

# 金融展望月刊

## Financial Outlook Monthly

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- FSC promotes the Program to Encourage Investment by Insurance Industries in Key Innovative Industries
- Banks are allowed to exclude proprietary trading of reverse repo transactions of foreign bonds from being counted in the total amount of foreign bond transactions
- Amendments of Some Articles of Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises
- Amendments of Article 3 and Article 10 of the Regulations Governing the Trading of Financial Derivatives by Bills Finance Companies

### Policy and Law

#### *FSC promotes the Program to Encourage Investment by Insurance Industries in Key Innovative Industries*

On September 25, 2017 the FSC introduced this Program to encourage insurers, while considering protection of policyholder's rights and interests, investment risk and related factors, to actively evaluate and extend investment in key innovative industries, including green energy technology, "Asian Silicon Valley", medical biotechnology, national defense, smart machinery, new agriculture and recycled economy. The program will be implemented in two phases from September 1, 2017 to August 31, 2019 (the first phase is from September 1, 2017 to August 31, 2018; the second phase is from September 1, 2018 to August 31, 2019). With the precondition that the economic growth rate remains positive as forecasted by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan, the investment amount extended by insurers in the aforesaid key innovative industries in the first phase will increase by NT\$30 billion; the target for the second phase will be decided based on the implementation results of the first phase.

#### *Banks are allowed to exclude proprietary trading of reverse repo transactions of foreign bonds from being counted in the total amount of foreign bond transactions*

In order to facilitate financial market development, the FSC promulgated the Regulations Governing Banks Applying to Concurrently Operate the Underwriting and Proprietary Trading of Bonds, Beneficiary Securities and Asset-Backed Securities on September 22, 2017 to relax the transaction ceiling for banks conducting proprietary trading of repo-style foreign bonds.

The FSC stated, considering substantial risk control principles for foreign bond positions held by banks and risk tolerance of their foreign bonds trading, the balance of repo transactions of foreign bonds sold by a bank concurrently conducting proprietary trading of foreign bonds as a securities firm shall not exceed 30% of net worth of the bank at the end of the previous year. The balance of reverse repo transactions

of foreign bonds purchased by such a bank is excluded from being counted in the total amount of foreign bond transactions. Moreover, the proprietary trading of repo-style foreign bonds is not subject to the ceiling of transactions calculated by operating capital allocated for securities activities according to article 9 of the Rules Governing the Proprietary Trading of Foreign Bonds by Securities Firms issued by Taipei Exchange. The FSC expects that such deregulatory measures can encourage market players to shift their overseas repo-style transactions of foreign bonds to Taiwan, stimulate the foreign bond market's development in Taiwan, and facilitate professional institutional investors' efficiency in allocating funds in foreign currency.

### **Amendments of Some Articles of Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises**

On October 19, 2017, the FSC introduced amendments to some articles of the Regulations, which require insurance companies to attach more importance to legal compliance, anti-money laundering and countering financing terrorism (AML/CFT) mechanisms and set more strict requirements for qualifications, professional training and roles of legal compliance staff and officers. The amendments focus on the following points:

1. In order to enhance corporate governance performance and accountability of board of directors and audit committee of an insurance company, the board of directors (council) is required to identify operating risks and supervise the establishment of an effective internal control system. The board of directors (council) of an insurance company is also required to properly address and report the risk that may cause significant loss to its company as soon as possible.
2. Insurance companies are required to incorporate a material contingencies handling mechanism and AML/CFT legal compliance management into related control operation guidelines and procedures, in order to handle material contingencies effectively and strengthen their mechanism of anti-money laundering and countering terrorism financing.
3. The Non-life Insurance Association and Life Insurance Association will draw up guidelines for "three lines of defense of internal control and audit system", for more effective implementation of "three lines of defense" in the insurance industry.
4. Increase coverage and items of the internal control system audit by the CPA engaged by an insurance company; the audit shall cover foreign branches, while the audit items shall include operation of anti-money laundering system.
5. In order to enhance the legal compliance system of insurance companies, new requirements are now set for the headquarters regarding report content of compliance officers, qualifications of and training for legal compliance staff, and independence of legal compliance officers in foreign branches.
6. After the domestic competent authority or competent authority of a foreign branch finishes its inspection or such inspection report is received by the insurance company, the internal compliance unit in the headquarters of an insurance company is now required to report related important information to the board of directors (council) and the supervisor (supervisor or board of supervisors) or the audit committee. Such requirement is imposed to enhance the reporting mechanism of the insurance industry.

