


## Content

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| Title :       | Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms   |
| Date :        | 2014.05.29  |
| Legislative : | <p>1. Full text of 33 articles adopted and issued per 28 October 1997 Order No. (86)-Taiwan-Finance-Securities-(V)-04846 of the Securities and Futures Commission, Ministry of Finance</p> <p>2. Articles 17, 28, 29, and 30 amended and issued per 16 October 2000 Order No. (89)-Taiwan-Finance-Securities-(VII)-04509 of the Securities and Futures Commission, Ministry of Finance; for enforcement from the date of issuance</p> <p>3. Articles 5, 7, 9, 10-15, and 17 amended and issued, and Articles 9-1, 16-1, and 32-1 newly added, per 16 December 2002 Order No. Taiwan-Finance-Securities-VII-0910006206 of the Securities and Futures Commission, Ministry of Finance</p> <p>4. Articles 2, 3, 9, 17, and 29 amended and issued per 22 March 2006 Order No. Financial-Supervisory-Securities-VII-0950001382 of the Financial Supervisory Commission, Executive Yuan</p> <p>5. Article 30 amended and issued, and Article 9-2 newly added, per 24 December 2007 Order No. Financial-Supervisory-Securities-VII-0960070108 of the Financial Supervisory Commission, Executive Yuan</p> <p>6. Article 30 amended and issued per 4 March 2009 Order No. Financial-Supervisory-Securities-VII-0980007543 of the Financial Supervisory Commission, Executive Yuan</p> <p>7. Articles 3 and 23 amended and issued per 8 July 2009 Order No. Financial-Supervisory-Securities-Futures-0980033249 of the Financial Supervisory Commission, Executive Yuan</p> <p>8. Articles 19, 26, 27, and 31 amended and issued per 3 May 2010 Order No. Financial-Supervisory-Securities-Futures-0990017581 of the Financial Supervisory Commission, Executive Yuan</p> <p>9. Articles 9-1, 9-2, and 28 amended and issued per 2 August 2010 Order No. Financial-Supervisory-Securities-Futures-0990041012 of the Financial Supervisory Commission, Executive Yuan</p> <p>10. Articles 2 and 17 amended and issued per 29 May 2014 Order No. Financial-Supervisory-Securities-Futures-1030013322 of the Financial Supervisory Commission</p> |
| Content :     | <p>Chapter I General Provisions</p> <p>Article 1</p> <p>These Regulations are prescribed in accordance with paragraph 3 of Article 82 of the Futures Trading Act (hereinafter referred to as "the Act").</p> <p>Article 2</p> <p>A securities firm that engages in futures introducing broker business ("futures introducing broker") is a futures service enterprise and shall obtain permission from the Financial Supervisory Commission (FSC).</p> <p>Applicants to become futures introducing brokers shall be limited to those engaging in securities brokerage business.</p> <p>A securities firm concurrently engaging in futures brokerage business shall not apply to conduct futures introducing broker business.</p> <p>Article 3</p> <p>A futures introducing broker accepts the mandate of a futures commission merchant to:</p> <p>1.solicit futures traders for futures trading;</p>  |

2. accept account opening of futures traders on behalf of a futures commission merchant;
3. accept orders for futures trading from futures traders and deliver the same to a futures commission merchant for execution;
4. notify futures traders to meet margin calls and close out trades on their behalf; and
5. other related business items as approved by the FSC.

The businesses of the preceding paragraph that a securities firm applies to conduct shall be confined to futures business approved by the FSC.

#### Article 4

A futures introducing broker shall engage in the solicitation of futures business in the name of its mandating futures commission merchant, and the provisions of Article 7 and Article 8 of the Regulations Governing Futures Commission Merchants shall apply mutatis mutandis.

