

# 金融展望月刊

## Financial Outlook Monthly

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

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- Amendment to Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest
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### Policy and Law

#### *The FSC continues to implement the Policy Project to Support Real Economy with Financial Resources*

In order to create a favorable environment for industry development, innovation and employment and to inject capital into industries of the real economy, the FSC has launched the Policy Project to Support the Real Economy with Financial Resources. So far, several measures have been implemented to provide financing resources, facilitate innovation and transformation of industry, and create more jobs, while stimulating growth of the financial industry. The policy project has achieved as follows:

1. Encouraging the private sector to participate in infrastructure projects and increasing their fund raising channels: the amendment of Article 2 of the Enforcement Rules of Financial Asset Securitization Act was introduced on September 22, 2016, which lifts the limitation that required a contract between originator and debtor when private companies, during the operating period, securitize the trust of loans of revenue gained from public infrastructure operation according to the contract. On November 9, 2016, the FSC introduced the amended Article 146-5 of the Insurance Act, which allows an insurance company investing in infrastructure project to serve as members and supervisors on the board of directors as long as the number of such directors and supervisors does not exceed 1/3 of the BOD. Also, the insurance company is not allowed to directly assign anyone to the management position. Such deregulation can provide incentives to insurance companies to invest in domestic infrastructure projects and increase their investment amounts.
2. Encouraging the financial industry to launch long-term care trusts for seniors: the FSC has introduced Rating Criteria and Incentive Measures about Asset Trusts Set Up for Senior Citizens and People with Disabilities by the Trust Industry, which will be effective for five years from 2016. So far, there are 2,290 beneficiaries of long-term care trusts and the total principal of trust assets amounts to NT\$ 1.68 billion.
3. Encouraging financial companies to re-invest in innovative industries: in order to help innovative enterprises to develop their business and increase operating efficiency by working with the financial technology industry, securities firms and investment trust enterprises have been allowed to invest in domestic innovative companies with market potential. As of the end of September, 2016, ten domestic securities firms had financed ten domestic venture capital subsidiaries through re-investments, which totaled about NT\$ 4.245 billion. Venture capital subsidiaries of securities firms have invested about NT\$ 1.574 billion in domestic industries.
4. Encouraging development of asset management business: in order to encourage domestic and foreign asset management service providers and their groups to input more resources into the domestic market, the FSC has launched the Incentive Program for Boosting the Business of Investment Trust Enterprises and Incentive Program for Expanding Offshore Fund Operations in Taiwan. On September 22, 2016, the FSC approved incentives for two investment trust enterprises and six offshore funds enterprises according to related regulations. The measure should be able to facilitate the development of domestic asset management business.

5. Enhancing corporate governance: In order to encourage the public companies to participate in social enterprises, and to respond the issuance of the new version of Corporate Governance Best-Practice Principles by OECD, the FSC introduced the revised version of Corporate Governance Best-Practice Principles for TSEC/TPEX Listed Companies on September 30. The principles will improve the communication between public companies and institutional investors, protect shareholders' rights, and enhance the functions of the board of directors, which will jointly promote the development of securities market.
6. Encouraging banks to grant loans to important innovative industries: the FSC introduced the Incentive Program to Encourage Domestic Banks to Grant loans to Enterprises in Important Innovative Industries on September, 30, 2016, which encourages domestic banks to grant loans to enterprises in important innovative industries under appropriate risk controls. As of the end of September, 2016, such loans had amounted to NT\$ 6.1 trillion, which is expected to increase by NT\$ 180 billion as of December 31, 2017.
7. Increasing mobile payment applications and innovation: the FSC encourages financial institutions to promote mobile payment services. As of the end of October, 2016, 22 financial institutions had issued TSM mobile credit cards, 10 had issued HCE mobile credit cards, 14 had provided Quick Response Code (QR Code) mobile payment services, seven had provided Mobile Point of Sale (mPOS) services, and two had issued mobile X cards. The total transaction amount was about NT\$ 2.02 billion. The FSC has also approved applications of four banks for the business of tokenized mobile phone credit cards.
8. Encouraging the insurance industry to develop new products: in order to develop innovative products, the FSC encourages the insurance companies to work with other industries in the development of related innovative products by using Big Data. Regarding to the non-life insurance, UBI insurance products of Internet of Vehicles (IoV) innovatively using car insurance databases for analysis of driver data have been launched. As of life insurance, insurance products providing in-kind payment have been launched, which is providing regular health checkups in an amount. Moreover, insurance companies provide health management policies with benefits for maintaining a healthy conditions as an incentive for the customers to stay healthy by offering smart wristband and health management.
9. Setting up a mutual fund online distribution center: Taiwan Depository and Clearing Corporation, Taipei Exchange, and investment trust and consulting industry have jointly founded Fund Rich Securities Co. Ltd. to cope with changes of Fintech development and increase fund investment channels. The mutual fund online distribution center started on October 14, 2016. As of October 31, 2016, the transactions (subscription) had reached about NT\$170 million.
10. To facilitate innovation and cultivation of talent, the Taiwan Financial Services Roundtable has integrated the resources of the financial industry to create a Fintech development fund and engaged the Institute for Information Industry to establish the FinTech Base. So far, the first group of 15 innovative teams has been selected for nurturing, while the second group was set to be selected in November.

