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## Financial Outlook Monthly

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\*The Chinese version rules if  
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- FSC issues "Sustainable Development Guidemap for TWSE and TPEX Listed Companies"
- FSC announces "Transition Strategies of Sustainable Development for Securities and Futures Sectors"
- FSC amends "Regulations Governing Domestic Juridical Persons Opening Accounts for the Purpose of Handling Loan-related Receipts and Disbursements in Offshore Banking Units"

### Policy and Law

#### *FSC issues "Sustainable Development Guidemap for TWSE and TPEX Listed Companies"*

In response to climate change and international attention to the issue of sustainability, in support of the government's goal of achieving net zero carbon emissions by 2050, and to assist enterprises in setting carbon reduction targets in a timely manner, the FSC on 3 March 2022 issued the "Sustainable Development Guidemap for TWSE and TPEX Listed Companies," which plans to implement in phases to promote listed companies to disclose greenhouse gas information. All listed companies will be required to disclose greenhouse gas inventory by 2027 and greenhouse gas inventory with verifications by 2029, and to carry out boards of directors' responsibilities for sustainable development.

#### *FSC announces "Transition Strategies of Sustainable Development for Securities and Futures Sectors"*

To strengthen the sustainable development of securities and futures sectors, the FSC on 8 March 2022 has announced "Transition Strategies of Sustainable Development for Securities and Futures Sectors" in order to achieve the following five major objectives: (a) perfecting the sustainable ecological system; (b) upholding the capital market's trading order and stability; (c) strengthening the self-discipline mechanism and resources integration of securities and futures sectors; (d) improving the operation and business transformation of securities and futures sectors; (e) protecting the rights of investors or traders and instituting fair and friendly services, to be attained via 3 implementation structures, 10 strategies, and 27 concrete measures. The FSC aims to achieve the goal of sustainable industrial transformation in three years via collaboration with various self-regulatory organizations, including the Taiwan Stock Exchange, Taipei Exchange, Taiwan Futures Exchange, Taiwan Depository & Clearing Corporation, and securities and futures industry associations. The aforementioned three implementation structures are the following:

1. Improving the sustainability governance structure: attainment via the four strategies including: establishment of sustainability values and ESG (environmental, social, and governance) culture; establishment of information security mechanism; implementation of accountability system for the board of directors and management; and assistance of functional committees for the board of directors in the fulfillment of the board's duties, along with eleven concrete measures.
2. Exerting the financial intermediary function to facilitate corporate sustainability: attainment via the three strategies including: empowerment of underwriters and financial consultants to assist companies listed on the TWSE, TPEX, and Emerging Stock Market in implementing various sustainability and ESG programs; establishment of the self-discipline, incentives, and supervision mechanisms of dealers, investors, mutual-fund managers, and discretionary-account managers; and carrying out the principle of treating customers fairly and protecting investors of specific groups such as senior citizens and the disabled in brokerage, wealth management and fund sales business, along with nine concrete measures.
3. Promoting sustainability information disclosure: attainment via the three strategies including: strengthening the capabilities of securities and futures enterprises in responding to climate change risk; enhancing information disclosure on sustainability development of securities and futures business; and perfecting channels for information disclosure and external communications, along with seven concrete measures.

#### *FSC amends "Regulations Governing Domestic Juridical Persons Opening Accounts for the Purpose of Handling Loan-related Receipts and Disbursements in Offshore Banking Units"*

To respond to the implementation of economic substance law in the international community, assist Taiwanese businesses in allocating funding across borders, satisfy their cross-border fund allocation needs, and improve competitiveness in international markets, the FSC promulgated the aforementioned Regulations on 26 October 2020 to allow domestic juridical persons to

open accounts for the purpose of handling loan-related receipts and disbursements in offshore banking units (OBUs). To increase the flexibility for the use of such accounts, the FSC held a meeting and invited the Central Bank, Ministry of Finance, Bankers Association of the Republic of China, and representatives of banks to exchange views. After that meeting, the FSC on 14 March 2022 issued the amendments of the Regulations.

