

金融展望月刊

Financial Outlook Monthly

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GPN 2009305443

ISSN 1992-2507

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

December 2016

《Chinese version please refer to page 1》

No.145

Ministry of Justice Anti-Corruption
Hotline 0800-286586

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Policy and Law

The FSC reiterates its determination to strengthen anti-money laundering

The FSC stated that financial institutions must implement Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) measures to prevent them from being used as instruments of crime, so as to protect legal and reasonable commercial activities, maintain the trustworthiness of Taiwan's financial system and ensure the security and stability of Taiwan's financial market. Consequently, the FSC has incorporated AML/CFT into the primary focus of financial supervision in recent years and has promoted related measures step by step, taking action with respect to making the AML/CFT legal system complete, supervising and directing financial institutions to effectively implement AML/CFT measures, raising the level of related capabilities of financial institutions, and strengthening training and advocacy.

1. In terms of making the AML/CFT legal system complete, the FSC had made reference to the latest international norms to issue directions governing AML/CFT, governing matters with respect to customer due diligence, record keeping, adopting a risk-based approach, and other matters, for the banking, insurance and securities sectors from late 2013 to early 2014. This measure has brought Taiwan's regulations in line with international norms. Moreover, the FSC recently reviewed existing regulations, integrated related standards and adopted the latest international legislation examples to make the AML/CFT legal system complete for financial institutions to abide by.
2. In the area of supervising and directing financial institutions to effectively implement AML/CFT, the FSC has incorporated financial institutions' AML/CFT implementation into its major examination items and has carried out targeted examinations to ensure compliance by financial institutions in recent years. At present, in reference to the approach of overseas competent authorities, banks are required to fill out a questionnaire to provide an understanding of the AML/CFT implementation situation of each bank. The method will also be successively applied to other kinds of financial institutions.
3. With respect to increasing the AML/CFT capabilities of financial institutions, the FSC has supervised and directed the Bankers Association and other financial industry associations to put forward the business and products with high money laundering risk in each industry and the example and explanation documents with regards to the use of information systems to screen suspected money laundering transaction, so as to provide the documents to members for reference. Recently, various financial industry associations have also been requested to review suspected money laundering transaction patterns and the Bankers Association of the ROC has been requested to assist financial institutions in building related capabilities with reference to US regulations requiring strengthened anti-money laundering transaction monitoring and other regulations.
4. With regards to strengthening of training and advocacy, the FSC already required that all financial institutions arrange AML/CFT training courses for new employees and give employees continuing related in-service training. Recently, peripheral units including the Taiwan Academy of Banking and Finance, the Securities and Futures Institute, and the Taiwan Insurance Institute, have been commissioned to hold AML seminars, to which the directors and supervisors and senior managers of financial institutions are invited to actively participate for reshaping a financial crime



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prevention-oriented corporate culture. From September, a series of courses have also been held and related licenses have been planned to raise the risk awareness and implementation effectiveness of financial employees.

Taiwan is a founding member of The Asia/Pacific Group on Money Laundering (APG) and has an unshirkable responsibility as a member of the international community with regards to AML/CFT. In the process of money laundering or financing of terrorism, due to the fact that they provide various convenient financial services, financial institutions often become the channels used by criminals. Therefore, the effectiveness of AML/CFT in every country depends on the effective implementation of preventive measures by financial institutions. The FSC hereby reiterates that AML/CFT will continue to be its primary supervision focus and financial institutions that violate AML/CFT regulations will not be treated leniently. The FSC will also continue, through enhanced public and private sector cooperation and active participation in activities of related international organizations, to raise Taiwan's overall AML/CFT level to maintain the international community's trust in Taiwan's financial system.

