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- FSC amends "Regulations Governing Issuance of Bank Debentures by Banks"
- FSC requires financial holding companies to establish control procedures and internal audit systems to prevent conflicts of interest or improper transactions involving domestic equity investments

Policy and Law

Results of and timetable for legislation review and amendment under FSC jurisdiction

In June 2020, the FSC launched the "Project for the Streamlining, Integration, and Modernization of Legislation Under the Jurisdiction of the Financial Supervisory Commission." Under this project, the FSC is reviewing existing legislation in preparation to repeal, simplify, or integrate laws and regulations that are outdated or overlapping. The project is being carried out in two phases.

As of 31 December 2020 the FSC had completed Phase 1 legislative review work (i.e. review of legislation issued prior to 31 January 1981 by the former Department of Currency Administration of the Ministry of Finance, and legislation issued prior to 30 June 1981 by the former Securities and Exchange Commission of the Ministry of Economic Affairs). Phase 1 results include the repeal of 1,254 items of outdated legislation (17 under the jurisdiction of the four departments at the FSC head office, 833 under the Banking Bureau, 92 under the Securities and Futures Bureau, and 312 under the Insurance Bureau), discussion and retention of two items, and consolidation of multiple regulatory interpretations into three interpretations. These actions have effectively reduced the legal compliance costs of financial services firms, and promise to improve the effectiveness of financial supervision.

Phase 2 work will focus on the review of regulations and administrative directions issued prior to the establishment of the FSC on 1 July 2004. Phase 2 will be divided into two parts. In the first part, which is scheduled for completion by 31 December 2021, the FSC will focus on legislation issued during the decade from 1 February 1981 to 31 December 1991. The tentative plan is to review 35 items of legislation under the jurisdiction of the four departments at the FSC head office, 1,021 under the Banking Bureau, 520 under the Securities and Futures Bureau, and 364 under the Insurance Bureau. In the second part, which is scheduled for completion by 30 June 2024 at the latest, the FSC will focus on legislation issued from 1 January 1992 through 30 June 2004. The tentative plan is to review 225 items of legislation under the jurisdiction of the four departments at the FSC head office, 2,480 under the Banking Bureau, 2,355 under the Securities and Futures Bureau, and 1,065 under the Insurance Bureau.

FSC amends "Regulations Governing Issuance of Bank Debentures by Banks"

To follow up on the issuance on 7 August 2020 of the "Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers," which diversified the range of debentures that banks can issue and provide to high-asset customers, the FSC on 24 February 2021 amended the "Regulations Governing Issuance of Bank Debentures by Banks" to coordinate with the earlier Regulations and strengthen the capital raising ability of the overseas branches and subsidiaries of domestic banks, thereby improving their business operations. The amended provisions govern debenture issuance procedures and the limit on the allowed number of bonds issued and outstanding.

FSC requires financial holding companies to establish control procedures and internal audit systems to prevent conflicts of interest or improper transactions involving domestic equity investments

Despite guidelines regarding the prevention of conflicts of interest that financial holding companies and their subsidiaries have adopted, financial holding companies still need concrete control procedures and internal audit systems to strengthen their ability to prevent conflicts of interest, improper transactions, copy trading, and other such inappropriate behavior. On 26 January 2021, the FSC distributed a letter to financial holding companies urging them to (a) establish concrete control procedures and internal audit systems to prevent conflicts of interest or improper transactions and (b) ensure that such procedures and systems apply to all company personnel who, in the course of their business activities, acquire detailed information about trading by subsidiaries in domestic equity products. The FSC's letter instructed financial holding companies to take these actions with reference to Articles 6 and 7-1 of the "Self-Regulatory Rules for the Asset Management of Insurance Enterprises" (which, among other things: prohibit insurers from using information which they learn in the course of their business activities to trade on their own account or on behalf of others in domestic equity products with the intent to earn a profit, and require insurers to establish mechanisms for control and reporting of investments in domestic equity products by persons involved in domestic equity product trading). In addition, the FSC also asked financial holding companies to include these two mechanisms in the items of companies' self-audits and internal audits.

FSC reminds TWSE- and TPEX-listed companies to enhance capacity for preparing financial reports to meet the timeline for publishing unaudited financial information set out in the "Corporate Governance 3.0 -Sustainable Development Roadmap"

Taiwan has adopted IFRS Standards since 2013. While IFRSs are more principle-based, which require the extensive exercise of professional judgement, the quality of financial reports is obviously more important. The FSC has taken further actions to improve the timeliness of financial information disclosure, as follows:

1. Strengthen capacity for preparing financial reports: Starting from 2019 annual reports, the Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX) are examining how companies prepare their financial statements over a period of five years so as to assist companies in refining the design and operations of the management of the procedures for preparing financial statements.
2. Enhance the timeliness of financial information disclosure: The FSC issued the "Corporate Governance 3.0 -Sustainable Development Roadmap" in September 2020. Under this Roadmap, listed companies will be required to publish unaudited annual financial information within 75 days after the end of the fiscal year (listed companies with paid-in capital of NTD10 billion or more shall publish the 2021 information starting from 2022, listed companies with paid-in capital of NTD2 billion or more but less than NTD10 billion shall publish 2022 information starting from 2023, and remaining listed companies shall publish 2023 information starting from 2024).

