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- An Amendment to the Regulations Governing Qualification Requirements for the Promoters or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Person of a Financial Holding Company
- Amendments to the Regulations Governing Securities Finance Enterprises
- Amendments to the Directions for the Setting Aside of Foreign Exchange Valuation Reserve by Life Insurance Enterprise
- Amendments to the Standards for the levy rates of Life and Non-life Insurance Guaranty Fund

Policy and Law

An Amendment to the Regulations Governing Qualification Requirements for the Promoters or Responsible Persons of Financial Holding Companies and Concurrent Serving Restrictions and Matters for Compliance by the Responsible Person of a Financial Holding Company

In order to strengthen corporate governance of financial holding companies, make responsible persons of these companies focus on their companies' operation, and maintain consistency of regulatory supervision, the FSC amended Paragraph 3, Article 4 of the Regulations on February 5th, 2018. The amendment imposes specific restrictions on double hatting behavior of the chairperson and general manager of a financial holding company; the chairperson or general manager of a financial holding company is not allowed to concurrently take up the position of a non-financial company's chairperson, general manager, or responsible person with equivalent functions of being chair the meeting of board of directors or managing its overall operation.

Amendments to the Regulations Governing Securities Finance Enterprises

In order to promote sound operation of securities finance enterprises(SFEs) and relax regulatory requirements on their utilization of fund raised through commercial papers issuance, the FSC amended the Regulations (Article 3, 56 and 57) on February 12, 2018. The key points are as follows:

- 1.Since SFEs have established their internal control systems according to Article 14-1 of the Securities and Exchange Act and the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets, the FSC make it clear to require in the Article that a SFE has to set up internal control system and operate business in compliance with the aforementioned Regulations, related rules, its articles of incorporation, and its internal control system.
- 2.In order to meet practical operational needs of SFEs and increase their operational flexibility, a SFE is allowed to use their fund raised through commercial papers issuance on business activities specified in Paragraph 1, Article 5 of the aforementioned Regulations, such as loans guaranteed with collateral of securities.
- 3.Considering that the wording "purchase of certificates of beneficiary with option of buy-back from securities investment trust businesses" is confusing whether a SFE is eligible for investing in ETFs traded in centralized securities markets, such wording is changed to "purchase of certificates of beneficial interest of securities investment trust fund" for clarification.

Amendments to the Directions for the Setting Aside of Foreign Exchange Valuation Reserve by Life Insurance Enterprise

The FSC amended the Point 3 of the Directions on Jan 26,2018 to strengthen foreign

exchange reserve mechanism, in response to the continuous appreciation of NT\$ relative to US\$ caused by several factors since the beginning of last year (2017), including international situation and market development. The appreciation resulted in foreign exchange loss of the life insurance industry, and for several months, the balances of reserve set aside by multiple life insurance companies for forex rate fluctuation reached its minimum required level due to forex loss offsetting. The amendments include: increasing the fixed percentage that shall be set aside for monthly reserve, changing calculation formula for required reserve level after forex loss offsetting, and raising the percentage that shall be set aside for reserve and specifying the multiple of required reserve recovery level that shall be applied in the case that the forex reserve has reached the minimum level for consecutive three months. The amendments are expected to strengthen the performance of foreign exchange reserve mechanism and accelerate the accumulation of foreign exchange reserve to increase forex risk management effectiveness of the insurance industry and enhance the mechanism's abilities to absorb forex losses.

Amendments to the Standards for the levy rates of Life and Non-life Insurance Guaranty Fund

The FSC amended the Standards (Article 2, 4 and Appendix of Article 3) to increase incentives encouraging insurance companies to invest in "5+2 innovative industries" promoted by the government (i.e., green energy technology, Asia Silicon Valley development plan, biomedical, national defense, smart machinery, new agriculture and circular economy) and infrastructure projects, and to provide the protection products, life insurance products for the disabled, and the life insurance with minimum coverage to the elderly. Key points of the amendments are as follows:

1. With regard of life insurance, the FSC has introduced new performance indicators of business management which may determine the calculation rate of required appropriation to Life Insurance Guaranty Fund: (1) introducing new indicator of "product structure consolidated score" and adjusting the weightings; (2) changing the indicator title, definition and rating criteria of "insurance premium income generated from providing life insurance products for people with disabilities"; (3) changing the indicator title, definition and rating criteria of "premium income generated from insurance with minimum coverage to senior people"; (4) adding rewarding criteria for investment in "5+2 innovative industries" and infrastructure projects under the indicator of "financial import substitution".
2. With regard of non-life insurance, the FSC has adjusted performance indicators of business management which may determine the calculation rate of required appropriation to Non-life Insurance Guaranty Fund: (1) changing indicator title, definition and rating criteria of "insurance premium income generated from providing injury and health insurance products for people with disabilities"; (2) adding rewarding criteria for investment in "5+2 innovative industries" and infrastructure projects under the indicator of "financial import substitution".

An Amendment to the Regulations Governing Foreign Currency Bond Brokerage, Proprietary Trading, and Investment by Bills Finance Companies

Considering that bills finance companies' business of foreign currency bonds has achieved elementary success, and that their net worth has gradually increased to take more risks against their investment positions, the FSC relaxed the Regulations on February 13, 2018. The US\$50 million upper limit refrained related foreign currency exposure is removed, while the limit of 15% of the net worth is maintained, so as to control foreign currency risks incurred by bills finance companies.

Amendments to the rules regarding calculation of regulatory capital adequacy ratio of a securities firm

Considering that securities firms are required to adopt IFRS 9 (Financial Instruments) starting from January 1, 2018, the FSC

amended the rules governing the calculation of regulatory capital adequacy ratio of a securities firm on January 11, 2018 based on related rules of IFRS 9 and the Regulations Governing the Preparation of Financial Reports by Securities Firms, which was amended on September 14, 2017. Titles of specific components of eligible regulatory capital are adjusted for both simple calculation approach and advance calculation approach of the regulatory capital adequacy ratio.

Amendments to the Regulations for the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance and Supervision Reports of Compulsory Automobile Liability Insurance of Article 9 of the Regulations

The FSC amended Articles 2, 3, 5, 10 and Appendix of Article 4 of the Regulations on January 31, 2018. The amendments were made by referring to the Regulations Governing the Preparation of Financial and Business Reports by Insurance Enterprises. Some titles of certain accounting items have been modified, for example: "unrealized valuation gains/losses on financial products held for sale" is renamed to "gains/losses on valuation of debt instruments measured at fair value through other comprehensive income"; "realized gains/losses on financial products held for sale" is renamed to "realized gains/losses of financial assets measured at fair value through other comprehensive income"; and "available-for-sale financial assets" is renamed to "financial assets measured at fair value through other comprehensive income". The FSC also modified the "Supervision Reports of Compulsory Automobile Liability Insurance" that an insurer is required to prepare specified in Article 9 of the Regulations on the same day.

Issuance of an interpretative order regarding the Regulations Governing Pre-sale Procedures for Insurance Products

In order to encourage insurance companies to invest in "5+2 innovative industries" and infrastructure projects promoted by the government, the FSC has issued an interpretative order regarding the upper limit capped on the number of products a life insurance company may apply to the authority for approval specified in Article 19 of the Regulations Governing Pre-sale Procedures for Insurance Products. The order is introduced to reward insurance companies who actively promote the investment by allowing them to submit more products for regulatory reviews and thus encouraging their investment to help stimulate domestic economic development.

Interpretive Rule on the total value of other securities an insurance company may purchase specified in Subparagraph 6, Paragraph 1 Article 146-1 of the Insurance Act

In order to increase the scope of use of insurance funds, the FSC issued the interpretive rule on regulations and compliance requirements related to Subparagraph 6, Paragraph 1 Article 146-1 of the Insurance Act on January 22, 2018. The rule relaxed two requirements: (1) the limit on the proportion of investment in beneficial certificates of each futures trust fund held by an insurance company to its total capitals, the limit on the proportion of such investment to total value of issued beneficiary certificates of the fund, the limit on the proportion of total investment in beneficial certificates of each futures ETFs held by an insurance company to its total capitals and the limit on the proportion of the investment to total value of issued beneficiary certificates of the fund; (2) the limit on the proportion of total investment by an insurance company in beneficiary certificates of futures trust funds to its capital.

