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Policy and Law

Amendments of Article 3, Article 4, and Article 4-1 of Regulations Governing Investment in Real Estate by Commercial Banks

The FSC introduced amendments of Article 3, Article 4, and Article 4-1 of the Regulations on April 6, 2017. The key points of the amendments include: (1) when a bank participates in an urban renewal project with its own real estate, the required self-use proportion of the real estate acquired through such participation is lowered from 50% to 20%; (2) according to Article 75 of the Banking Act, a bank shall not invest in real estate other than for self-use, unless the real estate will be used for self-use in the near future. The term "near future" as used in Paragraph 2 of this Article is specifically extended up to 7 years, instead of the 2 years previously stipulated, for purchasing land to construct real estate for self-use. After the amendments to the Regulations become effective, banks will be more willing to participate in urban renewal projects organized by urban renewal businesses, implementers or participate in the reconstruction according to laws governing acceleration of reconstructing hazardous and dilapidated buildings in urban areas. This will not only enhance building safety and living environment of urban residents, but also increase utilization efficiency of bank assets and better meet the practical needs of banking industry.

Amendments of Some Articles of Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries

On March 22, 2017, the FSC introduced amendments to some articles of the Rules, which require financial holding companies and banks to attach more importance to legal compliance, anti-money laundering and countering terrorism financing mechanisms, set more strict requirements for qualifications, professional training and roles of legal compliance staff and officers, and enhance the reporting mechanism of financial holding companies and banks. Key points of the amendments are as follows:

1. In order to enhance corporate governance performance and accountability of the board of directors and audit committee of financial institutions, the board of directors of financial holding companies and banks is required to identify operating

risks, monitor operation outcomes and take the ultimate responsibility for the company's and bank's internal control system. The board of directors is also required to properly address and report the risk that may cause significant loss to its company as soon as possible.

2. More strict requirements are set for effective implementation of "three lines of defense" for internal control of financial holding companies and banks. Moreover, the Rule has additional provisions requiring that the guidelines for implementation of "three lines of defense" for internal control of banks be drawn up by Bankers Association.
3. Financial holding companies and banks are required to incorporate the mechanism of material contingency handling and legal compliance regarding anti-money laundering and countering terrorism financing into related operational guidelines and procedural manuals, in order to handle material contingencies effectively and strengthen their anti-money laundering and countering terrorism financing mechanisms.
4. Additional provisions require that the competent authority may ask banks to engage CPA for special audit of personal information protection, anti-money laundering and countering terrorism financing mechanisms.
5. In order to enhance the legal compliance system and functionality of financial holding companies and banks, new requirements are now set for the report content of headquarters' compliance officers, qualifications and trainings for legal compliance staff and independence of legal compliance officers in overseas business units.
6. In order to enhance the reporting mechanism of financial institutions, internal audit units in the headquarters of financial holding companies or banks are now required to report related information of material matters to the board of directors and the supervisor after the domestic competent authority or competent authority of a foreign branch finishes its examination or the unit receives the examination report.
7. After the Rules take effect, financial holding companies and banks shall make adjustments according to the full-time and concurrent requirements on legal compliance officers of overseas business units as prescribed in second part of Paragraph 4 of Article 32 of the Rules as well as the qualifications of legal compliance staff and officers as prescribed in Paragraph 5 of Article 32 of the Rules. These financial institutions shall be given a period of time for making such adjustments.

Announcing of the Regulations Governing Financial Institutions' Reporting on the Property, Property Interests and Location of the Designated Sanction Person

In order to enhance the mechanism for countering financing of terrorism and prepare for the upcoming third-round mutual evaluation by Asia/Pacific Group on Money Laundering (APG), the FSC announced the Regulations on April 11, 2017, according to the authority granted by the Paragraph 4 of Article 7 of the Terrorism Financing Prevention Act. According to the Regulations, financial institutions are required to report information designated by the Investigation Bureau of the Ministry of Justice immediately after they are aware of the existence of property, property interests or location of the property of designated sanctioned individuals, legal persons or groups through their business activities. Compliance requirements also include coordination and supervision of compliance with the Regulations by a specific officer designated by the financial institution, and preservation periods for reporting records and proof of transactions.

FSC has signed the IFIAR MMoU

In the context of the growing number of international businesses and conglomerates, financial statements of parent companies and subsidiaries of these conglomerates are audited and attested by certified public accountants in different countries. Given this situation, it is necessary for regulatory authorities of different countries to conduct cross-border liaison, mutual assistance and cooperation. Therefore, the International Forum of Independent Audit Regulators (IFIAR) plans to continue the promotion of MMoU mechanism and encourage its members to join.

On April 4, 2017, the FSC's Vice Chairman Dr. Tien-Mu Huang signed the IFIAR MMoU as its representative. Among 52 member jurisdictions, Taiwan is one of the first group of 22 members to sign the IFIAR MMoU. Signing the MMoU can facilitate international cooperation between a domestic regulatory authority and its foreign counterparts as well as timely exchange of information. This can effectively increase efficiency of administration, inspection and law enforcement for enhancement of financial report quality. Therefore, signing the MMoU is an important milestone for facilitating cross-border regulatory cooperation, strengthening investor protection and increasing Taiwan's visibility in the international community.

FSC helps promote agricultural insurance by granting approval to parametric agriculture insurance products

Considering climate change in recent years, which have increased the frequency and scale of agricultural loss, the FSC approved an application for an aquaculture insurance product using precipitation as the index on March 30, 2017, in order to better protect farmers. The product provides parametric insurance coverage using agreed accumulated precipitation as the trigger for claim payment. Such claim payment design not only simplifies the claim process and increases claim payment efficiency, but also appropriately transfers the risk of catastrophic loss by the aquaculture industry caused by climate change.

Amendments of Article 7, Article 8 and Article 11 of the Regulations Governing Issuance of Bank Debentures by Banks

Considering that New Taiwan Dollar general bank debentures, subordinated bank debentures and bank debentures that involve shareholding rights being offered and issued have been delivered by book-entry transfer without printing their physical certificates since July 1, 2006, the amendments were introduced on March 23, 2017, for practical considerations.

FSC amended the Directions Concerning the Establishment of Foreign Branches by Domestic Banks

In order to strength qualifications of all employees in a foreign business unit, the FSC introduced amendments to some articles of the Directions on March 30, 2017. According to the amendments, domestic banks are required to submit specific documents for their applications for establishment of a foreign branch. In addition, requirements for qualifications and trainings of all employees in a foreign branch (including officers) are set, and a foreign branch is required to report basic information regarding its operating status on a quarterly basis.

FSC amended Article 10, Article 13 and Article 17 of the Regulations Governing Securities Trading on the Taipei Exchange

The FSC introduced the amendments of Article 10, Article 13 and Article 17 of the Regulations on March, 31, 2017 in line with current practices of TPEX securities trading. The key points of the amendments are as follows:

1. The amendments specify the exceptions to waiving the requirement for reporting the termination of TPEX securities trading.
2. As TPEX-traded securities are now issued in a paperless way, the regulations regarding TPEX trading of registered securities are removed.
3. The regulations regarding the requirement for TPEX-traded securities issuers to submit financial reports for declaration and release purposes shall comply with the provisions of the Securities and Exchange Act or regulations governing trading of various TPEX securities. The regulation about the requirement for such declaration and release within 15 days after closing per half business year is removed for consistency.

FSC issued an interpretative order about Article 2 of the Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises

On March 21, 2017, the FSC issued an interpretative order to include green energy technology, "Asia Silicon Valley", medical biotechnology, national defense, "smart machinery", "new agriculture" and "recycle economy" in the scope of "other use in line with the government policies" in Sub-Paragraph 6 of Article 2 of the Regulations Governing Use of Insurer's Funds in Special Projects, Public Utilities and Social Welfare Enterprises.

FSC issued an interpretative order for Sub-Paragraph 6 of Article 3 of the Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises

As customized non-life insurance products are mainly designed according to client needs and requirements, which make such products different from general insurance products, disclosure requirements would not provide practical benefits. Therefore, the FSC issued the interpretative order for Sub-Paragraph 6 of Article 3 of the Regulations waiving the disclosure requirement for customized non-life insurance products according to the Regulations.

