

Content

Title :	Regulations Governing Securities Finance Enterprises <b>Ch</b>
Date :	2015.11.26
Legislative :	<p>7. Articles 5 to 18 and 26 to 45 were amended on December 27, 2000 by the Executive Yuan per letter Ref. No. Taiwan-89-Finance 35759</p> <p>8. Full text of 66 articles amended and issued per 12 March 2007 per Order No. Financial-Supervisory-Securities-IV-0960009086 of the Financial Supervisory Commission, Executive Yuan, for implementation from date of issuance</p> <p>9. Article 46 amended and issued per 22 July 2009 Order No. Financial-Supervisory-Securities-SITC-0980036050 of the Financial Supervisory Commission, Executive Yuan</p> <p>10. Article 65 amended and Article 65-1 added per 11 October 2010 Order No. Financial-Supervisory-Securities-Firms-0990051567 of the Financial Supervisory Commission, Executive Yuan</p> <p>11. Article 60 amended and issued per 27 July 2012 Order No. Financial-Supervisory-Securities-SITC-1010033473 of the Financial Supervisory Commission</p> <p>12. Articles 12 to 15, 17, 18, 34, 38 to 41, 43 to 46, 48 to 51, 53, and 66 amended and issued per 26 November 2015 Order No. Financial-Supervisory-Securities-SITC-1040046524 of the Financial Supervisory Commission; for enforcement from the date of issuance, with the exception of Articles 12 to 14, 17, and 34, for enforcement from 30 November 2015, and Articles 15, 18, 38 to 41, 43 to 46, 48 to 51, and 53, for enforcement from 1 February 2016.</p>
Content :	<p>Chapter I General Provisions</p> <p>Article 1 These Regulations are adopted in accordance with Article 18, paragraph 2 of the Securities and Exchange Act.</p> <p>Article 2 The term "securities finance enterprise" as used in these Regulations shall mean an enterprise which provides financing or stock loans to securities investors, securities firms, or other securities finance enterprises in accordance with these Regulations.</p> <p>Article 3 The operation of a securities finance enterprise shall be approved by the competent authority.</p> <p>Article 4 The formation of a securities finance enterprise shall be limited to a company limited by shares, whose paid-in capital shall not be less than NT\$4 billion.</p> <p>Article 5 A securities finance enterprise may operate the following businesses:</p> <ol style="list-style-type: none"><li>1. Margin purchases and short sales in securities trading.</li><li>2. Re-financing for other securities firms or other securities finance enterprises.</li><li>3. Loans for rights issues and subscriptions to underwritten shares ("subscription loans").</li><li>4. Loans to securities firms for underwriting ("underwriting loans").</li><li>5. Financing for securities transaction settlement purposes.</li></ol>

6. Securities borrowing and lending.

7. Other related business approved by the competent authority.

Securities obtained by securities finance enterprises in the process of operating the businesses in the preceding paragraph shall be sent to a centralized securities depository enterprise for custody.

A securities finance enterprise applying to operate business under paragraph 1 shall submit an application, along with the following documents, to the competent authority for approval:

1. Minutes of the relevant board of directors meeting.
2. An operations plan.
3. A description of the internal control system.
4. A set of operating rules.
5. A set of any contracts required for the business.

## Chapter II Business Activities

### Section I Margin Purchases and Short Sales in Securities Trading

#### Article 6

The counterparties for which a securities finance enterprise handles margin purchases and short sales in securities trading shall be limited to principals that have opened accounts with a securities firm for securities trading (below, "principals").

A securities finance enterprise handling securities trading margin purchases and short sales shall sign an agent contract with a securities firm and report to the competent authority for its approval.

#### Article 7

A securities finance enterprise handling securities trading margin purchases and short sales shall sign margin purchase and short sale contracts with its principals and open respective margin accounts.

The content of the contracts of the preceding paragraph shall be prescribed by the securities finance enterprise and reported to the competent authority for approval.

The following items shall be recorded in the margin purchase and short sale contracts:

1. The ratio, and the time limit for replenishment, pursuant to the provisions of Article 11.
2. Disposition of the collateral pursuant to the provisions of Article 13.
3. Utilization of securities and funds, the obligation to deliver the same kind of securities as those utilized, and the interest rate that shall be paid on the proceeds from short sales and the margins for short sales, pursuant to the provisions of Article 15.
4. The interest rates for margin purchases and the handling fees for short sales pursuant to the provisions of Article 16.
5. Other items the competent authority requires be recorded therein.

