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- Policy announcement for internet-only bank establishment
- The FSC drafts amendments to the Futures Trading Act, and submits to the Executive Yuan for review
- The Financial Technology Development and Innovative Experimentation Act and three Act-authorized regulations implemented on April 30, 2018

Policy and Law

Policy announcement for internet-only bank establishment

With the aim of assisting banks to keep up with development trend of digitization and business opportunities, as well as to encourage financial innovation and deepen financial inclusion in order to meet the needs of young generation consumers, on April 26, 2018, the FSC announced a policy for internet-only bank establishment in Taiwan. The main points are as the following:

1. Minimum paid-in capital requirement: NT\$10 billion, the same as required for setting up a conventional commercial bank.
2. Number of new establishment: 2 new licenses will be the cap, in order to properly manage the market competition pressure.
3. Scope of business: the same as a conventional commercial bank.
4. Requirements of founders: At least one of an internet-only bank's founders should be a bank or a financial holding company and the minimum shareholding held by the bank or financial holding company should reach 50% (or a commitment to reach this level within a certain time)
5. Fit and proper requirement for major shareholders: Integrity and in compliance with regulations, as well as meeting qualification requirements for person in charge of banks; financial and business performance may enable the internet-only bank to operate soundly; able to concretely elaborate business strategy of the internet-only bank, types of cooperation with financial institutions, business plan, investment structure, etc; in cases where a major shareholder is from non-financial industry, i.e. with fintech, e-commerce or other expertise, must present a successful business model.
6. Principle of supervision: Subject to the same set of supervisory requirements applicable to conventional banks, i.e. compliance framework, customer data protection, information security control standards, anti-money laundering system, corporate governance, etc.
7. Physical presence: Apart from the head office and a customer service center to take care of customers' needs face to face, an internet-only bank may not establish physical branches.

The FSC seeks opinions and suggestions for the policy of internet-only bank establishment from April 26 to May 31. Furthermore, the FSC will hold a public hearing to collect feedback from the public, as reference for the policy planning afterwards.

The FSC drafts amendments to the Futures Trading Act, and submits to the Executive Yuan for review

With the aim of making the futures transaction types complete, promoting central clearing of OTC derivatives and enhancing the futures market legal compliance regulations, the FSC has drafted amendments to the Futures Trading Act. A meeting at which it was discussed by representatives from industry, government and academia was convened; the draft was then revised with reference to outside opinions. The draft amendment will be submitted to the Executive Yuan for review and then sent to the Legislative Yuan for deliberation.

11 articles of the Futures Trading Act will be amended, the main points are as the following : (1) Stipulation of the legal basis of the promotion of central clearing of OTC derivatives to make the futures transaction types complete. (2) Authorization of the clearing house to stipulate the waterfall of financial safeguards for the futures market to align with international practice. (3) Stipulation that futures trust funds can adopt the effective registration system and the responsibility to provide prospectuses of futures trust enterprise. (4) Increasing the methods for corrective action and taking other necessary disposition against futures-related agencies. (5) Revocation of the criminal penalty for violation of Article 5 of the Act by futures firms and adding an administrative penalty regulation (6) Strengthening the legal compliance of futures-related institutions, increasing the maximum fine and exemption from punishment regulation. The FSC stated that these amendments of the Act will enhance domestic OTC derivatives market supervision and promote overall risk control efficiency of the futures market.

The Financial Technology Development and Innovative Experimentation Act and three Act-authorized regulations implemented on April 30, 2018

Three regulations authorized by the Financial Technology Development and Innovative Experimentation Act (Experimentation Act), namely, Regulations Governing Financial Technology Innovative Experimentation, Regulations Governing the Operations of Financial Technology Innovative Experimentation Review Meetings and Evaluation Meetings and Regulations Governing Fees for Handling Civil Disputes Arising from Financial Technology Innovative Experimentation were implemented on April 30, 2018, the same day as the Experimentation Act. In order to allow related businesses to understand the rationale and details of the regulations, the FSC has compiled a Q&A of the Experimentation Act and related regulations to facilitate compliance by related businesses or applicants.

