

金融展望月刊

Financial Outlook Monthly

Publisher Wellington L. Koo

Advisor Cheng Cheng-Mount
Huang Tien-Mu
Shih Chiung-Hwa

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 version.

October 2017

《Chinese version please refer to page 1》

No.155

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

Anti-Corruption Hotline 0800-088-789

- The FSC made the announcement on draft amendments to some articles of the Negotiable Instruments Act
- Securities investment consulting enterprises providing a Robo-Advisor service are allowed to execute automated “re-balance transactions” for their clients through their computer systems under specific conditions
- The FSC introduced amendments to some articles of Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets
- The FSC promulgated the Directions Governing Financial Institution Business Hours and Suspension of Operation during Natural Disasters

Policy and Law

The FSC made the announcement on draft amendments to some articles of the Negotiable Instruments Act

According to Article 123 of the Negotiable Instruments Act, a holder of a promissory note may petition a competent court for a ruling granting compulsory execution in exercising his/her right of recourse against the maker of a promissory note. This system has been in effect in Taiwan for over 50 years and has facilitated commercial transactions, fund-raising activities of businesses and exercising of creditor's right. However, an investigation by the Control Yuan has concluded that this system has been abused. In order to prevent such abuse by criminals while supporting decent commercial activities and preventing commercial activities being affected excessively due to serious impact on the users, the FSC has drafted the amendments to some articles of the Act. The scope of promissory notes allowed to be petitioned for compulsory execution will be restricted to: (1) promissory notes containing financial institutions or a short-term bills central depository and clearing house engaged by the makers as paying agents for the drawees; (2) promissory notes with holders that are banks, agricultural financial institutions, securities and futures businesses, insurance companies or financial leasing enterprises with paid-in capital of NT\$ 200 million or more, membership of the industry association and declaration on compliance with self-regulatory rules of the industry association. For promissory notes signed and issued before the amendments take effect, the original regulations shall apply. The draft amendments were announced on August 18, 2017 and external opinions were sought over the following 30 days.

Securities investment consulting enterprises providing a Robo-Advisor service are allowed to execute automated “re-balance transactions” for their clients through their computer systems under specific conditions

Considering that some domestic securities investment consulting enterprises have started to develop a Robo-Advisor service, the FSC approved the guidelines for securities investment consulting service provided by securities investment consulting enterprises with automated tools on June 26, 2017 for protection of investors' interests. The guidelines were developed by the Securities Investment Trust & Consulting Association to facilitate compliance of the enterprises by establishing principles for the definition of Robo-Advisor, “Know Your Customer” procedure, portfolio rebalancing, supervision measures and notices about the service before customer use.

Moreover, the FSC introduced new deregulatory measure on August 10, 2017 to facilitate development of a Robo-Advisor service by securities investment consulting enterprises for asset management purpose (i.e. automated re-balancing transactions for the client) in align with development of the international market. Now, securities investment consulting enterprises providing investment consulting

service through algorithm of automated tools may enter into a contract with a client that allows the enterprises to carry out automated re-balancing transactions for the client with its computer system when profit/loss of an investment instrument or the investment portfolio reaches a specified default level or when deviation of the agreed investment proportions reaches a specified level. Securities investment consulting enterprises providing the aforementioned service are not subject to the restriction that does not allow an investment consulting enterprise and its personnel to act as another person's agent in securities investment activities. This restriction is imposed by subparagraph 2, paragraph 2 of Article 13 of the Regulations Governing Securities Investment Consulting Enterprises and subparagraph 2, paragraph 2 of Article 15 of the Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises. After the securities investment consulting enterprise makes the automated re-balancing transaction in its computer system for the client, the client shall be instantly informed of the transaction's results.

The FSC introduced amendments to some articles of Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets

The FSC introduced the amendments of the Regulations on September 30, 2017 to lay down requirements for anti-money laundering and combating the financing of terrorism (AML/CFT) and handling and reporting of material events for service enterprises. Key points of the amendments are as follows:

1. For securities and futures service enterprises fitting the definition of financial institution in the Money Laundering Control Act, the internal control system and annual audit plan shall incorporate management of compliance with AML/CFT mechanism and related regulations. The FSC may ask securities and futures related institutions to conduct a special audit of the aforementioned internal control mechanism and order the enterprise to engage a CPA for such an audit when necessary.
2. Internal control system of securities and futures service enterprises shall incorporate management of material event handling and reporting mechanism. The Chief Compliance Officer is required to report serious irregularities to directors and supervisors upon detection and report regulatory compliance aspects of the irregularities to the board of directors. The legal compliance unit of a securities and futures service enterprise with a foreign branch shall supervise its foreign branch's (or branches') undertaking of regulatory compliance risk assessment.

