

金融展望月刊

Financial Outlook Monthly

Publisher Wellington L. Koo

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G P N 2009305443

I S S N 1992-2507

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

June 2019

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No. 175

Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- Amendments to the “Banking Act of the Republic of China”
- Amendments to the “Securities and Exchange Act”
- Promulgation of the “Regulations Governing Anti-money Laundering and Countering Terrorism Financing of Financial Technology Innovative Experimentation”
- Promulgation of the measures to enhance protection of the interests of joint guarantors

Policy and Law

Amendments to the “Banking Act of the Republic of China”

The amendments to the Banking Act of the Republic of China were passed by the Legislative Yuan on a third reading on March 26, 2019 and promulgated by the President on April 17, 2019. 3 articles were added, 2 were deleted and 19 were amended. The main amendments were as follows:

1. Overall review of the chapter of penalties: with reference to legislative examples in Germany and Japan and the scale of banking in Taiwan, the maximum fine in the chapter of penalties has been increased from NT\$10 million to NT\$50 million to enhance bank legal compliance. Taking into account the difference in scale between banks, the minimum fine stays the same to allow space for discretion. To allow both strictness and lenience as appropriate, a provision was also added allowing the competent authority to decide not to impose a fine on a bank when the situation is relatively minor and instead adopt a suitable corrective measure.
2. Adding administrative dispositions to effectively correct violation of regulations by banks: with reference to Item 11 of the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision, the competent authority can use various supervisory measures to spur banks to take improvement action, to effectively correct violation of regulations by banks. Administrative dispositions that the competent authority can adopt have also been added, including restricting investment, forbidding the disposal or transfer of certain assets, ordering closure of a branch or a department within a prescribed period of time, ordering a bank to suspend a manager or employee from their performance of duties within a specific time period and ordering allocation of a reserve of a certain amount.
3. Requiring the responsible person of a bank to obey the basic due diligence requirements for non-competition: to ensure that the responsible person of a bank obeys basic due diligence requirements for non-competition so that he/she can effectively carry out the duties of his/her main position and concurrent position when holding concurrent positions, the related regulations have been added to authorize the competent authority to prohibit the responsible persons of a bank from involving in conflict of interest.
4. Enhancing Taiwan's international cooperation on money laundering: with reference to Item 13 of the Basel Committee on Banking Supervision's Core Principles for Effective Banking Supervision and Suggestion 40 of the Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems, the legal basis for the competent authority engaging in international supervisory cooperation is stipulated. The government can sign cooperative treaties, protocols or agreement with foreign governments, institutions or international organizations and, based on the principle of reciprocity, request related agencies or institutions to, according to law, provide the necessary information to foreign governments, institutions or international organizations.
5. Strengthening management of credit card business: penalties for violation of credit card business related regulations have been added, and it is stipulated that institutions engaging in credit card business can be the subject of a penalty.

Amendments to the “Securities and Exchange Act”

In order to help enterprises retain talent, carry out corporate governance and strengthen regulatory compliance, appropriately raise maximum penalty and improve regulatory supervision of securities firms, securities service providers and related organizations, the amendments were passed by the Legislative Yuan on March 26, 2019 and promulgated by the President on April 17, 2019. The key points of the amendments were as follows:

1. The period of transferring a company's buyback shares to its employees and equity conversion in coordination with the issuance of corporate bonds with warrants, convertible corporate bonds, share subscription warrants, etc., is extended from 3 years to 5 years.
2. Provisions are added stipulating that primary TWSE-listed, primary TPEX-listed companies and foreign companies in emerging stock market are not allowed to impede, refuse, or evade the actions of the independent directors in the performance of their duties and that these companies are required to establish a remuneration committee. Meanwhile, the penalties for violation of aforementioned regulations and the regulations governing the exercise of powers by audit committees and remuneration committee were promulgated.
3. The supervisory measures for "improvement within a specified deadline" to issuers, securities firms and securities service enterprises and "other necessary actions related to business or operation" to securities firms and securities service enterprises were promulgated.
4. The maximum fine was raised from NT\$2.4 million to NT\$4.8 million and the new regulation that fines may be imposed on securities firms, securities service enterprises and related institutions was promulgated.

