

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

## Securities Firm Management

### I. Application to Establish a Securities Firm.

**Q1: If the company has not obtained a securities firm license, how can it apply to become a securities firm operating in the business of proprietary trading of security tokens (STO)?**

**Explanation:**

The applicant shall submit the application documents to TPEX for it to review and then forward them to the competent authority for approval in accordance with Articles 9 and 10 of the “Standards Governing the Establishment of Securities Firms”. Once the applicant has obtained its securities firm license, the applicant can then sign an STO contract with TPEX prior to its operation.

**Q2: If the company is a licensed securities firm but does not operate in the business of proprietary trading, how can it apply to operate in the business of proprietary trading of STOs?**

**Explanation:**

The applicant shall apply to increase the type of business under Chapter VI of the “Standards Governing the Establishment of Securities Firms” and submit the application documents to TPEX for it to review and then forward them to the competent authority for approval. Once the securities firm has received the updated license, the applicant can then sign an STO contract with TPEX prior to its operations.

**Q3: If the company is already a securities firm operating in the business of proprietary trading, how can it apply to operate in the business of proprietary trading of STOs?**

**Explanation:**

The applicant shall apply to increase the type of business operations under Chapter VI of the “Standards Governing the Establishment of Securities Firms” and submit the application documents to TPEX for it to review and then forward them to the competent authority for approval. Once the securities firm has received the updated license, the applicant can sign an STO contract with TPEX prior to its operations.

## **II. Organization and Personnel Management**

**Q1: The office(s) of a securities firm operating in the business of proprietary trading of security tokens should be clearly separated from other departments or operations. What is considered as a clear separation?**

**Explanation:**

It's the best practice that the department operating in the business of proprietary trading of security tokens has an independent office. If it is not feasible due to environmental restrictions, there should be at least a clear separation from other departments and in compliance with the firewall mechanism established by the company to fulfill the obligation of confidentiality.

**Q2: Why must the securities firm's proprietary trading officer and its internal audit officer possess qualifications as senior securities agents?**

**Explanation:**

The execution of the security token business is through proprietary trading. The proprietary trading officer is responsible for the direct supervision of the negotiated trading of STOs and the internal audit officer is responsible for the supervision of the audit of the proprietary trading. Therefore, both officers are required to have qualified knowledge in securities.

**Q3: For a securities firm operating only in the business of proprietary trading of security tokens, how many personnel are required to execute the proprietary trading of security tokens?**

**Explanation:**

A securities firm, depending on its business scale, should have at least one person to execute proprietary trading. If there is only one person, such person shall also act as the proprietary trading officer. Such individual shall possess qualifications as a senior securities agent, qualified education, and shall participate in pre-service and in-service training as required by TPEX.

**Q4: For a securities firm operating only in the business of proprietary trading of security tokens, how many internal auditors are required?**

**Explanation:**

- (1) According to the Financial-Supervisory-Securities-Corporate Reference No. 0960019090 issued on May 22, 2007, a professional securities firm operating in the business of proprietary trading with no more than 40 employees should have at least one internal auditor. For an employee count

over 41, two internal auditors should be established.

- (2) Other than compliance with the aforementioned regulations, a securities firm, depending on its business scale, can have more than one internal auditor. If there is only one person, such person shall act as the internal audit officer and have an IT-related background. Such individual shall also possess qualification as a senior securities agent, qualified education, an IT-related background, and shall participate in pre-service and in-service training as required by TPEX.

**Q5: For a securities firm operating only in the business of proprietary trading of security tokens, how should the securities firm arrange AML/CFT personnel ?**

**Explanation:**

A securities firm operating only in the business of proprietary trading of security tokens shall arrange adequate AML/CFT personnel and resources, based on its risk and business scale. The board of directors shall appoint one senior officer, delegate adequate authority to such person to coordinate and supervise AML/CFT, and ensure that either the person and the officer do not concurrently perform other operations that may cause conflict with their duties in AML/CFT. The person who operates the proprietary trading, internal auditors, and risk management personnel should not concurrently assume such position.

