

## Content

Title :	Regulations Governing the Operation of Securities Introducing Broker Business by Futures Commission Merchants <b>Ch</b>
Date :	2014.05.29
Legislative :	<p>1. Full text of 36 articles adopted and issued per 6 November 2009 Order No. Financial-Supervisory-Securities-Firms-0980057293 of the Financial Supervisory Commission, Executive Yuan; for enforcement from the date of issuance</p> <p>2. Article 21 amended and issued per 29 May 2014 Order No. Financial-Supervisory-Securities-Firms-10300133222 of the Financial Supervisory Commission</p>
Content :	<p>Chapter I General Principles</p> <p>Article 1</p> <p>These Regulations are adopted pursuant to Article 18, paragraph 2 of the Securities and Exchange Act ("the SEA").</p> <p>Article 2</p> <p>A futures commission merchant that operates securities introducing broker business ("securities introducing broker") is a securities service enterprise, and shall obtain approval from the competent authority.</p> <p>The only parties that may apply to become a securities introducing broker are futures commission merchants that operate futures brokerage business.</p> <p>A futures commission merchant that concurrently operates securities brokerage business may not apply to operate securities introducing broker business.</p> <p>A futures commission merchant that operates securities introducing broker business shall abide by the provisions of these Regulations and the related requirements of the Taiwan Stock Exchange Corporation (TWSE), the GreTai Securities Market (GTSM), and the Taiwan Securities Association (TSA).</p> <p>Article 3</p> <p>Securities introducing brokers accept mandates from securities firms to engage in the following types of business:</p> <ol style="list-style-type: none"><li>1.Soliciting securities trading business from securities investors.</li><li>2.Acting on a securities firm's behalf to open accounts for securities investors.</li><li>3.Accepting securities trading orders from securities investors and delivering the orders to a securities firm for execution.</li><li>4.Acting on a securities firm's behalf to notify securities investors to settle securities transactions.</li><li>5.Other related business approved by the competent authority.</li></ol> <p>Article 4</p> <p>A securities introducing broker that solicits securities trading business shall do so in the name of the mandating securities firm, and may not make misrepresentations, exaggerations, biased representations, fraudulent statements, or engage in other misleading conduct, and shall be subject, mutatis mutandis, to Article 5 of the Regulations Governing Securities Firms.</p>

#### Article 5

When acting on a securities firm's behalf to open accounts for securities investors, a securities introducing broker shall be subject, mutatis mutandis, to Articles 33 and 34 of the Regulations Governing Securities Firms.

When the mandating securities firm confirms and signs or seals the relevant information pertaining to account openings for securities investors performed on its behalf by the securities introducing broker pursuant to the preceding paragraph, it shall do so in accordance with securities laws and regulations and related provisions.

#### Article 6

In receiving securities trading orders from securities investors and forwarding the orders for execution by the mandating securities firm, the securities introducing broker shall be subject, mutatis mutandis, to Article 35 of the Regulations Governing Securities Firms.

A securities introducing broker that operates the business of the preceding article and the preceding paragraph shall do so in accordance with the requirements of the TWSE, the GTSM, and the TSA regarding account openings, credit checks, transaction limits, and brokered transactions.

#### Article 7

The brokerage contract that the securities introducing broker enters into with a securities investor on behalf of a mandating securities firm shall expressly stipulate that the securities introducing broker is jointly and severally liable with the mandating securities firm for damages arising out of its execution of any business listed under the subparagraphs of Article 3 of these Regulations.

#### Article 8

A securities introducing broker may concurrently accept mandates from one or more securities firms; a securities firm may concurrently mandate one or more securities introducing brokers.

Each time that a mandated securities introducing broker enters into a mandate contract with the mandating securities firm of the preceding paragraph and commences business, the mandating securities firm shall first make respective contributions to the clearing and settlement fund of the TWSE and the settlement fund of the GTSM.

The amount of the contributions to the clearing and settlement fund and the settlement fund of the preceding paragraph is NT\$3 million for each securities introducing broker. However, from the first year after a securities introducing broker enters into a mandate contract with a securities firm and commences the business, the amount that the securities firm is required to contribute to the clearing and settlement fund and the settlement fund, with respect to each securities introducing broker, shall be reduced to NT\$2 million, and prior to the end of January of each year, the mandating securities firm shall make a deposit with the TWSE and GTSM for any shortfall in contributions, or in the event of a surplus, a withdrawal.

