

Content

Title :	Regulations Governing Investment in Bonds and Equity Products by Bills Finance Companies <b>Ch</b>
Date :	2012.03.21
Legislative :	1.Promulgated on April 2, 2002 2.Amended on October 28, 2003 3.Amended on August 12, 2005 4.Amended on March 21, 2012
Content :	<p>Article 1</p> <p>These Regulations are adopted pursuant to Article 21, paragraph 1, subparagraph 8 and Article 40, paragraph 2 of the Act Governing Bills Finance Business ( “the Act” ).</p> <p>Article 2</p> <p>The types of bonds and equity-related products in which bills finance companies may invest are as follows:</p> <ol style="list-style-type: none"><li>1. Government bonds.</li><li>2. Bank debentures issued by banks pursuant to Article 72-1 of the Banking Act.</li><li>3. Corporate bonds.</li><li>4. Bonds issued by international or regional financial organizations that have been approved for issuance within the territory of the ROC.</li><li>5. Beneficial securities and asset-backed securities.</li><li>6. Beneficial certificates of funds issued by securities investment trust enterprises.</li><li>7. Mutual trust funds offered by trust enterprises.</li><li>8. Stock allocated for public offering at market price in a seasoned equity offering by an issuing company whose stock is listed for trading on the stock exchange or over-the-counter in the ROC, and stock issued in a cash issue of new shares by an emerging stock company as the public stock offering for its initial stock exchange listing or over-the-counter listing.</li><li>9. Call (or put) warrants.</li><li>10. Taiwan depositary receipts and offshore exchange-traded funds listed for trading on the stock exchange or over-the-counter in the ROC</li><li>11. Other investment vehicles approved by the FSC.</li></ol> <p>The issuer (or guarantor) or the specific debt under subparagraphs 2 to 5 of the preceding paragraph shall have been rated with a credit rating of a certain rating or higher by a credit rating agency.</p> <p>If a bond under paragraph 1 has warrants or is convertible or exchangeable into stock, the bills finance company may apply to convert or exchange the bonds into stock or to exercise the warrants only if the stock is of an exchange-listed or OTC-listed company (excluding emerging stock companies) and furthermore is not stock issued by a designated enterprise referred to in Article 28 of the Act.</p> <p>The term “beneficial securities” in these Regulations means beneficial</p>

securities in compliance with the provisions of the Financial Asset Securitization Act or the Real Estate Securitization Act.

A bills finance company conducting investment under paragraph 1, subparagraph 10 may not request the depository institution to redeem the Taiwan depository receipts for the underlying foreign stock, nor may it, by means of in-kind redemption, hold stock issued by a foreign company.

#### Article 3

A bills finance company conducting investment in equity-related products under paragraph 1, subparagraphs 6 to 10 of the preceding Article shall adopt investment handling procedures, which shall be passed by its board of directors, and the company may not be subject to any of the following circumstances:

1. The ratio of equity capital to risk-weighted assets is less than 10 percent.
2. Failure to duly set aside sufficient reserve for guarantee liabilities and allowance for bad debts.
3. Cumulatively more than NT\$2 million in administrative sanctions imposed on the bills finance company's responsible person(s) or the bills finance company in the past 2 years. This restriction does not apply, however, if the illegalities have already been specifically corrected and the corrections have been recognized by the FSC.
4. Failure to meet a certain rating by a rating agency.
5. Material deficiency in internal control in the past 2 years.
6. Net worth per share was lower than par value in the past year.

The "handling procedures" under the preceding paragraph shall specify the following particulars:

1. Trading principles and policies: shall include the types of trading instruments, trading and hedging strategies, position limits, and stop loss settings.
2. Responsible departments, personnel deployment, and human resources development and training plan.
3. Trading procedures: shall include hierarchy of assigned responsibility, authorization limits, trading processes, segregation of authority and duties between relevant departments, and procedures for preserving trading records.
4. Risk management measures: shall include risk management scope, risk management procedures, methods and frequency of position evaluation, production and review of position evaluation reports, irregularity reports, and procedures for follow-up surveillance.
5. Internal control and audit: shall include internal check and reconciliation functions and regular auditing.

#### Article 4

"A certain rating" in these Regulations means the following:

- (1) A long-term credit rating of BBB- by Standard & Poor's Corporation.
- (2) A long-term credit rating of Baa3 by Moody's Investors Service.
- (3) A long-term credit rating of BBB- by Fitch Ratings Ltd.
- (4) A long-term credit rating of twBBB- by Taiwan Ratings Corporation.
- (5) A long-term credit rating of BBB- (tw) by Fitch Ratings Limited, Taiwan Branch.
- (6) A long-term credit rating of Baa3.tw by Moody's Credit Rating Co.,

Ltd..

