

Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business

Article 1 These Regulations are promulgated pursuant to Paragraph 4, Article 45-1 of the Banking Act (referred to as the “Act” hereunder).

Article 2 The term "financial derivatives" as used in these Regulations shall mean contracts that their values derive from an interest rate, exchange rate, stock price, index, commodity, credit event, or other interests, or from a combination thereof as well as structured products referred to in Paragraph 2 hereof, excluding domestic and foreign securities that contain derivative in nature, such as asset-backed securities, structured notes and convertible (exchangeable) corporate bonds and offshore structured products as defined in the Regulations Governing Offshore Structured Products.

The term "structured product" as used in these Regulations shall mean a combination transaction of a fixed-income product or gold and a derivative product sold by a bank to a customer as a counterparty to the transaction.

The term "complex high-risk product" as used in these Regulations shall mean a financial derivative product that has more than three settlement or price fixing periods and contains an embedded short option, but excluding:

1. Structured products referred to in the preceding paragraph;
2. Swap contracts;
3. A series of plain vanilla options or foreign exchange transactions signed under one contract, according to which the customer may cancel a specific number of the transactions at any time; and
4. Other types of products as approved by the competent authority.

The term "written" or "in writing" as used in these Regulations may be made in the form of electronic documents in accordance with the Electronic Signatures Act.

Article 2-1 Paragraphs 1 and 2 of Article 20, Article 36 and Article 37 of these Regulations shall apply to the foreign branches of domestic banks designated by the competent authority.

Article 3 The term "professional customer" as used in these Regulations shall mean a juristic person or individual that meets one of the following criteria:

1. A professional institutional investor, which includes banks, insurance companies, bills finance companies, securities firms, fund management companies,

government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, Agriculture Bank of Taiwan, postal service institutions which handle the deposit, transfer and withdrawal of funds, and other institutions approved by the Financial Supervisory Commission (called the "Commission" hereunder).

2. A juristic person meeting all of the following criteria, or the subsidiary fully owned and guaranteed by such juristic person, or the branch in Taiwan of a foreign juristic person meeting all of the following criteria, and having applied in writing to the bank for the status of a high net worth corporate investor:
 - (1) A juristic person with net worth exceeding NT\$20,000,000,000 according to its latest CPA-audited or reviewed financial report.
 - (2) The juristic person has a dedicated investment unit that is staffed by capable professionals and is responsible for making decision on financial derivative transactions for such juristic person itself, its fully-owned subsidiary, or its branch in Taiwan, and the unit's manager meets one of the following conditions:
 - i. The manager worked in financial product investment at a financial, securities, futures or insurance institution for more than three years.
 - ii. The manager has financial product investment experience of more than four years.
 - iii. The manager possesses other qualifications or experiences that show he/she has financial product investment professional knowledge and management experience and can soundly and effectively manage the business of an investment department.
 - (3) The person holds securities position or derivatives product portfolio exceeding NT\$1,000,000,000 according to its latest CPA-audited or reviewed financial report.
 - (4) The person's internal control system has suitable investment procedure and risk management measures.
3. A juristic person or fund meeting all of the following criteria and having applied in writing to the bank for the status of professional customer:
 - (1) A juristic person or fund has total assets exceeding NT\$100,000,000 according to its latest CPA-audited or reviewed financial report;
 - (2) The person authorized by the customer to undertake trading possesses sufficient professional knowledge, trading experience in financial products; and

- (3) The customer agrees to sign on as a professional customer after understanding fully that the bank is exempted from certain responsibilities towards professional customers in conducting financial derivative transactions.
- 4. An individual meeting all of the following criteria and having applied in writing to the bank for the status of professional customer:
 - (1) The person has proof of financial capacity at least NT\$30,000,000; or has carried out a transaction exceeding NT\$3,000,000 in value, and in addition, his/her deposits and investments at and through the bank are worth more than NT\$15,000,000, and the person has provided a statement undertaking that his or her total assets exceed NT\$30,000,000;
 - (2) The person has sufficient professional knowledge, trading experience in financial products; and
 - (3) The person agrees to sign on as a professional customer after understanding fully that the bank is exempted from certain responsibilities towards professional customers in conducting financial derivative transactions.
- 5. A trust enterprise that has entered into a trust agreement with a trustor and the trustor meets the criteria set forth in one of the three previous subparagraphs hereof.