#### Article 8

Securities finance enterprises that handle the opening of principals' margin accounts are limited to opening one margin account for any one principal. The principal may only open one margin account through any one securities firm that handles margin purchases and short sales.

A securities finance enterprise that handles the opening of margin accounts for principals shall make a credit search in accordance with the terms of the regulations governing account opening.

The terms governing account opening referred to in the preceding paragraph shall be prescribed by the securities finance enterprises and reported to the competent authority for approval.

#### Article 9

The settlement of securities traded in margin purchases and short sales shall be handled directly by the securities finance enterprise on behalf of the principal with the stock exchange or the OTC exchange.

#### Article 10

Securities finance enterprises handling margin purchases and short sales of securities, when providing margin purchase financing to principals, shall collect margin pursuant to the ratio prescribed by the competent authority and take all securities purchased in margin purchases as collateral; when providing short sales for principals, it shall collect short sale margin pursuant to the percentage prescribed by the competent authority and take the proceeds from the short sale as collateral.

#### Article 11

Securities finance enterprises handling securities margin purchases and short sales shall calculate the ratio of the collateral value of each margin account to principals' debts every day, and shall immediately inform principals to replenish any shortfall within a prescribed period if it is lower than the prescribed ratio.

The ratio and time limit for replenishment under the preceding paragraph shall be prescribed by the securities finance enterprise and reported to the competent authority for approval.

#### Article 12

The margin for short sales, and the replenishment of shortfalls pursuant to the preceding article may, be paid in the form of securities or other commodities.

The types of securities or commodities and the standard of payment in the preceding paragraph shall be prescribed by the securities finance enterprise and reported to the competent authority for approval.

#### Article 13

When a margin purchaser or short seller fails to satisfy a margin call pursuant to Article 11 or has failed to satisfy a call after the stipulated date, the securities finance enterprise shall dispose of their collateral immediately. However, this rule does not apply if the two parties have stipulated otherwise.

#### Article 14

When a change in prices results in an increase, after deduction of the principal's debt, in the net collateral value in a principal's margin account, a securities finance enterprise handling margin purchases and short sales may not transfer the increased value to the principal in the form of funds, securities, or commodities, nor may it use such value to offset a margin purchase margin or short sale margin.

#### Article 15

A securities finance enterprise that handles securities trading margin purchases and short sales may not utilize the securities collateral it obtains for any purpose but the following:

1. As a source of securities for short sales or refinancing.
2. As collateral for refinancing with another securities finance

enterprise.

3. As a source of securities to be loaned in a securities borrowing and lending transactions.
4. As collateral for securities borrowed through the TWSE securities borrowing and lending system.
5. To lend to a securities firm or another securities finance enterprise as a source of securities for conducting securities borrowing and lending business or securities margin purchase and short sale business.
6. To lend through the TWSE securities borrowing and lending system.
7. To participate in competitive auction lending transactions or negotiated lending transactions conducted by another securities finance enterprise.

A securities finance enterprise that handles margin purchases and short sales of securities may not use proceeds from short sales or margins for short sales that it retains on deposit for any purpose other than those listed below:

1. As a source of funds for margin purchase or refinancing business.
2. As collateral for refinancing with another securities finance enterprise.
3. As a source of funds for financing for settlement of securities trades.
4. As collateral for securities borrowed through the TWSE securities borrowing and lending system.
5. Bank deposit.
6. For the purchase of short-term bills.

Where utilizing securities pursuant to the provisions of paragraph 1, the securities finance enterprise shall be responsible for delivering the same category of securities when the margin purchase or short sale position is closed.

Securities finance enterprises shall pay interest to short sellers on the proceeds from short sales and on short sale margin. The interest rate shall be prescribed by the securities finance enterprise and reported to the competent authority for approval.

#### Article 16

The interest rates for margin purchases and the handling fees for short sales shall be prescribed by the securities finance enterprise and reported to the competent authority for its records.

#### Article 17

Securities finance enterprises handling margin purchases and short sales of securities shall establish operating rules for margin purchase and short sale business and implement the same with the competent authority's approval.

The operating rules referred to in the preceding Paragraph shall include the following items:

1. The opening of the margin account.
2. The application for the margin purchase or short sale and repayment.
3. The calculation, replenishment, and disposition of collateral.
4. The transfer of securities or commodities for collateral.
5. Obtaining securities to cover shortfalls arising in connection with short sales.
6. The transfer of title to securities provided as collateral for margin purchases and to securities or commodities paid in as additional

collateral.

7. Other items required by the competent authority.

Securities finance enterprises shall comply with the operating rules referred to in paragraph 1 in handling securities trading margin purchase and short sale business.

