

Content

Title : Financial-Supervisory-Securities-Firms-11303479011 **Ch**

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1. This order sets out matters under Article 49, Article 51, subparagraph 7, Article 52, subparagraph 9, Article 53, paragraph 2, Article 53-1, and Article 54, paragraph 1 of the Regulations Governing Securities Firms and under Article 39 of the Regulations Governing the Establishment of Internal Control Systems by Public Companies applied mutatis mutandis under Article 30, paragraph 1 of the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets as follows:

A. Securities firms may invest in foreign enterprises including holding companies, securities firms, securities finance enterprises, securities investment consulting enterprises, securities investment trust enterprises, futures commission merchants, managed futures enterprises, futures trust enterprises, venture capital enterprises, private equity funds, venture capital management consulting companies, financial consulting companies, and financial technology enterprises.

B. If a foreign enterprise invested by a securities firm is registered in a jurisdiction that is a signatory member of the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) and has obtained a securities or futures license for that jurisdiction, the scope of the business it engages in shall comply with the regulations of the securities/futures authorities of that jurisdiction, and it furthermore shall comply with the following provisions:

a. It shall, within 6 months from the day following approval by the Financial Supervisory Commission (FSC), apply to the securities/futures authorities of that jurisdiction for a business license; if it does not apply within that time period, the approval will be voided. However, if it has good cause, before the expiration of the time limit, it may apply to the FSC for an extension. The extension period shall not be longer than six months, and no more than one extension may be applied for.

b. Upon obtainment of the business license, it shall immediately notify the Taiwan Stock Exchange Corporation with a copy to the FSC.

C. If a foreign enterprise invested by a securities firm is registered in a jurisdiction that is not a signatory member of the IOSCO MMoU, or the enterprise has not obtained a securities or futures license of the IOSCO MMoU jurisdiction where it is registered, such enterprises shall be limited in their business scope to the business for which the applicant securities firm has obtained approval from the FSC, and furthermore shall comply with the following provisions, unless otherwise provided by the FSC:

a. Their total liabilities to other parties counted in aggregate with the applicant securities firm's total liabilities to other parties shall not exceed six times the applicant securities firm's net worth.

b. Their total current liabilities counted in aggregate with the applicant securities firm's total current liabilities shall not exceed those foreign enterprises' total current assets counted in aggregate with the applicant securities firm's total current assets.

c. Their investment positions shall be aggregated into the calculation of relevant limits to which the applicant securities firm is subject and comply with provisions regarding those limits.

d. Derivatives exposure rules: Financial derivatives trading business engaged in and positions held in financial derivatives shall be aggregated into the

calculation of relevant limits to which the applicant securities firm is subject and comply with provisions regarding those limits.

e. The securities firm shall disclose the following in the notes to the semi-annual and annual financial reports:

I. Information including the foreign enterprise's business operations (including details of securities held, status of derivatives products engaged in and sources of funds, income from asset management business such as consultancy and advisory business, the services provided, and any disputes or litigation), balance sheet, and statement of comprehensive income.

II. With respect to related party transactions, fully disclose information on all dealings between it and the foreign enterprise.

D. If as a result of a merger or acquisition involving the securities firm, a foreign enterprise invested by it exceeds a scope set out above, the time limit to make adjustments shall be no longer than two years. When necessary, one extension may be applied for, which shall be no longer than two years.

E. Securities firms investing in foreign venture capital enterprises, private equity funds, venture capital management consulting companies, or financial consulting companies shall comply with the following provisions:

a. They shall be limited to integrated securities firms that operate securities underwriting, proprietary trading, and brokerage business.

b. When a securities firm invests in a venture capital enterprise or private equity fund, the restrictions set out in Article 11-1 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms shall apply, and furthermore no responsible person or employee of the securities firm may serve as a managerial officer of any enterprise invested in by that venture capital enterprise or private equity fund.

c. A securities firm that holds controlling shares in a venture capital enterprise or a private equity fund shall comply with the following rules:

I. The securities firm shall evaluate the categories and scope in which a venture capital enterprise or private equity fund is allowed to invest and have them approved by a resolution of the board of directors.

II. The securities firm shall include the venture capital enterprise or private equity fund in the internal control system chapter "Supervision of Subsidiaries" under the Standard Directions for the Internal Control Systems of Securities Firms and adopt rules of conduct and handling procedures to supervise and manage trading by the venture capital enterprise or private equity fund with interested parties, and trading policies to prevent conflicts of interest and other related issues.

