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Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- FSC adopts "Directions Governing the Custody and Disposal of Clients' Equity-Type Foreign Securities Obtained through Physical Delivery of Domestic Structured Products or Structured Notes by Banks"
- FSC reminds listed companies to ensure sufficient cyber security manpower to meet regulatory requirements
- FSC amends regulations regarding the establishment and operation of internet-only insurance companies and starts to accept applications from 1 August 2022 to establish internet-only insurance companies

Policy and Law

FSC adopts "Directions Governing the Custody and Disposal of Clients' Equity-Type Foreign Securities Obtained through Physical Delivery of Domestic Structured Products or Structured Notes by Banks"

The FSC promulgated "Directions Governing the Custody and Disposal of Clients' Equity-Type Foreign Securities Obtained through Physical Delivery of Domestic Structured Products or Structured Notes by Banks" on July 18, 2022. With respect to equity-linked domestic structured products or structured notes written or issued by banks which upon maturity are settled through physical delivery, the Directions allow banks to exercise custody or disposal of clients' equity-type foreign securities obtained through physical delivery of domestic structured products or structured notes. Customers are able to enjoy one-stop investment and trading management services, and banks can also enhance their product development capabilities.

FSC reminds listed companies to ensure sufficient cyber security manpower to meet regulatory requirements

To strengthen the cyber security management mechanisms of public companies, the FSC on 28 December 2021 amended the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and issued an interpretive order to require that any TWSE- or TPEX-listed company, which has paid-in capital of NT\$10 billion or more, is a component of the FTSE TWSE Taiwan 50 Index, or is principally engaged in the sale of products or services via e-commerce, must appoint a chief cyber security officer and establish a dedicated cyber security unit with a dedicated cyber security supervisor and at least two dedicated cyber security personnel by the end of 2022. Other listed companies, except those income before tax has been negative in the most recent three consecutive years, or net worth per share was lower than par value in the most recent year, must appoint a dedicated cyber security supervisor and cyber security personnel by the end of 2023.

The FSC reminds listed companies that they should properly assess their cyber security risks and requirements, and should begin planning as early as possible to purchase needed equipment, appoint cyber security specialists. And if there is a need to adjust their internal organization or job duties, they should make corresponding changes to their internal control systems and implement the changes after they've been approved by the board of directors so that the companies can complete cyber security personnel appointments within the prescribed timeframes, thereby improving the companies' cyber defense capabilities.

FSC amends regulations regarding the establishment and operation of internet-only insurance companies and starts to accept applications from 1 August 2022 to establish internet-only insurance companies

In response to the digitization of financial services, and to promote the development of innovative new insurance products and meet the diverse needs of consumers, the FSC announced on December 21, 2021 that it had adopted a policy of allowing the establishment of internet-only insurance companies. To implement this policy, the FSC has amended the

"Regulations for Establishment and Administration of Insurance Enterprises," the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises," the "Regulations Governing Pre-sale Procedures for Insurance Products," and the "Regulations Governing Non-Life Insurance Enterprises Engaging in Injury Insurance and Health Insurance." Each of these four amended Regulations entered into force on 29 June 2022. Acting in accordance with the provisions of the "Regulations for Establishment and Administration of Insurance Enterprises," the FSC has announced 19 applications forms for establishment of an internet-only insurance company and started to accept applications from August 1 to October 31 of 2022.

FSC publishes guidances on Audit Quality Indicators (AQIs) to encourage listed companies to refer to it when selecting an auditor for their 2023 financial reports, and to improve financial report quality

In order to help the audit committees of listed companies with their appointment of an accountant ex officio, the FSC issued an "AQI Disclosure Framework and Template" on 19 August 2021. Also, in order to help audit committees effectively interpret AQI data, the FSC on 7 July 2022 issued a "Guidance on Interpretation of Audit Quality Indicators (AQIs) by Audit Committees." Audit committees can check background explanatory information in the various AQIs to gain a preliminary understanding of audit matters, and then cross-reference this information with various AQI metrics to further interpret the data's connections with audit quality, thus enhancing communications and discussions with audit firms. And to verify the consistency and comparability of the AQI data provided by an audit firm, thereby enhancing the usefulness and reference value of AQI data, the FSC at the same time issued a "Guidance on Preparation of Audit Quality Indicators (AQIs) by Audit Firms." This Guidance provides clear definitions and explanations of how individual AQI indicators are calculated, which can then serve as important bases for the preparation by accountants and audit firms of AQI data.

