

# **Q&A regarding Incentive Measures for Securities Investment Trust Enterprises (“Plan to Advance Excellence for SITEs”)**

## **I. Purpose of the Plan**

### **1. What is the purpose of measures in this plan?**

Answer:

The Financial Supervisory Commission (FSC) adopts “Plan to Advance Excellence for SITEs (the Plan)” pursuant to the Order of Financial-Supervisory-Securities-Investment No. 1040018551 dated June 1, 2015. The Plan is an incentive measure aimed to advance domestic asset management talents and skills, scale up asset under management and move toward internationalization. The SITEs that meets “Basic Requirements” and makes significant contribution in terms of two of the three Dimensions, which including “Investment Research Capability”, “International Presentence”, and “Talent Training” may be eligible for the preferential measures upon approval by the FSC.

The nature of measures is for encouragement. The SITEs who does not apply or has applied but failed to meet the indicators in the plan may still conduct asset management businesses such as apply for approval or filing for effective registration of publicly-offered or privately-placed investment trust funds and discretionary investments based on existing regulations.

### **2. Is this plan only for large SITEs? How to apply for small- and medium-sized SITEs?**

Answer:

The plan lists 3 main dimensions with 14 indicators. Some indicators are qualitative, such as all 3 indicators regarding talent training in Dimension Three and the indicator (I)4 of Dimension One (A rigorous procedure has been formulated with significant results for investment management, risk control, stock selection, and investment portfolio construction of funds or discretionary investment managers). The qualification of some indicators is not associated with the amount of assets under management. This includes, the indicator 1(1) of Dimension One focused on the proportion of the

number of funds self-managed by SITEs, and the qualification of the indicator (II)2 of Dimension One is the growth rate of assets rather than the ranking of the amount in scale. Therefore, small- and medium-sized SITEs may aim for performing as a “small and beautiful”. They may choose those indicators focusing on talents training, business quality and growth, and stand a chance to meet the Plan and enjoy preferential measures.

## **II. Basic Requirements**

### **1. Why the review period is different in the 3 indicators of “Basic Requirements”?**

Answer:

To satisfy “Basic Requirements”, a SITEs must meet all the following indicators:

1. No material regulatory violation within three years prior to the date of application, provided that a SITEs going through a major changes in managerial control due to merger, acquisition or share transfer and gets recognized by the FSC is not subject to this indicator.
2. The operating income for the most recent year was positive, and the CPA-audited or reviewed financial report for the most recent period shows the net worth of each share not lower than the par value.
3. No material deficiency in the design or implementation of internal control system within three years prior to the date of application, provided that concrete improvement has been made a SITEs and recognized by the FSC is not subject to this indicator.

On one hand, free and open policy, and support for innovation and development are the core principles of the FSC. On the other hand, the FSC thinks highly of the importance of risks and integrity. Combining the previous mentioned concepts, the FSC’s holds “Principle of Two Wings”. Therefore, the review period of no “material regulatory violation” or no “material deficiency of internal control system” is set for three years. Besides, though the financial soundness is the essence of the SITEs to properly operate, with comprehensive consideration of the basic threshold should not be too hard to achieve, the review period of financial conditions is set as one year.

**2. What is “Material regulatory violation” referred in the indicator (I)?**

Answer:

“Material regulatory violation” means one of the following circumstances:

- A. The disposition of warning imposed on the SITEs in accordance with Subparagraph 1, Article 103 of “Securities Investment Trust and Consulting Act,” and its personnel committed the prescribed acts in violation of Article 13 to 15 of “Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises” or Article 19 to 19-1 of “Regulations Governing the Conduct of Discretionary Investment Business” resulting in the disposition of suspension of performance of business duties for one year or dismissal from duties imposed.
- B. The disposition of warning was imposed on the SITEs in accordance with Subparagraph 1, Article 103 of “Securities Investment Trust and Consulting Act,” and over three times the amount of fines was imposed on the SITEs in accordance with “Securities Investment Trust and Consulting Act.”
- C. The disposition of warning was imposed on the SITEs in accordance with Subparagraph 2 to 6, Article 103 of “Securities Investment Trust and Consulting Act.”