**Q6: Is there a special restriction regarding the qualification of the information security personnel in a securities firm operating in the business of proprietary trading of security tokens? Also, what is a qualified cyber security professional license?**

**Explanation:**

1. The qualification of the information security personnel:

Information security Personnel	Responsibilities	Full/part time	Qualifications
One supervisor	Negotiate and supervise IT security-related tasks.	<b>Appoint an adequate supervisor</b> based on the company's organizational structure <b>which can be either a full time or a</b>	Participate in at least 3 hours of information security training.

		<b>part time position.</b>	
A securities firm operating in the business of proprietary trading of security tokens shall appoint at least one person as a dedicated information security officer	Responsible for IT security-related tasks regarding the operation of security tokens	<b>Shall be a dedicated information security officer who is only responsible for tasks or duties related to such operations and shall not concurrently cover IT or other duties that may cause conflicts or act as the information security officer for other non-security tokens proprietary trading business.</b>	<b>1. Hold a total of no less than two cyber security professional licenses and shall continuously maintain the validity of the licenses. 2. Participate in at least 15 hours of information security training or continuing education and pass the exams.</b>

2. Cyber security professional license:

The recognition of the cyber security profession license is based on the information & communication security professional certification list provided by the National Information & Communication Security Taskforce (NICST). Please refer to the NICST website for the full list.

**Q7: Prior to the information security officer performing his/her duty, does the officer need to register an account or renew his/her information on the “ One-Stop Window for Securities Firm Filings”?**

**Explanation:**

According to the “Standard Directions for the Internal Control Systems of Securities Firms”, a designated information security officer shall not perform their duties outside the scope of their designated responsibilities, nor can the position be occupied concurrently by personnel performing other operations. The addition or change of the designated information security officer shall be reported to and recorded by TPEX prior to the change taking effect.

**3. Finance, Operation Management and Information Filing**

**Q1: How does a securities firm file its annual audit plan for the next fiscal year and the execution of its previous fiscal year's annual audit plan to TPEX?**

**Explanation:**

1. A securities firm shall file its annual audit plan for the next fiscal year through the designated electronic filing system "One-Stop Window for Securities Firms Filings" (website: brk.twse.com.tw) prior to December 31 of the same fiscal year. Please refer to the Securities Firms Internal Audit Filing/Media Upload/Download template within the "One-Stop Window for Securities Firms Filings" regarding the computer filing format and related details.
2. For the execution of its previous fiscal year's annual audit plan or the improvement on the deficiencies, the head office shall gather the execution information from all branches and file them under the "Securities Firms Internal Audit Filing" section within the "One-Stop Window for Securities Firms Filings." prior to February 28/29 of the next fiscal year.

**Q2: A securities firm that operates only in the business of proprietary trading of security tokens shall, within 3 months after the end of each fiscal year, file its annual financial report audited and attested by CPAs with TPEX. How many CPAs need to sign off on the annual financial report?**

**Explanation:**

Auditing and attestation of the annual financial report of a securities firm that operates only in the business of proprietary trading of security tokens should be performed by practicing CPAs of a joint accounting firm approved by the FSC in accordance with the "Regulations Governing the Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies". For a public company, two or more CPAs should sign off on the annual financial report. For a non-public company, one CPA should sign off on the annual financial report.

**Q3: A securities firm that operates only in the business of proprietary trading of security tokens shall, by the 7th day of each month, file with TPEX in the prescribed format of its monthly accounting summary and income statement for the preceding month. How should the securities firm file?**

**Explanation:**

1. A securities firm that operates only in the business of proprietary trading of security tokens shall file its monthly accounting summary and income statement for the preceding month through the designated electronic filing system "One-Stop Window for Securities Firms Filings" (website: brk.twse.com.tw) which is currently used by securities firms.

2. We will create a designated section for monitoring securities firms that operate only in the business of proprietary trading of security tokens within the electronic filing website. The securities firm can upload its monthly accounting summary and income statement for the preceding month under the “Filing for Monthly Accounting Summaries and Income Statements” section. We will send out a notification to all securities firms regarding the detailed upload steps when the testing of the designated section is completed.