### **FSC invites the Taiwan Financial Services Roundtable to a meeting to discuss White Paper on Finance Recommendation**

The FSC attaches great importance to the policy suggestion of White Paper on Finance Recommendation which the Taiwan Financial Services Roundtable (TFSR) collected the issues from financial industry associations and financial peripheral institutions. In order to have two-way discussion and communicate with financial industries and to hear their opinions, FSC Chairman Lee convened a meeting on November 25, 2016. The meeting was attended by 20 people including Shi Jun-ji, Chairman of TFSR, Lu Chu-cheng, Chairman of Bankers Association of the ROC, Chien Hung-wen, Chairman of the Taiwan Securities Association, Huang Tiao-gui, Chairman of Life Insurance Association of the ROC, and the chairmen of other financial industry associations and peripheral unit chairmen's representatives. The FSC has assessed the feasibility of each recommendation and, during the meeting, stated the main points of financial supervision and operations present and future and explained which recommendations have been adopted. The TFSR

recommendations that have been adopted are:

1. Encouraging capital to support the development of the real economy: To encourage insurance firms to invest their capital in the domestic capital markets, adjustment of the risk coefficient for investment in domestic stocks and ETF by insurance firms has been completed; the restriction on insurance firms taking director and supervisor positions when investing in public construction has been lifted.
2. Building an Asian Asset Management Center: OSUs are now allowed to collect payment for conducting other foreign exchange business relating to securities from customer foreign currency custodial accounts; and securities firms are now allowed to trade foreign currency denominated structured bonds on behalf of professional institutional investors and high net worth juristic persons as defined by the Regulations Governing Offshore Structured Products.
3. Developing Fintech: the Financial Technology Development Plan will continue to be implemented; Security Control Operating Standards for Financial Institutions to Conduct E-banking Business have been amended, and new account holders can now apply for a credit card online; to make opening a tier 3 digital deposit account more convenient for customers, the Financial Information Service Co. has been required to formulate an identity verification mechanism; new types of loan that can be applied for online and new transaction subjects for online banking have been added; the fourth stage of deregulation of acceptance of online insurance applications has been completed, increasing the types of insurance and insured amount, and promotion will continue.
4. Strengthening financial markets: To establish a reasonable financial markets' tax system, agreement of the Ministry of Finance has been received with respect to terminating tax on corporate bond, financial bonds and ETF securities, and the draft amendment has been passed by the Legislative Yuan on December 16, 2016.
5. Reviewing related regulations and suitably deregulating financial business: To encourage financial institutions to conduct real estate reverse mortgage business, exemption from the requirement of having a Loan Loss Reserve ratio of at least 1.5% has been given.
6. Fulfilling corporate social responsibility: preparation of a listed company sustainability index has been added to work items.
7. Adjusting tax regulations and application of international standards: assessment of the schedule for applying IFRS 9 to Taiwan's industry and financial industry is being carried out, and it is expected that the results will be announced at the end of 2016.

