

Content

Title : Regulations Governing the Investing Activities of a Financial Holding Company [Ch](#)

Date : 2010.12.01

Legislative : 1. The regulations were issued and entered into force on 1 December 2010 per Order No. Jin-Kuan-Yin-Kong-Zi-09960007020 of the Financial Supervisory Commission, Executive Yuan

Content : Article 1

These regulations are enacted in accordance with Paragraph 9, Article 37 of Financial Holding Company Act (hereafter referred to as "the Act").

Article 2

A financial holding company should abide by the following when applying for the business prescribed in Paragraph 2 of Article 36 and Paragraph 1 of Article 37 in these regulations:

1. The investment should be passed by the board of directors of the company.
2. Make a statement that the company abides by Article 209, Article 206 of Company Act, and Article 178 of the same Act shall apply mutatis mutandis concerning the regulations on non-competition and conflict prevention of benefit.
3. The capital adequacy after the investment should be over 100% while its subsidiary companies should meet the relating regulations in respective capital adequacy rules.
4. The company and its subsidiary companies have healthy operation and have not incurred any severe punishment or penalties over NT\$1 million by the competent authorities within the most recent one year. However, companies will not be subject to this restriction if the above mentioned events have been improved and approved by the competent authorities.
5. The most recent combined financial report audited and certified by an accountant and shows no cumulative losses.
6. A financial holding company has no event of having not completed the capital funding for its subsidiary companies due to the punishment of capital increase imposed on its subsidiary companies by the competent authorities.
7. Have no relating incomplete disposals of investment cases that are requested by the competent authorities in accordance with Article 55 of the Act.
8. Unless otherwise regulated, the initial investment by the company according to Subparagraph 1 to 9, Paragraph 2, Article 36 of the Act should acquire controlling interest status of a financial holding company, bank, insurance company and the securities firm. As for the other types of investment, the company should acquire the outstanding voting-right-shares or capital stock more than 50%.
9. Based on the most recent financial report audited and certified by an accountant, the double leverage ratio after the investment should not

exceed 125%.

10. Investments in other financial holding companies or banks shall comply with the shareholder qualifications prescribed in Article 16 of the Act or Article 25 of Banking Act.

11. If the invested enterprise is an existing company and has cumulative losses within the recent one year, the company shall provide reasonable explanations on the losses.

The double leverage ratio mentioned in the preceding Subparagraph 9 refers to the proportion of the investment made by Financial Holding Company in accordance with Paragraph 2, Article 36 and Paragraph 1, Article 37 of the Act to the net value of the Financial Holding Company. The issuance of common stock for cash within the year processed by a financial holding company shall be included in its net values. Furthermore, based on the date of obtaining the capital verification certificate as the calculation standard, the cash dividend distributed within the year shall be deducted from the net values in the shareholders' general meeting.

When a financial holding company handles a financial institute with difficulties in compliance with the government's policies, the competent authorities shall allow the investment as a special case and is not subject to the restrictions in Subparagraph 3, 9, 11 of Paragraph 1.

When a financial holding company assists the subsidiary companies of a bank, insurance company, or securities firm in compliance with Article 56 of the Act to improve their financial structure or restore to normal operation with an investment and proposed solid improvement plans, it is not subject to the restrictions referred to in Subparagraph 3 to 9 of Paragraph 1.

If the investment of Subparagraph 1 involves foreign currency exchange business, it should be attended to according to relating regulations from the Central Bank of China.

If the invested enterprise involved in a investing activity of a financial holding company is a public company, the acquisition of requested shares should be completed for once by regulations about public tender offer within three months after the authorization day; if it is a non-public company, the investment should be completed within three months.

When an investment of a financial holding company has reached the regulated ratio prescribed in Subparagraph 8, Paragraph 1, or the investment mentioned in Subparagraph 10, 11, Paragraph 2 of Article 36 and Paragraph 1 of Article 37 of the Act involves foreign business, it is not subject to the restrictions mentioned in the preceding paragraph and should be processed under the prescribed period by the competent authorities.

If the investment is not conducted or completed by the period mentioned in Subparagraph 6 and the preceding paragraph, the authorization to the investment by the competent authorities will become invalid automatically.

If the investment is not completed and does have a proper cause, applications by the company for other investment projects shall be rejected by the competent authorities.

Article 3

The source of an investment of a financial holding company shall be clarified. If the source is a loan, the company shall detail the source of payment and the debt-payment plan and, additionally, maintain the wellness

of its capital structure.

Article 4

When a financial holding company submits an investment application according to Paragraph 2, Article 36 of the Act, it should list the following documents besides the regulations mentioned in Paragraph 2 of Article 5.

