</b>	
<b>Summary narrative</b>	<p>TDCC has developed highly certain legal basis for all significant aspects of its business activities in all applicable jurisdictions. TDCC has implemented clear and understandable rules, procedures and agreements that are consistent with laws. TDCC has conveyed the legal basis of its activities to the relevant authorities, participants and participants' customers in a clear and understandable way.</p> <p>TDCC has implemented enforceable rules, procedures and agreements and ensured their</p>



	<p>certainty in various jurisdictions. TDCC has taken steps to identify and mitigate potential conflicts of law across jurisdictions prior to commencing business activities.</p>
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**Principle 2**  
**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.**

<p><b>Summary narrative</b></p>	<p>TDCC is incorporated under the "Securities and Exchange Act" and the "Company Act" and the board of directors is TDCC's highest executive decision maker. The board has seven members who are elected in a shareholders meeting under the relevant laws. According to the "Governing Regulations," TDCC is required to report to the competent authority on any change of board members. The TDCC Memorandum of Association has clearly outlined the duties of the board of directors, and strictly prohibits board members from taking employment positions in any participants. Appointment and dismissal of the management personnel are subject to the board of directors' approval. Major decisions made by the management also need to be resolved by the board of directors, and if necessary, by shareholders through a general or special meeting. TDCC has implemented the "hierarchical authorization for decision making and final approval" and empowered each level of the authorization system in the company with adequate authority to perform its tasks.</p> <p>For the safety and efficiency of Taiwan's securities market, TDCC has included safety and efficiency standards into quality objectives of the company's business and operation, and for which it has</p>
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	<p>obtained ISO 9001 quality certification and ISO 27001 information security certification. The "Governing Regulations" have clearly outlined the services that TDCC offers to the market and regulated the service fees. TDCC makes its annual business plan each year to enhance the central depository and book-entry operations, broaden the scope of its services and provide participants better safety and efficiency services. TDCC has established a Research, Development and Fee Committee directly under the board of directors. In order to improve the TDCC's business development and reasonableness of the service fee standards and ensure other relevant public interest, TDCC has invited participants, scholars and market experts to join the committee and review the company's business development and the service fee standards on a regular basis. Information relating to corporate governance is published on TDCC's website or disclosed in TDCC's annual report. The annual report is made available over TDCC's website.</p>
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<p><b>Principle 3: Framework for the comprehensive management of risks</b>  <b>An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.</b></p>	
<p><b>Summary narrative</b></p>	<p>TDCC has been incorporated in accordance with the "Regulations Governing Centralized Securities Depository Enterprises" to provide services such as centralized securities custody and book-entry transfer, settlement of TWSE and GTSM listed securities, clearing and delivery of Emerging Stocks, and registration of securities issued in dematerialized form. These services give rise to market risks, operational risks and general business risks, for which TDCC has implemented proper risk</p>

	<p>management policies, procedures and systems to identity, measure, monitor and manage these risks. This risk framework is reviewed on a regular basis.</p> <p>TDCC has established its "Securities Firm Guidance Procedures" and "Audit Procedures for Securities Central Depository and Short-term Interest Benchmarking" in place. Through guidance, reviews and audits, TDCC is able to ensure that internal control systems are soundly enforced by participants and their customers to manage business risks.</p> <p>TDCC is regulated by the authority in terms of business activities, participants, and eligible securities under its custody. TDCC is also bound to manage working capital and provide for default damages reserves and special reserves according to regulations. For these reasons, TDCC is deemed to have adequately managed risks borne from and posed to other companies due to interdependencies.</p> <p>TDCC has identified scenarios that may potentially prevent it from being able to provide its critical operations and services, and has addressed them in its "Crisis Management Manual" and BCP.</p>
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**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**

TDCC does not guarantee the settlement of stocks traded over the Emerging Stock Market and the settlement of bonds traded over the counter. TDCC will simply cease the trade in which the buyer is short of cash or the seller has insufficient securities to deliver. As a result, TDCC is not exposed to the credit risks of its participants.

**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**

TDCC does not guarantee the settlement of stocks traded over the Emerging Stock Market and the settlement of bonds traded over the counter. TDCC will simply cease the trade in which the buyer is short of cash or the seller has insufficient securities to deliver. Since TDCC is not exposed to the credit risks of its participants, it does not require collaterals to secure the settlement process.