International Activities

Delegation from the US-Taiwan Business Council (USTBC) visits the FSC

A delegation from the USTBC paid a visit to the FSC Vice Chairman Huang Tien-Mu on January 17. The two sides engaged in exchange on various financial issues.

Head of the Banca d'Italia's Tokyo representative office Mr. Angelo A.A. Cicogna visits the FSC

Head of Banca d'Italia's Tokyo representative office, Mr. Angelo A.A. Cicogna, paid a visit to the FSC Vice Chairman Cheng Cheng-Mount on January 24. The two sides shared experiences with regard to the financial industry development situation, Fintech supervisory policy and other issues.

Industry Updates

MasterLink Securities Corp.'s acquisition of Vantone Securities Co., Ltd. approved

The FSC has approved the acquisition of Vantone Securities Co., Ltd. (Vantone) by MasterLink Securities Corp. (MasterLink) on Jan. 25, 2018. After said acquisition, MasterLink's business outlets will remain the same, while Vantone's broker and futures introducing broker businesses will be transferred to MasterLink.

FSC extends receivership of Chaoyang Life Insurance Co., Ltd.

On January 23, 2018, the FSC announced that the receivership of Chaoyang Life Insurance Co., Ltd. (Chaoyang) would be extended from January 26, 2018 to January 25, 2019. The Taiwan Insurance Guaranty Fund (TIGF) will continue to be the receiver.

The FSC put Chaoyang under receivership under the Insurance Act on January 26, 2016. To protect the rights and interests of policyholders and stabilize the financial market, the TIGF completed transfer of all assets, liabilities and business apart from retained assets and retained liabilities to Nan Shan Life Insurance Co., Ltd. (Nan Shan) on May 2, 2017. However, it is still necessary to make the TIGF be the receiver and continue to handle general assignment and general assumption related to statements, guarantees, promise, other related regulations issues and Chaoyang's unlisted assets of sale from retained assets and retained liabilities. In accordance with Paragraph 1 of Article 149-3 of the Insurance Act, the receivership of Chaoyang was extended from January 26, 2018 to January 25, 2019 by the FSC. The authority of the original shareholders meeting, board of directors, supervisors, auditing committee or other similar organization should be halted during the period of receivership under Article 149-1 of the Insurance Act, and related authority will be exercised by the TIGF.

NPL ratio for domestic banks at 0.28% as of the end of January 2018

The total outstanding loans of domestic banks stood at NT\$27,166.0 billion as of the end of January 2018, up by NT\$109.7 billion from the previous month while their total NPLs were NT\$76.5 billion, up by NT\$1.8 billion from the previous month's figure of NT\$74.7 billion, generating an average NPL ratio of 0.28%, the same as the end of previous month. The NPL coverage ratio of domestic banks stood at 485.27% at the end of January 2018, down by 7.65 percentage points from the figure of 492.92% at the end of the previous month.

NPL ratio for credit cooperatives at 0.12% as of the end of January 2018

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$533 million as of the end of January 2018, generating an NPL ratio of 0.12%, up by 0.01 percentage points from 0.11%, at the end of December 2017. The NPL coverage ratio, in the meantime, was 1,670.30%, down by 139.99 percentage points from 1,810.29% at the end of December 2017.

Net foreign investment in listed shares

As of the end of January 2018, foreign and Mainland China investors had bought around NT\$764.9 billion and sold around NT\$

689.2 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$75.7 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$88.9 billion and sold around NT\$80.6 billion, making for a net inward investment of around NT\$ 8.3 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 January 2018 stood at approximately US\$213.2 billion, up by around US\$5.2 billion from the US\$208 billion at the end of December 2017.