### **Amendments of Article 3 and Article 10 of the Regulations Governing the Trading of Financial**

### **Derivatives by Bills Finance Companies**

Considering rapid development of the financial market and business needs of bills finance companies, the FSC promulgated the amendments to the Regulations Governing Trading of Financial Derivatives by Bills Finance Companies on September 20, 2017 based on related regulations, such as Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business. Key points of the amendments are as follows:

1. Bills finance companies are allowed to act as customers to enter futures trading contracts traded on a foreign futures exchange upon the FSC's approval of a cooperative agreement between Taiwan Futures Exchange Corporation and such foreign futures exchange. Bills finance companies are also allowed to trade forex derivatives as customers for non-hedging purpose and trade interest rate derivatives not denominated in NTD as customers or dealers.
2. When a bills finance company approved to engage in derivative business as a dealer, the bills finance company shall obtain permission from the Central Bank and conduct such business according to rules of the Central Bank provided that the business is involved in foreign exchange.

### **Amendment of Article 11 of the Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprises promulgated**

In light of the fact that the scope and subjects of the overseas securities trading markets (including foreign stock exchanges and OTC markets designated by the competent authority) in which securities firms can be commissioned to trade foreign securities by non-professional investors were expanded on April 19, 2017, Item 2, Subparagraph 2 of Article 11 of the aforementioned Regulations has been amended on September 30, 2017 to facilitate a balance between the business of trust enterprises and securities companies and provide non-professional investors with more diverse choice for investment in these products using the trust method. The amendment allows non-professional investors that meet certain requirements to commission trust enterprises to invest in foreign stock exchange traded funds (ETFs) which have a leveraging or shorting effect with positive multiple of no more than 2 or inverse ETFs with multiple of no more than 1.

### **Amendment of Article 10 of the Regulations for Approving and Supervising Banking Business Charitable Trusts promulgated**

Taking into account the fact that Internet use is now widespread, the amendment to Paragraph 2 of Article 10 of the above Regulations relating to the announcement method for charitable trust related documents was promulgated on October 3, 2017 to allow charitable trust announcement documents to be conveniently checked and implement information openness and transparency. The amendment adds Internet announcement as one of the options, and also stipulates the announcement period.

### **Amendments to some articles of the Regulations Governing Securities Firms Accepting Orders to Trade Foreign Securities, the Standards Governing the Establishment of Securities Investment Trust Enterprises, the Standards Governing the Establishment of Securities Investment Consulting Enterprises and the**

## ***Standards Governing the Establishment of Futures Trust Enterprises***

In order to allow securities firms brokering trades in foreign securities to set up separate account ledgers for each customer in their Settlement Account with customer consent, consider Alien Resident Certificate and Alien Permanent Resident Certificate as identification documents with the same effect as passports in line with the residency reform policy of the Ministry of the Interior, and facilitate the business activities of securities firms, the FSC introduced amendments to some articles of these Standards and Regulations on October 6, 2017. Key content of the amendments are as follows:

1. As high net worth corporate investors are similar to professional institutional investors in terms of their asset sizes, proficiency level of professional knowledge and investment experience, in line with the waivers of obligations for securities firms when dealing with professional institutional investors, the same waivers now also apply to high net worth corporate investors for alignment with the amendments of the Regulations Governing Offshore Structured Products announced on September 18, 2015. The obligations waived for securities firm include (1) Assigning employees to explain the risks to high net worth corporate investors, (2) delivering a risk disclosure statement, and (3) when providing information or research reports on the securities market, industries or individual securities, summarily translating into Chinese are not required.
2. Alien Resident Certificate and Alien Permanent Resident Certificate are considered identification documents with the same effect as passports, as in line with the residency reform policy of the Ministry of the Interior.
3. In order to stream line the process of taking investors' orders to trade foreign securities and reduce settlement risks, securities firms may, with consent of the customers, retain the customer's settlement funds, which should be received and paid in a foreign currency designated by the customer for foreign securities trades, or the receivables generated by holding foreign securities, in the securities firm's Settlement Account opened with at the correspondent bank and set up separate sub-accounts ledger for record-keeping.

