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《Chinese version please refer to page 1》

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Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- FSC launched the “New Wealth Management Scheme”
- FSC amended the “Regulations Governing the Capital Adequacy and Capital Category of Banks,” on basis thereof designated 5 domestic systemically important banks
- FSC issued the requirements governing insurance product structure

Policy and Law

FSC launched the “New Wealth Management Scheme”

To attract more Taiwan citizens and foreign nationals to seek wealth management services in Taiwan, on December 31, 2019, the FSC launched the “New Wealth Management Scheme,” under which deregulation will be adopted to allow for a greater variety of financial products and services. The goal is to expand the size of Taiwan’s wealth management business, cultivate wealth management talent, strengthen the financial product R&D capabilities of financial institutions, and make Taiwan’s financial institutions more internationally competitive. The Scheme has 3 main aspects and introduces 19 deregulatory measures, as mainly described below:

1. Open up new financial products and services for wealth management business for high-asset customers: The FSC has formulated a draft set of the “Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers.” These Regulations allow eligible banks to provide a variety of wealth management products and services to high-asset customers.
2. Open up a wider variety of financial products and investment channels: deregulatory measures include (1) for high-net-worth customers seeking to purchase foreign securities via a securities firm, a relaxation of requirements regarding foreign bond ratings has been proposed; (2) REITs will be allowed to be issued under a fund structure; (3) leverage transaction merchants will be allowed to provide ordinary individual customers with trading services involving contracts for difference (CFD) linked to crude oil and gold prices; (4) leverage transaction merchants will be allowed to provide non-delivery forward (NDF) trading services not involving NT dollar NDFs; (5) foreign firms possessing specified qualifications will be allowed to take foreign currencies which they hold and pledge them as security to obtain financing from securities firms; (6) foreign-currency-denominated investment-linked insurance products under discretionary management can be used to invest in domestic equity funds issued by securities investment trust enterprises; and (7) the procedures for private placement of offshore funds have been simplified.
3. Expand the business scope of financial institutions: deregulatory measures include (1) securities firms will be allowed to handle margin purchasing of foreign securities; (2) banks and securities firms will be allowed to engage in trades with overseas affiliated enterprises; (3) securities firms will be allowed to manage private equity funds; and (4) OSUs will be allowed to conduct lending of funds for unrestricted purposes.

Legislative action is still required to facilitate some of the measures called for in the “New Wealth Management Scheme.” The FSC will accelerate related legislative amendments to help financial institutions take needed steps.

Notification of E-journal of Financial Outlook Monthly

Thank you for reading the Financial Outlook Monthly. We will stop printing and sending the paper-form journal since January 2021 (No.194), and still provide E-journals on our website. If you would like to receive E-journal every month, please send your E-mail address to yhhsu@fsc.gov.tw. You may also download E-journal files from our website through the QR code as the following or the URL (<https://www.fsc.gov.tw/en/home.jsp?id=55&parentpath=0,4>). Many thanks,
Financial Supervisory Commission, Republic of China (Taiwan)



Financial Outlook
Monthly

FSC amended the “Regulations Governing the Capital Adequacy and Capital Category of Banks,” on basis thereof designated 5 domestic systemically important banks

“A Framework for Dealing with Domestic Systemically Important Banks,” which was issued by the Basel Committee on Banking Supervision (BCBS) in 2012, requires countries to identify domestic systemically important banks (D-SIBs) and subject them to enhanced supervisory measures. In response to this Framework, the FSC invited the Central Bank, the Ministry of Finance, and the Central Deposit Insurance Corporation to form an ad hoc task force which was instructed to collect information on concrete measures adopted by major nations, to complete an identification framework for D-SIBs in Taiwan, and to devise a set of enhanced supervisory measures. The FSC amended the aforementioned Regulations on December 23, 2019 and issued a set of “Directions Governing the Identifying Indicators and Requirements for D-SIBs” on December 27, 2019. Based on the above, the FSC has designated 5 D-SIBs.

