

Content

Title : Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest **Ch**

Date : 2011.11.24

Legislative : 1. LETTERBUREAU OF MONETARY AFFAIRS, MINISTRY OF FINANCE From: Bureau of Monetary Affairs, Ministry of Finance Ref. No.: Tai-Tsai-Zong (1) Tze89772314 Date: December 5, 2000.
2. Amended on November 12, 2002.
3. This Ministry's Orders Tai-Tsai-Rong-(1)-Zi-0910054218 of December 12, 2002, Tai-Tsai-Rong-(1)-Zi-0921000866 of November 3, 2003, and Tai-Tsai-Rong-(1)-Zi-0928011810 of December 30, 2003 shall be abrogated immediately as of this date.
4. Article 2 and 3 amended and issued on 24 November 2011 per Order No. Jin-Guan-Yin-Fa-Zi-10010007680 of the Financial Supervisory Commission, Executive Yuan; for enforcement from date of issuance.

Content : The Directions are issued pursuant to Article 74-1 of the Banking Act. Commercial banks may make the following types of investments in the securities beyond and within the boundaries:

- (1) Government bonds.
- (2) Short-term notes.
- (3) Bank Debentures.
- (4) Bonds issued by international or regional financial organizations.
- (5) Shares traded on the Taiwan Stock Exchange or GreTai Securities Market (domestic shares including listed shares, GreTai traded shares, emerging stocks issued by an issuer with a credit rating of at least a certain grade granted by a credit rating institution approved by the Competent Authority, additional shares issued by a listed / GreTai traded corporation whose existing stockholders and employees renounced subscription in a mandated underwriting case when the bank participated in such subscription listing with a specific status, and shares underwritten by a listed / GreTai traded company approved for listing, certificates of entitlement to new shares, bond conversion entitlement certificates, and corporate bonds.
- (6) Fixed income preferred shares.
- (7) Fund beneficiary certificates, stock options, and call/put warrants issued in accordance with the laws and regulations of other countries.
- (8) Negotiable certificates of deposit and savings bonds issued by the Central Bank of China.
- (9) Beneficiary securities and asset-backed securities.
- (10) Private placement shares and private placement corporate bonds issued by an issuer with a credit rating of at least a certain grade granted by a credit rating institution approved by the Competent Authority, and private placement corporate bonds with a credit rating of at least a certain grade granted by a credit rating institution approved by the Competent Authority.
- (11) Other securities approved by the Competent Authority.

Shares under Subparagraph 5 of the Preceding Paragraph do not include changing trading method securities designated in the "Operating Rules of The Taiwan Stock Exchange Corporation" and "GreTai Securities Market

Rules Governing Securities Trading on Over-the-Counter Markets" or OTC traded management shares designated in the "ROC Over-the-Counter Securities Exchange Criteria Governing Review of Securities Traded on Over-the-Counter Markets" .

The securities in Paragraph 1 do not include those securities issued by the government and corporate in the Mainland China Area. The preceding provision does not apply to the securities investments which overseas branches of Commercial banks make.

The limits on the amount of the securities beyond and within the boundaries in which a commercial bank may invest are as follows:

(1) The aggregate outstanding amount of the original acquisition cost of those shares, certificates of entitlement to new shares, fixed income preferred shares, private placement shares, private placement corporate bonds, and fund beneficiary certificates, stock options, and call/put warrants issued in accordance with the laws and regulations of various countries and traded on the Taiwan Stock Exchange or GreTai Securities Market purchased by a commercial bank as investments may not exceed 25% of the calculation basis of the commercial bank. However, the aggregate outstanding amount of the original acquisition cost of those shares, stock options, call/put warrants, certificates of entitlement to new shares, fixed income preferred shares, privately raised shares, and private placement corporate bonds traded on the GreTai market may not exceed 5% of the calculation basis of the commercial bank.

(2) The aggregate outstanding amount of the original acquisition cost of those short-term notes (excluding treasury bills and negotiable certificates of deposit), bank debentures, corporate bonds, beneficiary securities, and asset-backed securities that are unrated or whose credit rating granted by a credit rating institution approved by the Competent Authority fails to meet a certain grade purchased by a commercial bank as investments may not exceed 10% of the calculation basis of the commercial bank. However, when short-term notes, bank debentures, or corporate bonds have no credit rating, but the credit rating of their issuer, guarantor, or acceptor is at least the foregoing grade, or if beneficiary securities or asset-backed securities have no credit rating but the credit rating of their guarantor is at least the foregoing grade, they shall not be subject to this restriction.

(3) The total balance of those securities listed in Paragraph 1 of Article 2 purchased by a commercial bank as investments, except bonds issued by the National Government, treasury bills, and negotiable certificates of time deposit and savings bonds issued by the Central Bank of China, may not exceed 25% of the sum of its total balance of deposits and value of issued bank debentures.

(4) Pursuant to Article 71 of the Securities and Exchange Act, the securities purchased by those banks that concurrently engage in securities trading shall count towards the limits on securities purchased as investments specified in the preceding Subparagraphs (1) to (3) if the securities have not been sold one year after their purchase.

