

金融展望月刊

Financial Outlook Monthly

Publisher Tien-Mu Huang

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GPN 2009305443

ISSN 1992-2507

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

January 2024

《Chinese version please refer to page 1》

No. 230

Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- FSC amends the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets" to strengthen the risk management framework of domestic banks
- FSC amends "Regulations Governing Public Tender Offers for Securities of Public Companies" and "Regulations Governing Information to be Published in Public Tender Offer Prospectuses"
- FSC issues interpretive rule on Article 146, paragraph 2 of the "Insurance Act"

Policy and Law

FSC amends the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets" to strengthen the risk management framework of domestic banks

To strengthen the risk management framework of domestic banks, the Financial Supervisory Commission (FSC) has promulgated the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets" in accordance with the "Basel III: Finalising post-crisis reforms" (hereinafter referred to as the Reforms) issued by the Basel Committee on Banking Supervision. The amendments will enter into force on 1 January 2025 to provide banks with sufficient time for adjustments.

The contents of the amendments include rules governing the standardized approach, and the internal ratings-based (IRB) approach for credit risk, output floor, operational risk, and leverage ratio. According to the results of the calculation, the amendment of the capital calculation has little impact on domestic banks. As for other regulations in the Reforms, including the counterparty credit valuation adjustment framework, minimum capital requirements for market risk, and securitization exposure capital calculation standards, the interim versions will be released before the second quarter of 2024 for tentative calculation.

To enhance banks' internal risk management capability and enable them to adopt more precise methods to measure and manage credit risk and credit assets, the FSC will allow banks to apply for the use of the IRB approach for credit risk to calculate capital. Banks that meet the criteria of having assets over NT\$2.5 trillion, financial soundness, and proper compliance may file an application with the FSC. The application deadline for the first batch shall be the end of June 2024, and the FSC will soon announce the application documents and related information.

FSC amends "Regulations Governing Public Tender Offers for Securities of Public Companies" and "Regulations Governing Information to be Published in Public Tender Offer Prospectuses"

In order to fully protect the rights and interests of tenderers taking part in public tender offers and comply with Article 43-1, paragraph 1 of the "Securities and Exchange Act," in which the threshold for filing and announcing large holdings has been revised to 5%, the FSC amended the "Regulations Governing Public Tender Offers for Securities of Public Companies" and the "Regulations Governing Information to be Published in Public Tender Offer Prospectuses" on 4 December 2023. The key points of the amendments are as follows:

1. Amendments to the "Regulations Governing Public Tender Offers for Securities of Public Companies":
 - (1) In order to strengthen the ability of the offeror to fulfill the settlement obligation, it is additionally provided that a certificate of ability to pay the consideration is required if the offeror provides domestic securities for the consideration.
 - (2) Considering that the stocks of TWSE- and TPEX-listed companies are fully issued in uncertificated form, it is provided that when the number of shares to be sold exceeds the predetermined tender offer quantity, the offeror is required to purchase the shares from all sellers on a pro rata basis with one share as the smallest unit, and the original provision that the public tender offer of stocks of TWSE- and TPEX-listed companies shall be on a pro rata basis with one thousand shares as the smallest unit has been deleted.
 - (3) It is provided that the public tender offer period may be extended only once, and some of the filing documents mentioned in the "Regulations Governing Information to be Published

in Public Tender Offer Prospectuses" (such as a commitment letter for fulfilling the payment obligation, an independent expert's appraisal opinion on the reasonableness of the price, and company resolution documents) are included in the provisions, in order to meet the requirement of authorization clarity. In addition, the conditions under which a mandatory public tender offer shall not apply have been added, including a situation where the shares of public companies are obtained through share exchange in accordance with the "Business Mergers and Acquisitions Act."

(4) To coordinate with an amendment to Article 43-1, paragraph 1 of the "Securities and Exchange Act," the threshold for filing and announcing the shares acquired through a public tender offer as large shareholdings pursuant to the aforesaid provisions, has been adjusted.

2. Amendments to the "Regulations Governing Information to be Published in Public Tender Offer Prospectuses": In order to strengthen the disclosure of information regarding the use of domestic securities for payment of consideration, it is required that the offeror shall issue a commitment letter for fulfilling the obligation to pay consideration; in addition, if the offeror issues new securities for payment of consideration, it shall notify investors of the risks of adopting an alternative method in the event it is unable to issue such securities in time, and shall specify the alternative method for payment of consideration (cash or other securities) under such circumstances.

