

## **Q&A for Foreign Institutional Investors (“FINIs”) to Use Taiwan Listed Stock as Collateral for Offshore Investment Activities**

- 1. What are the operational procedures for FINIs to use Taiwan listed stock as collateral for offshore investment activities?**

**Answer:** Please see attached charts for the operational procedures.

- 2. Can Taiwan Collateral Custodian, Collateral Receiver's Taiwan Custodian and Collateral Provider's Taiwan Custodian all be the same entity?**

**Answer:** Yes.

- 3. Whether title (ownership) of the collateral will be transferred or a pledge will be created over the collateral as a result of delivery of the collateral?**

**Answer:**

- (1) The notional holder of the collateral remains the Collateral Provider and title (ownership) of the collateral will not be transferred to the Taiwan Collateral Custodian or the Collateral Receiver as a result of delivery of the collateral. Also, no pledge will be created over the collateral.
- (2) The structure for the collateral delivered to a dedicated collateral account opened by TWSE or a Taiwan licensed securities firms for (i) existing securities borrowing and lending (“SBL”) transactions (i.e. the TWSE fixed price and competitive auction transactions and SBL transactions under the brokers SBL regime) and (ii) for non-restricted purpose loans and securities business money lending by securities firms does not constitute title transfer or a pledge. The main reason for such structure is because under

Article 150 of the Securities and Exchange Law ("SEL"), in principle, listed stock can only be traded/transferred on exchange (i.e. off exchange is not permitted). Thus, transfer of ownership of the collateral via the FINI collateral mechanism would violate Article 150 of the SEL, and would also trigger issues regarding manufactured dividend compensation and right to participate in shareholders' meetings.

**4. How the collateral is disposed of when the Collateral Provider defaults?**

**Answer:** If the Collateral Provider defaults, the Offshore Collateral Manager is required to instruct the Taiwan Collateral Custodian to sell the collateral. Sale of the collateral is required to be made via the Collateral Disposal Account. The Taiwan Collateral Custodian will be required to remit the relevant portion of the sale proceeds to the Collateral Receiver's account on the first business day following the day on which the sale proceeds are credited to the account of the Taiwan Collateral Custodian. If there is any surplus, such surplus is required to be returned to the Collateral Provider.

## Schedule:

