

金融展望月刊

Financial Outlook Monthly

Publisher Tien-Mu Huang

Advisor Tsuey-Ling Hsiao
Jean Chiu
Fu-Longe Tsai

Executive Editor
Department of Planning

Publishers & Editorial Office
Financial Supervisory
Commission

Add 18F., No.7, Sec. 2, Xianmin
Blvd., Banqiao Dist., New
Taipei City 22041, Taiwan,
Republic of China

Tel 8968-0899

Fax 8969-1271

E-mail planning@fsc.gov.tw

Website <http://www.fsc.gov.tw>

GPN 2009305443

ISSN 1992-2507

*The Chinese version rules if
any contradiction in meaning
exists between the Chinese
version and English versionl.

January 2023

《Chinese version please refer to page 1》

No. 218

Ministry of Justice Anti-Corruption Hotline 0800-286-586
Anti-Corruption Hotline 0800-088-789

- FSC amends Articles 3, 4-1, and 9 of the "Regulations Governing Qualification Requirements for the Founder or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company"
- FSC amends Articles 6 and 13-1 of the "Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds"
- FSC amends "Enforcement Rules for the Compulsory Automobile Liability Insurance Act" and six related regulations, and amends Articles 2 and 3 of the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance"
- FSC, EPA, MOEA, MOTC, and MOI jointly issue "Taiwan Sustainable Taxonomy" to encourage financial institutions to support enterprises transition towards sustainable and low-carbon economy

Policy and Law

FSC amends Articles 3, 4-1, and 9 of the "Regulations Governing Qualification Requirements for the Founder or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company"

To strengthen corporate governance and increase the flexibility of financial holding companies for the appointment of professional directors, the FSC amended Articles 3, 4-1, and 9 of the "Regulations Governing Qualification Requirements for the Founder or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Persons of a Financial Holding Company" on December 1, 2022. A major amendment states as follows: "A director, supervisor, or general manager, or a related person thereof, of a financial holding company who acts concurrently as a director, supervisor or general manager of another financial holding company will be deemed to have a conflict of interest." And another newly added provision states that where a financial holding company has a bank subsidiary, if there are other facts sufficient to demonstrate that a director of that financial holding company possesses professional knowledge of banking, then that director may also be deemed to possess relevant financial expertise, and this provision also applies mutatis mutandis where the financial holding company has an insurance subsidiary or a securities subsidiary, respectively. This amendment can strengthen the ability of a financial holding company to prevent conflicts of interest, and will also make it easier for the financial holding company to appoint as directors persons who possess a diverse range of expertise in banking, insurance, or securities, which will help the financial holding company to achieve sound business development.

FSC amends Articles 6 and 13-1 of the "Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds"

To ensure that securities investment trust enterprises (SITs) that issue ESG funds will all be subject to consistent disclosure framework while strengthening that the prospectus for a fund of this type more comprehensively discloses its ESG investment policy, and with an eye to the fact that the bonds invested by high-yield bond funds are essentially non-investment grade, the FSC on 23 December 2022 amended Articles 6 and 13-1 of the "Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds." Key points of the amended provisions are as follows:

1. Newly added provisions list items that must be printed on the cover of an ESG fund prospectus and the content that must be set out within, and state that the cover of a prospectus must disclose the page numbers where important sustainability-related information appears, and the URL of the webpage where periodic assessments information is posted, so that investors can quickly find this information; new provisions also require that prospectus content must state investment objectives and measurement standards; investment strategies and methods; investment portfolio and allocations; performance indicators; exclusion criteria; risk warnings; participation in stewardship; and how to check on regular disclosures and other information.
2. The Chinese term for "high-yield bond fund" was changed to "non-investment grade bond fund."