Taiwan's banking system already possesses a certain level of financial resilience

The FSC stated that financial supervision measures in Taiwan are in step with international norms and can effectively raise the level of financial resilience in support of the development of the real sector economy. After the 2008 financial crisis, in order to improve the banking system's ability to bear economic and financial impact, raise the level of financial resilience and promote the stable development of the financial market, international organizations such as the Basel Committee on Banking Supervision (BCBS) and Financial Stability Board (FSB) successively issued related reform documents. The important measures that the FSC has adopted in line with international norms are explained below:

1. Capital Adequacy: to raise the level of capital quality and quantity of Taiwan's banks to meet the Basel III standard, from 2013 the FSC has, year by year, increased the statutory minimum Capital Adequacy Ratio. From 2019, the requirement for Common Equity Ratio, Tier 1 Capital Ratio and Capital Adequacy Ratio will be 7%, 8.5% and 10.5%, respectively.
2. Leverage Ratio: to improve the situation of applying different risk-weighting when calculating and setting aside capital and to supplement the aforementioned risk-based minimum capital requirement, the FSC has adopted the BCBS standard and requires that Leverage Ratio (Tier1 Capital/total exposure) must be at least 3%. This requirement will be effective from 2018.
3. Liquidity Coverage Ratio: to enhance the short-term liquidity recovery ability of banks, the FSC and Central Bank introduced the Liquidity Coverage Ratio (high quality liquid assets/net outward cash flow amount within 30-day period) in 2015. From 2019, the Liquidity Coverage Ratio requirement will be 100%.

As of the end of Q2, 2016, domestic banks' average Common Equity ratio, Tier 1 Capital Ratio and Capital Adequacy Ratio were 10.22%, 10.54% and 12.98%, respectively, all higher than the statutory minimum for 2019. Also, the results of a stress test in 2016 showed that domestic banks' average capital adequacy ratio and leverage ratio in a stress scenario were higher than the 2016 statutory minimum, showing that Taiwan's banking industry has possessed a certain degree of financial resilience.

To increase the risk bearing capability and international competitiveness of Taiwan's banking industry, the FSC will continue to pay close attention to international supervisory reforms and changes in the international economic and financial situation, and will adopt related measures with reference to international norms:

1. Continue to carry out stress tests: The FSC will continue to closely observe domestic and international economic and financial situation changes, set stress scenarios for specific risks or overall positions, and carry out supervisory stress tests at a suitable time to understand the risk bearing capability of banks in adverse circumstances.
2. Establish Net Stable Funding Ratio: To make banks hold sufficient long-term stable funding to meet business development needs, the FSC and the Central Bank are deliberating the setting of Net Stable Funding Ratio (Available Stable Funding/Required Stable Funding) with reference to the BCBS standard, and it is expected that it will be implemented in 2018 at the same time as implemented internationally.
3. Implement Countercyclical Capital Buffer when needed: The FSC has set authorization regulations for implementation of Countercyclical Capital Buffer. Taking into account that adoption of increase in allowance for bad debt has an effect like capital increase at times of economic expansion, in future, related measures will be adopted at a suitable time with reference to the implementation of Countercyclical Capital Buffer by international community.

Amendments to Regulations Governing Public Tender Offers for Securities of Public Companies and Regulations Governing Information to be Published in Public Tender Offer Prospectuses to enhance the public tender offer system

On Nov 18, 2016, the FSC introduced amendments of these two regulations in order to enhance the public tender offer system. The key amendments are as follows:

1. Amendments to some articles of Regulations Governing Public Tender Offers for Securities of Public Companies:
 - (1)The offeror shall provide a supporting document prepared by an independent third party (a financial consultant having the qualification of a securities underwriter or a CPA who certifies public company financial statement audits) to prove the offeror's financial capacity for paying the purchase consideration of the tender offer or have a financial institution provide performance guarantee.
 - (2)The time, manner and place for payment of the purchase consideration shall not be changed.
 - (3)If the offeror fails to pay the purchase consideration at the time specified in the public tender offer prospectus, the mandated institution shall return the securities deposited by the tenderer to the tenderer on the next business day. However, if the prospectus has specified that the securities shall be returned to the original tenderer before the purchase consideration payment date, this clause shall apply. This requirement will help the mandated institution urge the offeror to wire the payment before the purchase consideration payment date.
 - (4)The FSC has increased information disclosure requirements for public tender offers. A. Information regarding obtaining the documents for the approval/disapproval of other competent authority for the transaction before the conditions of the public tender offer are achieved shall be disclosed. B. Information regarding purchase consideration payment shall be disclosed. C. When the quantity tendered reaches the maximum amount of projected shares to be acquired after the conditions of the public tender offer are achieved, such information shall be announced and reported for shareholder reference when they make their decisions about the transaction.
2. Amendments to some articles of Regulations Governing Information to be Published in Public Tender Offer Prospectuses:
 - (1)A special note has been added; external expert evaluation or opinions cited in the public tender offer prospectus have to be disclosed for investors' reference.
 - (2)If consideration is paid in cash, such as multi-level acquisition, important information like the identity of the party financing the acquisition and related funding arrangements shall be disclosed. When the offeror is a company and uses its proprietary capital to fund the acquisition, the offeror shall explain the legitimacy of the source of funding for the acquisition based on financial statements of recent two years before the public tender offer announcement. The offeror shall also present the letter of undertaking specifying the obligation of paying purchase consideration as well as the documents for all agreements or commitments for funding arrangements. The aforementioned documents shall be disclosed along with the prospectus.
 - (3)The offeror is required to disclose the plan for acquiring important assets of the acquired company after the acquisition is completed.