## ***Application for engaging online insurance business will be opened to all insurance broker companies, agent companies and banks that concurrently conduct insurance broker and agent business recently***

To encourage business operators to offer more diverse marketing channels and in line with the policy of business deregulation, the FSC will soon allow insurance broker companies, agent companies and banks that concurrently conduct insurance broker and agent business to apply to accept insurance applications online.

## ***FSC assists with the promotion of a parametric insurance product***

On September 30, 2017 the FSC approved Temperature Parametric Insurance. This policy is a parametric insurance product that has a specific period of time below the agreed temperature as the requirement for activating the insurance contract claim payment. The claim payment basis can simplify the claim process and increase claim efficiency, and can help aquaculture business operators pass on the risk of massive losses caused by abnormal climate.

## ***International Activities***

### ***Representative of the British Office Taipei visits FSC***

British Office Taipei Representative Catherine Nettleton was warmly received by FSC Chairman Wellington L. Koo on October 5, 2017. The two sides exchanged views on a wide range of major financial issues such as green finance and Fintech.

## ***Industry Updates***

### ***FSC approves application from Neuberger Berman Taiwan (SITE) Limited to merge with Neuberger Berman Taiwan Limited***

On September 19, 2017, the FSC approved the application by Neuberger Berman Taiwan (SITE) Limited to merge with Neuberger Berman Taiwan Limited.

Both companies are wholly-owned subsidiaries of Neuberger Berman Asia Holdings II LLC. The merger is designed to enhance competitiveness, expand operating scale and improve overall operating performance. Neuberger Berman Taiwan (SITE) Limited will be the surviving company, with Neuberger Berman Taiwan Limited being dissolved, and will retain the name Neuberger Berman Taiwan (SITE) Limited.

### ***The Federal Audit Oversight Authority judges Taiwan's audit supervision mechanism to have "Equivalence" with Switzerland's audit supervision regulations***

The FSC was informed by The Federal Audit Oversight Authority (FAOA) on September 6 2017 that the Swiss government decided to recognize the audit oversight system of Taiwan as equivalent. This decision took effect as of October 1, 2017.

The FSC stated that the FAOA recognition of Taiwan audit oversight system as equivalence will open the door to supervisory cooperation between the two authorities and lay the foundation for mutual trust in each other's audit supervision systems. In future, on the basis of mutual benefit and mutual trust, Taiwan and Switzerland can give each other's CPAs exemption from cross-border registration and supervision; the governments of Taiwan and Switzerland can mutually trust CPA firm inspection reports, removing the need for cross-border inspection. International cooperation will alleviate the duplication of regulated costs for CPA firms in Taiwan and minimize the regulatory burden on audit firms; and, in future, CPA firms, CPAs and auditors from Taiwan will benefit directly when providing certification services to Taiwanese companies listed on the Swiss capital market. Taiwan's CPA firms will also be more willing to assist clients raising funds overseas.

### ***FSC agrees to allow Taipei Fubon Commercial Bank to apply to set up a representative office in Jakarta***

On October 12, 2017, the FSC agreed to allow Taipei Fubon Commercial Bank Co. Ltd to apply to the Indonesian competent authority to establish a representative office in Jakarta. To continually develop its financial business in the ASEAN region and improve the grasp of the market situation in that country, the bank decided to set up the representative office after assessing Indonesia's political and economic development trends, financial market situation and bilateral trade between Taiwan and Indonesia.

### **NPL ratio for domestic banks at 0.29% as of the end of September 2017**

The total outstanding loans of domestic banks stood at NT\$26,871.4 billion as of the end of September 2017, up by NT\$73.5 billion from the previous month, while their total NPLs were NT\$77.9 billion, down by NT\$0.8 billion from the previous month's figure of NT\$78.7 billion, generating an average NPL ratio of 0.29%, the same figure as the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 472.15% at the end of September 2017, up by 5.88 percentage points from the figure of 466.27% at the end of the previous month.