**3. How to identify “no material deficiency in the design or implementation of its internal control system” referred in the indicator (III)?**

Answer:

Material Deficient” means that there is material deficient in the design or implementation of internal control systems. As a result, the case of new fund application has been rejected or deny approved, or the offering and issuance of funds are restricted by the FSC with a written notice.

### **III. Indicators of Dimension One to Three**

- 1. There are total four indicators of “(I) Self-Investment Capacity” in Dimension One “Investment Research Capability” (which is subject to at least two of the four indicators). How to calculate or identify for each indicator?**

Answer:

**Indicator (I)1 “The number of publicly offered funds and private placement funds mandated or appointed to an overseas consultant in the most recent year does not exceed half the total number of funds which invest in overseas markets. Once it has been reached in the first year, the ratio will be one third in the second year, one fourth in the third year, one fifth in the fourth year, and one tenth after the fifth year:”**

- A. With regard to the calculation of the requested ratio, the numerator is the number of publicly-offered or privately-placed investment trust funds that delegate overseas investment functions to the entrusted management institution or authorize a SITE providing consulting services. The denominator is the number of publicly-offered or privately-placed investment trust funds deducted by the number of funds that are limited to domestic investment. For example, the SITE A has 8 overseas-investment funds by the end of 2015. Among which, one fund delegate overseas investment functions to the foreign asset management company, and three funds authorize companies providing consulting services. It may apply for approval with the qualification of the ratio  $\leq 1/2$  in 2016.
- B. To encourage SITEs to develop their own investment capacity, the qualifying ratio of the indicator is in stages in which the ratio will increase year by year once it has reached in the first year (the ratio will be one second, one third, one fourth, and one fifth in the first, second, third, fourth year, respectively, and one tenth after the fifth year). In the above-mentioned SITE A, it has applied for approval with the qualification of the ratio  $\leq 1/2$  in 2016. If not apply for approval in 2017, then it shall meet the qualifying ratio of “third year,” i.e. one fourth when it applies for approval again in 2018.

**Indicator (I)2 “The average rate of return in the most recent year on at least three types of all funds under its management are higher than the average rate of return on corresponding types of funds in the overall SITEs:”**

- A. With regard to the calculation of the average rate of return in the latest year on managed funds by the SITE. By taking the equity fund in 2014 as an example, it will be the simple average of the total samples from the total cumulative returns for one year of the funds established for at least one year (Jan. 1, 2014 - Dec. 31, 2014) at all share classes. The rates of return of funds are subject to the performance data designated by the Securities Investment Trust and Consulting Association of the R.O.C.(SITCA).
- B. Fund types are based on the type codes of the SITCA and divided into AA Equity Fund, AB Balanced Fund, AC Fixed-income Fund, AD Money Market Fund, AE Fund of Funds, AF Principal Guaranteed Fund, AG REITs Fund, AH Exchange Traded Fund, and AI Index Fund.
- C. The average rate of return for the latest year on all types of funds in the overall SITEs will be calculated and published by the SITCA.

**Indicator (I)3 “The annual average of investment research team members (including fund manager, investment manager, and other investment research personnel) in the most recent three year is at least 25 persons, and the ratio of the number of investment research team members to the number of funds (including the number of discretionary contracts) is growing:”**

- A. With regard to the calculation of the annual average of investment research team members, by taking examples in the year 2013-2015, it will be the simple average of numbers of persons in service for the fund manager, investment manager, and other investment research personnel by the end of 2013, 2014, and 2015.
- B. With regard to the qualification of 25 persons, it is referred to the number of investment research team members for each SITE by the end of 2011-2013 provided by the SITCA to calculate the annual average of investment research team member in three years for each SITE.
- C. With regard to the calculation of the ratio of the number of investment research team members to the number of funds (including the number of discretionary contracts). The numerator is the number of investment research team members by the end of the year, and the denominator is the number of publicly-offered or privately-placed investment trust funds plus the number of discretionary contracts by the end of the year. By taking examples in the year 2013-2015, it is growing if the ratio of 2015 is greater than the ratio of 2013.

