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Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- FSC adopts "Evaluation and Reward Measures Regarding Trust Enterprise Implementation of the Trust 2.0 Plan"
- FSC amends "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries"
- FSC amends Article 36-2 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets"
- FSC amends "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises"

Policy and Law

FSC adopts "Evaluation and Reward Measures Regarding Trust Enterprise Implementation of the Trust 2.0 Plan"

The FSC on 1 September 2020 adopted Trust 2.0 - "The Promotion Plan for Full-Function Trust Services" (abbreviated: "Trust 2.0 Plan") in hopes of guiding trust enterprises to enhance the functionality of their trust services, actively restructure, and cultivate professionals. In addition, Trust 2.0 also seeks to encourage trust enterprises to integrate their internal resources while cooperating with outside entities in other sectors in order to move away from their current over-emphasis on trust services for the purpose of wealth management, and instead to a comprehensive type of trust business that provides customers with services tailored to their particular needs.

In order to encourage trust enterprises to develop full-function trust services, the FSC (making reference to recommendations put forward by the Trust Association of R.O.C.) adopted the "Evaluation and Reward Measures Regarding Trust Enterprise Implementation of the Trust 2.0 Plan." These Evaluation and Reward Measures include the following four awards: Best Trust Award; Retirement Trust Award; Employee Welfare Trust Award; and Trust Business Innovation Award.

The adoption of these Evaluation and Reward Measures will hopefully encourage trust enterprises to integrate their internal resources, and to engage in cross-industry cooperation with social welfare organizations, elderly care organizations, and medical institutions to develop trust services that meet the diverse needs of customers.

FSC amends "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries"

On 23 September 2021 the FSC amended the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" to: (a) further promote the "Financial Cyber Security Action Plan" and enhance the ability of banks to integrate cyber security policies, coordinate the allocation of resources, and implement cyber security measures; (b) simplify the operating procedures that a bank must follow to prepare an internal control system statement; and (c) amend rules governing internal audit systems in alignment with business practices of the banking industry.

FSC amends Article 36-2 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets"

On 30 September 2021, the FSC amended the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" to enhance the decision-making of securities and futures services firms on cyber security matters. A securities or futures services firm meeting specific requirements should appoint a vice president (or a person of equivalent rank) or higher to serve as chief cyber security officer, who shall be in charge of promoting cyber security policy and the allocation of resources. Such a firm is also required to include a cyber security implementation statement in its statement on internal controls.

FSC amends "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises"

One part of the "Financial Cyber Security Action Plan" requires larger insurance companies to appoint a chief cyber security officer. The FSC on 1 September 2021 amended Articles 6-1, 25, and 41 of the "Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises." Under the amended provisions, an insurance enterprise with total assets in the previous year as audited by a CPA exceeding NT\$1 trillion must appoint a dedicated person of vice president level or above to serve concurrently as chief cyber security officer and to take full responsibility in managing company-wide cyber security policy and resource allocation. The said provision will take effect six months after its announcement. In addition, to help reduce compliance costs, multiple statements related to internal control and cyber security implementation are going to replace the statement on cyber security management, which is currently prepared separately.

FSC amends "Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprises"

On 15 September 2021, the FSC amended the "Regulations Governing the Scope of Business, Restrictions on Transfer of Beneficiary Rights, Risk Disclosure, Marketing, and Conclusion of Contract by Trust Enterprises" in order to guide trust enterprises to adopt reasonable evaluation standards, thereby encouraging banks that concurrently conduct trust business to integrate their internal resources and develop full-function trust services. Under the amended provisions, when a bank that concurrently conducts trust business considers the remuneration of trust business personnel, it must take into consideration how much the trust system has contributed to the promotion of integrated business, and when such a bank reviews the performance of an internal unit, it must accord reasonable weight to what that unit has done to ensure that the trust system would contribute to the promotion of integrated business.