Promulgation of the "Regulations Governing Anti-money Laundering and Countering Terrorism Financing of Financial Technology Innovative Experimentation"

On January 31, 2019, the FSC approved two innovative experiments for cross-border, small-amount remittance of migrant workers by non-financial institutions. Considering that Fintech innovative experiments are diverse and thus subject to different regulations governing anti-money laundering and countering terrorism financing activities, the competent authority needs to enact regulations specific to each innovative experiment it approves. Therefore, the FSC promulgated the aforementioned Regulations on May 15, 2019 authorized by Paragraph 2 of Article 25 of the Financial Technology Development and Innovative Experimentation Act and based on the characteristics of the aforementioned two innovative experiments for compliance of the related enterprises. The key points of the aforementioned Regulations are as follows:

1. The applicant shall comply with the aforementioned Regulations and the approved innovative experimentation plan in regard to the anti-money laundering and countering terrorism financing activities (financial institutions are still required to comply with the regulations governing anti-money laundering activities of financial institutions).
2. The applicant shall introduce and implement participant ID verification measures and ongoing due diligence mechanism, have measures in place considering in what circumstance to refuse to do business or make transactions with participants, and determine how strict the related measures should be with a risk-based approach.
3. The policies and procedures for cross-border remittance that the applicant is required to comply with were laid down. The applicant is required to prepare and preserve the information of the remitters and beneficiaries.
4. The applicant is required to introduce the watch list filtering procedures for the parties related to the transaction and the transaction monitor policy.
5. The applicant shall keep a record of transactions with the participants. The scope, method and period for preservation of such information are specified.
6. The applicant is required to create internal control and audit system for anti-money laundering activities and the competent authority may appoint officer(s) or entrust other appropriate institutions at any time to examine the implementation.
7. The scope, method and procedure for the applicant's reporting of suspicious money laundering or terrorism financing transactions are specified.

Promulgation of the measures to enhance protection of the interests of joint guarantors

In order to help joint guarantors fully understand responsibilities incurred by their guarantee and enhance protection of their rights and interests, the FSC has supervised the Bankers Association of the ROC's amendment to Paragraph 2 of Article 20 of the Guideline Governing Credit Granted by Members. From January 1, 2019, for maximum guarantee for an indefinite period of time when banks extend credit business with joint guarantors, banks are required to give written notification to joint guarantors on an annual basis. The notification shall inform such joint guarantors of the amount of maximum guarantee, the amount of guaranteed liability on the record date of the month and the information that the amount of guaranteed liability will vary with the borrowing amount within the credit line. The notification requirement shall be waived when the credit granted to the major borrower has become a non-performing loan, the overseas branch of the bank and OBU has signed a guarantee contract or the guarantor has said he/she does not want to receive such notification.

FSC allowed provision of collection and payment services for customers using e-payment accounts to make payment at overseas physical channels by electronic payment institutions

The FSC promulgated an interpretive order on April 24, 2019 allowing electronic payment institutions to "provide customers with outbound payment service through an e-payment account for real transactions conducted at overseas physical channels" and "provide customers with services or accept a customer's request to provide the service of foreign exchange settlement or foreign currency outbound remittance for funds arising from above mention services" and also set related regulations.

The electronic payment institutions now are allowed to provide their customers (payers in Taiwan) with the service of using electronic payment institution's electronic payment accounts to pay for purchases when they are overseas (such as when travelling or being on a business trip overseas). The service is similar in nature to cash outbound agent collection and payment services. The opening of this service will expand usage occasion of payment service and business scope of electronic payment institutions, helping such institutions promote their business and people an additional payment channel.

Electronic payment institutions are allowed to provide the service of collection and payment of funds for insurance products sold by OIUs set up by insurance companies according to the Offshore Banking Act.

On May 2, 2019, the FSC promulgated an interpretative order to allow electronic payment institutions to provide the service of collection and payment of funds for insurance products sold by OIUs set up by insurance companies according to the Offshore Banking Act, in order to improve utilization performance of fund placed in e-payment accounts held by e-payment service users, expedite premium payment of the insured and facilitate business development of e-payment institutions and insurance companies.

For securities investment trust enterprises (SITEs) meeting specific criteria set by the FSC, the master funds invested by ETF feeder funds are not subject to the restriction of domestic component securities.

In order to enhance capability and techniques of domestic manpower in asset management, increase the assets under management and break into the international market, the FSC relaxed related rules on April 30, 2019. SITEs that meet the criteria set by the Incentive Policy for Onshore Fund and have obtained approval of the FSC after application are eligible for basic preferential measures and the master funds invested by their ETF feeder funds are not subject to the restriction of domestic component securities.