### **Amendment to Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest**

In order to improve capital utilization efficiency of banking industry, ensure fair investment decision, maintain the healthy operation of banks, and clearly define the scope of responsible persons of issuers for banks to clarify shares of companies that are prohibited from being invested, the FSC announced amendments to the aforementioned Directions on December 22, 2016. The main points are as follows: (1) Raising the ceiling on investments in shares listed on Taipei Exchange by a commercial bank to strengthen banks' capital utilization flexibility; (2) Considering that the performance of duties by a director representative designated by a juristic person (such a juristic person has acted as a shareholder of a company and has been elected as a director of the company) and an authorized representative of a juristic person (such a juristic person has acted as a shareholder of a company and its authorized representative elected as a director of the company) both have the legal effect of the juristic person shareholder, the FSC clearly regulates that a responsible person of a bank includes not only natural person, but also juristic -person shareholder.

### **Amendments to the "Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Banking Sector" announced**

The FSC announced amendments to the aforementioned Directions on December 2, 2016 to strengthen Taiwan's anti-money laundering and countering terrorism financing (AML/CFT) mechanisms. The main points of the amendments are as follows: (1) Enhancing the

governance of bank's board of directors in AML/CFT compliance, the internal control three lines of defense, training and education, and requiring that the board of directors and senior management should mold a culture that attaches importance to AML/CFT compliance. (2) Requiring banks with overseas branches to formulate a group-wide AML/CFT program and appoint AML/CTF officers in overseas business units to strengthen head office's management of overseas branches. (3) Reinforcing regulations relating to the continuous monitoring of accounts and transactions to improve banks' ability to detect suspicious transactions. (4) Stipulating that extra measures should be adopted for specific risk items to lower the risks associated.

### ***Amendments to the provisions of the Futures Trading Act relating to prohibition of insider trading of futures and criminal liability are promulgated***

To improve the effectiveness of insider trading regulations to help maintain a fair and orderly futures market, after being passed on a third reading by the Legislative Yuan, amendments to articles 107 and 112 of the Futures Trading Act were promulgated by the President on November 9, 2016. Key content of the amendments includes the extension of the trading prohibition period to 18 hours after the public disclosure of material information, enlarged scope of insiders, and increased criminal liability with respect to insider trading, manipulation, and fraud.

### ***FSC issues an order to clarify that uniform invoice lottery prizes under a certain amount can be transferred to credit cards***

The FSC issued an order on November 21, 2016 to allow uniform invoice lottery prizes of NT\$2,000 or less to be transferred to credit cards with the cardholder's permission to serve as the amount of overpayment (overpayment of accounts payable). This decision was made after taking into account that allowing the transfer of prizes to credit cards will increase not only the convenience with which winners can receive prizes, but also the domestic e-payment rate. It also took into account the opinion of the Ministry of Finance and the Bankers Association of the ROC, while also taking into consideration of the principle that credit cards are not stored value accounts.

### ***The FSC relaxed restrictions on high-yield bond investment of multi-asset funds and concurrent management of different funds***

In order to increase the competitiveness of domestic securities investment trust enterprises and enhance flexibility of securities investment trust fund operation, the FSC announces that a multi-asset fund can invest in high-yield bonds at 30% of net asset value of the fund. Furthermore, a manager of a balanced fund is allowed to manage a multi-asset fund concurrently and vice versa on December 1, 2016.

### ***The scope of instruments for day trading has been expanded***

In order to increase investment vehicles for investors, the FSC announced that it would expand the scope of instruments for day trading on November 14, 2016. Before the amendment, the instruments for day trading included constituent stocks of TSEC Taiwan 50 Index, TSEC Taiwan Mid-Cap 100 Index and Taipei Exchange 50 Index, underlying instruments for issued call (put) warrants, and securities for margin purchase and short sale. Now such scope of day trading has been expanded by adding instruments for securities borrowing and lending. The new measure took effect on November 21, 2016.

### ***Taiwan Futures Exchange plans to launch a platform for after-hours trading to provide better transaction and risk hedging channels***

Taiwan Futures Exchange plans to allow after-hours trading based on international market practices in order to facilitate the hedging activities of traders, provide them more choices and create more trading opportunities. The proposal has been submitted to the FSC, which has granted its approval. According to the Taiwan Futures Exchange, it will take about six months to deploy the platform, which

will be launched after next May, at the earliest.

According to Taiwan Futures Exchange's plan, after-hours trading will start after a break of 70-75 minutes following the end of the normal trading session. During the break, the settlement prices and positions during the normal trading session will be calculated and transmitted by the system. Considering the trading hours of developed markets, after-hours trading will not end until 5:00 am next morning. Products that will be traded on the platform in the initial stage include TAIFEX index futures and options, for which current market demand is higher, as well as USD/RMB futures and options, which have more competitiveness in the market. Other products may also be included gradually in the future depending on market demand. According to the estimate of Taiwan Futures Exchange, the after-hours trading platform will boost the whole futures market significantly as it is expected to generate NT\$261 million revenue in the first year and lead to the recruitment of 210 new employees.