#### Article 5

When a futures introducing broker accepts the account opening of a futures trader on behalf of a futures commission merchant, the provisions of Article 25, Article 28, and paragraph 2 of Article 30 of the Regulations Governing Futures Commission Merchants shall apply mutatis mutandis. In addition, it shall -

1. conduct credit investigation on futures traders; and
2. prior to accepting account opening of a futures trader, provide the brokerage contract, risk disclosure statement, documents with explanations on the rights and obligations between the futures introducing broker and the futures trader, and other account-opening information etc., assign registered qualified associated person to explain in detail to the futures trader the relevant rights, obligations, and risks, and acquire a statement from the futures trader that he/she has been fully advised of, read, and understood the same before a brokerage contract can be entered; the relevant information shall be delivered to the futures trader to be signed or sealed and dated for custody and submitted to the mandating futures commission merchant for confirmation and for its signature or seal.

When a mandating futures commission merchant confirms and signs or seals the relevant information regarding account opening of a futures trader pursuant to subparagraph 2 of the preceding paragraph, it shall follow the relevant futures laws and regulations.

#### Article 6

When a futures introducing broker accepts a futures trading order from a futures trader and delivers the same to the mandating futures commission merchant for execution, the provisions of Article 30, and Article 32 through Article 36 of the Regulations Governing Futures Commission Merchants shall apply mutatis mutandis.

#### Article 7

The brokerage contract entered into by a futures introducing broker with a futures trader on behalf of a mandating futures commission merchant shall contain a provision expressly setting forth that the futures introducing broker shall be jointly and severally liable with the mandating futures commission merchant for the damages arising out of its execution of the businesses under paragraph 1 of Article 3 herein.

The futures introducing broker shall confirm the provision in the brokerage

contract referred to in the preceding paragraph and affix its signature or seal thereon.

#### Article 8

A futures introducing broker may accept a mandate from one futures commission merchant only; a futures commission merchant may concurrently mandate one or more futures introducing broker.

If a mandating futures commission merchant referred to in the preceding paragraph engages in domestic futures brokerage business, it shall be a clearing member of a domestic futures clearing house and shall make deposits to the clearing and settlement fund in accordance with the rules of the domestic futures clearing house upon mandating each futures introducing broker or branch office thereof.

#### Article 9

A futures introducing broker shall adopt a system of internal controls in accordance with the FSC's Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets and the standards and regulations governing internal control systems at securities firms operating as futures introducing brokers as provided for by the futures exchange and other institutions related to futures trading.

A futures introducing broker shall operate in accordance with laws and regulations, its articles of incorporation, and the internal control systems referred to in the preceding paragraph.

The internal control system adopted in accordance with paragraph 1 and any amendments thereto shall be reported to the board of directors for their approval, and a copy retained for inspection; when the FSC or other futures-related institution issues notification for an amendment to the internal control system, the amendments shall be made within the prescribed time limit.

#### Article 9-1

The site and equipment that make up the operating venue of a futures introducing broker shall conform to the standards for sites and equipment adopted by the Chinese National Futures Association ("the Futures Association").

#### Article 9-2

In any of the following events, a futures introducing broker shall report to the FSC:

- 1.the futures introducing broker, or a responsible person, associated person, or other personnel thereof becomes involved in litigation or arbitration, or becomes subject to compulsory execution as an obligor, arising in connection with its business, or the futures introducing broker is a bankrupt or has a negotiable instrument dishonored or is refused service by a bank;
- 2.any of the conditions referred to in Article 28 of the Futures Trading Act applies to a responsible person or associated person of the futures introducing broker;
- 3.a responsible person, associated person, or other personnel of the futures introducing broker has violated the Futures Trading Act or any order issued by the FSC pursuant to that Act.

Any circumstance requiring reporting under the preceding paragraph shall be

reported by the company within five business days from the date that the event occurred or that the company learned of it. The company shall submit the report to the Futures Exchange, which shall forward it to the FSC. The company also shall simultaneously notify the mandating futures commission merchant.

The term "business day" as used in these Regulations means a trading day on the domestic futures market.