#### Article 18

Securities finance enterprises handling margin purchases and short sales of securities shall establish early warning and allocation guidelines for the handling of margin purchases and short sales in accordance with the operating rules referred to in the preceding article, and shall publicly disclose on a daily basis information on credit extended in connection with margin purchases and short sales.

The early warning and allocation guidelines referred to in the preceding paragraph shall provide for safety stock amounts and calculation formulas for loans of each security, and when the balance of loans of that security plus the safety stock amount of that security reaches the combined total of the amounts of that security under each of the following subparagraphs, loans of that security shall be suspended:

1. The margin purchase balance.
2. The securities finance enterprise's proprietary securities.
3. Securities borrowed from the TWSE securities borrowing and lending system.
4. Securities borrowed from customers.
5. Securities borrowed from securities firms or other securities finance enterprises that conduct securities borrowing and lending business or securities margin purchase and short sale business.

When a principal first purchases securities by margin purchase and on the same day sells short the same kind of securities in an amount not greater than the amount purchased by margin purchase, the requirement of the preceding paragraph regarding safety stock may be exempted.

#### Article 19

If, during the effective duration of a margin purchase or short sale relationship, trading on the securities market is suspended either across the board or for a particular security due to a natural disaster or other extraordinary event and no time has been set for resumption of trading, the securities finance enterprise shall notify the short seller or margin purchaser to close out the margin purchase or short sale by the following means within the agreed period:

1. For securities acquired through margin purchase, redemption of the securities by cash payment and withdrawing the securities.
2. For securities sold short, redemption by delivery of spot securities in return for the monetary proceeds from the short sale and the margin.

However, if the seller is unable to cover the short sale with spot securities, the securities finance enterprise may apply to the stock exchange or the OTC exchange to purchase the securities through public reverse auction. The cost of the reverse auction shall be borne by the short seller.

#### Article 20

Securities finance enterprises handling margin purchases and short sales of securities shall not violate these Regulations or matters prescribed by the

competent authority pursuant to Article 61 of the Securities and Exchange Act in regard to margin purchase and short sale amounts, time limits, margin purchase margin ratios, short sale margins, and standards for securities eligible for margin purchase and short sale.

## Section II Re-Financing for Securities Firms and Other Securities Finance Enterprises

### Article 21

Securities finance enterprises handling re-financing for securities firms and other securities finance enterprises shall be limited to the monetary amounts or amounts of securities needed for the securities margin purchase and short sale business or securities borrowing and lending business handled by the securities firm or the other securities finance enterprise. The term "re-financing" means that securities finance enterprises provide margin loans or stock loans to securities firms or other securities finance enterprises.

### Article 22

A securities finance enterprise that provides re-financing to a securities firm shall sign a re-financing contract with the securities firm and open a refinancing account.

The content of the contract referred to in the preceding paragraph shall be prescribed by the securities finance enterprise and reported to the competent authority for approval.

### Article 23

A securities finance enterprise providing re-financing to a securities firm for margin purchases shall not provide a margin ratio higher than the margin ratio that the securities firm provides to its customer, and shall collect as collateral all securities purchased with the margin purchase financing.

A securities finance enterprise providing re-financing to a securities firm for short sales shall collect a short sale margin whose ratio shall not be lower than the short sale margin ratio that the securities firm provides to its customer, and shall take the proceeds of the short sales as collateral.

A securities finance enterprise providing re-financing to a securities firm for securities lending shall collect securities lending collateral for the securities it loans to the securities firm at a collateralization rate that may not be lower than the collateralization rate that the securities firm provides in securities lending to customers.

The short sale margin that shall be collected by securities finance enterprises under paragraph 2 may be paid in securities; the types of securities and standards for such payment shall be prescribed by the securities finance enterprise and reported to the competent authority for its approval.

### Article 24

When a securities finance enterprise provides re-financing to a securities firm, the money or securities that must be delivered or collected for securities trading shall be handled through the stock exchange, OTC exchange, or its designated clearing and settlement institution.

### Article 25

A securities finance enterprise providing re-financing to a securities firm shall notify the securities firm to replenish the collateral or margin

within the time limit or repay the shortfall if a decline in the price of the collateral for a margin purchase causes the ratio of the margin purchase amount to the collateral's market value to exceed the initial lending ratio; or if an increase in the price of securities sold short causes the short sale margin percentage to fall short of the initially collected percentage; or if an increase in the price of loaned securities or a decline in the price of collateral provided for the securities loan causes the ratio of the market value of the collateral to the market value of the loaned securities to fall short of the initial lending ratio.