**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 regularly reviewed.(This principle is not relevant to SSS)**

**Summary narrative**

No assessments required. This principle is not relevant to SSS.

**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.**

<p><b>Summary narrative</b></p>	<p>TDCC does not guarantee the settlement of Emerging Stocks. In the event where the buyer is short of cash, TDCC will simply cease the trade for that securities firm and produce a new statement to settle transactions for other participants. As a result, TDCC does not bear participants' liquidity risks.</p> <p>TDCC does not guarantee the settlement of bonds traded over the counter. Where transactions are settled via FOP, TDCC is not involved in the settlement of cash payments; where transactions are settled via DVP, cash payments are settled by the Central Bank on an RTGS basis. TDCC will simply void settlement instructions in situations where the buyer is short of cash or the seller has insufficient securities to deliver. As a result, TDCC does not bear participants' liquidity risks.</p>
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**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.**

<p><b>Summary narrative</b></p>	<p>The timing of ownership transfer regarding trade-for-trade settlement and netting settlement for Emerging Stocks has already been defined. If participants are unable to make delivery at the due time, TDCC is bound by the Operating Rules and related governing rules to forgo the settlement. In aforementioned case, a new settlement report will</p>
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	<p>be prepared to settle transactions for other participants.</p> <p>TDCC adopts real-time gross settlement (RTGS) for bond trades, whether the method involves FOP or DVP.</p> <p>The settlement procedures and timing have been specified in TDCC's Operating Rules and related Guidelines. Any additions or amendments to the Rules and the Guidelines are announced to participants and are made available to the public on Law Source Retrieving System of Stock Exchange and Futures Trading (<a href="http://www.selaw.com.tw">http://www.selaw.com.tw</a>) or TDCC's website (<a href="http://www.tdcc.com.tw">http://www.tdcc.com.tw</a>).</p>
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<b>Principle 9: Money settlements</b>	
<b>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 minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.</b>	
<b>Summary narrative</b>	<p>For settlement of Emerging Stocks, cash delivery is handled via Cathay United Bank. TDCC monitors large payments processed by Cathay United Bank each day, verifies balances in the Cathay United Bank account and makes sure that payments are delivered within the day. In addition, TDCC also pays constant attention to the bank's financial condition.</p> <p>DVP settlement of bonds traded over the counter is completed through the Central Bank; TDCC is not exposed to any credit or liquidity risk.</p>

<b>Principle 10: Physical deliveries</b>	
<b>An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should</b>	

<b>identify, monitor, and manage the risks associated with such physical deliveries.</b>	
<b>Summary narrative</b>	<p>According to Articles 10 of the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", all equity stocks and corporate bonds issued by exchange-listed, GTSM-listed or Emerging Stock companies must be in non-physical form and delivered via book entry effective from July 1, 2006.</p> <p>All Emerging Stocks and bonds held in custody by TDCC are registered and delivered in non-physical form.</p>

<b>Principle 11: Central securities depositories</b>	
<b>A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.</b>	
<b>Summary narrative</b>	No assessments required. This principle is not relevant to SSS..

<b>Principle 12: Exchange-of-value settlement systems</b>	
<b>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.</b>	
<b>Summary narrative</b>	<p>All Emerging Stocks are denominated in NTD. Securities firms are required to deliver payments and securities before TDCC delivers them to the other party. The settlement process does not involve two linked obligations.</p> <p>TDCC does not offer exchange-of-value settlement</p>

	systems for bonds traded over the counter.
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<b>Principle 13: Participant-default rules and procedures</b>	
<b>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.</b>	
<b>Summary narrative</b>	TDCC does not guarantee the settlement of stocks traded over the Emerging Stock Market and the settlement of bonds traded over the counter. TDCC will simply void settlement instructions when the buyer is short of cash or when the seller has insufficient securities to deliver. As a result, TDCC is not exposed to participants' default risks.

<b>Principle 14: Segregation and portability</b>	
<b>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.</b>	
<b>Summary narrative</b>	No assessments required. This principle is not relevant to SSS.