### **FSC amends "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants"**

To improve the quality and compliance of non-financial disclosures, the FSC on 22 February 2022 amended the aforementioned Regulations, then on 24 February 2022, to coordinate with those amendments, the FSC issued an interpretive order to amend the attached forms. Key points of the amendments include the following:

1. The amended Regulations expressly provide that at any securities firm or futures commission merchant (FCM) which is a foreign company's branch within the territory of the Republic of China (ROC), the matters that under these Regulations are required to be handled by the board of directors or supervisors shall be handled by the responsible persons of the ROC branch who are authorized by the head office or regional headquarters of the foreign company.
2. Improving the quality of non-financial disclosures:
  - (1) Strengthen the information disclosure of cyber security management: It is stipulated that a securities firm or FCM shall clearly describe its cyber security policy, specific management plan, and resources invested in cyber security management. In addition, a securities firm or FCM shall disclose the impact of cyber security risks on its financial and operational affairs and countermeasures, as well as its losses suffered, possible impact and countermeasures due to severe cyber security accidents.
  - (2) Strengthen the information disclosure on CPA fees: The amendment requires securities firms and FCMs to disclose the specific amounts paid in CPA fees, deletes the option for securities firms and FCMs to use a tiered disclosure method for disclosing the fees, and additionally requires disclosure of the content of non-audit services.

### **FSC amends multiple provisions of "Regulations Governing the Administration of Shareholder Services of Public Companies" and Articles 3 and 6 of "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies"**

To bring practice into line with the "Company Act," which allows public companies to convene virtual shareholders' meetings, the "Regulations Governing the Administration of Shareholder Services of Public Companies" and the "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies" have been amended after referencing related foreign systems, local experience in physical shareholders' meetings with assistance of video conferencing amid pandemic, and shareholders' meeting practical operation. It is expected to be conducive to better shareholder activism. Accordingly, the FSC amended the aforementioned Regulations on 4 March 2022. The key points of the amended provisions are as follows:

1. To ensure shareholders' rights, it is explicitly stipulated that if companies plan to convene virtual meetings, including virtual-only and hybrid shareholders' meetings, they must have it written in their articles of incorporation and approved by their board of directors. In the event of natural disasters, incidents, or other force majeure events, the Ministry of Economic Affairs (MOEA) may announce that companies may not need to have the said types of meetings written in their articles of incorporation within a specified period. In addition, since hybrid meetings can help protect shareholders' rights, hybrid meetings approved by special resolutions at the board of directors meetings will be exempted from the said articles of incorporation restrictions within one year after adopting the revised regulations.
2. Companies that plan to convene virtual-only shareholders' meetings should meet the following requirements: (1) Shareholders' meetings do not have motions to elect directors or supervisors; (2) Shareholders' meetings do not have motions to dismiss directors or supervisors; (3) Shareholders' meetings do not have motions to discuss major merger or acquisition deals; (4) Companies whose stocks are not listed on the stock exchange or traded on the over-

the-counter (OTC) market should outsource shareholder services agencies to handle their shareholder services.

3. Companies that plan to convene hybrid shareholders' meetings should meet the following requirements: (1) Shareholders' meetings do not have motions to elect directors or supervisors, or if they do, the number of the candidates should not exceed the seats of the directors and supervisors to be elected; (2) Shareholders' meetings do not have motions to dismiss directors or supervisors; (3) Companies whose stocks are not listed on the stock exchange or traded on the OTC market should outsource shareholder services agencies to handle their shareholder services.
4. To ensure shareholders understand the relevant rights and limitations before participating in shareholders' meetings, it is explicitly stipulated that the meeting notice should include the method of participating in virtual shareholders' meeting and ways of exercising their rights, countermeasures against platform failures or difficulties in participating virtually caused by natural disasters, incidents, or other force majeure events, as well as proper alternative measures for shareholders who have difficulty attending shareholders' meetings virtually.
5. To safeguard shareholders' rights, it is explicitly stipulated that shareholders who have exercised their voting right via written or electronic means and haven't withdrawn their declaration of intent may still attend shareholders' meetings virtually. However, they can only exercise their proposing and voting rights regarding extempore motions. In addition, they cannot vote on the original meeting proposals and the amendments to the content of the original meeting proposals, or propose to amend the content of the original meeting proposals.
6. Considering that the participation procedures of virtual meetings and the results of the resolutions at shareholders' meetings are closely connected to shareholders' rights, relevant regulations are explicitly stipulated, including meeting process-related matters such as check-ins, live streaming, raising questions, voting, ballot counting, proposing extempore motions and proposing to amend the content of the original meeting proposals; shareholders' right of registration for online attendance after having exercised their voting right via written or electronic means; and the ways companies reveal the results of motions and elections.
7. To inform shareholders of the shareholders' meeting situation, the required content of virtual shareholders' meeting minutes is stipulated. Regulations are also formulated to serve as a way of clarification when disputes regarding shareholders' meetings occur. Companies and their shareholder services agencies should follow the rules of the record retention of sign-ups, registration, check-ins, raising questions, voting, ballot counting, and the audio or video recordings of their meetings.