The FSC promulgated the Directions Governing Financial Institution Business Hours and Suspension of Operation during Natural Disasters

In order to allow banks and credit cooperatives ("financial institutions") to provide financial services outside regular business hours, bring flexibility to their business hours to meet the evolving needs of the society, and establish consistent standards for business hours of financial institutions during natural disasters, the FSC promulgated the Directions on September 6, 2017 according to Article 51 of the Banking Act and Article 37 of the Credit Cooperatives Act and referring to existing and pertinent regulations. According to the Directions, business venues of financial institutions may operate outside regular business hours in order to meet the needs of businesses and the public, provided that there is no security issue. The FSC has also established specific standards for business hours of financial institutions during natural disasters to facilitate compliance of financial industry and operation of financial market.

Amendments to some articles of the Rules Governing the Administration of Electronic Payment Business

In order to meet the business needs of electronic payment institutions, make their payment services more convenient, increase flexibility in utilization of electronic payment accounts, and simplify application process for business activities of an electronic payment institution, the FSC introduced the amendments to the Rules on August 18, 2017. Key points of the amendments are as follows:

1. Allows electronic payment institutions to provide services of integration and transmission of receipt/payment information to recipient users.
2. Waives the requirements of payment instruction and payment instruction reconfirmation for transactions meeting specific criteria.
3. Allows an electronic payment institution approved to conduct electronic stored value cards business to transfer the user's NTD fund recorded in the electronic payment account to his/her registered NTD electronic stored

value card issued by the same institution.

4. Allows electronic payment institutions to let users store value with their credit cards.

Amendments to Article 17 and Article 22 of the Rules Governing the Business of Electronic Stored Value Card Issuers

In order to streamline the application process for outsourcing of electronic stored value card operating activities and meet regulatory needs, the FSC introduced amendments to Article 17 and Article 22 of the Rules on August 30, 2017. Key points of the amendments are as follows:

1. In order to cope with current development of the electronic stored value card market and increase the efficiency of terminal equipment integration, the FSC has waived certain requirements on the application for specific terminal equipment integration modes that have a relatively minor impact on consumers.
2. In order to maintain the operational independence of the issuers and allow for flexibility in outsourcing operations, the issuers are allowed to outsource their operating activities, within the scope of operations permitted to be outsourced as specified in the Rules and according to their "guidelines on internal operating systems and procedures for outsourcing of operations" approved by the board of directors, without permission of the competent authority, provided that the outsourcing of operating activities does not affect the issuers' sound operation and consumers' rights and interests.

In coordination with the IFRSs adopted in 2018, the FSC announced amendments to the "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Firms" and the orders on "the Format of the Financial Reports of Securities Firms" and "the Format of the Financial Reports of Futures Firms"

To accommodate Taiwan's coming synchronous adoption of International Financial Reporting Standard (IFRS) 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" in 2018, and a review of extant rules that sought to increase the transparency of financial reports and maintain appropriate oversight, on September 14, 2017, the FSC announced amendments to the "Regulations Governing the Preparation of Financial Reports by Securities Firms." The main amendments consist of adjusting relevant accounting items on the balance sheet and income statement, and specifying the disclosure requirements on financial instruments and contracts with customers in notes of the financial report. In addition, the FSC also issued an interpretative order to amend the attached forms and statements of major accounting items for the amendments on September 14, 2017. The amended articles and the new order will take effect from fiscal year 2018.

Amendments of the Regulations for Establishment, Transfer, or Withdrawal Branch Units by Insurance Enterprises

In order to consolidate corporate governance of insurance companies, strengthen anti-money laundering and combating financing of terrorism (AML/CFT) infrastructure and meet the needs of market practice and supervisory control, the FSC announced the amendments of the Regulations on August 22, 2017. According to the amendments, an insurance company applying for establishment of a domestic branch or branch cooperative is required to present information about corporate governance of the company. The insurance company applying for establishment of a foreign subsidiary or branch shall provide descriptive document on AML/CFT mechanism of the foreign subsidiary or branch requested by the competent authority. The amendments also define the responsible person of a foreign branch unit (of an insurance company).