FSC issued the requirements governing insurance product structure

The FSC promulgated the “Directions Governing the Minimum Ratio of Death Benefit to Policy Value (Account Value) Regarding the Life Insurance Products” and amended the “Directions for the Review of Life Insurance Products” on December 24, 2019, both of which will take effect from July 1, 2020. The FSC took these measures in order to: (a) ensure the sound development of insurance firms; (b) support implementation of the Financial Development Action Plan’s policy plan of “promoting more diversified insurance protections, and ensuring that insurance fulfills its function of providing the public with peace of mind”; and (c) help insurers adopt the International Financial Reporting Standards 17. Once these purposes have been achieved, it is hoped that insurers will provide a certain degree of protection against death risk, will adjust product structure to increase protections and reduce the percentage of savings-type insurance policies, and will act to stabilize their financial structure, strengthen their solvency, and achieve sustainable business operations.

Amendments to the “Instructions for Reporting Voting Shares in Accordance with Paragraph 2, Article 16 of Financial Holding Company Act” and the “Instructions for Reporting Voting Shares in Accordance with Paragraph 2, Article 25 of Banking Act”

On December 25, 2019, the FSC, making reference to the “Regulations Governing Anti-Money Laundering of Financial Institutions,” amended the two aforementioned Instructions, which are set to take effect on July 1, 2020. The main purpose of the amendments is to incorporate the beneficial owner concept into financial institution equity management, thereby achieving greater transparency in equity ownership. Key points of the amendments include the following: (1) a single party or group of related parties, or a third party as defined in Article 16, Paragraph 4 of the “Financial Holding Company Act” or Article 25, Paragraph 4 of the “Banking Act,” that is a legal person, must now be reported if it is a beneficial owner or the ultimate controlling party; (2) in light of the FSC’s supervisory needs with respect to the beneficial owners or ultimate controlling party behind a corporate shareholder, the FSC issued a new provision to exempt the requirement of identification of beneficial owners for financial institutions; and (3) to coordinate with modifications to related reporting forms, reporting entities are required to provide charts showing ownership structure and control structure.

Amendments to the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies” and related interpretations, the “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies,” the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter,” and the “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”

To facilitate the business operations of public companies, to coordinate with a recent amendment to the “Company Act,” and to strengthen independence requirements for independent directors and remuneration committee members, the FSC has amended the 4 aforementioned Regulations and related interpretations on January 15, 2020. Key points of the amendments include the following:

1. “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies”:
(1) amendments pertaining to independence requirements – A. For a public company that has juristic-person directors and supervisors, that is part of a common control group, or that has either a single person or spouses in the positions of chairman and CEO, a newly added provision prohibits such persons from serving as an independent director of such a public company. B. For employees who provide business, legal, and other non-audit services, the amended Regulations set out requirements for the position level of such employees, and also set out materiality standards for the amount of remuneration they receive for those services. C. The amended Regulations allow the concurrent holding of independent directorships at parent companies and subsidiaries. (2) Documentation requirements for the nomination of an independent director have been adopted, and in a related interpretation the FSC requires that when a public company intends to nominate a full-time instructor from a public institution of higher education to serve as an independent director, the company must first obtain an approval document from that person’s school. (3) The amended Regulations stipulate requirements for calculating the number of companies at which an independent director at a financial holding company (or an investment holding company) holds concurrent directorships. (4) The FSC has set a transition period for adoption of the new independence requirements.
2. “Regulations Governing the Exercise of Powers by Audit Committees of Public Companies”: A newly added provision states that when an independent director’s spouse or blood relative within the second degree of kinship has an interest in a matter on the agenda of an Audit Committee meeting, the independent director shall be deemed to have a personal interest in the matter.
3. “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter”: (1) The FSC, making reference to provisions governing independent directors, has adopted independence requirements for the members of a remuneration committee, and has set a transition period for adoption of the new independence requirements. (2) A new provision states that when a remuneration committee conducts discussions and votes on resolutions, non-voting participants must absent themselves from the meeting. (3) Newly added provisions are given in which remuneration committee members must exercise recusal when the committee discusses their remuneration, and related matters that the meeting minutes must record in detail.
4. “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”: (1) A newly added provision states that when a board of directors meeting has been convened by a majority of board members, the directors may select a chair from among themselves. (2) A newly added provision states that when a director’s spouse, or a director’s blood relative within the second degree of kinship, or a company that has a relationship of control or subordination with a director, has an interest in a matter on the agenda of an Audit Committee meeting, the director shall be deemed to have a personal interest in the matter.