#### Article 9

A securities introducing broker shall adopt an internal control system in accordance with the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets,

prescribed by the competent authority, and the Rules Establishing Standards for the Internal Control Systems of Securities Introducing Broker Businesses Operated by Futures Commission Merchants, jointly prescribed by the TWSE and other securities-related institutions.

A securities introducing broker shall operate in accordance with laws and regulations, its articles of incorporation, and the internal control system of the preceding paragraph.

The adoption and amendment of the internal control system of paragraph 1 shall be reported to and approved by the board of directors, and a copy retained for inspection; when the competent authority or another securities-related institution requires revision within a prescribed period of time, the revision shall be made within that period.

#### Article 10

The sites and facilities at which a securities introducing broker operates shall conform to the standards for sites and facilities adopted by the TWSE and the GTSM.

#### Article 11

When any of the following circumstances applies with respect to a securities introducing broker, it shall report the matter to the competent authority:

1. Litigation has resulted due to securities introducing broker business operated or engaged in by the securities introducing broker or any of its directors, supervisors, or employees.

2. Any of the conditions referred to in Article 53 of the SEA applies with respect to a director, supervisor, or managerial officer.

3. A director, supervisor, or employee has violated the SEA or an order issued by the competent authority pursuant to the SEA.

4. Any other matter to be reported as required by the competent authority.

Matters to be reported pursuant to the preceding paragraph shall be reported to the competent authority by the securities introducing broker through the TWSE within five days from the date of the occurrence of the matter or the date on which it learns of the matter, and notification shall at the same time be provided to the mandating securities firm.

### Chapter II Business Permission

#### Article 12

A futures commission merchant applying to operate securities introducing broker business shall meet the following requirements:

1. It has received no sanction during the last three months under Article 66, subparagraph 1 of the SEA, Article 103, subparagraph 1 of the Securities Investment Trust and Consulting Act, or Article 100, paragraph 1, subparagraph 1 of the Futures Trading Act.

2. It has received no sanction during the last half year under Article 66, subparagraph 2 of the SEA, Article 103, subparagraph 2 or 3 of the Securities Investment Trust and Consulting Act, or Article 100, paragraph 1, subparagraph 2 of the Futures Trading Act.

3. It has received no sanction during the last half year under Article 66, subparagraph 3 of the SEA, Article 103, subparagraph 4 of the Securities Investment Trust and Consulting Act, or Article 100, paragraph 1, subparagraph 3 of the Futures Trading Act.

4. It has received no sanction during the last two years under Article 66,

subparagraph 4 of the SEA, Article 103, subparagraph 5 of the Securities Investment Trust and Consulting Act, or Article 100, paragraph 1, subparagraph 4 of the Futures Trading Act.

5.It has not during the last year had its trading privileges suspended or restricted by a securities exchange, over-the-counter securities market, futures exchange, or futures clearing house pursuant to their respective bylaws.

6.Other requirements prescribed by the competent authority.

When a futures commission merchant has been sanctioned under any of subparagraphs 1 to 4 of the preceding paragraph and ordered by the competent authority to take corrective action, but at the time of its application to operate securities introducing broker business has nevertheless failed to effect concrete improvement, the competent authority may reject its application.

#### Article 13

A futures commission merchant applying to operate securities introducing broker business shall apply to the competent authority for permission by filling out and submitting an application form together with the following documents:

- 1.A business plan specifying the principles of the securities introducing broker business, internal organization and segregation of duties, personnel recruitment and training plans, and the condition of the site and facilities.
- 2.Minutes of the relevant board of directors meeting showing the resolution to operate securities introducing broker business.
- 3.The mandate contract entered into with the mandating securities firm.
- 4.Its financial report for the latest fiscal period, audited and attested (or reviewed) by a certified public accountant.
- 5.Documentation of compliance with paragraph 1, subparagraph 5 of the preceding article.
- 6.A case checklist.
- 7.A written declaration that the application form and attached documents contain no misrepresentation or nondisclosure.

#### Article 14

A futures commission merchant applying to operate securities introducing broker business shall duly amend its articles of incorporation and complete an amended company registration for the operation of securities introducing broker business within six months from the date the competent authority grants permission, and shall apply to the competent authority for a permission license by filling out and submitting an application form together with the following documents:

- 1.The applicant's articles of incorporation and documentation showing its amended company registration.
- 2.A photocopy of the futures commission merchant's permission license.
- 3.The internal control system for the operation of securities introducing broker business.
- 4.A list of managerial officers and associated persons who will conduct the introducing broker business and documentation of their qualifications.
- 5.A written declaration that none of the circumstance under Article 53 of the SEA applies with respect to any managerial officer who will conduct the

introducing broker business.