Industry Updates

FSC acclaimed outstanding financial institutions and continues to promote the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises

On March 31, 2017, the FSC held the 43rd meeting for banking business liaison with general managers of domestic banks, in order to urge domestic banks to improve their information operations and network security, foster business culture emphasizing anti-money laundering and countering financing of terrorism and continue to increase their loans to SMEs. In the meeting, the FSC also acclaimed financial institutions with outstanding performance with respect to "SME loans", "loans to, investments in and sponsorship for creative enterprises", "syndicated loan platform for system, package plant and engineering industry exports" and "active participation in the campaign that promote financial knowledge on campuses and in the community".

In order to encourage banks to foster long-term partnership with small and medium enterprises and create a SME-friendly financing environment, the FSC has continued to implement the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises," this year (the 12th period) and set the target of increasing the amount of loans to SMEs by NT\$ 240 billion this year.

In the meeting, the FSC acclaimed banks with outstanding performance in granting SME loans. This was the result of implementing the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises," in 2016 (the 11th period). The total outstanding loans as of the end of 2016 increased NT\$ 274.4 billion from the end of 2015 and exceeded the target of NT\$ 240 billion set for 2016. These figures show that the program has achieved good results. In particular, First Commercial Bank, Mega International Commercial Bank, E.Sun Commercial Bank and Bank SinoPac were rated Excellent, while Taiwan Cooperative Bank, Hua Nan Commercial Bank, CTBC Bank, Taipei Fubon Commercial Bank, Sunny Bank, and COTA Commercial Bank were rated First-class. The Balanced Regional Development Special Award went to Taichung Commercial Bank (central Taiwan), Taipei Fubon Commercial Bank (southern Taiwan) and Sunny Bank (Hualien, Taitung and offshore islands), while the "e-commerce industry financing" Special Award went to E.Sun Commercial Bank.

The FSC started to implement the "Program to Incentivize Lending by Domestic Banks to Creative Enterprises" on January 1, 2014, in support of its program to support creative businesses with financing resources and to encourage banks to lend to creative businesses. As of the end of December of 2016, the total outstanding loans granted by domestic banks to creative businesses amounted to NT\$485.3 billion, which increased NT\$ 127.9 billion from the end of 2015, reaching the 2016 target of increasing the outstanding loans by NT\$ 70 billion (the rate of fulfillment was 182.71%). These figures show that the program has achieved good results. After evaluation, the FSC acclaimed banks with outstanding performance in providing loans to creative businesses and financial holding companies (banks) with largest annual investments or sponsorships (including donations). In the meeting, the FSC acclaimed banks selected for their outstanding performance of lending to creative businesses. Taiwan Business Bank, Taiwan Cooperative Bank, Bank of Taiwan, and Sunny Bank were rated Excellent. Hua Nan Commercial Bank, CTBC Bank, Land Bank of Taiwan, Mega International Commercial Bank, Taipei Star Bank and Taichung Commercial Bank were rated First-class. The award for investment (in creative businesses) went to China Development Financial Holding Corp., while the award for sponsorship (for creative businesses) went to Cathay Financial Holding Co. and the Shanghai Commercial Savings Bank.

The FSC also encouraged domestic banks to participate in the "syndicated loan platform for system, package plant and engineering industry exports" run by the Export-Import Bank and help businesses obtain capital needed for their development in a timely manner. The FSC also acclaimed the Export-Import Bank for its effective operation of the platform in the first period. The FSC encouraged the bank to actively promote the syndicated loan platform and expressed its hope for greater participation of other domestic banks.

In 2006, the FSC launched "School and Community Financial Literacy Campaign" and it has received wide recognition since. In this meeting, the FSC also acclaimed ten financial institutions which actively participated in 2016. These included Hualien Second Credit Cooperative, Hua Nan Commercial Bank, First Commercial Bank, Taiwan Business Bank,

Shanghai Commercial Savings Bank, Taiwan Cooperative Bank, Tamshui First Credit Bank, the First Credit Cooperative of Hualien, the Tamsui Credit Cooperative and Bank SinoPac. The FSC urged all financial institutions to continue to support and actively participate in the campaign for spreading financial knowledge in order to fulfill their social responsibility and provide a friendly environment for financial product consumption to create a win-win situation for customers and financial institutions.