#### Article 26

A securities finance enterprise providing re-financing to a securities firm shall utilize the money it receives in accordance with the mutatis mutandis application of Article 15, paragraphs 2 and 4.

A securities finance enterprise providing re-financing to a securities firm may utilize the securities it receives, while such utilization shall be limited to the following:

1. For provision of refinancing to a securities firm.
2. As a source of securities needed in margin purchase and short sales transactions to cover shortfalls in securities in short sales or shortfalls of securities for redelivery in securities borrowing and lending transactions.
3. As collateral for borrowing of securities through the TWSE securities borrowing and lending system.

A securities finance enterprise utilizing securities according to the preceding paragraph shall deliver the same category of securities when the re-financing is repaid.

#### Article 27

A securities finance enterprise handling a securities firm's application for re-financing of securities shall obtain the securities for provision of refinancing by the means prescribed in Article 56, paragraph 1, subparagraphs 4 and 5 if it does not have a sufficient source of securities.

The fees for the securities financing in the preceding paragraph shall be paid by the securities firm.

#### Article 28

A securities finance enterprise shall establish operating rules for its re-financing business in connection with providing refinancing to securities firms and report the rules to the competent authority for its approval.

The operating rules referred to in the preceding paragraph shall expressly state the following items:

1. The procedure for opening a refinancing account.
2. Procedures for refinancing applications and repayment of securities, and the method of repayment.
3. Refinancing amounts and the calculation and replenishment of margin and collateral.
4. The collection, replenishment, and disposal of refinancing collateral.
5. The utilization and method of custody of the securities obtained through refinancing.
6. The exercise of rights in stocks and withholding tax on dividends from stocks purchased through refinancing.

7. The items recorded in the refinancing account book.
  8. Termination and resumption of refinancing business.
  9. The procedures for borrowing securities and for reverse auction.
  10. Other items to be included under the competent authority regulations.
- Securities finance enterprises providing re-financing to securities firms shall follow the operating rules of Paragraph 1.

#### Article 29

The regulations of Article 16, and Article 19 shall apply mutatis mutandis to re-financing provided by securities finance enterprises to securities firms or other securities finance enterprises.

The regulations of this Section shall apply mutatis mutandis to re-financing by securities finance enterprises to other securities finance enterprises.

### Section III Subscription Loans and Underwriting Loans

#### Article 30

For securities finance enterprises handling subscription loans and underwriting loans, the scope of such loans shall be regulated by the competent authority.

The financing ratios and financing time limits for subscription loans and underwriting loans handled by securities finance enterprises shall be governed mutatis mutandis by Article 61 of the Securities and Exchange Act. The dollar amount for loans referred to in Paragraph 1 may not exceed the issuance price of the securities financed by such loans, and the collateral shall consist of all the securities, certificates of payment of share prices, and other exchange listed or OTC listed securities obtained through the loan.

#### Article 31

The securities obtained by a securities finance enterprise through handling subscription loans and underwriting loans may not serve as the source of securities for short sales, for refinancing provided to securities firms or other securities finance enterprises, or for securities borrowing and lending.

#### Article 32

Securities finance enterprises handling subscription loans and underwriting loans shall establish operating rules for such business and report them to the competent authority for approval.

The operating rules referred to in the preceding paragraph shall expressly state the following items:

1. The opening of loan accounts.
2. The terms or conditions for opening the account.
3. The application for and repayment of loans.
4. The calculation, replenishment, and disposition of collateral.
5. When using other listed or OTC securities as collateral, the types of securities used for collateral and the standard for collateral settlement.
6. The payment of securities as collateral.
7. The title transfer of collateral securities and additional collateral securities.
8. Other items required to be included by the competent authority.

Securities finance enterprises handling subscription loans and underwriting loans shall follow the operating rules of Paragraph 1.



#### Article 33

The regulations in Paragraphs 1 and 2 of Article 7, Paragraph 2 of Article 8, Articles 11 through 14, Article 16, and Article 19 apply mutatis mutandis to securities finance enterprises handling subscription loans and underwriting loans.

#### Section IV Securities Settlement Financing

#### Article 34

Securities settlement financing refers to the business of a securities financing enterprise in providing cash financing for settlement of purchases of securities by a customer, after having obtained collateral provided by the customer.

The purpose of the financing, the scope of collateral for the financing, the amount of financing, collateral limit, and the financing ratio and financing period that apply when a securities financing enterprise provides securities settlement financing shall be regulated by the competent authority.