FSC adjusts RBC measurement scheme for insurance industry for the 1st half of 2022

To facilitate the efforts of insurers to adopt the international RBC measurement scheme in 2026, the FSC, making reference to ICS 2.0 issued by the IAIS, has adopted the New Generation Insurance Solvency Regime and a 5 year work plan to gradually move toward the ICS framework. On 30 June 2022, the FSC issued reporting forms and form completion guidelines for the RBC measurement scheme for the insurance industry for the 1st half of 2022. The content of amendments include an adjusted interest risk capital charge methodology, and an adjusted risk factor of 33.75% applying to investments by insurance enterprises in domestic and offshore venture capital and private equity funds, plus an additional exchange rate risk factor of 6.61% applying to any overseas investments.

FSC amends Directions for Strengthening of Non-Life Insurers' Catastrophe Reserves

To ensure that non-life insurers are able to properly respond to catastrophic impacts and maintain their financial security, the FSC, making reference to the ICS 2.0 of the IAIS, which provides that catastrophe risks include natural disasters and other major disasters, amended the Directions on 30 June 2022 to provide that extraordinary losses caused by earthquakes, typhoons, floods, communicable diseases, terrorist attacks, and credit and guarantee risks is allowed to be offset by the relevant loss reserves (which are classified as an insurance liability) reversal, thereby preventing the occurrence of catastrophes from having major impacts on Taiwan's non-life insurers.

FSC amends "Required Qualification and Directions for Life Insurance Companies to Engage in Foreign-currency Denominated Non-investment-linked Life Insurance Business"

To coordinate with an amendment to Article 2 of the "Regulations Governing Public Disclosure by the Financial Supervisory Commission of Material Enforcement Actions for Violations of Financial Legislation," and for the sake of supervisory consistency, the FSC recently amended Point 2 of the "Required Qualification and Directions for Life Insurance Companies to Engage in Foreign-currency Denominated Non-investment-linked Life Insurance Business" that pertains to the definitions of major enforcement actions and penalties, with the result that the meaning of the term "major enforcement actions and penalties" reverted to the definition set out in Article 2 in the Regulations.

FSC continues encouraging insurers to invest in Six Core Strategic Industries

To coordinate with the government's policy of vigorously promoting development of Taiwan's Six Core Strategic Industries, and to encourage insurers to invest in domestic industries and major infrastructure projects, thereby supporting domestic industrial development, on 24 June 2022 the FSC adopted a "Program to Encourage Insurers to Invest in the Six Core Strategic Industries, Public Infrastructure, Long-term Care Enterprises, and Sustainability Bonds" as a continuation of the "Program to Encourage Insurers to Invest in the 'Five Plus Two' Innovative Industries, Public Infrastructure, and Long-term Care Enterprises," which is a mainstay of the government's environmental sustainability policy. The program aims to encourage insurers to direct their funds toward investments that pay balanced attention to the protection of policyholder interests, ESG concerns and investment risks, and to actively invest in Taiwan's Six Core Strategic Industries and other domestic physical industries, thereby spurring sustainable development of the overall national economy. This Program is scheduled to run in three phases from 1 July 2022 to 30 June 2025, and is designed to generate NT\$200 billion worth of the targeted types of investments. Insurers that perform especially well in each phase of the Program will be granted public recognition and a list of their names will be posted to the FSC website.

FSC issues results of "Financial Inclusion Indicators for Taiwan (2021)" and adjusts the 2022 Indicators

On 7 July 2022 the FSC issued the results of "Financial Inclusion Indicators for Taiwan (2021)" to help the public understand the status of financial inclusion in Taiwan and the effectiveness of the government's policy implementation efforts. In addition, the FSC also adjusted the performance and observatory indicators for 2022 to include new indicators that reflect Taiwan's local features.