6.Documentation of submission of the operating bond in accordance with the requirements of Article 21.

7.Documentation showing that the applicant has the data transmission facilities necessary to operate securities introducing broker business.

8.Documentation of the mandating securities firm's agreement to deposit the additional contributions to the clearing and settlement fund pursuant to Article 8, paragraph 2.

9.A letter of consent stating that the applicant agrees to allow audits of its finances, operations, and other necessary matters by the competent authority, the TWSE, the GTSM, or institutions designated by the competent authority, and to provide explanations and documents requested in connection with an audit by any of the aforementioned organizations.

10.Documentation showing compliance with Article 12, paragraph 1, subparagraph 5.

11.Documentation showing compliance with Article 10.

12.A case checklist.

13.A written declaration that the application form and attached documents contain no misrepresentation or nondisclosure.

If a futures commission merchant fails to apply for the above permission license within the period prescribed in the preceding paragraph, its permission to operate securities introducing broker business shall be revoked, provided that with legitimate reason it may file an application with the competent authority for an extension before expiration of the period. Such extension may not exceed six months and will be granted only once.

#### Article 15

A futures commission merchant that applies for permission to operate securities introducing broker business may simultaneously apply for operation of securities introducing broker business by a branch unit.

A futures commission merchant that has already obtained permission to operate securities introducing broker business and applies for permission for a branch unit to operate securities introducing broker business shall comply with Article 12. When a futures commission merchant fails to meet a condition under Article 12, paragraph 1, subparagraphs 1 to 5, but concrete improvement has been made and has been approved by the competent authority, the futures commission merchant may be exempted from the restrictions of those subparagraphs.

#### Article 16

A futures commission merchant applying for permission for operation of securities introducing broker business by a branch unit shall apply to the competent authority for permission by filling out and submitting an application form together with the following documents:

1.A business plan specifying the principles of the securities introducing broker business, internal organization and segregation of duties, personnel recruitment and training plans, and the condition of the site and facilities.

2.The minutes of the relevant board of directors meetings showing the resolution to have a branch unit operate securities introducing broker business.

- 3.The internal control system for the operation of securities introducing broker business by the branch unit, provided that the internal control system need not be submitted if it is identical to that submitted during the previous application for permission for operation of securities introducing broker business by a branch unit.
- 4.The financial report for the latest fiscal period, audited and attested (or reviewed) by a certified public accountant.
- 5.Documentation of compliance with Article 12, paragraph 1, subparagraph 5.
- 6.A case checklist.
- 7.A written declaration that the application form and attached documents contain no misrepresentation or nondisclosure.

#### Article 17

A futures commission merchant applying for a branch unit to operate securities introducing broker business shall apply to the competent authority for a permission license within six months from the day the competent authority grants permission by filling out and submitting an application form together with the following documents:

- 1.Photocopies of the permission license of the futures commission merchant's branch unit.
- 2.A list of managerial officers and associated persons who will conduct the introducing broker business and documentation of their qualifications.
- 3.A written declaration that none of the circumstances under Article 53 of the SEA applies with respect to any managerial officer who will conduct the introducing broker business.
- 4.Documentation showing deposit of the operating bond in accordance with of Article 21.
- 5.Documentation showing that the branch unit has the data transmission facilities necessary to operate securities introducing broker business.
- 6.Documentation of the mandating securities firm's agreement to deposit the additional contribution to the clearing and settlement fund pursuant to Article 8, paragraph 2.
- 7.A letter of consent stating that the branch unit agrees to allow audits of its finances, operations, and other necessary matters by the competent authority, the TWSE, the GTSM, or institutions designated by the competent authority, and to provide explanations and documents requested in connection with an audit by any of the aforementioned organizations.
- 8.Documentation of compliance with Article 12, paragraph 1, subparagraph 5 of these Regulations.
- 9.Documentation of compliance with Article 10 of these Regulations.
- 10.A case checklist.
- 11.A written declaration that the application form and attached documents contain no misrepresentation or nondisclosure.