FSC issues interpretive rule on Article 146, paragraph 2 of the "Insurance Act"

To coordinate with an amendment to the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and an adjustment to the schedule for adoption of the IFRS 17 reporting standard, the FSC issued an interpretive rule on 6 December 2023 declaring that insurers' various reserve funds would be redefined as "currently set aside reserves" plus "adjustments." The adjustments are the following: "+Loans extended by life insurers that are secured by life insurance policies issued by those same insurers +Outstanding amount of premium loans –Insurance contract assets –Reinsurance contract assets –Segregated custody account insurance product assets."

FSC amends "Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers"

To simplify the procedures for banks to provide financial products to high-asset customers, and to encourage major international banks to participate in Taiwan's domestic wealth management market for high-asset customers, the FSC issued an amendment on 12 December 2023 to Articles 5 and 7 of the "Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers." The key points of the amended provisions are as follows:

1. Article 5, paragraph 1, subparagraph 1 of the Regulations provides that when offshore banking units (OBUs) process Taiwan-equity linked derivatives denominated in foreign currencies (including structured products), the linked underlying assets are limited to Taiwan stock indices (including domestic stock indices listed on overseas exchanges) or exchange-traded funds (ETFs), and may only be denominated, cleared, and settled in foreign currencies. According to market practices, the derivatives do not involve the physical delivery of securities and investors do not obtain domestic securities, which is different from the situation considered under the registration regulations for overseas Chinese and foreign nationals investing in domestic securities in the "Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals." Therefore, the FSC added a provision that if the high-asset customers are overseas Chinese or foreign nationals, they shall be exempted from the requirement to complete registration procedures with Taiwan Stock Exchange Corporation. This streamlines the customers' investment procedures.
2. The amended provisions expand the eligibility for the clause of attracting investments and talent from abroad, such that a bank (or the head office, parent bank, or corporate group to which it belongs) may — if it ranked among the world's top 50 banks by either capital or assets in the year prior to applying to the FSC for permission to provide wealth management services to high-asset customers — be exempt from the provision that an applicant's wealth management business must otherwise meet a minimum standard for total assets under management.

FSC amends Article 6 of "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies"

To enable investors to be aware of all the proposals on the agenda for regular shareholders' meetings of TWSE- and TPEX- listed companies as soon as possible and have sufficient time to thoroughly read the relevant meeting materials, so as to facilitate shareholders' exercise of rights at the shareholders' meetings, the FSC issued the amendment to the aforementioned Regulations on 8 December 2023. The scope of TWSE- and TPEX- listed companies that are required to disclose their shareholders' meeting agenda handbooks and the supplemental materials by 30 days before their regular shareholders' meetings has been expanded. The main content of the amendment is that if a TWSE- or TPEX- listed company has paid-in capital of NT\$2 billion or more as of the end of its most recent fiscal year, or if the company's foreign and mainland Chinese investors hold an aggregate shareholding ratio of 30% or more as recorded in the shareholders' register for its regular shareholders' meeting in the most recent fiscal year, the company shall upload the electronic file of the shareholders' meeting agenda handbook and relevant supplemental materials to the information disclosure website designated by the FSC by 30 days before the shareholders' meeting.

FSC amends "Regulations Governing Applications for CPA Certificates and Practice Registration"

FSC has amended the "Regulations Governing Applications for CPA Certificates and Practice Registration." Key points of the amended provisions are as follows:

1. To coordinate with the Examination Yuan's decision to promote the digitization of examination certificates and training certificate, a person whose CPA examination certificate is issued in digital format shall file a photocopy of the digital CPA examination certificate when applying for a CPA certificate.
2. In order to build a better environment to retain international talent in Taiwan, alien resident certificates will be treated as providing proof of identity equal in validity to that provided by a passport, and a person may file his/her alien resident certificate when applying for a CPA certificate or a practice registration.
3. To amend the supporting documents that must be submitted when a person applies for a CPA certificate or a practice registration for the purpose of meeting practical needs.

Interest rate conversion measures for Taiwan's Insurance companies to align with IFRS 17 Insurance Contracts standard and the second phase transitional measures of the TW-ICS

To help domestic insurers adopt the IFRS 17 Insurance Contracts standard and the New Generation Insurance Solvency (TW-ICS) regime in 2026, the FSC — after considering international regulations, the practices of neighboring countries, and the particular characteristics of Taiwan's insurance market, and having fully communicated with insurance companies — has drafted interest rate conversion measures for IFRS 17 and the second phase of transitional measures for the TW-ICS regime.

