

# 金融展望月刊

## Financial Outlook Monthly

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G P N 2009305443

I S S N 1992-2507

\*The Chinese version rules if  
any contradiction in meaning  
exists between the Chinese  
version and English versionl.

### July 2019

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- Bank online service upgrades
- The election for directors and supervisors of listed companies should adopt the candidate nomination system from 2021
- Foreign issuers are allowed to issue foreign currency denominated Sukuk on the professional board in Taiwan

### Policy and Law

#### *The directions of planning of the “Shareholder’s Shareholding Transparency Action Plan” for financial holding companies and banks*

Considering that the “Regulations Governing Anti-Money Laundering of Financial Institutions” have required the identification of the beneficial owners, and financial institutions have taken the substantial stakeholders/ultimate controllers into consideration in self-regulatory control and management for credit extension and other transactions in practice, the FSC has drawn up the “Shareholder’s Shareholding Transparency Action Plan” to lay down the requirements for majority shareholders to report beneficiary owners/ultimate controllers when reporting their shareholdings. Meanwhile, the FSC has also urged financial institutions to enhance the functions of their board of directors for sound operation.

The FSC promulgated the aforementioned Action Plan based on the categories of beneficial owners specified in the “Regulations Governing Anti-Money Laundering of Financial Institutions”. According to the Action Plan, when the same persons, same concerned party, or third party, which financial institutions shall report in accordance with Article 16 of the Financial Holding Company Act and Article 25 of the Banking Act, is a legal person or an organization, financial institutions are requested to include reporting beneficial owners/ultimate controllers as the followings:

- 1.The natural persons who own directly or indirectly more than 25% of the legal person or organization’s shares or capital.
- 2.The natural persons that do not belong to the aforementioned category but exercise control over the legal person or organization through engagement, contract, agreement, authorization or other means.
- 3.The natural persons that do not belong to the first two categories but have decision making power in the legal person or organization.
- 4.The trustors, trustees, trust supervisors, beneficiaries of trust arrangements and other natural persons exercising ultimate effective control over the trust accounts, or the identify of persons in equivalent or similar position.
- 5.The trustors, trustees, trust supervisors, beneficiaries of trust arrangements and other natural persons exercising ultimate effective control over the trust accounts, or the identify of persons in equivalent or similar position in the case that the legal persons or organizations are directly or indirectly controlled by trust arrangements.

The FSC will amend related regulations, reporting requirements and reporting forms in accordance with the action plan. In order to help the reporting party fully understand the reporting information and review their shareholding, the FSC plans to provide at least six months as a buffer period of the preparation work for compliance.



## **Bank online service upgrades**

Since the FSC launched the "Program of Creating a Digitized Financial Environment 3.0" in 2015, it has allowed banks to let their existing customers apply for multiple online services, including deposit, credit extension, credit cards, wealth management and joint marketing activities. With the rapid development of Fintech, banks can further enhance the efficiency and convenience of their financial services with digital technology. Therefore, the FSC will allow banks to provide online applications services for the following 10 items under the conditions of compliance with ID verification requirements and security control measures:

1. Deposit services: online applications for fund transfers to non-designated accounts with online banking services or IC ATM cards and fund transfers to designated accounts with different business administration numbers.
2. Wealth management services: online consent of recommendations of structured products and cancellation of such recommendations.
3. Credit extension: (1) online execution of loan agreements by new account holders; (2) online applications for personal loans involving guarantors and loan amount increase within the scope of mortgage; (3) online consent of the guarantor for inquiry of credit information from the Joint Credit Information Center, and online execution of guarantee contract by the guarantor; (4) online consent of corporation customers for inquiry of credit information from the Joint Credit Information Center; (5) incorporation of biometric recognition into the security design of the ID verification mechanism for loan agreement execution of existing credit card holders; (6) permission for collateral providers of personal mortgages to give their content to increase loan amount by the borrowers with signatures obtained through hardware certification in compliance with written consent requirement.

## **The election for directors and supervisors of listed companies should adopt the candidate nomination system from 2021**

In light of the fact that listed companies have a large number of shareholders, with the aim of facilitating sound company development and protecting the rights and interests of shareholders and promoting corporate governance, the FSC issued an order authorized by the proviso in Paragraph 1 of Article 192-1 and Paragraph 1 of Article 216-1 of the Company Act on April 25, 2019 stipulating that all listed companies should adopt the candidate nomination system for the election of directors and supervisors from January 1, 2021.