FSC amends Point 2 of "Directions for Insurance Companies to Engage in Microinsurance Business"

To continue promoting microinsurance and ensure that it plays its intended role of providing for protection needs left unmet by the government's social security and social assistance mechanisms, the FSC on 19 January 2021 amended Point 2 of the "Directions for Insurance Companies to Engage in Microinsurance Business" (the amended provisions took effect immediately). The key point

of the amendment is to expand the range of persons eligible for microinsurance to include mid- or low-income senior citizens who receive a living allowance (and their family members), so that such persons can also enjoy the basic insurance protections afforded by microinsurance.

FSC requires CPAs to comply with the ARDF "Procedural Guidelines for CPA Audits of Insurers' Internal Control Systems" since they conduct 2021 insurers' internal audit work

To reap greater benefits from audits of the internal controls of insurance enterprises, the FSC has approved the "Procedural Guidelines for CPA Audits of Insurers' Internal Control Systems," which were recently filed with the FSC by the Accounting Research and Development Foundation in Taiwan (ARDF). Since 1 January 2021, these Procedural Guidelines are applicable to certified public accountants when they audit insurers' internal controls. The notable features of the Procedural Guidelines are the following:

1. Improving the self-assessment function of internal audit systems, and strengthening the effectiveness of CPA audits: The Procedural Guidelines take the FSC's current evaluation criteria for internal control audits as their basic framework, and refer to related legislative provisions in listing specific criteria to be used for evaluating the effectiveness of internal controls. CPAs and insurers' internal control officers can use these evaluation criteria as a checklist, going through the criteria one at a time for assessment and auditing purposes, thus improving insurers' internal audit functions and raising the quality of CPA audits of the effectiveness of internal controls.
2. Incorporating various control operations and handling procedures, and providing for comprehensive audit coverage: Article 5 of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises" requires that certain control operations be included within the auditing scope. The Procedural Guidelines duly include those within the auditing scope, along with control procedures that receive attention in financial examinations carried out by the FSC Financial Examination Bureau. In addition, "protection of personal information" and "conflicts of interest involving equity," which are among the principal subjects of deficiencies identified in financial examination reports, are also included among audit items and execution programs.

International Activities

FSC Chairperson Huang meets with British Office Taipei Representative John Dennis

British Office Taipei Representative John Dennis was warmly received by the FSC Chairperson Thomas Tien-Mu Huang on 5 February 2021. The two sides engaged in a wide-ranging exchange of views on major financial issues such as green finance and Fintech.

Industry Updates

FSC grants banking license to LINE Bank Taiwan

On 4 February 2021, the FSC granted a banking license to LINE Bank Taiwan, which is now the second Internet-only bank to obtain a banking license in Taiwan. The FSC had granted approval for the establishment of LINE Bank Taiwan on 2 August 2019, and after nearly a year of preparation, the banking license application was submitted to the FSC, which recently completed all off-site assessment and on-site application review procedures and then granted the business license on 4 February 2021. The FSC hopes that after it opens, LINE Bank Taiwan will act in the

spirit of responsible innovation to spur innovation in the market, foster the development of the banking industry, and achieve financial inclusion.

FSC recognizes well-performing banks in Phase 2 of "Program for Encouraging Domestic Banks to Expedite Processing of Relief and Stimulus Loans"

On 18 January 2021, the FSC held a ceremony to grant public recognition to domestic banks that have performed well in implementing Phase 2 of the "Program for Encouraging Domestic Banks to Expedite Processing of Relief and Stimulus Loans." The selections were based on the performance of banks as of 31 December 2020 in providing relief and stimulus loans. The following 10 banks were singled out for recognition: Taiwan Cooperative Bank; Export-Import Bank of the Republic of China; Hua Nan Commercial Bank; Bank of Taiwan; Taipei Fubon Commercial Bank; Taiwan Business Bank; CTBC Bank; First Commercial Bank; Cathay United Bank; and Land Bank of Taiwan.

The total amount of relief loans provided by all banks has increased by more than NT\$1.7843 trillion over the course of Phase 2 of the Program. It is especially noteworthy that the amount of relief and stimulus loans provided by banks without government interest subsidies actually exceeded the amount of such loans provided with government interest subsidies, which shows that banks themselves are fully aware of the importance of assisting customers that have been adversely affected by the COVID-19 pandemic. This ceremony was held to accord public recognition to top performers in Phase 2 of the Program.