## Chapter II Business Permission

### Article 10

A securities firm applying for operation of futures introducing broker business shall meet the following requirements:

- 1.has not received a warning from the FSC in accordance with subparagraph 1 of Article 66 of the Securities & Exchange Act in the last six (6) months,
- 2.no punishment has been imposed by the FSC in accordance with subparagraph 2 of Article 66 of the Securities & Exchange Act in the last six (6) months, under which the securities firm was ordered to discharge its director, supervisor, or manager;
- 3.has not been suspended from business operation by the FSC in whole or in part in accordance with subparagraph 3 of Article 66 of the Securities & Exchange Act in the last one (1) year;
- 4.has not been punished by the FSC in accordance with to the Securities & Exchange Act by revoking the permission for establishment of a branch office in the last two (2) years;
- 5.has not been punished by the stock exchange and/or over-the-counter securities exchange in accordance with their respective rules by suspending or restricting the trading in the last one (1) year;
- 6.other requirements as prescribed by the FSC.

### Article 11

For operating futures introducing broker business, a securities firm shall submit the following documents to the FSC to apply for permission. However, a financial institution concurrently engaging in securities brokerage business shall also submit the approval documents issued by the competent authority in charge of said enterprise:

- 1.Application;
- 2.Articles of Incorporation or equivalent document;
- 3.Business plan, stating principles of business operation, division of work of internal organization, personnel recruitment and training, and general conditions of business floor and equipment;
- 4.Minutes of board of directors or governors meeting or shareholders meeting;
- 5.Mandate agreement entered into with the mandating futures commission merchant;
- 6.Supporting documents that the mandating futures commission merchant engaging in domestic futures brokerage business is a clearing member of domestic futures clearing house;
- 7.Latest financial reports audited and attested or reviewed by certified public accountants;
- 8.Supporting documents that the applicant meets the requirement in subparagraph 4 of the preceding Article;
- 9.A case checklist; and

10. Other documents as required by the FSC.

#### Article 12

Within six (6) months from the date of the FSC's approval, the securities firm applying to operate futures introducing broker business shall submit the following document to the FSC for issuance of a permit license:

1. Application;
2. Photocopy of the securities firm's business license;
3. The internal control system for operation of futures introducing broker business;
4. List of managers and associated persons handling futures introducing broker business and certificates of qualification of associated persons;
5. A declaration that the managers and associated persons handling futures introducing broker business do not have the conditions stated in Article 4 of the Standards Governing the Establishment of Futures Commission Merchants;
6. Supporting documents that the applicant has deposited the operation bond pursuant to Article 17 herein;
7. Supporting documents that the applicant is equipped with transmission facilities required for operation of futures introducing broker business;
8. Supporting documents that the mandating futures commission merchant agrees to deposit additional funds to the clearing and settlement fund pursuant to paragraph 2 of Article 8 herein;
9. A letter of consent stating that the applicant agrees to the examination of its finance, business, and other necessary matters by the FSC, the futures exchange, or FSC-designated institution, and that the applicant agrees to provide explanations and relevant documents in connection with the examination by the above-mentioned institutions; and
10. Evidentiary documents attesting to conformance with the provisions of Article 10, subparagraph 5.
11. Evidentiary documents attesting to conformance with the provisions of Article 9-1.
12. A case checklist.
13. Other documents as required by the FSC.

In the event that a securities firm fails to apply for issuance of a permit license within the time limit referred to in the preceding paragraph, the permission for its operation of futures introducing broker business shall be revoked; provided that if the securities firm has justified reasons, it may, prior to the expiration of the said time limit, apply for extension to the FSC. The extension period shall not be more than six (6) months, and only one extension is allowed.

#### Article 13

When a securities firm applies for permission for operation of futures introducing broker business, it may concurrently apply for operation of futures introducing broker business by its branch office.

A securities firm which applies for operation of futures introducing broker business by its branch office after commencement of the operation of futures introducing broker business shall meet the following requirements:

1. It shall meet the provisions in Article 10;
2. It has not been warned by the FSC under subparagraph 1, paragraph 1 of Article 100 of the Act within the most recent three months..

3.It has not been sanctioned with removal of the responsible person or other persons under subparagraph 2, paragraph 1, Article 100 of the Act, or with the removal of the responsible person from the position held under paragraph 1, Article 101 of the Act in the most recent six months.

4.It has not been issued an order to suspend business in part or in whole under subparagraph 3, paragraph 1, Article 100 of the Act within the most recent one year.