The results of 2021 show that Taiwan outperformed the global average in some indicators and made progression compared with 2020. For example, there were in an average of 2.43 million mobile payment transactions and 166 ATMs every 100,000 adults in Taiwan. These figures were higher than the global average of 1.04 million mobile payments and 54 ATMs, and were up by 59.03% and 3.1% respectively compared with 2020. Besides, every 1,000 adults in Taiwan have 540 digital deposit accounts, which was up by 62.65% compared with 2020.

To further improve Taiwan's Financial Inclusion Indicators system, the FSC makes rolling adjustments to 2022 financial inclusion indicators, and has adopted the following three new indicators that reflect Taiwan's local features: (1) percentage of multilingual ATMs; (2) participation in the program to promote the establishment of pilot bilingual branches; and (3) performance in providing financial literacy activities for new immigrants, women, and other such groups. The FSC will adjust the indicators in a timely manner according to the development status of the financial industry, publish the results of "Financial Inclusion Indicators for Taiwan" each year, review the development of financial inclusion of our country, and improve the financial inclusion policy and its implementation to achieve inclusive growth as well as bring about a society where ordinary people enjoy well-being.

International Activities

FSC and Israel Securities Authority sign MOU for FinTech cooperation

On 13 July 2022, FSC Chairperson Thomas Tien-Mu Huang and Israel Securities Authority (ISA) Chairwoman Ms. Anat Guetta signed a Memorandum of Understanding (MoU) for cooperation in Fintech via videoconference. The signing ceremony was witnessed by Mr. Omer Caspi, Representative of the Israel Economic and Cultural Office in Taipei (ISECO) and Ms. Ya-Ping (Abby) Lee, Representative of the Taipei Economic and Cultural Office in Tel-Aviv, both of whom attended the ceremony via videoconference. The two sides will engage in cooperation in the fields of FinTech, innovation, and investment in accordance with the terms of the MoU.

Industry Updates

FinTech Skills Certification System commences operations

FinTech grows more important by the day within the financial industry, but financial services firms everywhere face a shortage of professionals with expertise in financial information technology and digital finance. For this reason, in August 2020 the FSC announced the adoption of a FinTech Development Roadmap, one key point of which was to plan for the launch of a FinTech Certification Mechanism. Now, a FinTech Skills Certification System is set to commence operations soon.

The FinTech Skills Certification System distinguishes between basic skills and professional skills. Anyone wishing to obtain professional skills certification must be currently employed in a financial services firm and have three or more years of experience in jobs involving financial technology, digital finance, or information, or must have first obtained basic skills certification, including technological proficiency, financial proficiency, and programming proficiency. Professional skills are categorized to various FinTech-related skills, including business analysis, user interface and experience, data analysis, digital product design, digital compliance risk control, and digital marketing (or insurtech marketing) related to banking, insurance, securities, futures, securities investment trust and securities investment consulting sectors. Different professional courses fall within various professional skills subjects.

The FinTech Skills Certification System uses a "separate tests for separate professional courses, awarding of certification for groupings of courses" approach, which can attract high-tech talent to pursue careers in the financial industry, or can encourage persons currently employed in the financial industry to develop new types of skills. Also, categorization of professional skills makes it possible to prioritize the introduction of resources into lines of business that have a strong need for financial expertise but have gaps in technology or manpower. The FSC hopes that people or institutions who are involved or interested in FinTech will make liberal use of the Skills Certification System to cultivate professional talent in this area, thereby creating an environment that will accelerate FinTech innovation.

FSC approves application by King's Town Securities to acquire brokerage business of Full Long Securities Co.

The FSC recently approved an application by King's Town Securities Co., Ltd ("King's Town") to acquire the brokerage business of Full Long Securities Co., Ltd ("Full Long"). King's Town, in order to expand the scale of its securities brokerage business, obtained the approval of the King's Town board of directors and Full Long shareholders' meeting to acquire the brokerage business of Full Long. After Full Long spun off its brokerage business, the venue of that brokerage business was converted into the Nanjing Branch of King's Town, whose brokerage business locations after the acquisition increased to two. To help securities firms grow and become more competitive, the FSC encourages them to use M&A deals to get on stronger financial footing.

