

Regulations Governing Concurrent Conduct of Trust Business by Securities

Title : Investment Trust Enterprises, Securities Investment Consulting Enterprises, and Securities Firms (2015.01.22 Modified)

Article 1 These Regulations are enacted pursuant to Paragraph 3, Article 3 of the Trust Enterprise Act (referred to as the “Act” hereunder).

Article 2 In concurrently conducting specific types of trust business pursuant to Paragraph 2, Article 3 of the Act, securities investment trust enterprises (SITEs), securities investment consulting enterprises (SICEs), or securities firms shall observe the provisions of Securities Investment Trust and Consulting Act, Securities and Exchange Act, Trust Act, and other applicable laws and regulations, and in addition, the Act and these Regulations.

Article 3 For the businesses it may engage in under the Securities Investment Trust and Consulting Act, a SITE or SICE may apply to the competent authority for approval to conduct concurrently trust of money and trust of securities businesses and operate its discretionary investment business under a trust.

The “certain requirements” mentioned in Paragraph 2, Article 3 of the Act means a SITCE or SICE operating its discretionary investment business under a trust and the initial trust assets it accepts from the trustor for investment must be more than NT\$10,000,000 in value; the initial trust assets include the amount of beginning investment and the amount of additional investment in the discretionary account.

A securities firm may apply to the competent authority for approval to conduct concurrently trust of money and trust of securities businesses and operate specific types of business provided below:

1. Discretionary investment business;
2. Wealth management business; and
3. Custody and investment of funds on behalf of customers.

Where the business mentioned in subparagraph 2 of the preceding paragraph is collective investment trust with designated scope or method of operations, a securities firm shall apply for the establishment of a collective investment trust account.

Article 4 A SITE, SICE or securities firm that applies for approval to conduct concurrently specific types of trust business shall meet the following requirements:

1. A SITE or SICE that applies for approval to conduct discretionary investment business under a trust shall meet the requirements set forth in the Regulations Governing the Conduct of Discretionary Investment Business by

Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.

2. A securities firm that applies for approval to conduct wealth management business under a trust shall meet the qualification requirements for such business set forth in the Standards Governing the Establishment of Securities Investment Consulting Enterprises.

3. A securities firm that applies for approval to conduct wealth management business under a trust shall meet the qualification requirements for such business set forth in the Directions for Securities Firms Engaging in Wealth Management Business.

4. A securities firm that applies for the establishment of a collective investment trust account where the total amount of trust monies accepted into the account may exceed NT\$10,000,000 shall first obtain the approval of the competent authority to conduct discretionary investment business under a trust.

5. A securities firm that applies for approval to conduct the business of custody and investment of funds on behalf of customers under a trust shall meet the requirements set forth in the Regulations Governing Custody and Investment of Funds by Securities Firms on Behalf of Customers.

6. Having not been ordered to take corrective actions and to improve within the specified period of time in accordance with Article 44 of the Act in the past half a year.

7. Having not been subjected to disciplinary actions provided in Subparagraph 1, 2, or 3, Article 44 of the Act in the past two years.

A SITE, SICE, or securities firm that does not meet the requirements set forth in subparagraph 6 or subparagraph 7 of the preceding paragraph is not restricted by the provisions in those two paragraphs, provided it has made improvement and is able to show concrete evidence of improvement.

Article 5 A SITE, SICE, or securities firm that applies for approval to conduct concurrently specific types of trust business shall prepare an application and submit it together with the following documents to the competent authority for approval:

1. A SITE or SICE that applies for approval to conduct discretionary investment business under a trust shall submit application documents required for conducting such business under the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises as well as qualification documents evidencing compliance with the requirements set

forth in Subparagraph 1, Paragraph 1 of the preceding article;

2. A securities firm that applies for approval to conduct discretionary investment business under a trust shall submit application documents required for conducting such business under the Standards Governing the Establishment of Securities Investment Consulting Enterprises as well as qualification documents evidencing compliance with the requirements set forth in Subparagraph 2, Paragraph 1 of the preceding article;

3. A securities firm that applies for approval to conduct wealth management business under a trust shall submit application documents required for conducting such business under the Directions for Securities Firms Engaging in Wealth Management Business as well as qualification documents evidencing compliance with the requirements set forth in Subparagraph 3, Paragraph 1 of the preceding article;

4. A securities firms that applies for approval to conduct the business of custody and investment of funds on behalf of customers under a trust shall submit application documents required for conducting such business under the Regulations Governing Custody and Investment of Funds by Securities Firms on Behalf of Customers as well as qualification documents evidencing compliance with the requirements set forth in Subparagraph 5, Paragraph 1 of the preceding article;

