

# 金融展望月刊

## Financial Outlook Monthly

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- A milestone in the development of FinTech—the Financial Technology Innovative Experimentation Act draft bill
- Adoption of IFRS 9 “Financial Instruments” in 2018
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### Policy and Law

#### *Providing financial support to the New Southbound Policy, creating a win-win situation for the financial industry and other industries*

The FSC has formulated related measures to provide financial support to the government's New Southbound Policy; the key points are as follows:

1. The Export-Import Bank of the Republic of China will increase finance, guarantees and insurance: The bank will provide preferential finance and guarantee conditions, increase insurance premium discounts and other incentives to enhance financial support to companies.
2. Domestic banks are being encouraged to expand credit extended to domestic enterprises and Taiwan-owned businesses in New Southbound target countries: The Program to Incentivize Lending by Domestic Banks to Enterprises in New Southbound Target Countries has been formulated to increase the willingness of banks to extend credit, and banks that perform well in this respect will be commended.
3. Guidance will be provided to Taiwan-owned companies to allow them to use the domestic capital market to raise funding: To allow Taiwan's capital market to provide a stable fund raising platform for New Southbound countries and excellent Taiwan-owned companies, TWSE and TPEX will appoint contact person for dedicated guidance who will answer queries from Taiwan-owned business when needed, and will also hold seminars in New Southbound countries and visit Taiwan-owned businesses, encouraging them to list in Taiwan.
4. Domestic banks will be assisted to establish or expand a presence in New Southbound target countries: Taiwanese banks set up seven affiliates in New Southbound Target Countries from May 20, 2016 to January 12, 2017. At present, 196 affiliates have been established, namely branches, subsidiaries, and representative offices, in the 11 target countries to provide local Taiwan-owned businesses and other customers with financial services, including credit extending, guarantee, consultation, and other services, nearby. Measures adopted include supervisory cooperation, database creation, regulatory relaxation, and talent cultivation.

#### *A milestone in the development of FinTech—the Financial Technology Innovative Experimentation Act draft bill*

With the aim of encouraging the innovative development of FinTech by establishing an innovative experimentation mechanism for FinTech that gives legal exemption and sets related administrative regulations in a specific scope and time period, to provide a safe environment for FinTech R&D trials, while also taking into account financial market order and protection of consumers, FSC has formulated the Financial Technology Innovative Experimentation Act draft bill. The contents cover FinTech innovation experimentation application, review, supervision and management, consumer protection procedures, and regulatory adjustment and removal of legal liability during the experimentation period. The draft bill has been discussed recently between related ministries, financial industry firms and innovative technology operators.

At the end of 2016, a number of legislators put forward Regulatory Sandbox related law draft amendments. After discussion with FSC, the Financial Administration Committee of the Legislative Yuan reviewed eight laws, including the Insurance Act on December 19 last year, and decided to add FinTech innovative experimentation mechanism related provisions to the eight laws, to be passed to the party caucuses for negotiation before going before the Legislative Yuan. However, to ensure the thoroughness of legislation, FSC has formulated the Financial Technology Innovative Experimentation Act draft bill using the special law method. This is the first time the special law approach has been used to establish a FinTech experimentation mechanism, to provide a safe environment for FinTech R&D trials, and giving FinTech innovative experimentation legal liability exemption and related administrative regulations for specially licensed financial businesses.

1. This Act is applicable to financial services companies that conduct financial business using innovative technology and also non-financial services sector companies that use information, Internet or other technology to conduct specially-licensed financial business.
2. Procedures are clearly stipulated for the application documents, review meetings, review items, review period, innovative experimentation period, and entry into innovative experimentation

review decision for FinTech innovative experimentation.

