

# Q&A regarding Incentive Measures for Securities Investment Trust Enterprises (“Incentive Policy for Onshore Fund”) (amended September 23, 2022)

## One. Purpose of the Policy

### I. What is the purpose of the measures in this policy?

Answer:

The Financial Supervisory Commission (FSC) adopts the “Incentive Policy for Onshore Fund (the Policy)” pursuant to the Order of Financial-Supervisory-Securities-Investment No. 1040018551 dated June 1, 2015, and the amendments were made with Jin-Guan-Cheng-Tou-Zi Order No. 1050041389, 1060048641, 1080300232, 1090360829, 1100333960, and Jin-Guan-Cheng-Tou Order No. 1110383761 dated October 26, 2016, January 4, 2018, February 27, 2019, March 20, 2020, June 11, 2021 and September 23, 2022 respectively. The Policy 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 meet the “Basic Requirements” and make significant contribution in terms of the three Dimensions, which include “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 do not apply or have applied but failed to meet the indicators in the policy may still conduct asset management businesses such as applying for approval or filing for effective registration of publicly-offered or privately-placed investment trust funds and discretionary investments based on existing regulations.

### II. Is this policy only for large SITEs? How to apply for small- and medium-sized SITEs?

Answer:

- (I) The policy 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 investment trust funds or the ratio of the scale 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. In addition, other indicators are applicable standards for small- and medium-sized SITEs, such as Dimension One indicator 1(3) defining that the number of people in investment research teams accounts for at least 20% of the companies' total number of employees, and indicator 2 of Dimension Three, in which the expense for talent training uses net income after taxes as a standard for differentiation. 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 Policy and enjoy preferential measures.

(II) Investment trust firms with a smaller size of management are constrained by factors such as corporate development and resource capacity, which makes it difficult for them to achieve the goals in all 3 areas. Therefore, investment trust firms ranked among the last 3/4 in terms of average scale of asset management may choose the framework and indicators under section 2 of the “Incentive Policy for Onshore Fund” in the application. If the investment trust firms can satisfy 2 areas of the requirements, they can get access to basic preferential treatment. The average scale of asset management includes the size of public investment trust funds, discretionary assets management, and total assets under consulting services with decision latitude (calculated on the basis of net asset value). Simple means of the value at the end of each month in the previous year will be taken in the calculation (same as III-Indicator (II)1 by definition).

## **Two. Basic Requirements**

### **I. Why the review period is different in the 3 indicators of “Basic**

## **Requirements?”**

Answer:

- (I) To satisfy “Basic Requirements,” a SITE shall simultaneously meet all the following indicators: 1. No material regulatory violation within three years prior to the date of application, provided that a SITE going through 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 SITE and recognized by the FSC is not subject to this indicator.
- (II) 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, although 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 at one year.

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

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

- (I) The disposition of warning imposed on the SITEs in accordance with Sub-paragraph 1, Article 103 of “Securities Investment Trust and Consulting Act” or subparagraph 1 under Article 100 of the “Futures Trading 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” or Article 54 through Article 56 of the “Regulations Governing Futures Trust Enterprises” resulting in the disposition of suspension of performance of business duties for one year or dismissal from duties imposed.
- (II) The disposition of warning was imposed on the SITEs in accordance with

Sub-paragraph 1, Article 103 of “Securities Investment Trust and Consulting Act,” or subparagraph 1 under Article 100 of the “Futures Trading Act” and over three times the amount of fines was imposed on the SITEs in accordance with “Securities Investment Trust and Consulting Act.” and “Futures Trading Act”.

- (III) 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.” or subparagraph 2 to subparagraph 5 under Article 100 of the “Futures Trading Act”.

### **III. 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 deficiency in the design or implementation of internal control systems. As a result, the case of new fund application has been rejected or denied approval or the offering and issuance of funds or futures trust business. are restricted by the FSC with a written notice.