FSC continues to encourage insurance industry capital to be channeled into domestic public construction

For the past few years, the FSC has encouraged insurers to actively invest in domestic public infrastructure. On November 9, 2016, the President promulgated amendments of Article 146-5 of the Insurance Act, allowing insurers, or their representatives, to be board directors or supervisors of invested entities engaged in domestic public infrastructure. However, the respective percentage of board directors, or supervisors cannot exceed one third of the board directors, or supervisors, of the invested entity, and meanwhile, the insurers are not allowed to appoint designees to be hired as managers of the invested entity. From year 2010 to 2016, the FSC has also made many amendments to the Regulations Governing Use of Insurers' Funds in Special Projects, Public Utilities and Social Welfare Enterprises in order to increase insurers' motivation to invest in domestic public infrastructure and their investment amount.

FSC's Financial Inclusion promotion situation

The FSC stated that the development of Financial Inclusion has become a major concern worldwide. The aim of Financial Inclusion is, through continual upgrading of financial infrastructure, to increase the accessibility of financial services and provide, at relatively low cost, faster and more convenient financial services to all sections of society, in particular people in remote areas and disadvantaged groups. Taiwan has always attached importance to the popularization of Financial Inclusion. The Financial

Inclusion measures adopted by the financial industry are as follows:

1. Accessibility of financial services:

- (1) Promotion of financial service accessibility: the FSC has invited groups representing people with disabilities to attend its meetings to understand their needs and urged financial institutions to provide accessible financial services, develop guidelines for friendly financial services and prepare Q&A for operation in practice.
- (2) Assisting enterprises in such industries to obtain finance: the FSC has implemented the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises" and the "Program to Incentivize Lending by Domestic Banks to Creative Enterprises". The FSC has also launched the "Program to Encourage Lending by Domestic Banks to Enterprises in Key Innovative Industries" to encourage domestic banks to actively extend loans to companies in 7 key innovative industries based on the principle of taking proper risk control.
- (3) Encouraging financial institutions to provide financial services in underserved areas: In accordance with the "Regulations Governing Domestic Branches of Financial Institution", the financial institutions applying to establish branches in locations helpful to the balance of urban and rural development can be exempted from the restriction that prohibits financial institutions from establishing more than two branches in a year.
- (4) Promoting micro-insurance: the FSC has lowered the standards for micro-insurance application and reduced the eligibility criteria for economically underprivileged people in order to help them obtain basic insurance coverage with lower premiums. Moreover, the FSC has also added accident medical insurance, and raised the accumulated insured amount of insurance for an insured individual from NT\$300,000 to 500,000.
- (5) Promoting micro-whole-life insurance specifically for the elderly: "micro-whole-life insurance specifically for the elderly" is a whole life insurance contract with insured amount of NT\$300,000, with a rider providing NTD 20,000 accident benefit attached to. The coverage includes death and total disablement benefits. Such insurance products aim to provide basic insurance coverage to more senior citizens in an aging society.
- (6) Promoting purchase of individual stock and ETFs by using Systematic Investment Plan(SIP) provided by securities firms: The FSC will make amendments to relevant regulations and coordinate Taiwan Stock Exchange, Taipei Exchange, Taiwan Depositary and Clearing Corporation and Taiwan Securities Association to amend their relevant rules and carry out necessary IT system adjustment.
- (7) Facilitating development of micro-sized and small and medium enterprises and increasing their funding resources: the GISA Board was launched on January 3, 2014 to provide non-public, micro-sized startups having creativity or creative ideas with more fundraising channels. Since its launch date to October 31, 2016, the Board has helped 96 micro-sized creative companies raise capital of NT\$ 233 million.