Issuance of the interpretative order regarding article 9 of the Regulations Governing Transactions Other Than Loans between Insurance Enterprises and Interested Parties

On August 25, 2017, the FSC issued the interpretative order. According to the order, when an insurance company engages in transactions other than loans with interested parties, the management may evaluate the reasonableness of the transaction prices at its discretion without submitting documents evidencing that the terms of transaction are not more favorable than those offered to other same category counterparties. Such transactions include (1) spot foreign exchange transactions with subsidiaries of a bank or securities

firm belonging to the same financial holding company, while the transaction terms have to reflect market practice and the transaction prices do not deviate from spot price level of the inter-bank foreign exchange market. The designated foreign exchange bank engaged in related transactions shall have price negotiation standards for related transactions with interested parties and such standards shall have been submitted to the board of directors and approved by it; (2) small-amount transactions less than NTD10,000 ; (3) transactions for public transportation fees that are uniform and not negotiable (such as Taiwan High Speed Rail tickets), telecommunication and internet service fees, and public utilities fees.

Amendments of the Directions for Sale of Investment-linked Insurance Products

In order to enhance the implementation of the "know your customer" (KYC) procedure in the insurance industry for effective protection of investors' interests, the FSC announced the amendments of article 4 of the Directions on August 28, 2017. According to the amendments, insurance companies should incorporate assessment of professional knowledge about financial products and trading experiences of a professional investor into the KYC procedure and report the assessment mechanism to the board of directors for approval.

International Activities

FSC holds the 2017 supervisory college meeting for the First Commercial Bank

The FSC held a supervisory college meeting, with the First Commercial Bank as the subject bank September 7-8, 2017. In this meeting, the FSC exchanged opinions on the bank's business and related financial supervision topics with regulators from different countries or regions.

Industry Updates

The FSC approved the application of China Development Financial Holding Corporation for its investment in China Life Insurance Co., Ltd. through holding 25.33% outstanding shares with voting rights of the insurer

On July 13, 2017, China Development Financial Holding Corporation submitted the application for its plan to invest in China Life Insurance Co., Ltd. through holding 25.33% of the insurer's outstanding shares with voting rights according to Article 139-1 of the Insurance Act and Article 36 of the Financial Holding Company Act. The FSC then carried out the regulatory scrutiny of the case according to the two Acts. The review concluded that the application documentation presented by China Development Financial Holding Corporation for its investment according to the Financial Holding Company Act does not have compliance issues in terms of investment regulations in the Act. The FSC expressed this in a letter to China Development Financial Holding Corporation on August 9, 2017.

With regard to the application of China Development Financial Holding Corporation for holding over 25% outstanding shares with voting rights of China Life Insurance Co., Ltd, the review concluded that the investment complies with the related provisions of the Regulations Governing A Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights over a Particular Ratio of an Insurance Enterprise, which were issued according to the authorization of Paragraph 5 of Article 139-1 of the Insurance Act. The FSC pointed out that China Development Financial Holding Corporation has to complete the investment within three months after the approval according to the Regulations Governing the Investing Activities of a Financial Holding Company.

FSC agrees to allow Land Bank of Taiwan to establish branches/offices in Mainland China, Australia, Malaysia and the Philippines

The FSC has agreed to allow Land Bank of Taiwan to apply to the competent authorities to establish a branch in Xiamen, a branch in Brisbane, a representative office in Kuala Lumpur, and a representative office in Manila. Land Bank's motives for establishing these overseas branches/offices are that many Taiwanese businesses operate and make investments in Xiamen and there are abundant business opportunities there; the bank also sees good prospects for trade and economic development in Australia, Malaysia and the Philippines and wants to support the New Southbound policy. The

bank has seven overseas branches at present (Los Angeles, New York, Singapore, Hong Kong, Shanghai, Tianjin and Wuhan).

FSC agrees to allow CTBC Bank to set up a branch in Shenzhen, Mainland China

On September 12, 2017, the FSC agreed to allow CTBC Bank to apply to establish a branch in Shenzhen, Mainland China. After review, the case was deemed to meet the requirements of the Regulations Governing the Banking Activity and the Establishment and the Investment by Financial Institution between the Taiwan Area and the Mainland Area and the FSC thus agreed to allow the bank to apply to the local competent authority to establish a Shenzhen branch.