### ***Interest rate levels of liability reserve for new life insurance contracts in 2017***

In order to ensure sound operation of domestic life insurance industry and have the interest rate of liability reserve of new contracts properly reflect market levels, on November 15, 2016 the FSC announced interest rates that will apply to liability reserve for new contracts of life insurance denominated in various currencies in 2017. Interest rates for all policies denominated in all currencies remain the same as 2016 levels except life insurance policies denominated in NT, USD, and AUD, whose interest rates of liability reserve are lowered 25 to 50 basis points. Interest rate levels will take effect on January 1, 2017.

## ***International Activities***

### ***Indonesia's MNC Group Visits FSC***

On December 12, 2016, FSC Chairman Lee received a delegation from Indonesia's MNC Group led by its President, Director & Founder Hary Tanoesoedibjo, and the two sides discussed financial market related issues.

### ***FSC participates in 19<sup>th</sup> ICBS***

FSC's Vice Chairman Cheng-Mount Cheng led a delegation to take part in the International Conference of Banking Supervisors (ICBS) in Santiago, Chile, from November 30 to December 1, 2016. This biennial conference was founded by the Basel Committee of Banking Supervision (BCBS). The conference discussed the framework of banking supervision, credit risk assessment, stress testing and other topics.

### ***The Financial Ombudsman Institution held the Financial Consumer Protection and Financial Education Seminar on December 1, 2016***

The Financial Ombudsman Institution invited Sue Lewis, the Chairperson of the Financial Services Consumer Panel under the UK Financial Conduct Authority to Taiwan to give a presentation on the consumer protection and financial education situation in the UK at present. Experts and scholars from Taiwan were also invited to discuss the topic "Financial Inclusion-Raising Financial Services Quality."

## ***Industry Updates***

### ***NPL ratio for domestic banks at 0.29% as of the end of November 2016***

The total outstanding loans of domestic banks stood at NT\$25,930.6 billion as of the end of November 2016, up by NT\$90.9 billion from the previous month, while their total NPLs were NT\$75.6 billion, down by NT\$0.6 billion from the previous month's figure of NT\$76.2 billion, generating an average NPL ratio of 0.29%, down by 0.01 percentage points from 0.30% 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 462.05% at the end of November 2016, up by 13.71 percentage points from the figure of 448.34% at the end of the previous month.

## ***NPL ratio for credit cooperatives at 0.11% as of the end of November 2016***

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$467 million as of the end of November 2016, generating an NPL ratio of 0.11%, the same as the figure for the end of October 2016. The NPL coverage ratio, in the meantime, was 1,741.60%, up by 9.91 percentage points from 1,731.69%, at the end of October.

## ***Net foreign investments in listed shares***

As of the end of November 2016, foreign and mainland China investors had bought around NT\$ 5,520.8 billion and sold around 5,202.5 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$318.3 billion. Meanwhile, for the Taipei Exchange, foreign and mainland China investors bought around NT\$ 536.9 billion and sold around NT\$503.1 billion, making for a net inward investment of around NT\$33.8 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 November 2016 stood at approximately US\$201.32 billion, down by around US\$3.29 billion from the US\$204.61 billion as of the end of October 2016.

## ***Investor and Consumer Protection***

### ***Financial institutions showing concern for customers and raising questions at counters effectively prevents financial fraud***

That the FSC requires financial institutions to implement measures showing concern for customers and raising questions at counters has effectively prevented financial fraud activities and protected the property of the public. According to the statistics of the National Police Agency, Ministry of the Interior, there were 1,132 cases in which customers were prevented from becoming victims of fraud activities in the last five years (2011-2015) due to the fact that financial institutions have implemented the measures of showing concern for customers, raising questions at counters and reporting suspicious cases to the police. The sum of intercepted payment reached NT\$930 million. As of October 2016, 309 cases had been successfully intercepted, saving people from suffering losses of NT\$210 million resulting from fraud activities.