### **NPL ratio for credit cooperatives at 0.15% as of the end of September 2017**

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$679 million as of the end of September 2017, generating an NPL ratio of 0.15%, up by 0.02 percentage points from 0.13%, at the end of August 2017. The NPL coverage ratio, in the meantime, was 1,308.68%, down by 239.8 percentage points from 1,548.48%, at the end of August 2017.

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

As of the end of September 2017, foreign and Mainland China investors had bought around NT\$ 4,832.9 billion and sold around NT\$ 4,640.3 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$192.6 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$467.9 billion and sold around NT\$450.9 billion, making for a net inward investment of around NT\$16.9 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 September 2017 stood at approximately US\$206.6 billion, down by around US\$2.3 billion from the US\$208.9 billion as of the end of August 2017.

## **Investor and Consumer Protection**

### **FSC takes part in IOSCO's 2017 World Investor Week**

The FSC participated in the first World Investor Week (WIW) held by International Organization of Securities Commissions (IOSCO). The aim of the event was, through the participation of competent authorities from around the world, to educate investors and increase their self-protection awareness.

The FSC stated that 82 countries and five international organizations took part in WIW and the FSC was also an active participant. Investor education and protection events and activities were planned by the Securities & Futures Institute (SFI) and held in cooperation with other self-regulatory organizations (SROs), the contents including:

1. SROs held 15 different kinds of investor education activities, including financial knowledge and investment lectures, online quizzes with prizes and investor rights and interests conferences.
2. Investor education and protection related information and documents were posted on dedicated webpages, including: TWSE's "Securities and Futures Industries Anti-money Laundering and Countering Terrorism Financing of Securities and Futures Sector," the Securities Investment Trust and Consulting Association's (SITCA) "Taiwan Equity Funds Promotion Area" and the Chinese National Futures

Association's "Legal Futures Sector."

3. Educational documents were published, including the Taiwan Depository & Clearing Corporation's "Central Deposit of Securities Account Book Transfer Operations", the Taiwan Securities Association's "Explore the Securities Market" wealth management education e-book, and SITCA's "Key Information for Sales of Mutual Funds --Know KYC and KYP well, and Create Win-win Situations with Customers" handbook.
4. Surveys of investor behavior were carried out, including a questionnaire survey of fund investor behavior and preferences.
5. To raise public awareness of WIW, a lucky draw was held on Facebook.

2017 WIW webpages for reference:

SFI:<http://www.sfi.org.tw/wiw/index.asp>;

IOSCO:<http://www.worldinvestorweek.org/>

### **2017 School and Community Financial Literacy Campaign**

In October 2017, FSC held 37 financial literacy promotion sessions at schools and groups, including Happy Elementary School in Taoyuan City, as part of its 2017 School and Community Financial Literacy Campaign. A total of 5,237 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**

### **Union Bank of Taiwan fined NT\$6 million**

A former employee of the bank's Zhongli branch applied for a loan in a customer name and misappropriated the money, in violation of Paragraph 1 of Article 45-1 of the Banking Act. Union Bank of Taiwan was, as a result, fined NT\$6 million pursuant to Sub-paragraph 7 of Article 129 of the ACT and was ordered to remove the employee involved from his position in accordance with Sub-paragraph 3 of Paragraph 1 of Article 61-1 of the Act.

### **Taichung Commercial Bank fined NT\$1.8 million**

When Taichung Commercial Bank handled Non-Discretionary Money Trusts Business investing in foreign and domestic securities between June 2016 and January 2017, the bank promised guaranteed principal or minimum rate of return to its clients. Moreover, when the redeemed amount of the subscribed fund was less than the purchase amount, the shortage was covered by the bank clerk with cash or cash withdrawal from reserve fund account and the recovered funds was deposited into the subscriber's saving account, in order to cover the loss of the subscribed fund. For this, the bank violated Article 31 of the Trust Enterprise Act. Taking into account that Taichung Commercial Bank put forward suitable improvement measures and disciplined the negligent personnel appropriately, a fine of NT\$1.8 million was imposed in accordance with Sub-paragraph 8 of Article 54 of the Act.