1. Self-evaluation form (Attachment 1) and the statement (Attachment 2) that verifies the authenticity of application documents.
2. Minute of the board of the directors.
3. The purpose and details of the investment, which should include:
 - (1) The shareholder structure of the invested enterprise.
 - (2) The members of the management team of the invested enterprise.
 - (3) The business scope, principles and guidelines, business plans of the invested enterprise.
 - (4) Financial evaluation status for the next three years and the investment efficiency feasibility of the invested enterprise.
 - (5) The share acquisition plan and consolidation project mentioned in Subparagraph 8, Paragraph 1 of Article 2, which include the method, targets of share acquisition and the source of fund.
 - (6) The maximum and minimum of share holding, solid schedule of the investment plan that is to be executed and the measures when the plan fails to be performed as scheduled.
 - (7) According to Article 146-1 of the Insurance Act, the subsidiary company of an insurance company should propose a processing scheme concerning whether to sell or keep the investment to the invested enterprise. The company should also submit the application document referred to in Article 146-6 of the Insurance Act for the investment that is to be kept for the invested enterprise.
4. Make a statement (Attachment 3) that the company abides by Article 209, Article 206 of Company Act, and Article 178 of the same Act shall apply mutatis mutandis concerning the regulations on non-competition, conflict prevention of benefit, and no advance investment.
5. Explanation on the capital adequacy ratio of the financial holding group and the capital adequacy of each of its subsidiary company.
6. The combined balance sheet and income sheet for the company and its subsidiary company in the most recent period.
7. The double leverage ratio after the addition of the investment and the detailed list of invested enterprise by the company.
8. Details of fund source. If the source is a loan, the company shall detail the source of payment and the debt-payment plan and, additionally, enlist the influences to its financial structure.
9. A performance evaluation on how the investment will affect the overall operation and development of the company and its subsidiary companies and the projected economic scale or synergies.
10. If the invested enterprise is an existing company, the company should attach with the balance sheet and income sheet of the most recent one year of the invested enterprise. Further explanation shall be proposed if the invested enterprise has incurred cumulative losses.
11. For a enterprise that was invested by a financial holding company, if the securities issued by the invested enterprise have been bought by the

financial holding company and/or its subsidiary companies, affiliate companies, and the responsible person, major shareholders or others or, the financial holding company or its subsidiary companies have signed with others a derivative financial product contract that is linked to the securities with share rights of the invested enterprise, then the related information of the buying activity or the contract should be presented. The related documents include:

- (1) The detailed list of above mentioned securities.
- (2) The sale and buying transaction details within the past six months.
- (3) Details of future purchase plans and source of fund.
- (4) The information to be applied as major information in the public information observation portal should include: the number of shares for the related stocks, the exercise or transfer price, equivalent amount, and date.
12. If the company shareholder stocks of any invested enterprise within this application from a financial holding company, which have been bought by the company and its subsidiary companies, affiliate companies, and the responsible person, major shareholders or others of the above mentioned companies exceed 5%, and if the total stocks held by above mentioned company and its subsidiary companies, affiliate companies, and the responsible person, major shareholders or others have exceeded 50% of the issued shares by the company, it is necessary to propose the detailed list of purchased shares and its source of fund.
13. Managements and specific risk-control mechanisms by the company.
14. Investments in other financial holding companies or banks shall comply with Article 16 of the Act or Article 25 of Banking Act to propose the qualification documents of the shareholders.
15. For the financial holding company whose shareholding pledge ratio for all directors, supervisors, and major shareholders within the most recent six months before the application date is over 50% on the average, its individual directors, supervisors, or major shareholders with over 50% for its shareholding pledge ratio shall provide the following documents and analyzed by the financial holding company for the impacts on the operation of the company:
 - (1) Response actions to the temporary revolution of capital when there is an increase in interest rate or decrease in stock price.
 - (2) A statement proclaiming that the person is willing to perform the response actions correctly.
16. Double audit report that meet the regulations in Article 2 and 3 by an accountant.
17. Investments that are not exchanged by the centralized security exchange market or over-the-counter market should provide explanation on the reasonability of transaction prices.
18. Other evaluation documents that should be provided based on the characteristics of the invested enterprise.

The securities with stock rights nature referred to in the preceding Paragraph 11 refer to the securities prescribed in Paragraph 1, Article 11 of Enforcement Rules for Securities and Exchange Act.

When an affiliate company directly or indirectly controlled by a financial holding company purposes to invest in the enterprise mentioned in Paragraph

2, Article 36 of the Act and is enlisted as an equity investment, besides attending to in accordance with the regulations of each business, the financial holding company should also provide on behalf of the affiliate company the self-evaluation form (Attachment 4) of the investment application, a statement (Attachment 5) claiming the authenticity of the application documents, and the statement (Attachment 6) of non-competition, conflict prevention of benefit, and no advance investment for authorization.