III. The securities firm shall establish internal rules for and exercise control over the investment limits and shareholding ratios applicable to investments by the venture capital enterprise or private equity fund in target companies and other investments by the venture capital enterprise or private equity fund. Furthermore, when filing its monthly accounting summary, it shall disclose the financial and business information of the venture capital enterprise or private equity fund.

d. If a securities firm's invested subsidiary will serve as a general partner in a venture capital enterprise or private equity fund, in addition to complying with the provisions of the preceding item, the provisions listed below shall also be complied with:

I. The securities firm shall obtain a shareholders meeting resolution adopted by a majority of the attending shareholders who represent two-thirds or more of the total number of its issued shares. In the case of a securities firm that has publicly issued shares, if the total number of shares represented by the attending shareholders is insufficient to meet the above quorum, the resolution may be adopted by two-thirds or more of the attending shareholders who represent a majority of the total number of its issued shares.

II. The subsidiary shall be a limited liability juristic person and shall be registered in a jurisdiction that is a signatory member of the IOSCO MMoU and the laws and regulations of which permit that subsidiary to be a general partner of a limited partnership.

III. The securities firm shall include that subsidiary in the internal control system chapter "Supervision of Subsidiaries" under the Standard Directions for the Internal Control Systems of Securities Firms.

IV. With respect to the subsidiary serving as a general partner, the partnership contract or related contractual documents must specify the responsibilities of each partner, the investment target industry(ies) and

business scope, and the investment and management decision-making procedures, and establish an internal investment review committee.

V. The venture capital enterprise or private equity fund in which the subsidiary serves as a general partner shall not lend funds or provide endorsements or guarantees to others. Its short-term capital shall not be used to invest in leveraged financial products.

VI. If any litigation occurs involving the subsidiary, the securities firm shall, within 3 business days from the date of knowledge or occurrence of the fact, file a report with the cause and relevant materials to the FSC.

VII. The securities firm shall engage certified public accountants (CPAs) to conduct an audit of the financial and business status of the subsidiary after the close of each fiscal year. The subsidiary shall furthermore after the end of each fiscal year, in conjunction with the annual financial report of the securities firm, report to the board of directors of the securities firm on its financial and business operations.

F. The securities firm's investment in finance-related enterprises and non-securities/futures/finance-related enterprises shall not exceed 20 percent of the securities firm's net worth. However, the above restriction shall not apply if a special need exists and special case approval is obtained.

G. With respect to a foreign investee enterprise in which a securities firm directly or indirectly holds more than 50 percent of the total number of issued voting shares or over which it has de facto control, the following provisions shall be complied with regarding any lending of funds or endorsements or guarantees between the securities firm and the foreign investee enterprise, unless otherwise provided by the FSC:

a. Adopt relevant operational procedures: Operational procedures for loaning funds to others or operational procedures for endorsements/guarantees shall be adopted in accordance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, and related risk control measures and internal control systems also shall be adopted.

b. Setting of limits:

I. If short-term financing is needed, the financing amount may not exceed the lending company's net worth.

II. The amount of endorsements/guarantees may not exceed the net worth of the company making the endorsements/guarantees.

c. Information disclosure: the securities firm shall disclose relevant information in accordance with the information disclosure provisions of the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies and disclose it in detail in the relevant financial reports.

H. If a domestic securities firm's foreign investee enterprise applies to invest in Taiwan securities, unless it is doing so under engagement by a customer, it shall comply with the following provisions:

a. It may not participate in underwriting allocation operations.

b. The number of shares that will be held in Taiwan securities by the securities firm's foreign investee enterprise applying to make such investment shall be aggregated into the calculation of the securities firm's shareholding in its trading for its own account under Article 19 of the Regulations Governing Securities Firms and shall comply with provisions regarding limits.

I. Matters falling under the phrase "unless otherwise provided" in Article 53, paragraph 2 and Article 54, paragraph 1 of the Regulations Governing Securities Firms are as follows:

a. If a foreign enterprise in which a securities firm invests in accordance with subparagraph (2) changes its business items, the securities firm is not required to report the change to the FSC in advance; if such an invested foreign enterprise sub-invests in another securities or futures institution in that jurisdiction, and such sub-investment involves no outward remittance of capital by the securities firm, the securities firm is not required to report to the FSC for approval beforehand. However, the securities firm shall still report to the FSC for recordation within 5 business days from receiving the supporting documents issued by the securities/futures authorities of that jurisdiction.

b. If investment by a securities firm's foreign subsidiary in any venture capital enterprise or private equity fund, plus the total investment by the securities firm's parent company and its subsidiaries in that venture

capital enterprise or private equity fund, does not exceed 20 percent of the total assets of that venture capital enterprise or private equity fund or does not exceed NTD300 million, it is not required to apply to the FSC for approval in advance.

2. This order is effective from this day forward. FSC Order No. Financial-Supervisory-Securities-Firms-10703209011 of 1 June 2018 is repealed from this day forward.

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