Amendments to the “Standards Governing the Establishment of Securities Firms,” the “Regulations Governing Securities Firms,” the “Regulations Governing Responsible Persons and Associated Persons of Securities Firms” and the “Regulations Governing Centralized Securities Depository Enterprises”

On January 15, 2020, the FSC amended Articles 3 and 11

of the “Standards Governing the Establishment of Securities Firms,” Article 45-1 of the “Regulations Governing Securities Firms,” and Article 21-1 of the “Regulations Governing Responsible Persons and Associated Persons of Securities Firms.” The purposes of these amendments were to: (a) adapt to new types of investment and trade activities brought about by FinTech innovation; and (b) ensure the exercise of regulatory oversight over offerings of virtual currencies with the nature of securities in the amount of NT\$30 million or less. Under the amended provisions, a securities firm that trades, only for its own account, in virtual currencies with the nature of securities must have paid-in capital of no less than NT\$100 million, and must operate its related internal controls in accordance with the requirements of the Taipei Exchange (TPEX). The FSC has authorized the TPEX to regulate such trading and adopt related rules. In addition, the FSC has amended Articles 2 and 3 of the “Regulations Governing Centralized Securities Depository Enterprises” to provide that when a securities firm, acting with FSC approval, conducts trading and custody business involving virtual currencies with the nature of securities, it is not acting as a centralized securities depository enterprise.

Amendments to the Articles 19 and 31-3 of the “Regulations Governing Securities Firms”

To afford securities firms’ greater flexibility in their business operations, the FSC on February 3, 2020 issued amendments to Articles 19 and 31-3 of the “Regulations Governing Securities Firms.” Key points of the amendments include the following:

1. Securities firms may be exempted from limits on the total amount they invest in equity securities issued by related parties in the handling of hedging operations for exchange traded notes (ETNs).
2. A securities dealer may, with the approval of three-fourths of the directors present at a board meeting attended by not less than two-thirds of all directors, trade in foreign bonds and foreign financial derivatives with overseas affiliated enterprises. In addition, the amended provisions define the conditions under which a securities dealer may authorize its management to conduct such trading, and place limits on trading amounts.

Amendments to the “Directions for Operation Outsourcing by Insurance Enterprises”

On May 2, 2019, the FSC issued an interpretation declaring that “foreign-currency-denominated insurance products sold by an insurer in accordance with the Insurance Act” qualify as “financial products or services for which the competent authority has granted approval that receipts and payments may be processed by an agent” as referred to in Article 4, Paragraph 1, Subparagraph 2 of the “Act Governing Electronic Payment Institutions.” To coordinate with the aforementioned interpretation, the FSC amended the aforementioned Directions on December 26, 2019 to make it more convenient for policyholders to pay premiums, and to facilitate business development for insurers and electronic payment institutions. Also, to adapt to the trend toward adoption by insurers of cloud-based services, and in consideration of the importance of data security, the FSC has issued rules governing the use of cloud-based services in connection with the outsourcing by insurers of business operations in order to reduce the risk of service interruption due to their outsourcing by insurers. These rules are designed to facilitate the appropriate introduction of cloud-based services and enable financial institutions to handle operations more efficiently.

Amendments to the “Regulations Governing Foreign Investments by Insurance Companies”

On December 31, 2019, the FSC amended the aforementioned Regulations. The amended provisions: (a) allow insurers to invest in Sukuk certificates issued by foreign issuers on the international bonds professional board in Taiwan; (b) allow insurers to invest in privately placed corporate bonds that have been issued by foreign listed companies and are not traded on any foreign centralized securities market or OTC market; (c) allow to replace the credit ratings of the issuer or guarantor with bond issuance ratings; (d) specify the scope of “major sanctions and penalties”; and (e) clarify the restrictions on the redemption period of international bonds. These amendments will help improve insurers’ risk management on their international bond positions, will provide insurers a greater variety of investment channels, and will afford insurers greater

efficiency and flexibility in their investments.