A bank is responsible for conducting reasonable investigation to verify that a customer meets the qualification criteria for a professional customer as set forth in the preceding paragraph, obtaining reasonable and credible corroborative evidence from the customer and carrying out at least one review every year to ensure that the customer continues to meet the qualification criteria for a professional customer. Notwithstanding, if the customer is an exchange-listed or an OTC-listed company, the bank may be exempted from obtaining the evidence of the qualifications of the manager of the dedicated investment unit, or the authorized trading personnel.

The evaluation method of a bank for assessing whether a professional customer other than a professional institutional investor possesses sufficient professional knowledge, management experience, or trading experience in financial products shall be included in the "Know Your Customer" procedure and be approved by the bank's board of directors.

Article 3-1 For an existing financial derivatives transaction a bank has already entered into with a professional customer with total assets less than NT\$100,000,000 in accordance with Subparagraph 3, Paragraph 1 of Article 3 herein prior to its amendment dated January 30, 2016 that has not expired after the amendment, the

contract may remain in effect under the original terms and conditions until the contract expires or is unwound; for a transaction subsequently carried out by the same customer with the bank for the sake of reducing its total exposure, the customer may maintain its professional customer status, but the tenor of the new contract thus entered may not exceed the remaining tenor of the original unexpired contract.

Article 4 The term "retail customer" as used in these Regulations shall refer to a non-professional customer.

With the exception of professional institutional investors, a professional customer may apply in writing to a bank for changing status to retail customer.

Article 5 A bank that plans to conduct financial derivatives business shall submit the application documents prescribed by the Commission and apply to the Commission for approval, provided the bank meets the following requirements:

1. The ratio of the bank's equity capital to risk assets conforms to the level prescribed in the Act;
2. The bank is free of the situation where it has not set aside sufficient loan loss provision;
3. The bank's non-performing loan ratio as of the end of last quarter preceding the date of application is 3% or lower; and
4. The bank is free of the incident of being fined due to violation of banking law or regulation in the year preceding the date of application, or the bank has taken specific actions recognized by the Commission to remedy the violation.

A bank that has been approved by the Commission to conduct financial derivatives business may start to operate the business after it has registered its business items via the online reporting system of the Commission's Banking Bureau.

Article 6 A bank conducting financial derivatives business shall formulate operational strategies and operating guidelines as follows, and submit same and any revisions thereafter to its board of directors (council members) for approval:

1. Operational strategies for financial derivatives business.
2. Operational guidelines, which shall include the following particulars:
 - (1) Business principles and policies.
 - (2) Business operating procedures .
 - (3) Internal control systems.
 - (4) Methods for periodic evaluation.

- (5) Methods for accounting treatment.
- (6) Internal audit systems.
- (7) Risk management measures.
- (8) Customer protection measures.

The bank's board of directors (council members) shall, in view of changes in products and of market, timely review its operational strategies and operational guidelines mentioned in the preceding paragraph, and assess whether its business performance is consistent with the established operational strategies, and whether risks undertaken are within the scope of the bank's tolerance. The review shall be performed at least once each year. However the preceding provision does not apply to the branches of foreign banks in Taiwan which conduct such reviews periodically pursuant to the instructions of their head office.

Article 7 A bank that has obtained approval to conduct financial derivatives business (approval must also be obtained in accordance with the Futures Trading Act if the business in question is futures trading business) may begin to offer financial derivatives and combinations thereof, provided that within fifteen (15) days after commencement of business it shall submit a description of each product's characteristics, a statement of regulatory compliance, and a risk disclosure statement to the Commission for reference. Notwithstanding the foregoing, the offering of the following products shall comply with the provisions of Paragraphs 2 ~ 5 hereof and Article 8 herein:

1. Products involving contracts derived from either exchange-traded commodities or indexes related to domestic stock or futures exchanges other than equity derivatives linked to Taiwan stocks (referred to as "Taiwan equity-linked derivatives" hereunder).
2. New types of Taiwan equity-linked derivatives.
3. Complex high-risk products that are not yet deregulated or have been deregulated for less than half a year and are not forex-related offered to customers other than professional institutional investors and high net worth corporate investors.
4. Forex-related products that are required to file application with the Central Bank of the Republic of China (Taiwan) (called the "Central Bank" hereunder) for approval or to report to the Central Bank for recording..