NPL Ratio for Domestic Banks as of the End of January 2021

The total outstanding loans extended by the current 37 domestic banks increased by NT\$188.1 billion (US\$6.62 billion) as compared to the figure of previous month and amounted to NT\$31.65 trillion (US\$1,113.97 billion) at the end of January 2021. Meanwhile, the NPLs of these banks totaled at NT\$70 billion (US\$2.46 billion) which increased by NT\$0.8 billion (US\$0.03 billion) from NT\$69.2 billion (US\$2.43 billion) as of the end of the previous month. The average NPL ratio of the 37 banks remained at 0.22% compared to previous month, but was down by 0.01 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 616.71%. While the ratio decreased by 6.53 percentage points from 623.24% of the previous month, it still remained stable at a higher level.

NPL situation of credit cooperatives at the end of January 2021

Total NPLs of Taiwan's 23 credit cooperatives stood at approximately NT\$0.458 billion as of the end of January 2021, generating an NPL ratio of 0.09%, same as that of the end of December 2020. The NPL coverage ratio was 2,326.56%, up by 100.09 percentage points from 2,226.47% at the end of December 2020.

Public and private securities offerings by public companies in 2020 increase in both number and total value of offerings

1. In 2020, public companies in Taiwan had registered 360 domestic public securities offerings that raised a total of NT\$936.271 billion, and had additionally registered seven overseas offerings that raised a total of NT\$79.35 billion. The total number of registered domestic and overseas offerings together thus came to 367, and the total amount of capital raised was NT\$1015.621 billion (a 10-year high). Compared to the numbers for 2019, the number of public offerings was up 31.07% (from 280 offerings) while the total amount of capital

raised was up 77.01% (from NT\$573.767 billion). These increases occurred primarily because the number of large offerings rose in 2020.

2. In 2020, public companies carried out 117 private placements worth a total of NT\$58.8 billion, or 5.47% of the amount of capital raised through public offerings. The total number of such private placements was up by 4.46% from the 2019 figure of 112, while the total amount of capital raised was down 65.22% from the 2019 figure of approximately NT\$169.1 billion. This dip in the amount of capital raised occurred primarily because private placements in 2019 were relatively large.
3. Domestic offerings accounted for 92.19% of the total amount of capital raised by public companies in 2020, while overseas offerings accounted for the other 7.81%. It is thus clear that companies continue to rely primarily on domestic markets to raise capital.
4. Over the course of 2020, the two biggest uses for capital raised by companies via domestic cash capital increases and corporate bond issues were repayment of debt and expansion of plant and equipment. A total of NT\$272.161 billion (up by 179.6% from NT\$97.341 billion in 2019, and a 10-year high) was raised via 46 domestic cash capital increases and corporate bond issues in 2020 (up by 70.37% from 27 cases in the previous year). These figures show that the domestic economy is developing in a positive direction, and companies need to expand business operations and production volume.

Net foreign and mainland China investment in listed shares

As of the end of January 2021, foreign investors had bought around NT\$1,839.3 billion and sold around NT\$1944.1 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$104.8 billion. In addition, foreign investors had bought around NT\$215.3 billion and sold around NT\$204.8 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$10.5 billion. Meanwhile, mainland China investors had bought around NT\$600 million and sold around NT\$800 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$200 million; and mainland China investors had bought around NT\$28 million and sold around NT\$95 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$67 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 January 2021 stood at approximately US\$213.4 billion, up by around US\$4.9 billion from US\$208.5 billion at the end of December 2020. The figure for cumulative net inward remittances by mainland China investors was US\$29 million, down by around US\$11 million from US\$40 million at the end of December 2020.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of November 2020

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of November 2020 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$451.271 billion, down by 3% from NT\$466.730 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$133.954 billion (around 30% of the total), down by 10% from NT\$148.814 billion year-on-year, and the sales of traditional insurance products totaled NT\$317.317 billion (around 70% of the total), down by 0.19% from NT\$317.916 billion year-on-year.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2020 through Q4

As of the fourth quarter of 2020, the performance of life insurers in selling spillover-effect insurance products and providing in-kind

benefits was as follows:

1. The FSC has approved or accepted registrations of 54 spillover-effect insurance products from 8 life insurance companies. In total, 205,331 new contracts for such products have been sold as of the fourth quarter of 2020, up by 241% from 60,117 compared to the fourth quarter of 2019. The first-year premium income was NT\$2,283.87 million, up by 179% from NT\$816.46 million compared to the fourth quarter of 2019.
2. The FSC has approved or accepted registrations of 22 in-kind payment insurance products from 6 life insurance companies. In total, 32,561 new contracts for such products have been sold as of the fourth quarter of 2020, down by 82.1% from 181,755 compared to the fourth quarter of 2019. The first-year premium income was NT\$32.77 million, down by 14.8% from NT\$38.46 million to the fourth quarter of 2019.