3. To allow FinTech innovative experimentation to proceed smoothly, matters including the innovation experimentation launch time limit, information security, supervisory measures, cancellation approval and results, are stipulated.
4. After the completion of FinTech innovative experimentation, the competent authority may review related financial regulations in accordance with the innovative experimentation results and business promotion feasibility; after the results of FinTech innovative experimentation are reviewed, the handling party can make a business operation application and will then be subject to financial regulations.
5. The Act clearly states that a competent authority should have a dedicated unit for handling FinTech innovative experimentation related work and authorizes the competent authority to formulate related rules.
6. To protect the rights and interests of the participants in experimentation, the liability of the handling party with regards participants is clearly stated and the requirements of the Personal Data Protection Act and other regulations must be met. Any civil dispute arising between the handler and participants will be mediated by the Financial Ombudsman Institution.
7. It is clearly stated that the competent authority or other authority can carry out review and regulatory adjustment on a case by case basis, and remove financial business criminal and administrative liability regulations.

### **Adoption of IFRS 9 "Financial Instruments" in 2018**

The FSC announced on December 30, 2016 that Taiwan will further synchronize its accounting standards by adopting IFRS 9 "Financial Instruments" on effective date of January 1st, 2018. General industries and financial industries such as financial holding, banking, insurance and securities sectors are required to apply this standard. With future adoption of IFRS 9, the FSC will soon take action to facilitate the implementation, including reviewing related regulations, holding promotional events and issuing practical guidance and FAQs. Given the breadth of the changes due to IFRS 9, the FSC reminds companies to make adequate preparations to address this impact, including thorough understanding of the standard, evaluation of the accounting policy, investment policy and internal control system to identify necessary adjustments, and enhancement of communication with those who in charge of corporate governance. The company should make timely release of material information if the result of such evaluation indicates significant impact on shareholders' rights.

### **Standards for Implementing the Net Stable Funding Ratio of Banks promulgated**

In response to the putting forward of Net Stable Funding Ratio as the globally consistent long-term liquidity quantitative indicator by the Basel Committee on Banking Supervision, together with the Central Bank, the FSC promulgated the aforementioned Standards and the "Methods for Calculating the Net Stable Funding Ratio" on December 26, 2016, to be implemented from 2018 in line with international implementation schedule. The aim is that domestic banks will, as a result, have sufficient long-term stable funding sources to support business expansion, thus reducing future funding pressure.

### **Taiwan and the US sign an agreement for cooperation to facilitate the implementation of FATCA**

In response to the Foreign Account Tax Compliance Act (FATCA) taking effect on July 1, 2014, with the aim of protecting the investment rights and interests of Taiwan's financial institutions and all citizens, the FSC, together with the Ministry of Finance, Ministry of Foreign Affairs, and other related government agencies, has signed the cooperation agreement with the US side based on a consensus regarding reciprocal benefit. This agreement was signed on December 22, 2016 by the Taipei Economic and Cultural Representative Office (TECRO) and the American Institute in Taiwan (AIT.) In accordance with the R.O.C. Treaty-Making Act, the FSC has reported the agreement to the Executive Yuan and it will be passed to the Legislative Yuan for deliberation. The agreement will take effect after being passed by the Legislative Yuan and promulgated by the President.

### **FSC has implemented measures for active promotion of e-payment**

Considering that popularity of e-payment can increase efficiency of economic activities, reduce the processing costs of cash payments and enhance transaction transparency, FSC has implemented three measures to increase the popularity of e-payment in Taiwan, taking a step further toward a cashless society. These measures have been implemented to provide a favorable environment for e-payment, including creating a favorable regulatory environment, accelerating the integration of e-payment

terminal equipment and improving e-payment services of the public sector and medical institutions. As of the end of the first half of 2016, the ratio of domestic e-payment had climbed to 30%.

### **The Executive Yuan has approved draft amendments to Article 26 of the Act Governing Bills Finance Business**

In order to promote the dematerialization of short-term bills in Taiwan's primary market and help businesses to streamline the certifying and issuance procedures and reduce risks, the Executive Yuan Committee approved the draft amendments to Article 26 of the aforementioned Act on December 22, 2016. According to the amendments, short-term bills issued in physical or dematerialized forms, except treasury bills, shall be delivered to the central custody institution for custody or registration purpose. In addition, the holder may use the proof of non-payment obtained through presentment as the proof (protest) of dishonor defined in the Negotiable Instruments Act. Such a practice can resolve the doubt that holders of non-physical commercial papers may not be able to exercise their right of recourse. The FSC will actively work with the Legislative Yuan to pass this amendment as soon as possible.

