Frequently Asked Questions Regarding the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens

<u>Issuance</u>

Q1: What type of company is qualified to be the issuer of security tokens?

<u>Explanation:</u>

According to Article 3, subparagraph 2 of the "Rules Governing the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens" (the "Rules"), "issuer" means a company limited by shares organized under the Company Act of the Republic of China (Taiwan), excluding any TWSE listed, TPEx listed, and emerging stock companies. Foreign companies are also excluded and are not permitted to apply for the issuance of security tokens.

Q2: What qualifications are required for an issuer to apply for the issuance of security tokens?

<u>Explanation:</u>

An issuer wishing to offer security tokens through the trading platform shall complete and submit the application in accordance with the Rules, with all relevant documentation, including a prospectus, to the securities firm. To ensure the quality of the fundraising and protect the investors benefits, a securities firm shall perform due diligence and confirm that the issuer meets all the following conditions as outlined in Article 29 of the Rules before offering the security tokens on its platform:

1. The issuer has established an internal control system and accounting system (Public companies or specific industries also need to meet the requirements of relates internal control systems and accounting treatment governed by their respective authorities.)
2. There is no record of any material instance of dishonoring a negotiable instrument of, or violation of the Tax Collection Act by, or any material litigation concluded within the past 2 years or still pending that calls into question the integrity and good faith of the issuer or any of its directors, supervisors, or general manager (such as convicted crimes under commercial law, bribery, malfeasance, fraud, breach of trust, embezzlement, etc).
3. The legality of the fundraising items and of the business items operated by the issuer and the fundraising plan and its effects/benefits are necessary, reasonable, and feasible.
4. The content of any programmed auto execution that is done with respect to the security tokens offered (such as programmed smart contracts) is consistent with the description in the prospectus (for example, whether the terms and conditions of the programmed auto execution contract which are done with respect to the security tokens are the same as the description in the prospectus regarding the type of security tokens, the issuing quantity, and issuing terms).

Q3: Can a securities firm apply to issue security tokens on its trading platform?

Explanation:

      A securities firm wishing to offer security tokens on its trading platform shall complete and submit the application to the TPEx in accordance with Article 41 of the Rules. The application will be processed if it meets all the conditions set out in Article 29 of the Rules, and that it furthermore is free of any conditions set out in the subparagraphs of Article 14-1, paragraph 1 of the Regulations Governing Securities Firms.

Q4: What are the types of security tokens that the issuer can offer on a trading platform?

Explanation:

      A security token in line with the securities that have been approved by the authorities as securities referenced in Article 6, paragraph 1, of the Securities and Exchange Act. Under the supervisory framework set by the authorities, the types of security tokens that an issuer can offer on a trading platform shall be limited to non-equity dividend tokens and debt tokens. According to Article 25 of the Rules, dividend tokens means tokens giving entitlement to share in the issuer's operating profit, and debt tokens means tokens for which a maturity is specified, and which are redeemable at maturity and give entitlement to share in interest distributed by the issuer. Also, for other securities otherwise regulated (such as beneficiary certificates regulated under Clauses of the Real Estate Securitization Act and Financial Asset Securitization Act), the respective regulations should be followed, and those securities cannot be used as the underlying target of the security tokens.

Q5: How can an investor participate in subscription to a security token? Is there any qualification limitation?

Explanation:

      According to Article 3, subparagraph 5 of the Rules, only professional investors meeting the conditions set out in Article 3, Paragraph 3 of the "Regulations Governing Offshore Structured Products" can participate in subscribing the security tokens. Also, to mitigate the risk of money laundering, the subscription and trading of a security token shall be recorded under the investor's real name. An investor who is participating in subscription for the first time shall first apply for registration on the platform, sign an account opening contract with the securities firm, sign a risk disclosure statement and designate an account opened in the investor's own name at a financial institution to serve as the account for related transactions. The limit of NT$300,000 is set as the maximum subscription that a professional investor who is a natural person may make in any single security token offering.

Q6: Is there a public fundraising limitation when an issuer issues a security token?