#### Article 5

A bills finance company that serves as an originator or a shareholder of a special purpose company pursuant to the Financial Asset Securitization Act may not invest in the following beneficial securities or asset-backed securities:

1. One that serves as an originator may not invest in beneficial securities or asset-backed securities issued on the back of financial assets that it placed in trust or assigned.
2. One that serves as a shareholder of a special purpose company may not invest in asset-backed securities issued by that special purpose company. If a bills finance company serves as an originator pursuant to the Financial Asset Securitization Act, and the credit of the beneficial securities or asset-backed securities is enhanced as set forth in Article 103 of that Act, any related holdings of those securities by the company shall be handled in accordance with the provisions of other laws and regulations.

#### Article 6

With the exception of government bonds and bank debentures, the aggregate balance of the original acquisition costs of investments by a bills finance company pursuant to Article 2, paragraph 1 may not exceed 15 percent of the net worth of that bills finance company.

After convertible, exchangeable, or warrant-bearing bonds are exchanged or converted or the warrants are exercised, the total cost of the stock acquired shall be calculated based on the conversion, exchange, or subscription price, and included in the calculations for purposes of the limit of the preceding paragraph.

If a bills finance company has been approved by the FSC to invest in stock of other enterprises pursuant to Article 40, paragraph 1 of the Act, it shall be exempted from the restrictions of paragraph 1 hereof and of Article 8, paragraph 2.

The term "net worth" in these Regulations means the amount of the net worth following the final accounting for the preceding fiscal year, minus the amount of investment in other enterprises as approved by the FSC.

#### Article 7

A bills finance company may not invest in the types of financial vehicles in Article 2, subparagraphs 6 to 9 issued by a designated enterprise referred to in Article 28, paragraph 1 of the Act, nor may it invest in Taiwan depositary receipts representing stock issued by an issuer that is a designated enterprise referred to in Article 28, paragraph 1 of the Act. This restriction does not apply, however, to stock issued by a company to which the bills finance company has assigned its responsible person to serve as a director, supervisor, or managerial officer due to an investment relationship under Article 40, paragraph 1 of the Act.

The aggregate balance invested by a bills finance company in corporate bonds issued by designated enterprises referred to in Article 28, paragraph 1 of the Act may not exceed 5 percent of the net worth of the bills finance company, and the debtor (the issuer or guarantor) of those corporate bonds or that specific debt shall have been rated with a credit rating of a certain rating or higher.

#### Article 8

The aggregate balance of the original acquisition cost of investment by a bills finance company in bank debentures issued by a single bank, corporate bonds issued by a single enterprise, fund beneficial certificates issued by a single securities investment trust enterprise, mutual trust funds issued by a single trust enterprise, offshore exchange-traded funds managed by a single offshore fund manager, or a single type of beneficial securities or a single type of asset-backed securities, may not exceed 5 percent of the net worth of the bills finance company.

The aggregate balance of the original acquisition cost of investment in stock of a single enterprise or in Taiwan depositary receipts of a single foreign issuer may not exceed 5 percent of the paid-in capital of that enterprise, nor may it exceed 5 percent of the net worth of the bills finance company, as of the time of the investment.

For investment in call warrants, the equivalent original acquisition cost, calculated as follows, shall be included in the calculation of the limit under the preceding paragraph: the closing price, on the purchase date, of the underlying securities of a single enterprise linked by the call warrants multiplied by the quantity of the underlying securities of the single enterprise that the bills finance company is entitled to buy during the exercise period or on a certain maturity date, plus the original acquisition cost of the call warrants.

For investment in put warrants, the equivalent original acquisition cost, calculated as follows, may not exceed 5 percent of the paid-in capital of the enterprise whose securities are linked by the put warrants, nor may it exceed 5 percent of the net worth of the bills finance company, as of the time of the investment: the closing price, on the purchase date, of the underlying securities of a single enterprise linked by the put warrants multiplied by the quantity of the underlying securities of the single enterprise that the bills finance company is entitled to sell during the exercise period or on a certain maturity date, plus the original acquisition cost of the put warrants. Underlying securities that a bills finance company purchases on the exercise date for purposes of exercising the rights on the put warrants need not be included in calculations for purposes of the limit in paragraph 2.

#### Article 9

If a bills finance company has invested, before these Regulations enter into force, in fund beneficial certificates issued by a securities investment trust enterprise, and the investment does not comply with the provisions of Article 7 of these Regulations, the company shall make adjustments to achieve compliance with the provisions within 6 months after these Regulations enter into force.

If as a result of a bills finance company exercising subscription, conversion, or exchange rights on instruments such as bank debentures, corporate bonds, or government bonds in which it has invested, the bills finance company's cumulative balance of investment in the stock of a single enterprise exceeds a limit set forth in paragraph 2 of the preceding article, the company shall dispose of the portion exceeding the limit within 6 months from the day of acquiring the stock.

#### Article 10

These Regulations shall enter into force from the date of issuance.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System