### **Amendments to Article 2 of the Regulations of Investment Ceilings and Guidelines Governing Financial Holding Company's Venture Capital Subsidiaries Investing in Non-financial Enterprises Not Listed on Taiwan Stock Exchange or Taipei Exchange**

In order to facilitate domestic industrial development and economic transition, the FSC introduced the amendment to Article 2 of the Regulations on December 15, 2016, allowing financial holding company's venture capital subsidiaries to invest in enterprises in 7 key innovative industries, including green energy technology, which are not listed on the Taiwan Stock Exchange or Taipei Exchange. The investment ceiling is raised from NT\$ 50 million to 150 million and the limit on shareholding ratio is removed. The amendment aims to increase the willingness of venture capital businesses to invest in key innovative enterprises.

### **Amendments to the Regulations Governing Information Service Enterprises and Financial Technology Enterprises That Are Approved as Other Financial Related Enterprises by the Competent Authority**

In order to expedite compliance in the financial industry, the FSC introduced an amendment to Article 2 of the Regulations on December 13, 2016. It is prescribed that while banks invest in information service enterprises and financial technology enterprises whose business activities are different from the main business activities of these types of enterprises having been approved to be invested, the banks' investments in both of the former and the latter information service enterprises and financial technology enterprises are regarded as investments in entities in different industries. In addition, the business scope of financial technology enterprises defined in the Regulations is also expanded to include risk management, anti-money laundering, information security, transaction security, consumer right protection, and network lending platform, in response to current developments in financial technology and to encourage financial industry to take advantage of financial technology to enhance their risk management skills and provide innovative financial services.

### **Amendments to the Regulations Governing the Disclosure of Relevant Information Concerning the Capital Adequacy and Risk Management**

BCBS announced the amended disclosure requirements for Pillar Three under the Basel III supervisory framework in January 2015 for compliance with the market discipline principles of Pillar Three of the Basel III accord. The FSC introduced amendments to the Regulations on December 15, 2016 to enhance disclosure requirements for credit risk exposure, credit risk mitigation instruments and securitization exposure. The amendments took effect on December 31, 2016.

### **Scope of Proprietary capital use by securities finance businesses expanded**

On November 30, 2016, the FSC announced that securities finance enterprises are permitted to use its proprietary capital for investments in corporate bonds of public companies and in international bonds denominated in foreign currencies. This deregulation will help increase the capital utilization efficiency of securities finance businesses and the diversity of bond investments.

### **Deregulation regarding qualification for offering and issuance of international bonds on the professional**



### **board by branches of foreign financial institutions**

In order to attract high quality foreign issuers to issue international bonds in the domestic market and boost development of Taiwan's bond market, FSC issued an interpretative order on December 28, 2016 to allow branches of foreign financial institutions or their parent holding companies whose American Depositary Receipts have been listed and traded on American stock exchanges approved by FSC (New York Stock Exchange and Nasdaq Stock Market) to offer and issue international bonds on the professional board.

### **Securities firms now allowed to handle employees benefit trust and insurance claims trust when conducting wealth management business through the trust method**

FSC has introduced deregulation that allows securities firms to handle employees benefit trust and insurance claims trust when conducting wealth management business through the trust method, the aim being to improve securities firm competitiveness when conducting wealth management business and provide more diverse investment products to customers. Employees benefit trust includes employee stock ownership trust and employee savings trust; in the case of the former, a monthly trust fund (including salary contribution and company bonus) is invested in the employee's own company's shares; for employee savings trust, investment takes the form of investment in the employee's own company's shares as well as in domestic and foreign funds and securities. Insurance claims trust involves the beneficiary (trustor) first signing a trust agreement with a securities firm (trustee) and then, after an insurance firm pays insurance benefit into a trust account, the insurance benefit is managed and used by the trustee according to the trust agreement.