If a futures commission merchant fails to apply for the permission license within the period prescribed in the preceding paragraph, permission for operation of securities introducing broker business by its branch unit shall be revoked, provided that with legitimate reason, it may file an application with the competent authority for an extension before expiration of the period. Such extension may not exceed six months and will be granted only once.

#### Article 18

Under any of the following circumstances, the competent authority may deny approval to an application by a futures commission merchant to operate securities introducing broker business:

- 1.The content or information in the application documents is found to contain a misrepresentation.
- 2.The business plan or the internal control system is not concrete enough or cannot be effectively executed.
- 3.Business operations have not been effectively carried out in accordance with internal control systems.
- 4.Any of the circumstances of Article 53 of the SEA applies with respect to a director, supervisor, or a managerial officer that conducts the securities introducing broker business.
- 5.When otherwise deemed necessary to protect the public interest.

#### Article 19

When application documents submitted pursuant to these Regulations are incomplete or the required information is not fully provided and the applicant fails to meet a deadline for supplementation set by the competent authority, the application will be rejected.

#### Article 20

A securities introducing broker shall display its permission license in a conspicuous place on its business premises.

### Chapter III Monitoring and Oversight

#### Section 1 Finances and Operations

#### Article 21

When a futures commission merchant receives permission from the competent authority to operate securities introducing broker business, it shall complete amendment of its business registration, then open a special account with a financial institution designated by the competent authority and deposit an operating bond. An operating bond shall also be deposited when a branch unit receives permission to operate securities introducing broker business.

The operating bond required under the preceding paragraph is NT\$10 million for the securities introducing broker and NT\$5 million for each branch unit.

The financial institution in paragraph one shall be a bank that has been approved to operate custody business, and meets the conditions prescribed by the competent authority.

The operating bonds of paragraph one shall be deposited in the form of cash, government bonds, or financial bonds.

Operating bonds deposited by a futures commission merchant in connection with its operation of securities introducing broker business may not be separately deposited in different institutions, reported lost, or rescinded. The deposited operating bond and associated certificate of depository may not be provided as a security, and unless approved by the competent authority, may not be withdrawn or replaced.

#### Article 22

By the tenth day of each month, a securities introducing broker shall submit to the TWSE or GTSM a statement of the business volume in the preceding month.

The forms for the monthly statements referred to in the preceding

paragraph, and any amendments thereto, shall be respectively prescribed by the TWSE and the GTSM and filed with the competent authority for recordation.

#### Article 23

A securities introducing broker shall enter into a mandate contract with the mandating securities firm, which shall contain the following particulars:

- 1.The names of the parties to the contract.
- 2.That either party shall notify the other upon receiving a securities investor's complaint.
- 3.Provisions for commissions and other relevant fees.
- 4.The scope of agency business of the securities introducing broker and the procedures for its execution.
- 5.The scope of information and services to be provided by the parties to the contract.
- 6.That neither party shall refuse a request of the other party for provision of necessary business and financial information.
- 7.That neither party to the contract shall improperly use information obtained from the other party.
- 8.That when the securities introducing broker is unable to perform the business, it shall be directly handled by the mandating securities firm.
- 9.A method for handling damages attributable to either party to the contract.
- 10.A method for handling damages not attributable to either party to the contract.
- 11.That the mandating securities firm shall bear joint and several liability if the securities introducing broker is liable for damages caused to a securities investor or any third person resulting from deliberate intent or negligence in performing any type of business under the subparagraphs of Article 3, paragraph 1.
- 12.The settlement of trading disputes.
- 13.The alteration of contract provisions.
- 14.The rescission or termination of the contract.
- 15.The effective date of the contract.
- 16.Other necessary statements of the parties' rights and obligations.
- 17.Other matters required by the competent authority.

A mandating securities firm may not enter into an agreement in advance with a securities introducing broker to waive the liability referred to in subparagraph 11 of the preceding paragraph.

Any change, rescission, or termination of the mandate contract of paragraph 1 above shall be reported to the competent authority in advance for recordation by.

#### Article 24

A mandating securities firm may not, by a mandate contract or in any other manner, agree with a securities introducing broker to allow the securities introducing broker to execute any types of business on its behalf other than those listed under Article 3.

#### Article 25

To protect the rights and interests of the securities investors, a securities introducing broker shall promptly deliver the securities trading

orders of securities investors to the mandating securities firm for execution.

#### Article 26

In the operation of securities introducing broker business by a futures commission merchant, the business shall be operated by a dedicated department and a dedicated person shall be assigned responsibility for its management, and the business shall be executed by registered, qualified associated persons for securities business.