#### Article 35

The securities collateral that a securities finance enterprise receives when it provides securities settlement financing may not be used for purposes other than the following, and shall be delivered to a central depository for deposit:

1. As collateral for securities borrowed through the TWSE securities borrowing and lending system.
2. As collateral for refinancing from another securities finance enterprise.

A securities finance enterprise utilizing securities collateral in accordance with the preceding paragraph shall obtain a letter of consent from the customer permitting re-hypothecation of collateral.

#### Article 36

A securities finance enterprise that provides securities settlement financing shall establish operating rules for such business and submit them to the competent authority for approval.

The operating rules referred to in the preceding paragraph shall clearly state the following matters:

1. Opening of financing accounts.
2. The terms and conditions for opening a financing account.
3. Application for and repayment of financing.
4. Calculation of the collateral financing ratio.
5. Calculation of the collateral maintenance ratio.
6. The types of collateral, ratios, and deadline for replenishment of collateral.
7. The disposition of collateral.
8. Other matters which must be stated in accordance with the regulations of the competent authority.

A securities finance enterprise that provides securities settlement financing shall proceed in accordance with the operating rules under the paragraph 1.

#### Article 37

The provisions of Article 7 paragraphs 1 and 2, Article 8 paragraph 2, Articles 11 through 14, Article 16 and Article 19 apply mutatis mutandis to

the provision of securities settlement financing by securities finance enterprises.

## Section V Securities Borrowing and Lending

### Article 38

Counterparties with whom a securities finance enterprise may engage in securities borrowing and lending transactions shall be limited to the following:

1. Customers who have had an established a brokerage contract with the securities finance enterprise for a period of 3 months or more.
2. Securities firms or other securities finance enterprises that conduct securities borrowing and lending business or securities margin purchase and short sale business.
3. Other counterparties who are approved by the competent authority.

"Securities borrowing and lending" in the preceding paragraph refers to business in which a securities finance enterprise borrows securities from, or lends securities to, a customer, a securities firm, or another securities finance enterprise, with a stipulation for repayment of securities of the same kind and quantity.

When a securities finance enterprise handles securities borrowing and lending through an agent securities firm, it shall sign an agency agreement with that securities firm and submit the agreement to the competent authority for approval.

When the securities firm of the preceding paragraph is authorized by the competent authority to engage in securities borrowing and lending business, the securities finance enterprise shall terminate the agency relationship with the securities firm. For an unsettled balance on a securities borrowing transaction by a customer for which the securities firm acted as agent prior to the termination, however, the securities firm may continue to act as agent until the full settlement of the balance.

### Article 39

The scope of subject securities for securities borrowing and lending by securities finance enterprises is limited to the following:

1. Securities eligible for margin purchase and short sale transactions.
2. Other securities that are approved by the competent authority.

The sources of securities for securities borrowing and lending by securities finance enterprises are limited to the following:

1. The securities finance enterprise's own holdings.
2. Securities borrowed from the TWSE securities borrowing and lending system.
3. Securities collateral for margin purchases obtained through securities margin purchase and short sale business.
4. Securities borrowed from customers.
5. Securities borrowed from a securities firm or other securities finance enterprise that conducts securities borrowing and lending business or securities margin purchase and short sale business.

### Article 40

The term of a securities lending transaction may be no longer than 6 months at most from the initial date of the lending transaction.

Before the expiration of the term under the preceding paragraph, the term of the loan may be extended with the consent of both the borrowing and

lending parties. Such an extension may not exceed 6 months, and no more than two extensions may be granted. Neither party may demand alteration of any other terms or conditions of the loan.

#### Article 41

When a securities finance enterprise engages in securities borrowing and lending transactions, the borrowing and lending parties shall sign a securities borrowing and lending agreement, and open accounts for securities borrowing and lending transactions.

The content of the securities borrowing and lending agreement of the preceding paragraph shall be formulated by the securities finance enterprise and submitted to the competent authority for approval.

The following matters shall be expressly stated in the securities borrowing and lending agreement:

1. The term of the loan.
2. Loan fees.
3. The use of the loaned securities.
4. The methods of custody and redelivery of the securities and terms and conditions in regard to early redelivery.
5. The types of collateral, substitution of collateral, and calculation of collateralization rates and maintenance levels.
6. The return of collateral when value exceeds requirements and the offsetting of excess collateral against other requirements.
7. The calculation and payment of interest on cash collateral.
8. Compensation of entitlements.
9. The handling of defaults.
10. Handling of customer information.
11. Causes for termination of the agreement.

