

Content

Title :	Directions for Banks Conducting Financial Derivatives Business Ch
Date :	2013.01.30
Legislative :	<p>1.Promulgated on April 25, 1995</p> <p>2.Promulgated by the Ministry of Finance As last amended on February 13, 2004</p> <p>3.Amended on February 18, 2005</p> <p>4.Full text of 23 points amended and promulgated on 21 November 2005 per Order No. Jin-Kuan-Yin-(V)-0940031183 of the Financial Supervisory Commission, Executive Yuan</p> <p>5.Amended by Order Jin-Kuan-Yin-(5)-Zi-09650004130 dated November 6, 2007</p> <p>6.Amended on December 31, 2009. The amendment takes into force from December 31, 2009, except to the Paragraph 27 from March 31, 2010.</p> <p>7.Article 7 and 25 amended on January 30, 2013 per Order No. Jin-Guan-Yin-Wai-Zi 10150003970 of the Financial Supervisory Commission; effected from January 25, 2013.</p>
Content :	<p>1. Banks conducting financial derivatives business shall comply with these Directions.</p> <p>2. The term "financial derivatives" as used in these Directions shall mean contracts that their values derive from an interest rate, exchange rate, stock price, index, commodity, or other interest, 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.</p> <p>The term "structured product" as used herein shall mean a combination transaction of fixed-income products and derivatives products sold by a bank to a client as a counterparty to the transaction.</p> <p>3. The term "professional client" as used in these Directions shall mean an individual or juristic person inside the Republic of China that meets one of the following criteria:</p> <p>(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 and other institutions approved by the Financial Supervisory Commission, Executive Yuan (called the "Commission" hereunder).</p> <p>(2) A juristic person or fund with total assets exceeding NT\$50,000,000 according to its latest CPA-audited or reviewed financial report.</p> <p>(3) An individual meeting all of the following three criteria and having applied in writing to a bank for the status of professional investor:</p>

- a. The person has proof of financial capacity of at least NT\$30,000,000; or has carried out a transaction NT\$3,000,000 or more 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;
 - b. The person has sufficient professional knowledge or trading experience in financial products; and
 - c. The person understands fully that a bank is exempted from certain responsibilities towards professional clients in conducting financial derivative transactions and agrees to sign on as a professional client.
- (4) A trust enterprise that has entered into a trust agreement with a trustor and the trustor meets the conditions set forth in Subparagraph 2 or 3 hereof.

A bank is responsible for conducting reasonable investigation to verify that a client meets the qualification criteria for a professional client as set forth in the preceding paragraph and obtaining reasonable and credible corroborative evidence from the client.

4. The term "retail client" as used in these Directions shall mean an individual or juristic person inside the Republic of China who is not classified as a professional client. With the exception of professional institutional investors, a professional client inside the Republic of China may also apply in writing to a bank for the status of retail client.

5. A bank to conduct financial derivative business shall submit the application documents stipulated by the Commission and apply to the Commission for approval, provided the bank meets the following criteria:
- (1) The bank's long-term credit rating as given by a credit rating agency is at a grade listed in the attached table or above;
 - (2) The ratio of the bank's equity capital to risk assets conforms to the level prescribed in the Banking Act;
 - (3) The bank is free of the situation that it has not set aside sufficient loan loss provision;
 - (4) The bank's non-performing loan ratio as of the end of last quarter preceding the date of application is 3% or lower; and
 - (5) The bank is free of the incident of being fined due to violation of law or regulation in the year preceding the date of application, or the bank has taken specific actions to remedy the violation and has been recognized so by the Commission.

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

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) Operating guidelines, which shall include the following particulars:

- a. Business principles and policies.
- b. Operating procedures.
- c. Internal control systems.
- d. Methods for periodic evaluation.
- e. Methods for accounting treatment.
- f. Internal audit systems.
- g. Risk management measures.
- h. 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 the operating 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. The preceding provision however does not apply to a foreign bank branch in Taiwan which conducts such reviews periodically pursuant to the instructions of its head office.

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 any 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 require prior approval from the Commission:

(1) Products involving trading contracts derived from either exchange-traded commodities or indexes related to domestic stock or futures exchanges.

(2) Foreign exchange products that require approval from the Central Bank of the Republic of China (Taiwan) (called the "Central Bank" hereunder). Once the Commission has granted approval to a bank to offer products under Subparagraph 1 of the preceding Paragraph, other banks may submit application documents, a statement of regulatory compliance, and a risk disclosure statement to the Commission and proceed directly to offer the same type of products so long as the Commission does not raise any objection within fifteen (15) days from the next day following the date of submission. However, such a bank may not conduct the business under application until that 15-day period has elapsed.