5. A statement of undertaking declaring compliance with the provisions in Subparagraphs 6 and 7, Paragraph 1 of the preceding article;

6. A business plan;

7. A specimen of trust agreement;

8. Namelist of business personnel operating and managing the trust business and their qualification documents; and

9. Other documents as required by the competent authority.

A securities firm that applies for the establishment of a collective investment trust account shall follow the provisions of the Regulations Governing Management and Utilization of Collective Investment Trust Funds and relevant rules and regulations, and submit relevant documents for the following items:

1. A statement of undertaking declaring compliance with the provisions in Subparagraphs 6 and 7, Paragraph 1 of the preceding article

2. Qualification documents evidencing compliance with the requirements set forth in Subparagraph 3, Paragraph 1 of the preceding article; and

3. Documents evidencing approval by the competent authority to conduct discretionary investment business under a trust if a securities firm applies for

the establishment of a collective investment trust account where the total amount of trust monies accepted into the account may exceed NT\$10,000,000.

Article 6 A SITE, SICE, or securities firm that applies for approval to conduct concurrently specific types of trust business shall, with six (6) months from the date of approval by the competent authority, apply for replacement of business license or permit in accordance with the Securities Investment Trust and Consulting Act or the Securities and Exchange Act, and complete the registration of new business items via the online filing system of the competent authority or a website designated by the competent authority. Before making such registration, the SITE, SICE, or securities firm shall have its president (general manager) and chief compliance officer double check to make sure the registered items conform to regulatory requirements. The SITE, SICE, or securities firm shall also submit to the competent authority a letter of consent for membership enrollment issued by the Trust Association of the R.O.C. (referred to as “the Association” hereunder) and a document evidencing the posting of a reserve fund in accordance with Article 34 of the Act before it may commence the business.

Where the SITE, SICE, or securities firm fails to make registration within the time limit specified in the preceding paragraph, the competent authority may revoke the permit to conduct concurrent business. However, the time limit may be extended once, provided the SITE, SICE, or securities firm has justified reasons and submits an application for extension prior to the expiration of the time limit, and that such extension may not exceed six (6) months.

Article 7 A securities firm that has been approved by the competent authority to conduct specific types of trust business provided in Paragraph 3 of Article 3 herein may submit the following documents to the competent authority to apply for permission for its established branches to accept trust assets from customers:

1. Application documents required for such business under the Directions for Securities Firms Engaging in Wealth Management Business or the Regulations Governing Custody and Investment of Funds by Securities Firms on Behalf of Customers; and
2. Namelist of branch business personnel for operating and managing the trust business and their qualification documents.

The securities firm that makes the application mentioned in the preceding paragraph shall, with six (6) months from the date of approval by the

competent authority, apply for replacement of business permit for its branches in accordance with the Securities and Exchange Act, and complete the registration of new business item via the online filing system of the competent authority or a website designated by the competent authority where the new business item is handling the trust business of the head office's trust department as approved by the competent authority. Before making such registration, the securities firm shall have its president (general manager) and chief compliance officer double check to make sure the registered business item conforms to regulatory requirements and file the same with the competent authority before it may commence the business.

Where the securities firm fails to make registration within the time limit specified in the preceding paragraph, the competent authority may revoke the permit for such business. However, the time limit may be extended once, provided the securities firm has justified reasons and submits an application for extension prior to the expiration of the time limit, and that such extension may not exceed six (6) months.

The competent authority shall reject the application made by a securities firm in Paragraph 1 hereof if the application has any of the following situations:

1. The application does not conform to the provisions in Article 8 of the Act herein
2. The applicant's conduct of trust business has been ordered by the competent authority to take corrective actions, but the applicant has failed to comply accordingly and the non-compliance is of serious nature.
3. There are other facts indicating that the applicant's sound business operation might be affected, or the application does not meet the requirements of a financial policy.

Article 8 A SITE, SICE, or securities firm that conducts concurrently specific types of trust business shall conform to the following provisions in addition to other regulatory requirements with respect to the risk management of its trust business:

1. A department dedicated to the trust business should be set up to take charge of the management, use and disposal of trust assets and to accept trust assets from customers. Unless it is otherwise approved by the competent authority, the trust business that branches of the SITE, SICE, or securities firm may engage in shall be limited to the acceptance of trust assets, whereas the management, use and disposal of trust assets shall be centrally handled by the dedicated department;
2. The accounting of the trust business shall be incorporated into the

accounting of trust accounts;

3. For the trust business, the dedicated department or branches should post a sign in a conspicuous manner at the business counter and fully inform the customers of the following:

(1) The trustee will provide trust services to customers with the duty of care and the duty of loyalty of a good administrator; and

(2) The trustee does not guarantee the results of trust asset management or investment that the trustor or the beneficiary is solely responsible for the profit or loss of the trust;

4. The business place of the dedicated trust department shall be segregated from other departments;

5. The co-selling activities, sharing of information, and sharing of business facilities and business place between the trust business and other businesses of the company shall be free of conflict of interest or other situations that could harm the interests of customers;

6. Unless it is otherwise provided by law or the competent authority, the trust business personnel shall keep confidential the customers' correspondence and transaction information and keep such information from the personnel of other departments as well; and

7. Internal rules shall be established in reference to the Rules for the Risk Management of Trust Business of Banks drawn up by the Association and approved by the competent authority.

The dedicated trust department set up by a SITE or SICE according to the preceding paragraph to operate discretionary investment business under a trust may be incorporated into an independent, dedicated department set up by the SITE or SICE to operate mandate-type discretionary investment business in accordance with the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.

If a securities firm conducts discretionary investment business under a trust only, its dedicated trust department set up in accordance with Paragraph 1 hereof may be incorporated into an independent, dedicated department set up by the securities firm to operate mandate-type discretionary investment business in accordance with the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.

If a securities firm conducts wealth management business or the business of custody and investment of funds on behalf of customers under a trust only,

its dedicated trust department set up according to Paragraph 1 hereof may be incorporated into an independent, dedicated department set up by the securities firm to operate wealth management business in accordance with Directions for Securities Firms Engaging in Wealth Management Business.

Article 9 A SITE, SICE, or securities firm that conducts concurrently specific types of trust business shall put the trust assets delivered by the trustors under the custody of a discretionary investment assets custodian that complies with the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.

If a securities firm conducts wealth management business or the business of custody and investment of funds on behalf of customers under a trust only, the preceding paragraph shall apply to the collective investment trust account established by the securities firm, but the trust assets of the securities firm need not be put under the custody of a discretionary investment assets custodian provided in the preceding paragraph. However in case the trust asset is money, the money shall be deposited in a dedicated account at a bank that meets the criteria set forth in the Directions for Securities Firms Engaging in Wealth Management Business or the Regulations Governing Custody and Investment of Funds by Securities Firms on Behalf of Customers and under the name of the trust asset.

Article 10 A SITE, SICE, or securities firm that conducts concurrently specific types of trust business shall produce balance sheets, inventory of trust assets and income statement for its trust accounts once every half fiscal year in accordance with the Principles of Accounting for Trust Enterprises and the deadline set forth in Paragraph 1, Article 17 of the Enforcement Rules of the Trust Enterprise Act, and submit the same to the Association. The Association will compile those statements and report them to the competent authority and post them on the website of the Association.

Article 11 A SITE, SICE, or securities firm that conducts concurrently specific types of trust business shall follow Article 19 of the Act as well as relevant provisions in the Regulations Governing Management and Utilization of Collective Investment Trust Funds, the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises, the Directions for Securities Firms Engaging in Wealth Management Business or the Regulations Governing Custody and Investment of Funds by Securities Firms on Behalf of Customers with respect to clauses to be included in the

trust agreement signed with the customers.

Article 12 If the business or financial conditions of a SITE, SICE, or securities firm that conducts concurrently specific types of trust business deteriorate so significantly that it might not be able to pay its debts or that the interests of trustors or beneficiaries might be adversely affected, the competent authority may revoke its permit to conduct concurrently trust business.

If a SITE, SICE, or securities firm that conducts concurrently specific types of trust business becomes unable to continue the business due to dissolution, close-down, suspension of business, or revocation or repeal of permit, the SITE, SICE, or securities firm shall contact other trust enterprises to assume its trust business, subject to the approval of the competent authority.

The assumption of trust business (by another trust enterprise) mentioned in the preceding paragraph shall be agreed upon in the trust agreement and consult the opinion of the beneficiaries. Where a beneficiary dissents to the assumption of trust business or does not indicate assent or dissent, the trust agreement signed with the beneficiary is deemed terminated.

Article 13 When the head office or a branch of a SITE, SICE, or securities firm intends to terminate its trust business in part or in whole, the SITE, SICE or securities firm shall submit an application to the competent authority for approval and for replacement of business license or permit, and complete the registration of terminated business items via the online filing system of the competent authority or a website designated by the competent authority.

The application in the preceding paragraph shall contain the following particulars:

1. Concurrent businesses to be terminated and reasons for termination.
2. A concrete plan for handling the rights and obligations of existing customers or alternative methods for providing services.

Article 14 These Regulations shall be in force on the date of promulgation.