### **Status of progress of FSC's policy on internet-only insurance companies**

On 21 December 2021, the FSC announced a policy purpose of allowing the establishment of internet-only insurance companies, and explained how to implement the new policy. This announcement was followed by a public comment period that concluded on 21 January 2022. Then in early March the FSC held a consultative meeting on the subject, and on 16 March convened a public hearing to solicit a still broader range of views and suggestions from financial industry associations, foreign chambers of commerce, as well as fintech associations and their members. The FSC then evaluated the views put forward during this process and on that basis proposed related legislative amendments to provide interested firms with a legal basis upon which to file applications for the establishment of internet-only insurance companies. An entity that applies to establish an internet-only insurance company is required to furnish a feasible business model and product planning in its business plan. In addition, an applicant's cost effectiveness is a key focal point of application reviews. The FSC hopes that internet-only insurance companies will have safe and sound business strategies, and that they will focus on the developmental niche that digital transformation will afford them.

### **FSC amends "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises"**

On 16 February 2022 the FSC amended Articles 20 and 24, Form 11 of Article 21, and Form 15 of Article 22 of the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" in order to align with international practices, enhance the independence of CPA firms and auditors, and strengthen the transparency of information

disclosure regarding cyber security risk management. Key points of the amendments are as follows:

1. Article 20: In order to strengthen information disclosure regarding cyber security management, the amended Article 20 requires insurers to describe their risk management framework, policies, concrete management programs, and resources invested. At the same time, the amended Article 20 also requires insurers to report losses suffered, possible impacts and countermeasures of significant cyber security incidents.
2. Article 24: In order to align with international practices and enhance the independence of CPA firms and auditors, the amended Article 24 requires that insurers disclose the fees paid to CPAs in specific amounts, and the amounts of non-audit fees paid to CPAs as well as the details of the non-audit services.

## International Activities

### Representative of the Korean Mission in Taipei visits FSC

On 15 February 2022, Representative Chung Byung-Won of the Korean Mission in Taipei visited the FSC, where the two sides engaged in a wide-ranging exchange of views regarding efforts to enhance bilateral financial market cooperation.

## Industry Updates

### FSC issues business licenses to All Win Fintech Co., Ltd and PXPAY Plus Co., Ltd

The FSC issued electronic payment institution business licenses to All Win Fintech Co., Ltd and PXPAY Plus Co., Ltd on 24 February and 1 March 2022, respectively. As of March 2022, there were 11 specialized electronic payment institutions, and 20 financial institutions were concurrently engaging in electronic payment institution businesses (included Chunghwa Post Co, Ltd and 19 banks).

### FSC gives go-ahead for insurers to invest in the six core strategic industries

To coordinate with the government's policy of promoting development of the Six Core Strategic Industries and assisting their capital raising efforts, the FSC has issued an interpretive order to allow insurers — provided that they act in accordance with the "Regulations Governing Use of Insurer's Funds in Special Projects, Public Utilities and Social Welfare Enterprises" (hereinafter, the "Special Projects Regulations") — to invest in or finance the six core strategic industries (information and digital technology, cybersecurity, medical technology and precision health, national defense and strategic industries, green and renewable energy, and strategic stockpile industries) via the following channels:

1. Direct investment: Insurers are allowed to invest directly in the six core strategic industries in accordance with Article 2, Subparagraph 7 of the Special Projects Regulations, which allow such investments when they qualify as "other use in line with government policies".
2. Indirect investment: Insurers are allowed to invest indirectly in targets that fall within the category of the six core strategic industries, including: (a) private equity funds created by subsidiaries of investment trust enterprises or subsidiaries of securities firms; (b) private equity funds that have obtained a qualification letter in accordance with the "National Development Council Directions for Guiding and Managing the Promotion of Industrial Investment by Private Equity Funds"; and (c) onshore funds and private equity funds created by a national investment company.
3. Syndication loans: For loans extended to firms in the six core strategic industries, insurers are allowed to participate as lenders in syndication, handling loans that are guaranteed or insured by foreign central governments, credit guarantee institutions set up by foreign central governments, or official export credit guarantee institutions announced by the OECD.

To guide insurers to invest in domestic industries and major infrastructure projects, and to support domestic industrial development, are major policies of the FSC, which hopes that insurers will actively evaluate and take part in the development of Taiwan's six core strategic industries while taking into account the protection of policyholders' interests and insurers' investment risks.

