

Q&A for the Application (Registration) for Securities Investment Trust Funds by Securities Investment Trust Enterprise (SITE)

1. What is the review procedure for securities investment trust funds?

Explanations:

- (1) Since the Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises (“Public Offering Regulations”) was amended on October 21 2014, public offering of funds in principle shall employ the “effective registration system,” the “application approval system” shall be employed under exceptional circumstances.
- (2) Public offering of funds defined in Article 23, subparagraphs 1 to 8 of Regulations Governing Securities Investment Trust Funds, which are equity funds, bond funds, balanced funds, principal guaranteed funds, index funds, exchange-traded funds (ETFs), money market funds, and funds of funds, in principle shall employ the effective registration system. However, if any exceptional circumstances listed in Article 12, Paragraph 1 of the Public Offering Regulations existed, the application approval system shall be employed.

2. The effective registration period for public offering or follow-on offering of the SITE?

Explanation:

- (1) When a SITE makes a public offering for a fund that is limited to domestic investments only, the filing takes effect 12 business days from the day the FSC receives the filing.
- (2) When a SITE makes a public offering for a fund that is not limited to domestic investments, the filing takes effect 30 business days from the day the FSC receives the filing. However, SITEs that meet the conditions for “differential management” defined by the FSC may see the duration of 30 business days reduced to 12 business days.

(3) When a SITE makes a follow-on offering for any fund, the filing takes effect 7 business days from the day the FSC receives the filing.

3. Why cases with circumstances listed in Article 12-1, Paragraph 1 of the Public Offering Regulations are not eligible for the effective registration system upon filing rules, but shall be employed the application approval system ?

Explanation: Cases that are eligible for the effective registration system will become effective after passage of a certain period of time, unless the FSC notifies the suspension of effective registration. However, there may be situations where further explain the condition of improvement or further communications with foreign regulators or agencies are needed if a SITE has any of the following situations: rapid shrinkage in the size of the fund after the fund is available for redemption, poor quality in past submissions, material irregularities in the internal audit and internal control within the SITE, or the case requires statements or official letters from foreign regulators or other institutions. Because the conditions vary from one SITE to another, it is difficult to ascertain the time needed for corrective action. Therefore, the review procedure for such cases shall employ the application approval system.

4. How is “the most recently established securities investment trust fund for which six months have already elapsed from the first day of the redemption period has undergone a reduction by 50% or more of its average units compared to the date of its establishment” defined in Article 12-1, Paragraph 1, Subparagraph 1 of the Public Offering Regulations calculated?

Explanation:

(1) To improve the situation where fund companies and their sub-distributors may inflate the fund size by enticing investors before a new fund is launched to transfer their money from an existing fund to a new fund, only to redeem immediately after the fund is available for redemption and thereby affecting the normal investment and operation of funds, the FSC promulgates this rule. The

purpose of this rule is assisting the size of securities investment trust funds to grow steadily.

- (2) The six-month duration refers to the six months after the fund is available for redemption. For example: A fund is launched on January 5, 2015 and available for redemption on April 5, 2015. The six-month duration is from April 6, 2015 to October 5, 2015. Furthermore, assume the size of the fund when it is launched is NT\$ 5 billion (the same currency applies hereafter) at 500 million units. Between April 6, 2015 and October 5, 2015, the average daily fund size is \$3 billion at average daily unit number of 310 million, the average daily number of units is 62% of the number of units on the launch day of the fund (310/500). The next fund is still eligible for the effective registration system. However, if the average daily fund size is \$1.4 billion at average daily unit number of 160 million between April 6, 2015 and October 5, 2015, the average daily number of units is 32% of the number of units on the launch day of the fund (160/500). The next public offering of fund by the SITE shall employ the application approval system.
- (3) In the case of umbrella funds, because umbrella funds are multiple funds offered to the public and launched simultaneously, if the average number of units issued at any one of the funds declined by more than 50%, the next public offering of fund by the SITE shall employ the application approval system.

5.Are funds launched before the amendment of the Public Offering Regulations eligible for the revised follow-on offering regulations? Or is it necessary to revise the securities investment trust contracts?

Explanation: According to Article 8 of the amended Public Offering Regulations, the condition of follow-on offering has been relaxed from the level where, in the five business days preceding the date of registration, the average ratio of the number of units already issued to the number of units to be issued under the original application approval or effective registration is 95% or higher, to 80%. Because the condition for follow-on offering of funds are generally stated in the securities investment trust contracts, whether a revision is needed still depends on the content of contracts. However, for the sake of simplifying the procedure, if such cases require the revision of contracts, the attorney opinions may be waived.