2. Usage of Financial Services:

- (1) Building a digital financial environment: the FSC has amended related regulations to allow existing customers of banks to close accounts, apply for personal credit loans, credit cards, and trust account opening through online banking and to open digital saving accounts online. The FSC has also simplified the procedure for banks to apply for e-banking business.
- (2) Promoting mobile payment and electronic payment: the FSC has encouraged financial institutions to launch various mobile payment services through the integration of financial payment instruments and smart mobile devices with different technologies to increase the popularity of terminal devices for mobile payment in domestic businesses. The FSC is also endeavoring to double the e-payment ratio from 26% to 52% and make public sector and medical institutions accept e-payments in the future. The FSC has also introduced the Act Governing Electronic Payment Institutions to allow non-financial institutions to meet the e-payment service needs of e-commerce companies and small and individual vendors.
- (3) Promoting online insurance business: as of the end of September, 2016, the FSC had granted approval to 24 insurance companies (11 life insurance companies and 13 non-life insurance companies) for online insurance business. A total of 605,000 applications submitted in this period generated NT\$ 572 million premium income for these companies. Moreover, the FSC granted approval to two insurance brokerage firms and a bank to operate an online insurance business trial.
- (4) Opening up insurance services by mobile device: the FSC has filed related self-regulatory measures submitted by the Insurance Association to make such services more convenient.

3. Financial Service Quality

- (1) Strengthening financial education and advocacy and spreading financial knowledge: the FSC has held School and Community Financial Literacy Campaign, made/entrusted broadcast of short videos on protection of financial consumers and published promotional pamphlets to increase consumers' financial knowledge.
- (2) Promoting protection of financial consumers: the FSC has created a section specifically for consumer protection on its website and held advocacy workshops on the latest information about consumer protection for banking industry to help bank staff know more about consumer protection measures. The FSC has also formulated (amended) standard form contract examples and mandatory clauses to be included and prohibitory clauses not to be included in standard form contract.

The FSC has relaxed regulations governing engaging in domestic and foreign derivative financial product transactions of securities firms

In order to facilitate the operating activities of securities firms and provide them with more leverage when they engage in derivative financial product transactions, the FSC amended certain regulations governing domestic and foreign derivative financial product transactions of securities firms on October, 18, 2016. The amendments have the following main points.

- (1) The FSC has relaxed restrictions on securities firms' transaction limits for non-hedging derivative financial product transactions; limits are now calculated by ratio of market risk equivalent to net amount of eligible regulatory capital, instead of the ratio of the aggregate nominal value of the contract to net worth.
- (2) The FSC has lifted the restriction that did not allow securities firms to over-hedge when they engage in foreign and domestic derivative financial product transactions for hedging purpose in their warrant and derivative financial product businesses.

Amendments to some articles of Regulations Governing Securities Investment Trust Fund

On Nov 24, 2016, the FSC amended some articles of Regulations Governing Securities Investment Trust Fund in order to facilitate the issuance of new fund product by securities investment trust enterprises (SITES) and increase flexibility of operating securities investment trust funds. The amendments' key points are the introduction of "multi-asset funds", large-scale removal of restrictions on fund investments, allowing of various investment strategy development by SITES, and introduction of fund product that satisfy investor financial management needs for retirement.

