

Title : Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies (2018.02.13Modified)

Article 1 These Regulations are adopted pursuant to Article 21, paragraph 1, subparagraph 8 and Article 40, paragraph 2 of the Act Governing Bills Finance Business ("the Act").

Article 2 In addition to complying with the provisions of the Act and these Regulations, a bills finance company conducting brokerage or proprietary trading business in foreign currency bonds shall also comply with the business rules that regulate the handling of foreign currency bonds by securities firms, as set forth by the Financial Supervisory Commission (FSC), the Central Bank, the Taiwan Stock Exchange Corporation, the GreTai Securities Market, the Taiwan Securities Association, and the Taiwan Depository & Clearing Corporation.

Article 3 The term "foreign currency bonds" in these Regulations means bonds that have been approved for issuance or trading in the Republic of China (ROC), and are denominated in a foreign currency, or bonds that are issued or traded on a foreign securities exchange market.

If a bills finance company holds foreign currency bonds as referred to in the preceding paragraph that are convertible corporate bonds, exchangeable corporate bonds, or corporate bonds with warrants, it may not convert, exchange, or trade the bonds for stock.

The criteria for and scope of "bonds that are issued or traded on a foreign securities exchange market" as referred to in paragraph 1 shall be governed by the rules regulating brokerage and proprietary trading of foreign securities by securities firms as set forth by the FSC.

Article 4 A bills finance company applying to conduct brokerage, proprietary trading, or investment in foreign currency bonds shall have had a resolution passed by its board of directors, shall submit an application form and handling procedures to apply to the FSC for approval, and may not be subject to any of the following circumstances:

- 1.The ratio of equity capital to risk-weighted assets is less than 10 percent.
- 2.Failure to duly set aside sufficient reserve for guarantee liabilities and allowance for bad debts.
- 3.Cumulatively more than NT\$2 million in administrative sanctions imposed on the bills finance company's responsible person(s) and the bills finance company. This restriction does not apply, however, if the illegalities have

already been specifically corrected and the corrections have been recognized by the FSC.

4.Failure to meet a certain rating by a rating agency.

5.Material deficiency in internal control in the past 2 years. This restriction does not apply, however, if the material deficiency has already been specifically corrected and the corrections have been recognized by the FSC.

6.Net worth per share was lower than par value in the past year.

The term "a certain rating" in the preceding paragraph means a credit rating set forth in Article 4 of the Regulations Governing Investment in Bonds and Equity Products by Bills Finance Companies.

The "handling procedures" under paragraph 1 shall specify the following particulars:

1.Trading principles and policies: shall include trading and hedging strategies, position limits, and stop loss settings.

2.Responsible departments, personnel deployment, and human resources development and training plan (including a list of the names of associated persons meeting applicable requirements and documents certifying their qualifications).

3.Trading procedures: shall include hierarchy of assigned responsibility, authorization limits, trading processes, segregation of authority and duties between relevant departments, and procedures for preserving trading records.

4.Accounting treatment: shall include accounting standards and accounting entries.

5.Risk management measures: shall include risk management scope, risk management procedures, methods and frequency of position evaluation, production and review of position evaluation reports, irregularity reports, and procedures for follow-up surveillance.

6.Internal control and audit: shall include internal check and reconciliation functions and regular auditing.

Personnel of a bills finance company conducting brokerage, proprietary trading, or investment in foreign currency bonds shall possess professional ability, and the company shall set professional qualification requirements and formulate a training system and performance evaluation system.

Article 5 A bills finance company intending to conduct brokerage, proprietary trading, or investment in foreign currency bonds shall apply for permission pursuant to the applicable rules of the FSC and the Central Bank.

Article 6 When a bills finance company conducts proprietary trading or investment in foreign currency bonds, its trades or balances held shall comply with the

applicable amount limits set forth in the Regulations Governing Investment in Bonds and Equity Products by Bills Finance Companies, the Standards for Bills Houses Trading or Holding Short-Term Bills or Bonds Issued by Designated Enterprises, and the Directions Governing the Risks Carried by Bills Houses on a Single Enterprise. The dollar amounts of its repo and reverse repo transactions shall be counted in the calculations pursuant to the Directions for Ceilings on the Total Amounts of the Major Liabilities and Reverse Repo Transactions Conducted by Bills Houses.

Article 7 A bills finance company conducting brokerage, proprietary trading, or investment in foreign currency bonds shall open a foreign currency deposit account with a designated foreign exchange bank in the ROC and meet the following requirements:

1.The amount of foreign currency denominated securities held by the bills finance company shall not exceed 30 percent of its net worth.

2.The balance of foreign currency assets other than foreign currency denominated securities as well as foreign currency bills and bonds reverse repo transactions shall not exceed 30 percent of the bills finance company's net worth.

The term "the amount of foreign currency denominated securities" referred to in subparagraph 1 of the preceding paragraph hereof means the total amount of foreign currency denominated securities, adding the amount of foreign currency bills and bonds reverse repo transactions, and subtracting the amount of foreign currency bills and bonds repo transactions.

Article 8 Each bills finance company shall set its own upper limit on foreign currency risk within the limit of 15 percent of its net worth, and shall report it to the Central Bank for approval.

The term "upper limit on foreign currency risk" in the preceding paragraph means the net position in foreign currency assets minus foreign currency liabilities, plus positions in financial derivatives.

When the calculation of any limit under these Regulations involves currency conversion, the bills finance company shall calculate it using the closing foreign exchange rate posted by its designated major correspondent bank, and shall follow the consistency principle.

Article 9 After a bills finance company has been approved to conduct proprietary trading or investment in foreign currency bonds, it may engage in related hedge trades in the capacity of a customer pursuant to the Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies. A bills finance company investing in foreign currency bonds shall do so in

the capacity of a customer, and may not engage in trades with other investors.

Article 10 A bills finance company that has been approved to conduct foreign currency brokerage or proprietary trading business may proceed to conduct such business only after it has completed the registration of the new business items on the Internet reporting system designated by the FSC.

A bills finance company conducting foreign currency bond brokerage or proprietary trading business shall carry out reporting matters pursuant to the provisions applicable to securities firms.

Article 11 After a bills finance company has been approved to conduct foreign currency bond brokerage, proprietary trading, or investment, if any circumstance in any subparagraph of Article 4, paragraph 1 is discovered to exist, the FSC, depending on the seriousness of the case, may restrict the positions held by the company, revoke its approval, or take other measures as necessary.

Article 12 These Regulations shall enter into force from the date of issuance.