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Policy and Law

Implementation of the Corporate Governance Roadmap(2018-2020)

In order to further enhance the corporate governance in Taiwan and to be in line with international standards, the FSC formally announced the Corporate Governance Roadmap (2018-2020) on April 24, 2018. The key measures include: (1) Deepening CG and CSR culture: Gradually introducing a more refined mix of qualitative and quantitative corporate governance evaluation indicators, facilitating differentiation by using a refined scoring system and promoting CG 100 index and Taiwan ESG index related products. (2) Enhancing board functions: Expanding the establishment of audit committees and promoting the establishment of corporate governance professionals. (3) Promoting shareholder activism: Gradually increasing the AGM attendance rate of institutional investors and implementing the candidate nomination for the elections of directors and supervisors. (4) Enhancing information disclosure quality: Increasing the English information disclosure rate of listed companies and requiring the CSR reports to be prepared in accordance with the GRI Standards. (5) Augmenting regulatory enforcement: planning amendments to the Securities and Exchange Act and strengthening the punishment basis for relevant regulations.

The Roadmap intends to encourage active participation of companies and investors in corporate governance, through deepening corporate governance culture, enhancing board functions, strengthening information transparency, promoting shareholder activism, and augmenting regulatory enforcement. Meanwhile, it also aims to make good corporate governance on embedded corporate culture, create an investment-friendly environment and enhance the international competitiveness of Taiwan's capital market.

Introduction of Regulations Governing Issuance of NTD Bank Debentures by Foreign Bank Branches

The FSC introduced the Regulations on April 17, 2018 to support the government policy of green energy industry development. Foreign banks or their local branches may now issue NTD financial bonds to raise funds for mid and long-term financing when they intend to engage in project finance with regard to domestic major infrastructure, offshore wind farms or other green energy development construction. The Regulations have 13 articles and have the following key measures:

1. The Regulations specify the categories of applicable financial bonds, application procedure and approval timeline. Those categories include general bank debentures, subordinated bank debentures and other bank debentures approved by the competent authority, while convertible bank debentures and exchangeable bank debentures are not included.
2. The Regulations specifically restrict buyers of the financial bonds to professional

investors defined by Paragraph 3 , Article 3 of the Regulations Governing Offshore Structured Products.

3. The Regulations specifically restrict utilization of capital raised through issuing the financial bonds to financing domestic major infrastructure, offshore wind farms or other green energy development construction and do not allow the issuer to convert such funds to foreign currencies.
4. The Regulations set specific qualification requirements for the applicants. Foreign banks without sufficient provision for bad loans, with over 3% non-performing loan ratio, with no improvement for their breach of regulations or with cumulative loss (this restriction does not apply to foreign banks that set up a new branch less than 3 years) are not allowed to submit an application.
5. As a local branch of a foreign bank is its division operating in Taiwan and has limited capacity to absorb NTD capital, the Regulations specifically set the limit of the issued financial bonds at 8 times the net worth of the foreign bank's branch for reasonable control of risk. Moreover, the headquarters are also required to issue a declaration stating its commitment to bearing all responsibilities about the bonds issued by the branch and its liabilities.

Amendments to the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries

The FSC introduced amendments to 6 articles and 3 new articles to the Regulations on March 31, 2018, in order to increase the completeness of targets of financial groups' anti-money laundering and combating the financing of terrorism (AML/CFT) activities, improve the assessment effectiveness of risk-oriented internal audit systems adopted by banks, impose different requirements for legal compliance risk management mechanism of banks with assets sizes above a certain level, establish financial institutions' internal reporting systems and require the banking industry to attach more importance to information security. Key points are as the following:

1. Banks with domestic subsidiaries are required to prepare AML/CFT plans at group level.
2. Regarding the regulatory requirements that risk-oriented internal audit system of domestic bank shall meet, the text of "the bank has not had gross negligence in implementation of internal control measures in the recent year or the situation has been substantially improved" is removed, in order to evaluate the effectiveness of the overall internal control system of banks in a more comprehensive manner.
3. In order to improve the legal compliance effectiveness of domestic big banks, headquarters of banks with total assets over NTD one trillion as audited by an CPA are required to set up legal compliance units, which may also engage in AML/CFT activities but are not allowed to carry out legal activities that are not related to planning, management, and implementation of a legal compliance system or other activities in conflict with their responsibilities. Legal compliance officers at bank headquarters may concurrently assume the position of the leader of AML/CFT unit, but shall not concurrently assume the position of legal affairs officer or other internal positions. In order to increase flexibility of the system, the requirements for qualifications and on the job training of

regulatory compliance officers of foreign business units have been changed.

4. Considering that foreign business units have different sizes and activities, the requirement of setting up a local regulation database for these business units is removed for practical considerations.
5. Big banks are required to establish an overall regulatory compliance risk management and supervision structure, lay down specific principles for such a structure and introduce rules about related authority/responsibilities, including establishment of overall regulatory compliance risk management and supervision structure and independent regulatory compliance unit and its authority/responsibilities, preparation of informative regulatory compliance effectiveness report and implementation of supervision.
6. Financial holding companies and banks are required to establish an internal reporting system and designate a unit that can exercise authority independently in the headquarters to take charge of review and investigation of reported cases in order to foster a business culture of transparency and integrity and promote sound operating practices. Considering that these companies need some time to make adjustment for establishment of the reporting mechanism, a specific timeline is set up for such compliance.
7. In order to make banks attach more importance to information security, banks are required to establish an information security unit, appoint a delegate to take charge of information security activities and introduce differential management practices based on their size.

Amendments to the Regulations Governing the Security of Electronic Stored Value Cards

The FSC introduced the amendments to the Regulations on March 31, 2018, in order to meet business needs relating to transactions using electronic stored value cards on the Internet and new technology developments, while taking into account convenience and security at the same time. The key amendments are as the following:

1. Modified the definitions of different categories of transactions related to stored value cards to facilitate compliance of the industry.
2. Introducing more authentication methods of security design mechanism for transactions using stored value cards to expand use of electronic stored value cards.
3. Increasing the sensing distance of terminal equipment for stored value cards to expedite fast completion of transactions, making the payment service more convenient and optimizing user experience.
4. Amended regulations governing security design related to transactions with stored value cards to increase transaction security for the card holders.

Promotion of AUM-based fund distribution rebates aims to create a win-win-win situation for investors, asset managers and sales channels

In order to reduce conflict of interests between the sub-distributor and investors arising from the current practice of calculating sales bonus based on sales amount, the FSC invited the Bankers' Association, the Trust Association, the Securities Investment Trust and Consulting Association, banks and investment trust companies to attend a meeting for deliberation on an appropriate calculation method for

fund distribution rebates. The meeting attendants reached a consensus and agreed to calculate the rebates based on AUM. As for the contractual rates, the valid period for rebate calculation and etc, the fund companies shall reach an agreement with their sub-distributors and shall, in principle, concluded negotiations over the amendment of their contracts by the end of 2019.

According to the FSC, the current practice of calculating distribution rebate based on sales amount is very likely to result in ignoring investors' interests due to the incentive for sub-distributors to maximize sales volumes. After the adjustment (of the rebate calculation method), fund sub-distributors will have an incentive to sell funds that meet investors' needs; this change will help maintain stable profitability of the fund products and reduce conflict of interests between the sub-distributor and investors. Meanwhile, long-term fund held by investors will also help increase operating flexibility of fund companies, which will, in turn, improve their fund performance.

Amendments to Article 15-2 and Article 67 of the Directions for the Review of Life Insurance Products

The FSC announced amendments to Article 15-2 and Article 67 of the Directions for the Review of Life Insurance Product on April 9, 2018. The regulation for revocation right shall be incorporated into individual life insurance contracts which have a term of over two years, raising the legal status of the regulation. Meanwhile, insurance companies are not allowed to include a waiting period in the insurance contract when a policy providing cancer or critical illness coverage is reinstated, in order to further protect the interests of policy holders.