**Indicator (I)4 “A rigorous procedure has been formulated with significant results for investment management, risk control, stock selection, and investment portfolio construction of funds or discretionary investment managers:”**

- A. This is a qualitative indicator. The SITE may apply to the FSC with appropriate evidence. The FSC will examine the relevant contents of internal control systems and operational procedures of the SITEs, and refer to the information about past actual implementation for review.
- B. Upon the initial approval for qualification for this indicator by the FSC, this indicator no longer needs to be reviewed annually unless the circumstances otherwise considered by the FSC to be necessary to conduct the review again. For example, significant changes in management, disposition due to deficiencies in design or implementation of the internal controls related to the four processes and etc.

**2. There are total two indicators of “(II) Assets under Management and its Growth” in Dimension One “Investment Research Capability” (which is subject to at least one of the two indicators). How to calculate or identify for each indicator?**

Answer:

**Indicator (II)1 “The AUM of publicly offered funds and private placement funds (exclusive of money market funds) and discretionary investment assets in the most recent year ranked in the top one-third of AUM of SITEs in Taiwan:”**

The asset size is the simple average of the total scale of publicly-offered and privately-placed investment trust funds (exclusive of money market funds), discretionary investment assets, and the assets under consulting services with power of investment decision at the end of each month for the latest year.

**Indicator (II)2 “The AUM of the publicly offered funds and private placement funds (exclusive of money market funds) and discretionary investment assets in the most recent year was at least NT\$10 billion and the growth rate of AUM in the most recent year reached over 20% (inclusive):”**

The asset size is the same as above. With regard to the calculation of the growth rate of the asset size in the latest year, the numerator is the asset size at the end of

the period deducted the asset size at the beginning of the period, and the denominator is the asset size at the beginning of the period.

**3. There are total five indicators of Dimension Two “Global Presentence” (which is subject to at least two of the indicators).How to calculate or identify for each indicator?**

Answer:

**Indicator (I) “The SITE has made investments in overseas equity to set up asset management companies or establish overseas subsidiaries, and actually expanded international businesses:”**

Not limited for direct investment by SITE only; therefore, this includes:

- A. Overseas asset management companies invested by the SITE itself.
- B. Overseas asset management companies invested by its owner group, and they have substantial effect on assisting the SITE to expand international businesses.

**Indicator (II) “The SITE has actual sales results (for example, public sales or private placement of funds has reached a scale equivalent of NT\$3 billion) from public sales or private placement activities abroad (exclusive of OBU & OSU). Once it has been reached in the first year, the growth rate of the fund scale of activities conducted abroad for public sales or private placement of funds will reach over 10% (inclusive) every year in the future:”**

- A. The fund scale of activities conducted abroad for public sales or private placement of funds refers to the scale by the end of the latest year.
- B. With regard to the calculation of the growth rate of the fund scale of activities conducted abroad for public sales or private placement of funds, the numerator is the scale at the end of the period deducted the scale at the beginning of the period, and the denominator is the scale at the beginning of the period. For example, the SITE A’s sales abroad of investment trust funds in the first year has reached NT\$3 billion, the scale of sales abroad of investment trust funds in the second year should reach at least NT\$3.3 billion (at an annual growth rate of 10%) to be qualified for the indicator. If not apply for approval in the second year, then it shall be qualified for the indicator

when the scale of sales abroad of investment trust funds in the third year is reaching at least NT\$3.63 billion (at an annual growth rate of 10%).

C. This indicator is referred mainly to identify any actual sales result from activities conducted abroad for public sales or private placement of funds, no restrictions are placed on the necessity of SITEs going abroad directly to conduct sales activities. Therefore, the sales activities abroad of investment trust funds may be conducted by its owner group or cooperated with foreign institutions.