Once the Commission has granted approval to a bank to offer products under Subparagraph 1 of the preceding paragraph, other banks may proceed to offer the same type of products, provided the Commission does not raise any objection within ten (10) days from the next day following the date on which their

application documents are delivered to the Commission. However, such a bank may not conduct the business under application until that 10-day period has elapsed.

Once the Commission has granted approval to a bank to offer products under Subparagraph 2 of Paragraph 1 hereof, other banks may proceed to offer the same type of products, provided they submit relevant documents to the Commission for reference within fifteen (15) days from the date of commencement.

Once the Commission has granted approval to a bank to offer a product under Subparagraph 3 of Paragraph 1 hereof and such product has been deregulated by the Commission for more than half a year, , other banks offering such product shall submit a letter with relevant documents to the Commission for recording within seven (7) days after conducting the first transaction and may proceed with the next transaction after receiving an approval letter from the Commission.

A bank that intends to offer products under Subparagraph 4 of Paragraph 1 hereof shall directly file applications with the Central Bank for approval or report to the Central Bank for recording. Where the product is a forex-related complex high-risk product, the bank shall submit copies of applications to the Commission.

Article 8 To offer financial derivatives mentioned in Subparagraphs 1 ~ 3, Paragraph 1 of the preceding article, a bank shall apply to the Commission for approval by submitting an application together with the following documents and may proceed to offer the product after obtaining an approval:

1. A statement of regulatory compliance;
2. Meeting minutes containing a resolution adopted by the board of directors (council members) or the board of managing directors to offer such financial derivatives or documents verifying authorization from an appropriate person(s);
3. Documents evidencing that the personnel in charge of the business in question have relevant experience or professional training; and
4. A business plan covering product introduction, description of product characteristic and risk disclosure statement.

Article 9 When a bank files information to the Commission for reference in accordance with Paragraph 1 or Paragraph 3 of Article 7 herein, if the documents submitted are incomplete or are not supplemented within a specified period of time, the Commission may order the bank to suspend its business in question until the required remedial action is completed.

Article 10 A bank that engages in financial derivatives business may, in view of business needs, apply to the Commission for approval to allow its designated foreign exchange branches to conduct the business of recommending financial derivatives under the authorization of the head office; where there are subsequently changes to the recommended products, branches and personnel authorized to conduct the recommendation business, the head office shall maintain and control the relevant data and list.

The rules regarding a bank's head office authorizing its designated foreign exchange branches to conduct the business of recommending financial derivatives shall be drafted by The Bankers Association of The Republic Of China (referred to as the "Bankers Association" hereunder) and submitted to the Commission for reference.

Article 11 A bank conducting financial derivatives business shall establish a risk management system for the management of procedures with respect to identification, measurement, monitoring and reporting of risks, and comply with the following provisions:

1. A bank's financial derivatives business shall be subject to a review through appropriate procedures, and senior management and relevant business executives shall work together to formulate a risk management system. Risk tolerance and limits for each business conducted shall be regularly reviewed and submitted to the board of directors (council members) for review and approval.
2. Personnel shall not concurrently engage in both trading and settlement of financial derivatives transactions. A bank shall establish a risk management unit independent from its trading division to carry out such tasks for risk identification, measurement, monitoring and control. The risk management unit shall report regularly position risks and valuations of gains and losses to senior management.
3. A bank shall set the frequencies of position assessment on financial derivatives in light of the nature of each type of position. In the case of trading positions, assessments shall in principle be carried out immediately or based on daily market prices. For hedging transactions conducted for bank's own business needs, assessments shall be carried out at least once every month.
4. A bank shall adopt rules for internal review of new financial derivatives products, and form a product review team consisting of managerial officers

in charge of finance, accounting, compliance, risk control, products or business units to review new financial derivatives products according to the aforementioned rules before the products are launched. When the new product is a complex high-risk product, the product review team shall examine and submit it to the board of directors (council members) or the board of managing directors for approval. The bank's rules for internal product review shall cover at least the following items:

- (1) Review of the nature of product.
 - (2) Review of operational strategies and business policies.
 - (3) Review of risk management.
 - (4) Review of internal controls.
 - (5) Review of accounting methods.
 - (6) Review of safeguards of customer rights and interests.
 - (7) Review of regulatory compliance status and required legal documents.
5. A bank shall adopt a remuneration and reward system as well as performance assessment principles for business personnel conducting the financial derivatives business. The system and principles shall avoid a direct link with the sales performance of specific financial products, and shall incorporate non-financial indicators that include items such as whether there is any violation of applicable laws and regulations, self-regulatory rules, or operating rules, deficiency discovered in an audit, customer dispute, and faithful implementation of know-your-customer (KYC) procedures; the system and principles shall be approved by the board of directors (council members).
 6. When formulating its pricing policy for financial derivatives, a bank shall take into consideration factors such as position valuation, risk cost, and operating cost of the financial derivatives, and shall establish internal operating procedures to carefully review the reasonableness of the prices at which the bank conducts financial derivative transactions with customers.
 7. A bank shall establish and maintain an effective assessment and control mechanism for financial derivatives to prudently review the reasonableness of the transaction quotation and mark-to-market value of products.

The branch of a foreign bank in Taiwan may implement the risk management system in accordance with the rules of the head office, provided that it shall still comply with the provisions of the preceding paragraph.

Article 12 If a bank that has been approved to conduct financial derivatives business has any of the following situations, the bank may undertake financial derivatives

transactions for hedging purposes only:

1. The bank's non-performing loan ratio for the most recent quarter is above 3%.
2. A domestic bank's ratio of equity capital to risk assets is below the level prescribed in the Act.
3. The bank has not set aside sufficient loan loss provision.

Article 13 A bank offering financial derivatives shall conduct the business in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC and SIC interpretations, and applicable laws and regulations, and any restrictions or provisions applicable to parties to any transaction shall not be relaxed or disregarded due to the combination of transactions.

Article 14 Any conversion between New Taiwan Dollars and foreign currencies in connection with a bank's financial derivatives business shall be handled in accordance with the provisions of the Regulations Governing the Declaration of Foreign Exchange Receipts and Disbursements or Transactions.

Article 15 A bank that offers financial derivatives products shall establish management mechanisms in accordance with applicable regulations and internal rules to prevent conflict of interest and insider trading.

Article 16 A bank shall not use financial derivatives to embellish or manipulate financial statements on its own behalf or on behalf of a customer by, for examples, deferring or concealing losses, falsely reporting earnings, or recognizing earnings early. In options transactions, a bank shall heed to avoid using premiums (especially for long-term or extremely short-term options) to embellish financial statements, which would lead to frauds.

Article 17 A bank that offers equity-linked financial derivatives shall not make use of such trading to carry out mergers or acquisitions or unlawful trades on its own behalf or in cooperation with its customers.

Article 18 When a bank undertakes a financial derivative transaction linked to a credit event, if the bank itself is the protection seller and the reference entity is an interested party, the terms of the transaction shall not be more favorable than those offered to other counterparties in the same category, and shall comply with the following provisions:

1. For a domestic bank, the transaction shall be approved in a resolution adopted by at least three-fourths of the directors present in a board of directors' meeting attended by at least two-thirds of all directors. If the bank has drawn up internal operating rules therefor, it is deemed that the bank has complied with the preceding provision, provided the bank's managing department is fully authorized to conduct the business in accordance with the operating rules by its board of directors in a resolution adopted by at least three-fourths of the directors present in a board of directors' meeting attended by at least two-thirds of all directors (For branches of foreign banks in Taiwan, the internal operating rules shall be approved by their head office or regional center).
2. A bank shall require full guarantee for potential loss of the transaction estimated based on credit risk and put such potential loss under credit control for the interested party. The eligibility criteria for collateral should be set in consideration of the contract duration and the liquidity of reference assets, and the collateral shall be limited to cash, government bonds, negotiable certificates of deposit issued by the Central Bank, savings bonds issued by the Central Bank, treasury bills and certificates of deposit issued by a bank.

Article 19 Bank personnel engaging in financial derivatives business shall have professional ability, and the bank shall set professional qualification requirements and establish training system and performance evaluation system

Bank's operations and relevant managing personnel handling financial derivatives business must meet one of the qualification requirements below

1. Having attended at least 60 hours of courses offered by domestic financial training institutes on financial derivatives or risk management and obtain certificates of completion therefor; the courses must cover theories and practices, relevant regulations, accounting treatment and risk management of financial derivatives.
2. Having had at least one year of practical training relating to financial derivatives at a domestic or foreign financial institution.
3. Having at least six months of practical experience in financial derivatives business at a domestic or foreign financial institution.

Operations and relevant managing personnel handling the works of recommending financial derivatives must possess one of the qualification requirements set out below:

1. Meeting one of the qualification requirements set out in the preceding

paragraph.

