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- The FSC has approved for recordation the self-regulatory rules for cooperation between banks and P2Ps service providers
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Policy and Law

Partial Amendment to the Regulations Governing Securities Firms

The FSC introduced amendments to specific articles of the Regulations on Dec 5, 2017 in order to increase international competitiveness of securities firms, enhance flexibility of their financial resource distribution and efficiency of capital utilization, increase fund use flexibility of investors holding separate accounts set up by a securities firm for individual customers in its settlement accounts, and to relax the financial status criteria that shall be met for conducting financial derivative trading activities on the securities firm's business premises.

1. Enhancing flexibility of securities firms' financial resource distribution and efficiency of their capital utilization: according to the original regulation, the aggregate liabilities of a securities firm shall not exceed 4 times of its net worth. After the amendment, such limit is now eased to 6 times of its capital net worth. According to the amended regulation, when a securities firm's special reserve reaches 25% of its accumulated paid-in capital, and the part exceeds this threshold may be capitalized. Before the amendment, the threshold was 50% of the accumulated paid-in capital.
2. When a securities firm engages in performing financial derivative trading contracts and related hedging activities, the amount of such transactions may be excluded from the calculation of its quota for holding equity securities issued by related parties.
3. Amendments to regulations governing financial derivative trading activities by securities firms: the restrictions on financial status for trading financial derivatives on the securities firm's business premises are now relaxed. Besides, when a customer needs foreign exchange settlement service while conducting financial derivative trading transactions, such service can be provided by the same securities firm conducting spot foreign exchange activities. And a securities firm is allowed to engage in trading derivatives derived from domestical and overseas private placement securities with high net worth corporate investor. Furthermore, the FSC has also introduced requirements for securities firms to review complex derivative products with high risk and has established a related application procedures.
4. Increasing fund use flexibility for investors holding separate accounts set up by a securities firm for individual customers in its settlement accounts: when a securities firm entrusted to buy and sale securities thus sets up separate

accounts for individual customers for settlement in the bank, these bank accounts can be revised from current deposit to saving account.

5. Amendments to regulations governing overseas investments of securities firms: now a securities firm meets compliance requirements may submit its application to the FSC for increasing its investments in overseas enterprises. In addition, the FSC has imposed specific deadlines on a securities firm for reporting important events the overseas departments occurred afterwards.

Directions for Offshore Banking Branches Conducting Securities Business enacted

In order to ensure regulatory consistency regarding overseas securities trading of OBUs and OSUs of financial industries and allow these business entities to develop business development of offshore financial centers under the same regulatory framework, the FSC has set the Directions for Offshore Banking Branches Conducting Securities Business to relguate OBUs concurrently conducting securities business.

According to the Directions, OBUs applying for conducting securities brokerage, underwriting, and proprietary trading business shall obtain the FSC's approval pursuant to the related regulatory requirements set by the Securities and Exchange Act. For banks which have conducted such business activities without approval, they should submit applications for approval within 6 months after introduction of the Directions. Moreover, OBUs shall establish and implement policies related to customer rights protection, risk control and internal control system for conducting securities business.

The FSC has approved for recordation the self-regulatory rules for cooperation between banks and P2Ps service providers

Due to development of financial technology and international market trends, several domestic platforms for contractual loan matchmaking services have been created. Considering that money lending by individuals is governed by the Civil Code and domestic laws do not prohibit lending activities of individuals or brokerage service for such activities and domestic online Peer-to-Peer lending platforms ("P2P") are still in the initial stage of market development, the FSC has introduced the self-regulatory rules for cooperation between banks and P2Ps, in order to appropriately preserve rooms for developing new business activities of P2Ps while facilitating financial technology innovation, protecting customer rights and controlling risk at the same time.