<b>Principle 15: General business risk</b>	
<b>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 materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.</b>	
<b>Summary narrative</b>	TDCC is incorporated according to the "Regulations Governing Centralized Securities Depository Enterprises" and is governed by the authority with regards to its use of funds, provision of default damages reserves and special reserves. It has



	<p>adequate risk management policies and procedures in place to identify, monitor and manage general business risks.</p> <p>TDCC holds sufficient liquid net assets funded by equity to cover general business losses, and is therefore able to continue operations and services as a going concern. TDCC has implemented a feasible recovery plan and maintained sufficient and adequate liquid net assets to execute the plan.</p>
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<p><b>Principle 16: Custody and investment risks</b>  <b>An FMI should safeguard its own and its participants' assets and minimize 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.</b></p>	
<p><b>Summary narrative</b></p>	<p>TDCC was incorporated under "Regulations Governing Centralized Securities Depository Enterprises" to provide services such as custody of securities which are listed on the stock exchanges, traded over the counter and approved by the authority, and registration of securities issued in dematerialized form. TDCC established "Working Capital Management Guidelines" and "Working Capital Management Procedures" that specifically require all time deposits, collaterals, and stocks to be placed under its custody. TDCC has implemented effective accounting practices, custody procedures and internal controls to adequately protect assets held under its custody.</p> <p>TDCC adopts an investment strategy that is consistent with its overall risk strategy; both of which have been fully disclosed to participants. All investments held by TDCC are highly liquid and less prone to credit risks.</p>

**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 fulfillment of the FMI’s obligations, including in the event of a wide-scale or major disruption.**

**Summary narrative**

TDCC has attained ISO 9001 and ISO 27001 certification. Its IT systems are subjected to risk assessments whereas system operations are guided with standard procedures. TDCC has its own internal control system to administrate and control business activities. TDCC has implemented the “hierarchical authorization for decision making and final approval” and delegated authorities according to the level of responsibilities and the business activities involved.

TDCC has an Internal Audit Department created under the board of directors to perform regular audits according to the internal control system. Furthermore, each department is required to perform regular self-audits to determine whether their operating procedures have complied with the internal control system. TDCC sets targets of ISO 9001 and ISO 27001 each year and subjects to audits by external agencies to ensure adherence to ISO 9001 and ISO 27001 standards and its achievement of the targets.

TDCC has implemented its comprehensive physical and information security policies that address potential vulnerabilities and threats. Meanwhile, TDCC also budgets equipment purchases for the upcoming year to meet expected increases in capacity demands.

	<p>TDCC has its own business continuity plan (BCP) capable of handling major risk events. Such events that are likely to disrupt the company's operations have been included as selectively rehearsed events in TDCC's "Crisis Management Manual" each year. The BCP also covers the secondary site and back-up procedures for use at times when the primary system undergoes a malfunction. Both of which are evaluated regularly to ensure adequacy.</p>
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**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.**

<p><b>Summary narrative</b></p>	<p>TDCC has outlined eligibility criteria for participants. Risk management within these parties is governed by their respective authorities.</p> <p>Criteria for participation have been disclosed publicly through TDCC's website, and TDCC has set up the exit procedures for those that do not satisfy the participation criteria.</p>
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**Principle 19: Tiered participation arrangements**

**An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.**

<p><b>Summary narrative</b></p>	<p>With regards to the settlement of stocks traded over the Emerging Stock Market and the settlement of bonds traded over the counter, participants' accounts are created directly under TDCC without any tiered arrangements.</p>
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**Principle 20: FMI links**

**An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.**

<p><b>Summary narrative</b></p>	<p>Prior to establishing links with other FMIs, TDCC will conduct assessments on the link design, the legal basis, the credibility, liquidity and the operational risks of the FMIs. TDCC's links with FMIs have been arranged to provide full protection over participants' interest. TDCC does not engage any intermediaries or establish links with issuer CSDs for stocks traded over the Emerging Stock Market and for bonds traded over the counter.</p> <p>GTSM is a highly regulated organization created under the "Securities and Exchange Act" therefore it presents no risks to TDCC to link with GTSM. In addition, link with GTSM has already been governed in Regulations Governing Centralized Securities Depository Enterprises, which provides comprehensive legal basis. TDCC's links with CSDs are established in contractual relationships. Credit risks and liquidity risks associated with these links have been assessed, monitored and managed in participants' best interest. There have been no provisional transfers of securities.</p>
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<p><b>Principle 21: Efficiency and effectiveness</b>  <b>An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.</b></p>	
<p><b>Summary narrative</b></p>	<p>Prior to launching new services, TDCC will convene public hearings to solicit the public opinion, and attend meetings organized by securities- related associations and arrange visits with participants to perceive the market's needs.</p> <p>Furthermore, TDCC organizes satisfaction surveys and convenes quality and security review meetings on a regular basis to make sure that its services can meet the needs of the participants and the public in quality and in system security.</p> <p>TDCC uses a performance assessment criterion report to evaluate business plan on an annual basis.</p>