Amendments to the Articles 7 and 10 of the “Regulations Governing Use of Insurer’s Funds in Special Projects, Public Utilities and Social Welfare Enterprises”

The FSC amended the aforementioned Regulations on December 31, 2019. The amended provisions: (a) set out requirements that an insurer must continue to comply with after it has invested in a venture investment enterprise; and (b) relax the applicable threshold of subsequent review for an insurer’s infrastructure investments not regulated by the “Act for Promotion of Private Participation in Infrastructure Projects.” The purposes of these amendments are to strengthen the control mechanism after insurers’ investments in venture investment enterprises, and to simplify the procedures for insurers’ investments in infrastructure projects.

Amendments to the supplements to Articles 2 and 3 of “Standards for the Levy Rates of the Life and Non-life Insurance Guaranty Funds”

On January 3, 2020, the FSC amended the supplements to Articles 2 and 3 of the “Standards for the Levy Rates of the Life and Non-life Insurance Guaranty Funds.” The main amendments were to: (a) introduce new 2020 weightings for the management performance benchmark criteria that factor into the differential levy rates for the Life and Non-life Insurance Stabilization Funds; (b) introduce new 2020 applicability standards for some benchmark criteria; and (c) amend the differential levy rate standards applying to life insurance for disabled persons and to small amount whole life insurance.

International Activities

The Secretary General of International Association of Insurance Supervisors (IAIS), Jonathan Dixon visited FSC

On December 12, 2019, the FSC Chairman, Wellington Koo received a visit from Secretary General Jonathan Dixon of the International Association of Insurance Supervisors (IAIS). The two sides discussed their experiences with insurance supervisory issues and policies.

Industry Updates

FSC released the list of approved applications in November 2019 for additional financial institution locations

In consideration of the recent closures of branch locations, the overall situation of Taiwan’s economy and financial industry, the need for balance between development in urban and rural areas, and the financial and business conditions of applicant banks, the FSC in November 2019 approved applications by Taipei Fubon Commercial Bank and CTBC Bank to open 8 branches and 1 branch, respectively. No applications were submitted by credit cooperatives in November 2019.

Taiwan Cooperative Bank gets approval to apply for the establishment of U.S. Houston branch

The FSC granted approval for Taiwan Cooperative Bank to apply with the US financial authorities for permission to establish a branch in Houston, Texas on December 24, 2019. The bank plans to establish a Houston branch in order to layout its US services network, serve the needs of Taiwan-invested firms in that area, strengthen its overseas business presence and service quality, and expand its overseas business.

Taiwanese banks currently have a total of 23 branches, 3 subsidiaries, and 2 representative offices in the United States.

FSC grants approval Kuanz Ho Securities to acquire Chin Kang Securities

On December 20, 2019, the FSC approved an application by Kuanz Zo Securities Co., Ltd. to acquire Chin Kang Securities Co., Ltd. To expand the business size and enhance the competitiveness of securities firms, the FSC encourages securities firms to use mergers and acquisitions strategy to strengthen their business operations.

NPL ratio for domestic banks at 0.21% at the end of December 2019

The total outstanding loans extended by the current 36 domestic banks decreased by NT\$41.1 billion as compared to the figure of previous month and amounted to NT\$29.69 trillion at the end of December 2019. Meanwhile, the NPLs of these banks totaled at NT\$63.6 billion which decreased by NT\$4.7 billion from NT\$68.3 billion as of the end of the previous month.

With a slight decrease of 0.02 percentage point, the average NPL ratio of the 36 banks fell to 0.21% down from 0.23% 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 46.27 percentage points and therefore rose to a figure of 651.78% from 605.51% of the previous month.

NPL situation of credit cooperatives at the end of December 2019

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.38 billion as of the end of December 2019, generating an NPL ratio of 0.08%, down by 0.02 percentage points from 0.10% at the end of November 2019. The NPL coverage ratio was 2,681.95%, up by 615.63 percentage points from 2,066.32% at the end of November 2019.

Net foreign and Mainland China investment in listed shares

As of the end of December 2019, foreign investors had bought around NT\$8,139.3 billion and sold around NT\$7,894.3 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$245 billion. In addition, foreign investors had bought around NT\$904.8 billion and sold around NT\$879.8 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$25 billion. Meanwhile, mainland China investors had bought around NT\$19.2 billion and sold around NT\$20 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$800 million; mainland China investors had bought around NT\$3.9 billion and sold around NT\$3.1 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$800 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 at the end of December 2019 stood at approximately US\$213.4 billion, up by around US\$3.8 billion from US\$209.6 billion at the end of November 2019. The figure for cumulative net inward remittances by mainland China investors was US\$188.9 million, up by around US\$400,000 from US\$188.5 million at the end of November 2019.