After collecting information about international development and regulatory supervisions in this regard as well as assessing the size of domestic financial market and the circumstance of loans provided, the FSC has encouraged cooperation between banking industry and domestic P2Ps and has approved for recordation the self-regulatory rules formulated by the Bankers' Association to facilitate development of the domestic P2P market. After discussions, the banking industry and P2P service providers have reached a consensus of cooperating on six items, including fund safekeeping service, fund transfer service, credit analysis and rating services, Peer-to-Bank (P2B) loan service and debt documents safekeeping service provided by banks as

well as mutual cooperation on advertising.

According to the FSC, such cooperative model features labor division, mutual support and collaboration on P2P business promotion between banks and P2P service providers. The innovative and efficient business model jointly developed by both sides will enhance the credibility of the platform and protect consumer rights.

The FSC has also reminded P2P service providers that contractual loan matchmaking services shall not involve issuance of negotiable securities, beneficiary securities and asset-backed securities. Fund transfer services for the payment/collection of loan principle/interest shall not involve deposit-taking or collection of stored value funds. Provision of specific services, including data collection, information disclosure, credit rating and information exchange, shall not violate related regulations, such as the Personal Information Protection Act. Inappropriate debt collection practice shall not be adopted when debt collection service is provided, and related regulations, including the Fair Trade Act and the Multi-Level Marketing Supervision Act, shall not be violated.

Credit card acquirers allowed to provide integration and transmission service for transaction data

On December 5, 2017, the FSC issued the interpretative order for Paragraph 3 of Article 15 of Regulations Governing Institutions Engaging In Credit Card Business. When a credit card acquirer is entrusted by other acquirers, electronic stored value card issuers and electronic payment institutions to provide Application(App) for integration and transmission of transaction data, the credit card acquirer does not have to submit an application to the competent authority for approval. However, the credit card acquirer shall submit related information/documents to the Competent Authority for recordation within 5 business days after such service been launched. After issuance of the interpretative order, the credit card acquirer may provide integration and transmission service for transaction data immediately. Through the service, contracted stores can reduce their cost of system interconnection while in turn will more willing to accept mobile payment and e-payments.

The FSC will maintain the interest rate of policy reserve for new life insurance contracts of 2017 in 2018

The FSC introduced the amendment to Article 4 of Methods for the Setting Aside of Various Reserves by Insurance Enterprises on Nov. 30, 2017 regarding the applicable interest rates of policy reserve for new life insurance contracts denominated in NTD, USD, AUD, EUR and CNY to promote sound management of insurance companies and make the reserve liability of new contracts appropriately reflect market rate. The interest rate of new life insurance contracts' policy reserve in 2018 will be the same as the previous year.

Moreover, in order to guide the life insurance industry to diversify product types and encourage insurers to design protection-type products so as to level up the basic insurance protection of people and implement measures to control data of insurance product sales experience, the FSC released that in 2018 the interest rate of policy reserve for specific protection-type products can be increased,

the liability duration of newly designed insurance products should reflect the expected lapse rate under certain conditions (the difference in pre-and-post duration exceeds 10 years), tracking empirical lapse data of the top 5 main insurance products for 7 years after sale and accessing whether to increase reserve when significant deviation occurred (difference between expected and actual data exceeds 14%), and the insurer should report justifiable reasons and improvements as the persistency rate of a product keeps below 70% for 3 years after sale.

The FSC provided information about setting up of the whistle-blowing systems for financial institutions

Establishment of financial holding companies and banks require approval of the competent authority. According to the FSC, it is necessary to set up whistle-blowing guideline for financial holding companies and banks because illegalities of their employees may impact businesses, other employees and interest of the public. The FSC will actively incorporate the whistle-blowing system into the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries. In the future, the FSC will supervise and direct financial institutions to establish a protection mechanism for whistle-blowers pursuant to related regulations and continuously monitor the implementation.

The FSC further stated that the employee management policy of a financial institution shall comply with related regulations and corporate governance guidelines. A financial institution is required to introduce a mechanism to protect employees from being harmed due to whistle-blowing actions.