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

- I. 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 each indicator?**

Answer:

- (I) **Indicator I. 1(1) “The number or the scale of publicly-offered funds and private placement investment trust funds mandated or appointed to an overseas consultant in the most recent year do not exceed half the total number or the total scale of funds which are invested in overseas markets. After the accomplishment in the first year, the actual ratio of the mandated or appointed overseas consulting shall be reduced by at least 10% than the previous year until 1/10 and shall stay at this ratio. The aforesaid publicly-offered or privately-placed investment trust funds invested by cross-border investments do not include feeder funds, fund of funds mainly invested in the sub-funds of the same Group and private funds with 70% or more invested in a single fund”:**

1. With regard to the calculation of the requested ratio, the numerator is the number or the scale 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 or the scale 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.
2. In addition, since some funds have limited benefits to improving the self-investment research capacity of the SITE, the following types of funds are not included in the calculation basis “public or private funds invested by cross-border investments” of this indicator, which means that the denominator shall exclude the following funds. However, if the following funds contain sub-brokerage or being entrusted to offshore consultants, such funds shall be included in the numerator:
  - (1) Feeder funds;
  - (2) fund of funds mainly invested in the sub-funds of the same Group; or
  - (3) Private funds with 70% or more invested in single fund.

Continuing from the previous example: If 1 of the privately-placed funds within 8 cross-border investment funds of Firm A is invested in an offshore fund with the ratio of 80%, such private fund shall not be included in the denominator. The ratio will be changed from  $1/2$  (4 funds out of 8 funds) to  $4/7$  (4 funds out of 7 funds), which does not meet the ratio standard of  $\leq 1/2$ .

3. To encourage SITEs to develop their own investment capacities, the qualifying ratio of the indicator is in stages in which the ratio will increase year by year once it has reached the first year (SITE shall take the actual ratio that attains  $1/2$  of the standard ratio in the first year as basis with the decrease of at least 10% in each subsequent year ahead until meeting the actual ratio of  $1/10$ , which will be the standard ratio for the subsequent years that follow). Therefore, once the SITEs select the number or the scale of the funds as the calculation basis, the calculation basis is not allowed to be modified. For example, SITE B applied for approval with the qualification of the ratio  $\leq 1/2$  in 2016, and the actual ratio is 0.4. If no application for recognition has been made in 2017, and application is filed in 2018 for

recognition, the ratio shall at least be 0.324 (0.4\*90%\*90%).

**(II) Indicator I. 1(2) “The average rate of return in the most recent three years on at least three types of all investment trust funds under its management are higher than the average rate of return on corresponding types of investment trust funds in all SITEs:”**

1. With regard to the calculation of the average rate of return in the last three years on managed investment trust funds by the SITE. By taking the equity fund in 2018 as an example, it will be the simple average of the total samples from the total cumulative returns for three years of the funds established for at least three years (Jan. 1, 2016 - Dec. 31, 2018) 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).
2. Fund types are based on the type codes of the SITCA and divided into AA1 Domestic Investment Equity Fund, AA2 Cross-border Investment Equity Fund, AB1 Domestic Investment Balanced Fund, AB2 Cross-border Investment Balanced Fund, AC12 Domestic Fixed-Income General Bonds, AC21 Cross-border Investment Fixed-Income General Bonds, AC22 Financial Asset Securitization, AC23 High-Yield Bonds, AD1 Domestic Investment Money Market Fund, AD2 Cross-border Investment Money Market Fund, AE1 Domestic Investment Fund of Funds, AE21 Cross-border Investment Fund of Funds with Securities, AE22 Cross-border Investment Fund of Funds with Bonds, AE23 Cross-border Investment Fund of Funds with Balanced Investment, AE24 Cross-border Investment Fund of Funds with Other Investment, AF Principal Guaranteed Fund, AG REITs Fund, AH1 Domestic Investment Index Securities, AH2 Cross-border Investment Index Securities, AI1 Domestic Investment Index, AI2 Cross-border Investment Index, AJ1 Domestic Multi-assets, and AJ2 Cross-border Multi-assets. For the type of fund that is the only one of its type in domestic holding, the type will not be included in the calculation for the index.
3. The average rate of return for the latest three years on all types of funds in all SITEs will be calculated and published by the SITCA.