## **Foreign issuers are allowed to issue foreign currency denominated Sukuk on the professional board in Taiwan**

To increase the diversity of international bond products and issuers in Taiwan and boost the development of the Taiwan bond market, the FSC issued an order on June 14, 2019 allowing foreign issuers to issue foreign currency denominated Sukuk in Taiwan sold only to professional investors. To be eligible, issuers shall meet the requirements stipulated by the Taipei Exchange.

## **Promulgation of the "Contract Template of Caring Trust for Disabilities" by the Trust Association of R.O.C. under the supervision of the FSC**

In order to encourage disabilities to set up caring trusts, the FSC supervised the Trust Association of R.O.C. to complete the "Contract Template of Caring Trust for Disabilities". The main points include the purpose of trust, the restrictions on the scope of use of trust property, the calculation criteria and restrictions on the trustee's compensation, the agreement on the increase in trust property payment in response to the care needs of a trustor, and the role of a trust supervisor.

## **Amendments to the Regulations Governing Futures Clearing Houses**

To align with Article 3 and 49 of the Futures Trading Act amended on January 16, 2019, including the addition of legal basis of OTC derivatives' mandatory centralized clearing and the rules governing the order of financial security defense mechanism of reserve funds drawn upon to compensate for an event of default in the futures market as well as the reinforcement of the adequacy of compensation reserve fund by futures clearing houses, the FSC announced the amendments to the aforementioned Regulations on June 24, 2019. The amendments stipulated that the business scope of a futures clearing house shall include the clearance for futures trading in the non-centralized futures trading market, and that a futures clearing house shall determine and implement the order of financial security defense mechanism in which the various sources of reserve funds are drawn upon to compensate for an event of default in the futures market. Moreover, the FSC revised regulations to stipulate that a futures clearing house shall deposit NT\$500 million compensation reserve fund for the first time and the aggregate compensation reserve fund deposit amount shall be up to 1.5 times the authorized capital amount or the allocated operating capital amount. It is also stipulated that the compensation reserve fund shall be deposited separately in different accounts based on the futures trading in the centralized futures trading market and non-centralized futures trading market.

## **FSC convened a colloquium for chairmen of life insurance firms**

The FSC held a colloquium for chairmen of life insurance firms on May 22, 2019. During the meeting, countermeasures were put forward with regard to the adjustment of product structure and capital structure by life insurance firms, upgrading insurance firms' management mechanisms of asset and liability and exchange rate risk, and assisting and supervising insurance firms' alignment with International Financial Reporting Standards 17 "Insurance Contracts" (IFRS 17).

## **International Activities**

### **FSC Chairman Wellington L. Koo was invited to the 2019 IFRS Conference**

The Accounting Research and Development Foundation (ARDF) hosted the 2019 IFRS Conference on June 3 and 4, inviting the International Accounting Standards Board (IASB) Board Member, Mr. Darrel Scott to present a keynote speech on the current development of accounting standards and FSC Chairman Wellington L. Koo to deliver opening remarks.

### **FSC Chairman Wellington L. Koo witnessed the signing of two FinTech cooperation agreements**

FSC Chairman Wellington L. Koo witnessed the signing

of the FinTech cooperation agreements between the Taiwan Financial Services Roundtable (TFSR) and the French Office in Taiwan, as well as the TFSR and Paris&Co, respectively, at FinTechSpace in Taipei on May 28, 2019.

#### ***FSC Chairman Wellington L. Koo led a delegation to attend the 44th IOSCO Annual Meeting***

The 44th Annual Meeting of the International Organization of Securities Commissions (IOSCO) was held from May 13 to 17, 2019 in Sydney, Australia. FSC Chairman Wellington L. Koo led a delegation to attend the event. During this Meeting's activities and forums, the FSC delegation engaged in in-depth discussion of topics including reform and supervision of financial benchmarks, how to make a trade-off between financial technology innovation and market stability and investor protection, sustainable finance and supervisory regulations, and the development of the financial industry and supervisory. The FSC also made a presentation to IOSCO members about the progress of Taiwan's promotion of the Treating Customers Fairly Principle.