In line with the aforementioned deregulation, TWSE has added related regulations to its internal control system standard specification for securities firms; FSC has also revised the FAQ for the conducting of wealth management business by securities firms to provide related regulations and procedures relating to the aforementioned trust businesses to facilitate application to conduct these kinds of business by securities firms.

### **All listed companies required to offer electronic voting when holding shareholders' meetings**

To make voting easier for shareholders to promote shareholder activism and continual upgrading of corporate governance, on January 18, 2017, FSC announced an order, authorized by Article 177-1 of The Company Act, requiring that electronic voting is one of the voting methods offered at shareholders' meeting from 2018.

### **Securities firm business premises optimization measures**

To keep in line with financial technology development trends and year by year increase in the proportion of electronic transactions, on December 30, 2016, FSC agreed to allow the Taiwan Stock Exchange to formulate business premises optimization measures to lower securities firm operating costs and increase revenue, the key points are as follows:

1. Branches are allowed to not conduct brokerage business: to meet the practical needs of securities companies in the future, branches of securities firms will be able to only engage in wealth management business. No longer requiring brokerage business equipment in those branches will effectively reduce the operating costs of securities firms.
2. Securities firm business premises can be sub-let to other companies from other industries: Sub-letting of business premises will help securities firms attract customers and allow them to receive rental income.

### **Amendments of the Regulations Governing Investment of Investment-linked Insurance and related regulations**

An insurer may entrust an enterprise approved by competent authorities or one concurrently engaging in discretionary investment services to utilize and manage its investment-linked products in separate accounts. In order to increase risk management capabilities and strengthen internal control and internal audit mechanisms for insurance company, the FSC amended the Regulations Governing Investment of Investment-linked Insurance on December 12, 2016 and Directions for Disclosure Requirements of Investment-linked Insurance, Directions for the Review of Life Insurance Products, the Directions for Product Marketing of Investment-linked Insurance and the Directions for the Separate Account Custodian Institutions and Investment Instruments of the Investment-linked Insurance on December 14, 2016. The amendments allow an enterprise entrusted with discretionary investment in investment-linked products to conduct currency related financial derivatives transactions for currency hedging purpose, while supportive measures are also introduced. Moreover, FSC also introduced new regulations governing the requirement for

insurance companies to establish a mechanism for managing institutions entrusted with making discretionary investments and to make sure such an institution has the mechanism of processing discretionary investment transactions.

### **Announcement on the revised Scope and Formula for Calculating Total Adjusted Capital and Risk-based Capital of Insurance Company for 2016**

In order to reasonably reflect various risks of insurance companies, the FSC announced the revised Scope and Formula for Calculating Total Adjusted Capital and Risk Based Capital of Insurance Company on December 22, 2016. The adjustments include: (1) risk factors for the investment of insurance company in domestic and foreign stock (including domestic ETF); (2) an insurance company may include 30% of special reserves for participating policy in its calculation of its total Adjusted Capital and related risk factors; (3) average investment return rate in the past five years is used for the calculation of C3 interest rate risk capital of participating policies; (4) Calculation formula of C3 interest rate risk capital of the life insurance company.

### **FSC issued the interpretative order for Article 13 of the Regulations Governing Derivatives Transactions Conducted by Insurance Companies**

Considering that insurance companies need to appoint domestic and foreign banks to provide collateral management service about the operational activities of receiving, delivering, valuating and exchanging collaterals as well as related dispute resolution when conducting derivative transactions with counterparties and both agree on the collaterals to be delivered and received, the FSC issued the interpretative order on December 29, 2016. According to the order, procedures for processing derivatives transactions as defined by the first paragraph of Article 13 of the Regulations Governing Derivatives Transactions Conducted shall be incorporated into related guidelines by insurance companies to ensure safety of their fund. Such procedures include selection and evaluation criteria of collateral management institution, items of the agreement with the collateral management institution for managing collateral reception and delivery activities, and an independent, effective risk management mechanism. Moreover, an insurance company that conducts the aforementioned collateral management operations by itself is required to incorporate the aforementioned procedures about an independent, effective risk management mechanism in its related guidelines.