FSC amends "Enforcement Rules for the Compulsory Automobile Liability Insurance Act" and six related regulations, and amends Articles 2 and 3 of the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance"

The "Compulsory Automobile Liability Insurance Act" now requires that mini electric two-wheel vehicles must be covered by compulsory automobile liability insurance and provides that the owner of a mini electric two-wheel vehicle must purchase compulsory automobile liability insurance. To coordinate with this requirement, the FSC has amended the "Enforcement Rules for the Compulsory Automobile Liability Insurance Act," the "Scope of the Term 'Automobile' and the Types of Automobiles for Which a Compulsory Automobile Liability Insurance Contract is Required," the "Premium Table of Compulsory Automobile Liability Insurance for Car," the "Policy Period of Compulsory Automobile Liability Insurance," the "Regulations for Underwriting and Claim Adjustment Procedures under Compulsory Automobile Liability Insurance," the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance," and the supervisory reporting forms for compulsory automobile liability insurance set out in Article 9 of the "Regulations for the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance." In addition, the FSC has also amended Articles 2 and 3 of the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance." The amended Article 2 now specifies the method for setting aside unearned premium reserve, and the amended Article 3 now specifies setting aside a portion as loss reserve for incurred but not reported claims for assumed reinsurance.

FSC, EPA, MOEA, MOTC, and MOI jointly issue "Taiwan Sustainable Taxonomy" to encourage financial institutions to support enterprises transition towards sustainable and low-carbon economy

In support of the nation's goal of net-zero emissions by 2050, and to encourage financial institutions to assist enterprises' transition towards a sustainable and low-carbon economy, the FSC, the Environmental Protection Administration (EPA), the Ministry of Economic Affairs (MOEA), Ministry of Transportation and Communications (MOTC), and the Ministry of the Interior (MOI) jointly issued "Taiwan Sustainable Taxonomy" on 8 December 2022. The Taxonomy is intended to encourage companies to voluntarily disclose information on whether their primary economic activities are in compliance with the Taxonomy. In addition, financial institutions are encouraged to refer to the Taxonomy in assessing possible investment and financing deals, and to actively engage with enterprises.

The Taxonomy first addresses the goal of "climate change mitigation" by adopting a set of "technical screening criteria for substantial contribution," which shall not significantly harm other environmental goals (e.g. climate change adaptation, protection of water resources) and social safeguards. With respect to 16 ordinary economic activities and 13 forward-looking economic activities in sectors toward which Taiwanese financial institutions direct the most investments and financing — including manufacturing, building and construction, and transportation and storage — the Taxonomy provides a basis for identifying whether those activities qualify as sustainable.

In the early implementation phase, the principal focus will be on TWSE- and TPEX-listed companies, which will be encouraged to voluntarily disclose in their sustainability reports, annual reports, or official websites about the "eligibility" and "alignment" of their primary economic activities to the Taxonomy, whether they have adopted any concrete improvement or transition plans, and to provide one of five judgments (aligned; working on it; improving; not aligned; and not eligible) regarding the degree of sustainability of their primary economic activities. The FSC also encourages financial institutions — when they engage in investments or financing, or when they provide financial products that are on the use of the concepts of "green," "ESG," or "sustainability" — to refer to the Taxonomy for investment and financing assessment, decision making, product design, and engagement with companies, and to support enterprises transition towards a sustainable and low-carbon economy.

The FSC emphasizes that the Taxonomy currently does not cover all domestic industries or economic activities, nor does it apply to all domestic industries or economic activities. Where the ordinary economic activities and forward-looking economic activities currently set out in the Taxonomy do not apply to an enterprise, that doesn't mean that the enterprise's economic activities do not qualify as sustainable. The FSC hopes that the Taxonomy will enable financial institutions and investors to support enterprises and projects that value sustainability or are transitioning toward a low-carbon economy in a more efficient and reasonable way. At the same time, the FSC also hopes that the Taxonomy can guide enterprises toward the goal of sustainable transition.

FSC amends "Regulations Governing Offshore Funds"

To protect the interests of investors and conduct sound management of offshore funds, the FSC amended the "Regulations Governing Offshore Funds" on 28 December 2022. Key points of the amendments include the following:

1. A new provision states that a master agent which handles the offering and selling of offshore funds in Taiwan shall not represent more than five offshore fund institutions, and a master agent that handles four or more offshore fund institutions shall post an additional operating bond, to be done within three months of the date on which this amendment enters into force. The amended Regulations also expressly provide that the amount of the operating bond shall be calculated based on the corporate group to which the offshore fund institution belongs.
2. With respect to companies that issue no-par-value shares in accordance with Article 156 of the "Company Act" acts as an offshore fund sub-distributor, the amended Regulations sets out a list of qualification requirements that the company must meet; also, to coordinate with amendments to the "Banking Act" and the "Futures Trading Act," the FSC has modified disqualification criteria that bar a party from acting as a master agent or sub-distributor of an offshore fund.
3. Considering that legislation in the jurisdiction where an offshore fund is registered differs from that of Taiwan, and an offshore fund institution may sometimes be sanctioned by host-country authorities for deficiencies in operations unrelated to asset management, resulting in restrictions on its domestic business. With these conditions in mind, the FSC's amendment states that any sanction imposed by a host-country authority on an offshore fund institution shall apply only to its asset management business, and only while the situation has not yet improved.

FSC amends "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises" and "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises"

To strengthen the operation and management of securities investment trust enterprises (SITEs) and securities investment consulting enterprises (SICEs), and to spur the proper implementation of corporate governance, the FSC on 22 December 2022 amended the two regulations named above. Key points of the amended provisions are as follows:

1. New provisions impose upon the board of directors the responsibility to appoint and supervise managerial officers, and to oversee the accountability of managerial officers and set up related systems.
2. Newly added provisions require that when a natural person or a juristic person acts as a director (or supervisor) of a SITE or SICE, if that party or a related party thereof concurrently acts as a director (or supervisor) of another SITE or SICE or securities firm, a conflict of interest shall in principle be presumed to exist, and a person who fails to resolve a conflict of interest within a prescribed period of time shall be dismissed.
3. Where a SITE or SICE personnel is the statutory agent or guardian of the principal, it is not subject to the legal provision that prohibits it from acting on behalf of others in conducting securities investments or trading securities-related products.

FSC amends "Regulations Governing Establishment of Internal Control Systems by Public Companies"

In order to coordinate with the "Summary of the Auditor Engagement Standards" issued by the Auditing Standards Committee, Accounting Research and Development Foundation (ARDF), and to review current regulations to ensure prompt and full disclosures, the FSC on 15 December 2022 amended the aforementioned Regulations to require that: (a) the ARDF Statements of Assurance Engagements Standards govern the type of auditor's opinion, the format, and the content to be required when auditors are retained to prepare audit reports on companies' internal control systems; and (b) a public company must publicly disclose any amendment to its internal control system statement within two days of the day on which the amendment was approved by the company's board of directors.

FSC amends "Regulations Governing Futures Commission Merchants"

To afford Futures Commission Merchants (FCMs) greater flexibility in their financial operations so they can achieve better capital efficiency, to provide a clear legal basis to govern the offering and issuance of securities by FCMs, and to ensure more timely financial disclosures by FCMs, the FSC amended the "Regulations Governing Futures Commission Merchants" on 22 December 2022. The key points of the amended provisions are as follows:

1. For some FCMs, the deadline for filing of annual financial reports has been adjusted: In order to ensure more timely financial disclosures by FCMs, and also to ensure consistent supervision of different types of financial services firms, the adjusted Regulations require a publicly traded FCM or any FCM that is a subsidiary of a financial holding company to publish and report its annual financial reports to the FSC within 75 days after the close of each fiscal year. This requirement applies from FY 2022.
2. Stipulation of the legal basis for the offering and issuance of securities by FCMs: Considering the needs of FCMs in offering and issuing securities and the consistency of supervision, the legal basis for offering and issuance of securities by FCMs is stipulated.
3. The pre-amendment Regulations provided that when the accumulated special reserve reaches 50% of the amount of paid-in capital, half of it may be capitalized. In order to afford FCMs greater flexibility in their financial operations, the amended Regulations provide that when the accumulated special reserve reaches 25% of the amount of paid-in capital, that portion in excess of 25% may be capitalized.

International Activities

Andrea Gerali, Chief Representative of the Bank of Italy in Japan, visits FSC

FSC Vice Chairperson Hsiao received a visit from Mr. Andrea Gerali, Chief Representative of the Bank of Italy in Japan on 14 December 2022. The two sides exchanged views and experiences regarding financial industry development, bank supervision, and fintech matters in Taiwan and Italy.