#### ***FSC Vice Chairman Tien-Mu Huang hosted a luncheon for the Luxembourg Trade and Investment Office-Taipei***

FSC Vice Chairman Tien-Mu Huang hosted a luncheon for the Luxembourg Trade and Investment Office-Taipei Executive Director, Ms. Tania Berchem, on June 5, 2019. The two sides exchanged a wide range of opinions on topics including enhancing Taiwan-Luxembourg financial cooperation.

### ***Industry Updates***

#### ***FSC agreed the First Commercial Bank to set up the Sen Sok Sub-branch and Phsa Doem Thkov Sub-branch under its Phnom Penh branch in Cambodia***

On May 16, 2019, the FSC agreed the First Commercial Bank to apply to the competent authority in Cambodia to set up the Sen Sok Sub-branch and Phsa Doem Thkov Sub-branch under its Phnom Penh branch. The First Commercial Bank applied to the FSC to set up the two aforementioned sub-branches to grasp financial business opportunities in the ASEAN region and to increase the operation scale and effectiveness of the Phnom Penh branch.

The operations of domestic banks in Cambodia at present are as follows: Cathay United Bank and E.Sun Commercial Bank each have a subsidiary bank; First Commercial Bank, Taiwan Cooperative Bank and Mega International Commercial Bank have branches; and the Shanghai Commercial & Savings Bank has a representative office.

#### ***NPL ratio for domestic banks at 0.24% at the end of May 2019***

The FSC has announced that total outstanding loans extended by the current 36 domestic banks increased by NT\$230.5 billion (US\$7.29billion) as compared to the figure of previous month and amounted to NT\$29.20 trillion (US\$923.7 billion) at the end of May 2019. Meanwhile, the NPLs of these banks totaled at NT\$70.2billion (US\$2.22billion) which decreased by NT\$1.7 billion (US\$53.78 million) from NT\$71.9 billion (US\$2.27 billion) as of the end of the previous month.

With a slight decrease of 0.01 percentage point, the average NPL ratio of the 36 banks fell to 0.24% down from 0.25% at the end of previous month, and was down by 0.03 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 16.39 percentage points and therefore rose to a figure of 572.99% from 556.6% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of May 2019.

#### ***NPL situation of credit cooperatives at the end of May 2019***

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.66 billion as of the end of May 2019, generating an NPL ratio of 0.14%, up by 0.02 percentage points from 0.12% at the end of April 2019. The NPL coverage ratio was 1,464.31%, down by 159.36 percentage points from 1,623.67% at the end of April 2019.

#### ***Net foreign and Mainland China investment in listed shares***

As of the end of May 2019, foreign investors had bought around NT\$3,127.6 billion and sold around NT\$ 3,113.3 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$14.3 billion. In addition, foreign investors had bought around NT\$386.5 billion and sold around NT\$377.4 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$9.1 billion. Meanwhile, Mainland China investors had bought around NT\$8,351 million and sold around NT\$9,805 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$1,454 million; Mainland China investors had bought around NT\$1,409 million and sold around NT\$1,389 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$20 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 May 2019 stood at approximately US\$207.4 billion, down by around US\$2 billion from US\$209.4 billion at the end of April 2019. The figure for cumulative net inward remittances by Mainland China investors as of the end of May 2019 was US\$189 million, the same as the end of April 2019.

#### ***Profit/loss, net value and exchange gains/losses of the insurance industry in April 2019***

Pre-tax profit of insurance enterprises at the end of April 2019 was NT\$53.4 billion; pre-tax profit of life insurance enterprises was NT\$47.6 billion, a decrease of NT\$5.8 billion, or 10.9%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$5.8 billion, down by NT\$200 million or 3.3% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of April 2019 was NT\$1.6978 trillion; owners' equity of life insurance enterprises was NT\$1.572 trillion, an increase of NT\$243.9 billion, or 18.4%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$125.8 billion, an increase of NT\$6.9 billion or 5.8% compared with the same period in 2018.

Up to the end of April 2019, the depreciation of NT\$/US\$ exchange rate was 0.56%, and the net effects of



exchange gains/losses of life insurance enterprises were about negative NT\$83 billion. The balance of foreign exchange valuation reserve of life insurance enterprises was NT\$69.9 billion, increasing NT\$4.8 billion from last month.