1. Interest rate conversion measures: A liquidity premium of 50 bps applying to the liability discount rates for legacy insurance policies with liability reserve rates above 6% in order to comport with the spirit of IFRS 17, and to make insurers more resilient.
2. Transitional interest rate risk measures: Beginning from 2026, there will be a gradual increase in target capital requirements for interest-rate risk from 50% (the TW-ICS requirement) to 100% over a 15-year period.
3. Net asset transitional measure: Beginning from 2026, for high interest rate policies with liability reserve interest rates above 6%, the net asset effect (that is, the net impact of assets and liabilities being recognized at fair value respectively) will gradually be recognized over a 15-year period.

Progress toward adoption by insurers of the aforementioned measures to align with the two international systems will be reviewed once every five years, and in addition, the FSC will continue to monitor the latest regulations issued by the International Association of Insurance Supervisors (IAIS) and make necessary adjustments. If significant changes occur in Taiwan's overall financial industry before and after the adoption of IFRS 17 and TW-ICS, the FSC will also review the relevant systems in a timely manner.

Adjusted reserve valuation rates for new life insurance policies denominated in various currencies to take effect on 1 Jan. 2024

To ensure that Taiwanese life insurers are operated in a safe and sound manner, that they safeguard the interests of policyholders, and that new contract policy reserves properly reflect market interest rates, the FSC, after meeting with insurers, completed discussions regarding reserve valuation rates for new life insurance policies denominated in various currencies in 2024. Compared with current reserve valuation rates for new life insurance policies, the new reserve valuation rates for new policies denominated in NT Dollars, Australian Dollars, and Euro will be raised by 25 basis points, 50 basis points, and 100 basis points, respectively. The rates for policies denominated in US Dollars will be raised by 75 basis points for policies with a duration of 6 years or less, by 50 basis points for policies with a duration of 6 to 20 years, and by 25 basis points for policies with a duration of 20 years or more, while rates for policies denominated in RMB will remain unchanged. The setting aside of reserves constitutes a cost in the running of an insurance enterprise. An insurer must set aside policy reserves on the basis of the reserve valuation rate for new life insurance policies, and when pricing insurance policies it will take that cost into consideration. This most recent hike of reserve valuation rates for new policies denominated in certain currencies could make it possible to reduce premiums for certain types of new policies.

The FSC reminds insurers that they must consider market interest rates, select appropriate assets in which to invest, and properly conduct asset-liability management. At the same time they must also promote protection-type insurance products in order to raise the level of insurance protection enjoyed by people in Taiwan while maintaining the safe and sound operation of insurers.

International Activities

AmCham pays a visit to the FSC

AmCham President Patrick P. Lin (sixth from left) and his colleagues paid a courtesy call to the FSC on December 6, 2023. They were warmly received by FSC Chairperson Dr. Thomas Huang (eighth from right), and both sides broadly exchanged opinions and views on issues of mutual interests.

Industry Updates

2023 Green FinTech Achievement Showcase held on 13 December 2023

The FSC and the Taiwan Financial Services Roundtable (TFSR) jointly held the 2023 Green FinTech Achievement Showcase on 13 December 2023. This event displayed the results of this year's thematic promotion campaign in Green Finance. Financial institutions, FinTech firms, and high-tech companies were invited for knowledge sharing and networking.

In the international competition section, the FSC mentored Shin Kong Financial Holding Co. in participating in the Global Financial Innovation Network (GFIN) Greenwashing TechSprint with the "Anti-Greenwashing Genie project", which earned the "Globe Trotter Award". There were also two domestic competitions at the event. One was the "Digital Sandbox Innovation Competition" held by the FinTechSpace, while the other was the "Sustainable Finance and Net-Zero Innovation Competition" held by the Financial Industry Net-Zero Working Platform's Promotion Workstream. In addition, startups in FinTechSpace this year received guidance from the Space on how to take maximum advantage of Collaborative Innovation Validation, Innovation Lab, and other such resources to engage in development of ESG applications, and to exhibit at the Showcase.

This Expo provided opportunities for award-winning financial institutions, start-ups, and other participating entities to exhibit innovative technologies and business models, and another purpose of the Expo was to spur further development of Taiwan's green FinTech ecosystem. Also, in the FinTech Development Roadmap 2.0, the FSC sets out plans to continue holding green FinTech events to encourage start-ups and financial institutions to devote resources to R&D work and contribute to achieving the goal of 2050 Net-Zero Emissions.