International Activities

FSC Vice Chairman Cheng receives Mr. David Karmouni , Regional Representative of Bank of France

FSC Vice Chairman Cheng-mount Cheng received Mr. David Karmouni, Regional Representative, Bank of France on March 30, 2018. The two sides exchanged a wide range of views on the current business of foreign financial institutions in Taiwan, Fintech, and other issues of mutual interests.

Industry Updates

The FSC commends distinguished financial institutions and continues to promote several programs, including the program to encourage domestic banks to grant loans to small and medium enterprises.

On April, 13, 2018, the FSC held the 45th meeting with general managers of domestic banks for communication over their operations. It also commended financial institutions with outstanding performance with regard to supporting government policies, including providing loans to SMEs, providing loans to key innovative industries, and companies investing in countries targeted by the New Southbound Policy, those supporting syndicated loan platforms for system, package plant, and engineering industry exports, and those actively participating in programs for promotion of financial knowledge on campuses and in the community.

In order to encourage banks to establish long-term

partnership with SMEs and create an environment favorable to SME financing, the FSC has continued to promote the program to encourage lending by domestic banks to small and medium enterprises this year (the 13th implementation period) and set the target of NT\$ 270 billion for the growth of SME outstanding loans this year.

Taiwan Financial Services Roundtable held an event for financial industry to express its determination with regard to anti-money laundering and combating the financing of terrorism

On April 20, 2018, the Taiwan Financial Services Roundtable gathered representatives of nine domestic associations at an event held at the GIS NTU Conference Center for the financial industry to announce its support for important national policies and express its determination with regard to anti-money laundering and combating the financing of terrorism (AML/CFT). These associations included the Bankers' Association of R.O.C., Trust Association of R.O.C., R.O.C. Bills Finance Association, Taiwan Securities Association, Securities Investment Trust and Consulting Association R.O.C., Chinese National Futures Association, the Life Insurance Association of the R.O.C., the Non-life Insurance Association of the R.O.C., and the National Federation of Credit Co-operatives R.O.C.

NPL ratio for credit cooperatives at 0.13% as of the end of March 2018

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$585 million as of the end of March 2018, generating an NPL ratio of 0.13%, down by 0.01 percentage points from 0.14%, at the end of February 2018. The NPL coverage ratio, in the meantime, was 1,530.02%, up by 81.11 percentage points from 1,448.91% at the end of February 2018.

NPL ratio for domestic banks at 0.27% as of the end of March 2018

The total outstanding loans of domestic banks stood at NT\$27,448.8 billion as of the end of March 2018, up by NT\$183.8 billion from the previous month while their total NPLs were NT\$75.4 billion, down by NT\$2.8 billion from the previous month's figure of NT\$78.2 billion, generating an average NPL ratio of 0.27%, down by 0.02 percentage points from 0.29%, at the end of March 2018. The NPL coverage ratio of domestic banks stood at 492.41% at the end of March 2018, up by 15.37 percentage points from the figure of 477.04% at the end of the previous month.

Net foreign investment in listed shares

As of the end of March 2018, foreign and Mainland China investors had bought around NT\$ 1,979.2 billion and sold around NT\$ 2,047.8 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative outward investment of around NT\$68.6 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$219.0 billion and sold around NT\$219.2 billion, making for a net outward investment of around NT\$ 200 million. 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 March 2018 stood at approximately US\$211.3 billion, up by around US\$700 million from the US\$210.6 billion at the end of February 2018.