Preparation status of domestic enterprises for adoption of IFRS No. 9 Financial Instruments

Taiwan will adopt IFRS 9 simultaneously with the international community on Jan 1, 2018. In order to know whether domestic enterprises are ready for IFRS 9 adoption, the FSC conducted a survey at the end of October, 2017. The survey showed that up to 99% of enterprises were well prepared for adopting IFRS 9 in financial statements in 2018. Only very few enterprises occurred some problems such as a delay in system establishment and an issue of stock valuation at Fair Value. These enterprises have nevertheless contacted CPAs for assistance and are expected to adopt IFRS 9 in 2018.

Change of calculation formula for 2017 RBC ratio of an insurance company

To reasonably reflect capital adequacy of insurance companies, the FSC introduced amendments to the calculation of ratio of adjusted net capital to risk-based capital (RBC ratio) on December 22, 2017. The main contents include adjusting the calculation formula of interest rate risk capital of life insurance companies, revising the upper limit of real estate appreciation benefits recognized as adjusted net capital of an insurer, and adjusting the risk factor of the reserve and premium of non-life insurance and reinsurance companies undertaking foreign reinsurance business.

International Activities

Taiwan signs an insurance supervisory cooperation MOU with the Philippines

A Memorandum of Understanding (MOU) on insurance supervisory cooperation was signed by Taiwan and the Philippines on December 7, 2017 in Manila. The FSC signed a banking supervisory MOU with the Philippines in January 2007, making this MOU the second financial supervisory cooperation MOU between the two sides.

IMD Professor Arturo Bris visited the FSC

International Institute for Management Development (IMD) professor Arturo Bris and president of the IMD Alumni Club in Taiwan and chairman of the British Chamber of Commerce in Taipei Andreas Weckherlin visited the FSC together on November 22, 2017. They were received by the FSC chairman and the two sides exchanged views on various financial issues.

Industry Updates

The FSC has relaxed the rules of approval of health management insurance products

In order to raise the attention on health management in Taiwan and encourage insurers to design and develop health management products that have a spillover effect, the FSC made a provision on Nov 14, 2017 to relax the rules of approval of such products. Pursuant to the provision, Point 220-3 of the Directions for the Review of Life Insurance Products, when an insurer submits an application for a health management product while there is no reliable statistics regarding measurement of costs incurred by providing incentives to attract buyers, the insurer does not have to comply with Paragraph 1 of Point 15, Point 77 and Point 184 of the Directions. In addition, the FSC also urged the insurance industry to appropriately control risks to such products by requiring insurers to have preventative measures.

The FSC will continually urge Ruen Chen Investment Holding Co., Ltd. to honor its commitment on equity acquisition of Nan Shan Life Insurance Company

The FSC granted conditional approval to Ruen Chen Investment Holding Co ("Ruen Chen") for its application for 97.57% equity acquisition of Nan Shan Life Insurance Company ("Nan Shan"). Under the condition, Ruen Chen has to make sure the value of the assets under the custody should be maintained at least at NTD 20 billion, in order to make sure that Ruen Chen and its key shareholders are able to inject capital to Nan Shan when needed.

Recently, Ruen Chen submitted its application to the FSC for replacing specific asset under the custody with NTD 16 billion cash and Ruen Chen and its key shareholders also issued the Letter of Undertaking on capital injection. The FSC granted consent to Ruen Chen for replacing the asset under the condition that the value of the assets under the custody be maintained at least at NTD 20 billion. In addition,

the existing commitments made by Ruen Chen and its key shareholders remain unchanged and the FSC will continue to urge Ruen Chen to honor its commitments.

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

The total outstanding loans of domestic banks stood at NT\$26,996.3 billion as of the end of November 2017, up by NT\$23.6 billion from the previous month while their total NPLs were NT\$81.3 billion, up by NT\$1.9 billion from the previous month's figure of NT\$79.4 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 domestic banks stood at 457.64% at the end of November 2017, down by 6.42 percentage points from the figure of 464.06% at the end of the previous month.