(5) The total value of short-term notes and bonds purchased by a bank with re-sell conditions shall not count towards the limits on securities purchased as investments specified in the preceding Subparagraphs (1) to

(3). However, those short-term notes and bonds sold with buy-back conditions shall count towards the foregoing limits.

(6) The total number of shares, certificates of entitlement to new shares, and bond conversion entitlement certificates of a single company purchased by a commercial bank as an investment may not exceed 5% of that company's total number of issued shares.

The term "calculation basis" as used in Subparagraphs (1) and (2) of the preceding Paragraph shall mean the bank's finalized net worth as of the end of the previous fiscal year less and subtracting the following Subparagraphs. However, those banks that increase cash capital during the fiscal year are permitted to include the additional capital in the calculation basis, and shall use the day when they have obtained the capital attestation certificate as the calculation base day. If a bank that issues cash dividends during the fiscal year, the value of those dividends shall be subtracted from the calculated basenumber on the distribution base day:

(1) If a bank holds the shares of another bank for more than one year, the original acquisition cost shall be subtracted. However, reinvestment in an overseas subsidiary bank shall not be subject to this restriction.

(2) The original acquisition cost of the shares of other enterprises other than banks in which the bank has made a reinvestment after approval by the Competent Authority or in accordance with other regulations shall be subtracted.

The "total balance of deposits" under the preceding Subparagraphs (3), Paragraph 1 includes demand deposits, time deposits, checking deposits, Chunghwa Post Co., Ltd. transfer deposits, and foreign currency deposits. Investments by a commercial bank in securities with credit rating of at least a certain grade granted by a credit rating institution approved by the Competent Authority shall mean that one of the following circumstances applies:

(1) Standard & Poor's Corp. has given the securities a short-term credit rating of A -3 or above or a long-term credit rating of BBB- or above.

(2) Moody's Investors Service has given the securities a short-term credit rating of P -3 or above or a long-term credit rating of Baa3 or above.

(3) Fitch Inc. has given the securities a short-term credit rating of F3 or above or a long-term credit rating of BBB- or above.

(4) Taiwan Ratings Corp. has given the securities a short-term credit rating of twA-3 or above or a long-term credit rating of twBBB- or above.

(5) Fitch International's Taiwan subsidiary has given the securities a short-term credit rating of F3(twn) or above or a long-term credit rating of BBB-(twn) or above.

(6) Moody's Credit Rating Co., Ltd. has given the securities a short-term credit rating of TW-3 or above or a long-term credit rating of Baa3.tw or above.

A commercial bank may not invest in shares, certificates of entitlement to new shares, bond conversion entitlement certificates, corporate bonds, short-term notes, fund beneficiary certificates or fixed income preferred shares of a company in which the bank's responsible person acts as a director, supervisor, or manager. However, the following shall not be subject to this restriction:

- (1) Bank debentures (including subordinate bank debentures).
- (2) Corporate bonds guaranteed by another bank.
- (3) Short-term notes guaranteed or accepted by another bank and underwritten or traded by other bills finance companies.
- (4) Negotiable certificates of deposit issued by the bank.
- (5) Beneficiary securities and asset-backed securities with an issue maturity of less than one year.
- (6) The shares, certificates of entitlement to new shares, bond conversion entitlement certificates of those companies with which the bank has established an investment relationship in accordance with Article 74 of the Banking Act and has the approval of the Competent Authority to assign its responsible person as a director, supervisor, or manager.

A commercial bank that acts as an originator institution (principal), trustee institution, or stockholder of a special-purpose company in accordance with the Financial Asset Securitization Act or Real Estate Securitization Act may not invest in the following beneficiary securities or asset-backed securities:

- (1) A bank that serves as an originator institution (principal) may not invest in any beneficiary securities or asset-backed securities that have been issued with the bank's financial assets, real estate, or real estate-related rights as their underlying assets.
- (2) A bank that serves as a trustee institution may not invest in beneficiary securities issued by itself.
- (3) A bank that serves as a stockholder of a special-purpose company may not invest in asset-backed securities issued by a special-purpose company established by itself.

If a bank's offshore banking branch invests in foreign currency securities, such investment shall be conducted subject to in Article 9 of the Regulations Governing Offshore Banking Branches, and the investment shall be counted into the securities investment limit prescribed in Article 3. If the Competent Authority approves a commercial bank to invest in other corporate shares pursuant to Article 74 of the Banking Act, the amount of investment shall not be counted into the securities investment limit prescribed in Article 3.

If a commercial bank serves as an originator institution in accordance with the Financial Asset Securitization Act holds beneficiary securities or asset-backed securities that have been issued with the bank's financial assets as their underlying assets for the purpose of credit enforcement, such investments shall be conducted in accordance with relevant regulations prescribed by the Competent Authority. If the translations of the texts differ from the original Chinese texts, the original texts are preferential.