Industry Updates

Note on where to buy compulsory automobile liability insurance for mini electric two-wheel vehicles

As of 30 November 2022, the owner of a mini electric two-wheel vehicle is required to purchase compulsory automobile liability insurance, register the vehicle, obtain a license plate for it, and hang the license plate on the vehicle in order to operate it legally on the road. To obtain this insurance, the owner of a mini electric two-wheel vehicle may contact one of 14 insurance companies or any of 563 insurance company branch locations, agencies, or brokerages that sell compulsory automobile liability insurance, and purchase it after furnishing their national ID card (or an alien resident certificate), proof of the vehicle's origin (in the case of a domestically produced vehicle, such proof shall be a certificate of manufacture from the manufacturer; in the case of an imported vehicle, such proof shall be receipts for payment of import duty and commodity tax, or a certificate of excise tax exemption). Some insurance companies also sell insurance online, which provide diverse and convenient insurance services. In addition, to act in concert with the Directorate General of Highways, MOTC, which dispatches personnel to selected locations at selected times so that members of the public can conveniently get their mini electric two-wheel vehicles registered and licensed, the insurance companies also send sales staff to appear at those same times and places to sell compulsory automobile liability insurance for the convenience of the public to obtain insurance and the license plate.

Mini electric two-wheel vehicles are subject to "Compulsory Automobile Liability Insurance Act" provisions from 30 November 2022

Under the amended provisions of the "Road Traffic Management and Penalty Act" and the "Compulsory Automobile Liability Insurance Act," as of 30 November 2022, the owner of a mini electric two-wheel vehicle is required to purchase compulsory automobile liability insurance, register the vehicle, obtain a license plate for it, and hang the license plate on the vehicle in order to operate it legally on the road. And operation of a mini electric two-wheel vehicle without a license plate will be punishable by traffic authorities with a fine of NT\$1,200 to NT\$3,600, and further use of the vehicle may be prohibited. As for a mini electric two-wheel vehicle that already passed a safety inspection prior to 30 November 2022 and bears a safety inspection sticker, the owner is required to register the vehicle, obtain a license plate for it, and hang the license plate on the vehicle within two years, or the owner may be penalized by traffic authorities according to the Act as described above.

Declared interest rate stabilization mechanism for interest-sensitive insurance products

In order to implement asset-liability management under the interest rate policy, and to set out a formula and parameters that insurers can rely upon to set declared interest rates for interest-sensitive insurance products, the FSC on 17 November 2022 agreed on the proposed amendment to six actuarial standards of practice for interest-sensitive insurance annuity products which the Actuarial Institute of Chinese Taipei (AICT) had previously filed with the FSC. To ensure that all insurers operate in the same manner, and to prevent differing interpretations of regulations from causing some insurers to misapply them, the amended provisions regulate the setting and application of the declared rate formula's parameters, and provide illustrative examples regarding the setting of declared interest rates.

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

The total outstanding loans extended by the current 39 domestic banks decreased by NT\$51 billion (US\$1.7 billion) as compared to the figure of previous month and amounted to NT\$36.6 trillion (US\$1,184 billion) at the end of November 2022. Meanwhile, the NPLs of these banks totaled NT\$56.26 billion (US\$1.82 billion), down by NT\$829 million (US\$27 million) from NT\$57.09 billion (US\$1.85 billion) as of the end of the previous month. The average NPL ratio of the 39 banks fell to 0.15% down from 0.16% at the end of previous month, and was down by 0.04 percentage points compared to the same month last

year.

The coverage ratios of allowances for NPLs increased by 15.67 percentage points and therefore rose to a figure of 869.95% from 854.28% in the previous month. The asset quality of domestic banks remained manageable according to the above figures as of the end of November 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 November 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.601 billion as of the end of November 2022, generating an NPL ratio of 0.11%, down by 0.02 percentage points from 0.13% at the end of October 2022. The NPL coverage ratio was 2,044.09%, up by 409.16 percentage points from 1,634.93% at the end of October 2022.