FSC agrees to allow Taiwan Business Bank to apply to set up a Manila branch

The FSC has agreed to allow Taiwan Business Bank to apply to the competent authority in the Philippines to establish a branch in Manila. The bank plans to set up the branch to expand its ASEAN presence to take advantage of business opportunities in the region, as well as increase overseas profits and thus improve the bank's overall operating benefits by taking advantage of the economic growth of the Philippines.

At present, in terms of the presence of Taiwan's banks in the Philippines, CTBC Bank and Yuanta Commercial Bank each have a subsidiary bank, while Taiwan Cooperative Bank, Mega International Commercial Bank, First Commercial Bank and Cathay United Bank have a branch apiece. Hua Nan Commercial Bank has also won the approval of Central Bank of the Philippines to set up a branch in the Philippines.

NPL ratio for domestic banks at 0.30% as of the end of March 2017

The total outstanding loans of domestic banks stood at NT\$26,200.1 billion as of the end of March 2017, up by NT\$74.9 billion from the previous month, while their total NPLs were NT\$77.6 billion, up by NT\$1 billion from the previous month's figure of NT\$76.6 billion, generating an average NPL ratio of 0.30%, up by 0.01 percentage points from 0.29% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 453.33% at the end of March 2017, down by 9.44 percentage points from the figure of 462.77% at the end of the previous month.

NPL ratio for credit cooperatives at 0.10% as of the end of March 2017

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$448 million as of the end of March 2017, generating an NPL ratio of 0.10%, down by 0.01 percentage points from 0.11%, at the end of February 2017. The NPL coverage ratio, in the meantime, was 1,857.68%, up by 212.44 percentage points from 1,645.24%, at the end of February 2017.

Net foreign investments in listed shares

As of the end of March, 2017, foreign and Mainland China investors had bought around NT\$1,509.09 billion and sold around NT\$1,343.444 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$165.657 billion. Meanwhile, for the Taipei Exchange, foreign and Mainland China investors bought around NT\$ 134.63 billion and sold around NT\$128.52 billion, making for a net inward investment of around NT\$ 6.11 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 March 2017, stood at approximately US\$208.65

billion, up by around US\$3.32 billion from the US\$205.33 billion as of the end of February 2017.

Investor and Consumer Protection

FSC reminds consumers of points for attention when making a compulsory automobile liability insurance claim following injury in a road accident

The FSC reminds people that, in the unfortunate event of injury in a road accident, the injured party, their family, or friends around them should stay calm, immediately call the police, and remember to obtain the accident information from the police to facilitate making a compulsory automobile liability insurance to a property insurance company. If the vehicle that caused the accident cannot be traced or it is not covered by compulsory automobile liability insurance, the victim must apply for compensation to the Motor Vehicle Accident Compensation Fund to protect their rights and interests.

2017 School and Community Financial Literacy Campaign

In April 2017, FSC held 79 financial literacy promotion sessions at schools and groups, including Chong De Elementary School in New Taipei City, as part of its 2017 School and Community Financial Literacy Campaign. A total of 9,522 participants attended. These sessions are free of charge and have been very well received since their inception in 2006. As of the end of 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include students from elementary, junior high, high schools and universities, 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

SinoPac Financial Holdings Company fined NT\$10 million

SinoPac Financial Holdings Company failed to properly supervise and manage a subsidiary and failed to establish and properly implement internal control and auditing systems in violation of Article 51 of the Financial Holding Company Act. It was thus fined NT\$10 million under Sub-paragraph 16 of Article 60 of the same Act.

International Bills Finance Corp. fined NT\$4 million

International Bills Finance Corp. was found to have shortcomings with respect to handling real estate appraisal (estimation) and credit cases and internal control and auditing systems and was judged by the FSC to have not established internal control and auditing systems or failed to properly implement such systems in violation of Article 43 of The Act Governing Bills Finance Business. The company was thus fined NT\$4 million under Sub-paragraph 9 of Article 64 of the same Act.