**Indicator (III) “The average assets in the most recent year of foreign capital mandated to conduct discretionary investments or provide consultancy services with discretion reserved by SITE ranked in the top one-third from high to low the relevant assets under management of the industry in Taiwan; or the average asset-under-consulting in the most recent year of foreign capital engaged SITE to provide general investment consultancy services reached at least NT\$12 billion. Once it has been reached in the first year, the growth rate of the average asset-under-consulting will reach over 10% (inclusive) every year in the future:”**

- A. “The relevant assets under management of the industry in Taiwan” means the discretionary investment assets and assets under consulting services with power of investment decision (including companies concurrently operate discretionary investment business; however, those obtaining relevant licenses without actual management of assets are not included in the rankings).
- B. The average assets under consulting in the latest year refer to the simple average of the amount of assets under consulting at the end of each month in the latest year. Referring to the indicator of offshore fund institutions engage Taiwan SICE to provide general investment consulting services in the “Plan to Encourage Stronger Business Ties in Taiwan for Offshore Funds,” the qualification for the first year is NT\$12 billion.
- C. Once it has been reached in the first year, the growth rate of the average assets under consulting will reach over 10% (inclusive) every year in the future. For example, assume the average assets under consulting of SITE A for providing consultancy services for foreign capital have reached NT\$12 billion, and thus it is qualified for the indicator. The average assets under consulting of providing consultancy services for foreign capital in the second year should reach at least NT\$13.2 billion (at an annual growth rate of 10%)



to be qualified for the indicator. If not apply for approval in the second year, then it shall be qualified for the indicator when the average assets under consulting of providing consultancy services for foreign capital in the third year reach at least NT\$14.52 billion (at an annual growth rate of 10%).

**Indicator (IV) “The average investment amount of foreign capital investments in the funds issued by SITEs in the latest year reached at least NT\$4 billion. Once it has been reached in the first year, the growth rate of the average investment amount will reach over 10% (inclusive) every year in the future (calculated at the original investment cost without the increase in the underlying asset price):”**

- A. The average investment amount in the latest year means the simple average of the investment amount at the end of each month.
- B. Once it has been reached in the first year, the growth rate of the average assets under advisement will reach over 10% (inclusive) every year in the future. For example, assuming that the total obtained foreign capital investments in the sales of investment trust funds issued by the SITE A in the first year has reached an average of NT\$4 billion and thus it is qualified for the indicator. The foreign capital investments in the sales of investment trust funds issued by the SITE A in the second year should reach at least NT\$4.4 billion (at an annual growth rate of 10%) to be qualified for the indicator. If not apply for approval in the second year, then it shall be qualified for the indicator when the foreign capital investments in the sales of investment trust funds issued by the SITE A in the third year reach at least NT\$4.84 billion (at an annual growth rate of 10%).
- C. This indicator refers to foreign capital investments in the publicly-offered or privately-placed investment trust funds within the borders, OBU, and OSU, which is different from the indicator 2.2 (sales abroad of investment trust funds).

**Indicator (V) “Accept assessment from professional consulting firms:”**  
Taking international practices into consideration, the Due Diligence and evaluation by professional consulting firms for SITEs in Taiwan will help contest international businesses such as foreign funds operation and management or sales abroad of investment trust funds, so that this indicator has been set. The professional consulting firms include professional consulting firms that evaluate

specifically for the asset management industry with public credibility; such as Towers Watson, Mercer, and so on.

**4. There are total three indicators of Dimension Three “Talent Training” (which is subject to at least two of the three indicators). How to identify each indicator?**

Answer:

The three indicators of Dimension Three “Talent Training” are all qualitative indicators. The SITE shall apply to the FSC with appropriate evidence.