Up to now, CTBC Bank has established four branches (sub-branches) in Mainland China, namely its Shanghai branch, China (Shanghai) Pilot Free Trade Zone sub-branch, and Guangzhou and Xiamen branches. The FSC has also agreed to allow the bank to apply to the local competent authority to set up a Hongqiao sub-branch under its Shanghai branch. CTBC bank plans to open a Shenzhen branch after taking into account that establishment of the branch will be conducive to capturing the business opportunities offered by local key industrial chains and cultivating strong business relationships in the Pearl River Delta, which will help it expand its financial business in Mainland China and further expand its overseas market.

FSC announces list of rewarded insurance companies for outstanding performance in support of the Program for Improving Insurance Protection for the People

To allow insurance to fully bring into play its protection function and provide sufficient personal insurance protection to the people of Taiwan, the FSC is implementing the Program for Improving Insurance Protection for the People. Under this program, companies whose performance meets certain requirements are rewarded by being allowed to submit extra insurance products for review. The list of rewarded companies is announced periodically.

On the list of life insurance companies rewarded for excellent performance in increasing insurance protection for the people January-June 2017 by being allowed to submit an extra 1-3 insurance products for review were: Bank Taiwan Life Insurance, Taiwan Life, Cathay Life Insurance, China Life Insurance, Nan Shan Life Insurance, Allianz Taiwan Life Insurance, Chunghwa Post, First-Aviva Life Insurance, BNP Paribas Cardif TCB Life Insurance, Prudential Life Insurance Company of Taiwan, TransGlobe Life, AIA Life Insurance, Cardif Assurance Vie, Taiwan Branch and Chubb Life.

The micro insurance umbrella grows Over 470,000 people now covered

To allow disadvantaged people and members of certain social groups to purchase basic insurance cover for a relatively small premium to avoid families or individuals falling into economic difficult in the event of accident and to urge insurers to fulfil their corporate social responsibility, the FSC is actively promoting micro insurance. At the end of June 2017, 26 insurers were engaging in micro insurance business (15 life insurance companies and 11 non-life insurance companies) and the number of people covered by such insurance exceeded 470,000, with the insured amount over NT\$154.9 billion; these figures were up on the 321,000 people covered and insured amount of NT\$107.1 billion at the same time in 2016 by 45%, helping to further strengthen the social security net. The four main groups of insured were indigenous people (40.68%), members of medium-low income households (22.65%) mentality and physically disabled people (11.57%) and people served by social welfare organizations and groups (10.3%).

NPL ratio for domestic banks at 0.29% as of the end of August 2017

The total outstanding loans of domestic banks stood at NT\$26,797.9 billion as of the end of August 2017, up by NT\$213.5 billion from the previous month, while their total NPLs were NT\$78.7 billion, generating an average NPL ratio of 0.29%, down by 0.01 percentage points from 0.30% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 466.27% at the end of August 2017, up by 6.57 percentage points from the figure of 459.70% at the end of the previous month.

NPL ratio for credit cooperatives at 0.13% as of the end of August 2017

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$567 million as of the end of August 2017, generating an NPL ratio of

0.13%, the same as the ratio at the end of July 2017. The NPL coverage ratio, in the meantime, was 1,548.48%, up by 6.89 percentage points from 1,541.59% at the end of July 2017.

Net foreign investments in listed shares

As of the end of August 2017, foreign and Mainland China investors had bought around NT\$ 4,193.9 billion and sold around NT\$ 3,939.2 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$254.7 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$401.6 billion and sold around NT\$389.1 billion, making for a net inward investment of around NT\$ 12.5 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 August 2017 stood at approximately US\$208.9 billion, down by around US\$2.9 million from the US\$211.8 billion as of the end of July 2017.

Investor and Consumer Protection

FSC holds 2017 online financial literacy quiz contest

In order to enhance financial literacy, the FSC is holding an online financial literacy quiz contest, targeted at junior and senior high school students, from 21 August to 13 October 2017, with separate divisions for students at the junior and senior high levels. For more information, see: <http://financeknowledge.tabf.org.tw>.

The contest starts out with an initial online round, followed up by onsite second-round contests. There are separate divisions for students at the junior and senior high levels, and participants can take part either individually or in teams of three. Individuals and teams that finish the online first round in the top 20 will go on to the second round. Individuals and teams that finish in the top five in round two go on to a championship round, where the top individual contestant will receive a prize of NT\$10,000 and the top team receive NT\$30,000. In addition, six schools will be chosen that have done the job of promoting participation in the contest well, and receive a prize of total NT\$60,000. Also, a special participation prize has been added for students, and a "top team leader" prize has been added for the teacher selected as the best team leader, to encourage participation and give teachers extra incentive.