### NPL Ratio for Domestic Banks as of the End of February 2022

The total outstanding loans extended by the current 39 domestic banks increased by NT\$132.4 billion (US\$4.73 billion) as compared to the figure of previous month and amounted to NT\$34.34 trillion (US\$1,225.5

billion) at the end of February 2022. Meanwhile, the NPLs of these banks totaled at NT\$62.6 billion (US\$2.24 billion) which increased by NT\$6.2 billion (US\$0.22 billion) from NT\$56.4 billion (US\$2.01 billion) as of the end of the previous month. The average NPL ratio of the 39 banks increased by 0.02 percentage points and therefore rose to a figure of 0.18% from 0.16% of the previous month, and was down by 0.04 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 730.92%. While the ratio decreased by 79.94 percentage points from 810.86% of the previous month, it still remained stable at a higher level. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of February 2022. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

### NPL situation of credit cooperatives at the end of February 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.628 billion as of the end of February 2022, generating an NPL ratio of 0.11%, up by 0.03 percentage points from the end of January 2022. The NPL coverage ratio was 1,815.63%, down by 857.13 percentage points from 2,672.76% at the end of January 2022.

### Net foreign and mainland China investment in listed shares

As of the end of February 2022, foreign investors in the year to date had bought around NT\$2.7053 trillion and sold around NT\$2.8654 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$160.1 billion. In addition, foreign investors in the year to date had bought around NT\$477.2 billion and sold around NT\$510.5 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$33.3 billion. Meanwhile, mainland China investors had bought around NT\$0.3 billion and sold around NT\$1.2 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.9 billion; and mainland China investors had bought nothing and sold around NT\$0.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.3 billion. As for inward remittances by foreign and mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese, and foreign nationals at the end of February 2022 stood at approximately US\$234.8 billion, up by around US\$1.2 billion from US\$233.6 billion at the end of January 2022. The figure for cumulative net inward remittances by mainland China investors was US\$26 million, down by around US\$5 million from the US\$31 million at the end of January 2022.

### Sales statistics of foreign-currency denominated products by life insurance industry as of the end of December 2021

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of December 2021 were as follows: Premium revenues from new foreign-currency denominated policies amounted to around NT\$600.252 billion, up by 22% from NT\$493.572 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$285.339 billion (around 48% of the total), up by 85% from NT\$154.388 billion year-on-year, and the sales of traditional insurance products totaled NT\$314.913 billion (around 52% of the total), down by 7% from NT\$339.184 billion year-on-year.

### Profit/loss, net value, exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of end-January 2022

The pre-tax profit of insurance enterprises at the end of January 2022 was NT\$69 billion, up by NT\$5.6 billion, or 8.8%, year-on-year. Breaking down that figure, the pre-tax profit of life insurance enterprises was NT\$65.1 billion, up NT\$3.8 billion, or 6.2%, year-on-year, while the pre-tax profit of non-life insurance enterprises was NT\$3.9 billion, up NT\$1.8 billion, or 85.7%, year-on-year.

The owners' equity of all insurance enterprises at the end of January 2022 was NT\$2,579.7 billion, down by NT\$4.9 billion, or 0.2%, from the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,422.6 billion, a decrease of NT\$17.7 billion, or 0.7%, and the owners' equity of non-life insurance enterprises was NT\$157.1 billion, up by NT\$12.8 billion or 8.9%.

As of the end of January 2022, the NT Dollar had depreciated by 0.5% against the US Dollar since the end of 2021, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$54.3 billion, up by NT\$10.6 billion. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses, and

the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises as of end-January 2022 was a negative NT\$3.2 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$101.8 billion.

## Investor and Consumer Protection

### *FSC and National Police Agency hold the anti-fraud information sharing platform meeting*

In order to engage in an inter-agency collaborative fight against financial crime, the FSC and the National Police Agency held the anti-fraud information sharing platform meeting virtually on 23 February 2022. The meeting was attended by the ROC Bankers Association and the general managers of 39 domestic banks. During the meeting, the National Police Agency provided an in-depth analysis of new financial crime typologies and stated that it would actively participate in the building of the platform to enable closer collaboration between police and financial institutions, ensure effective prevention and reduction of financial crime, and protect the safety of the property owned by the nation's citizens.

FSC Chairperson Huang spoke to meeting attendees about the FSC's recent financial crime prevention measures, which included reminders to the public to be careful about the security of money transfers, and beware of online banking fraud. The FSC also collaborates with the National Police Agency to promote an early warning mechanism for offshore accounts suspected of being used for fraud. Furthermore, the FSC requests financial institutions to add the prevention of financial crime in the key points of internal controls, which is an effective way to stamp out financial crime by building a strong internal control system and a good corporate culture.