**(III) Indicator I. 1(3) “The annual average of investment research team members (including fund manager, investment manager, and other investment**

**research personnel) in the most recent three years is at least 25 persons or 20% of the total number of employees, and the number of investment research team members and the average asset management scale (excluding money market funds) are both growing, or if the annual average of investment research team members (including fund manager, investment manager or other investment research personnel) in the most recent three years is at least 75 persons and the average asset management scale (excluding money market funds) in the most recent year ranks among the top 1/4 of all investment trusts.”**

1. 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. The annual average of the total number of employees for the most recent three years is calculated in the same way as the above, that is, the simple average of the total number of employees in service by the end of 2013, 2014 and 2015. As for the calculation for the percentage of the total number of employees as investment research team members, the numerator is the annual average of investment research team members in the most recent three years and the denominator is the annual average of the total number of employees in the most recent three years.
2. With regard to the qualification of 25 persons, it refers 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 members in three years for each SITE.
3. “The number of investment research team members and the average asset management scale (excluding money market funds) are growing” refers to the number of people or asset scale by the end of 2015 is greater than the number of people or asset scale (including the number contracts) by the end of 2013. Please refer to 3. Indicator (II) A. for the definition of asset scale.
4. If it is not necessary for the SITES also engaged in the business of futures trust to set up a separate research and analysis function, the analysts of the SITES may also engage in the research and analysis of futures trust funds. Accordingly, the number of funds governed by this indicator shall include the futures trust funds issued by the SITES.

(IV) **Indicator I. 1(4) “A rigorous procedure has been formulated with significant results for investment management, risk control, stock selection, and investment portfolio construction of investment trust funds or discretionary investment managers:”**

1. 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, including reviewing whether or not the establishment of portfolio is rigorous and whether or not the control measures for investment implementation and review and risk management are complete, as well as the audit results of financial inspections. Evaluation review items are as follows. Review items are only basic requirements and FSC will evaluate the implementation based on individual cases:

**(1) Establishment of portfolio:**

- 1) The representativeness of the formation of members of equity selection meeting: Including the number of the members and the departments that those members belong to.
- 2) Whether or not the terms of selection for targets held are rigorous:
  - I. Determination of targets held:
    - ① Overall investment allocation: Whether or not the evaluation process in equity selection meeting for determining the targets to be held in accordance with different types of funds is based on the overall economics and the trend of industry, and whether or not the evaluation process is rigorous.
    - ② Selection of individual investment target: To determine targets to be held through the stipulation of rigorous quantitative indicators (comprehensive multiple quantitative indicators and analysis rather than negative listings) for the targeted equities in the asset pool, rigorous credit risk analysis for bonds, research on sustainable investment and investigation of due diligence governance, as well as the mechanism that research personnel or fund manager visiting firms in person.
    - ③ Whether or not a rigorous control mechanism is stipulated for investments in equities paid attention to or disposed.
    - ④ Whether or not a rigorous exceptional investment mechanism is



stipulated for the investment targets that do not comply with the selection mechanism.

II. Elimination mechanism for the asset pool: Whether or not the review mechanism on a regular or irregular basis is stipulated for individual equities in the asset pool, and whether or not the review frequency and mechanism is rigorous.

**(2) Investment implementation and review:**

1) Whether or not the control measures for the implementation of investment are controlled by computer systems and whether or not the evaluation mechanism and frequency for investment performance is rigorous.

2) Whether or not reasonable steps have been taken to assess the impact of ESG related risks on investment assets according to the relevance of the investment policy and ESG factors, and whether regular investment reviews have been conducted.

3) For the segmentation between the determination of investments and the implementation of transaction, whether or not the control measures are stipulated to prevent the fund or discretionary managers from affecting the implementation of transactions.

**(3) Risk management:**

1) Implementation of investment: Whether or not rigorous control measures, including the stipulated control policies and matters, are stipulated (including the control mechanisms concerning the qualification, attention, disposition, reversing trade, liquidation, concentration, small cap/unpopular stocks)

2) Investment review: Whether or not the risk management mechanism and frequency for the overall fund, individual funds, and positions held by discretionary accounts is complete.

3) Whether or not relevant management mechanisms have been established for evaluating investment assets that are significantly related to ESG risks.

**(4) Result of financial inspection:** During financial inspection in the most recent year, the result shows that the firm does not violate provisions of Article 6 of “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets,” which is not subjected to the official reprimand or more serious disposition due to the deficiencies in the determination of investment and

risk control stipulated in Article 4 of “Regulations Governing Securities Investment Trust Funds” and Article 28 of “Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.”

