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Policy and Law

Introduction of tiered preferential measures for small amount interbank transfer fees on April 1, 2019

According to the FSC, taking into account the public's expectations as well as the cost of financial institutions, tiered preferential measures for interbank transfer fees for transfer amount no more than NT\$ 1,000 were introduced on April 1, 2019: (1) The transfer fee for interbank transfer amount no more than NT\$ 500 is NT\$ 0 (only applicable once each day); (2) The transfer fee for interbank transfer amount between NT\$ 501 and NT\$ 1,000 (also applies to those who make transfers with amount under NT\$ 500 more than once a day) is NT\$ 10; (3) The transfer fee for interbank transfer amount above NT\$ 1,001 is still NT\$ 15.

New directions and measures of corporate governance for TWSE and TPEX-Listed Companies

According to the FSC, Taiwan Stock Exchange and Taipei Exchange introduced the amendments to the “Operation Directions for Compliance with the Establishment of Board of Directors by TWSE- and TPEX-Listed Companies and the Board's Exercise of Powers” on December 27, 2018 in alignment with the measures of the Corporate Governance Roadmap (2018-2020). All TWSE- and TPEX-Listed companies shall meet the following requirements by June 30, 2019.

1. Over half of the remuneration committee members shall be independent directors.
2. Standard operating procedures for responding to requests from directors shall be established.
3. TWSE- and TPEX-Listed companies shall take out directors and

supervisors liability insurance.

4. TWSE- and TPEX-Listed companies with paid-in capital of NT\$10 billion or more or within the financial and insurance industry required by the competent authorities shall appoint the chief corporate governance officer.

TWSE- and TPEX-Listed companies shall meet the requirements for information filing and material information disclosure after they comply with the aforementioned requirements. Taiwan Stock Exchange and Taipei Exchange had amended the Rules Governing Information Reporting for introduction of new requirements on reporting deadlines for appointment (within 2 days), change (within two days) and the continuing professional development (by the end of January of each year) of the corporate governance officer, the liability insurance coverage for directors and supervisors (by the 15th day of the month after the date the policy takes effect) and introduction and changes of the standard operating procedures for addressing of requests made by directors (both within two days). Taiwan Stock Exchange and Taipei Exchange had also amended the Procedures for Verification and Disclosure of Material Information adding the requirements for TWSE- and TPEX-Listed companies' announcement for the material information about the change of corporate governance officer.

FSC will amend the regulations governing capital requirements on investments by domestic banks in financial related enterprises for compliance with international standards

The Basel Committee on Banking Supervision introduced the rules governing capital requirements on eligible debt instruments issued by Global Systemically Important Banks for TLAC instruments in October 2016. The FSC assessed and reviewed related practices of other countries for preparation of such amendments to domestic regulations governing capital requirements for investment by domestic banks in financial related enterprises to allow their step-by-step compliance with international standards and improve capital quality and risk bearing capacity of domestic banks.

The timeframe and directions of new capital requirements for capital instruments for investments by banks in financial related enterprises and TLAC debt instruments are as follows:

1. The investments by domestic banks in capital instruments of financial related enterprises and TLAC debt instruments will be divided into two categories, important investments (including subsidiaries) and non-important investments, which are determined by the threshold of 10% shareholding, and applied to the methods of "cross-threshold exclusion" or "applicable capital exclusion". The investments that exceed 10% shareholding threshold shall be excluded from the calculation of a bank's regulatory capital. And the

investments under the 10% shareholding threshold shall be included in the calculation of risk weighted assets and applied to the regulatory weighting.

2. As the introduction of capital requirements for TLAC debt instruments and non-important investments in other regulatory capital instruments will not have significant impact on banks in terms of their compliance with capital requirements, the new capital requirements will take effect on January 1, 2020; considering that the aforementioned capital requirements for important investments will have significant impact, they will take effect on January 1, 2022 after a buffer period of 3 years.

Amendments to the "Regulations Governing Issuance of Beneficiary Securities by Trustee and Asset-Backed Securities by Special Purpose Company" and the "Regulations Governing the Public Offering or Private Placement of REIT and REAT Beneficiary Securities by a Trustee"

In order to allow shelf registration of beneficiary securities or asset-backed securities for financial assets securitization, the FSC introduced the amendments to the aforementioned Regulations on April 8, 2019. According to the amendments, the scheduled issuance period shall not exceed 5 years and the issuers shall submit to the FSC for recordation and the events to terminating of shelf registration.