Banks shall apply directly to the Central Bank for permission to offer products referred to in Subparagraph 2 of Paragraph 1 hereof.

8. To offer financial derivatives mentioned in the preceding Point, 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) Documents evidencing that the ratio of equity capital to risk assets of the bank's head office is not lower than the level prescribed in the

Banking Act.

(3) Document of authorization from the board of directors or an appropriate person(s).

(4) Documents evidencing that the personnel in charge of the business in question have relevant experience or professional training.

(5) A business plan (which must cover the following)

- a. Descriptions of products.
- b. Department in charge of the business and its internal division of labor.
- c. Risk management measures.
- d. Accounting treatment and statement disclosure methods.
- e. Internal audit.

9. When a bank files information on its offering of financial derivatives and the filing documents are incomplete or are not supplemented within a specified period of time, the Commission may order the bank to suspend its offering of such products until supplementation is completed.

10. A bank conducting financial derivatives business shall establish a risk management system in reference to the Guidelines for the Risk Management of Financial Derivatives Business by Banks drafted by the Bankers Association of the Republic of China (called the "Bankers Association" hereunder) and having been submitted to the Commission for reference. The bank shall carry out 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 shall work together with executives involved in relevant businesses to formulate a risk management system. Risk tolerance and lines 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 outside of and independent from its trading division to carry out such tasks for risk identification, measurement and monitoring and control. The risk management unit shall regularly report risks of positions and valuations of gains and losses to senior management.

(3) A bank shall set the frequencies of assessing the positions 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 must adopt rules for internal review of new products, and before launching a new financial derivative business, the bank shall perform a review in accordance with the aforementioned rules. A bank's internal rules for product review shall cover at least the following items:

- a. Review of the nature of product.
- b. Review of the operational strategies and business policies.
- c. Review of risk management.

- d. Review of internal controls.
- e. Review of accounting methods.
- f. Review of regulatory compliance required legal documents.

A foreign bank branch in Taiwan may adopt risk management systems pursuant to the instructions of its head office, but shall also observe the provisions in Subparagraphs 1 to 4 in the preceding paragraph.

11. If a bank that has been approved to conduct financial derivatives business has any of the following situations, the bank may use 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 Banking Act.
- (3) The bank has not set aside sufficient loan loss provision.
- (4) The bank's long-term credit rating has not met the level provided in Subparagraph 1, Paragraph 1 of Point 5 herein.

12. A bank offering financial derivatives shall conduct the business in accordance with generally accepted accounting principles and applicable laws and regulations, and any restrictions or provisions applying to parties to any trade may not be relaxed or disregarded due to the combination of underlyings.

13. 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.

14. A bank that conducts financial derivatives business shall establish management mechanisms in accordance with applicable regulations and internal rules to prevent conflict of interest and insider trading.

15. A bank may not use financial derivatives to embellish or manipulate financial statements by, for examples, deferring or concealing losses, falsely reporting earnings, or recording earnings early, or helping a customer to defer or conceal losses, falsely report earnings, or record earnings early. In options transactions, a bank shall take care to avoid using premiums (especially for long-term or extremely short-term options) to embellish financial statements, which would lead to frauds.

16. 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 clients.

17. Bank personnel engaged in financial derivatives business shall have professional ability, and the bank shall set professional qualification requirements and formulate training system and performance evaluation system.

Bank personnel handling financial derivatives business and relevant

managing personnel must meet one of the qualification requirements below:

(1) Having attended courses offered by domestic or foreign financial training institutes on financial derivatives and risk management for at least three (3) months.

(2) Having a license related to financial derivatives.

(3) Having had at least one year of practical training relating to financial derivatives at a domestic or foreign financial institution.

(4) Having at least six months of practical experience in financial derivatives business at a domestic or foreign financial institution.

Bank personnel engaging in the recommendation of structured products and relevant managing personnel must possess one of the qualification requirements set out in Paragraph 2 hereof or have passed the certification test for structured product sales personnel and obtained the certificate.

18. A bank conducting financial derivatives business shall report the products and important contents thereof by entering the information via the online reporting system of Banking Bureau of the Commission, and by filing it with an agency designated by the Commission.

19. A financial derivative transaction agreement entered by and between a bank and counterparty may stipulate the methodology for settling amount payable in case of early termination of agreement 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 methodology for settling amount payable mentioned in the preceding paragraph shall be fully disclosed to the counterparty in relevant agreement documentation or in other manners.