2. Upon the initial approval for qualifications 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.

**II. 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:

- (I) **Indicator I. (2)1 “The average AUM (exclusive of money market funds) in the most recent year ranked in the top one-third of AUM of SITEs in Taiwan, or the average AUM (excluding money market funds and ETFs) in the most recent year ranked in the top one-third of SITEs in Taiwan:”**  
The average asset management scale is the simple average of the total scale of publicly-offered and privately-placed investment trust funds, discretionary investment assets, and the assets under consulting services with power of investment decision (calculated on the basis of net asset value) after deducting money market funds or the total of money market funds or ETFs, at the end of each month for the latest year.
- (II) **Indicator I. 2(2) “The average AUM of the (exclusive of money market funds) in the most recent year was at least NT\$15 billion and the growth rate of AUM in the most recent year is positive, reaching the growth rate of the overall market scale, or that in the most recent year the average AUM (excluding money market funds and ETFs) was at least NT\$10 billion and the growth rate was positive, meeting the growth rate of the overall market scale:”** The average asset management scale is the same as above (calculated on the basis of the net asset value). 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 from the asset size at the beginning of the period, and the

denominator is the asset size at the beginning of the period. Let's take 2015 as for example: the asset scale by the end of the term is the average asset scale of 2015, and the asset scale in the beginning of the term is the average asset scale of 2014. The overall market scale is the total asset scale of the overall SITEs and it takes a simple average of scale of the end of each month of the most recent year. The growth rate of the overall market scale is calculated the same way.

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

Answer:

- (I) **Indicator II. 1** “The SITE has made investments in overseas equity to set up asset management companies or establish overseas subsidiaries and has actually expanded international businesses without major severe penalty imposed by the competent authority of the host countries in the last three (3) years, or, with the assistance of the overseas locations of the parent group with substantial result in overseas business expansion” not limited to direct investment by SITE only; therefore, this includes:
1. Overseas asset management companies invested by or overseas subsidiaries established by the SITE itself. In addition, these companies have not been subject to severe penalty of the competent authority of the host countries (in light of the variation in the penal code of the authorities in different host countries and the means of punishment imposed, severe penalty shall be defined on a case-by-case basis in consideration of the penal code applicable to relevant host countries). For those which have invested in overseas asset management companies, the proportion of investment shall not be less than 20%. In addition, the basic conditions (such as the investment proportion of the reinvestment company or subsidiary held by the SITE, and the revenue performance and business performance of the company) shall be stated in the application materials.
  2. Overseas asset management companies and other locations invested by its owner group, and they have substantial effect on assisting the SITE to expand international businesses. For example, an offshore company of a Group that SITE A belongs to assists SITE A to acquire international discretionary investment tender, which has solid effect for SITE A to expand

international business. This may apply for recognition.

**(II) Indicator II. 2 “The SITE has actual sales results (from public sales or private placement activities abroad (exclusive of OBU and OSU) with substantial results and growth in the years ahead.”**

1. The investment trust 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.
2. This indicator is referred mainly to identify any actual sales result from activities conducted abroad for public sales or private placement of investment trust 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.

**(III) Indicator II. 3 “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 amounted to NT\$5 billion 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\$-18 billion with growth in the years ahead.**

1. The average assets managed under consultation refer to the simple mean of the asset value managed under consultation at the end of each month in the most recent years.

**(IV) Indicator II. 4 “The average investment amount of foreign capital investments in the investment trust funds issued by SITEs in the latest year reached at least NT\$4 billion.”**

1. The average investment amount in the latest year means the simple mean of the investment amount at the end of each month.
2. Since ETF is a TWSE and TPEX listed product, SITEs have difficulties in knowing the costs of offshore fund investments in ETF. Therefore, if the foreign capital is invested in the ETF offered domestically by SITEs, the investment amount of foreign capital invested in ETF may be calculated by “the average possession units of offshore investors x the annual average price

of invested ETF.” The simple average of annual possession units and the annual average price of ETF is determined by the data by the end of each month in the most recent year.

3. SITEs may select all or one investment trust fund invested by foreign capital with the amount reaching \$4 billion to apply for recognition.
4. 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).