Investor and Consumer Protection

FSC adopted contingency mechanisms and financial measures to assist aftermath reconstruction of the Hualien Earthquake

The financial assistance measures adopted by the FSC following the powerful earthquake that struck Hualien in the midnight on February 6, 2018 include:

1. Convenient claims: The Taiwan Residential Earthquake Insurance Fund has been instructed to set up an affected area joint claim service center to streamline the process of claim-related operations, such as inspection on the extent to the damage for policy holders who have suffered from their home damages. The insurance industry has also been requested to pro-actively provide assistance such as the 0800 toll-free line, fee exemption on reissuance of policy, exemption from or reduction of loans taken out using the original policy, renewal premium payment extension, rapid and initiative claim payment and home visit caring service.
2. Natural disaster loans: Bank have been requested to provide assistance to borrowers affected by the earthquake with a caring attitude and use self-owned funds to handle natural disaster-related loans. Around 30 domestic banks provide natural disaster low interest loans, including loans for individuals, house loans and enterprise loans; related information such as the requirements for the loans issued by the various banks and contact telephone numbers have been posted on the website of the FSC Banking Bureau. Also, if any business competent authority or local government offers other policy type loans in response to this earthquake, the FSC will coordinate the provision of support by banks.
3. Affected and donations exempt from financial institution service charges: Affected persons are exempt from service charges when applying to a financial institution for reissue of bank card, credit card, passbook, deposit slip and related documents, reporting loss of checks or seals, and applying for change of seal and to read details of withdrawals and deposits and details of interest payments. Also, with regard to donations from all quarters, from February 6, 2018 to June 30, 2018, the service charge exemption measures that will be implemented by financial institutions for donations are: (1) Interbank transaction services charge will be waived for using a bank card and other means(including ATM, counter remittance, online, mobile banking and national payment (tax) platform) to make a donation for helping the recovery; (2) For use of a credit card to make a donation, the acquiring institution also waives the shop service charge.

FSC reminds people to pay attention to related insurance coverage when visiting public places or taking part in events

The FSC reminds the public to pay attention to whether a notice announcing that the place is covered by public liability insurance has been posted when visiting public places or taking part in events, or viewing the event DM or online information to find out whether it has public liability insurance coverage, to protect their own rights and interests. Public liability insurance is part of liability insurance, not injury insurance. After an accident occurs, the facts of each individual case should still be used as the basis for judging whether it lies within the scope of coverage of the policy.

Taiwan Insurance Institute to establish the Compulsory Automobile Liability Insurance electronic insurance certificate certification platform

In order to promote Compulsory Automobile Liability Insurance electronic insurance certificates and supervise the implementation of the management of electronic insurance certificates by the insurance industry, the FSC has requested that the Taiwan Insurance Institute establish the Compulsory Automobile Liability Insurance electronic insurance certificate certification platform, and it is expected to be in operation at the end of May 2018. After the platform begins operating, electronic insurance certificate will have an anti-counterfeit function which will help with the overall promotion of the certificates, achieving the objective of conserving energy and reducing carbon emissions and reducing on the costs of making and issuing the certificates. The proposers will also be able to check their electronic insurance certificate insurance information online, which will help policy holders keep abreast of their insurance information at all times, ensuring the rights and interests of the insured and obtaining the policy objectives of compulsory insurance.

FSC encourages citizens to plan for retirement through Commercial Annuity Insurance and Long-term Care Insurance

Various economic security issues relating to elderly people that have arisen as Taiwan becomes an aged society. Therefore, the FSC encourages that people to undertake related planning when they are young. Weighing up their protection needs, citizens can use Commercial Annuity Insurance and Long-term Care Insurance, etc. to fill gaps in protection and thus prepare sources of economic support in elderlyhood in advance.