**Q4: A securities firm may invest in security tokens issued on its trading platform and shall not exceed the limit set out in Article 19 of the “Regulations Governing Securities Firms”. How is the limit calculated?**

**Explanation:**

According to Article 16 of the “Rules Governing the Operation by Securities Firms of the Business of Proprietary Trading of Security Tokens”, a securities firm that operates only in the business of proprietary trading of security tokens may not make any equity investment in other securities, futures, financial, or other enterprises. As a result, a securities firm that operates only in the business of proprietary trading of security tokens may not purchase any common stocks. However, if certain company stocks are held by the company prior to its application of being established as a securities firm and then it issues the security tokens for such company after it becomes a securities firm, the initial purchase cost plus the cost of investing in the security tokens cannot exceed 20% of the net value of the securities firm.

**4. Information and Communication Security Operation**

**Q1: When does a securities firm need to issue the information system and security control operation evaluation report (Evaluation Report)? What are the agent's qualifications to issue an Evaluation Report?**

**Explanation:**

1. The timing to issue the Evaluation Report:
  - a. Apply to establish or relocate its place of business: When a securities firm applies to establish or relocate its place of business, it shall provide a floor plan, photographs and an Evaluation Report issued by a CPA to TPEX.
  - b. The Evaluation Report shall be issued by a CPA within three months after the end of the fiscal year.
2. The agent's qualifications to issue the Evaluation Report:

A securities firm shall appoint a CPA to issue the Evaluation Report on the information systems and security control operations in accordance with the “Principles for Information System and Security Control Operation Evaluation Reports Issued by Certified Public Accountants”, as published by TPEX. The content shall include the assessment regarding whether the

information system personnel are equipped with information security management knowledge, information security technical capabilities, or familiarity with the financial and blockchain fields. The qualifications of the personnel should also be included in the Evaluation Report.

**Q2: How to register an account on the “Cyber Security Notification System for the Securities and Futures Industry”? What is the website address?**

**Explanation:**

The Cyber Security Notification System for Securities and Futures Industry website is: <https://sfevents.twse.com.tw/>



A securities firm can download their membership application form from the website and apply for a membership account.

**Q3: What are the routine information security technical tests regarding the trading platform offered by a securities firm?**

**Explanation:**

A securities firm shall reference the operation of the information and communication security management section under the “Standard Directions for the Internal Control Systems of Securities Firms” regarding the checklist and frequency of the information security technical testing. The routine technical testing items that should be passed are listed as below:

1. The stress test to the system capacity on an annual basis.
2. Ad hoc and a semi-annual testing regarding source code scanning or black box testing.
3. Vulnerability scanning on a semi-annual basis.
4. Penetration test on an annual basis.

5. Distributed Denial-of-Service (DDoS) Attack drill on an annual basis.

Q4: Can a securities firm outsource functions of information system such as establishment, maintenance, usage of the cloud computing, and establishment the trading platform? What are the requirements for engaging in the aforementioned services?

**Explanation:**

Customer data processed using the cloud services and storage is limited to within the territory of the Republic of China(ROC). Securities firms shall not use cloud service, which is outside of the territory of the Republic of China(ROC).

**Q5: What are the restrictions when a securities firm selects the underlying blockchain platform?**

**Explanation:**

To ensure a certain degree of control over the underlying technology of the blockchain platform, when selecting the underlying blockchain platform, the blockchain should at least comply with the following controls to ensure security:

1. Controllable access to read and write data.
2. Controllable configuration and the method of configuration regarding the programmed automatic execution content of issued security tokens.
3. Controllable principle of data disclosure.
4. Controllable mechanism of node participation.

## **5. AML/CFT Duties**

**Q1: What are the rules and regulations regarding AML/CFT duties that a securities firm should abide by?**

**Explanation:**

In regards to **AML/CFT**, a securities firm, at the minimum, should adopt a risk-based approach to perform its AML/CFT duties, in accordance with the provisions of the “Money Laundering Control Act”, the “Counter-Terrorism Financing Act”, the “Regulations Governing Anti-Money Laundering of Financial Institutions”, and the “Regulations Governing Internal Audits and Internal Control Systems of Anti-Money Laundering and Countering Terrorism Financing of Securities and Futures Businesses and Other Financial Institutions Designated by the Financial Supervisory Commission”.