Current status of public auction of Chaoyang Life Insurance's assets, liabilities and general assignment

The FSC took over Chaoyang Life Insurance Co., Ltd. ("Chaoyang Life Insurance") on January 26, 2016 and assigned the Taiwan Insurance Guaranty Fund ("TIGF") as the Receiver ("Receiver"). In order to protect the rights and interests of the insured and stabilize financial order, the Receiver actively arranged sales by public tender of Chaoyang Life Insurance's assets, liabilities and general assignment on October 31, 2016. However, no bid was successful. As a result, the TIGF will continue to be the Receiver of Chaoyang Life Insurance, which will operate as normal. The rights of the insured remain intact according to their insurance contracts. The FSC has ordered the Receiver not only to design the deal strategy and business plan for the next public auction, but also to continually stabilize the operation of the company and protect the interest of the policyholders and employees.

International Activities

Chairman of the International Association of Deposit Insurers (IADI) pays a visit to FSC

On October 31, FSC Chairman Lee and Vice-chairman Huang received the president of IADI, Mr. Thomas M. Hoenig, and the two sides exchanged views broadly on the subject of financial supervision.

Delegation from Nasdaq visits the FSC

A delegation from Nasdaq visited the FSC on November 7 and was received by FSC Vice-chairman Huang. The two sides exchanged views on finance and capital market related issues.

Deputy Insurance Commissioner of the Philippines' Department of Finance pays a visit to FSC

On October 27, FSC received the Deputy Insurance Commissioner of the Philippines' Department of Finance, Mr. Florendo, and the two sides exchanged views extensively on the subject of insurance.

FSC holds the 11th Taipei Corporate Governance Forum

The FSC held the 11th Taipei Corporate Governance Forum at the Howard Civil Service International House and the Taiwan Stock Exchange on October 20-21, 2016. Dr. Sheng-cheng Hu, Chairman of the Chung-Hua Institution for Economic Research, and Mr. Bert Chanetsa, Vice Chairman of IOSCO's Growth and Emerging Markets Committee, were invited to this year's Forum as keynote speakers. Representatives from international financial institutions, scholars and experts were invited to give presentations. Also in attendance were listed company, financial institutions' directors and supervisors, senior managers, representatives from corporate governance promotion-related government agencies, securities competent agencies from 11 countries, and overseas financial institution legal representatives, with over 800 people attending in total. The aim was to raise the level of corporate governance in Taiwan and bring it in line with international norms by understanding international corporate governance trends.

Industry Updates

FSC agrees to allow France's Natixis to set up a Taipei branch

On October 27, 2016, the FSC approved Natixis's application to establish a branch in Taipei, which will make it the fourth French bank to have a branch in Taiwan. Natixis established a Taipei representative office in 2008. The bank's decision to establish a Taipei branch after taking into consideration that Taiwan is a stable and competitive economy, financial market supervision is mature, and Taiwan already has a large number of international banks participating in its market. It aims, on the basis of its corporate finance and investment bank business niches, to provide customers with diverse products, and, moreover, assist Taiwanese customers to develop trade and manufacturing business opportunities, and further take advantage of global market investment opportunities and develop international business.

Specialized electronic payment institution business start up situation

In October of 2016, three specialized electronic payment institutions began operating, namely, allPay Electronic Payment Co., Ltd, GAMA PAY Electronic Payment Co., Ltd, and PChomePay Inc. The FSC hopes that, while paying attention to efficiency and security, electronic payment institutions can actively promote electronic payment business, build a complete digital cash flow environment, and provide the public and businesses with convenient payment services.

NPL ratio for domestic banks at 0.30% as of the end of October 2016

The total outstanding loans of domestic banks stood at NT\$25,839.7 billion as of the end of October 2016, up by NT\$111.6 billion from the previous month, while their total NPLs were NT\$76.2 billion, up by NT\$2.6 billion from the previous month's figure of NT\$73.6 billion, generating an average NPL ratio of 0.30%, up by 0.01 percentage points from 0.29% at the end of previous month. Each and all 39 Taiwan's domestic banks had an NPL ratio under 2.0%. Also, their NPL coverage ratio stood at 448.34% at the end of October 2016, down by 13.94 percentage points from the figure of 462.28% at the end of the previous month.

