

2. To continually strengthen the contact and information exchange with foreign asset management companies, the Association shall routinely provide Taiwan mutual fund industry statistics, collect international data, and research and propose to the regulator.
- V. New Opportunities brought by new fund products  
Propose to the regulator to open up for launching hedge funds.
- VI. Reclassifications of bond funds  
In light of the United Investment Trust incident and interest rate climbing, the regulator proposed to launch the bond fund reclassification in order to enable the investors understand the product rewards and risk scope as well as in line with international practice. In other words, SITEs shall convert their bond funds into one of the three categories, namely: quasi-money market funds, or fixed income funds. The bond holdings for the so-called "quasi-money market funds" shall be less than 30% of the portfolio and the maturity is less than 5 years. The redemption will be on T+1 day, and the main purpose is to seek stable income. The fixed-income funds shall seek for a long-term capital appreciation and the bond holdings shall be more than 50% of the portfolio. The redemption shall be made on the T+2 day.
- VII. Self-discipline/regulations
  1. To compliment the Securities Investment Trust & Consulting Act (Act) and relevant subsidiary legislations, the Association amended the "Guidelines for Conducting Advertisement and Promotional Activities by SITEs", "Guidelines for Conducting Advertisement and Promotional Activities by SICEs", the "Guidelines for Handling Business Disputes", the "Self-regulatory Code of the SITCA", and the "Guidelines governing the Appeals to the Members' Dispositions", then submitted to the regulator for filing and implementation.
  2. The Association amended the "Guidelines governing the Appeals to the Members' Dispositions", and urged its members to comply with laws and regulations and show their independence, fairness, and objectivity. The Association made independent directors and supervisors become members of the Disciplinary Committee, and if vacancies exist, those independent director and supervisors shall be first selected as committee members and limited to two only. The above was submitted to the regulator for approval and shall be recognized by 2006 General Assembly.
  3. To provide a public communication forum regarding the advertisement issues for the proposed members, the Association studied concrete and

proposed workable solutions for clearing up vague issues and impracticalities encountered by its members to reduce unfair competitions or anonymous letters between the members, drafted ads-related self-regulatory rules, case studies, and relevant trainings. In 2005, the Association expanded the size of the SITE Business Marketing Group and added the Offshore Funds Marketing Group and SICE Business Group to assist other relevant self-regulatory matters in the hope that violation of self-regulatory rules can be reduced to the minimum.

4. The Disciplinary Committee of the Association reviewed the alleged member violations in accordance with the self-disciplinary regulations and urged them to observe and follow accordingly.

## Continuously promote the discretionary investment business

Since its launch in 2001, there are total of 100 licenses issued (40 for SITE, 39 for SICE, and 21 for banks concurrently engaged in SICE business) up to the end of 2005. The business activities can be summarized as below:

- I. For the year of 2005, five meetings of Discretionary Investment Management (DIM) Business Committee were convened. A total of five new applications for license were granted.
- II. To compliment the promulgation of the Act, the Association released the "Operation Regulations governing SITEs and SICEs Engaging in DIM".
- III. The Association amended the "Operation Regulations governing SITEs and SICEs Engaging in DIM", and adopted the negative-list approach for the eligible assets of DIM business. Also, the Association lobbied the regulator to open up for margin trades, and that investment restriction percentages shall be freely stipulated by the parties through their agreement. Others include derivative trading limits and outsourcing of investment advisory service to a third party foreign service provider while the DIM assets investing in overseas to promote effective management and reduce costs for overseas transactions.
- IV. The Association amended the "Calculating Standards for DIM Assets" and in particular, re-studied and reviewed the foreign securities pricing, mergers, and the soundness of two different methods for pricing shares transfers, convertible corporate debts and the expiration of trade suspension due to the Financial Holding Company Act.
- V. The Association amended "Key-points Governing DIM Business" and in particular the unauthorized trades for derivative positions, if any, and revised the applicable updated monthly and annual report.