FSC amends Point 6 and Attachment 1 under Point 4 of the "Directions for Insurance Enterprises Engaging in Online Insurance Business"

The FSC recently amended the "Directions for Insurance Enterprises Engaging in Online Insurance Business" in order to respond to the COVID-19 pandemic, to coordinate with the decision to allow the vaccination of minors aged 12 and up, to minimize the risk of COVID exposure, and to meet public demand for minors to be able to benefit from related insurance coverage. Point 6 of the Directions has been changed to allow non-life insurers to conduct online sales of comprehensive insurance which covers the cost of vaccinations (but does not provide death benefits), with parents buying the insurance on behalf of children of minor age. Allowing for online sales makes it more convenient to purchase such insurance.

In consideration of the fact that parents have an insurable interest in their children, as well as the fact that comprehensive insurance products covering vaccinations that are currently sold on the market by non-life insurers do not provide death benefits (which means that they do not constitute life insurance against death, and are therefore not subject to the requirement for "the consent of the insured" as set out in Article 105 of the "Insurance Act"), in order to make it easier for parents to make online purchases of such insurance, and to simplify premium payment procedures, the FSC has amended Point 6, Paragraph 1, Subparagraph 3 of the Directions. And to coordinate with the amendment to Point 6, the FSC has also made changes to language in Attachment 1 under Point 4 regarding the conduct of online insurance business by non-life insurers.

This amendment will make it easier for members of the public to make online insurance purchases during the pandemic, thus avoiding direct contact with others while obtaining appropriate insurance for their children. These arrangements also facilitate increased online insurance sales.

FSC releases "AQI Disclosure Framework and Template" to enhance audit quality and transparency

As the adoption of Audit Quality Indicators (AQIs) has become a global trend, to enhance the audit quality of financial reporting, the FSC released the "AQIs Disclosure Framework," which provides a comprehensive and comparable set of quantitative audit quality indicators. The AQIs have 13 indicators, which cover five dimensions — professionalism, independence, quality control, monitoring, and creativity. They serve as a useful toolkit to assist companies and audit committees in assessing the quality of audit firms and auditors more effectively and objectively, and will bring audit quality and corporate governance to a new level.

In addition, to improve the consistency and comparability of the AQIs among firms, the FSC released the "AQIs Disclosure Template", which specifies the content and form of AQIs. The template also provides industry averages and range data with some AQIs for companies to make comparisons so as to gain further insight on the dynamics of audit quality of firms, and make it easier to detect the differences among them.

The FSC is promoting the AQI initiative by a two-stage approach. In stage one, listed companies will get AQI information from CPAs for reference, starting from the time when CPAs are appointed to audit 2023 financial reporting. In stage two, from 2023 the FSC will review the results of implementation for the Big Four and listed companies to look into the possibility of extending application to non Big Four and other public companies.

FSC eases minimum net worth requirement of OSUs seeking to conduct account custody business

In order to allow offshore securities units (OSUs) to conduct a further expanded range of business activities, and provide OSU customers with a broader range of choice, the FSC (acting in accordance with the provisions of the "Regulations Governing the Establishment of and Compliance Matters for Offshore Securities Branches") recently issued a directive declaring that OSUs will now be allowed to conduct account custody business provided that they have a net worth of no less than NT\$4 billion. This is down from the previous minimum net worth requirement of NT\$10 billion.

Industry Updates

EMQ Taiwan discontinues "Fintech Sandbox Experiment for Small Cross-border Funds Transfers"

The FSC rejected EMQ Taiwan's application for a permit to conduct small-amount cross-border remittance services for migrant laborers after the company failed to furnish proof by a specific deadline showing that it had supplemented its operating capital. The FSC rejected EMQ Taiwan's permit application on 3 September 2021, and the company was required to discontinue its "Fintech Sandbox Experiment for Small Cross-border Funds Transfers" on 4 September 2021.

EMQ Taiwan serves a large number of customers, and cooperates with overseas partners. Therefore, in order to protect the interests of those who have been participating in the sandbox experiment, the FSC gave the company a one-month buffer period in which to handle its market exit. Beginning from 4 September 2021, EMQ Taiwan was prohibited from accepting new customers and was required to notify existing customers and partners of its upcoming market exit. Existing customers were allowed to make remittances until 3 October 2021, and EMQ Taiwan was required to completely cease experimenting any business of remittance from 4 October 2021 onward.