5.It has not been subject to revocation in part of its business license under subparagraph 4, paragraph 1, Article 100 of the Act within the most recent two years.

#### Article 14

For a securities firm that applies for operation of futures introducing broker business by its branch office, the head office shall also engage in futures introducing broker business, and such firm shall submit the following documents to apply with the FSC for permission. However, a financial institution that concurrently engages in securities brokerage business shall also submit the approval documents issued by the competent authority in charge of said enterprise:

1.Application;

2.Business plan, stating principles of business operation for the futures introducing broker business of its branch office, internal organization and division of labor, personnel recruitment and training, and overview of business floor and equipment;

3.Minutes of board of directors or governors meeting or shareholders meeting;

4.The internal control system for operation of futures introducing broker business. However, exemption from submission shall be granted when the internal control system is the same as was attached with the previous application for futures introducing broker operations by a branch office.;

5.Latest financial reports audited and attested or reviewed by certified public accountants;

6.Supporting documents that the applicant meets the requirement in subparagraph 4 of Article 10;

7.A case checklist; and

8.Other documents as required by the FSC.

#### Article 15

A securities firm that applies for operation of futures introducing broker business by its branch office shall submit the following documents to the FSC to apply for issuance of a permit license within six (6) months after the date of the FSC approval:

1.Application;

2.A photocopy of the business license of the securities firm's branch office.

3.List of managers and associated persons handling futures introducing broker business and certificates of qualification of associated persons;

4.A declaration that the managers and associated persons handling futures introducing broker business do not have the conditions stated in Article 4 of the Standards Governing the Establishment of Futures Commission Merchants (Format as per Attachment 3);

5.Supporting documents that the applicant has deposited an operation bond

pursuant to Article 17 herein;

6.Supporting documents that the applicant is equipped with transmission facilities required for operation of futures introducing broker business;

7.Supporting documents that the mandating futures commission merchant agrees to deposit additional funds to the clearing and settlement fund pursuant to paragraph 2 of Article 8 herein;

8.A letter of consent stating that the applicant agrees to the examination of its finance, business, and other necessary matters by the FSC, the futures exchange, or FSC-designated institution, and that the applicant agrees to provide explanations and relevant documents in connection with the examination by the above-mentioned institutions; and

9.Evidentiary documents attesting to conformance with the provisions of subparagraph 5, Article 10.

10.Evidentiary documents attesting to conformance with the provisions of Article 9-1.

11.A case checklist.

12.Other documents as required by the FSC.

In the event that a securities firm fails to apply for issuance of a permit license within the time limit referred to in the preceding paragraph, the permission for its branch office's operation of futures introducing broker business shall be revoked; provided that if the securities firm has justified reasons, it may, prior to the expiration of the said time limit, apply for extension to the FSC. The extension period shall not be more than six (6) months, and only one extension is allowed.

#### Article 16

In the event that an applicant for operation of futures introducing broker business under Article 10 to Article 15 herein has any of the following conditions, the FSC may return its application:

- 1.where the application documents are incomplete or the particulars to be filled in are inadequate and the applicant fails to make rectification despite a notice of rectification within a specified time limit;
- 2.where there is false statement in the application documents; or
- 3.where the applicant violates the restrictions or prohibition of the Act and/or these Regulations.

#### Article 16-1

A futures introducing broker shall hang its business license in a conspicuous place at its place of business.

### Chapter III Supervision and Management

#### Section I Finance and Business

#### Article 17

Upon FSC approval for operation of futures introducing broker business, a securities firm shall, after carrying out amendment of its business registration, open a special account with the financial institution designated by the FSC for depositing the operation bond. This rule shall apply to its branch office upon FSC approval for operation of futures introducing broker business.

The operation bond to be deposited by a futures introducing broker under the preceding paragraph shall be NT\$10 million; the operation bond for each branch office is NT\$5 million.

The financial institution referred to in paragraph 1 shall be a bank that

is approved by the FSC to operate custodial business, and meets the conditions prescribed by the FSC.

When the futures introducing broker is a financial institution that concurrently operates futures brokerage business, its operation bond shall be deposited with another financial institution.