**(V) Indicator II. 5 “Accept assessment from professional consulting firms:” or acquire the accreditation at international standard**

1. 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.
2. The qualification terms for entrusted institutions in government fund discretionary investment are taken as reference, including the assessment on the product investment performance and the requirement for the designated international certifications that shall be met. In order to encourage SITEs to meet the requirement of international certification, which is beneficial for them to expand the business in international fund discretionary investment, SITEs may apply for recognition with attachment of proofs if they acquire the international certifications that are beneficial to the promotion of international business. The international certification refers to that meeting the requirements of Global Investment Performance Standards (GIPS) or AIMR Performance Presentation Standards (AIMR-PPS).

**IV. There are total three indicators of Dimension Three “Talent Training” (which is subject to at least 1 indicator). 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.

**(I) Indicator III.1 “conducting asset management talent training or cooperating with colleges in Taiwan to provide financial educational training, internship, or training for reserved personnel, and the performance is outstanding” in the recent year:”**

1. Unless conducting talent trainings in cooperation with the institutions designated by FSC, SITEs may also conduct talent training on their own or with other professional institutions. The aforementioned 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.
2. This indicator refers to programs or training provided by SITEs (including but not limited to labor or money) and the training is for talents in the industry, so it does not include the training of internal personnel by SITEs. The non-commercial international asset management forum held in Taiwan by SITEs may be recognized. However, the description meetings with commercial nature will not be recognized. In addition, the cooperation between SITEs and colleges in Taiwan may include: serving as the lecturers, providing internships, providing part-time opportunities, sponsoring activities of financial clubs and providing scholarships. The cooperation shall be middle to long-term talent training or cooperation projects.
3. 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.

**(II) Indicator III.2 “The result is distinguished in training and educating internal**

**talents for business-related studies, exams, or participating in international forums or seminars and conducting visits to companies at home and abroad to improve investment research capabilities.”**

1. Although the internal talents referred to 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.
2. The purpose of this indicator is to encourage SITEs to train their internal talents, and the training methods are not limited. The trainings provided by SITEs to their internal talents to acquire the professional certification of securities investment analyst or futures analyst or international investment certification like CFA or CIIA may be regarded as one of the performances of training internal talents.
3. In principle, the talent training expenses in this indicator shall be 1.5% of the net profit after tax of the SITEs.
  - (1) If 1.5% of the net profit after tax of the SITEs is less than NT\$ 1 million, the expenses shall at least be NT\$ 1 million.
  - (2) If 1.5% of the net profit after tax of the SITEs is between NT\$ 1 million and NT\$ 5 million, the expenses shall at least be 1.5% of the net profit after tax.
  - (3) If 1.5% of the net profit after tax of the SITEs exceeds NT\$ 5 million, the expenses shall not be less than NT\$ 5 million.

The above-mentioned expenses do not include the education and training used to comply with the credit hour provisions as well as conducting visits to companies both at home and abroad to improve the investment research capabilities, and they shall be deducted. In addition, the subsidies and rewards provided by SITEs to encourage employee to acquire professional certifications related to their businesses may be included.

4. For “investment trust firms ranked the last 3/4 in terms of average scale of asset management in the previous year” and applications qualified for receiving basic preferential treatment under 2 areas of the requirements, the expenses incurred from talent development as mentioned in C. shall meet the minimum requirement of 1.5% of the net income of the investment trust firms with downward adjustment to NT\$500,000, which is:
  - (1) If 1.5% of the net profit after tax of the SITEs is less than NT\$ 0.5 million, the expenses shall at least be NT\$ 0.5 million.
  - (2) If 1.5% of the net profit after tax of the SITEs is between NT\$ 0.5 million

and NT\$ 5 million, the expenses shall at least be 1.5% of the net profit after tax.

- (3) If 1.5% of the net profit after tax of the SITEs exceeds N\$ 5 million, the expenses shall not be less than NT\$ 5 million.

