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- The Executive Yuan approved the draft “Financial Technology Innovative Experimentation Act”
- 20 credit cooperatives collectively join the SME credit guarantee mechanism in response to the government’s financial inclusion policy
- The FSC has introduced amendments to the Rules Governing Offshore Banking Branches to enhance OBUs’ customer due diligence
- Amendments to Article 26 and Article 66 of the Act Governing Bills Finance Business
- FSC approved TPEX’s General Introduction to the Taipei Exchange Operational Directions for Green Bonds

Policy and Law

The Executive Yuan approved the draft “Financial Technology Innovative Experimentation Act”

In order to encourage innovation, develop domestic Fintech and increase competitiveness of domestic financial industries, the Executive Yuan approved the draft act prepared by the FSC at its 3547th meeting and forwarded it to Legislative Yuan for review on May 5, 2017.

According to the FSC, the draft act was produced to establish a mechanism for financial technology innovative experimentation, create a safe environment for Fintech R&D activities and pilot tests for financial service industry and related industries, while maintaining financial market order, protecting customers’ right, promoting principle of responsible innovation, and providing flexible regulatory environment that facilitates Fintech business incubation and secures niche for domestic financial industry through government efforts. The FSC will actively communicate with the Legislative Yuan for earlier passage. Key points of the draft act are as follows:

1. Definition of the term “innovative experimentation.”
2. Requirements regarding innovative experimentation, including applicant’s qualification requirements, application documentation, review meeting, review considerations, review period, decision-making procedure of the review, period of innovative experimentation, application for change to innovative experimentation and information disclosure on the website of the regulatory authority.
3. The regulations regarding the deadline for starting the innovative experimentation, information security, supervisory measures, revoking the approval and evaluation of the results of innovative experimentation.
4. When the innovative experimentation is inventive and facilitates the development of financial services, the regulatory authority should evaluate the progress of that experiment and facilitate related business activities by reviewing related financial regulations, providing assistance to the applicants for their own startup, strategic cooperation and referral to related units responsible for providing business startup assistance. If the applicants need time to adjust their business qualification in accordance with the regulated requirements, while they plan to apply for the permit of engaging in the experimentation related financial activities. The applicants may apply for extending the period of innovative experimentation as a self-adjusted period.
5. The regulatory authority shall set up a responsible unit to accept, review and evaluate applications for innovative experimentation. Otherwise, the competent regulatory authority shall be authorized to lay down requirements for the application process, review criteria and related matters of innovative experimentation.
6. Fees regarding application, review and approval of innovative experimentation are exempted according to provisions of the Act.
7. In order to protect interests of experiment participants, the applicant shall assume liabilities to the participants stipulated in related regulations, such as the Personal Information Protection Act. The Financial Ombudsman Institution may accept and handle civil disputes between the applicant and

the experiment participants and charge the applicant a fee for such services. The applicant has to accept the Institution's decision when the compensation approved is less than a certain amount.

8. The regulatory authority in consultation with other agencies, may agree to grant exemption from applicable regulations or directions in case-by-case experiment. And the Act also waives criminal and administrative responsibilities stipulated in related financial laws and regulations.

20 credit cooperatives collectively join the SME credit guarantee mechanism in response to the government's financial inclusion policy

20 credit cooperatives have together joined the SME credit guarantee mechanism with the active assistance of the FSC and MOEA on April 20, 2017. All the credit cooperatives have become SME Credit Guarantee Fund contracted financial institutions. This measure will further implement the government's financial inclusion policy and meet the financial needs of more SMEs and microbusinesses in remote areas.