2. Having passed the qualification test for structured product sales personnel offered by a domestic financial training institute and obtained a certificate therefor.
3. Having passed the qualification test for financial derivative sales personnel offered by a domestic financial training institute and obtained a certificate therefor.

Operations and relevant managing personnel handling the works of the trading, settlement, recommendation, and risk management shall attend at least 12 hours of training courses on financial derivatives every year offered by domestic financial training institutions or by the bank itself, where the training courses on financial derivatives offered by domestic financial training institutions shall comprise not less than one half of the total hours of training received.

The term "relevant managing personnel" referred to in the preceding three paragraphs shall mean the direct head and deputy head of the financial derivatives business at the head office or the division of the branch that recommending personnel belong to.

The recommending personnel mentioned in Paragraph 3 hereof shall register with the Bankers Association and may not engage in the recommendation business without registration. The rules regarding registration of job assignment, registration of data change, registration of cancellation and other compliance matters shall be drafted by the Bankers Association and submitted to the Commission for reference.

Article 20 Banks conducting financial derivatives business shall report transaction information to the Commission and an agency designated by the Commission.

Banks shall report information relating to customers' credit limits for financial derivatives transactions to the Joint Credit Information Center ("JCIC") according to JCIC operating rules.

When a bank extends or renews credit to customers other than professional institutional investors for financial derivatives transactions, the bank shall ask the customer to provide information on the credit limits extended to the customer by other financial institutions for financial derivatives transactions or inquire the information with JCIC.

A bank shall extend credit limit to customers for financial derivatives transactions, with reference to the information obtained under the preceding paragraph, based on due consideration of the customer's risk bearing capability,

risk appetite and credit limits extended to the customer by other financial institutions to avoid exposing the customer to risks beyond his/her risk bearing capability. The competent authority shall prescribe the control mechanism for credit limits granted by a bank to its customers.

When a bank provides customers other than professional institutional investors and high net worth corporate investors with financial derivatives transaction services other than structured products, the bank shall establish initial margin requirements and margin call mechanism. The competent authority shall prescribe the minimum initial margin requirements.

Article 21 A financial derivative transaction contract entered by and between a bank and counterparty may stipulate the method for settling amount payable in case of early termination of contract and should reflect and calculate market value at the time of transaction as well as the value of the terminated transaction upon expiration subsequent to the date of early termination.

The terms and conditions for early termination of derivative transaction and method for settling amount payable mentioned in the preceding paragraph shall be fully disclosed to the counterparty in relevant contract documents or in other manners.

Article 22 A bank that provides financial derivatives transaction services to customers shall do so with the due care of a good administrator, in accordance with fiduciary obligations, and based on the principle of good faith.

Article 23 A bank providing financial derivatives transaction services to a professional institutional investor and a high net worth corporate investor shall enter into an ISDA Master Agreement with the trading counterparty, or follow other standard agreements and customary market practices.

If the financial derivatives product contract that a bank enters into with a customer who is neither a professional institutional investor nor a high net worth corporate investor, and the trading documents so furnished, including the master agreement (or ISDA Master Agreement), product prospectus, risk disclosure statement, and trade confirmation document, are in the English language, the bank shall provide a Chinese-language translations thereof.

For customers other than professional institutional investors and high net worth corporate investors, a bank shall establish internal operating procedures aiming at protecting customer rights and interests, regarding such as product suitability, notification and disclosure of product risks, and handling of trading

disputes, and conduct business in accordance with the established operating procedures.

Matters to be complied with regarding product suitability, notification of product risks and disclosure of products shall be drafted by the Bankers Association and submitted to the Commission for reference.

Article 24 A bank shall establish a product suitability system for its financial derivatives transaction services for customers other than professional institutional investors and high net worth corporate investors, which shall include at least evaluation of the attributes of a financial derivative product, a "Know Your Customer" procedure, evaluation of customer's attributes and basis for customer classification and product classification to understand the customer's investment experience, financial condition, trading purpose, and understanding of the product, as well as the suitability of trading the financial derivatives in question.

A bank shall assign a proper unit or person to review the customer's attributes and classifications resulted from the product suitability system in the preceding paragraph, and to reassess the results at least once every year, and shall ask the customer to confirm the results, and any revision thereof, by affixing his/her signature or seal on file or in another manner agreed by the parties.