#### Article 42

A securities finance enterprise shall be limited to opening only one securities borrowing and lending transaction account per customer; a customer shall be limited to opening only one securities borrowing and lending transaction account at any place of business of a securities firm that acts as agent in securities lending business.

A securities finance enterprise shall conduct a credit review in respect of a customer opening a securities borrowing and lending transaction account.

A securities finance enterprise shall approve the amount of securities that a customer may borrow based on the results of the credit review and provide a risk disclosure statement outlining the possible risks associated with securities borrowing and lending transactions.

#### Article 43

A securities finance enterprise engaging in securities borrowing and lending business shall collect collateral from customers at the collateral ratio required by the competent authority, or require the customer to provide a bank guarantee.

The collateral referred to the preceding paragraph shall be limited to the following types:

1. Cash.
2. Book-entry central government bonds.
3. Securities eligible for margin purchase and short sale transactions.

A securities finance enterprise shall mark to market daily the ratio of the

value of collateral deposited by each customer to the dollar amount of the securities loaned to that customer. When that ratio is below the prescribed percentage, it shall immediately issue a margin call requiring the customer to replenish the shortfall within a prescribed period of time.

The method of calculation of the value of the collateral, the substitution of collateral, the collateralization rate, and the time limit for replenishment of collateral shall be formulated by the securities finance enterprise and submitted to the competent authority for approval.

A securities finance enterprise that borrows securities from a customer or securities firm or other securities finance enterprise shall allocate on a monthly basis a performance bond that accounts for a certain percentage of the total monetary amount of the borrowed securities.

The performance bond under the preceding paragraph shall be deposited with the TWSE. The regulations governing the deposit, custody, payment, and return of the performance bond shall be jointly drafted by the TWSE and TPEx, and submitted to the competent authority for final approval.

#### Article 44

When a securities finance enterprise engages in securities borrowing and lending and a customer exceeds the deadline for replenishing the collateral or fails to return the securities by the stipulated date, the securities finance enterprise shall thereupon dispose of the customer's collateral. However, this rule does not apply if the two parties have stipulated otherwise.

#### Article 45

When a securities finance enterprise engages in securities borrowing and lending, the following may not be the subject of borrowing or lending nor may they be accepted as collateral:

1. Securities that are subject to a pledge.
2. Shares or other equity-type securities of the securities finance enterprise itself that it has acquired through share buybacks, gifts from others, merger, transfer of business, or otherwise.

#### Article 46

When a securities finance enterprise engages in securities borrowing and lending, the use of its securities shall be restricted to the following:

1. For use by customers in brokered sales of the securities through a securities firm.
2. For redelivery by customers of spot securities borrowed in short sales.
3. For performance by customers of settlement on call/put warrants, equity options, and other equity-type financial instruments.
4. For use by customers in in-kind creation or redemption of exchange traded fund (ETF) units or offshore ETF units.
5. For use by securities finance enterprises and customers for redelivery of borrowed securities or as compensation for securities entitlements.
6. For use by securities finance enterprises as a source of securities for securities margin purchase and short sale business.
7. For use by securities finance enterprises as a source of securities for the return of customer collateral in connection with securities trading margin purchase and short sale business.
8. For use by securities finance enterprises in covering shortfalls of securities occurring in short sale business.

9. To lend to a securities firm or another securities finance enterprise as a source of securities for conducting securities borrowing and lending business or securities margin purchase and short sale business.
10. To lend through the TWSE securities borrowing and lending system.
11. To participate in competitive auction lending transactions or negotiated lending transactions conducted by another securities finance enterprise.
12. Other uses as approved by the competent authority.

#### Article 47

Securities collateral that a securities finance enterprise receives in a securities borrowing and lending transaction may not be used for purposes other than the following, and shall be delivered for deposit in a central depository:

1. As collateral for securities borrowed through the TWSE securities borrowing and lending system.
2. As collateral for refinancing from another securities finance enterprise.

A securities finance enterprise utilizing securities collateral in accordance with the preceding paragraph shall obtain a letter of consent from the customer permitting re-hypothecation of collateral.

Article 15, paragraphs 2 and 4 apply mutatis mutandis to the cash collateral obtained by a securities finance enterprise in a securities borrowing and lending transaction.

#### Article 48

A securities firm conducting securities borrowing and lending business shall cease lending a given type of securities immediately when for that type of securities, the aggregate total of the outstanding balance of shares it lends to securities borrowers in conducting securities borrowing and lending business, plus the outstanding balance of shares it lends to short sellers in conducting securities margin purchase and short sale business, plus the safety stock amount under Article 18, paragraph 2, reaches the aggregate total under all subparagraphs of paragraph 2 of Article 39.