The FSC has also posted fintech innovative experimentation-related application forms in the "Download Application Forms (only in Chinese version)" in the Convenient Public Service Area of its website to allow applicants to download and use the forms themselves. To assist applicants in preparing for applications and provide them with consultation on related regulations, the FSC has established the Financial Technology Development and Innovation Center. It is suggested that parties interested in applying to conduct an innovative experiment should first enquire at the Center as to whether an application is actually necessary and consult with the Center regarding application preparation before officially submit applications, to enhance the efficiency of application review. The Center's contact numbers and email address are: (02)8968-0086, (02)8968-0081, (02)8968-0240 and (02)8968-0707; email: fintechcenter@fsc.gov.tw

To expand the scope of service, the FSC and the MOEA have jointly introduced a "front store, back factory" mechanism to provide consulting and guidance services to fintech innovators. If a startup has an innovative fintech idea, but still in an immature stage, the guidance is thus required. He or she can seek assistance of clarifying the doubts about related regulations from the MOEA Innovation Regulation Sandbox Platform (<https://www.sandbox.org.tw>); after guidance is received from the platform and business models are well planned, the FSC will take the following steps to provide them with fintech innovative experimentation pre-application guidance.

Electronic payment institutions are allowed to receive and pay money for money market securities investment trust funds which are offered and issued by securities investment trust enterprises and only invest domestically

On April 20, 2018, the FSC issued an interpretative direction to allow electronic payment institutions to receive and pay money for money market investment trust funds which are offered and issued by securities investment trust enterprises and only invest domestically, in order to improve utilization performance of funds placed in e-payment accounts held by e-payment service users, increase customers of money market securities investment trust funds, increase their fund size and facilitate the business development of e-payment institutions and securities investment trust enterprises.

Amendments to Articles 2 and 10 of the Regulations Governing Issuance of Bank Debentures by Banks

On May 31, 2018, the FSC introduced amendments to Articles 2 and 10 to the aforementioned Regulations for facilitation of domestic financial bond market development and diversification of financial products for domestic financial market players with professional investment capability, in order to expedite investment activities of professional investors and increase size and business opportunity of domestic financial market. After the amendment, customers of bank debentures issued by banks on a revolving basis during a certain period of time will no longer be limited to professional institutional investors; all professional investors defined in Paragraph 3, Article 3 of Regulations Governing Offshore Structured Products are also allowed to purchase the bank debentures.

Executive Yuan passes draft amendments to the Insurance Act and the Compulsory Automobile Liability Insurance Act

In order to put into practice the "non-discrimination" principle in the Convention on the Rights of Persons with Disabilities, lead insurance companies to participate in social welfare enterprises and reduce financial disadvantage that an applicant has to face when revoking one of the duplicate compulsory automobile liability insurance contracts, the Executive Yuan passed draft amendments to the Insurance Act and Compulsory Automobile Liability Insurance Act on April 19, 2018.

The FSC introduced the amendments to point 1, point 2, and point 13 of the Direction for Wealth Management Business of Life Insurance Enterprises

On April, 16, 2018, the FSC introduced amendment to the Directions, which highlight the following requirements: when a credit rating agency changes its name or a life insurance firm lays down its rules and procedures for its wealth management activities, they shall step up their effort on preventing anti-money laundering and counter terrorist financing activities (AML/CTF) in accordance with AML/CTF related regulations, in order to enhance their AML/CFT mechanism.

Introduction of an order based on Paragraph 1, Article 24 of the Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises

On May 10, 2018, the FSC approved the new regulation according to Paragraph 1, Article 24 of the Regulations Governing the Public Offering of Securities Investment Trust

Funds by Securities Investment Trust Enterprises. The new regulation is for promoting diversified business operations for securities investment consulting enterprises ("SICE"). It allows an SICE that acts as a distributor for a securities investment trust fund and handles receipt/payment of funds through a bank account designated by the centralized securities depository enterprise to subscribe investment trust funds in its own name on behalf of investors.

A securities investment consulting enterprise shall obtain investors' consent and sign an agreement on related information transmission and fund collection and payment with Taiwan Depository and Clearing Corporation before it engages in the aforementioned business activity. It shall also create and properly implement a sound internal management and risk control mechanism.