**Indicator (I) “Coordinated with the FSC or the institutions appointed by the FSC to conduct asset management talent development programs or liaison with university in Taiwan to provide financial education/training, overseas internships, or training executive opportunities with outstanding results in the latest year:”**

- A. The institutions appointed by the FSC are referred to “designated institutions for training and education of Securities Investment Trust and Consulting Professionals” which currently include the (1) Securities Investment Trust and Consulting Association of the R.O.C.,(SITCA) (2) Securities and Futures Institute, (3) Taipei Foundation of Finance, (4) Taiwan Academy of Banking and Finance, (5) Accounting Research and Development Foundation, and (6) Taiwan Insurance Institute.
- B. This indicator is refer to programs or trainings provided by SITEs (including but not limited to labors or money), and the training is for talents in the industry, so it does not include the training of internal personnel by SITEs.
- C. The SITEs may submit in advance relevant talent development programs or university and industry liaison plan for review. Upon initial identification, the implementation is then conducted accordingly. Afterward, it may apply for this indicator with the original plan and implementation results for approval.

**Indicator (II)“The result is distinguished in training and educating internal talents for business-related studies, exams, or acquiring international investment licenses:”**

- A. Although the internal talents referred in this indicator are not only for core asset management technical talents such as investment research; however, it

should not focus on the effectiveness of cultivation of sales personnel only.

- B. The international investment licenses should be recognized by the SITCA. For example, Exam for Securities Analyst (currently including CFA, Chartered Financial Analyst and CIIA, Certified International Investment Analyst) qualified by foreign governments or groups recognized by the Association in accordance with Subparagraph 2, Paragraph 1, Article 13 of the “Rules of Qualification Exam for Securities Investment Trust and Consulting Professionals” of the SITCA.

**Indicator (III) “The result is significant in allocating considerable resources such as human resource to the SITE by its financial holding company, group parent company at home or abroad or its affiliated companies in order to assist the development of the asset management business of the SITE:”** For encouraging financial holdings and other groups to provide human and other resources to support expansion investment trust businesses, this indicator has been thus set.

**5. How “Other substantial contributions which enhance the business operation and development of asset management industry in Taiwan” is applicable?**

Answer:

- A. If any substantial contributions to specific performances on enhancement of asset management and development in Taiwan, the SITE may apply to the FSC with appropriate evidence. For example, the financial holding company, group parent company at home and abroad or its affiliated companies appoint their investment capitals to discretionary investments conducted by domestic SITEs, or the SITEs innovate and research & development funds.
- B. Upon recognition of each contribution to specific performance by the FSC, any one indicator on evaluation in the aforementioned dimensions can be regarded as qualified (except for the indicator 1.1(4) of Dimension One).

## **IV. Preferential Measures**

### **1. What are specific contents of each preferential measures?**

Answer:

The SITEs qualified for conditions prescribed in Subparagraph II to VI may apply to the FSC with appropriate evidence for approval before the end of June each year, and together with proposed the applicable preferential measures listed in Subparagraph VII at the same time. The validity period of approval is one year.

#### **A. Relax the maximum number of new funds per application, or shorten the period for effective registration to 12 business days in accordance with the proviso in the Subparagraph 2, Paragraph 3, Article 12 of “Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises”:**

The SITEs applying for this preferential measure shall select either “relax the maximum number of new investment trust funds per application” or “shorten the period for effective registration,” and cannot select both. If the former is selected, the maximum number of new investment trust funds per application may be relaxed to 3 without being offered and established simultaneously and no restrictions to the same type of fund. If the latter is selected, the period for effective registration of investment trust funds that are not limited to domestic investments can be shorten from 30 to 12 business days elapsed counting inclusively from the date upon which the FSC receives the filing in accordance with the proviso in the Subparagraph 2, Paragraph 3, Article 12 of “Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises”.

#### **B. Simplify the application procedures for special types of funds:**

According to Paragraph 1, Article 12 of “Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises”, in the case of a public offering of a securities investment trust fund set out in Article 23, Subparagraph 9 of the “Regulations Governing Securities Investment Trust Funds” (other type of funds), it should be applied to the FSC for approval. The review time may be shorten by the FSC for the case of such public offering of a securities investment trust fund when the SITE selecting this preferential measure.