FSC grants approval for Bank of Taiwan to apply to establish representative office in Fukuoka, Japan

On 7 December 2023, the FSC granted approval for the Bank of Taiwan to apply with the Japanese financial authorities to establish a representative office in Fukuoka. The Bank of Taiwan in Japan already has a Tokyo Branch, and considering Japan as one of the world's key economies, the Bank of Taiwan has decided to establish a representative office in Fukuoka in order to keep well informed about local economic conditions and high-tech industry developments, so that the bank can expand its business in Japan.

FSC awards insurers for excellent performance in treating customers fairly and cooperating with government policy on the conduct of insurance business

On 17 December 2023, FSC held the 2023 Awards Ceremony to Praise Insurers for their Cooperation with Policy Promotions and Excellent Performance on Implementing the "Treating Customers Fairly Principles." FSC Chairperson Tien-Mu Huang held the ceremony in person and presented life and non-life insurers with awards for excellent performance in the following areas: "Implementing the Treating Customers Fairly Principle"; "Sales of Microinsurance"; "Sales of Micro Whole Life Insurance"; "Investing in the Six Core Strategic Industries or Public Infrastructure"; "Sales of Taiwan Residential Earthquake Insurance"; and "Differentiated Management of Compulsory Auto Insurance."

To continue developing a better understanding of the state of insurers' implementation of the "Treating Customers Fairly Principles," two new evaluation indicators were added in 2023: "Principle of Friendly Service" and "Principle of Ethical Management". The FSC also granted public recognition to those insurers performing among the top 25% and to those that had achieved the greatest progress. The hope was that this type of positive public recognition would encourage insurers to learn from good examples and properly implement the "Treating Customers Fairly Principles."

Also, the roles played by social service groups in promoting microinsurance have been noteworthy. At one time they simply helped the people they serve to purchase microinsurance, but now they additionally make use of resources from throughout society to set up models for public-private partnership, and they push for city and county governments to take the initiative to get underprivileged persons enrolled in microinsurance. At this year's ceremony, a "Special Contribution Award" was given to Chia-Yi Fu An Wang Ya Charity, which has spent many years helping underprivileged persons purchase personal injury microinsurance.

The FSC stated that public-private cooperation will be needed before statutory insurance can be provided to a larger number of people, thanked insurers for working to fulfill their corporate social responsibility, and expressed hope that its award program will encourage insurers to make further efforts and ensure that "the warmth of insurance" will be felt throughout society and the insurance industry fulfills its function of providing the public with peace of mind.

NPL Ratio for Domestic Banks as of the End of November 2023

The total outstanding loans extended by the current 38 domestic banks increased by NT\$87.2billion (US\$2.79billion) as compared to the figure of previous month and amounted to NT\$38.23trillion (US\$1,223billion) at the end of November 2023. Meanwhile, the NPLs of these banks totaled at NT\$58.87billion (US\$1.88billion) which decreased by NT\$2.97billion (US\$0.09billion) from NT\$61.83billion (US\$1.98billion) as of the end of the previous month. With a slight decrease of 0.01 percentage point, the average NPL ratio of the 38 banks fell to 0.15% down from 0.16% at the end of previous month, and was at the same figure compared to the same month last year.

The coverage ratios of allowances for NPLs increased by 50.38 percentage points and therefore rose to a figure of 892.26% from 841.88% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of November 2023. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of November 2023

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately

NT\$0.571 billion as of the end of November 2023, generating an NPL ratio of 0.10%, down by 0.01 percentage points from 0.11% at the end of October 2023. The NPL coverage ratio was 2,393.60%, up by 353.98 percentage points from 2,039.62% at the end of October 2023.

Net foreign and mainland China investment in listed shares

As of the end of November 2023, foreign investors in the year to date had bought around NT\$18.7545 trillion and sold around NT\$18.6651 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$89.4 billion. In addition, foreign investors in the year to date had bought around NT\$3.395 trillion and sold around NT\$3.4597 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$64.7 billion. Meanwhile, mainland China investors had bought around NT\$2.244 billion and sold around NT\$1.947 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of about NT\$0.297 billion; and mainland China investors had bought NT\$0.649 billion and sold around NT\$0.827 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.178 billion. 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 November 2023 stood at approximately US\$236.8 billion, up by around US\$11.3 billion from US\$225.5 billion at the end of October 2023. The figure for cumulative net inward remittances by mainland China investors was US\$0.04 billion, up by roughly US\$0.0067 billion from US\$0.0333 billion at the end of October 2023.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of September 2023