Net foreign and mainland China investment in listed shares

As of the end of November 2022, foreign investors in the year to date had bought around NT\$16.3655 trillion and sold around NT\$17.3832 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$1.0177 trillion. In addition, foreign investors in the year to date had bought around NT\$2.8216 trillion and sold around NT\$2.8634 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$41.8 billion. Meanwhile, mainland China investors had bought around NT\$2 billion and sold around NT\$2.8 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.8 billion; and mainland China investors had bought NT\$0.1 billion and sold around NT\$0.4 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 November 2022 stood at approximately US\$216.8 billion, up by around US\$9.2 billion from US\$207.6 billion at the end of October 2022. The figure for cumulative net inward remittances by mainland China investors was US\$24.8 million, down by about US\$3.6 million from US\$28.4 million at the end of October 2022.

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

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of September 2022 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$367.14 billion, down by 18% from NT\$447.572 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$115.879 billion (around 32% of the total), down by 47% from NT\$219.711 billion year-on-year, and the sales of traditional insurance products totaled NT\$251.261 billion (around 68% of the total), up by 10% from NT\$227.861 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in October 2022

The pre-tax profit of all insurance enterprises at the end of October 2022 was NT\$157.6 billion, down by NT\$239.1 billion, or -60.3% compared to last year; the pre-tax profit of life insurance enterprises was NT\$291.4 billion, down by NT\$83.9 billion, or -22.4% compared to last year, while the pre-tax loss of non-life insurance enterprises was NT\$-133.8 billion, down by NT\$155.2 billion or -725.2%. The owners' equity of insurance enterprises at the end of October 2022 was NT\$1,509.4 billion, down by NT\$1,260.9 billion, or -45.5% compared to last year; the owners' equity of life insurance enterprises was NT\$1,431 billion, down by NT\$1,183 billion, or -45.3% compared to last year, while owners' equity of non-life insurance enterprises was NT\$78.4 billion, down by NT\$77.9 billion or -49.8%.

As of the end of October 2022, the NT Dollar had depreciated by 14.0% against the US Dollar since the end of 2021, and the cumulative balance of foreign exchange valuation reserve of life insurance enterprises was NT\$304.5 billion, up by NT\$260.8 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 was NT\$102.4 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\$1,091.2 billion.

Investor and Consumer Protection

FSC urges the public to engage in investment and trading only via legitimate financial institutions, and to carefully assess risks

The FSC recently discovered that shady financial services firms or websites have contacted consumers and, claiming to be the FSC, asked them to pay a security deposit or "account unfreezing fee." The scammers have said such payments were necessary in order to manage risks arising from cross-border remittances, to process loans, etc. Some have fallen for these tricks and lost money as a result. The FSC states that firms provide remittance or lending services in this manner are not financial institutions regulated by the FSC, and the FSC would never ask a financial services firm to collect a security deposit or "account unfreezing fee" from anyone. A consumer who suspects a possible scam may call the National Police Agency's 165 Anti-Fraud Hotline to check, or may directly file a complaint with prosecutorial authorities.

FSC urges skepticism toward loan brokers to avoid fraud or exorbitant fees

The FSC has reminded people in need of loans to apply directly with a financial institution for a loan. Banks make lending decisions based on an assessment of a customer's credit, and such decisions are not swayed in the least by the fact that a borrower has approached the bank via an intermediary. A consumer who takes out a loan via a loan broker may very well have to pay an extra fee to the broker, thus taking on an even heavier economic burden, and the transaction might involve fraud or a dispute over improper use of customer information. Members of the public are advised to avail themselves of information provided by the Bankers Association of the Republic of China, which has a special consumer affairs section on its website and has a special hotline (02-8596-2345) that anyone can call. By accessing as much information as possible, one can avoid disputes and prevent others from improperly collecting, processing, or using their personal information.

2022 Financial Literacy Campaign for the Campus and Community

In the month of December 2022, the FSC held 75 activities at different locations, including Taipei City Dong Men Primary School, as part of the 2022 Financial Literacy Campaign for the Campus and Community, attracting 6,632 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.

Personnel Changes

Personnel changes at the FSC headquarters

Yu-Hui Chang, Deputy Director General of the FSC Insurance Bureau, retired on 2 December 2022 and former Insurance Bureau Chief Secretary Huo-Yen Tsai was promoted to assume the vacated position on that same day. Mr. Tsai's vacated position as Insurance Bureau Chief Secretary was assumed by Kun-Jung Ku on 5 December 2022, who was promoted from his position as a division director in the FSC Securities and Futures Bureau.