	<p>Once approved by the authority, the performance report is tracked on a quarterly basis and reported to the authority at year-end. TDCC also adopts ISO 9001 and ISO 27001 quality certification; it sets quality objectives on a yearly basis and reviews progress through Management Review Committee meetings.</p>
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<p><b>Principle 22: Communication procedures and standards</b>  <b>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.</b></p>	
<p><b>Summary narrative</b></p>	<p>TDCC has linked up to Euroclear’s and Clearstream’s systems respectively and established its book-entry operations mechanism that facilitates cross-border transfer and custody of bonds based on the communication procedures and standards used by Euroclear and Clearstream.</p>

<p><b>Principle 23: Disclosure of rules, key procedures, and market data</b>  <b>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.</b></p>	
<p><b>Summary narrative</b></p>	<p>All procedures relevant to TDCC's services have been outlined in regulations and operating manuals, which participants may inquire about through TDCC's website. TDCC participants may learn of their rights, obligations and risks through disclosures made in the service agreement, the Operating Rules and the Guidelines. Any adjustments to existing policies are disseminated to participants and announced publicly on TDCC's website. In addition, TDCC annually and periodically provides seminars and training for securities personnel and creates an e-training system</p>

	on its website. TDCC also offers counsel to participants regarding its services. All changes to TDCC's fee rates are subject to approval by the authority and are notified to each participant through separate correspondence.
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<b>Principle 24: Disclosure of market data by trade repositories</b> <b>A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.(This principle is not relevant to SSS)</b>	
<b>Summary narrative</b>	No assessments required. This principle is not relevant to SSS.

## V. List of publicly available resources

### Regulations

1. Securities and Exchange Act
2. Regulations Governing Centralized Securities Depository Enterprises
3. Regulations Governing the Offering and Issuance of Securities by Securities Issuers.
4. Regulations Governing Book-Entry Operations for Centrally Deposited Securities
5. Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets
6. Personal Information Protection Act
7. The Classified National Security Information Protection Act
8. Executive Yuan and Subordinate Agencies Information Security Management Points
9. Executive Yuan and Subordinate Agencies Information Security Management Standards
10. Ministry of Finance and Subordinate Agencies (Institutions) Information Security Management Guidelines
11. Copyright Act
12. Regulations Governing Securities Firms
13. Standards Governing the Establishment of Securities Firms

14. Regulations Governing the Operation of Securities Introducing Broker Business by Futures Commission Merchants

### **Publications**

1. Taiwan Depository and Clearing Corporation – 2012 Annual Report
2. Taiwan Depository and Clearing Corporation – 2012 Handbook
3. Operating Manual for Book-Entry Operations for Centrally Deposited Securities, May 2012
4. Q&A for the Administration of Dematerialized Securities and Corporate Action (10); December 2012

### **The company's publicly disclosed internal policies**

1. Taiwan Depository and Clearing Corporation – Memorandum of Association
2. Operating Rules of the Taiwan Depository & Clearing Corporation
3. Taiwan Depository and Clearing Corporation – Guidelines on Early Warning Procedures of Participants' Operations for Centrally Deposited Securities
4. Taiwan Depository and Clearing Corporation Fee Rules
5. Taiwan Depository and Clearing Corporation – Guidelines on Participants' Book-Entry Operations for Clearing and Settlement of Negotiated OTC Trades of Emerging Stocks
6. Taiwan Depository and Clearing Corporation – Guidelines on Participants' Book-Entry Operations for Fixed Income Securities
7. Taiwan Depository and Clearing Corporation – Guidelines for Participants' acceptance and delivery of securities and payment for Fixed Income Securities
8. Taiwan Depository and Clearing Corporation – Guidelines on Participants' Book-Entry Operations for International Bonds