A bank shall not provide retail customers with financial derivatives transaction services that exceed the level appropriate to the customer, nor may it sell to retail customers any financial derivative product that is restricted to investment by professional customers only. This restriction, however, does not apply to trades of financial derivatives other than structured products that a retail customer enters into with a bank for hedging purposes.

Article 25 A bank's promotional materials for its financial derivatives transaction services targeting customers other than professional institutional investors and high net worth corporate investors should be clear, fair, and not misleading, and disclose the possible return on a product and associated risks with a balanced representation and in a conspicuous manner. A bank shall not use the fact that its financial derivatives business has been approved by the competent authority, filed with the competent authority for record or reference to mislead its customers into believing that the financial derivative product is guaranteed by the government.

When a bank provides financial derivatives transaction services for

customers other than professional institutional investors and high net worth corporate investors, it shall not encourage or induce the customer to conduct trades through borrowing funds or debt financing, or approve a line of credit for financial derivatives transactions that is against customer's will and agree with the customer on situations under which the customer may draw on the credit line.

When a bank offers a complex high-risk product to a customer who is neither a professional institutional investor nor a high net worth corporate investor, the bank shall fully explain to the customer the important content of the financial derivative product and related services and contracts, including the important parts of the trading terms and conditions, and disclosure of associated risks. Unless the transaction is made in an automated manner not through counter service or the customer disagrees, a record of the above explanation and disclosure shall be retained by audio or video recording.

The scope of explanation and the manner of audio or video recording mentioned in the preceding paragraph shall be drafted by the Bankers Association and submitted to the Commission for reference.

Article 25-1 Banks shall not offer complex high-risk products to the following customers:

1. An individual customer.
2. A retail customer who is a juristic person for non-hedging purpose.

Banks shall comply with the following provisions when offering complex high-risk products to customers other than professional institutional investors and high net worth corporate investors:

1. Complex high-risk products derived from exchange rate:
 - (1) The tenor of contract shall not be longer than one year.
 - (2) The number of price fixing or settlement periods according to the contract shall be under twelve.
 - (3) The maximum loss of such product for non-hedging purpose shall not be more than 3.6 times of the average notional amount per fixing.
2. Complex high-risk products other than products mentioned in the preceding subparagraph:
 - (1) For non-hedging-purpose contracts with twelve or less price fixing or settlement periods, the maximum loss per transaction shall not be more than 6 times of the average notional amount per fixing.
 - (2) For non-hedging-purpose contracts with more than twelve price fixing or settlement periods, the maximum loss per transaction shall not be

more than 9.6 times of the average notional amount per fixing.

3. The term “average notional amount per fixing” referred to in the preceding two subparagraphs is the amount of unleveraged total nominal principal divided by the number of periods.

Article 26 When a bank provides financial derivatives transaction services to an individual retail customer, the bank shall, before completing the trade, provide the customer with at least product prospectus and risk disclosure statement, and assign a staff to explain the product to the customer and ask the customer give a confirmation that he/she understands the materials provided.

When a bank provides financial derivatives transaction services to a juristic person retail customer, the bank shall establish an internal operating procedure for the delivery of product prospectus and risk disclosure statement to the customer and conduct the business accordingly.

After completing a financial derivative transaction with a retail customer, a bank shall provide the customer with a trade confirmation (which should also show the confirmation number).

The risk disclosure statement mentioned in Paragraphs 1 and 2 hereof should disclose all risks associated with a product and show the maximum risk or loss that may incur in bold black typeface.

Article 27 In providing financial derivatives transaction services to retail customers, a bank shall specify channels for lodging a complaint in the event of a transaction dispute in the transaction documents and on its website, and in addition, handle a dispute in accordance with its internal procedure for handling complaints when it actually occurs.

Where a transaction dispute between a bank and a retail customer cannot be settled in accordance with the bank's internal procedure for handling complaints, the customer may submit the case to the Financial Ombudsman Institution for tribunal.

Article 28 A bank shall not offer structured product transaction services in the name of deposits.

Article 29 A bank shall undertake the following evaluations when providing structured product transaction services to customers other than professional institutional investors and high net worth corporate investors:

1. A bank should evaluate the customer's attributes and verify whether the

customer is a professional or retail customer. For retail customers, the bank should make an overall evaluation of the customer's risk tolerance level based on their age, knowledge, investment experience, financial condition, trading purpose, and understanding of the product, and classify retail customers into at least three risk categories, and ask such customer to confirm the assessment by affixing his/her signature or seal on file or in another manner agreed by the parties; the same confirmation process applies when there is any change to a customer's information or risk tolerance level.