Article 5

A financial holding company should provide the following documents for applications for investment based on Paragraph 1, article 37 of the Act:

1. Self-evaluation form (Attachment 7) and the statement (Attachment 2) that verifies the authenticity of application documents.
2. Minute of the board of the directors.
3. Investment purpose.
4. The shareholder structure and members of management team of the invested enterprise.
5. The business scope, principles and guidelines, business plans of the invested enterprise.
6. Financial evaluation status for the next three years and the investment efficiency feasibility of the invested enterprise.
7. Solid schedule of the investment plan that is to be executed and the measures when the plan fails to be performed as scheduled.
8. Make a statement (Attachment 3) that the company abides by Article 209, Article 206 of Company Act, and Article 178 of the same Act shall apply mutatis mutandis concerning the regulations on non-competition, conflict prevention of benefit, and no advance investment.
9. Explanation on the capital adequacy ratio of the financial holding group and the capital adequacy of each of its subsidiary company.
10. The combined balance sheet and income sheet for the company and its subsidiary company in the most recent period.
11. The double leverage ratio after the addition of the investment and the detailed list of invested enterprise by the company.
12. Details of fund source. If the source is a loan, the company shall detail the source of payment and the debt-payment plan and, additionally, enlist the influences to its financial structure.
13. If the invested enterprise is an existing company, the company should attach with the balance sheet and income sheet of the most recent one year of the invested enterprise. Further explanation shall be proposed if the invested enterprise has incurred cumulative losses.
14. Managements and specific risk-control mechanisms by the company.
15. Investments that are not exchanged by the centralized security exchange market or over-the-counter market should provide explanation on the reasonability of transaction prices.
16. Other evaluation documents that should be provided based on the characteristics of the invested enterprise.

According to Paragraph 2, Article 36 of the Act, a financial holding company should attend to affairs according to the provisions mentioned in the preceding paragraph if it applies for an investment which falls in one of the following conditions:

1. Issuance of common stock for cash in order to maintain the investment shareholding ratio that is authorized by the original competent authorities.
2. Transforming the invested enterprise into its subsidiary company and the total investment of original investment plus the capital with the current investment is less than NT\$300 millions.
3. Purchase of the minority stock rights of the subsidiary company.
4. To maintain the investment shareholding ratio that is originally authorized by the competent authorities because of the lowering ratio due to the conversion of convertible bonds of the invested enterprise or the exercise of stock subscription right.

Article 6

A financial holding company should establish an effective investment management and risk control management mechanism; further, the company shall report to the board of directors for further judgment before actual execution.

After obtaining the permission from the competent authorities, a financial holding company should ensure that the company and its affiliate companies that are directly or indirectly controlled by the company only invest within the range of the authorized investment range and should not deviate from the range.

Article 7

If a financial holding company is permitted by the competent authorities to invest the public company and acquire shares in public tender offer, then the company shall report within 10 days after the expiration of public tender offer on the investment status to the competent authorities. If the company fails to complete the public tender offer as scheduled in the investment plan, the company is not allowed to employ a public tender offer of the same invested enterprise within one year unless the company has proper reasons for re-application and thus obtaining the permission from the competent authorities.

Article 8

If a financial holding company is permitted by the competent authorities to invest a non-public company but fails to complete the investment plan as scheduled, the company should provide the following documents within ten days after the expiration of the original permitted investment period to the competent authorities for approval:

1. The reasons why the company fails to complete the scheduled plan.
2. Follow-up investment plan and schedule:
 - (1) For planning to halt the investment, the company should enlist the plans for period and method of disposal of purchased share, resigning of the positions as directors and supervisors of the invested enterprise.
 - (2) If the company plans to continue the investment, the company should submit a second application with the related documents according to these regulations to the competent authorities; however, the application can be made only once. If the company still fails to invest the invested enterprise within the permitted investment period, the company should halt its investment and attend to following affairs according to the provisions mentioned in the preceding item.

Once a financial holding company plans to halt the investment according to

the above mentioned investment plan, it should complete the disposal of shareholdings before the day of book closure for shareholders' general meeting of the invested enterprise so that the re-election of its directors and supervisors can be performed. However, if the reasons for delaying of disposal of shareholdings from a financial holding company are accepted by the competent authorities, then it is not subject to the restrictions.

If a financial holding company fails to dispose the shareholdings as scheduled in the plan of disposal of shareholdings permitted by the competent authorities, the competent authorities is allowed to make disciplinary actions according to Article 54 of the Act.

Article 9

If a financial holding company is permitted by the competent authorities to make an investment, except the situations prescribed in Article 7 and in the preceding article, the company should report the execution status of the investment plan within ten days after the expiration of the permitted investment.

Article 10

Once an investment was permitted by the competent authorities and has been completed by a financial holding company, if the board of directors of the company decide to transfer the shareholding of the invested enterprise or dissolve the invested enterprise, the company should provide the following documents to the competent authorities for future reference within ten days after the decision was made:

1. Minute of the board of the directors. If the minute has to be submitted to the shareholders' general meeting, it is required to add the minute of shareholders' general meeting within ten days after the shareholders' resolution is made.
2. A financial holding company should provide the explanation of pricing reasonability and the income analysis of the transferred shares of the invested enterprise, the report should also include the forms and documents prescribed in Article 10 of the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies".
3. The influences to the capital adequacy of a financial holding company.
4. For the subsidiary companies attend to joint marketing activities in accordance with Article 43 of the Act, the handling measures for the customer information for the subsidiary companies involved in the joint marketing activities.

Article 11

For a financial institution who transfers its shares as a subsidiary company of a financial holding company following the regulations of Article 26 and 27 of the Act, the investment should be applied together with the application that the financial institution transferred to a subsidiary company of a financial holding company which follows the regulations of Article 26 of the Act, and is not subject to these regulations.

Article 12

These regulations shall be enforced from the date of issuance.