20. A bank should provide financial derivative transaction services to clients in good faith and exercising the duty of care and the fiduciary duty of a good administrator based on the principles of honesty and integrity.

21. In providing financial derivatives transaction services to professional clients, a bank shall enter an ISDA Master Agreement or another standard agreement with the counterparty and follow the market conventions.

For professional clients other than professional institutional investors and retail clients, a bank shall establish internal operating procedures pertaining to protecting the rights and interests of clients, including product suitability policies, informing and disclosure of product risks, and handling of trading dispute, and conduct the business in accordance with the established operating procedures.

22. In providing financial derivatives transaction services to retail clients, a bank shall establish a product suitability system, which shall include at least evaluation of the attributes of a financial derivative product, a "Know Your Customer" procedure and evaluation of customer attributes to understand the client's investment experience, financial

condition, trading purpose, and understanding of the product, as well as the suitability of a transaction involving the financial derivatives in question.

23. A bank's promotional materials for its financial derivatives transaction services targeting retail clients should be clear and fair, and not misguide customers, 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 or have been filed with the competent authority for recordation or reference to mislead its clients into believing that the financial derivative product is guaranteed by the government.

24. When a bank provides financial derivatives transaction services to an individual retail client, the bank shall, before completing the trade, provide the client with product prospectus and risk disclosure statement, and assign a staff to explain the product to the client and ask the client give a confirmation that he/she understands the associated risks. When a bank provides financial derivatives transaction services to a juristic person retail client, the bank shall establish an internal operating procedure for the delivery of product prospectus and risk disclosure statement to the client and conduct the business accordingly. After completing a financial derivative transaction with a retail client, a bank shall give the client a trade confirmation (which should also show the confirmation number). The risk disclosure statement mentioned in Paragraphs 1 and 2 hereof should disclosure all risks associated with a product and show the maximum risk or loss that may incur in bold black letters.

25. In providing financial derivatives transaction services to retail clients, a bank shall specify channels for lodging a complaint in the event of a transaction dispute in the transaction agreement 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 an individual retail client cannot be settled in accordance with the bank's internal procedure for handling complaints, the client may submit the case to the Financial Ombudsman Institution for arbitration.

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

27. A bank shall undertake the following evaluation when providing structured product transaction services to retail clients:
(1) A bank should evaluate the client's attributes and verify whether the client is a professional client or a retail client. For retail clients, the bank should make an overall evaluation of the client's risk bearing capacity based on their age, knowledge, investment experience, financial condition, trading purpose, and understanding of the product, and classify

retail clients into at least three risk categories, and ask such client to give a signature as confirmation that he/she understands the associated risks.

(2) A bank shall evaluate the attributes of a product and save a documented record for future reference. The evaluation undertaken shall cover at least the following particulars:

- a. Evaluation and confirmation of the legality of the structured product, the reasonableness of the investment assumptions and return on investment, the appropriateness of transaction and any presence of conflict of interest;
- b. Comprehensive evaluation of the features of the structured product, risk and probability of loss on principal, liquidity, complexity of product structure, and tenor of the product; there should be at least three risk levels for structured products;
- c. Evaluation and confirmation of the information and marketing materials on the structured product to be provided to the investors, and the accuracy and comprehensiveness of information disclosure; and
- d. Confirmation of whether the investment in the structured product is limited to professional clients.

28. A bank shall carry out the following marketing control procedures when providing structured product transaction services to retail clients:

(1) The bank shall, based on the results of evaluation as described in Subparagraph 2 of Point 27 herein, use bold font in investor brochure and prospectus of the structured product to highlight the risk level of the product. A bank shall not accept requests from retail clients to invest in structured products beyond their suitability levels or in structured products offered to professional clients only.

(2) A bank shall fulfill its obligation to inform before providing structured product transaction services to retail clients, and for products with standardized trading terms and conditions and tenor of more than six months, allow at least seven (7) days for clients to review the related contracts of structured product. For products to which the provision of a free-look period is not required, a bank shall explicitly indicate in the prospectus that the product does not offer a free-look period.

(3) A bank that offers structured product transaction services to retail clients shall read to the investors the important points in the investor brochure of the product and save the tape recording of the process.

(4) After a bank has undertaken a structured product transaction with a juristic person retail client, the bank only needs to obtain the client's signed written consent each time the bank undertakes the same kind of structured product transaction thereafter without reading to the client the important points in the investor brochure of the product and saving the tape recording of the process as required under the preceding subparagraph. The term "same kind of structured product" mentioned above means a product with identical structure, currency and underlying.

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

29. A bank shall include the matters mentioned in Point 27 and Point 28 herein as internal control and internal audit items and conduct audit accordingly.