2. A bank shall evaluate the attributes of a product and retain a written record for future reference. The evaluation undertaken shall cover at least the following particulars:
 - (1) Evaluation and confirmation of the legality of the structured product, the reasonableness of investment assumptions and risk-return profile, the appropriateness of transaction and any presence of conflict of interest;
 - (2) Overall evaluation of the features of the structured product, risk and probability of loss on principal, liquidity, structural complexity and tenor of the product, and confirmation of the risk level of the structured product; there should be at least three risk levels for structured products;
 - (3) Evaluation and confirmation of the information and marketing materials on the structured product to be provided to customers, and the accuracy and adequacy of information disclosure; and
 - (4) Confirmation of whether the investment in the structured product is limited to professional customers.

A bank shall not have the same person who processes the evaluation of customer's attributes as required in the subparagraph 1 of the preceding paragraph to recommend any structured product to the customer. As to the initial customer attribute evaluation process of an individual customer, the bank shall save the process record by audio- or video-recording or using electronic equipment.

Article 29-1 When offering structured product transaction services to retail customers, a bank shall establish a control mechanism including at least:

1. A bank shall obtain a letter of consent, which may not be incorporated as part of any other agreement, from a customer prior to recommending any structured products. The customer may at any time terminate such recommendation service.
2. If a customer has made less than five transactions of financial derivatives during the preceding one year, is 70 years of age or older, has an educational

level of junior high school graduate or lower, or has a National Health Insurance Critical Illness/Injury Certificate, the bank shall not recommend any product to such customer in-person, by phone, email, or mailing any product brochure.

3. Prior to entering into any structured product transactions with a customer who meets the conditions set forth in the preceding subparagraph, the bank shall assign a proper unit or managerial person to perform secondary review and confirm the suitability of such customer.

Article 30 A bank shall carry out the following controls of marketing process when providing structured product transaction services to customers other than professional institutional investors and high net worth corporate investors:

1. A bank shall, based on the results of product attributes evaluation as described in subparagraph 2, paragraph 1 of Article 29, use bold typeface in investor brochure and prospectus of the structured product to highlight the risk level of the product.
2. A bank shall fulfill its obligation to inform when providing structured product transaction services to retail customers, and for products with standardized trading terms and conditions and tenor of more than six months, allow at least seven days for retail customers, and at least three days for professional customers to review the related contracts of structured product, unless such professional customer has provided a signed statement indicating that the customer has carefully reviewed the product. For products to which the provision of a free-look period is not required, a bank shall explicitly indicate in the product prospectus that the product does not offer a free-look period.
3. A bank that offers structured product transaction services to retail customers shall explain the important points in the investor brochure of the product by reading it to the customer or using electronic equipment and save the process record by audio recording or using electronic equipment. However, the foregoing information may be delivered to a professional customer in written or video format or video media instead.
4. When providing individual customers with the transaction service of a structured product for the first time, the bank shall assign a staff to explain the product to the customer. As the product is not principal guaranteed, the bank shall save the record of the product explanation process by audio- or video-recording. Furthermore, the bank is not required to assign staff to explain for subsequent transactions of same-kind of structured product when using electronic equipment for the transaction.

5. After a bank has undertaken a structured product transaction with a juristic person retail customer, the bank only needs to obtain the customer's signed written consent each time the bank undertakes the same kind of structured product transaction thereafter without reading to the customer or using an electronic equipment to explain to the customer the important points in the investor brochure of the product and saving the process record by audio recording or using an electronic equipment as required under the subparagraph 3.
5. The term "same kind of structured product" mentioned in the preceding two subparagraphs shall mean products with identical structure, currency and underlying.

Matters to be stated in the investor brochure, product prospectus and the manner of audio or video recording or using electrical equipment mentioned in the preceding paragraph shall be drafted by the Bankers Association and submitted to the Commission for reference.

Article 31 A bank shall include the matters mentioned in the preceding two paragraphs as internal control and internal audit items and conduct audit accordingly.