The FSC has introduced amendments to the Rules Governing Offshore Banking Branches to enhance OBUs' customer due diligence

The FSC has introduced the amendments to the Rules on May 22, 2017. According to the FSC, it put forward the amendments based on customer due diligence practices of regional financial service hubs like Singapore and Hong Kong, customer due diligence measures set out in 40 FAFT recommendations and public opinions, in order to improve customer due diligence of OBUs and prepare Taiwan for 2018 mutual evaluation by Asia/Pacific Group on Money Laundering (APG). Key points of the amendments are as follows:

1. Strengthening OBUs' customer due diligence:
 - (1) OBUs are required to perform customer due diligence and incorporate relevant scheme into the internal control and audit system according to the Money Laundering Act, and related regulations, as well as industry code issued by the Bankers' Association.
 - (2) The customer identity documents or information that OBUs are required to obtain or verify before finishing the process of accounts opening are all applied to the same criteria. Therefore, the FSC will also amend the order to allow an offshore customer to open an account with single entry permit.
 - (3) Given the fact that OBU operation will be an important component of our APG mutual evaluation in the future, banks are required to re-perform due diligence of existing customers and review their risk levels by the end of 2017.
2. Customer due diligence carried out by third parties:
 - (1) Considering that most of OBUs' clients are from overseas and thus need third parties' assistance to implement their customer due diligence program in order to acquire sufficient customer information, the FSC allows OBUs to perform customer due diligence with assistance of intermediary institutions according to the 17th measure recommended by the FAFT and requires OBUs to file their execution plans and their lists of intermediary institutions to the FSC for recordation purpose.
 - (2) Considering that intermediary institutions perform partial processes of customer due diligence program for banks and the processes may involve the banks' customer information confidentiality mechanisms, appropriate evaluation criteria and management shall be in place. Given this consideration, the aforementioned intermediary institutions are limited to banks, including overseas branches or subsidiaries of domestic banks, head offices of foreign banks having local branches in Taiwan or other overseas branches managed by such foreign banks' head offices, or parent banks of foreign banks' Taiwan subsidiaries or other overseas branches managed by such parent banks.
3. An OBU is not allowed to encourage or assist a resident customer to open an account using the identity of a non-resident when the customer opens a new account. The prohibition shall be incorporated into the bank's internal control system.
4. Considering that amendments to the Rules entail adjustments of the bank's internal operation activities and system configuration, the FSC has given a 6-month grace period.

The FSC will prepare a Q&A for the amendments to the Rules and ask the Bankers' Association to review the industry code. Besides, The FSC asks the Bankers' Association to collect opinions from banks regarding their operational practices and information about other common inquiries and incorporate adequate schemes into the industry code for banks to comply with. For example, how to verify customers' document authenticity, the Banker's Association may conclude document authenticity verification methodologies, credit information institutions, and verification processes and

then incorporate adequate practices into the industry code, including allowing banks to use verification reports prepared by non-financial institutions without conflict of interests for reference provided that these banks perform the customer due diligence by themselves. Moreover, the FSC will ask the Bankers' Association to study the advocacy campaigns and measures that help customers cooperate with banks for the reviews, in order to expedite banks' re-performing customer due diligence according to the Rules and dispel unreasonable doubts by providing adequate information to customers.

Amendments to Article 26 and Article 66 of the Act Governing Bills Finance Business

In order to expedite paperless operation of short-term notes' primary market and meet the demand of businesses for issuing commercial papers in dematerialized form, the President promulgated the amendments to Article 26 and Article 66 of the Act on May 3 2017. These amendments are expected to increase the efficiency and operating security of the monetary market, reduce manual activities of bills houses in the primary market, stimulate investors' interest in holding short-term notes, and increase liquidity of financial products.

FSC approved TPEX's General Introduction to the Taipei Exchange Operational Directions for Green Bonds

To assist green industry obtain capital, and promote environmental sustainability and a diversified domestic bond market, the FSC has supervised the formulation of a concrete green bond promotion plan by TPEX and also approved its General Introduction to the Taipei Exchange Operational Directions for Green Bonds on April 18, 2017. TPEX promulgated the Directions on April 21, 2017, and they took effect the same day.