Investor and Consumer Protection

The FSC reminds consumers to pay attention when purchasing Hospitalization Medical Insurance

The FSC reminds consumers that in addition to assessing their own needs and financial capabilities carefully before instituting commercial medical insurance. Consumers should also pay attention to what kind of insurance products they purchased, definitions of diseases, hospitals, etc. It is also important to understand other important matters such as referring to hospitalization as a payment, insurance waiting periods, payment caps and exclusion responsibility. The FSC recommends consumers to give honest answers for the written inquiries from the insurance company in order to avoid purchasing insurance product that do not meet their needs or derivative of other disputes.

The aforementioned points for attention are recorded in the policy terms. For related policy term information, consumers may directly download it from the Taiwan Insurance Institute website, call the toll-free insurance company service hotline on its 0800 service phone line or obtain it from the insurance salespersons. With respect to matters in the policy terms that aren't clear, as well as asking the salesperson, consumers can ask the insurance company for confirmation to protect their rights and interests.

The FSC reminds consumers to only invest in foreign securities through authorized financial institutions

Recently, investment disputes have arisen from domestic investors investing in financial products through overseas cross-border Internet platforms or going overseas to invest in securities. The FSC reminds investors, to engage in investment in foreign securities, the transactions should be made through an authorized financial institution to avoid being left without protection in the event of a transaction dispute.

The FSC has established the Illegal Securities and Futures Industry Prevention Advocacy Special Zone on the Securities and Futures Bureau website homepage; investors can check the list of legitimate securities and futures and investment trust consulting firms approved by the FSC, types of illegality, investment warnings and other information. It is suggested that investors notice whether the investment will be made through a financial institution approved by the FSC before conducting financial transactions, to protect their own rights and interests.

The FSC reminds automobile owners that they should buy compulsory automobile liability insurance and regularly check their policies to ensure validity.

The FSC reminds the public that automobile owners should buy compulsory automobile liability insurance according to the law and regularly check their policies to ensure their validity, to avoid both a fine due to policy expiration and loss of protection

2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in April 2018, the FSC held 60 financial literacy promotion sessions at schools and organizations, including

Qingshui Elementary School in Taichung City, and a total of 5,805 participants attended. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of 2017, in all, 5,228 sessions had 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

Farglory Life Insurance Inc. subject to an NT\$ 14.4 million penalty and barred from increasing its real estate investment within 3 years and carrying out loans or other transactions with interested parties. The FSC has also removed director Zhao and director Hsu from their positions and ordered the company to dismiss General Manager Zhao and Manager Zhang of its real estate and lending department.

Since 2007, Farglory Life Insurance Inc. has relied on the Far Glory Group for the decisions and execution of the investment and development projects of self-owned real estate and has not set up an internal control system for its real estate investment and development activities. Although the company has introduced related guidelines, it has not applied such guidelines completely. In addition, the company has frequently violated regulations governing transactions with interested parties and has shown negligence in regard to capital utilization, reserve, underwriting and claim activities of insurance products, anti-money laundering activities, etc. This shows that the company's internal control system and regulatory compliance mechanism have failed to work effectively, its corporate governance is seriously ineffective, and its responsible person and officers of related responsible departments have not fulfilled their responsibilities for sound management. Therefore, the FSC has imposed a NT\$ 14.4 million penalty according to Paragraph 5 of Article 168, Paragraph 1 of Article 171, Paragraph 4 and Paragraph 5 of Article 171-1 of the Insurance Act, issued a reprimand according to Paragraph 1 of Article 149 of the Act, removed director Zhao and director Hsu from their positions according to Paragraph 6 of the same article, and ordered the company to dismiss General Manager Zhao and Manager Zhang of the real estate and lending department, according to Paragraph 4 of the same article. In addition, the FSC will not allow the company to increase its real property investment within 3 years according to Subparagraph 1, Paragraph 1 of Article 149 of the Insurance Act and this order will remain valid until the FSC grants approval after the company makes satisfactory improvement. The company is also prohibited from carrying out credit or other transactions with its interested parties and this order will remain valid until the FSC grants approval after the company makes satisfactory improvement.