Personnel of a SITE and a securities investment consulting enterprise (SICE) are allowed to concurrently serve as the same positions in a domestic subsidiary owned by their company through reinvestment

In order to ensure consistency of the regulations governing concurrent employment of personnel of SITEs and SICEs in foreign and domestic subsidiaries owned by the enterprise through reinvestment and considering that internal auditing and legal compliance personnel of SITEs and SICEs concurrently serving as the same positions in

domestic subsidiaries do not cause serious conflict of interest, the FSC allowed internal auditing and legal compliance personnel of SITEs and SICEs to concurrently serve as the same positions in domestic subsidiaries on April 19, 2019.

Amendments to the “Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants” and the “Regulations Governing Managed Futures Enterprises”

To harmonize the certification regulations of the securities and futures industry and strengthen the certification regulations of the futures industry, the FSC promulgated amendments to the aforementioned 2 Regulations on May 15, 2019. It deleted the regulations which disqualified the Futures Associated Persons and the Futures Trading Analysts if they do not register within 5 years after they obtain the qualification, or have not worked in such a post for 5 years. In the future, such personnel can register as associated persons once they attend the current 9-hour general pre-employment training course held by the Securities and Futures Institute as well as an additional advanced 3-hour pre-employment training course, and pass the exams. The amendments help the futures industry recruit talents.

Promulgation of the interpretive order pursuant to Paragraph 1 of Article 146-2 of Insurance Act, which stipulates the directions governing the regulatory compliance for insurance companies with regard to their immediate benefits of real estate investment

The FSC promulgated the interpretive order pursuant to Paragraph 1 of Article 146-2 of Insurance Act, which stipulates the directions governing the regulatory compliance for insurance companies with regard to their immediate benefits of real estate investment on April 23, 2019. It offers insurance enterprises eligibility to invest in the real estate allocated by the government if they participate in urban renewal projects with originally owned or allocated real estate reaching more than 75%. Under this circumstance, the regulation that requires investments in real estate shall be limited to real estate that can be used immediately and from which benefit may be derived does not apply. Furthermore, before the investment, documentations including a usage plan shall be submitted to the FSC for the project review of immediate usage period.

Amendments to the “Directions Governing the Issuance of Corporate Bonds as Capital Instruments by Insurance Companies”

Most of the bonds with capital characteristics issued by insurance companies are subscribed by financial institutions. In light of this, in order to reduce the systemic risk incurred by major financial crisis, and increase the capital quality of the bonds with capital characteristics issued by insurance companies, the FSC announced the amendments to Article 2 of the aforementioned Directions on May 3, 2019. The FSC added a rule that a markup to interest rate or other incentives for early redemption shall not be included when non-cumulative and cumulative perpetual corporate bonds are issued.

Amendments to the “Regulations Governing Insurance Agents”, the “Regulations Governing Insurance Brokers”, the “Regulations Governing Insurance Surveyors”, and the “Regulations for Establishment and Administration of Foreign Insurance Enterprises”

In order to align with the amendments to the Company Act on August 1, 2018 and in force on November 1, 2018 relating to the abolishment of the foreign company recognition system, and to simplify the mandatory provisions of application documents and remove the adjustment period or buffer period for some specific situation, the FSC promulgated amendments to the aforementioned first 3 Regulations on May 8, 2019 and the last one on May 9, 2019 respectively.

International Activities

FSC was elected as the board member of the International Forum of Independent Audit Regulators

The FSC attended the 2019 International Forum of Independent Audit Regulators (IFIAR) Plenary Meeting held from April 30 to May 2, 2019, and was elected as a board member on April 30. The FSC will actively take part in international audit supervisory matters in the future. Along

with the existing IFIAR Enforcement Working Group, the FSC will join the Human Resources and Governance Committee (HRGC) under the IFIAR board, playing a part in increasing the audit quality and financial information transparency in Taiwan and worldwide.

Angelo A.A. Cicogna, the Head of the Bank of Italy's Tokyo representative office, and Davide Giglio, the Representative of the Italian Economic, Trade and Cultural Promotion Office visited the FSC

On April 12, 2019, the FSC Vice Chairman Huang received Angelo A.A. Cicogna, the Head of the Bank of Italy's Tokyo representative office and Davide Giglio, the Representative of the Italian Economic, Trade and Cultural Promotion Office in Taipei. The two sides exchanged experience with regard to the development of the financial industry, FinTech and supervisory policies.

Mr. Gary Cowan, Representative of the Australian Office, warmly received by FSC Chairman Koo on May 7, 2019

Mr. Gary Cowan, Representative of the Australian Office, was warmly received by Chairman Koo on May 7, 2019. The two sides broadly exchanged views on economic and financial issues of mutual interest.

