

Regulations Governing Securities Investment Consulting Enterprises

(93.10.30 Announced)

(Amended 2006.01.20)

Chapter I General Principles

[Article 1](#) These Regulations are adopted pursuant to Article 70, Article 72, Article 83 paragraph 5, and Article 95 of the Securities Investment Trust and Consulting Act ("the Act").

[Article 2](#) A securities investment consulting enterprise (SICE) shall establish an internal control system pursuant to Article 93 of the Act.

The operation of a SICE shall be governed by laws and regulations, the enterprise's articles of incorporation, and the internal control system referred to in the preceding paragraph.

The internal control system referred to in paragraph 1 shall be submitted for approval by the SICE's board of directors prior to adoption or to any subsequent amendment, and shall thereafter be retained on file for reference. When the Executive Yuan Financial Supervisory Commission ("FSC") issues notice requiring amendment of the internal control system, the amendment shall be made within the prescribed period of time.

[Article 3](#) A SICE shall report to the FSC for prior approval of any of the following actions:

1. Changing the company name.
2. Changing the amount of capitalization;
3. Changing its lines of business.
4. Changing the business address of the enterprise or a branch unit;
5. Assigning or taking assignment of all or a major portion of [the SICE's or another enterprise's] business or assets.
6. Dissolution or merger;
7. Other matters requiring prior approval pursuant to FSC regulations.

[Article 4](#) A SICE shall report any of the following to the FSC:

1. Commencement, suspension, resumption, or cessation of business operations;
2. A change of director, supervisor, or manager;
3. A change in the shareholdings of a director, supervisor, or any shareholder holding five percent or more of the total outstanding shares of the enterprise;
4. The occurrence of litigation, non-litigation, or mediation by the Securities

Investment Trust and Consulting Association of the R.O.C. (the SITCA), arising out of business operations or the performance of duties by an associated person;

5. Other matters to be reported pursuant to SFC regulations.

Matters under subparagraph 1 of the preceding paragraph shall be reported prior to the event; matters under subparagraphs 2 to 4 shall be reported by letter to the SITCA within five business days of the event. The SITCA shall in turn notify the FSC.

Chapter II Finance

Article 5

The capital of a SICE may not be loaned to others, used to purchase real estate unconnected with SICE business operations, or transferred for other uses. Utilization of capital not required for business operations shall be restricted to the following:

1. Deposit in domestic banks;
2. Purchase of domestic government bonds or financial bonds;
3. Purchase of domestic treasury bills, negotiable certificates of deposit, or commercial paper;
4. Purchase, in the prescribed ratio, of securities investment trust fund beneficiary certificates that conform with FSC regulations;
5. Other uses approved by the FSC.

A SICE may not provide guarantees, endorse negotiable instruments, or provide assets for use as collateral by others except when in compliance with Article 16, paragraph 1 of the Company Act and with prior FSC approval.

Article 6

Within three months after the end of each fiscal year, a SICE shall announce and submit to the FSC an annual report audited and certified by a certified public accountant, passed by the board of directors, and recognized by the supervisors.

After commencement of operations, when the CPA-audited and certified annual report submitted by the SICE pursuant to the preceding paragraph shows a net worth per share lower than the par value, such circumstance shall be rectified within one year.

When a SICE has not rectified the above circumstance within one year, the FSC may restrict its provision of securities investment analyses through broadcast media.

The annual financial report referred to in paragraph 1 shall be delivered to the SITCA for submission to the FSC.

[Article 7](#)

Except where otherwise provided herein, a SICE that offers or issues securities in connection with a capital increase or decrease shall do so as provided in the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

The FSC will separately announce the supporting application documents and any regulations pertinent to the issuance of securities in connection with a capital increase or decrease by a SICE that has no publicly issued shares.

Chapter III Operations

[Article 8](#)

When accepting a mandate from a client and providing analytical opinions or recommendations on securities investment or trading matters, a SICE shall produce a written securities investment consulting contract stipulating the rights and obligations of both parties.