### ***Sales situation of foreign-currency denominated products by life insurance industry as of the end of March 2019***

The sales situation of foreign-currency denominated products by life insurance industry as of the end of March 2019 (accumulated) was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$153.474 billion, down by 19% from NT\$189.219 compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$47.611 billion (around 31% of the total), down by 39% from NT\$77.472 billion compared with the same period last year, and the sales of traditional insurance products accounted for NT\$105.863 billion (around 69% of the total), down by 5% from NT\$111.747 billion compared with the same period last year.

### ***Investor and Consumer Protection***

#### ***Purchasing Residential Earthquake Insurance to protect home property***

The FSC suggests that people take out Residential Earthquake Insurance to reduce property loss from earthquakes. The coverage of Basic Residential Earthquake Insurance mainly includes when the insured residence collapsed or is "total loss" which is assessed uninhabitable caused by fire, explosion, landslide, land subsidence, landslide, land splitting, river bank breach, tsunami, high tide, floods etc. resulting from an earthquake, the claim could be settled. At present, the maximum insured amount is NT\$1.5 million, with the contingent living expense NT\$200,000. The annual premium per household is NT\$1,350. As of the end of March 2019, the ratio of having insurance coverage was around 34.77%.

#### ***FSC reminds consumers of the risks when purchasing investment-linked insurance linked with target maturity bond funds***

The FSC reminds consumers that investment-linked insurance products linked with target maturity bond funds do "not guarantee the principal nor the interests". Policyholders still need to bear related investment risks which are likely to result in failure to earn the expected yield to maturity. Consequently, consumers shall evaluate associated risks with discretion, and consider whether their risk bearing capacity is suitable for such insurance before purchasing investment-linked insurance linked with target maturity bond funds in order to avoid disputes.

#### ***2019 School and Community Financial Literacy Campaign***

As part of 2019 School and Community Financial Literacy Campaign, in June 2019 the FSC held 56 financial literacy promotion sessions at schools and organizations, including Huaren Elementary School in Hualien County, with a total of 5,759 participants attending. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of May 2019, in all 6,012 sessions have been held and over 980,000 people have 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 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.

### ***Gender statistical analysis of various credit businesses undertaken by banks and non-performing loans in 2018***

According to the report of various credit business undertaken by banks and non-performing loans provided by the Joint Credit Information Center as of the end of 2018, the ratios of loan amount for men and women were 56.41% and 43.59%, respectively; the ratios of number of cases for men and women were 53.79% and 46.21% respectively, with the average loan of NT\$2.54 million for men and NT\$2.28 million for women; the ratio of loan balance was 56.9% for men and 43.1% for women, with respective non-performing loan ratio of 0.21% and 0.14%.

### ***Major Enforcement Actions***

#### ***Nan Shan Life Insurance Co., Ltd. was fined***

Nan Shan Life Insurance Co., Ltd. failed to establish related checking and supervision mechanisms for preventing conflict of interest for domestic equity investors, failing to bring into play the effectiveness of internal control system design and execution. In addition, the company received whistleblowing from a member of the public at the end of May 2018, that the manager of its Investment Department whose last name is Yeh had established a social media group, but the decision-making team based on the contingency mechanism did not handle, assess and judge whether it was a material contingency and also did not make a report. The material contingency reporting judgment mechanism of the company was thus deemed as systematic material deficiencies. Furthermore, the company's deficiencies, including excessively long reporting cycle for individual equity investment transactions, failure to properly check account opening using a Citizen Digital Certificate and transaction data, failure to set an authorized limit on equity investment of individual investment manager, and failing to clearly set regulations for matters relating to decision-making team meetings of the contingency group of the head office, raised concern about its sound operation. In accordance with Article 149 and Article 171-1 of the Insurance Act, the FSC thus fined the company NT\$6 million and issued 5 reprimands and also ordered the company to remove Yeh from the manager's position.

#### ***Mercuries Life Insurance Co., Ltd. was fined***

When handling securities investment business, Mercuries Life Insurance Co., Ltd. was found to have deficiencies including the division of authority of investment department clearly not conforming to the principle of internal check, which was in violation of the Insurance Act. The FSC imposed a fine of NT\$1.8 million on the company in accordance with Paragraph 4 of Article 171-1 of the Insurance Act at the time of action and also issued 4 reprimands in accordance with Paragraph 1 of Article 149 of the same act.