### *"Risk Management Best-Practice Principles for Insurers" amended to address business continuity management concerns*

To ensure that insurers can maintain business continuity, identify business interruption risks, and establish related management mechanisms, the FSC on 7 January 2021 accepted the filing of two separate sets of "Risk Management Best-Practice Principles for Insurers" (hereinafter, the "Best-Practice Principles") by the ROC Non-Life and Life Insurance Associations. The Best-Practice Principles call on insurers – acting in line with the nature, scale, and complexity of their own business operations – to adopt suitable business continuity management mechanisms, and make use of appropriate systems, resources, and procedures to maintain business continuity. The two Insurance Associations have also added the following two types of content to their respective "FAQs on the Risk Management Best-Practice Principles for Insurers": (a) the roles and responsibilities of boards of directors and internal audit units in business continuity management; and (b) how business continuity management mechanisms are established and what their content is.

In view of the fact that this is the first time for the Best-Practice Principles to address business continuity management concerns, individual insurers therefore need time to complete related preparatory work. In order to facilitate proper preparations, the FSC agreed that insurers would not be required to achieve compliance with the Best-Practice Principles and the FAQs until 1 January 2022, asked insurers to actively proceed with preparations, and instructed them to include information on concrete implementation plans, related budgetary allocations, and internal auditing plans in the next report to their board of directors.

The FSC hopes to strengthen insurers' risk management mechanisms by clarifying risk management mechanisms. In the face of the COVID-19 pandemic and other sudden contingencies, insurers need to ensure uninterrupted services and business operations in order to achieve sound business operations and protect policyholders' interests.

### *2022 Financial Literacy Campaign for the Campus and Community*

In the month of March 2022, the FSC held 39 activities at different locations, including Gangdong Elementary School in Kanding Township, Pingtung County, as part of the 2022 Financial Literacy Campaign for the Campus and Community, attracting 3,948 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2021, a total of 7,351 events had been held and over 1.1 million people had attended. The

target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2022. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

## Major Enforcement Actions

### *FSC imposes sanctions on Shin Kong Life Insurance and Shin Kong Financial Holding Co.*

The FSC recently imposed sanctions on Shin Kong Life Insurance after discovering that the company – in its utilization of enterprise funds, real estate investments and management, and its implementation of controls over other business operations – had failed to properly comply with requirements governing corporate governance and real estate investment management. The FSC determined that the related internal control system deficiencies were so serious as to pose a likely hindrance to sound business management, and therefore violated Article 5, Paragraph 1, Subparagraphs 4 and 8 of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises," which were issued by the FSC on the authority of Article 148-3, Paragraph 1 of the "Insurance Act." The FSC, acting on the basis of Article 171-1, Paragraph 4 of the "Insurance Act," handed Shin Kong Life Insurance an administrative fine of NT\$3 million, on the basis of Article 149, Paragraph 1 of the same Act handed the company an official reprimand, and on the basis of Subparagraph 7 under the same paragraph ordered the company, beginning from the day next following delivery of the FSC's administrative ruling and continuing for three years, to suspend all granting of additional credit to (or conducting other types of transactions with) a list of six companies including Shin Kong Jasper Fitness Co., and to suspend all such dealings with the bank's former Chairperson Wu or companies in which former President Wu has invested and over which the former president has significant influence as defined in International Accounting Standards 28. This suspension will remain in force until Shin Kong Life Insurance has filed a specific corrective action plan and the FSC determines that proper corrective action has been taken, but the suspension does not apply to Shin Kong Wu Ho-Su Memorial Hospital, or to Shin Kong Financial Holding Co. ("SKFH") or its subsidiaries. In addition, acting in accordance with Article 149, Paragraph 1, Subparagraph 7 of the same Act, the FSC ordered Shin Kong Life Insurance to reduce the monthly salary of its Chairperson Pan by 30% for three months.

In addition, SKFH was found to have engaged in improper business management practices, which includes violations of the principles of corporate governance, and failure to fulfill its statutory duty to exercise proper management of subsidiaries. The deficiencies may have jeopardized sound operation of the SKFH Group, and Chairperson Hsu had failed to exercise proper oversight. The FSC, acting in accordance with Article 54, Paragraph 1 of the "Financial Holding Company Act," therefore ordered SKFH to take corrective action and suspended Chairperson Hsu from performing his duties for three months.

## Personnel Changes

### *Personnel changes at the FSC headquarters*

FSC Securities and Futures Bureau deputy director-general Chia-Chun Kuo retired honorably on March 21 and was replaced by promoting the bureau's chief secretary Ching-Ping Kao; the post of chief secretary was filled by transferring How-Ming Hwang, director of the bureau's Division of Securities Investment Trust and Consulting. The appointees took up their positions on March 21.