

(Translation)

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(Translation)

## **Regulations**

### **Chapter 900: Securities Borrowing and Lending**

#### **for Delivery to TCH**

#### **901 General Principles**

In the event that a general member fails to deliver the securities in the amount, which he is responsible to deliver, within the timeframe designated by TCH in Chapter 600, the general member shall borrow the securities from TCH or the person delegated by TCH for delivering such securities to TCH in accordance with this Chapter.

#### **902 Securities Borrowing and Lending**

In borrowing and lending the securities for delivery to TCH, the borrower and the lender shall comply with the criteria as follows:

(1) The borrower and the lender, respectively, shall have duties to place or return the securities, the collateral or the additional collateral, or to repay or indemnify the benefits derived from the securities or the collateral pursuant to the criteria and procedures prescribed in this Regulation, including taking any relevant actions in accordance with the rights and duties and the data prepared by TCH and notified through the operating system connected to TCH.

(2) The borrower and the lender shall undertake action relating to the borrowing and lending of securities for delivery to TCH within the timeframe designated by TCH.

(3) The amount of the borrowed, loaned or returned securities shall be in the trade units.

(4) The borrower and the lender shall comply with the regulations, notifications, or instructions in connection with the securities borrowing and lending for delivery to TCH, pursuant to the criteria prescribed by TCH or other relevant authorities.

#### **903 Borrower and Lender**

The securities borrower shall be a general member of TCH in accordance with Chapter 300.

The securities lender shall be a depositor and the depository center specified by TCH and having the operating system connected to TCH.

#### **904 Borrowing Securities from TCH**

##### **904.01 Securities Borrowing**

Securities borrowing for delivery to TCH shall be in accordance with the criteria and procedures as follows:

(1) The borrower may borrow the securities for delivering to TCH from TCH or the person delegated by TCH when the borrower is in default of delivering the securities to TCH according to Chapter 600.

Where the borrower is in default of delivering to TCH the securities less than one-half of a trade unit, such borrower agrees to borrow such securities from TCH or the person delegated by TCH in the amount of one trade unit.

(2) In borrowing the securities under clause (1), the borrower agrees to borrow the securities from TCH or the person delegated by TCH and to accept such securities which have been transferred to the clearing account opened by the borrower with the TSD.

(Translation)

Where TCH or the person delegated by TCH transfers the borrowed securities to the clearing account in accordance with paragraph one in the borrowed amount, such transfer shall be deemed as completed when the borrower accepts the securities transferred in the borrowed amount.

(3) Upon borrowing the securities from TCH or the person delegated by TCH, the borrower shall have a duty to place the collateral, which is complete and free from defect or eviction, with TCH in the type, value, procedures, and within the timeframe designated by TCH as security for the return of the borrowed securities.

#### **904.02 Return of Borrowed Securities and Collateral**

On the date designated by TCH for the return of the borrowed securities, the borrower shall have the duty to return the securities and TCH shall have the duty to return the collateral in accordance with the criteria and procedures as follows:

(1) To return the securities, the borrower shall maintain the securities of the same type as the borrowed securities in the clearing account, which the borrower has opened with the TSD, in the amount borrowed. The return of the securities shall be deemed as completed when TCH or the person delegated by TCH debit the securities from such clearing account in the amount borrowed.

(2) To return the collateral, upon TCH's receipt of the borrowed securities which have been returned, TCH shall return the collateral received by it in proportion with the returned securities to the borrower in accordance with the criteria and procedures prescribed by TCH.

#### **904.03 Early Return of Borrowed Securities**

(1) The borrower may return the borrowed securities to TCH prior to the return date by notifying TCH of such intention in advance in accordance with the procedures and within the timeframe designated by TCH.

With respect to the return of securities in the preceding paragraph prior to the return date, the borrower and TCH shall have the duty to return the securities or the collateral in accordance with the criteria and procedures under Regulation 904.02. In this regard, the borrower may maintain the securities of the same type as the borrowed securities in his securities depository account apart from the clearing account.

With respect to the return of securities in paragraph one on the return date, the borrower and TCH shall have the duty to return the securities or the collateral in accordance with the criteria and procedures under Regulation 904.02. In this regard, the borrower shall maintain the securities of the same type as the borrowed securities in the clearing account.

(2) TCH may demand the return of the borrowed securities prior to the date designated for the return of the securities, by notifying the borrower of its intention prior to the return date within the timeframe designated by TCH.

Both the borrower and TCH shall have the duty to return the securities or the collateral in accordance with the criteria in Regulation 904.02.