(III) **Indicator III.3** “The result is significant in allocating resources such as human resources in investment research, product design, risk control, investment trading, and other core asset management technology to the SITE by the 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:”

1. To encourage corporate groups to provide human and other resources to support expansion investment trust businesses, this indicator has been thus set.
2. After the first recognition by the FSC, when firms apply for recognition afterwards, the FSC will inspect the condition of the continuing human resources distribution, the circumstances of the human resources application distributed in the past, as well as whether or not the parent company of the domestic or offshore group or the affiliates assist SITEs in the training of asset management talents, and comprehensively evaluate the effect.

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

Answer:

1. If there are any substantial contributions to specific performance on enhancement of asset management and development in Taiwan, the SITE may apply to the FSC with appropriate evidence. For example, if the group parent company at home or its affiliated companies appoint their investment capitals to discretionary investments conducted by domestic SITEs, or the SITEs innovation and research & development funds, or the SITEs assist the asset management companies in other countries to develop their products and expand international business with specific results.
2. If SITEs develop low-expense fund products that meet the demand of an aging society and are suitable for the property management for retired people,



as well as promoting post-retirement property management education, which have outstanding performances, such efforts may be regarded as “other substantial contributions which enhance the business operation and development of asset management industry in Taiwan.” The aforementioned fund products include but not limited to target risk funds and target date funds, and there shall be sufficient number and scale of the funds for investors to choose from.

3. In consideration of the serious attention of the international community to the topic of sustainable development, corporate governance, and green finance as a vital business opportunity, it is expected that the financial sector should support the development of the green industry, and promote SITEs to improve the disclosure of due diligence governance and performance, encourage SITEs to implement ESG considerations in the investment process, risk management and other internal controls, and actively take concerted actions to promote the sustainable development of the invested enterprises; for example:

- (1) SITEs that have issued funds (including ETF) or discretionary accounts which invest domestically and emphasize on environmental protection (green), corporate governance or corporate social responsibility shall be taken as “items with significant contribution to the operation and development of the domestic asset management business.” The aforementioned environmental protection (green) funds shall refer to the funds that invest domestically and are designed for withstanding global warming, climate change, substitute or clean energy, pollution control, purification or management of water resources, and others related to green energy or ecological environment protection. An example is investment in funds for photovoltaic or wind power energy in Taiwan.
- (2) corporate social responsibility with significant contribution in performance or signed and implemented stewardship code and achieved significant performance, for example: those listed by the TWSE as institutional investors with better performance on the disclosure of due diligence governance information, and with good performance on the execution of due diligence governance shall be taken as “items with significant contribution to the operation and development of the domestic asset management business.”
- (3) SITEs which have incorporated ESG considerations in their internal

control mechanisms such as the investment process and risk management, and actively take due diligence governance actions such as negotiation, so as to promote the sustainable development of the invested enterprise and improve the environment for sustainable development in Taiwan can be regarded as "other matters that have specific performance contributions to improving the operation and development of the asset management business in Taiwan"; for example:

- A. Actively handle matters related to sustainable development, such as voluntarily handling stress tests for climate change scenario analysis in advance, voluntarily preparing a sustainable report in advance, voluntarily disclosing information related to carbon inventory in advance, joining important international initiatives (such as RE100, EP100, PCAF, etc.), or being selected for international sustainable assessment (such as CDP rating reaching leadership level A).
  - B. The investment and negotiation actions have achieved remarkable results, such as establishing an alliance to carry out joint negotiation actions to enhance influence or share relevant experience, joining the Science Based Targets initiative (SBTi), and implement agreements with investment objects to urge them to formulate carbon reduction plans or energy conservation and carbon reduction measures before 2030.
4. As an incentive for SITE to raise the salaries for the core personnel in asset management so as to keep people in good standing, SITEs that have significantly raised the salaries for the core asset management professionals in investment research, product design, risk control of investment transactions that helps to keep talents could be deemed “items with significant contribution to the operation and development of the domestic asset management business.”
  5. 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.

## Four. Preferential Measures

### I. What are the specific contents of each preferential measure?

Answer: SITES meeting the “fundamental necessary condition” and that are in compliance with the three Dimensions may, in addition to enjoying the basic preferential measures, choose one preferential measure. If other aspects defined as “items with significant contribution to the operation and development of the domestic asset management business” have additionally been accomplished, it may choose up to two preferential measures. If the aforementioned other aspects have been recognized for passing the assessment indicators of the three Dimensions that made the indicators of the corresponding dimensions passed in the assessment, these items of other aspects cannot be used for requesting additional preferential measure (for example, Dimension One and Dimension Two of the SITE A passed, and the significant contribution of other aspects has been recognized to be deemed the passing of one (1) assessment indicator in Dimension Three, then only one (1) choice of preferential measure could be chosen by the SITE A). The validity period of preferential measures is one year.