The above Directions stipulate that when the issuer submits a green investment project or management of proceeds approval or assessment documents and documentary proof from a domestic or overseas review institution with its application, it can apply to TPEX for an eligibility review. The TPEX review period is not more than three business days. After approval of TPEX, the issuer should apply for OTC trading within two months. Also, after green bonds are issued, the issuer should, within 30 days of the end of each accounting year, commission a review institution to present an opinion or certification report with regards whether the use of proceeds matches the purpose of proceeds.

Amendments to the Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business

In order to help banks fully evaluate customers' understanding about financial derivatives for better performance of "Know Your Customer" procedure and product suitability system, the FSC introduced the amendments to some article of the Regulations on May 16, 2017. Key points of the amendments are as follows:

- (1) The trader authorized by the juristic person customer to conduct transactions shall have sufficient professional knowledge or trading experience in financial products and the juristic person customer shall provide written consent to be a professional customer.
- (2) Banks shall conduct confirmation exercise at least once a year to ensure that their professional customers continue to fulfill the qualification requirements.
- (3) Banks shall incorporate the requirements for a professional customer in terms of sufficient professional knowledge of financial products and assessment of trading experience into its "Know Your Customer" procedure and report it to the board of directors for approval.
- (4) The criteria for customer and product classification shall now be part of the product suitability system of the bank.

Simplifying of Application Procedure for Integration of Credit Card Terminal Equipment

To respond to the development of e-payment services and increase the efficiency of e-payment terminal equipment integration, the FSC has simplified the application procedure for terminal equipment integration of financial institutions.

The FSC has studied different ways to simplify the application procedure for terminal equipment sharing among credit card acquirers, electronic stored value card issuers and electronic payment institutions and has issued an interpretative order for simplifying the application procedure for equipment sharing of credit card acquirers. Under the interpretative order, if credit card acquirers share their terminal equipment with electronic stored value card issuers or electronic payment institutions and share terminal equipment pursuant to the conditions listed below, credit card acquirers are no longer required to obtain approval from the FSC according to Article 15 of the Regulations Governing Institutions Engaging in Credit Card Business

and are now allowed to directly share their terminal equipment with other organizations based on their business strategies.

1. The credit card acquirers and the organizations that share terminal equipment should separately connect their own systems with the shared terminal equipment, which will individually transmit transaction information to the organizations pertinent to such transactions and such organizations should process transactions with their own systems.
2. The credit card acquirers are commissioned by the organizations which share terminal equipment to transmit the transaction information from the shared terminal equipment to the organizations pertinent to such transactions via the credit card acquirer's network, while the credit card acquirers are not involved in transaction information processing. The FSC is now working on amendment or addition of new regulations governing the simplification of the application procedure for terminal equipment integration of electronic stored value card issuers and electronic payment institutions according to its administrative procedure.

After-hours trading system is launched for the futures market

In order to provide futures traders more hedging instruments and trading opportunities, TAIFEX launched the after-hours trading system on May 15, 2017 under the supervision of the FSC. At the initial stage, futures with higher market demand (such as Taiwan stock index futures and options) and products that have competitive edge in the international market and are launched through international cooperation will be traded on the system first.

Deregulation concerning the orders for eligible foreign ETFs placed by non-professional investors with securities firms

In order to increase portfolio management flexibility of non-professional investors, protect investors according to the Financial Consumer Protection Act and expedite business development of securities firms, the FSC allows securities firms to accept orders placed by non-professional investors for trading of various foreign ETFs on April 19, 2017. However, non-professional investors must meet specific criteria to place orders for trading leveraged and short ETFs with positive multiple of no more than 2 or inverse ETFs with multiple of no more than 1. The same requirement is applied to domestic investors for trading of exchange-listed leveraged or inverse ETFs.