The securities investment consulting contract referred to in the preceding paragraph shall state the following:

1. The names and addresses of the parties to the contract.
2. The rights, obligations, and legal liability of the parties to the contract.
3. The scope of analytical opinions and recommendations provided by the SICE.
4. The methods by which the SICE provides its services.
5. The amount of remuneration and fees to be paid by the client and the method of their calculation and payment.
6. The SICE's confidentiality obligations in respect of information on client assets or other personal client information that it gains as a result of the mandate relationship.
7. The client's obligation not to divulge the analytical opinions or recommendations of the SICE to any third party except with the consent of the SICE.
8. The SICE's obligation to not accept funds from a client or act as the client's agent in securities investment activities, and to not stipulate the sharing of any securities investment profits or losses with a client.
9. Matters pertaining to amendment or termination of the contract.
10. The date on which the contract takes effect and its duration.
11. The client's right to terminate the contract with written notice within seven days from the date of receipt of the contract.
12. The fee refund rate that the client may seek upon termination of the contract, and the means of refund.
13. The means of resolving disputes and the court of jurisdiction.

14. Other matters with a bearing on the interests of contracting parties as prescribed by FSC regulation.

When a contract is terminated as provided in subparagraph 11 of the preceding paragraph, the SICE may seek remuneration from the client commensurate with the services provided prior to termination, provided that it may not additionally claim for damages arising from termination or for penalty for breach of contract.

A template for the securities investment consulting contract shall be adopted by the SITCA and its use implemented after submission for approval by the FSC; the same shall apply for any amendment thereto.

Article 9

When a SICE provides securities investment analyses and recommendations, it shall draft a report on its investment analysis specifying the analytical basis and source data used.

A copy and a record of the report referred to in the preceding paragraph shall be kept on file for a period of five years from the date of its provision, and may be kept in electronic form.

A SICE that enters into a securities investment consulting contract as provided in the preceding article shall keep the contract on file for a period of five years after the extinguishment of the contractual rights and obligations thereunder.

A SICE that provides an investment analysis through any broadcast media shall retain a video or audio recording of the program for a period of not less than two months.

Article 10

A SICE may not use exaggerated or biased representations in advertising, public information meetings, or other promotional activities.

A SICE shall report any advertising, public information meeting, or other promotional activity to the SITCA within 10 days of its occurrence.

When the SITCA discovers the circumstances under Article 12, paragraph 1, it shall file a letter of report with the FSC before the end of each month detailing the circumstances.

Any promotional or advertising materials and related records produced in connection with the advertising, public information meetings, or other promotional activities given in paragraph 1 shall be retained for a period of two years.

The FSC may at any time conduct a spot check of records relating to the SICE's advertising or promotional materials; the SICE may not refuse or impede such a check.

[Article 11](#)

A SICE shall operate in accordance with the Act, any orders issued pursuant to the Act, and contractual stipulations, acting with the care of a good administrator and exercising its fiduciary duty in accordance with principles of good faith and credit.

Except where law or regulation provide otherwise, a SICE as referred to in the preceding paragraph may not engage in the following conduct:

1. Using fraud, coercion, or other improper means in connection with the signing of mandate contracts.
2. Acting as agent for a client in securities investment activities.
3. Stipulating that gains or losses from securities investments will be shared with a client.
4. Making trades in the same securities as those recommended to an investor.
5. Engaging in false or deceptive conduct, rude invective, or other conduct contrary to facts or sufficient to cause misplaced trust.
6. Engaging in borrowing or lending of funds or securities with a client, or acting as intermediary in such a transaction.
7. Keeping custody of or misappropriating a client's securities, funds, personal stamp, or passbook.
8. Attempting to seek gain for oneself, another client, or a third party through the use of investment analyses or recommendations, publications issued, or lectures given for a client.
9. Divulging a matter entrusted by a client or a secret learned while performing its duties, except in answer to an inquiry undertaken in accordance with the law.
10. Consenting to or tacitly allowing others to use the company name or an associated person's name in doing business.
11. Transmission by any means of a message to a client containing trading recommendations lacking a sound analytical basis or source data during the trading hours of the centralized securities exchange market or over-the-counter market.
12. Making forecasts of the future price of a specific security or making trading recommendations regarding a specific security to unspecified persons, in a public venue or in a broadcast media other than radio or television, without providing an analytical basis.
13. Performing investment analyses for a client by means of divination or an appeal to spirits.
14. Encouraging or inducing others through writing, pictures, speech, or any

other method to refuse performance of securities trading settlement obligations, to assemble and protest, or engage in other acts that would disturb the order of the securities markets.

15. Using non-professional personnel to solicit clients, or requesting the payment of unreasonable commissions.

16. Conducting securities investment analysis activities under a non-registered name.

17. Any other conduct in contravention of securities and futures laws and regulations or prohibited by FSC regulations.

Except where other laws or FSC regulations so provide, a SICE as referred to in paragraph 1 shall maintain the confidentiality of information on clients, their trading histories, and other related information.

A SICE shall adopt and implement rules governing the administration of internal personnel in accordance with SITCA regulations.

Article 12

A SICE may not engage in the following types of conduct in advertising, public information meetings, or other promotional activities:

1. Providing programs on securities investment analysis through broadcast media in contravention of any provisions of the preceding article.
2. Using deception or other improper means to induce an investor to participate in a securities investment analysis activity for the purpose of soliciting clients.
3. Making unsubstantiated advertising claims that the effectiveness, content, or methods of its own securities investment analyses are superior to those of others.
4. Revealing in advertising only matters advantageous to the SICE, or other types of exaggerated presentation of content.
5. Using advertising that will cause a mistaken belief that the SICE engages in discretionary trading when the SICE has not received approval for such trading.
6. Making representations guaranteeing that investments will be profitable or that the SICE will bear losses.
7. Engaging in advertising to solicit clients while undertaking investment analyses in the broadcast media.
8. Engaging in conduct involving conflicts of interest, fraud, misrepresentation, or the intent to influence market prices.
9. Conduct involving forecasts of the future price of a specific security.
10. Making recommendations or soliciting non-specified persons to trade in a specific security over radio or television during the trading hours of the

centralized securities exchange market or over-the-counter market, or within one hour before or after trading hours.

11. Using radio or television at any time outside the period prescribed in the preceding subparagraph to provide analytical opinions to non-specified persons on the industry or on the operations or finances of a specific company connected with a specific security, or to make recommendations for trading in a specific security, without providing reasonable analytical basis.

12. Failing to provide a reasonable analytical basis for judgments about market prices, market analyses, or industry trends.

13. Using collusion among major investors, speculation by industry groups, insider information, or other improper or unlawful information in appeals to solicit clients or as the basis for recommending specific securities.

14. Using any letters of recommendation, letters of thanks, records of past performance, or any other text or representation likely to cause a belief in the certainty of profit.

15. Failing to list the company's registered name, address, telephone number, or business license number in written documents produced for the purpose of promoting business.

16. Holding securities investment analysis activities or producing written documents in the name of an associated person, internal research department, or name other than that of the SICE.

17. Violating the SITCA's self-regulatory provisions regarding advertising or promotional activities.

The self-regulatory provisions referred to in paragraph 1, subparagraph 17, and any amendments thereto, shall be drafted by the SITCA and implemented after submission for FSC approval.

Article 13

Except where otherwise provided by the Act, the Securities and Exchange Act, the Futures Exchange Act, the Trust Enterprise Act, or other law or regulation, when a securities broker, futures broker, or trust enterprise concurrently operates securities investment consulting business, the department exclusively engaging in consulting business shall be administered through the mutatis mutandis application of this Chapter, as well as Article 4, paragraph 1, subparagraph 4, and the latter part of Article 4, paragraph 2.