Industry Updates

10 Exchange Traded Notes listed on April 30, 2019

With the aims of expanding the scope of business of securities firms and meeting the needs of investors for diverse investment channels, the FSC promulgated the Regulations Governing the Issuance of Exchange Traded Notes by Securities Firms on June 28, 2018 allowing securities firms to issue Exchange Trade Notes (ETNs). 9 securities firms, including Fubon Securities, MasterLink Securities, Capital Securities, President Securities, SinoPac Securities, Mega Securities, KGI Securities, Hua Nan Securities and Yuanta Securities had registered for 10 ETNs issuances, which became effective subject to the discretion of the FSC. The 10 ETNs were simultaneously listed on the TWSE and TPEX on April 30, 2019.

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

The sales situation of foreign-currency denominated products by life insurance industry as of the end of February 2019 was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$100.822 billion, down by 21% from NT\$127.534 billion compared to the same period last year. Among them, investment-linked insurance products accounted for NT\$35.577 billion (around 35% of the total), down by 39% from NT\$58.244 billion compared to the same period last year, and the sales of traditional insurance products accounted for NT\$65.245 billion (around 65% of the total), down by 6% from the NT\$69.29 billion compared to the same period last year.

Sales situation of spillover-effect products and in-kind payment insurance products by life insurance companies as of the first quarter of 2019

The sales situation of spillover-effect products and in-kind payment insurance products by life insurance companies as of the first quarter of 2019 was as follows:

1. The FSC has approved and filed for reference 16 spillover-effect insurance products of 7 life insurance companies. As of the first quarter of 2019, 7,790 new policies had been sold, up by 571% from 1,161 compared to the first quarter of 2018, and the first-year premium revenue was around NT\$67.35 million, up by 1077% from NT\$5.72 million compared to the first quarter of 2018.
2. The FSC has approved and filed for reference 9 in-kind payment insurance products of 6 life insurance companies. As of the first quarter of 2019, 38,052 new policies had been sold, up by 8.76% from 34,986 compared to the first quarter of 2018, and the first-year premium revenue was around NT\$7.97 million, down by 21.71% from NT\$10.18 million compared to the first quarter of 2018.

NPL Ratio for Domestic Banks as of the end of April 2019

The total outstanding loans extended by the current 36 domestic banks increased by NT\$52.7 billion as compared to the figure of

previous month and amounted to NT\$28.97 trillion at the end of April 2019. Meanwhile, the NPLs of these banks totaled at NT\$71.9 billion which decreased by NT\$1.2 billion from NT\$73.1 billion as of the end of previous month. The average NPL ratio of the 36 banks remained at 0.25% compared to 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 6.92 percentage points and therefore rose to a figure of 556.60% from 549.68% of the previous month.

The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of April 2019. 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 April 2019

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.59 billion as of the end of April 2019, generating an NPL ratio of 0.12%, down by 0.01 percentage points from 0.13% at the end of March 2019. The NPL coverage ratio was 1,623.67%, up by 93.58 percentage points from 1,530.09% at the end of March 2019.

Net foreign and Mainland China investment in listed shares

As of the end of April 2019, foreign investors had bought around NT\$2,398.4 billion and sold around NT\$2,240.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$158 billion. In addition, foreign investors had bought around NT\$307.5 billion and sold around NT\$288.6 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$18.9 billion. Meanwhile, Mainland China investors had bought around NT\$6,624 million and sold around NT\$6,798 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$174 million; Mainland China investors had bought around NT\$1,224 million and sold around NT\$935 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$288 million. As for inward remittances by foreign and Mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese and foreign nationals as of the end of April 2019 stood at approximately US\$209.4 billion, up by around US\$3.8 billion from the US\$205.6 billion at the end of March 2019. The figure for cumulative net inward remittances by Mainland China investors as of April 30, 2019 was US\$188.7 million, down by around US\$3.12 million from the US\$191.8 million at the end of March 2019.

Investor and Consumer Protection

Gender statistics for registered life insurance sales persons in 2018

In 2018, there were 145,512 female registered life insurance sales persons (66.02% of the total,) and 74,894 male registered life insurance sales persons (33.98%), giving a gender ratio (number of males+ number of females x100%) of 51.47% which is close to the one in 2017, 52.04%, showing no major change in gender gap.