Profit/loss, net value and exchange gains/losses of the insurance industry in December 2020

The pre-tax profit of insurance enterprises at the end of December 2020 was NT\$223.1 billion; the pre-tax profit of life insurance enterprises was NT\$206.1 billion, an increase of NT\$51.4 billion, or 33.2%, compared with the same period in 2019; the pre-tax profit of non-life insurance enterprises was NT\$17 billion, up by NT\$1 billion or 6.3% compared with the same period in 2019.

The owners' equity of all insurance enterprises at the end of December 2020 was NT\$2,663.1 billion. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,518.5 billion, an increase of NT\$588.8 billion, or 30.5%, compared with the same period in 2019, and the owners' equity of non-life insurance enterprises was NT\$144.6 billion, up by NT\$9.3 billion or 6.9% compared with the same period in 2019.

As of the end of December 2020, the NT Dollar had appreciated by 5.3% versus the US Dollar from the end of 2019, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$46.2 billion, down by NT\$8.3 billion from the end of 2019. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses, and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises was a negative NT\$296.8 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$626.4 billion.

Investor and Consumer Protection

2021 School and Community Financial Literacy Campaign

As part of the 2021 School and Community Financial Literacy Campaign, the FSC held three financial literacy events in February 2021 at schools and organizations, including Department of Transportation, Taipei City Government, attracting a total attendance of 80 participants. The events are free of charge, and have struck a chord with many people since their inception in 2006. As of December 2020, a total of 6,865 events had been held and over 1.06 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2021. 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 imposes fine on Citibank Taiwan

The FSC's action is based on deficiencies found in the Bank's internal control system which resulted in inaccurate data reporting on credit card and personal credit extension business to the FSC and Joint Credit Information Center (JCIC). The inaccurate data reporting to the FSC and JCIC can be traced back to Dec 2010. The Bank lacks a proper internal control mechanism for regulatory data reporting and has shortcomings in its internal review process, which resulted in the Bank violating Paragraph 1 of Article 45-1 of the Banking Act. The FSC therefore imposed an administrative fine of NT\$6 million in accordance with subparagraph 7, Article 129 of the Banking Act.

FSC imposes sanctions on Shinkong Insurance Co., Ltd.

During a targeted examination on the securities investment operations at Shinkong Insurance, the FSC discovered the following deficiencies: (1) In its conduct of securities transactions, Shinkong Insurance had violated procedural rules governing dealings with interested parties by failing to comply with Article 3, paragraph 1, subparagraph 10 of the "Regulations Governing Transactions Other Than Loans between Insurance Enterprises and Interested Parties," which requires that such matters be submitted the board of directors for approval. (2) The company had submitted statements of intent to subscribe before submitting investment analysis reports; managers gave traders simple oral instructions to change purchase prices; and prior to investments the company had failed to analyze the financial status of the issuer or had failed to prepare written reports on its exercise of voting rights at shareholders meetings of investee companies for the purpose of submitting such reports to the company's next board of directors meeting, or the company's personnel involved in equity investment operations had failed to file reports as required by law. The FSC, after determining there was a likelihood that these deficiencies were legal violations or impeded sound business management, imposed an administrative fine of NT\$4.5 million in accordance with Article 168, paragraph 5, subparagraph 8 of the "Insurance Act." The FSC also issued the company five official reprimands in accordance with Article 149, paragraph 1 of that same Act, and prohibited the company for two years from conducting after-market fixed-price trades or block trades of stocks with related parties.

FSC imposes sanctions on Jkopy Co., Ltd.

The FSC recently discovered deficiencies in Jkopy's lending funds to related parties that revealed a failure to properly implement internal controls in a manner that violated Article 30 of "The Act Governing Electronic Payment Institutions" ("the Act") and impeded sound business management. The FSC therefore imposed an administrative fine of NT\$1.8 million in accordance with Subparagraph 16, Article 48 of the Act. In addition, acting in accordance with Subparagraph 4, Paragraph 1, Article 35 of the Act, the FSC suspended Jkopy's Chairman Hu from his duties as a company director for one year.

Personnel Changes

Personnel changes at the FSC headquarters

Li-Chuan Wang retired on 20 February 2021 as Director General of the FSC's Financial Examination Bureau (FEB). Her position was filled Tzy-hao Chang, who was promoted from his former post as Deputy Director General of the FEB. Chief Secretary Tsai-Huai Chen was promoted to fill the position of Deputy Director General, while Shin-Kuo Lai, a division director in the FEB, was transferred to fill the position of Chief Secretary. All the vacated positions were filled on 20 February.