Explanation:

The authorities set the supervisory framework of the Security Token Offering (STO) in levels. For an issuer targeting fundraising of less than NT$30 million (inclusive), they are exempted from the filing obligation as set out in Article 22, paragraph 1 of Securities and Exchange Act. TPEx is also authorized to set the laws and regulations to regulate the issuance and trading of the security tokens as well as the finance, internal control, and personnel management of the securities firms operating in security tokens. In other words, the limit of NT$30 million is set as the result of the exemption and the laws and regulations set by TPEx. If the fundraising amount exceeds NT$30 million, the issuer should apply for a sandbox experiment in accordance with the "Financial Technology Development and Innovative Experimentation Act", and the authorities may determine whether the related security laws should be further amended based on the result of the experiment.

Q7: Can the issuer, within the fundraising limit, offer security tokens on different platforms?

Explanation:

According to Article 33 of the Rules, an issuer may offer a security token on a single trading platform only, and the cumulative number of offerings by it may not exceed NT$30 million. That is, the issuer is limited to offer security tokens on one trading platform for "each issuance" and the cumulative amount of "each issuance" may not exceed NT$30 million.

Q8: Can the currency of the funds raised by an issuer, and of dividends or interest distributed after the offering of security tokens, be in the form of security tokens or foreign currencies?

Explanation:

To control the fundraising limit and prevent the risk of money laundering, the currency of the funds raised by an issuer in the initial market of the security tokens, and of dividends or interest distributed after the offering, shall be limited solely to New Taiwan Dollars in accordance with Article 25 of the Rules.

Q9: Is there a fundraising limit or risk management mechanism for a security token offered on a single platform?

Explanation:

In order to expand business opportunities for securities firms operating the business of proprietary trading of security tokens and control the risks, TPEx

announced the amendment of Article 34 of the Rules on January 21, 2022. Following the first time that a securities firm accepts an application for issuance of security tokens for an issuer or issues security tokens itself, after 6 months has elapsed from the day that trading of that issue of security tokens begins, and provided that there has been no material violation of any relevant provision of these Rules during that period, the securities firm may again accept an application for issuance of security tokens or issue security tokens itself. Furthermore, the cumulative amount of offerings on its trading platform may not exceed NT$200 million.

Q10: What are the information disclosure requirements an issuer needs to comply with during the period its security token is traded on the platform?

<u>**Explanation:**</u>

In accordance with Article 37 of the Rules, an issuer shall input the following information by the required deadline when its security token is traded on the platform: Basic information of the issuer, annual financial report, information on any decision by the issuer to distributed dividends, interest, or other benefits, information on fundraising by an offering of security tokens and fundraising plan items and progress, information on buybacks of security tokens and maturity of debt tokens. Also, in order to provide an investor with real-time material information regarding the issuers' major financial and business matters so they can make trading decision, an issuer shall disclosure material information in accordance with Article 38 of the Rules. There may not be any misrepresentation, concealment, or information sufficient to mislead others in the content of any of the above disclosure or material information. Furthermore, the securities firm shall see to it that the issuer scrupulously carries out information disclosures under requirements, and shall continuously make available and maintain the information disclosure section for disclosures by the issuer on the trading platform.

Q11: If the quantity of an outstanding security token is too low, would it trigger the event of termination of trading? Also, is the issuer obligated to purchase the remaining outstanding security tokens?

<u>**Explanation:**</u>

After the issuer has bought back and cancel security tokens under Article 36 of the Rules, if the quantity of outstanding security tokens is lower than 10 percent of the originally issued quantity, the circumstance would trigger the event of termination of trading in accordance with Article 40, paragraph 4 of the Rules, and the securities firm shall promptly make a public announcement that the trading of the security tokens on its trading platform will be terminated beginning from the 40th day following the announcement date. Furthermore, upon the trading of the security tokens being suspended, the issuer is not obligated to purchase the remaining outstanding security tokens.

Q12: For a securities firm operating in the trading of security tokens on a single platform, can it concurrently operate the trading of other non-security tokens?

Explanation:

A securities firm is a licensed business. The authorities approve the business type of the securities firm in accordance with the laws and regulations and indicate such clearly on the license. Therefore, any business types that is not included on the license is not permitted. For operation by a securities firm in the business of proprietary trading of security tokens, any business types (such as the operation of trading of non-security tokens) that is not approved by the authorities and not included on the license is not permitted.