

Q&A for Multi-Currency Funds Including NTD and Foreign Currencies Denominated Funds

I. Multi-Currency Funds incl. NTD and Foreign Currencies

1、 Are the IPO procedures for Multi-currency funds including NTD and foreign currencies (hereafter multi-currency fund(s) incl. NTD) the same as the procedures for single-currency funds? What are the procedures for NTD funds expanding into multi-currency funds incl. NTD?

Ans:

(1) New IPOs of multi-currency funds incl. NTD

According to the Regulations Governing the Public Offering of Securities Investment Trust Funds by the Securities Investment Trust Enterprises, SITEs intending to issue new IPOs of multi-currency funds incl. NTD shall adopt either “application approval system” or “effective registration system”. For “application approval system”, application for IPOs will be forwarded by the FSC to the Central Bank for approval. For “effective registration system”, after obtaining effective registration, the SITE shall obtain a letter of consent from the Central Bank before it may conduct the offering.

(2) Existing New Taiwan Dollar denominated funds expanding into multi-currency funds

According to the FSC Securities and Futures Bureau Letter No. 1010047366 issued on October 11th 2012, existing NTD funds expanding into multi-currency funds shall conduct through contract amendment, and beneficiary meetings are not required. However, an attorney’s letter of opinion attesting to the claim of no significant changes to the rights of the investors must be filed with the FSC. The FSC then forwards the matter to the Central Bank for approval before granting an approval to the SITEs for the amendment to the funds.

- (3) After obtaining a joint foreign currency quota for a multi-currency fund from the Central Bank, SITEs intending to add or delete the foreign currency class, but not involving an increase in the aforementioned joint foreign currency quota, may directly request an amendment to the contract from the FSC and forward an attorney's letter of opinion. Review by the Central Bank is not required.
- (4) When SITEs offers a securities investment trust fund that primarily invests in domestic securities, with the exception of money market funds, ETFs, and privately placed funds, all other funds may be issued in foreign currency classes in Taiwan, and such funds can only be sold to non-residents. The securities investment trust fund that primarily (over 70% of the fund's net asset value) invests in domestic securities mentioned earlier include equity funds and index funds whose investment strategies is investing in equity securities, such as stocks traded on TWSE or GTSM (including emerging stocks that have been approved for trading by TWSE or GTSM and ratified by the FSC), depository receipts, call and put warrants. They also include balanced funds, principal guaranteed funds, bond funds, and funds of funds that primarily invest in securities such as domestic bonds and fund beneficiary certificates, etc.

2 、 What is the quota for each class of multi-currency fund incl. NTD?

Ans: SITEs shall clearly state the quota for each NTD and foreign currency class in the securities investment trust contracts. If a fund of a certain foreign currency class is issued both domestically and overseas, the SITEs shall set separate quota for both.

3 、 Is it required to set the face value of each foreign currency class identical to the corresponding NTD class?

Ans: The per-unit IPO price for a foreign currency class can be set differently from the corresponding NTD class.

4、 Can an investor subscribing to a foreign currency class in a multi-currency fund incl. NTD settle the subscription in NTD?

Ans: A multi-currency fund incl. NTD has offered an option for subscription in NTD. Therefore, according to the FSC Securities and Futures Bureau Letter No. 1010047366 issued on October 11th 2012, an investor subscribing to a foreign currency class of a multi-currency fund incl. NTD may not settle the subscription in NTD. Moreover, the currency selected for redemption must be identical to the currency selected during subscription; therefore, payment for redemption must also be made in the selected foreign currency.

5、 Is there any special requirement for disclosures in the prospectus for multi-currency funds incl. NTD?

Ans: A multi-currency fund incl. NTD is offered with a range of different currency classes; therefore, the SITEs of multi-currency fund incl. NTD shall describe the base currency and the risks associated with currency exchange in the securities investment trust agreement and fund prospectus as the basis for calculation of the daily fund asset value and currency exchange, as well as the fees and profits/losses attributable to each of the class that are to be borne by the investors.

6、 When a general beneficiary meeting or cross-class beneficiary meeting for a multi-currency fund incl. NTD is convened, how to calculate the beneficiary units for each class if different face values were issued for the individual classes?

Ans: According to Article 15 of the Regulations Governing Securities Investment Trust Fund Beneficiaries Meetings, each beneficial interest unit held by a beneficiary carries one voting right. Therefore, even when the face value of each individual class is different, the voting rights still must be calculated according to the above rule.

7、 What are the control measures governing SITEs selling multi-currency funds incl. NTD overseas to Mainland persons?