30. A bank shall explain the following matters to clients before providing them with structured product transaction services:

(1) Investing in the structured product could 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 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 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 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 clients of fees and methods of collection, the transaction structure and other relevant information on the structured product transaction service mentioned in Paragraph 1 hereof and possible risks, including the amount of maximum loss.

The information to be disclosed and matters to be complied with under the preceding paragraph shall be drafted by the Bankers Association and submitted to the Commission for reference.

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

(1) Using the fact of a structured product having received the approval of the competent authority or having filed with the competent authority for recordation or reference as substantiation of any matter in connection with the application or in a statement or recommendation guaranteeing the value of the structured product.

(2) Causing others to erroneously believe that the principal or profitability is guaranteed.

(3) Using a name for the structured product that might mislead clients.

(4) Offering gifts or other benefits as an inducement to solicit the purchase of structured products.

(5) Making exaggerated publicity claims about past performance or using advertising to attack competitors.

(6) Engaging in any false or deceptive conduct or other conduct obviously inconsistent with facts or intended to mislead others.

(7) Including content 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 are permitted for trading by professional clients only.

32. When a bank engages in a structured product transaction with a client, the client 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 products are sold primarily to individuals, the bank shall provide the clients with mark to market information.

33. The types of financial derivative and structured product transaction services a bank may offer to individual retail clients shall be set out by Bankers Association and submitted to the Commission for reference.

34. When a bank offers equity derivatives or structured products linked to Taiwan stocks (referred to as "Taiwan stock-linked equity derivatives or structured products), 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.

Before offering any product mentioned in the preceding paragraph, a bank shall file related information via the online reporting system of GreTai Securities Market.

35. When a bank engages in a Taiwan stock-linked equity derivative transaction with an offshore overseas Chinese or foreign nationals, the bank shall first confirm that the counterparty has complete required registration in accordance with the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals or the GreTai Securities Market Registration Directions for Offshore Overseas Chinese and Foreign Nationals to Engage in OTC Derivatives Transactions.

36. The tenor of a Taiwan stock-linked equity option contract shall be less than one year from the date of transaction, unless it is otherwise approved under special case status.

When a bank enters into a contract for an equity derivatives transaction with a domestic exchange-listed or OTC-listed stock as underlying, the number of the underlying shares that could potentially be exchanged upon exercise of the derivatives contract, plus the number of underlying shares that would be exchanged upon exercise of all the outstanding and unexpired call (put) warrants and contract-based call (put) warrants of all securities firms and banks on the previous business day, may not exceed 15 percent of the total number of the underlying shares issued by the issuer after deduction of the shares set out in each of the following:

- (1) The total percentage of shares held by directors and supervisors under statutory shareholding ratio requirements.
- (2) Pledged shares.
- (3) The number of shares that newly exchange-listed or OTC-listed companies

are required to place in compulsory central custody.

(4) Shares repurchased under the Regulations Governing Share Repurchase by Listed and OTC Companies, but not yet cancelled.

(5) Shares on which the Commission has imposed restrictions for exchange or OTC listing and trading.

37. A bank that trades domestic exchange-listed or OTC-listed stocks for hedging its Taiwan stock-linked equity derivatives and equity structured products businesses shall open a hedge account.

The opening of a hedge account mentioned in the preceding paragraph, payment upon exercise of contract, and information reporting operation shall be carried out in accordance with relevant rules of the GreTai Securities Market.

Securities in the hedge account mentioned in Paragraph 1 hereof may not be pledged.

38. Unless it is otherwise provided by law, the two parties to a contract for Taiwan stock-linked equity derivative or equity structured product may stipulate the manner in which the contract is to be exercised either by settlement in cash or by physical delivery of the underlying securities by the bank.

When the underlying of the equity derivatives of the preceding paragraph is a stock index, the method of exercise shall be settlement in cash.

The delivery of underlying securities by the bank under Paragraph 1 hereof shall be effected through the positions in a hedge account for Taiwan stock-linked equity derivatives and Taiwan stock-linked equity structured products in accordance with the Operating Rules of the Taiwan Depository & Clearing Corporation.

The Taiwan stock-linked equity derivatives transactions of a bank with any GreTai Securities Market-registered offshore overseas Chinese or foreign national must be denominated and settled in a foreign currency without involving the physical delivery of Taiwan stocks.

39. When the contract for a Taiwan stock-linked equity derivative or Taiwan stock-linked structured product transaction entered by a bank and the trading counterparty stipulates that payment at maturity will be effected by delivery of exchange-listed or OTC-listed stocks, the counterparty shall first open a central securities depository account.