Amendments to the Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets

On May 30, 2018 the FSC introduced amendments to the Regulation to require a service enterprise in the securities and futures markets to establish an internal reporting system and enhance its information security mechanism. Key points are as the following:

1. A service enterprise is required to establish an internal reporting system and designate a unit that can exercise authority independently to take charge of review and investigation of reported cases. Additionally, such an enterprise shall incorporate the reporting system into its internal control system.
2. The competent authority will, after having considered the size, business nature, and organizational characteristics of a service enterprise, order such an enterprise to establish an information security unit and appoint a manager to take charge of information security activities.

Urging domestic banks to actively apply for the adoption of the risk-based internal audit system

In response to the complex and changeable financial environment, most international financial institutions have adopted the risk-based internal audit system. To make the internal audit work of domestic banks more flexible and align with international practice, using a differentiated management mechanism, since 2016 the FSC has allowed domestic banks that have sound finances and effective internal control systems to apply to adopt the risk-based internal audit system. At the end of 2017, the FSC had approved adoption of the risk-based internal audit system by six domestic banks.

The FSC will urge large domestic banks to adopt this system, with promotion divided into two stages by asset scale; banks with assets of over NT\$2 trillion should apply before the end of August 2020 at the latest; banks with assets of NT\$1 trillion to under NT\$2 trillion should apply before the end of August 2022 at the latest, to give banks sufficient time to establish the methods and procedures for assessing risk-based internal audit and allow the results of risk assessment to be used as the basis for introducing the risk-based internal audit system.

International Activities

Delegation from the Canadian Trade Office in Taipei visits the FSC

On April 26, 2017, FSC Vice Chairman Cheng-mount Cheng received a delegation from the Canadian Trade Office in Taipei

led by Director David Bostwick. The two sides exchanged views and experience with regard to green finance topics including offshore wind power and renewable energy.

Industry Updates

Measures relating to the acceptance of applications from financial institutions to establish domestic branches in May, 2018

The FSC stated that, in accordance with Article 5 of the Regulations Governing Domestic Branches of Financial Institutions (the Regulations), banks and credit cooperatives that meet requirements in terms of soundness of financial business can apply to the FSC to set up domestic branches in May annually.

Eight items have been listed as this year's evaluation items when financial institutions apply to set up domestic branches; they are as the following: public benefit, financial education, financial crime prevention, SME loan growth rate, performance in granting loans to SMEs run by women, employment of the full quota of disabled persons required by law, provision of barrier-free financial services (including whether barrier-free online banking and WEB ATM have been completed and whether barrier-free ATM established,) and acceptance of deposits from credit unions. The aim is to encourage financial institutions to take part in public benefit activities and help promote policies.

Also in line with Article 5 of the Regulations, financial institutions can apply to the FSC to set up branches in remote areas at any time; the FSC will regularly post the list of areas where financial services are lacking on its official website to facilitate application by financial institutions.

NPL ratio for credit cooperatives at 0.15% as of the end of April 2018

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$664 million as of the end of April 2018, generating an NPL ratio of 0.15%, up by 0.02 percentage points from 0.13%, at the end of March 2018. The NPL coverage ratio, in the meantime, was 1,367.68%, down by 162.34 percentage points from 1,530.02% at the end of March 2018.

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

The total outstanding loans of domestic banks stood at NT\$27,520.0 billion as of the end of April 2018, up by NT\$71.2 billion from the previous month while their total NPLs were NT\$77.3 billion, up by NT\$1.9 billion from the previous month's figure of NT\$75.4 billion, generating an average NPL ratio of 0.28%, up by 0.01 percentage points from 0.27%, at the end of March 2018. The NPL coverage ratio of domestic banks stood at 480.89% at the end of April 2018, down by 11.52 percentage points from the figure of 492.41% at the end of the previous month.

Net foreign investment in listed shares

As of the end of April 2018, foreign and Mainland China investors had bought around NT\$ 2,551.1 billion and sold around NT\$ 2,701.6 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative outward investment of around NT\$150.5 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$295.6 billion and sold around NT\$298.4 billion, making for a net outward investment of around NT\$ 2.8 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 April 2018 stood at approximately US\$207.7 billion, down by around US\$3.6 billion from the US\$211.3 billion at the end of March 2018.

Investment to Overseas and Mainland China made by TWSE and TPEX-listed companies in 2017

The FSC stated that, according to the statistics of TWSE and TPEX, as of the end of 2017, investment in Mainland China and overseas made by listed companies was as follows:

1. Investment in Mainland China

(1) Number of companies: As of the end of 2017, 663 TWSE-listed and 529 TPEX-listed, for a total of 1,192 companies, accounting for 76.31% of all 1,562 listed companies, had invested in Mainland China, up by 3 companies at the end of 2016.