## **International Activities**

### **FSC continues to enhance exchange and cooperation with foreign banking supervisory authorities**

To continue to strengthen contact and exchange with financial supervisory authorities in the US and Canada, the FSC's vice-chairman Tien-mu Huang led a delegation to North America on November 30, 2016 to visit the financial supervisory authorities in these two countries. Colloquiums were also held with the managers of branches of Taiwanese banks in New York, Los Angeles, Toronto, and other cities. This trip aimed to enhance cooperation between the FSC and the financial supervisory authorities in the US and Canada, and also provided an opportunity for two-way discussion with local banks. The results can be used as reference in future banking supervision and business development.

### **President of U.S.-Taiwan Business Council Visits FSC**

President of the U.S.-Taiwan Business Council (USTBC), Mr. Rupert Hammond-Chambers led a delegation to visit the FSC on January 18, 2017. He was received by Chairman Lee. The two sides exchanged views on US-Taiwan economic and trade issues.

### **Luxembourg for Finance visits FSC**

Mr. Nicolas Mackel, CEO of Luxembourg for Finance, paid a visit to FSC on January 9, 2017, and was received by Vice-Chairman Cheng. The two sides discussed a wide range of financial issues including financial technology.

## **Industry Updates**

### **The FSC approves equity transfer application by Zurich Insurance (Taiwan) Ltd.**

After reviewing Hezhan International Investment Limited's application, including measures of protection of the rights and interests of Zurich Insurance (Taiwan) Ltd's policyholders and employees, its capital sources, professional ability of management team, long-term operation commitment

and financial capability, the FSC approved Hezhan International Investment Limited's application to acquire 99.73% of Zurich Insurance (Taiwan) Ltd's issued voting shares on December 8, 2016. The approval will come into effect after Hezhan International Investment Limited meets the conditions and submits relevant certificate for recognition within 60 days of receiving the FSC official letter. The application has been approved by the FSC on December 30, 2016.

### **FSC approves application for merger of Citigroup Global Markets Inc. and Citi Securities Taiwan Limited**

FSC has approved an application for merger of Citigroup Global Markets Inc. and Citi Securities Taiwan Limited. Both companies are securities subsidiaries of Citi Group in Taiwan. For the purpose of integration of resources, the two companies' boards of directors made the decision that Citigroup Global Markets Inc. will absorb Citi Securities Taiwan Limited acting on behalf of the stockholder's meeting. After the merger with Citi Securities Taiwan Limited, Citigroup Global Markets Inc will continue with its domestic securities brokerage business and offshore structured products master agent business and will also conduct the foreign bonds agent business of Citi Securities Taiwan Limited.

### **NPL ratio for domestic banks at 0.27% as of the end of December 2016**

The total outstanding loans of domestic banks stood at NT\$26,163 billion as of the end of December 2016, up by NT\$232.4 billion from the previous month, while their total NPLs were NT\$70.7 billion, down by NT\$4.9 billion from the previous month's figure of NT\$75.6 billion, generating an average NPL ratio of 0.27%, down by 0.02 percentage points from 0.29% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 502.93% at the end of December 2016, up by 40.88 percentage points from the figure of 462.05% at the end of the previous month.

### **NPL ratio for credit cooperatives at 0.07% as of the end of December 2016**

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$302 million as of the end of December 2016, generating an NPL ratio of 0.07%, down by 0.04 percentage points from the figure for the end of November 2016. The NPL coverage ratio, in the meantime, was 2,740.60%, up by 999 percentage points from 1,741.60%, at the end of November.