The operation bond referred to in paragraph 1 above shall be paid in cash or by government bond or financial bond.

The operation bond deposited by a securities firm operating futures introducing broker business shall not be separately deposited in different places, and the condition of reporting of loss or contract termination shall not be allowed for the operation bond. The deposited operation bond and certificate of depository thereof shall not be used as securities, and unless approval has been granted by the FSC, the deposited operation bond shall not be withdrawn or replaced.

#### Article 18

A futures introducing broker shall, prior to the 10th day of each month, submit to the FSC, the futures exchange, or FSC-designated institution a monthly statement of business volume of the previous month.

#### Article 19

A futures introducing broker shall enter into a mandate agreement with the mandating futures commission merchant, which shall contain the following particulars:

- 1.Names of the parties to the agreement;
- 2.Either party shall notify the other upon receiving the complaint of any futures traders;
- 3.Provisions on commission and other relevant fees;
- 4.Scope of agency business of the futures introducing broker and the procedures for its execution;
- 5.The scope of information and services to be provided by the parties to the agreement;
- 6.Neither party shall refuse the request of the other party for provision of necessary business and finance information;
- 7.Neither party to the agreement shall improperly use the information obtained from the other party;
- 8.When the futures introducing broker is unable to perform the business, the mandating futures commission merchant shall handle it directly;
- 9.The method to deal with the damage caused by reasons attributable to either party to the agreement;
- 10.The method to deal with the damage caused by reasons not attributable to either party to the agreement;
- 11.If the futures introducing broker is responsible for the damages caused to a futures trader or any third person by its willful act or negligence in performing the businesses under paragraph 1 of Article 3 herein, the mandating futures commission merchant shall be held jointly liable as if the damage is caused by its own willful act or negligence;
- 12.Settlement of trading disputes;
- 13.Change of provisions of agreement;
- 14.Rescission or termination of the agreement;
- 15.Effective date of Agreement;
- 16.Other necessary statements in connection with the parties' rights and



obligations; and

17. Other matters required to be stated by the FSC.

The mandating futures commission merchant shall not enter into an agreement with the futures introducing broker to waive the responsibilities referred to in subparagraph 11 of the preceding paragraph in advance.

The change or rescission of the mandate agreement referred to in paragraph 1 above shall be reported to FSC for recordation within two days from and including the date of change or recession.

#### Article 20

A mandating futures commission merchant shall not, by a mandate agreement or in any other manner, agree with a futures introducing broker to allow the futures introducing broker to execute any business on its behalf other than those stated under paragraph 1 of Article 3 herein.

#### Article 21

A futures introducing broker shall not open an account with a futures commission merchant to engage in futures trading on account of its own interests; provided that this provision shall not apply if a securities firm has applied for concurrent operation of futures proprietary business pursuant to the relevant provisions of the Standards Governing the Establishment of Futures Commission Merchants.

#### Article 22

A futures introducing broker shall promptly deliver the order of a futures trader to the mandating futures commission merchant for execution so as to protect the rights and interests of the futures trader.

#### Article 23

A securities firm that operates futures introducing broker business, in addition to having such business conducted by a dedicated department and assigning dedicated personnel responsible for management, shall also have such business executed by registered, qualified agents.

#### Article 24

A futures introducing broker shall keep at its business premises all the business-related certificates, vouchers, books of account, statements, records, contracts and relevant supporting documents for inspection by the FSC, the futures exchanges, or FSC-designated institution from time to time.

The period for keeping the certificates, vouchers, books of account, statements, records, contracts, and relevant supporting documents referred to in the preceding paragraph shall be in line with the Commercial Accounting Act and relevant laws and regulations.

#### Article 25

FSC, futures exchange, or FSC-designated institution may examine the business, finance, and other necessary matters of a futures introducing broker.

A futures introducing broker shall provide explanations and relevant documents in connection with the examination referred to in the preceding paragraph.

### Section II Personnel

#### Article 26

The term "associated person(s)" referred to in these Regulations shall mean the person(s) engaging in the following businesses on behalf of the futures

introducing broker:

- 1.the businesses under paragraph 1 of Article 3 herein;
- 2.internal auditing of a futures introducing broker;
- 3.self auditing of a futures introducing broker.