The sales statistics of foreign-currency denominated products by the life insurance industry as of the end of September 2023 were as follows: Premium revenues from new foreign-currency denominated policies amounted to around NT\$201.102 billion, down by 45% from NT\$367.14 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$48.164 billion (around 24% of the total), down by 58% from NT\$115.879 billion year-on-year, and the sales of traditional insurance products totaled NT\$152.938 billion (around 76% of the total), down by 39% from NT\$251.261 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in October 2023

The pre-tax profit of all insurance enterprises at the end of October 2023 was NT\$193.8 billion, going up by NT\$36.2 billion or 23.0% from the previous year; the pre-tax profit of life insurance enterprises was NT\$179.4 billion, going down by NT\$122 billion or 38.4% from the previous year, while the pre-tax profit of non-life insurance enterprises was NT\$14.4 billion, going up by NT\$148.2 billion or 110.8% from the previous year.

The owners' equity of insurance enterprises at the end of October 2023 was NT\$1,962.2 billion, going up by NT\$452.8 billion or 30.0% from the previous year; the owners' equity of life insurance enterprises was NT\$1,840.3 billion, going up by NT\$409.3 billion or 28.6% from the previous year, while the owners' equity of non-life insurance enterprises was NT\$121.9 billion, going up by NT\$43.5 billion or 55.5%.

As of the end of October 2023, the NT Dollar had depreciated by 5.28% against the US Dollar since the end of 2022, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$214.6 billion, going down by NT\$14.3 billion compared to the end of 2022. 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 NT\$-86.3 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\$651.6 billion.

Investor and Consumer Protection

Premier Chen visits bank to learn how service counter personnel stop scams in progress

Premier Chen Chien-jen visited CTBC Bank on 22 November 2023 to observe how service counter personnel show concern for walk-in customers by asking extra questions to understand their situations and step in to stop any scams in progress that they might discover. While at the bank, Premier Chen thanked the bank personnel for caring for customers' well-being, and stated that the government will support bank personnel by calling on local police authorities throughout Taiwan to do everything they can to protect the safety of bank employees.

Through their vigilance and care at the service counter, bank personnel act as guardians to protect the hard-earned money of the public. In 2022, bank personnel stopped 7,979 scams in progress that involved a total of NT\$4.241 billion, while in the first nine months of 2023 they stopped 8,170 scams in progress (up 48% year-on-year) that involved a total of NT\$5.498 billion (up 90% year-on-year).

The FSC stressed that combatting fraud is an important government policy, and that financial institutions play an important role in assisting law enforcement agencies to the anti-fraud effort. The FSC has already taken steps to promote better fraud prevention measures, and moving forward it will oversee efforts by financial institutions to implement those measures. The FSC will also continue guiding financial institutions to implement related anti-fraud measures, and will cooperate with law enforcement authorities in the hope that, by carrying out various measures to strengthen anti-fraud mechanisms, Taiwan can more effectively prevent illegal money flows and keep people from losing their wealth.

2023 Financial Literacy Campaign for the Campus and Community

In December 2023, the FSC held 54 activities at different locations, including the Open College Affiliated with National Taipei University of Business, as part of the 2023 Financial Literacy Campaign for the Campus and Community, attracting 3,306 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2022, a total of 7,846 events had been held and over 1.14 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 2024. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

Major Enforcement Actions

FSC imposes fine on Cathay United Bank

The FSC recently imposed a fine on Cathay United Bank after discovering that there were deficiencies in the bank's mechanisms for monitoring fund transactions between relationship managers (or their related accounts) and customers, and for monitoring them logging into online accounts with the same IP address. The bank had also failed to ensure that its employees adhered to the code of ethical conduct. These problems constituted violations of Article 3, paragraph 1, and Article 8, paragraph 1 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" (which were issued upon the authority of Article 45-1, paragraph 1 of the "Banking Act"). The FSC therefore imposed an administrative fine of NT\$12 million on Cathay United Bank in accordance with Article 129, subparagraph 7 of the same "Banking Act."

FSC imposes fine on Shanghai Commercial & Savings Bank

The FSC recently discovered a failure by Shanghai Commercial & Savings Bank to properly establish and sufficiently implement internal controls to ensure customer data confidentiality and information security. These problems were found to constitute violations of Article 45-1, paragraph 1 of the "Banking Act" as well as Article 3 and Article 8, paragraph 1, subparagraph 2, item 2 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" (issued upon the authority of Article 45-1, paragraph 1 of the "Banking Act"). An administrative fine of NT\$10 million was imposed in accordance with Article 129, subparagraph 7 of the "Banking Act."