Ans: The sale of multi-currency funds incl. NTD overseas must be conducted

in accordance with the local regulations. When receiving a single subscription over US\$ 1 million or exceeding 10% of the total fund value overseas, the SITEs shall verify the subscriber with the overseas agency. If the aforementioned subscriber is identified as a Mainland investor, the SITE shall file the subscription into the corresponding statistics and make regular reports to the Securities Investment Trust and Consulting Association (SITCA), which will then keep the FSC updated of the relevant information. In a case where the total value invested by Mainland investors reaches a certain amount giving rise to a likelihood of affecting the stability of market, the FSC may order the SITE to suspend subscription from such investor(s).

8 、 When a multi-currency funds incl. NTD calculating the asset value upon establishment, liquidation standards, and Article 83 of the Regulations Governing Securities Investment Trust Funds (involving whether beneficiary meeting is required when a fund is under a certain scale), is the scale of the fund based on the sum of the all classes in the fund?

Ans: The criteria used to determine the lowest fund value upon establishment, liquidation standards, and the scale for waiver of beneficiary meeting for multi-currency funds incl. NTD are based on the sum of the asset values of all classes.

9 、 Are there special requirements for the content of expression and disclosure, and the expression of currencies in the financial reports of multi-currency fund incl. NTD?

Ans:

- (1) Financial reports for multi-currency funds incl. NTD shall be expressed in NTD; and multi-currency funds not incl. NTD in the base currency.
- (2) Annual financial reports for funds must be prepared in accordance to the format published in FSC Order No. 0950146444 on December 11th 2006, with additional notes disclosing the net asset value, number of units, and per-unit net value of each class.

10、 Will the limitation on the number of pages of the simplified prospectus be lifted for multi-currency funds incl. NTD?

Ans: The limitation on the number of pages for the simplified prospectus of multi-currency funds incl. NTD remains the same as for general funds. When the content of the prospectus exceeds the allowed number of pages, the SITEs shall edit the content to conform to the format. The FSC will also review whether the page limitation on the simplified prospectus is reasonable when the need arises.

11、 Is it allowed to transfer between the NTD currency class and a foreign currency class of a multi-currency fund incl. NTD? Is it allowed to transfer to another fund?

Ans: According to the FSC Securities and Futures Bureau Letter 3(2) No. 1010047366 issued on October 11th 2012, subscription to a NTD class of a multi-currency fund incl. NTD may not be transfer to/from a foreign currency class of the same fund. The investors may transfer the investment through redemption/subscription (ex: redeem from the NTD class and then subscribe to a foreign currency class). As for the transfer between a foreign currency class of a multi-currency fund incl. NTD and a separate foreign currency fund, there are no restrictions to such transfer at the current stage.

12、 Is it required to set different classes when the same foreign currency class (ex: US Dollar) of a multi-currency fund incl. NTD is offered both domestically and overseas?

Ans: Considering that different legal regulations may apply to the same currency class offered domestically and overseas (ex: the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals stipulates that beneficiary certificates issued by a domestic SITE in a foreign country invested by overseas Chinese and foreign nationals are considered investment of foreign beneficiary certificates and beneficiary certificates issued domestically are considered investment in domestic securities.), different classes must be set for a currency class offered domestically and overseas.

13 、 Is it allowed to list additional currency classes in the trust contract of multi-currency funds incl. NTD without opening these classes to public fundraising or subscription upon IPO but set a different date in the future for commencement of public fundraising? When additional foreign currency classes are added to an existing fund, is it allowed to set a separate date for commencement of fundraising other than the date set by Article 34 of the standard contract, which is upon approval of the FSC.

Ans: The SITE may list additional foreign currency classes in the securities investment trust contract without opening these classes to public offering or subscription and set a future date for commencement of offering. Furthermore, additional currency classes added to a fund by the SITE may be set to commence offering at a specified date.

14 、 Are SITEs allowed to accept subscription to a foreign currency class and settle the subscription in a different currency?

Ans: Subscription/redemption to a foreign currency class (ex: US Dollar) of a multi-currency fund incl. NTD must be settled in the same currency (ex: US Dollar). The SITEs are not allowed to accept settlement of subscription in a different currency (ex: Euro).

15 、 Is it allowed to set different handlings of dividends calculations, management fee, custodian fee, minimum subscription amount, redemption fee, subscription/redemption procedures, places, and cut-off time, redemption payment time and methods for different currency classes in the same multi-currency fund incl. NTD?

Ans: There must be rational reasons for setting different rates of management and custodian fee rates for the different currency classes in the same fund and clearly state the reasons in the issuance plan. A statement of the reasons must also be attached when applying for amendment to an existing fund. Moreover, if a SITE intends to set different terms, including minimum subscription, redemption fees, subscription/redemption procedures, location, and cut-off time,

redemption payment time and method, for the different fund classes, the SITE must do so without compromising the fairness and rights of the investors and fully disclose the information in the fund prospectus and marketing documents.

16、 When offering the same foreign currency class of a multi-currency fund incl. NTD both domestically and overseas, the foreign currency class must be offered separately. Is it required to label the name of the foreign currency class with words indicating to different issuing countries?

Ans: Whether indicating the issuing country in the names of the different classes of a fund must be decided by the SITE to meet the needs of actual practice.

17. Under what circumstances may a multi-currency fund including NTD perform follow-on offering?

Ans: Because the quotas for the NTD classes and foreign currency classes of a multi-currency fund including NTD are calculated separately, if a specific class of the NTD classes and foreign currency classes of a multi-currency fund including NTD meet the requirements for follow-on offering defined in Article 8 of “Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises,” the SITE may perform follow-on offering for that specific class (the NTD class or the foreign currency class).

II Foreign Currency Denominated Funds

- 1. Regarding an IPO of multi-currency or single-currency funds denominated in foreign-currencies, are these two types of funds governed by the same regulations? What are the procedures for applying addition of foreign currency classes to an existing fund denominated in foreign-currencies?**

Ans:

- (1) IPO of multi-currency or single-currency funds denominated in foreign-currencies must be conducted in accordance to the rules set forth in FSC Order No. 1010045938 issued on October 17th 2012.
- (2) SITEs intending to add additional currency classes to an existing fund denominated in foreign-currencies must do so through contract amendment, beneficiary meetings are not required. However, the SITE must attach an attorney's letter of opinion attesting to the claim of no significant changes to the rights of the investors to application and forward the application to the FSC

- 2. Foreign currency denominated funds offered by the SITEs may be settled in the specified currency or NTD. Who must bear the risk of currency exchange, the fund or investors?**

Ans: According to FSC Order No. 1010045938 issued on October 17th 2012, subscription/redemption of foreign currency denominated funds issued by SITEs may be settled in the specified currency or NTD and the SITEs will carry out exchange settlement on behalf of investors. The risk incurred from currency exchange will be borne by the investors, therefore the above Order requires the SITEs to fully disclose the exchange rate information, including the time of application and sources of exchange rate quotes, in the fund prospectus for reference.

- 3. Point 4 (2) and (3) of FSC Order No. 1010045938 issued on October 17th 2012 requires that a currency settlement account must be set up for foreign currency denominated funds settled in NTD, the balance**

must come to zero at the end of every day, and an offset is not allowed. How is it implemented in actual practice?

Ans: The aforementioned regulation stipulates, "SITs shall open an exclusive new Taiwan Dollar currency settlement accounts for foreign exchange settlement and such accounts may only be used to settle payments of subscription, redemption, dividends, and the associated fees and the account balance must come to zero at the end of every day." The SITs may also set up "temporary credit accounts" for settlement of subscription in NTD and transfer the balance to the currency settlement account after the subscription is confirmed.

4. May SITs privately offered foreign currency denominated funds based on FSC Order No. 1010045938 issued on October 17th 2012? Is it allowed to settle the subscription and redemption of private foreign currency funds in NTD?

Ans:

- (1) FSC regulations for privately placed funds are mostly done in negative listings. Therefore, except for the regulation stated in (2) below, please see FSC Order No. 1010045938 issued on October 17th 2012 for regulations governing privately placed single currency or multiple currency funds denominated in foreign-currencies.
- (2) The subscription/redemption of foreign currency denominated funds may settled by foreign currency or NTD, this option is only available to publicly placed foreign currency denominated funds at this moment. It is not applicable to privately placed foreign currency denominated funds at the current stage.

5. Under what circumstances can a SITE perform follow-on offering for a foreign currency denominated fund?

Ans: Various foreign currency classes of a multi-currency denominated in foreign-currencies share the foreign currency quota of a fund. If the SITE plans to add or remove foreign currency classes, the SITE may do so within the ceiling for the original quota of the fund. If the SITE plans to

perform follow-on offering for a fund denominated in foreign currencies, it can do so only after the total of all foreign currency classes issued meets the requirement defined in Article 8 of “Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises,” and then the SITE can apply to the FSC for follow-on offering.