2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in February, 2018 the FSC held 8 financial literacy promotion sessions at schools and organizations, including National Defense University, and a total of 1,000 participants attended. The sessions are free and have struck a chord since their inception in 2006. As of the end of 2017, in all, 5,228 sessions have been held and over 890,000 people attended. The target participants include students at all levels of schools, communities, women' 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

Citibank Taiwan fined NT\$8.5 million

A Citibank's employee privately held a client's blank receipts, gave false statement of account to the client, recommended investment in financial products not provided by the bank to the client and had private exchange of funds with the client, and the bank credit card accounting system made an error resulting in the client being charged excess credit card revolving interest and overdue penalty. These shortcomings were in violation of Articles 33 and 47 of the Regulations Governing Institutions Engaging in Credit Card Business authorized by Paragraph 1, Article 45-1 and Article 47-1 of the Banking Act. Citibank was thus fined NT\$6 million and NT\$2.5 million under Subparagraph 7, Article 129 and Article 132 of the Banking Act, respectively, and was ordered to dismiss the bank employee involved under Subparagraph 3, Paragraph 1, Article 61-1 of the same Act.

First Financial Holding Co., Ltd. fined NT\$2 million

From May, 2016, the credit balance granted by the First Commercial Bank, a subsidiary of the First Financial Holding Co., Ltd. (First Financial Holding), to companies in the group reached the amount

specified in Paragraph 1, Article 2 of the Regulations Governing Reporting and Disclosure by Financial Holding Companies in Accordance with Article 46 of the Financial Holding Company Act. As required under the Regulations, the First Financial Holding reported the transaction information for all its subsidiaries with regard the same individual, related party or related company in Q4, 2016 to the FSC and disclosed it on its website. However, the contents did not contain the correct information on the total balance of transactions with group subsidiaries. This shortcoming was in violation of Paragraph 1, Article 46 of the Financial Holding Company Act, and the First Financial Holding was thus fined NT\$2 million under Article 60 of the same Act.

JPMorgan Asset Management (Taiwan) Ltd. fined NT\$1.2 million

JPMorgan Asset Management (Taiwan) Ltd. failed to properly establish event checking and fee review mechanisms for a long period of time, causing concern about the sound operation of the company and violating Paragraph 2, Article 2 of the Regulations Governing Securities Investment Trust Enterprises, Article 13 of the Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises and Paragraph 2, Article 6 of the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets. In addition to being reprimanded under Article 102 of the Securities Investment Trust and Consulting Act, the company was also fined NT\$1.2 million under Subparagraph 7, Article 111 of the same Act.

Capital Securities Co., Ltd. ordered to dismiss sales person Zhan from his position

Capital Securities Co., Ltd.'s sales person Zhan induced or convinced clients to remit funds to his account for investment in the name of joint share purchase or claimed that employees were able to subscribe shares at a price lower than the market, engaged in private loaning and borrowing of funds with clients and accepted orders from agents without the client's letter of authorization. Those behaviors were in violation of Subparagraphs 9, 10 and 20, Paragraph 2 of Article 18 of the Regulations Governing Responsible Persons and Associated Persons of Securities Firms. As a result, Capital Securities was ordered to dismiss Zhan from his position in accordance with Article 56 of the Securities and Exchange Act.

Fubon Insurance fined NT\$1.8 million

Fubon Insurance engaged in telephone marketing of insurance through an insurance agency company. Its proposer paid the premium of household but did not sign and return the insurer's roster, resulting that the insurance's effect only apply to the proposer himself. Fubon Insurance was in violation of Item 2, Subparagraph 3, Paragraph 1, Article 7 and Article 17 of the Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises authorized by Point 6 of Directions for Insurance Enterprises Engaging in Telemarketing Insurance Products and Paragraph 3 of Article 148-3 of the Insurance Act. Fubon Insurance was thus fined NT\$1.8 million under Paragraphs 4 and 5, Article 171 of the Insurance Act and given two reprimands under Paragraph 1, Article 149 of the same Act.

The First Insurance Co., Ltd. fined NT\$1.2 million

The First Insurance Co., Ltd. failed to complete payment collection before insurance contracts came into effect and failed to fully implement legal compliance operations which were in violation of Subparagraph 2, Paragraph 1, Article 5 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises authorized by Paragraph 1, Article 148-3 of the Insurance Act. The company was fined NT\$1.2 million under Paragraph 4, Article 171-1 of the Insurance Act and reprimanded under Paragraph 1, Article 149 of the Insurance Act.