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

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of October 2019 (accumulated) was as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$421.004 billion, down by 22% from NT\$536.364 billion compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$135.912 billion (around 32% of the total), down by 37% from NT\$214.733 billion compared with the same period last year, and the sales of traditional insurance products totaled NT\$285.092 billion (around 68% of the total), down by 11% from NT\$321.631 billion compared with the same period last year.

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

Pre-tax profit of insurance enterprises at the end of November 2019 was NT\$184 billion; pre-tax profit of life insurance enterprises was NT\$168.7 billion, an increase of NT\$60 billion, or 55.2%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$15.3 billion, up by NT\$900 million or 6.3% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of November 2019 was NT\$2,047.9 billion; Owners' equity of life insurance enterprises was NT\$1,914 billion, an increase of NT\$794.9 billion, or 71%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$133.9 billion, up by NT\$16 billion or 13.6% compared

with the same period in 2018.

During the month of November 2019, the NT Dollar depreciated by 0.2% versus the US Dollar from the previous month, and the cumulative balance of foreign exchange valuation reserve of life insurance enterprises to the end of November in 2019 was NT\$58.5 billion, decreasing NT\$1.1 billion from the previous month. Pre-tax profit of life insurance enterprises at the end of November 2019—which includes exchange gains/losses, hedging gains/losses, and the net effect of volatility on the foreign exchange valuation reserve—was NT\$168.7 billion.

Investor and Consumer Protection

2020 School and Community Financial Literacy Campaign

As part of the 2019 School and Community Financial Literacy Campaign, the FSC held 538 financial literacy events over the course of the year at schools and organizations, including Taipei Municipal Jian'an Elementary School, attracting a total attendance of 58,602 participants. The events are free of charge, and have struck a chord with many people since their inception in 2006. As of the end of 2019, a total of 6,319 events had been held and over 1.01 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants and military service personnel.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2020. 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

FSC imposed sanctions on Taichung Commercial Bank

While performing a full scope examination on Taichung Commercial Bank in 2018, the FSC discovered deficiencies involving the bank's oversight of subsidiaries and its implementation of anti-money laundering operations, legal compliance, and consumer protection. These deficiencies constituted legal violations and hindered safe and sound operation, so the FSC imposed an administrative fine of NT\$6 million, issued an official reprimand, and required correction within a specific period. The sanctions were imposed in accordance with the provisions of the "Banking Act" (Article 129, Subparagraph 7 and Article 61-1, Paragraph 1) and the "Financial Consumer Protection Act" (Article 12-1, Paragraph 1) in force at the time of the violations.

FSC imposed sanctions on Taichung Bank Insurance Brokers

While performing a full scope examination on Taichung Bank Insurance Brokers (TBIB) in 2018, the FSC discovered that TBIB: (a) had failed to establish an effective internal control system for entertainment expenses; (b) in its handling of customer complaints had failed to fill out complaint handling logs and maintain a record of actions taken; (c) had failed to include the component elements of its internal control system among the items requiring inspection during internal audits; (d) had issued insurance sales bonuses to employees who had not actually sold anything; and (e) had failed to include non-financial indicators among the factors to be considered when calculating insurance product sales bonuses. These deficiencies constituted violations of insurance-related legislation, so the FSC ordered the implementation of two corrective actions within one month and imposed an administrative fine of NT\$4.8 million in accordance with the provisions of the "Insurance Act" (Articles 167-2 and 167-3) and the "Financial Consumer Protection Act" (Article 30-1).

FSC imposed sanctions on Bank of Panhsin

After discovering that the Bank of Panhsin had invested in excess of the legal limit in real estate not intended for self-use, in violation of Article 75, paragraph 3 of the "Banking Act," the FSC imposed an administrative fine of NT\$1 million in accordance with Article 130 of the same Act in force at the time of the violation. Also, the Bank had failed to carry out rigorous reviews before modifying the conditions for loans to interested parties. This violation hindered safe and sound operation, so the FSC issued an official reprimand in accordance with Article 61-1, Paragraph 1 of the same Act.