**C. Relax relevant investment ratios of SITE utilization of fund assets, without limitations of Paragraph 1, Article 10 of “Regulations Governing Securities Investment Trust Funds”:**

The investment trust funds of SITE selecting this preferential measure applies (or registers) to publicly offer to the FSC within the validity period of preferential measures may not restricted to the relevant investment ratio prescribed in Article 10 of “Regulations Governing Securities Investment Trust Funds.” For example, the upper limit of the ratio for the bond funds and balanced funds investing in high-yield bonds. The SITE shall set up a reasonable upper limit of the ratio based on the core investment targets for individual funds and investment policies and strategies. The FSC will review the proposed specific content for approval.

**D. Simplify the operations procedures in four processes of analysis, decision, execution, and review of investment transactions:**

(A) This preferential measure may be offered only those qualified for the indicator 1(4) of Dimension One.

(B) Forms production in the written format and items specified by the FSC may be waived for the SITE selecting this preferential measure aiming at the operations in four processes of analysis, decision, execution, and review of investment transactions for funds or discretionary investment asset. However, the system of the SITE should be able to control the four processes to perform sequentially and keep tracks.

**E. Other preferential or convenient measures in compliance with the relevant laws and regulations:** In compliance with relevant laws and regulations of the securities investment trust industry, the SITE may propose its own measures on deregulation or simplification of procedures desired to be implemented. The FSC will review the proposed specific content for approval.

- 2. Whether the qualified SITEs and their eligible preferential measures will be published? Is such information about recognition or preferential measures allowed to be cited for advertising or marketing purposes?**

Answer:

- A. At the time when the SITE is recognized, the FSC will publish the recognized SITE and its applicable preferential measure.
- B. The recognition is based on the dimensions of investment research capability, global allocation and talent training for an SITE qualified for the plan, and is not directly associated with the performance of individual investment trust funds. The recognition of the FSC and the permitted preferential measure cannot be cited for advertising or marketing purposes.

## **V. Other Principles and Instructions**

- 1. Does “the most recent year” or “the most recent three years” referred in each indicator of the mean of Dimension One to Three in the calendar year?**

Answer:

Yes. SITEs may apply to the FSC for approval before the end of June each year. The data adopted by relevant indicators in the latest year that is one calendar year before the application date. For example, to apply before the end of June, 2016, the period for data evaluated is from January 1, 2015 to December 31, 2015. For the latest three years, the period for data evaluated three calendar years before the application date.

- 2. How to obtain the related benchmark data for comparison in the indicators?**

Answer:

The following data for comparison will be calculated and published by the SITCA.

- A. Indicator (I)2 of Dimension One:** The average rate of return for the latest year on all types of funds in the overall SITEs.

**B. Indicator (II)1 of Dimension One:** The average amount of the asset management ranked in the top one-third of SITEs in the latest year, including the total of the size of publicly-offered and privately-placed investment trust funds (exclusive of money market funds), discretionary investment assets, and the assets under consulting services with power of investment decision at the end of each month for the latest year. The FSC requests the SITCA to disclose the asset management scale of the SITE ranking in the top one-third every month without disclosing the name. By taking examples of 37 SITEs, the amount of the asset management ranked 12th will be disclosed.

**C. Indicator (III) of Dimension Two:** The average amount of discretionary investment assets ranked in the top one-third of discretionary investments conducted by investment trust and consulting companies in the latest year, including discretionary investment assets and the assets under consulting services with power of investment decision (including companies concurrently operate discretionary investment business. However, those possessing zero actual discretionary investment assets are not included in the rankings). The FSC requests the SITCA to disclose the amount of discretionary investment assets ranked in the top one-third every month without disclosing the name of discretionary investment companies. By taking examples of the total 60 companies, the amount of discretionary investment assets ranked 20th will be disclosed.