In order to facilitate the transition from private placement to public offering for securitization, the FSC also introduced amendments to the two Regulations on April 8, 2019. An issuer of beneficiary securities or asset-backed securities with private placement may submit an application for public offering three years after the delivery date under the conditions that the trust property have stable cash flow and appropriate credit enhancement mechanism.

Issuance of the "Scope of mandatory adoption of candidate nomination system for the election of directors and supervisors"

To make it easier for shareholders to exercise their voting rights to realize shareholder activism and improve corporate governance, authorized by the proviso to Paragraph 1 of Article 192-1 and Paragraph 1 of Article 216-1 of Company Act, on April 25, 2019, the FSC announced the requirements that the candidate nomination system shall be adopted for the election of directors and supervisors of all TPEX- and OTC-listed companies from January 1, 2021. Furthermore, the Articles of Incorporation of a company shall state that the shareholders shall elect the directors and supervisors among the nominees listed in the roster of candidates.

Amendments to Form 8-7 of Article 23 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers

In response to the amendment of Paragraph 5 of Article 14 of the Securities and Exchange Act

on December 5, 2018, “when a company whose stock is listed for trading on the stock exchange or over-the-counter securities exchange prepares its annual financial report in accordance with Paragraph 2, it shall additionally disclose relevant information, including the average salary of all the company’s employees and any adjustments thereto, in accordance with the regulations prescribed by the competent authority,” the FSC introduced the modification of Form 8-7 specified in Article 23 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers on April 24, 2019. The main amendments were as follows:

1. TWSE- and TPEX-Listed Companies shall disclose the average employee benefit, average employee salary and the adjustments to average employee salary of the current year compared with the previous year in Form 8-7.
2. The amendment will come into force starting from issuers preparing 2019 parent company only financial reports.

Amendments to Article 7 of the Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises

The FSC announced the amendments to Article 7 of the aforementioned Regulations on April 1, 2019, stipulating that insurers must include consumer personal information storage method, storage period and destruction operations in the internal underwriting system and procedure. In addition, to be in accordance with Paragraph 3 of Article 11 of the Personal Information Protection Act and Article 21 of the Enforcement Rules of the Personal Information Protection Act, the storage period and methods for reasonable use of consumer personal information by insurers were stipulated.

Industry Updates

FSC agreed Union Bank of Taiwan Co., Ltd. to set up a branch in Da Nang and a representative office in Hanoi in Vietnam

On March 28, 2019 the FSC agreed Union Bank of Taiwan Co., Ltd. to apply to the competent authorities in Vietnam to set up a branch in Da Nang and a representative office in Hanoi. In light of Vietnam’s superior geographical position in Southeast Asia and rapid economic growth and taking into account the fact that Hanoi is the political and economic capital of Vietnam and Da Nang is the country’s second largest port, the bank plans to set up the branch and representative office to expand its overseas business. The operations of domestic banks in Vietnam at present are as below: 12 banks including First Commercial Bank Co., Ltd. have 9 representative offices, 12 branches and 1 subsidiary bank in Ho Chi Minh City, Hanoi, Dong Nai etc.

NPL ratio for domestic banks at 0.25% at the end of March 2019

The total outstanding loans extended by the current 37 domestic banks increased by NT\$106.9 billion as compared to the figure of previous month and amounted to NT\$28.91 trillion at the end of March 2019. Meanwhile, the NPLs of these banks totaled at NT\$73.1 billion which increased by NT\$0.3 billion from NT\$72.8 billion as of the end of previous month. The average NPL ratio of the 37 banks remained at 0.25% compared to previous month, and was down by 0.02 percentage points compared to the same month last year. The coverage ratio of allowances for NPLs stood at 549.68%. While the ratio decreased by 3.44 percentage points from 553.12% of the previous month, it still remained stable at a higher level.

NPL situation of credit cooperatives at the end of March 2019

Total NPLs at Taiwan’s 23 credit cooperatives stood at approximately NT\$0.63 billion as of the end of March 2019, generating an NPL ratio of 0.13%, the same as the ratio at the end of February 2019. The NPL coverage ratio was 1530.09%, down by 24.57 percentage points from 1,554.66% at the end of February 2019.

Net foreign and Mainland China investment in listed shares

As of the end of March 2019, foreign investors had bought around NT\$1,695.3 billion and sold around NT\$1,592 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$103.3 billion. In addition, foreign investors had bought around NT\$221.6 billion and sold around NT\$ 206 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$ 15.6 billion. Meanwhile, Mainland China investors had bought around NT\$5,259 million and sold around NT\$5,213 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of NT\$46 million; Mainland China investors had bought around NT\$1,006 million and sold around NT\$744 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$262 million. As for inward remittances by foreign and Mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese and foreign nationals as of the end of March 2019 stood at approximately US\$205.6 billion, up by around US\$1.7 billion from the US\$203.9 billion at the end of February 2019. The figure for cumulative net inward remittances by Mainland China investors as of March 31, 2019 was US\$191.8 million, down by around US\$160,000 from the US\$ 191.9 million at the end of February 2019.