Except where otherwise provided by the Securities Exchange Act or Trust Enterprise Act, a securities broker or trust enterprise concurrently operating discretionary investment business shall be governed by the mutatis mutandis application of paragraph 1, subparagraph 4, and the latter part of paragraph 2

of Article 4, and of Articles 11 and 12.

Chapter IV Merger

[Article 14](#) Except where otherwise provided by the Financial Institution Merger Act, the Business Mergers and Acquisitions Act, or other relevant laws, when an SICE applies for a merger, all companies participating in the merger shall comply with the following provisions:

1. The CPA-audited and certified financial report for the preceding period shall show a net worth per share not lower than par value.

2. The company shall have received no disposition pursuant to Article 103, subparagraphs 2 to 5, of the Act, Article 66, subparagraphs 2 to 4 of the Securities and Exchange Act, or Article 100, paragraph 1, subparagraphs 2 to 4 of the Futures Exchange Act, within the preceding half-year period.

In addition to applying the provisions of the preceding paragraph, a SICE that applies to merge with a SITE shall comply with the provisions regarding application to concurrently operate securities investment trust business as set forth in the Standards Governing the Establishment of Securities Investment Trust Enterprises.

If a SICE applying for merger, or applying to merge with a SITE, is not in compliance with any of the provisions of the two preceding paragraphs, the FSC may grant ad-hoc approval based on an overall consideration of factors such as sound securities market development and the SICE's competitive status.

[Article 15](#) When a SICE undergoes merger or merges with a SITE, the companies participating in the merger shall publicly announce the content of the resolution and the required particulars of the merger agreement, and report the relevant information to the FSC within two days from the actual merger date.

The "actual merger date" referred to in the preceding paragraph shall be the earliest date on which a resolution of a board of directors is passed, a merger agreement is signed, or any other act takes place sufficient to confirm the intent of merger

After information regarding a SICE merger, or the merger of a SICE with a SITE, has been made public, if there is subsequently any objective factual occurrence indicating that the merger cannot be consummated, the SICE shall make a public announcement and file a report attaching the relevant information to the FSC within two days from the date of such factual occurrence.

[Article 16](#)

When a SICE applies for merger, or applies to merge with a SITE, it shall fill out an application form to be submitted for FSC approval along with the following documents:

1. A record of deliberations on the merger and passage of the relevant resolution at the board of directors' and shareholders' meetings of the participating companies.
2. Merger agreement: in addition to the content required under Article 8, paragraph 2 of the Financial Institution Merger Act, the agreement shall also contain measures to protect customer rights and interests; for a merger of a SICE with a SITE, it shall also contain measures to protect the rights and interests of the SITE's beneficiaries.
3. Evidentiary documents showing announcement (or notification) of the content of the merger resolution and the required clauses of the related contract.
4. Financial reports of the companies participating in the merger, CPA audited and certified, for the preceding two fiscal years.
5. Pro forma consolidated balance sheets for the record date of calculation of the share conversion ratio and a CPA audited and certified financial report for the same day for the companies participating in the merger.
6. An opinion statement on the reasonableness of the share exchange ratio in the given merger (including the reasonableness of the methods of evaluation underlying calculation of the share exchange ratio) from an independent expert.
7. Merger plan: set out post-merger adjustments to organizational structure and places of business, post-merger business strategies and policies, projected merger progress and schedule, projected benefits and financial forecast for the next two years, the feasibility, necessity, and reasonableness of the plan content, and post-merger measures to protect the rights and interests of existing SICE customers and security investment trust fund beneficiaries.
8. A photocopy of the relevant competent authority's letter of approval (applicable only when the Fair Trade Act requires such approval for a combination of enterprises).
9. A list of shareholders requesting share subscription and their membership capital amounts.
10. Assessment opinion by a lawyer regarding the legality of the merger.
11. A declaration that the application form and attached documents contain no concealment or misrepresentation.