#### Article 27

A securities introducing broker shall keep at its business premises all the business-related certificates, vouchers, books of account, statements, records, contracts, and relevant documents for inspection at any time by the competent authority, the TWSE, the GTSM, or other institutions designated by the competent authority.

The retention period for the certificates, vouchers, books of account, statements, records, contracts, and relevant documents referred to in the preceding paragraph shall be as provided in the Business Accounting Act and other relevant laws and regulations.

#### Article 28

The competent authority, the TWSE, the GTSM, or an institution designated by the competent authority may examine the business or finances of the securities introducing broker and other necessary matters.

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

### Section 2 Personnel

#### Article 29

The term "associated person" as used in these Regulations shall mean a person engaging in the following types of business on behalf of a securities introducing broker:

1. The businesses under Article 3 herein.
2. Internal auditing of a securities introducing broker.

No person handling the business of either subparagraph 1 or subparagraph 2 of the preceding paragraph may concurrently handle the business under the other subparagraph.

An associated person as referred to in paragraph 1 shall be a qualified securities firm associated person.

The supervisor of a futures commission merchant's dedicated department for the operation of securities introducing broker business shall be qualified as a securities firm senior agent.

#### Article 30

Those who are qualified as associated persons for both securities and futures may concurrently engage in brokered futures trading and in the businesses listed under Article 3.

#### Article 31

A securities introducing broker shall register its responsible person and associated persons, and file any change in those positions, with the TWSE or GTSM; an associated person may not execute his or her duties without being registered.

Under any of the following circumstances, the TWSE or GTSM shall refuse to

register a responsible person or an associated person of a securities introducing broker, or shall void their prior registration:

1.Any of the conditions under Article 53 of the SEA applies with respect to a responsible person.

2.Any of the conditions under Article 54, paragraph 1 of the SEA applies with respect to an associated person, or an associated person does not meet the qualifications of Article 29, paragraph 3 of these Regulations.

3.Any of the conditions under Article 54, paragraph 1 of the SEA applies with respect to an associated person who serves as the supervisor of a futures commission merchant's dedicated department for the operation of securities introducing broker business, or such an associated person does not meet the qualifications of Article 29, paragraph 4 of these Regulations.

4.Violation of Article 32 of these Regulations.

5.Failure to successfully complete pre-job training or on-the-job training in accordance with regulations.

6.There is factual proof that the responsible person or associated person has been engaged or involved in other dishonest or improper activities, demonstrating his or her unsuitability for the position.

In the event of a change of responsible person or associated person at a securities introducing broker, the securities introducing broker shall report the change to the TWSE or GTSM for registration within five days after the change. Work permits for associated persons shall be re-issued or surrendered, and the securities introducing broker will remain liable for the conduct of the associated person prior to registration of the change.

#### Article 32

A responsible person or associated person of a securities introducing broker assuming or directly handling the duties under Article 3, paragraph 1 shall faithfully carry out the duties in accordance with the principle of good faith.

The enterprises and personnel of the preceding paragraph may not commit any act prohibited by Article 37 of the Regulations Governing Securities Firms or Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms.

Employees who are not associated persons may not violate the provisions of the preceding two paragraphs, and in addition, are prohibited from carrying out the duties or acting as a deputy in carrying out the duties of an associated person.

#### Article 33

Article 2 paragraph 1, Articles 3 through 8, Article 10, Articles 14 through 17, Article 18 paragraph 3, and Articles 19 through 21 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms apply mutatis mutandis to the responsible persons and associated persons of securities introducing brokers.

### Chapter IV Supplementary Provisions

#### Article 34

When a futures commission merchant, pursuant to Articles 14 and 17 herein, applies to the competent authority for issuance of a permission license, it shall pay license fees as follows:

1.A futures commission merchant applying to operate securities introducing

broker business shall pay a license fee of NT\$5,000.

2.A futures commission merchant applying for the operation of securities introducing broker business by branch units shall pay a license fee of NT\$2,000 for each branch unit.

A securities introducing broker applying to the competent authority for re-issuance of a permission license shall pay a license fee of NT\$1,000.

The securities introducing broker is exempt from payment of a license fee when applying for reissuance of a permit license due to the adjustment of administrative zones or a change of street address due to adjustment of door plates.

#### Article 35

The format of documents referred to herein shall be prescribed by the competent authority.

#### Article 36

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