Profit/loss, net value and exchange gains/losses of insurance enterprises in February 2019

Pre-tax profit of insurance enterprises at the end of February 2019 was NT\$20.6 billion; pre-tax profit of life insurance enterprises was NT\$17.6 billion, a decrease of NT\$15.2 billion, or 46.3%, compared with the same period of 2018; pre-tax profit of non-life insurance enterprises was NT\$ 3 billion, down

by NT\$400 million or 11.8% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of February 2019 was NT\$1.4824 trillion; of this, owners' equity of life insurance enterprises was NT\$1.3584 trillion, a decrease of NT\$27.7 billion, or 2.0% compared with the same period of 2018; owners' equity of non-life insurance enterprises was NT\$124 billion, an increase of NT\$5.4 billion or 4.6% compared with the same period in 2018.

Up to the end of February 2019, the net effects of exchange gains/losses of life insurance enterprises were about negative NT\$41.1 billion; the balance of foreign exchange valuation reserve of life insurance enterprises was NT\$65.8 billion, increasing NT\$4.4 billion from January 2019.

Investor and Consumer Protection

FSC reminds vehicle owners to have suitable automobile liability coverage to transfer risks

The FSC reminds the public that they can purchase automobile third party liability insurance and excess liability insurance according to their own needs to transfer risks in terms of liability for death or injury of others or property damage arising from a traffic accident.

FSC reminds consumers of matters for attention when purchasing interest-sensitive insurance products

The FSC reminds consumers to pay attention to the following matters when buying interest-sensitive insurance products:

1. The declared interest rate of the interest-sensitive insurance of each insurer differs. Consumers should not just take the level of declared interest rates into account when buying such a product, they should carefully consider if the scope of coverage meets their needs and compare related public information before purchasing insurance products.
2. Although interest-sensitive insurance products have a declared interest rates mechanism, as they are long-term contracts, if policyholders want to terminate the contract in advance, they may be charged surrender fees and unable to take back all the premium they paid.
3. Because some interest-sensitive insurance products are denominated in foreign currency, including the premiums, policy proceeds and other payments, consumers should pay attention to exchange rate risks when buying such products. Before buying interest-sensitive insurance products, consumers can request a sample of policy terms and conditions from the insurers. Consumers should carefully select the insurance products which are the most suitable for their needs after obtaining thorough understanding of the products.

2019 School and Community Financial Literacy Campaign

As part of 2019 School and Community Financial Literacy Campaign, in April 2019 the FSC held 70 financial literacy promotion sessions at schools and organizations, including Lunshan Elementary School in Hualien County, with a total of 7,545 participants attending. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of March 2019, in all 5,866 sessions have been held and over 960,000 people have 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 2019. 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)8968-9709.

Major Enforcement Actions

Mega International Commercial Bank Co., Ltd. was fined

A former wealth management specialist of Mega International Commercial Bank misappropriated clients' funds. The deficiencies were in violation of Paragraph 1 of Article 45-1 of the Banking Act and disturbed the sound operation of the bank. Therefore, the FSC imposed a fine of NT\$6 million on the bank in accordance with Subparagraph 7 of Article 129 of the same act. In addition, the bank was issued a reprimand and ordered to discharge the aforementioned employee in accordance with Paragraph 1 of Article 61-1 of the same act.

Enrich Insurance Broker Co., Ltd. was fined

Enrich Insurance Broker Co., Ltd. concluded insurance contracts with the residents of Mainland China in Hong Kong. This was in violation of the Regulations Governing Permission of Insurance Business Transactions and Investment Between the Taiwan Area and the Mainland Area. The FSC imposed a fine of NT\$2 million on the company in accordance with Paragraph 1 of Article 81 of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area.

Hontai Life Insurance Co., Ltd. was fined

When investing in real estate in Taichung City, Hontai Life Insurance Co., Ltd. did not follow the submitted sales plan and was thus in violation of the Insurance Act. The FSC imposed a fine of NT\$1 million on the insurer in accordance with Subparagraph 3 of Paragraph 5 of Article 168 of the Insurance Act, and issued one reprimand in accordance with Paragraph 1 of Article 149 of the same act. The insurer was also ordered to dispose of or lease out the real estate involved in this case to meet the requirements regarding immediate use within one year.