### **Net foreign investments in listed shares**

As of the end of December 2016, foreign and mainland China investors had bought around NT\$ 5,920.1 billion and sold around 5,599.9 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$320.2 billion. Meanwhile, for the Taipei Exchange, foreign and mainland China investors bought around NT\$ 571.8 billion and sold around NT\$540.1 billion, making for a net inward investment of around NT\$31.7 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese, and offshore foreign nationals as of the end of December 2016 stood at approximately US\$199.37 billion, down by around US\$1.95 billion from the US\$201.32 billion as of the end of November 2016.

## **Investor and Consumer Protection**

### **FSC reminds consumers to fully understand the meanings of liability insurance**

It has been reported in newspapers that the public have an insufficient understanding of the meanings of liability insurance. The FSC calls on the public to note the following things about liability insurance:

1. A product marked liability insurance coverage does not guarantee its quality or effectiveness.
2. It should be noted that while a product or a building marked with "This product has insurance coverage of NT\$○" or "This building has public accident liability insurance coverage of NT\$○", the insured amount is usually referred as the accumulated insurance amount in the insured period.

Benefit payment of liability insurance is different to that of injury insurance. Not until a process of reconciliation, mediation, ruling or arbitration to determine the liability loss is finalized does the insurance benefit is paid in

accordance with actual loss within the insured amount.

### **2017 School and Community Financial Literacy Campaign**

In January 2017, the FSC held two financial literacy promotion sessions at schools and groups, including at Shin-Cheng Elementary School in Hualien County, as part of its 2017 School and Community Financial Literacy Campaign. A total of 192 participants attended the events. These sessions are free of charge and have been very well received since their inception. As of the end of 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include students from elementary, junior high, high schools and universities, community and women's groups, indigenous people, immigrants, and military service personnel.

The FSC's Banking Bureau will continue its financial literacy campaign in 2017. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)89689709.

## **Major Enforcement Actions**

### **Far Eastern International Bank fined NT\$10 million and NT\$1 million and subject to other necessary disciplinary measures**

After its 2016 examination of Far Eastern International Bank's NT\$ Convertible Bond Asset Swap business and investment in securities, the FSC deemed the bank to be in violation of paragraph 4 of Article 45-1 and Article 74-1 of the Banking Act. The bank was thus fined NT\$10 million and NT\$1 million under subparagraph 7, Article 129 and subparagraph 4, Article 130 of the Act, respectively. With respect to shortcomings in its NT\$ Convertible Bond Asset Swap business, the bank was ordered to suspend its NT\$ Convertible Bond Asset Swap business until the FSC decides that the shortcomings have been corrected.

### **Taiwan Shin Kong Commercial Bank fined NT\$2 million**

With respect to shortcomings in the mutual use of customer information by Taiwan Shin Kong Commercial Bank and its subsidiary Taiwan Shin-Kong Insurance Brokers Co., Ltd., the bank was fined NT\$2 million for violation of paragraph 2, Article 43 of the Financial Holding Company Act.

### **Concord Securities Co., Ltd was ordered to suspend its underwriting book-building allocation business for three months and ordered to suspend deputy general manager Lu and sales person Lin for six months and one year respectively**

Concord Securities Co., Ltd (hereinafter "Concord"), which was responsible for underwriting the convertible bonds (CBs) of XPEC Entertainment Inc., was found collaborating with the issuance company when conducting the book-building and allocation of the CBs and providing the list of subscribers to Far Eastern International Bank for its convertible bonds asset swaps businesses. In accordance with Article 56 and Article 66 of the Securities and Exchange Act, Concord was ordered to suspend its book-building business for three months and suspend deputy general manager Lu and sales person Lin for six months and one year respectively.

## **Personnel Changes**

### **Personnel change at FSC**

The vacant position of the FSC's Secretary General was filled by Jean Chiu, the Director General of the Department of Planning. The personnel change became effective on January 26, 2016.

### **Personnel change at FSC**

The vacant position of Director General of the Department of Legal Affairs was filled by Hsu Tsui-wen, the Director of Legal and Planning Division, Banking Bureau. The personnel change became effective on January 6, 2016.