FSC revokes ShopeePay's electronic payment service business permit

On 14 August 2021, the FSC revoked the permission of ShopeePay (Taiwan) to operate as a specialized electronic payment institution. On 13 November 2020, ShopeePay had obtained a permit from the FSC to operate as a specialized electronic payment institution but was required by Article 13, Paragraph 1 of the "Act Governing

Electronic Payment Institutions" (hereinafter the "Act") to submit necessary documents to the FSC to apply for a business license within six months after obtaining the permission (that is by 13 May, 2021). However, under Paragraph 2 of the same Article 13, if there is any reasonable reason, the company may further apply for extension once, and such one-time extension may not exceed three months. ShopeePay applied for and received an extension from the FSC. As a result, the deadline for application was extended to 13 August, 2021.

ShopeePay failed to apply to the FSC by the end of business on 13 August 2021 for a specialized electronic payment institution business license; therefore, the FSC, in accordance with Article 13, Paragraph 3 of the Act, revoked ShopeePay's permission to operate as a specialized electronic payment institution, and designated the date of 14 August of 2021 as the date on which the permission becomes void. The FSC requested that ShopeePay adopt a legally compliant response plan, properly wind down its current business, and ensure customers rights.

FSC approved E.Sun Commercial Bank to apply to establish a representative office in Bangkok, Thailand

On 7 September 2021, the FSC approved an application by E.Sun Commercial Bank to apply with the local competent authorities in Thailand to establish a representative office in Bangkok. In view of the fact that Thailand is the second largest ASEAN economy and in recent years has been actively promoting a policy of industrial transformation, E.Sun Commercial Bank is planning to establish a representative office in Bangkok in order to seize upon business opportunities generated by Taiwanese firms in Thailand, and to provide customers with consulting services on business conditions in Thailand. Currently, 9 Taiwanese banks have established 1 subsidiary and 8 representative offices in Thailand.

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

The total outstanding loans extended by the current 38 domestic banks increased by NT\$244.2 billion (US\$8.79 billion) as compared to the previous month and amounted to NT\$33.07 trillion (US\$1,190.73 billion) at the end of August 2021. Meanwhile, the NPLs of these banks totaled NT\$65.7 billion (US\$2.37 billion) down by NT\$3.1 billion (US\$0.11 billion) from NT\$68.8 billion (US\$2.48 billion) as of the end of the previous month. The average NPL ratio of the 38 banks fell to 0.2% down by 0.01 percentage points from 0.21% at the end of previous month, and down by 0.04 percentage points compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 36.65 percentage points to a figure of 680.68%, up from 644.03% in the previous month.

NPL situation of credit cooperatives at the end of August 2021

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$491 million as of the end of August 2021, generating an NPL ratio of 0.09%, the same as the ratio at the end of July 2021. The NPL coverage ratio was 2,253.07%, up by 75.45 percentage points from 2,177.62% at the end of July 2021.

Net foreign and mainland China investment in listed shares

As of the end of August 2021, foreign investors had bought around NT\$15,346.1 billion and sold around NT\$15,841.6 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$495.5 billion. In addition, foreign investors had bought around NT\$2,187.2 billion and sold around NT\$2,195.6 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$8.4 billion. Meanwhile, mainland China investors had bought around NT\$8.3 billion and sold around NT\$9.7 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$1.4 billion; and mainland China investors had bought around NT\$400 million and sold around NT\$700 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$300 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 August 2021 stood at approximately US\$216 billion, up by around US\$100 million from US\$215.9 billion at the end of July 2021. The figure for cumulative net inward remittances by mainland China investors was US\$41.5 million, up by around US\$1.97 million from US\$39.53 million at the end of July 2021.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of June 2021