Amendment of Article 9 of Regulations for Establishment and Administration of Foreign Insurance Enterprises

The amendment to Article 9 of the Regulations is introduced to strengthen cross-border anti-money laundering and countering terrorism financing of the insurance industry. When a foreign insurer submits an insurance license application for a branch in Taiwan, it shall present a document provided by the regulatory authority of the insurer's home country proving that the applicant has not had any major flaws in anti-money laundering and countering terrorism financing activities that have not been improved in the last 5 years.

Amendment of the Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms

Considering that the credit risk of eligible reinsurers and foreign reinsurers or insurance organizations providing huge amounts of commercial fire insurance coverage or cargo insurance affects risk spreading quality of the domestic insurance industry, the FSC introduced the amendments of Article 8 and Article 12 of the Regulations on May 2, 2017, to achieve better consistency among credit ratings given by different international credit rating agencies.

International Activities

Delegation from the European Chamber of Commerce Taiwan visits FSC

A delegation from the European Chamber of Commerce Taiwan visited the FSC on April 27. The visitors were received by FSC deputy chairman Tianmu Huang and the two sides discussed green finance issues.

Industry Updates

Banking industry's financial products in response to Taiwan becoming an aged society

As Taiwan moves towards becoming an aged and low fertility society, the FSC continues to encourage banks to formulate financial products and services that meet the needs of the elderly. The aim is to allow old people,

in addition to having basic living needs met by government-provided social welfare, social relief and social insurance, in accordance with their own needs and economic capability, maintain economic independence and receive good care through bank-provided financial products and services that are specially-designed to meet the needs of an aged society. Products and services designed to address the needs of an aged society provided by banks at present include:

1. Elderly care trust:
To encourage bank trust business to be further combined with elderly care and medical service functions with the aim of meeting people's future life care needs, on November 10, 2015, the FSC announced the "rating criteria and incentive measures for handling of asset trusts by trust enterprises for senior citizens and disable people", which will be effective for five years from 2016. Banks that perform well in handling property trust business directed at the elderly and the disabled will be selected and commended by the FSC annually. The FSC will evaluate banks' 2016 performance for the first time in 2017 and will hold an award presentation ceremony for the selected banks that had performed the best.
As of the end of March 2017, 24 trust companies provided care trust related products, the beneficiaries of care trusts totaled 6,787 people and the trust property principal totaled NT\$ 8.636 billion, up by 5,924 people and NT\$4.403 billion, respectively, from the end of 2015. The FSC said that banks are actively carrying out R&D on peripheral services in terms of cooperation with elderly care institutions, combining hospital medical care and social welfare. Trust business has changed from traditional money trust management to see the development of trust products that can provide actual life care to the elderly, which will help to improve the elderly life care function of care trusts.
2. Real estate reverse mortgage (House-for-pension)
Commercial real estate reverse mortgages are financial products that help elderly people enjoy their lives in retirement and enhance elderly life security using their own house. Encouraged by the FSC, Taiwan Cooperative Bank took the lead in providing this product since November, 2015 and then eight other banks, namely Land Bank of Taiwan, Taiwan Business Bank, First Commercial Bank, Hua Nan Commercial bank, Bank of Kaohsiung, Bank of Taiwan, CTBC Bank, and Taishin International Bank, have progressively provided this product. As of the end of March 2017 1,484 cases have been undertaken, and loans totaling NT\$7.813 billion approved.

FSC agrees to allow Nanshan Life Insurance to assume the assets, liabilities and business of Chaoyang Life Insurance

Nanshan Life Insurance Co. Ltd.'s bid was the winning bid in the Chaoyang Life Insurance Co. Ltd assets, liabilities and business general assumption and auction case of January 16, 2017 with the condition of NT\$200 million advance payment by the Taiwan Insurance Guaranty Fund. In accordance with The Financial Institutions Merger Act, the two companies applied to the FSC for Nanshan Life to be allowed to assume Chaoyang Life's assets, liabilities and business attaching the required documents. The FSC approved this application on April 21, 2017.