Article 32 A bank shall explain the following matters to customers before providing them with structured product transaction services:

1. Investing in the structured product could directly result in loss of principal or loss exceeding the original principal due to change in interest rates, exchange rates, the market price of securities or other indexes.
2. Investing in the structured product could directly result in loss of principal or loss exceeding the original principal due to changes in the business or financial condition of the bank or others.
3. Investing in the structured product could directly result in loss of principal or loss exceeding the original principal due to other material events that are deemed sufficient to affect the judgment of investors by the Commission.

The bank shall also make explanation to the customers if the structured product transaction service mentioned in the preceding paragraph has a time period for the exercise and termination of contractual rights and restriction on the validity of rights.

A bank shall fully disclose to and explicitly inform customers of fees and methods of collection, transaction structure, possible risks and other relevant information, including the amount of maximum loss on the

structured product transaction services mentioned in Paragraph 1 hereof.

Article 33 When making a recommendation, or providing information and marketing materials on a structured product, a bank shall not engage in any of the following acts:

1. Using the fact of a structured product having received the approval of the competent authority or having filed with the competent authority for record or reference as substantiation of any application items, or using such fact in a statement or recommendation guaranteeing the value of the structured product.
2. Misleading others into believing that the principal or profitability is guaranteed.
3. Using a name for the structured product that might mislead customers.
4. Offering gifts or other benefits as an inducement to solicit the purchase of structured products.
5. Making exaggerated claims about past performance or against competitors.
6. Engaging in any false or deceptive conduct or other conduct apparently inconsistent with facts or intentionally misleading others.
7. Containing information that contravenes laws or regulations, the contract, or information contained in the prospectus.
8. Making predictions of future performance of the structured product.
9. Violating the self-regulatory rules for advertisement and promotional activities set forth by the Bankers Association.
10. Any other act prejudicial to the rights or interests of investors.

No general advertisement or public solicitation is allowed for structured products that may be traded with professional customers only.

Article 34 When a bank engages in a structured product transaction with a customer, the customer may, with respect to the transaction in question, ask the bank to provide mark to market and quotation information for early termination of the agreement. If the structured product is sold primarily to individual retail customers, the bank shall provide the customers with mark to market information.

Article 35 The types of financial derivative and structured product transaction services a bank may offer to individual retail customers, as well as the types of structured product transaction services available to offer to corporate retail

customers, shall be set out by the Bankers Association and submitted to the Commission for reference.

Article 36 When a bank offers Taiwan-equity linked derivatives, the scope of underlyings shall be the same as those allowed for trading of Taiwan stock-linked equity derivatives or structured products by securities firms.

A bank shall file related information on the business mentioned in the preceding paragraph with the Taipei Exchange.

Article 37 When a bank engages in Taiwan stock-linked equity derivatives business, the bank shall comply with the provisions of the “Taipei Exchange Regulations Governing Over-the-Counter Trading of Financial Derivatives by Securities Firm” with regard to methods of payment upon exercise, confirmation of opening of a central depository account, pledging of securities in hedge accounts prohibited, rules for securities borrowed or sold short for hedging purpose, confirmation of registration when the counterparty is an offshore overseas Chinese or foreign national, duration of contract, concentration management, and restriction on related-party transactions and the requirements for the business of convertible (or exchangeable) corporate bond asset swap options.

A bank that trades TWSE or TPEx-listed stocks due to the hedging needs of its Taiwan stock-linked equity derivatives business shall open a hedge account. The opening of a hedge account, payment upon exercise of contract, and information reporting operation shall be carried out in accordance with relevant rules of the Taipei Exchange.

When providing customers with Taiwan stock-linked equity derivatives services which involves transactions of convertible (or exchangeable) corporate bonds, a bank shall obtain a permit for engaging in securities firms operating proprietary trading and comply with the rules of proprietary trading of convertible (or exchangeable) corporate bonds.

Article 38 When the branch of a foreign bank in Taiwan engages in financial derivative business, the obligations of the board of directors under these Regulations may be performed by the person(s) authorized by the bank's head office.

Article 38-1 Banks that conduct financial derivatives business shall observe the self-regulatory rules issued by the Bankers Association.

Article 39 These Regulations shall become effective on the date of promulgation.

 The amended articles of these Regulations shall become effective as of the date of promulgation, except for the provisions amended in Article 3 and Article 24 on May 16, 2017 which shall take effect six months after the date of promulgation, and in Articles 11, 24, 29, 29-1, 30 and 35 on February 1, 2018 which shall take effect six months after the date of promulgation.