#### Article 49

Where a securities finance enterprise engages in securities borrowing and lending transactions, if the lender is unable to obtain any stock dividends, cash dividends, or any other entitlements, the borrower shall repay the same to the lender, or otherwise make repayment in cash as may be agreed between the two parties.

#### Article 50

When a securities finance enterprise engages in securities borrowing and lending transactions, the borrower may redeliver the borrowed securities early at any time during the stipulated term of the loan.

When a securities finance enterprise engages in securities borrowing and lending transactions, the consent of the borrower must first be obtained before early redelivery of the borrowed securities may be requested of the borrower.

#### Article 51

A securities finance enterprise that engages in securities borrowing and lending shall establish operating rules for such business and submit them

to the competent authority for approval.

The operating rules referred to in the preceding paragraph shall expressly state the following matters:

1. Opening of securities borrowing and lending transaction accounts.
2. Applications for loans of securities and their redelivery.
3. Types of eligible collateral and its substitution.
4. Calculation, replenishment, and disposition of collateral.
5. Method of obtaining shortfalls in loaned securities.
6. Transfer of title to securities collateral.
7. Deposit of the performance bond.
8. Other matters that shall be included pursuant to the regulations of the competent authority.

The securities finance enterprise shall carry out securities borrowing and lending transactions in accordance with the operating rules of the first paragraph.

#### Article 52

Delivery and redelivery of the subject securities and collateral in securities borrowing and lending transactions shall be effected by book-entry transfer or by transfer registration.

A securities finance enterprise shall transmit information about any delivery and redelivery of the subject securities of the loan and the collateral securities to the TWSE and the TPEX, which shall notify the centralized securities depository enterprise to deliver the securities by book-entry transfer or notify the clearing bank to carry out account transfer registration.

#### Article 53

A securities finance enterprise engaging in securities borrowing and lending business shall publish the following information at its place of business or on its website and transmit such information to the TWSE and the TPEX:

1. Types and amounts of securities borrowed and loaned each day.
2. Securities borrowing and lending fees and service charges.
3. Other information for which the competent authority required disclosure.

#### Article 54

If, during the duration of a securities borrowing and lending agreement, trading on the securities market is suspended across the board or for a particular security due to a natural disaster or other extraordinary event and no time has been set for resumption of trading, the securities finance enterprise shall notify the customer within the prescribed period of time and settle the securities borrowing and lending transaction according to the following methods:

1. By redelivery of spot securities.
2. By an application to the securities exchange or over-the-counter securities market by the securities finance enterprise for purchase of the subject securities by reverse auction, with any expense arising from the reverse auction to be borne by the customer.
3. By an agreement between the two parties for repayment in cash.

### Chapter III Finance

#### Article 55

A securities and finance enterprise shall provide bond equivalent to 5

percent of its capital in cash, government bonds, financial bonds, or bank-guaranteed corporate bonds for deposit in the Central Bank of China.

#### Article 56

Securities finance enterprises may obtain capital or stocks for liquidity according to the following methods:

1. Obtaining financing from banks or other institutions.
2. Issuing commercial paper or corporate bonds.
3. Borrowing securities from the TWSE securities borrowing and lending system.
4. Borrowing securities through competitive auction lending transactions or negotiated lending transactions.
5. Purchasing securities by reverse auction through the TWSE or TPEX.

The issuance amount of commercial paper of Item 2 of the preceding Paragraph shall not exceed 6 times the net worth of that enterprise, and is limited to the purposes of providing margin loans for securities trading, refinancing to securities firms or other securities finance enterprises, subscription loans, underwriting loans, and securities settlement financing.

If a securities finance enterprise has deficiencies in its financial or business affairs and has been unable to effectively improve within the given time limit, or if there has been a material violation of the regulations, or if its net worth per share is below its par value, the competent authority will adjust the multiple of the rule in the preceding paragraph according to the seriousness of the situation.

#### Article 57

The proprietary capital of a securities finance enterprise may not be loaned to others or used for other purposes except business operating needs. Utilization of this capital is limited to the following:

1. Bank deposit.
2. Purchase of short-term bills.
3. Purchase of government bonds or financial bonds.
4. Purchase of certificates of beneficiary with option of buy-back from securities investment trust businesses.
5. Purchase of bank-guaranteed corporate bonds.
6. Purchase of real properties for business uses.
7. Other uses approved by the competent authority.

The scope, ratio, and amount for Items 4 to 6 of the preceding Paragraph will be set by the competent authority.

#### Article 58

Securities finance enterprises shall not provide guaranty, endorsement of negotiable instruments or provision of assets as security for others.