The FSC has not only launched Money Wise, a financial literacy website (<http://moneywise.fsc.gov.tw>) designed to improve general understanding of financial matters, but also established the Financial Literacy Promotion Pages which integrate information about various events and e-learning websites and update promoting results quarterly. Quiz questions are taken from on Money Wise website and the Financial Literacy Promotion Pages, as well as the related courses in junior and senior high school, such as the concepts of probability and compound interest. Questions address everyday financial matters, financial legislation, and personal financial planning, and on a higher plane, they also broach such topics as the contribution of the financial sector to development of the national economy, and protections for the interests of financial consumers. All the questions in the online portion of the contest are true/false or multiple choice, and are designed to help raise the level of financial literacy among students.

In addition, to adjust for the education gap between urban and rural areas, a certain number of contestant spots have been set aside separately for students from different areas to encourage participation by students from remote districts and the offshore islands. Junior and senior high school students interested in taking part can register teams by visiting the quiz website (<http://financeknowledge.tabf.org.tw>), or by calling the organizer (Taiwan Academy of Banking and Finance) at (02) 3365-3557.

Registration open for the 2017 Insurance Promotion Fair

8am-12pm on Saturday October 21 2017, the FSC will hold an insurance promotion event at Huashan Grassland in Taipei. The event is in the form of painting activity and an insurance promotion fair. Registration is open now.

The event's creative theme is painting. Insurance companies will form teams that will paint creatively onsite according to insurance-related themes on a large piece of canvas. Visitors will vote to choose the best works and families will also be able to make their own paintings, the best ones being rewarded with gift vouchers.

Also, to effectively promote various types of insurance, the event will have stalls that will interact with visitors on insurance related topics, and there will also be fun games that will help people learn about insurance and insurance products while having fun. Visitors who collect ten stamps at the stalls can enter a lucky draw that has a 40-inch TV, iPad and other prizes.

Registration is open from now until 5pm on October 13, 2017 (will close earlier if all places are taken). The number of participants is limited to 3000. Individuals or groups can register directly on the webpage <https://goo.gl/4yDCBi>, or go to the Facebook event page to link to the event registration webpage by searching 1000-person Painting and Insurance Promotion Fair, and entering <https://goo.gl/URao5Y> or scanning the QR Code at the bottom; or call the event service line on 0928-763-355 or 0920-247-045 and a dedicated member of staff will help you register.

FSC calls on the public to actively take out Residential Earthquake Insurance to reduce losses in event of earthquakes

The FSC calls on the public to actively take out Residential Earthquake Insurance to reduce property losses should an earthquake strike and, according to personal requirements, purchase additional earthquake insurance products.

2017 School and Community Financial Literacy Campaign

In September 2017, FSC held 28 financial literacy promotion sessions at schools and groups, including Shepi Elementary School in Pingdong County, as part of its 2017 School and Community Financial Literacy Campaign. A total of 3,377 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

United Asset Security Investment Consultant Co., Ltd.'s business license revoked and ordered to removed Chairman Zhang from his post

United Asset Security Investment Consultant Co., Ltd. was found to have inappropriately appropriated business capital and to have falsified or concealed the content of related account books in serious violation of regulations, clearly showing that it can no longer operate soundly. Consequently, in accordance with Sub-paragraph 5 of Article 103 of the Securities Investment Trust and Consulting Act, the company's business license has been revoked and it has also been ordered to remove Chairman Zhang from his post in line with Article 104 of the same act.

FullRich Security Investment Consultant Co., Ltd. ordered to removed Chairman Zhou from his post

The shortcomings that FullRich Security Investment Consultant Co., Ltd. was found to have by the FSC were that the company allowed its chairman to execute business without being registered, it did not make written securities investment consulting contract with clients, it provided securities trading suggestions without a reasonable analytical foundation or basis, and offered securities investment consulting services as free gifts. Consequently, in accordance with Sub-paragraph 2 of Article 103 of the Securities Investment Trust and Consulting Act, the company was ordered to remove Chairman Zhou from his post.

Personnel Changes

Personnel change at the FSC

Mr. Wellington L. Koo was appointed as FSC Chairman by Presidential decree and took office on September 8, 2017.