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

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$583 million as of the end of November 2017, generating an NPL ratio of 0.13%, the same as the ratio at the end of October 2017. The NPL coverage ratio, in the meantime, was 1,520.48%, up by 59.99 percentage points from 1,460.49% at the end of October 2017.

Net foreign investments in listed shares

As of the end of November 2017, foreign and Mainland China investors had bought around NT\$6,178.6 billion and sold around NT\$ 5,989.4 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$189.2 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$645.6 billion and sold around NT\$613.9 billion, making for a net inward investment of around NT\$ 31.7 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese and foreign nationals as of the end of November 2017 stood at approximately US\$209.2 billion, up by around US\$1.5 billion from the US\$207.7 billion as of the end of October 2017.

Investor and Consumer Protection

2017 Taiwan Money Week

Under the Instruction of the FSC, the Taiwan Financial Services Roundtable and related financial institutions held 46 various financial literacy events in December 11-17, 2017 to encourage people learning financial knowledge and enhance public financial literacy. There were over 120,000 people participated and over 1 million views of financial educational publicity. To enrich 2017 Taiwan Money Week, the FSC and related financial institutions arranged a series of literacy events, including 2017 Financial Services Charity Festival, in conjunction with the Cyber Security Week organized by the Office of the President, open house tours at the Taiwan Stock Exchange, Taiwan Stock Museum, Financial Ombudsman Institution and other financial institutions, and also applied for finance lecturers to visit campuses and communities to provide financial knowledge instruction. People could easily enhance their financial knowledge through above-mentioned financial literacy events.

2017 School and Community Financial Literacy Campaign

As part of 2017 School and Community Financial Literacy Campaign, the FSC in December 2017 held 23 financial literacy promotion sessions at schools and organizations, including at National Taipei University, and a total of 3,093 participants attended. The campaigns are free for people and have struck a chord since their inception in 2006. As of the end of 2017, 5,228 sessions have been held and over 890 thousand people attended. The target participants include students at all levels of schools, communities, women's groups, indigenous people, immigrants and military service personnel.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2018. 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

CTBC Financial Holding Company was fined NTD 10 million and ordered to suspend senior officers from performance of their duties

Due to a lack of specific internal rules, CTBC Financial Holding Company obtained the approval of the board of directors to paid the bail for its employees involved in a lawsuit. However, such action revealed that the company's supervision and management, internal control and regulatory compliance system have serious flaws thus violated Article 51 of the Financial Holding Company Act and may jeopardized sound operation of the company. The FSC imposed a NTD 10 million penalty on CTBC Financial Holding Company pursuant to Subparagraph 16 of Article 60 and Paragraph 1 of Article 54 of the Financial Holding Company Act and ordered it to take corrective action. In addition, XX Wu, General Manager of the company, was suspended from performing his duties for six months and XX Jin, Chief Compliance Officer of the company, was suspended from performing his duties for three months.

Far Eastern International Bank was fined NTD 8 million

The SWIFT system of Far Eastern International Bank was hacked and infected by a computer virus, resulting in losses incurred by outward remittances due to fraudulent transactions. Such mistake was due to lack of an appropriate internal control system of cyber security or not being implemented appropriately. The FSC imposed a NTD 8 million penalty on Far Eastern International Bank pursuant to Subparagraph 7 of Article 129 of the Banking Act for the violation of Paragraph 1, Article 45-1 of the Act.

CTBC Bank was fined NTD 2 million

Due to human error, CTBC Bank incurred losses of the voice records of transactions with customers. The FSC deemed that it was due to inappropriate implementation of the internal control system and imposed a NTD 2 million penalty on CTBC Bank pursuant to Paragraph 7 of Article 129 of the Banking Act for the violation of Subparagraph 1 of Article 45-1 of the Act.