NPL Ratio for Domestic Banks as of the End of June 2022

The total outstanding loans extended by the current 39 domestic banks increased by NT\$188.1 billion (US\$6.33 billion) as compared to the figure of previous month and amounted to NT\$35.41 trillion (US\$1,191.4 billion) at the end of June 2022. Meanwhile, the NPLs of these banks totaled at NT\$56.32 billion (US\$1.89 billion) which decreased by NT\$1.16 billion (US\$0.04 billion) from NT\$57.48 billion (US\$1.93 billion) as of the end of the previous month. The average NPL ratio of the 39 banks remained at 0.16% compared to previous month, but was down by 0.05 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 829.74%. While the ratio slightly increased by 18.33 percentage points from 811.41% 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 June 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 June 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.733 billion as of the end of June 2022, generating an NPL ratio of 0.13%, same as the end of May 2022. The NPL coverage ratio was 1,586.5%, down by 54.61 percentage points from 1,641.11% at the end of May 2022.

Net foreign and mainland China investment in listed shares

As of the end of June 2022, foreign investors in the year to date had bought around NT\$9.1932 trillion and sold around NT\$10.468 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$853.6 billion. In addition, foreign investors in the year to date had bought around NT\$1.4887 trillion and sold around NT\$1.5302 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$41.5 billion. Meanwhile, mainland China investors had bought around NT\$1 billion and sold around NT\$1.9 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 NT\$0.1 billion and sold around NT\$0.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.2 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 June 2022 stood at approximately US\$223.4 billion, down by around US\$2.5 billion from US\$225.9 billion at the end of May 2022. The figure for cumulative net inward remittances by mainland China investors was US\$27.7 million, down by about US\$1.1 million from US\$28.8 million at the end of May 2022.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of April 2022

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of April 2022 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$210.134 billion, up by 3% from NT\$203.769 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$76.176 billion (around 36% of the total), down by 22% from NT\$97.797 billion year-on-year, and the sales of traditional insurance products totaled NT\$133.958 billion (around 64% of the total), up by 26% from NT\$105.972 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-May 2022

The pre-tax profit of insurance enterprises at the end of May 2022 was NT\$159.9 billion, down by NT\$71.4 billion, or 30.9%, year-on-year. Breaking down that figure, the pre-tax profit of life insurance

enterprises was NT\$169.5 billion, down NT\$52.5 billion, or 23.6% year-on-year, while the pre-tax profit of non-life insurance enterprises was NT\$9.6 billion, down NT\$18.9 billion, or 203.2%, year-on-year. The owners' equity of all insurance enterprises at the end of May 2022 was NT\$1,775 billion, down by NT\$829.9 billion, or 31.9%, from the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$1,647.2 billion, a decrease of NT\$810.2 billion, or 33%, and the owners' equity of non-life insurance enterprises was NT\$127.8 billion, down by NT\$19.7 billion or 13.4%. As of the end of May 2022, the NT Dollar had depreciated by 4.97% 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\$130 billion, up by NT\$86.3 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-May 2022 was NT\$19 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\$489.8 billion.

Investor and Consumer Protection

FSC promotes measures to protect the interests of persons with disabilities to obtain insurance