The sales statistics of foreign-currency denominated products by life insurers as of the end of June 2021 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$291.431 billion, up by 18% from NT\$246.232 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$143.872 billion (around 49% of the total), up by 137% from NT\$60.801 billion year-on-year, and the sales of traditional insurance products totaled NT\$147.559 billion (around 51% of the total), down by 20% from NT\$185.431 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry as of end-July 2021

The pre-tax profit of insurance enterprises at the end of July 2021 was NT\$319.2 billion. Breaking down that figure, the pre-tax profit of life insurance enterprises was NT\$304.2 billion, up NT\$153.7 billion, or 102.1%, year-on-year, while the pre-tax profit of non-life insurance enterprises was NT\$15 billion, up NT\$5.1 billion, or 51.5%, year-on-year.

The owners' equity of all insurance enterprises at the end of July 2021 was NT\$2,824.9 billion, up by NT\$301.3 billion, or 11.9% over the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$2,672.5 billion, an increase of NT\$284.6 billion, or 11.9%, and the owners' equity of non-life insurance enterprises was NT\$152.4 billion, up by NT\$16.7 billion or 12.3%. As of the end of July 2021, the NT Dollar had appreciated by 1.9% against the US Dollar since the end of 2020, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$33.3 billion, down by NT\$12.9 billion. 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\$149.7 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\$481.9 billion.

Investor and Consumer Protection

FSC urges caution prior to purchase of investment-linked insurance products

The FSC recently reminded consumers that investment-linked insurance products are of many different types, have many different fee structures, and the associated investment risks are borne by the investor, so before buying such a product, a consumer should carefully evaluate product risks, thoroughly understand the fee structures of different products, and select a suitable product so as to avoid disputes.

The FSC suggests that consumers visit the website of the Taiwan Insurance Institute (TII) to understand the special characteristics and basic facts of investment-linked insurance products in general, and then before buying a particular investment-linked insurance product, a consumer should visit the website of the ROC Life Insurance Association and browse the special section on investment-linked insurance products to learn about the fees charged by different insurers, the policy conditions, and rules governing underwriting and sales. In addition, consumers are also advised to make sure whether

products are suited to their needs so as to avoid buying unsuitable policies. After signing a contract, consumers who find that a policy does not suit their needs may still rescind the contract within the first 10 days counting from the day next after receipt of the policy, and the insurer is required to unconditionally refund any paid premiums.

2021 Financial Literacy Campaign for the Campus and Community

In the month of September 2021, the FSC held a total of 65 activities around Taiwan (including a special education school in Nantou City) as part of the 2021 Financial Literacy Campaign for the Campus and Community, attracting a total of 6,942 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 to promote the financial literacy campaign in 2021. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9711.

Major Enforcement Actions

Taipei Fubon Bank, its insurance solicitors, and Fubon Insurance sanctioned for violations of insurance legislation

The FSC recently learned that Taipei Fubon Bank did not discover that some of its insurance solicitors, in preparing solicitor reports, had failed to correctly indicate the sources of funds used by customers to make premium payments, and deliberately avoided complying with the legal requirement to check whether the funds for premium payments had come from loans received from Taipei Fubon Bank within the three months preceding submission of the applications for insurance. Moreover, without providing explanations to the applicants or obtaining their consent, in the process of arranging residential fire insurance the solicitors pre-set the value of interior decorations at 45% of the total cost of the building, thus resulting in higher premiums. The FSC ordered that corrective action be taken within one month, imposed an administrative fine of NT\$9 million on Taipei Fubon Bank, ordered it to suspend sales of new investment-linked insurance policies for one month, and ordered the four insurance solicitors to take immediate corrective action. In addition, the FSC handed Fubon Insurance, which underwrote the policies, an administrative fine of NT\$6 million, instructed Taipei Fubon Bank to explain to customers what had happened, refund the overcharged premiums, and return to Fubon Insurance the commissions thus generated.

FSC imposes administrative fine on Fubon Life Insurance Co.

