# SECURITIES FIRMS

## REGISTRATION OF SECURITIES FIRMS

Securities companies, pursuant to the Securities and Exchange Law, can be categorized as:

1. Securities underwriters who facilitate distribution of issuers' securities.
2. Securities dealers who buy and sell securities for their own accounts.
3. Securities brokers who trade as agents for their customer accounts.

No securities firm shall commence operations until after receipt of approval and license from the SFC. Minimum capital requirements for securities firms are as follows:

1. Securities underwriter: NT$400 million
2. Securities dealer: NT$400 million
3. Securities broker: NT$200 million

Securities firms conducting all three categories of business must meet the minimum capital requirement of NT$1 billion. Another NT$30 million will be required for any additional branch office.

Securities brokers and dealers must receive consent to computer linkages from TSCD and the Exchange before they can apply for registration with the SFC.

## FUNDS AND RESERVES

After registration procedures, securities firms are required to deposit Business Guarantee Fund in SFC-designated banks by category, respectively. The required amount for each of securities firm is as follows:

1. Securities underwriter: NT$40 million
2. Securities dealer: NT$10 million
3. Securities broker: NT$50 million

For setting up a branch office, an additional amount of NT$10 million is required.

Each securities firm is also required to deposit Settlement and Clearing Fund at TSEC who sets up a fund management committee to manage this fund,whereas:

1. Securities dealer, a fixed amount of NT$10 million is required.
2. Securities broker has to deposit initially NT$15 million in the fund before operations and deposit quarterly a variable amount calculated based on the rule specified by the SFC during the first calendar year of its operations. Starting the second calendar year of its operations, the fixed part of the fund is reduced to NT$7 million, while the variable part is adjusted at the beginning of every year based on its trading value of the previous year.

To further maintain the financial integrity of the intermediaries, securities brokers are required to set up Default Loss Reserve and dealers should set up Trading Loss Reserve as stipulated by the SFC.

## FINANCIAL INTEGRITY OF SECURITIES FIRMS

The total amount of liabilities of a securities firm shall not exceed four times of the net value of its capital and the total amount of its current liabilities shall not exceed the total amount of its current assets. For a securities firm with only a brokerage or dealer license, its total amount of liabilities shall not exceed its net value of capital. Securities firms are also prohibited from acting as a guarantor of any nature and purchasing real estate for non-business use.

## SECURITIES FINANCING

Securities financing service was first provided by only one securities finance company, Fuh-Hwa Securities Finance Company. As the securities market liberalization policy advanced, the SFC has permitted other finance companies and qualified securities firms to offer securities financing services as well. The volume of margin trading has increased ever since.

Securities firms must meet certain requirements with respect to their capital, financial and operational conditions to be approved as eligible for securities financing business.

For the purpose of controlling the risk run by the brokerage firms, the total margin position of each brokerage firm is limited. To each securities firm eligible for securities financing business, the credit balances in margin accounts and the value of short-selling positions for its whole customers are limited to within 250% of its net worth.

## FOREIGN SECURITIES FIRMS

Foreign securities firms can apply for branch establishments in Taiwan provided that, besides being in line with the principle of reciprocity, it meet the following qualifications:

1. The applicant possesses sufficient experience in international securities business.
2. The applicant has not been sanctioned administratively by its home country's securities regulatory authorities within the recent two years.

They must also deposit funds and reserves as required by local securities firms.

## Table 17. Status of Trading Amounts of Securities Firms 2002

| Classification of Securities and Securities Firms | Trading Value (NT$ Million) | % | Notes |
|---|---|---|---|
| **Classification by Securities** | | | |
| Total | 43,874,318 | 100.000 | 1. The trading value covers both buy and sale value.<br>2. The trading value is exclusive of central government bond block trading value.<br>3. The trading value is exclusive of auction and tender offer.<br>4. Securities firms with the largest trading value:<br>1st: YuanTa Core Pacific Securities<br>2nd: Fubon Securities<br>3rd: Polaris Securities<br>4th: Jih Sun Securities<br>5th: Sinopac Securities |
| Stocks | 43,658,952 | 99.509 | |
| Government Bonds | 7 | 0.000 | |
| Corporate Bonds (Convertible Bonds are not included) | 0 | 0.000 | |
| Convertible Bonds | 38,317 | 0.087 | |
| Beneficiary Certificates | 8,035 | 0.018 | |
| Warrants | 148,938 | 0.339 | |
| Taiwan Depository Receipts | 20,070 | 0.046 | |
| **Classification by Securities Firms** | | | |
| Securities Brokerage Firms | 41,636,703 | 94.900 | |
| Main Offices | 11,276,869 | 25.703 | |
| Branch Offices | 30,359,834 | 69.197 | |
| Banking Brokers | 1,409,171 | 3.212 | |
| Main Offices | 660,266 | 1.505 | |
| Branch Offices | 748,904 | 1.707 | |
| Dealers | 828,441 | 1.888 | |
| Central Government Bond Issues Auction Group | 3 | 0.000 | |

## Table 18. Trading Value by Brokers & Dealers 1998-2002 (Percentage of Turnover)

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Brokers:** | | | | | |
| Securities Brokerage Firms | 94.9 | 95.00 | 94.32 | 94.57 | 95.38 |
| Banking Brokers | 3.21 | 3.31 | 3.80 | 3.49 | 3.06 |
| **Dealers** | 1.89 | 1.69 | 1.88 | 1.94 | 1.56 |
| **Total** | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

## Table 19. Number of Customer Accounts with Brokers 1998-2002

| Year & Month | No. of Brokers (Main Offices) | No. of New Accounts | Accumulated Investor Accounts |
|---|---|---|---|
| 1998 | 198 | 2,436,964 | 9,587,855 |
| 1999 | 193 | 1,714,349 | 10,916,426 |
| 2000 | 169 | 5,111,016 | 12,359,893 |
| 2001 | 157 | 1,317,812 | 12,910,531 |
| 2002 | 137 | 2,602,285 | 12,869,344 |
| Jan. | 156 | 188,748 | 12,509,386 |
| Feb. | 156 | 53,576 | 12,474,959 |
| Mar. | 154 | 140,830 | 12,549,341 |
| Apr. | 149 | 313,112 | 12,615,401 |
| May | 149 | 66,349 | 12,625,823 |
| Jun. | 148 | 98,393 | 12,655,268 |
| Jul. | 146 | 240,172 | 12,705,030 |
| Aug. | 147 | 85,383 | 12,747,410 |
| Sep. | 147 | 50,347 | 12,763,499 |
| Oct. | 141 | 314,185 | 12,778,824 |
| Nov. | 137 | 900,265 | 12,786,587 |
| Dec. | 137 | 150,925 | 12,869,344 |