#### **904.04 Repayment or Indemnification of Benefits Derived from Borrowed Securities or Collateral**

(1) Repayment or indemnification of the benefits derived from the borrowed securities

(1.1) Where the securities issuer pays the benefits derived from the borrowed securities in the form of the right to attend the meeting of the shareholders, the borrower shall not have a duty to ensure that TCH receives such right.

(Translation)

(1.2) Where the securities issuer pays any benefit in relation to the borrowed securities, apart from the benefit under clause (1.1), the borrower shall repay to or indemnify TCH such benefit after deducting the relevant expenses and tax burden.

(2) Repayment or indemnification of the benefits derived from the collateral

(2.1) Where the securities issuer pays the benefits derived from the collateral in the form of the right to attend the meeting of the shareholders, TCH shall not have a duty to ensure that the borrower receives such right.

(2.2) Where the securities issuer pays any benefit in relation to the collateral, apart from the benefit under clause (1.1), TCH shall repay to or indemnify the borrower such benefit after deducting the relevant expenses and tax burden.

## **905 Securities Lending**

### **905.01 Securities Lending**

Securities lending for delivery to TCH shall be in accordance with the criteria and procedures as follows:

(1) The lender agrees that TCH or the person delegated by TCH may deduct and transfer the loaned securities in the amount lent from the securities depository account which the lender has opened with TCH or the person delegated by TCH.

Where the the TSD deducts the securities in the loaned amount from the securities depository account in the preceding paragraph, the securities lending shall be deemed as completed when TCH receives the securities in the loaned amount.

(2) The loaned securities shall be valid, not having defect or nor subject to any eviction.

In the case of damage arising from the lending of securities which are invalid, defective or subject to eviction, the lender shall be held responsible for such damage.

(3) Upon lending the securities to TCH, the lender shall be entitled to receive the collateral of the type, at the rate and in accordance with the criteria, conditions and procedures prescribed by TCH, and agrees that TCH shall oversee such collateral on his behalf.

With respect to the keeping and maintenance of the collateral under paragraph one, TCH shall separate such asset from the assets of TCH.

### **905.02 Return of Loaned Securities and Collateral**

On the return date of the loaned securities as designated by TCH, TCH shall have a duty to return the collateral and the lender shall have the duty to return the collateral in accordance with the criteria and procedures as follows:

(1) To return the securities, TCH or the person delegated by TCH shall transfer the securities of the same type as the borrowed securities to the securities borrowing and lending account, which the lender has opened with the TSD, in the loaned amount. The return of the securities shall be deemed as completed when the TSD the securities from such account in the amount loaned.

(2) To return the collateral, upon receipt of the loaned securities, which have been returned, in the amount loaned, the lender shall return the collateral received, in proportion with the returned securities to TCH in accordance with the criteria and procedures prescribed by TCH.

(Translation)

### **905.03 Early Return of Loaned Securities and Collateral**

TCH may return the loaned securities to the lender prior to the return date, by notifying the lender of such intention in advance in accordance with the criteria and procedures prescribed by TCH.

TCH shall have a duty to return the securities and the lender shall have a duty to return the collateral in accordance with the procedures set forth in Regulation 905.02.

### **905.04 Repayment or Indemnification of Benefits Derived from Loaned Securities or Collateral**

#### **(1) Repayment or indemnification of the benefits derived from the loaned securities**

(1.1) Where the securities issuer pays the benefits derived from the loaned securities in the form of the right to attend the meeting of the shareholders, TCH shall not have a duty to ensure that the lender receives such right.

(1.2) Where the securities issuer pays any benefit in relation to the loaned securities, apart from the benefit under clause (1.1), TCH shall repay to or indemnify the lender such benefit after deducting the relevant expenses and tax burden.

#### **(2) Repayment or indemnification of the benefits derived from the collateral**

(2.1) Where the securities issuer pays the benefits derived from the collateral in the form of the right to attend a meeting of the shareholders, the lender shall not have a duty to ensure that TCH receives such right.

(2.2) Where the securities issuer pays any benefit in relation to the collateral, apart from the benefit under clause (1.1), the lender shall repay to or indemnify TCH such benefit after deducting the relevant expenses and tax burden

### **906. Placement of Additional Collateral**

TCH shall regularly calculate the value of the borrowed or loaned securities and the collateral on every business day in accordance with the criteria and procedures prescribed by TCH.

Where the value of the collateral to the value of the borrowed or loaned securities is at any time less or greater than the level designated by TCH, the borrower, the lender or TCH shall place additional collateral or return the excessive collateral in accordance with the criteria, procedures and within the timeframe prescribed by TCH.