FSC encourages schools and teachers to take part in the 2019 Financial Basic Education Promotion Cooperation Program

To deeply cultivate financial education and improve the financial literacy of students, the FSC has implemented the "Financial Basic Education Promotion Cooperation Program" since 2009, providing teachers with teaching manuals and excellent teaching action plans. To allow the Program to align with the "Curriculum Guidelines of 12-Year Basic Education" that will be implemented in 2019, the FSC completed revision of the financial basic education study framework and teaching materials in 2018 and encourages individual schools to plan whole-school flexible courses in the area of financial knowledge. In 2019, the Financial Basic Education Teaching Action Plan will be trialed, and the related information will be posted on the website of "Risk Management and Insurance Education Promotion Portal" of the FSC Insurance Bureau (<https://rm.ib.gov.tw/Pages/index.aspx>).

2019 School and Community Financial Literacy Campaign

As part of 2019 School and Community Financial Literacy Campaign, in May 2019 the FSC held 76 financial literacy promotion sessions at schools and organizations, including Haiduan Junior High School in Taitung County, with a total of 8,209 participants attending. The sessions are free and have struck a chord with many people since

their inception in 2006. As of the end of April 2019, in all 5,936 sessions have been held and over 970,000 people have attended. The target participants include students at all levels of schools, communities, women's groups, indigenous people, immigrants and military service personnel.

The Banking Bureau of the FSC will continue the financial literacy campaign in 2019. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)8968-9709.

Major Enforcement Actions

Nan Shan Life Insurance Co., Ltd. was fined

Nan Shan Life Insurance Co., Ltd. planned to eliminate the premium collector channel in 2017 and fully eliminated this channel in March 2018, affecting the rights and interests of policyholders, violating related insurance regulations and also giving rise to concern about sound operation. The FSC thus imposed the maximum fine at the time of action of NT\$6 million on the company, issued a reprimand, and ordered the company to correct its conduct within the time specified and to suspend 3 managers from exercising business for 5 or 6 months in accordance with Paragraph 4 of Article 171-1 of the Insurance Act.

Also, Nan Shan was found 6 deficiencies, including that the company failed to set liquidity risk control indicators according to daily average turnover of individual stocks when investing in domestic stocks, giving rise to concern that individual stocks that reached the stop-loss standard could not be immediately disposed of in full when the company decided to reduce the holding. The FSC thus imposed a fine of NT\$1.8 million on the company in accordance with Paragraph 4 of Article 171-1 of the Insurance Act and issued 5 reprimands in accordance with Paragraph 1 of Article 149 of the same Act.

The First Insurance Co., Ltd. was fined

The First Insurance Co., Ltd. did not carry out residential fire insurance policy renewal operations and compulsory automobile liability insurance application operations according to the regulations and did not follow internal regulations when handling collection of premiums for automobile insurance and handling the placement of advertisements. The FSC thus imposed a fine of NT\$3 million on the company in accordance with Paragraphs 4 and 5 of Article 171-1 of the Insurance Act and Paragraph 3 of Article 48 of the Compulsory Automobile Liability Insurance Act.

Mercuries Life Insurance Co., Ltd. was fined

When handling claims for lifetime surgical and health insurance, Mercuries Life Insurance Co., Ltd. did not carry out proper review in violation of Item 2 of Subparagraph 3 of Article 8 and Article 17 of the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises". The FSC thus imposed a fine of NT\$1.2 million on the insurer in accordance with Paragraph 5 of Article 171-1 of the Insurance Act.

Hontai Life Insurance Co., Ltd. was fined

When investing in real estate in Taipei City, Hontai Life Insurance Co., Ltd. failed complete construction within 5 years which did not meet the requirement for immediate use and making a profit, and also failed to dispose of the real estate involved in the case within 6 months as instructed by the FSC. For violation of the stipulation that real estate investment by an insurance enterprise shall be limited to real estate that can be used immediately and from which benefit may be derived in Paragraph 1 of Article 146-2 of the Insurance Act, the FSC imposed a fine of NT\$1 million on the insurer in accordance with Subparagraph 3 of Paragraph 5 of Article 168 of the same Act. The FSC also issued a reprimand and ordered Hontai to sell the real estate involved in the case within one year according to the provisions of Paragraph 1 of Article 149 of the same Act.

Personnel changes

Personnel changes at the FSC

Former Deputy Director General of the FSC Banking Bureau, Mr. Li-Chun Wang was promoted to the position of Director-General of the Department of Fiscal, Statistical and Financial Affairs of the Executive Yuan on May 16, 2019; the vacant position was filled by Mr. Kuang-Hsi Huang, Director of the FSC Banking Bureau's Domestic Banking Division on the same day.