A person dealing with the businesses under subparagraph 1 of the preceding paragraph shall not concurrently handle the businesses under subparagraph 2, and vice versa.

The associated person(s) referred to in paragraph 1 above shall be qualified futures associated person(s).

#### Article 27

The associated persons of a futures introducing broker who have the qualifications of both securities and futures associated persons may, while handling business under paragraph 1 of Article 3, internal auditing, or self auditing, concurrently handle business of the same nature in the fields of securities or futures.

#### Article 28

The registration and change of the responsible persons, managerial officers, and associated persons of a futures introducing broker shall be recorded with the Futures Association or FSC-designated institution through the futures introducing broker. An associated person shall not perform his/her duties without registration.

In any of the following events, the registration referred to in the preceding paragraph shall not be allowed; if any registration has been made, such registration shall be voided:

- 1.occurrence of any of the conditions under Article 28 of the Act;
- 2.failure to meet the qualifications/conditions under paragraph 3 of Article 26 herein;
- 3.violation of Article 29 herein;
- 4.failure to comply with regulations to successfully complete the orientation or on-job training;
- 5.there being facts showing that the person concerned engages or is involved in other dishonest or improper activities, which demonstrates that he/she is not suitable to act as the responsible person, managerial officer, or associated person.

In the event that there is any change of its responsible person, managerial officer, and/or associated person, a futures introducing broker shall report to the Futures Association or FSC-designated institution within five (5) days of such change. The associated person concerned shall replace or surrender the work permit. Before the registration of the change is completed, the future introducing broker concerned shall not be released from the liability for the act of such person.

#### Article 29

The responsible person, manager, or associated person of a futures introducing broker engaging in or directly dealing with the duties referred to in paragraph 1 of Article 3 herein shall faithfully carry out duties in accordance with the principles of good faith and trustworthiness.

In addition to conduct prohibited under Article 16 of the Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants, the futures introducing broker and associated persons under the preceding paragraph may not engage in the following conduct:

1. accept any funds from a futures trader;
2. fail to handle futures introducing broker business in compliance with the order placed by or conditions set by a futures trader;
3. accept any discretionary trading authorization of a futures trader;
4. disclose any information of a futures trader; or
5. engage in other acts in violation of laws and regulations governing futures trading or prohibited by the FSC.

Other employees that are not associated persons likewise are prohibited from violating the provisions of the preceding two paragraphs, and additionally are prohibited from carrying out, or acting as a deputy for, the duties of an associated person.

#### Article 30

Responsible persons and employee of a futures introducing broker may open an account for trading with the mandating futures commission merchant only, and shall not open the said account in the name of another person.

If an account to be opened for a person referred to in the preceding paragraph is to be opened through a futures introducing broker engaged by the future commission merchant, it shall be done by the futures introducing broker to which the person belongs.

Account opening, handling of orders, and related matters, for persons referred to in paragraph 1 shall be handled by the futures introducing broker and the mandating futures commission merchant in accordance with the regulations of the FSC or its designated institution.

#### Article 31

Paragraph 1 of Article 2, Article 4, Article 5, Article 5-1, Articles 9 through 15, and Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants shall mutatis mutandis apply to futures introducing brokers.

### Chapter IV Supplemental Provisions

#### Article 32

When a securities firm applies to the FSC for issuance of a permit license pursuant to Article 12 and Article 15 herein, it shall pay a license fee as follows:

1. Where the business is to be operated by the head office, a license fee of NT\$5,000 shall be paid; and
2. Where the business is to be operated by a branch office, a license fee of NT\$3,000 shall be paid for each branch office.

When a futures introducing broker applies to the FSC for replacement of the permit license, it shall pay a license fee of NT\$1,500.

No license fee shall be paid if the permit license is replaced as a result of adjustment of administration zone or change of street address due to adjustment of door plate.

#### Article 32-1

The format of documents referred to in these Regulations shall be set by the FSC.

#### Article 33

These Regulations shall come into effect as of the date of promulgation.