(2) Accumulated investment amount: As of the end of 2017, the accumulated investment amount made by TWSE-listed companies was NT\$2.08 trillion, while the TPEX-listed was NT\$235.4 billion, giving a total of NT\$2.3154 trillion, up by NT\$33.5 billion at the end of 2016.

2. Overseas investment (except Mainland China)

(1) Number of companies: At of the end of 2017, 699 TWSE-listed and 551 TPEX-listed, for a total of 1,250 companies, accounting for 80.03% of all 1,562 listed companies, had invested overseas, up by 9 companies at the end of 2016.

(2) Accumulated investment amount: As of the end of 2017, the accumulated overseas investment amount made by TWSE-listed companies was NT\$5.4466 trillion, while the TPEX-listed was NT\$528.9 billion, giving a total of NT\$5.9755 trillion, up by NT\$260.1 billion at the end of 2016.

Investor and Consumer Protection

FSC reminds banks to enhance tax money laundering risk prevention measures

With the intent of strengthening the money laundering prevention procedure of OBU, the FSC amended the Rules Governing Offshore Banking Branches on May 22, 2017 unifying requirements for the customer ID documents, materials or information OBU should obtain and validate. All banks have now completed re-confirmation of the identity of all existing OBU customers.

According to the money laundering and terrorist financing risk assessment of the Executive Yuan's Anti-Money Laundering Office, tax crime is regarded as one of the high-risk money laundering threats to Taiwan, therefore, banks should understand customer tax money laundering risk and include tax crime risk assessment in money laundering prevention related procedures; these include confirming customer identity and continuing examination, monitoring of transactions, implementing education and training and ensuring that employees adhere to the code of ethical conduct, to effectively detect and prevent assets derived from serious tax crime entering the financial system.

At present, the Customer Due Diligence, money laundering prevention and anti-tax evasion measures that OBU should implement are aligned with those of onshore financial business and international standards. Banks should review and pay attention to the correctness of international financial business-related promotion and marketing documents to help maintain the stable development of international financial business.

CALI has established a more secure social safety net for the past 20 years

It has been 20 years since the Compulsory Automobile Liability Insurance (CALI) system was implemented on January 1, 1998. The goal of CALI is to provide swift, basic coverage for victims and their families in a traffic accident and to transfer related liability risks of the insured when utilizing a motor vehicle, to protect the victims of traffic accidents. CALI has been recognized to be very beneficial to the public since it was introduced.

2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in May 2018, the FSC held 69 financial literacy promotion sessions at schools and organizations, including Taipei First Girls' High School, and a total of 8,476 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

BNP Paribas Cardif TCB Life Insurance found to have violated Insurance Act regulations when handling insurance business. The company was fined NT\$1.8 million and given three reprimands under Paragraph 5, Article 171-1 and Paragraph 1 of Article 149 of the Insurance Act

When conducting insurance business, BNP Paribas Cardif TCB Life Insurance Co., Ltd was found to not have implemented telephone interviews and to have not calculated the compensation amount according to policy terms in violation of Subparagraph 4, Paragraph 1 of Article 6, Item 2, Subparagraph 3 of Article 8 and Article 17 of the Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises authorized by Paragraph 2, Article 148-3 of the Insurance Act. The company was fined NT\$1.8 million. It was also given three reprimands under Paragraph 1, Article 149 of the Insurance Act.

King's Town Bank was fined NT\$2 million and reprimanded after the FSC found the Bank to have defects in AML reporting, financial product pre-sale review, Know Your Customer procedure, customer money launder risk assessment and continued monitoring, which violated laws and regulations and disturbed the sound operation

King's Town Bank Co., Ltd was found to have defects in anti-money laundering reporting, financial product pre-sale review, Know Your Customer procedure, customer money laundering risk assessment and continued monitoring, which violated of Paragraph 3, Article 7 of the Money Laundering Control Act, Article 57 of the Trust Enterprise Act, and Article 30-1 of the Financial Consumer Protection Act, and was thus fined NT\$2 million. It was also depended under Subparagraph 1 of Article 61-1 of the Banking Act.