FSC agrees to allow Bank of Taiwan to set up three representative offices in Vietnam, Thailand and Indonesia

On April 25, 2017, the FSC approved an application from Bank of Taiwan for permission to apply to the competent authorities of Vietnam, Thailand, and Indonesia to open three representative offices, in Ho Chi Minh City in Vietnam, Bangkok in Thailand, and Jakarta in Indonesia, respectively. Bank of Taiwan's decision to open these three representative offices is motivated by the future economic development potential of ASEAN countries and their abundant manpower and natural resources, and taking into account the political and economic development trends, financial situations of Vietnam, Thailand and Indonesia, and the bilateral trade between Taiwan and these three countries. Establishing such representative offices will help Bank of Taiwan understand the financial situations of these three countries and the opportunities for future development.

FSC agrees to allow The Export-Import Bank of the ROC to establish a representative office in Mumbai, India

On May 4, 2017, the FSC agreed to allow The Export-Import Bank of the ROC to set up a representative office in Mumbai, India. The bank's decision to set up the Mumbai representative office takes into consideration India's location at the heart of south Asia, its huge population, its relatively abundant labor force and the fact that its economic growth is mainly driven by domestic demand, and the bank is also intended to promote Taiwan's export trade in support of the government's New Southbound policy. The Mumbai

representative office will enhance contact and cooperation with Indian financial institutions and help Taiwan's enterprises develop the Indian market and then go on to establish presence in the other five countries of south Asia.

NPL ratio for domestic banks at 0.31% as of the end of April 2017

The total outstanding loans of domestic banks stood at NT\$26,304.5 billion as of the end of April 2017, up by NT\$104.4 billion from the previous month, while their total NPLs were NT\$80.4 billion, up by NT\$2.8 billion from the previous month's figure of NT\$77.6 billion, generating an average NPL ratio of 0.31%, up by 0.01 percentage points from 0.30% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 439.74% at the end of April 2017, down by 13.59 percentage points from the figure of 453.33% at the end of the previous month.

NPL ratio for credit cooperatives at 0.12% as of the end of April 2017

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$530 million as of the end of April 2017, generating an NPL ratio of 0.12%, up by 0.02 percentage points from 0.10%, at the end of March 2017. The NPL coverage ratio, in the meantime, was 1,538.10%, down by 319.58 percentage points from 1,857.68%, at the end of March 2017.

Net foreign investments in listed shares

As of the end of April, 2017, foreign and Mainland China investors had bought around NT\$1,961.95 billion and sold around NT\$1,764.19 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$197.76 billion. Meanwhile, for the Taipei Exchange, foreign and Mainland China investors bought around NT\$ 178.97 billion and sold around NT\$170.08 billion, making for a net inward investment of around NT\$ 8.89 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 April 2017, stood at approximately US\$209.93 billion, up by around US\$1.27 billion from the US\$208.65 billion as of the end of March 2017.

Investor and Consumer Protection

FSC reminds consumers that endowment insurance is not time deposit and that there is a risk of losses from early contract surrender

The FSC reminds consumers that insurance is intended as preparation for future unknown risk, to allow losses to be made up through insurance. In essence, it is a form of protection not a way to make profit. The products referred to as "insurance deposit" on the market today feature the word deposit but they are still insurance products and not bank time deposit. If a policy holder surrenders an endowment insurance contract early, they must still pay the protection fee and loading fees for the period of cover and will only be able to collect part of the premium paid. For this reason, consumers should carry out careful assessment before buying an endowment insurance product.

The FSC stated that, at present, quite a few insurance companies offer endowment insurance. This refers to life insurance with a relatively high living benefit component. As well as death benefit and total disability benefit, this kind of insurance product usually provides the policy holder with regular or lump sum living benefit after a certain period of time, thus they are commonly referred to as endowment insurance. However, endowment insurance still has the characteristic of insurance protection and is different to bank time deposit which attaches importance to capital yield.

