



Important Measures

FSC announces measures to respond to COVID-19 pandemic and mitigate impact of global financial volatility on domestic securities markets

2020-05-13

Due to the COVID-19 pandemic, global financial conditions have recently triggered volatility in Taiwan's securities markets. In order to maintain orderly and stable markets, and to safeguard investor interests, the FSC on March 18 and 19, 2020 announced the following measures, which took effect from March 19:

1.Reduction of the cap on total volumes of short sale through securities borrowing and lending ("SBL short sale") during trading sessions: For a three-month period beginning from March 19, 2020, the FSC has reduced the cap on total SBL short sale volumes during trading sessions. Existing regulations limit the volume of SBL short sale trading orders to "30% of the average trading volume in any given security over the preceding 30 trading days," but this cap has been lowered to 10%. However, SBL short selling due to the hedging needs (e.g. the securities dealers engaging in the business of issuing put warrants, over-the-counter trading of structured instruments or equity derivatives, and serving as the beneficiary certificate liquidity providers, or the futures dealers engaging in the market making business of equity options and equity futures, etc.) is exempted from the preceding regulation.

2.Broader range of eligible collateral for margin calls: For a three-month period beginning from March 19, 2020, investors that have obtained the creditor's consent are allowed to meet a margin call (for either a margin purchase or a short sale) by

posting any collateral that has market liquidity and can be objectively and reasonably valued. The FSC has called upon securities firms and other creditors to reasonably evaluate investors' margin purchase and short sale activities, and to handle their situations in a proper and legally compliant manner.

3. Securities dealers are urged to act as liquidity providers of market demand and supply, and financial and insurance institutions are encouraged to buy while markets are down: COVID-19 is currently under reasonably good control in Taiwan, and the government has passed a special budget to fund pandemic responsive measures. Those measures will make it easier to mitigate the impact of COVID-19 on domestic industry, and to boost economic activity. Moreover, the return to Taiwan from offshore Taiwanese businesses, and decisions by many manufacturers to shift orders to Taiwanese suppliers, are both helpful to Taiwan's stock market fundamentals. For those reasons, the FSC has called on securities dealers to play their proper role as market intermediaries by adjusting demand and supply in the market depending on the market situation, as set out in Article 30 of the "Regulations Governing Securities Firms," thereby bolstering investor confidence. In addition, the FSC is also encouraging financial and insurance institutions to take advantage of the recent market downturn to buy in blue-chip stocks with sound fundamentals and low P/E ratios.

4. Listed companies are being encouraged to engage in implementing stock buybacks: listed companies with plentiful funds may consider to engage in implementing stocks buybacks if necessary and bolster investor confidence.

5. Steps to mitigate risks associated with short selling:

(1) For TWSE or TPEX listed shares or Taiwan depository receipts that close down by 3.5% or more on any given trading day, regular short selling and SBL short selling of that security will not be allowed on the following day at or below the previous day's closing price. Furthermore, if that same security again closes down by 3.5% or more on the next trading day, this same restriction shall continue to apply. However, this restriction does not apply to securities dealers and futures dealers who engage in

short selling and sale of borrowed securities for the risk-hedging need of their business.

(2)On a trading day when investors are not allowed to engage in regular short selling or SBL short selling of securities at or below the previous day's closing price, if an investor seeks to conduct a day trade in such a security but fails to complete the reversing trade and the selling price was at or below the previous day's closing price, the transaction type may not be reclassified as a regular short sale or SBL short sale.

6.The FSC will continue to monitor the impact of COVID-19 on the overall economy and on Taiwan's stock markets, and will continue urging the TWSE and Taipei Exchange to pay closer attention to the impact of the pandemic on financial and operating conditions at listed companies, and ensure timely disclosure of related information.

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