40. When a bank that engages in Taiwan-linked equity derivatives or Taiwan stock-linked equity structured products business needs to borrow or short sell the underlying security for hedging purpose, the bank is not subject to the restriction that the price of the securities borrowed or sold short may not be lower than the closing price on the previous business day.

If a bank borrows or short sell securities but does not carry out the transaction according to plan or the contract expires, the bank shall close out its open position by the next business day following the contract start date or the expiration date of the contract.

41. When a bank sell shares of the underlying security by borrowing from

security holders, if the security is an exchange-listed or OTC-listed stock, the bank shall enter a securities lending contract with the lender. The lender shall then apply, through its securities firm, to the Taiwan Securities Central Depository Co., Ltd. for a transfer of all loaned shares into the bank's hedge account for Taiwan stock-linked equity derivatives and Taiwan stock-linked equity structured products, or shall first earmark the loaned shares and then transfer the shares into the hedge account in separate lots upon application by the bank according to its hedging needs. When a bank short-sell shares of an exchange-listed or OTC-listed stock, it shall open a margin account with a non-affiliate securities firm or securities finance company, and report information relating to such account by letter to the Taiwan Stock Exchange and GreTai Securities Market. The opening of the aforementioned margin account shall be carried out in accordance with the Operating Rules for Securities Firms Handling Margin Purchases and Short Sales of Securities, the Terms for Establishment of Margin Accounts With Securities Firms for Margin and Stock Loans, and the rules of the securities finance company established in accordance with the aforementioned Operating Rules and Terms.

The securities lending contract referred to in Paragraph 1 hereof shall contain the follow particulars:

- (1) Names and quantities of securities loaned, term of loan and fees schedule;
- (2) Exercise of shareholders' rights regarding the loaned securities;
- (3) Manner by which the bank compensates the lender for the value of dividends on the loaned securities distributed by the securities issuer (including calculation method, compensation by cash or securities, and date of compensation);
- (4) Manner of repayment when the lending contract expires (including whether the loan can be repaid in cash); and
- (5) Methods of disposition in case of breach of contract by either party and compensation for damages thereof.

The holders of the underlying security referred to in Paragraph 1 hereof may not be any person regulated under Paragraph 1 or 3, Article 22-2 of the Securities and Exchange Act.

42. A bank may not engage in Taiwan stock-linked equity derivatives or Taiwan stock-linked structured products transactions with any of the following parties:

- (1) A director, supervisor, or manager of the bank, or a shareholder that directly or indirectly holds 10 percent or more of its total shares.
- (2) A spouse, minor child, or nominee of any of the persons referred to in Subparagraph 1.
- (3) Any investee company in which 10 percent or more of total shares are directly or indirectly held by any person referred to in the preceding two subparagraphs.
- (4) The issuer of the stocks underlying conversion securities, linked securities, or securities underlying equity derivatives, or any person related to the issuer as set out in the preceding 3 subparagraphs.

Calculation of the total shareholdings of a shareholder under Subparagraph 1 of the preceding paragraph shall include shares held by spouse and minor

children, and shares held under the names of others.

Before a bank engages in a financial derivatives transaction referred to in Paragraph 1 hereof with a trading counterparty, the counterparty shall sign an undertaking stating that he or she is not a related party as set out in Paragraph 1. Where the counterparty is a foreign institutional investor, the bank may, based on information available, effectively verify in accordance with its internal operating procedures that said counterparty is not a related party as set out in Paragraph 1, and should not engage in trade if the identity of the counterparty cannot be verified.

A bank may enter into trades with professional institutional investors without being subject to the restrictions under Subparagraphs 1 to 3 of Paragraph 1, provided that the bank has established internal operating rules and a resolution has been adopted by at least three-fourths of the bank directors present in a director's meeting attended by at least two thirds of directors, granting the relevant management department blanket authority to carry out such trades according to the established internal operating procedures, and provided that the terms the bank accords those investors may not be more favorable than those accorded others in the same class of counterparties.

The restrictions under Subparagraphs 1 to 3 of Paragraph 1 do not apply when the amount of a transaction undertaken by a bank with a non-professional institutional investor is less than NT\$1 million, and when the cumulative amount of unexpired contracts with such investor is less than NT\$5 million, provided that the terms the bank accords those investors may not be more favorable than those accorded others in the same class of counterparties.

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

44. If a bank violates any provision of these Directions in the course of conducting financial derivatives business, the Commission may, in accordance with Article 61-1 of the Banking Act, make appropriate dispositions or suspend the bank from offering certain products or from conducting financial derivatives business depending on the severity of the violation.