- (I) **Relax the maximum number of new funds per application:** In selecting this preferential measure, 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. However, an umbrella fund must not be included.
- (II) **Shorten the period for effective registration to 12 business days in accordance with the provision in the Subparagraph 2, Paragraph 3, Article 12 of "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises:"** If this preferential measure is selected, the period for effective registration of investment trust funds that are not limited to domestic investments can be shortened from 30 to 12 business days counting inclusively from the date upon which the FSC receives the filing in accordance with the provision in Subparagraph 2, Paragraph 3, Article 12 of the "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises."
- (III) The SITES selecting both “relax the maximum number of new investment

trust funds per application” and “shorten the period for effective registration” may choose to use one of them during the validity period. However, the two measures cannot be used at the same time.

(IV) **Simplify the application procedures for special types of funds.** If the design of products involved the amendment of applicable laws, applicable for the deferred use of preferential measure is permitted: According to Paragraph 1, Article 12 of the “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, Sub-paragraph 9 of the “Regulations Governing Securities Investment Trust Funds” (other types of funds), it should be applied to the FSC for approval. The review time may be shortened by the FSC for the case of such public offering of a securities investment trust fund when the SITE selects this preferential measure. In light of the involvement of an amendment to applicable laws in the development of new products that related preferential measure could not be enjoyed within the validity period of one (1) year, the SITE concerned may apply for the deferred use of preferential measures for this reason.

(V) **Other preferential or convenient measures in compliance with the relevant laws and regulations:** In compliance with the 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. (For example, condensation of the review procedure for the offering of investment trust funds under the application for approval system, amendment to trust contract of investment trust funds, fund clearing or consolidation).

## **II. Whether or not 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:

- (I) At the time when the SITE is recognized, the FSC will publish the recognized SITE and its applicable preferential measure.
- (II) The recognition is based on the dimensions of investment research capability,

global allocation and talent training for an SITE qualified for the policy 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.

## **Five. Other Principles and Instructions**

### **I. 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.

### **II. 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.

- (I) **Basic condition:** the average scale of asset management in the previous year, including the size of public and private placement funds (all types of funds), discretionary asset management, and total assets under consulting services with decision latitude (calculated on the basis of net asset value). The Securities Investment Trust and Consulting Association (SITCA) is requested to post the amount of asset management of the firms ranked the last 3/4 in aggregate each month but not the names of the investment trust firms. For example, for 39 investment trust firms the amount of asset management in aggregate of the one ranked 10th shall be announced; point 2 of the “Incentive Policy for Onshore Fund” specifies that the average scale of asset management of the “investment trust firms ranked the last 3/4 in terms of average scale of asset management in the previous year” shall not surpass the above firm ranked 10th.

- (II) **Indicator I.1(2) of Dimension One:** The average rate of return for the latest three years on all types of investment trust funds in all SITEs.
- (III) **Indicator I.1(3) and Indicator I.2(1) of Dimension One:** **The average scale of the asset management ranked in the top one-fourth and 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, or excluding both money market funds and ETFs), discretionary investment assets, and the assets under consulting services with power of investment decision (calculated on the basis of net asset value) at the end of each month for the latest year. The FSC requests the SITCA to disclose the asset management scale of the SITEs ranking in the top one-fourth and one-third every month without disclosing the names. By taking examples of 39 SITEs, the amount of the asset management ranked 9<sup>th</sup> and 13<sup>th</sup> will be disclosed.
- (IV) **Indicator I.2(2) in Dimension One:** The growth rate of the overall market scale (calculated on the basis of net asset value) in the most recent year. The market scale refers to the total of the size of publicly-offered and privately-placed investment trust funds (exclusive of money market funds, or excluding both money market funds and ETFs), discretionary investment assets, and the assets under consulting services with power of investment decision (calculated on the basis of net asset value) at the end of each month for the latest year.