The FSC stated that, in order to deter criminals use various fraud techniques to get people to withdraw or transfer large amounts of cash at bank counters, it requested the Bankers Association of the ROC to formulate a reference example of the "Procedure at The Counters for Showing Concern for Customers and Raising Questions", requiring financial institution tellers to proactively remind customers to be careful of fraud activities when: (1) Customers transfer funds to or deposit money in other persons' accounts without passbooks; (2) Elderly persons withdraw cash in excess of NT\$30,000; (3) Customers apply for transfer funds by agreement or overseas funds transfer in excess of an amount equivalent to NT\$500,000. Particular attention should be paid when the customer is nervous or keeps talking on the phone, and an attempt should be made to talk to them to find out the motivation for and objective of the transaction. If there are suspicious fraud cases, tellers should dissuade customers from making transactions and report the matter to the police immediately to actively protect customers from becoming victims of fraud activities.

### ***2016 School and Community Financial Literacy Campaign***

In December 2016, the FSC held 20 financial literacy promotion sessions at schools and groups around Taiwan as part of its 2016 School and Community Financial Literacy Campaign. A total of 2,371 participants attended the events. These sessions are free of charge and have been very well received since their inception. As of December, 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include elementary, junior high, and 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 in 2017. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)89689709.

## ***Major Enforcement Actions***

### ***DBS (Taiwan) fined NT\$10 million, reprimanded and given other necessary administrative penalties***

In conducting financial derivatives business, DBS (Taiwan) was found to have shortcomings as follows: (1) failing to properly establish or effectively implement internal control; (2) having the possibility of impeding sound operation. Violating Paragraphs 1 and 4 of Article 45-1 of the Banking Act, DBS (Taiwan) was thus fined NT\$10 million under Subparagraph 7, Article 129 of the Act. In addition, DBS (Taiwan) was, under Paragraph 1, Article 61-1 of the same Act, issued a reprimand and ordered to cease conducting new sale of derivatives products with foreign exchange put options feature (including structured products) until the FSC decides that the shortcomings have been remedied. However, this restriction does not include transactions conducted between banks and professional institutional investors and high net worth juridical persons, and stop-loss transactions for existing customers.

### ***Taihsin International Bank fined NT\$8 million, reprimanded and given other necessary administrative penalties***

In conducting financial derivatives business, Taihsin International Bank was found to have shortcomings as follows: (1) failing to effectively implement internal control, internal operating system and procedures; (2) having the possibility of impeding sound operation. Violating Paragraphs 1 and 4 of Article 45-1 of the Banking Act, Taihsin International Bank was thus fined NT\$8 million under Subparagraph 7, Article 129 of the Act. In addition, Taihsin International Bank was, under Paragraph 1, Article 61-1 of the same Act, issued a reprimand and ordered to cease conducting new sale of derivatives products with foreign exchange put options feature (including structured products) until the FSC decides that the shortcomings have been remedied. However, this restriction does not include transactions conducted between banks and professional institutional investors and high net worth juridical persons, and stop-loss transactions for existing customers.

### ***ANZ (Taiwan) fined NT\$4 million, reprimanded and given other necessary administrative penalties***

In conducting financial derivatives business, ANZ (Taiwan) was found to have shortcomings as follows: (1) failing to effectively implement internal control, internal operating system and procedures; (2) having the possibility of impeding sound operation. Violating Paragraphs 1 of Article 45-1 of the Banking Act and having the possibility of impeding sound operation, ANZ (Taiwan) was thus fined NT\$4 million under Subparagraph 7, Article 129 of the Act. In addition, ANZ (Taiwan) was, under Paragraph 1, Article 61-1 of the same Act, issued a reprimand and ordered to cease conducting new sale of derivatives products with foreign exchange put options feature (including structured products) until the FSC decides that the shortcomings have been remedied. However, this restriction does not include transactions conducted between banks and professional institutional investors and high net worth juridical persons, and stop-loss transactions for existing customers.

### ***Responsible person of TransAsia Airways Corporation fined NT\$2.4 million***

TransAsia Airways Corporation failed to perform the obligation of making public announcement within two days from the date of entering into important trust arrangements, which was in violation of Article 36, paragraph 2, subparagraph 2 of the Securities and Exchange Act. An administrative fine of NT\$2.4 million was imposed on the responsible person of the Corporation in accordance with Article 178, paragraph 1, subparagraph 4 and Article 179, paragraph 1 of the same Act.