NPL ratio for credit cooperatives at 0.11% as of the end of October 2016

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$470 million as of the end of October 2016, generating an NPL ratio of 0.11%, up by 0.02 percentage points from the figure for the end of September 2016. The NPL coverage ratio, in the meantime, was 1,731.69%, down by 273.35 percentage points from 2,005.04%, at the end of September.

Net foreign investments in listed shares

As of the end of October 2016, foreign and mainland Chinese investors had bought around NT\$ 5,054.1 billion and sold around 4,639.7 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$414.4 billion. Meanwhile, for the Taipei Exchange (GreTai Securities Market), foreign and mainland Chinese investors bought around NT\$494.8 billion and sold around NT\$454.2 billion, making for a net inward investment of around NT\$40.6 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 October 2016 stood at approximately US\$204.61 billion, down by around US\$1.916 billion from the US\$206.52 billion as of the end of September 2016.

Investor and Consumer Protection

FSC provides FinTech startup guidance and consulting window

The FSC stated that, in order to support FinTech innovation and encourage startups and technology businesses to cooperate with financial institutions to jointly build a digital finance environment and provide FinTech business guidance and advice, a single dedicated window has been established in the form of an advice line (02-8968-0707 ~ 02-8968-0047) and mailbox (fintech@fsc.gov.tw) provided by the Financial Technology office to help businesses solve various problems.

In recent years, the FSC has actively promoted the building of a digital finance environment, has reviewed and amended related regulations and has adopted various measures to guide the FinTech industry, for example, the FinTech Development Fund was established last year to promote FinTech entrepreneurship and nurture talent. This fund established the FinTech Base in April this year and selected 15 startup teams—five of these were nurtured by subsidies, while the remaining 10 were nurtured by receiving guidance without any subsidy. At present, stage achievements have been made and, in future, the Base will continue to provide nurturing and guiding resources to FinTech startup teams.

The destructive innovative services and technology introduced by startups or technology businesses often cause doubts about the applicability of financial regulations. The competent authority also needs time to understand the framework and assess the risk of new business models, therefore the FSC plans to provide guidance and advice channels including mentor guidance, regulatory advice and online platforms. Also, through cooperating with industry, the FSC will interact with and learn from startups and technology businesses, hold communication meetings and seminars to collect industry opinions, and also plan industry cooperation or events or competitions to assist businesses with expanding business opportunities. The FSC stated that the Financial Technology Office will provide FinTech guidance and advice and each business bureau will fully support as well to promote the development of the FinTech industry in Taiwan and provide consumers with more convenient services.

2016 School and Community Financial Literacy Campaign

In November 2016, the FSC held 44 financial literacy promotion sessions at schools and groups around Taiwan (including at Nanshan High School in New Taipei City) as part of its 2016 School and Community Financial Literacy Campaign. A total of 6,310 participants attended the events. These sessions are free of charge and have been very well received since their inception. As of the end of 2015, 4,312 sessions have been held and attended by over 780,000 people. Target participants include elementary, junior high, and high school (including vocational high school) students, university students, community and women's groups, indigenous people, immigrants, and military service personnel.

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

Major Enforcement Actions

Bank SinoPac fined NT\$10 million

When handling a Tingsing Group loan and other loan cases, Bank SinoPac failed to properly establish and implement an internal control system, in violation of Paragraph 1 of Article 45-1 of the Banking Act, and was thus fined NT\$10 million under Subparagraph 7 of Article 129 of the same act.

Hua Nan Commercial Bank fined NT\$8 million

When handling a Tingsing Group loan, Hua Nan Commercial Bank failed to properly establish and implement an internal control system, in violation of Paragraph 1 of Article 45-1 of the Banking Act and was thus fined NT\$8 million under Subparagraph 7 of Article 129 of the same act.

Shinkong Insurance Co. fined NT\$1.8 million

In an FSC business inspection, Shinkong Insurance Co. was found to be in violation of related regulations and was thus fined NT\$1.8 million and also ordered to halt sale of the insurance products involved under related insurance regulations.

Personnel Changes

Personnel change at the FSC

The appointment of Cheng-Mount Cheng, president of the Agricultural Bank of Taiwan, to the position of FSC Vice-chairman was approved by the Executive Yuan. He took up office on November 16, 2016.