The person who is responsible for placing additional collateral under paragraph two shall do so in accordance with the procedures prescribed by TCH with TCH, which shall oversee such additional collateral by keeping and maintaining the same separate from the assets of TCH.

### **907 Adjustment of Amount or Value of Securities or Collateral**

The borrower and the lender agree that TCH may adjust the amount or the value of the borrowed or loaned securities or the collateral which are securities if during the borrowing or lending period any of the following cases occurs, which may affect the benefit upon the return of the securities or the collateral placed pursuant to this Chapter:

(1) grant of option for shares issued for capital increase to securities holders in an amount proportional to the volume of existing securities;

(2) change in the par value of the securities which leads to the increase or decrease in the amount of the securities;

(3) redemption of securities;

(Translation)

- (4) merger or amalgamation of business, or the offer for purchase of securities in the business acquisition;
- (5) payment of dividends in the form of securities;
- (6) conversion of securities; and
- (7) other similar cases.

## **908 Event of Default and Action in the Case of Event of Default**

### **908.01 Event of Default**

#### **908.01 (1) Event of Default of the Borrower**

TCH may deem that the following cases are events of default of the borrower:

- (1) failure to place the collateral in accordance with the procedures under Regulation 904.01 (3);
- (2) failure to return the borrowed securities in accordance with the procedures under Regulation 904.02 or 904.03;
- (3) failure to repay or indemnify TCH any benefit relating to the borrowed securities in accordance with the procedures under Regulation 904.04;
- (4) failure to place the additional collateral in accordance with the procedures under Regulation 906.

#### **908.01 (2) Event of Default of the Lender**

TCH may deem that the following cases are events of default of the lender:

- (1) failure to return the collateral in accordance with the procedures under Regulation 905.02 or 905.03;
- (2) failure to repay or indemnify TCH any benefit relating to the collateral in accordance with the procedures under Regulation 905.04;
- (3) failure to return the additional collateral in accordance with Regulation 906.

### **908.02 Action in the Case of Event of Default**

#### **908.02(1) In the Case where the Borrower is in Default**

Where the borrower is in default under Regulation 908.01 (1), until the collateral is placed or returned, the securities are returned, the benefit in relation to the securities is repaid or indemnified, or the additional collateral is placed and the damages is compensated in full, TCH may take any one or more of the following actions:

- (1) to borrow the securities from other persons for the purpose of returning the borrowed securities, whereby the borrower agrees to perform his duties as specified in the agreement and the regulations in this Chapter;
- (2) to enforce the collateral which has been placed;
- (3) to seize and enforce the money which the borrower is entitled to receive from the securities borrowing or lending in this Chapter;

(Translation)

(4) to seize and enforce the money, the securities or the collateral which the borrower is entitled to receive or has placed with TCH;

(5) to seize and enforce the securities which the borrower maintains in his clearing account;

(6) to seize and enforce the securities belonging to the borrower his securities account for the deposit, withdrawal or transfer of securities; and/or

(7) to undertake any other action which TCH deems fit.

#### **908.02 (2) In the Case where the Lender is in Default**

Where the lender is in default under Regulation 908.01 (2), until the collateral is returned, the benefit in relation to the collateral is repaid or indemnified, or the additional collateral is placed and the damages is compensated in full, TCH may take any one or more of the following actions:

(1) to seize and enforce the money which the lender is entitled to receive from the securities lending in this Regulation;

(2) to seize and enforce the money, the securities or the collateral which the lender is entitled to receive or has placed with TCH;

(3) to seize and enforce the securities which the lender maintains in his clearing account;

(4) to seize and enforce the securities belonging to the lender his securities account for the deposit, withdrawal or transfer of securities; and/or

(5) to undertake any other action which TCH deems fit.

#### **909 Rates of Fees and Expenses**

The borrower and the lender shall have the duty to pay the securities borrowing fee, the service fees and other expenses relating to the securities borrowing or lending to TCH at the rate specified in the invoice and within the timeframe specified by TCH in accordance with the following criteria:

(1) The lender shall have a duty to pay to TCH the borrowing fee and the service fees relevant to the securities borrowing, at the rate designated by TCH.

(2) The lender shall be entitled to receive the borrowing fee at the rate he specified and have the duty pay to TCH the fees relevant to the securities lending at the rate designated by TCH.

(3) The borrower and the lender shall have the duty to pay any expense in connection with the securities borrowing and lending at the rate designated by TCH and notified to the borrower and the lender in advance.

TCH may change the rate of the securities borrowing fee, the service fees and expenses in paragraph one as it deems fit by notifying the borrower and the lender of such change in advance.