The FSC reminds consumers to fully assess their own protection needs and capital receipt and expenditure situation during the premium payment and protection period and to read the contents of the contract carefully before buying endowment insurance, to avoid the situation in which, when the insurance contract is terminated early because it does not match requirements or capital is needed by the policyholder, not only is insurance cover ended, the surrender value received may also be less than the premium paid, causing a loss.

FSC reminds people to take out residential earthquake insurance to protect their home and property

Taiwan is a place that frequently has earthquakes. The FSC calls on people to pay attention to earthquake emergency response measures on a daily basis and also consider taking out residential earthquake fundamental insurance to protect their home and property, in doing so reducing property

losses in the event of an earthquake. At present, as well as residential earthquake fundamental insurance, the insurance industry has brought out various earthquake insurance products such as Extended Earthquake Insurance, Excess of Loss Earthquake Insurance and Light Earthquake Insurance, offering consumers various residential earthquake insurance product options.

2017 School and Community Financial Literacy Campaign

In May 2017, FSC held 97 financial literacy promotion sessions at schools and groups, including Changliu Elementary School in Nantou County, as part of its 2017 School and Community Financial Literacy Campaign. A total of 12,203 participants attended. These sessions are free of charge and have been very well received since their inception in 2006. 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 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.

Analysis of gender of bank and credit cooperative employees

Financial institutions have always employed more women than men because more women study in business and management related departments. The statistics on employee salaries and productivity of the Directorate General of Budget, Accounting and Statistics, show that the number of employees employed by banks and credit cooperatives at the end of 2016 was 151,857, up by 443 persons from the 151,414 of the end of 2015. Female employees numbered 90,415 (accounting for 59.5%), 28,973 more than men, who numbered 61,442 (40.5%). The gender ratio was 68.0%, down by 0.2% from 68.2% on the end of 2015.

Major Enforcement Actions

EnTie Commercial Bank fined NT\$10million, reprimanded and subject to other necessary administrative disciplinary action

When conducting financial derivatives business, EnTie Commercial Bank was found to have failed to properly implement an internal operations system and procedures in violation of Paragraph 4, Article 45-1 of the Banking Act and was thus fined NT\$10 million under Sub-paragraph 7 of Article 129 of the same act. According to Paragraph 1 of Article 61-1 of the Banking Act, It was also reprimanded and prohibited from undertaking new financial derivatives business with foreign exchange put option feature (including structured product business). However, this restriction does not apply to the trading conducted for professional institutional investors and high net worth juridical persons, and stop loss trading for existing customers,) until the FSC decides that the shortcomings have been meliorated.

A Mainland Chinese enterprise invested in securities in Taiwan through a Foreign Institutional Investor. The Chinese enterprise has been fined and had shareholder rights terminated

A mainland Chinese enterprise's wholly-owned Hong Kong subsidiary (the mainland enterprise) commissioned SinoPac Securities (Asia) Limited, a Foreign Institutional Investor (Sinopac Securities,) to buy and sell securities in Taiwan. Paragraph 1 of Article 73 of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area stipulates that citizens, juridical persons, groups, other institutions or invested companies in a third country/region cannot engage in investment activity in Taiwan without the prior approval of the competent authority, thus the aforementioned mainland enterprise violated regulations.

The FSC informed Sinopac Securities that it must no longer buy and sell Taiwan securities on behalf of the mainland enterprise and stipulated that all the Taiwan securities it holds must be sold within six months. Also, in accordance with Paragraph 1 of Article 93-1 of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area, the mainland enterprise was fined NT\$600,000 and its shareholder's rights were terminated. Its shareholding will not be counted in the total number of shares issued for this security and its voting rights will not be counted.

The FSC reiterates that foreign and mainland Chinese investment in securities in Taiwan must obey related administrative rules and securities and futures trading administrative decrees. If violations are discovered, they will be punished strictly according to regulations.