The FSC recently imposed an administrative fine of NT\$6 million on Fubon Life Insurance after uncovering serious deficiencies in its internal control system during a financial examination, including: (a) in handling the purchase and management of artworks, the company had proceeded first with the purchases and only reported them after the fact, which was a reversal of the proper sequence; (b) the company had failed to establish internal procedures for handling purchases of high-value artwork, and without addressing the special nature of high-value artwork transactions; (c) in handling its post-purchase management of artwork, the company had failed to properly implement internal procedures; (d) in arranging charter flights for overseas business trips, the company had failed to establish related internal operating procedures, (e) and the charter flight expenses were approved directly by the company's chairman of the board, which constitutes a conflict of interest and is harmful to the company's internal controls with loopholes in internal procedures for the handling of reimbursements. The deficiencies described above

showed that Fubon Life had failed to establish internal procedures and controls, and the company had failed to bring into play the three lines of defense in effective internal control.

FSC issues administrative penalties against Yuanta Life Insurance, Yuanta Broker, and Yuanta Bank

The FSC recently issued administrative penalties against Yuanta Life Insurance, Yuanta Broker, and Yuanta Bank for uncovering the following deficiencies at Yuanta Life during a financial examination: (1) Without first establishing insurance product pre-sale procedures, Yuanta Life had provided product-related documents to its sales channel entities, some of whom went ahead and solicited products to customers, and the company had failed to properly evaluate its product concentration risk. (2) In its underwriting and channel management operations, Yuanta Life had failed to carefully evaluate the suitability of products to its customers, and this failing made it difficult to effectively confirm the willingness of such customers to make purchases or confirm whether the products meet customer needs. Also, training and outreach materials called on solicitors to tout improper selling points, and the company had failed to conduct proper management of channels. The FSC, acting in accordance with the "Insurance Act," imposed an administrative fine of NT\$5.4 million on Yuanta Life, issued an official reprimand, ordered the company to suspend sales of four products beginning from the day next following delivery of the FSC's administrative ruling, and required the company to discipline offending managerial personnel in a manner commensurate with the gravity of their misconduct.

At the same time, the FSC also discovered the following improprieties at Yuanta Broker and Yuanta Bank: (a) they had started soliciting products before the launch of products; (b) training and outreach materials called on solicitors to improperly tout interest income as a key selling point; (c) some solicitor reports had failed to correctly indicate the sources of funds used by customers to make premium payments; and (d) the companies failed to detect the deficiencies above. In response, the FSC ordered each of the two companies to take corrective action within one month, and imposed administrative fines of NT\$1.8 million.

FSC imposes a fine on Taipei Fubon Bank

The FSC recently discovered deficiencies in Taipei Fubon Bank's handling of anti-money laundering operations that revealed a failure to properly establish and sufficiently implement internal controls. This failure constituted a violation of Article 45-1, Paragraph 1 of the "Banking Act." The FSC therefore imposed an administrative fine of NT\$2 million on Taipei Fubon Bank in accordance with Article 129, Subparagraph 7 of the same Act.

FSC imposes sanctions on Hontai Life Insurance

After Hontai Life Insurance registered a premium rate adjustment for its "Hontai Life Lavender Healthcare Rider (HSA)" with the FSC on 10 May 2021, the FSC called a meeting of its life insurance product review committee, which upon inspection discovered that the company's pricing actuarial memorandum was logically inconsistent and unfair. Acting in accordance with the provisions of the "Insurance Act," the FSC issued an official reprimand, ordered Hontai Life to reinstate the original premium rate and refund the excess premiums which had been charged, imposed an administrative fine of NT\$1.2 million, ordered the company to suspend sales of new insurance policies with a guaranteed renewal clause for one year beginning from the day next following delivery of the FSC's administrative ruling, and ordered Hontai Life to discipline all employees involved in related misconduct. In addition, the FSC also issued 2 demerits to the person serving as the said products' signing actuary at the time of the misconduct. That same person had already received 2 other demerits in connection with another matter, thus resulting in total demerits in sufficient number to require the imposition of a restriction on that actuary's signing off on insurance products, so the FSC barred the actuary from signing off on insurance products for 6 months beginning from the day next following delivery of the FSC's administrative ruling.