To ensure that insurers protect the interests of persons with disabilities to obtain insurance, the FSC has adopted various supervisory measures, including the following: (a) amended the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" to require that an insurer's internal systems and procedures for the handling of underwriting operations must not treat a specific applicant or policyholder unfairly because of his or her disability; (b) accepted the amended version of the "Handling Principles for Underwriting by Insurance Enterprises of Policies for Persons with Physical and Mental Disabilities" filed by the Non-Life and Life Insurance Associations of Republic of China. The amended Principles establish underwriting procedures that accord balanced attention to risk management needs and the basic needs of persons with disabilities for insurance protections; (c) accepted the amended version of the "Mechanisms for Insurance Solicitors to Assist Persons with Disabilities to Conclude Insurance Contracts" filed by the Non-Life and Life Insurance Associations of Republic of China. The amended Mechanisms enable frontline insurance solicitors and supervisors to provide different customers with customer-friendly insurance services that are tailored to their precise type of disability; and (d) oversaw efforts by the Non-Life and Life Insurance Associations of Republic of China to hold forums twice per year with groups for the disabled, required insurance enterprises to include content related to Convention on Rights of Persons with Disabilities when they hold education and training courses for their insurance solicitors, and required them to conduct broad outreach campaigns to familiarize personnel in their marketing channels with how to help persons with disabilities to purchase insurance.

2022 Financial Literacy Campaign for the Campus and Community

In the month of July 2022, the FSC held 16 activities at different locations, including the Taichung Prison of the Agency of Corrections, as part of the 2022 Financial Literacy Campaign for the Campus and Community, attracting 1,222 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 administrative sanctions on BNP Paribas Cardif and Taishin International Bank for deficiencies in their conduct of insurance business

Taishin International Bank, in soliciting investment-linked insurance products, had failed to check the correct boxes in the solicitor reports indicating the sources of premium payments, and there were cases where policyholders surrendered policies before three months of their policies, thus indicating that the bank had failed in the first place to confirm the suitability of insurance products for the buyers. These failures were found to constitute violations of: (a) Articles 2 and 10 of the "Regulations Governing the Measures of Financial Services Firms to Ensure the Suitability of Financial Services and Products to Financial Consumers" (issued by the FSC upon the authority of Article 9, Paragraph 2 of the "Financial Consumer Protection Act") and (b) Article 33-1 and Article 49, Subparagraph 24 of the "Regulations Governing Insurance Agents" (issued by the FSC upon the authority of Article 163, Paragraph 4 of the "Insurance Act"). The FSC, acting in accordance with the provisions of Article 30-1, Paragraph 1, Subparagraph 2 of the "Financial Consumer Protection Act," imposed an administrative fine of NT\$3 million on the bank.

Cardif Assurance Vie, Taiwan Branch (hereinafter, "BNP Paribas Cardif") failed to respond properly when an employee of Taishin International Bank on a single day solicited and acted on behalf of policyholders to handle the surrender of old insurance policies, and when the policyholders surrendered the policies before three months of their policies, the bank employee failed to properly fill out solicitor reports. And BNP Paribas Cardif did not check the defective solicitor reports, and did not increase the rigor of measures to identify and review the source of funds used by customers to finance premium payments. Its solicitation and underwriting operations were thus implemented improperly, in a manner that violated (a) Articles 2 and 10 of the "Regulations Governing the Measures of Financial Services Firms to Ensure the Suitability of Financial Services and Products to Financial Consumers" (issued by the FSC upon the authority of Article 9, Paragraph 2 of the "Financial Consumer Protection Act") and (b) Article 6, Paragraph 1, Subparagraph 9, Item 1, Article 7, Paragraph 1, Subparagraph 6, and Subparagraph 12, Item 6, and Article 17 of the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" (issued by the FSC upon the authority of Article 148-3, Paragraph 2 of the "Insurance Act"). The FSC, acting in accordance with the provisions of Article 171-1, Paragraph 5 of the "Insurance Act", imposed an administrative fine of NT\$1.2 million on BNP Paribas Cardif.

Personnel Changes

Personnel changes at the FSC headquarters

Li-Ling Tsai, Securities and Futures Bureau Deputy Director General, retired on 30 June 2022 and the vacant position was replaced by Tzu-Ming Chang, who was transferred from his former position as Deputy Director General of the Financial Examination Bureau (FEB). The position of Deputy Director General at the FEB was filled by Mr. Shin-Kuo Lai, who was promoted from his former position as the Chief Secretary of the same bureau; the position of Chief Secretary was filled by Yi-Jong Jiang, who had previously been a Division Director within the FEB. Everyone assumed their new positions on 30 June 2022.