When applying for merger, a SICE may simultaneously apply for issuance of new shares in connection with the merger.

When a SICE applies for a permit to concurrently conduct securities investment trust business, it may simultaneously apply to merge with a SITE, and may simultaneously submit an application to issue new shares due to the merger.

Chapter V Foreign securities investment consulting business

Article 17

Operation of investment consulting business for foreign securities shall be limited to the following enterprises:

1. Securities investment consulting enterprises.
2. Securities brokers engaging in consigned trading of foreign securities and concurrently operating securities investment consulting business.
3. Futures brokers engaging in consigned trading of foreign futures and concurrently operating securities investment consulting business.
4. A trust enterprise managing specified money trusts and concurrently operating securities investment consulting business.
5. A SITE that concurrently conducts securities investment consulting business.

The scope and types of foreign securities for which a SICE may provide consulting services shall be announced by the FSC.

Article 18

Those operating in foreign securities investment consulting business shall conform with each of the following requirements:

1. The CPA-audited and certified financial report for the preceding period shall show a net worth per share not lower than par value; provided that this restriction shall not apply where a SICE has obtained its business license for less than one full fiscal year.
2. The enterprise shall have received no disposition within the preceding two years of a severity equal to or greater than that in Article 103, subparagraph 2 of the Act, Article 66, subparagraph 2 of the Securities and Exchange Act, or Article 100, paragraph 1, subparagraph 2 of the Futures Trading Act, or Article 44, paragraph 1, subparagraph 2, or Article 44, paragraph 2, subparagraphs 1 or 2 of the Trust Enterprise Act.
3. The enterprise's on-site facilities and associated persons shall conform to SITCA regulations.

Those operating securities investment consulting business for foreign securities other than offshore funds shall conform to the following requirements in addition to those of the preceding paragraph:

1. The enterprise shall have been established for not less than two years.
2. The foreign securities firms and their subsidiaries and branch units which have signed cooperation contracts with the enterprise, and securities institutions related to the enterprise through re-investment, shall possess member status or trading qualification status in FSC-designated foreign securities exchanges.
3. The cooperating securities investment consulting companies shall have a CPA audited and attested total net value of managed assets greater than 1 billion US dollars or the equivalent in foreign currency.

[Article 19](#) Operation of investment consulting services for foreign securities may be undertaken only after FSC approval is obtained through application with the required application form and supporting documents.

[Article 20](#) The FSC may withhold approval for an application for operation of investment consulting services for foreign securities under any of the following circumstances:

1. Failure to comply with the provisions of Articles 17 and 18.
2. Failure to make correction within the prescribed period when required application documents are not submitted in full, or when they contain incorrect information or lack specific required items.

[Article 21](#) Except where FSC approval is otherwise obtained or through registration effective upon notification, an application to operate investment consulting services for foreign securities may not involve the domestic offering, issuance, or trading of securities.

[Article 22](#) Applicants to operate investment consulting business for foreign securities shall deliver to customers relevant information regarding the securities about which they consult, and shall do the same whenever that information is updated.

[Article 23](#) When the FSC discovers any of the following circumstances after an enterprise has received approval for operation of investment consulting services for foreign securities, then in addition to voiding or canceling its approval, the FSC may also suspend for a period of two years its acceptance of any new business of the same type:

1. The enterprise's application documents contain misrepresentations.
2. Violation of any provision of the preceding two articles.
3. Violation of any other compulsory or prohibitive FSC regulation regarding operation of recommendation and consulting services for foreign securities investment.

Chapter VI Supplementary Provisions

[Article 24](#) The format of documents required pursuant to these Regulations will be announced by the FSC.

[Article 25](#) These Regulations will be implemented from the date of issuance.