#### Article 59

Where a securities finance enterprise handles the business described in Article 5 for the same person, the same related person, or the same related business and interest-related person, the relevant credit limit, credit total balance, credit terms or conditions, and rules for providing credit to persons within the same category are to be set by competent authority. The securities finance enterprises shall set guidelines for allocating the risks involved in the credit business referred to in the preceding paragraph and in every type of securities credit, and shall establish a

credit investigation file for the same person, same related person, or same related business and interest-related person to be inspected.

The same person, same related person, same related business, and interest-related person referred to in Paragraph 1 and 2 are defined as in the Banking Act.

#### Article 60

Securities finance enterprises shall, within 3 months of the end of each fiscal year and 2 months of the end of each semi-annual fiscal year publicly announce and report to the competent authority financial reports certified by a certified public accountant, approved by the board of directors and recognized by the supervisor.

Securities finance enterprises shall, within the first 10 days of each month report to the competent authority the monthly accounting report for the previous month.

The format of the financial reports and monthly report referred to in the preceding two Paragraphs shall be prescribed by the competent authority.

Where a securities finance enterprise has any of the following conditions, it shall report to the competent authority within 2 days of the occurrence of the event:

1. The annual financial report recognized by the shareholders meeting is inconsistent with the financial report publicly announced and reported to the competent authority.
2. Occurrence of any event with material impact to the rights of shareholders.

Securities finance enterprises shall report daily the itemized information on transactions, balances, collateral, and customer financing amounts for each type of business to the competent authority for its records, and print and send the information to the TWSE and the TPEX.

#### Chapter IV Supervision and Administration of Enterprises and Personnel

##### Article 61

The examination of the financial affairs and operation of securities finance enterprises shall be handled pursuant to the provisions of Article 18-1 and Article 38-1 of the Securities and Exchange Act and Article 45 of the Banking Act.

##### Article 62

Securities finance enterprises taking any of the following actions shall report to the competent authority for its approval in advance:

1. Amendment of Articles of Incorporation.
2. Termination or resumption of business.
3. Dissolution or merger.
4. Transfer or assumption from another of the entire or a substantial portion of business or property.
5. Establishment or revocation of branch offices or other business office.
6. Change of business operation location.
7. Re-investment.
8. Offering or issuing securities.
9. Other items required to be approved pursuant to the competent authority's stipulations.

##### Article 63

Where any one of the following occurs, securities finance enterprises shall



report to the Ministry of Finance and the competent authority:

1. A resolution of the shareholders or board of directors.
2. A change of position of directors, supervisors or managers.

#### Article 64

Any change of business personnel of securities finance enterprises shall be printed in a report and collectively reported to the competent authority for its record each month.

#### Article 65

The directors, supervisors, managers and business personnel of securities finance enterprises shall not engage in the following actions:

1. Engaging in securities trading directly or indirectly based on the information learned from the position.
2. Disclosing secrets learned as a result of their positions, except in response to a legal inquiry.
3. False, deceptive, and other kinds of acts which are sufficient to mislead others in handling the business in Article 5.
4. Other violations of laws or regulations.

A securities finance enterprise shall have one general manager, who shall be responsible for the overall administration of the business operations of the entire company, and it may not have any other person in an equivalent position.

The chairman of a securities finance enterprise may not concurrently serve as the general manager. However, this restriction does not apply if any of the following circumstances exists and if approval has been obtained from the Financial Supervisory Commission (FSC):

1. The securities finance enterprise will cease to exist as a result of dissolution or merger, and the chairman or general manager has resigned or has been removed from his or her duties by order of the FSC.
2. The securities finance enterprise's business permission was voided by the FSC, and the chairman or general manager has resigned or has been removed from his or her duties by order of the FSC.
3. Any other special cause.

#### Article 65-1

Before the 11 October 2010 amendment to these Regulations enters into force, if a securities finance enterprise is not in compliance with any requirement of paragraph 2 of the preceding article, it shall make adjustments within 6 months starting from the date the amendment enters into force, and if it is not in compliance with any requirement of paragraph 3 of the preceding article, it shall make adjustments within 1 year starting from the date the amendment enters into force.

### Chapter V Supplementary Provisions

#### Article 66

These Regulations shall enter into force from the date of issuance, with the exception of the following articles as amended and issued on 26 November 2015: Articles 12 to 14, 17, and 34, which shall enter into force from 30 November 2015, and Articles 15, 18, 38 to 41, 43 to 46, 48 to 51, and 53, which shall enter into force from 1 February 2016.