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- Deregulations about equity investments by securities firms in venture capital enterprises and private equity funds
- Introduction of an order regarding Paragraph 2, Article 7 of the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors
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### Policy and Law

#### *The Executive Yuan announced the Financial Development Action Plan*

In order to expedite upgrade and transformation of domestic financial industries, the FSC presented the Financial Development Action Plan at the meeting of the Executive Yuan on June 14, 2018. The action plan focuses on 4 dimensions, including "banking industry", "securities and futures industry", "insurance industry" and "Fintech", and addresses critical current issues by establishment of the goals and adoption of corresponding strategies. The action plan has the following related key measures:

1. Banking industry: (1) the FSC is studying the relaxing of regulatory requirements on bank investments in 5+2 industries, the applicable scope of Article 72-2 of the Banking Act, and fund raising for public infrastructure through securitization, in order to support development of public infrastructure; (2) in order to bring into play the wealth management function of OBUs, banks are required to carry out differentiated measures of high-end customers. Meanwhile, related restrictions on financial products will be gradually relaxed and international banking platform will be deployed; (3) banks are encouraged to expand their international financial networks and cooperate with the industries to break into overseas market. Meanwhile, banks are encouraged to set up unit to take charge of anti-money laundering activities and establish systems of global anti-money laundering and combating the financing of terrorism; (4) more incentives are provided for financial holding companies to merge with other financial institutions, internet-only banks are allowed to be established, and financial institutions are encouraged for innovation, in order to increase competitiveness of domestic financial institutions.
2. Securities and futures industry: (1) establishment of the management and control measures for direct investment by mainland Chinese investors in primary listed foreign companies and relaxation of regulatory limits for investments in Mainland China by insiders with R.O.C nationality of primary listed foreign companies or foreign companies registered on the TPEx Emerging Stock Market, in order to create a friendly investment environment; (2) introduction of a continuous trading system and establishment of collective clearing system for OTC derivative products to be in line with international practice; (3) increasing financial innovations and diversifying financial products, such as allowing securities firms to issue Exchange Traded Note (ETN) and allowing contracts of futures linked underlying of warrant to be listed on the Futures Exchange; (4) implementation of the New Version of Corporate Governance Roadmap (2018-2020); (5) more incentives to increase willingness of securities firms to merge with other financial institutions; (6) relaxation of regulatory requirements on equity investments in venture capital enterprises and private equity funds by securities firms, in order to encourage investments in domestic industrial entities.
3. Insurance industry: (1) encouraging insurance companies to launch insurance products that cover protection-type, elderly benefits, information security as well as innovative and micro insurance products by rendering favorable preferential reserve interest rate markup and investment limits; (2) creating friendly investment environment to support economic development through investments of insurance industry; (3) promoting insurance technology development and studying the establishment of a "joint insurance information center";



(4) building a new insurance supervision system according to international standards.

4. Fintech: (1) continued promotion of innovative experimentation in order to develop Taiwan as a base of Fintech; (2) establishment of FinTechSpace and Fintech digital sandbox platform for creation of a sound environment for innovative entrepreneurs; (3) planning to hold "FINTECH TAIPEI 2018" to actively strive for international business opportunities.

### **Deregulations about equity investments by securities firms in venture capital enterprises and private equity funds**

In order to encourage and guide institutional investors to invest in domestic industrial entities and help these companies raise funds, the FSC deregulated rules about equity investments by securities firms in venture capital enterprises and private equity funds on June 1, 2018.

1. Allowing securities firms to make equity investment in private equity funds: in order to help securities firms take full advantage of their client base and human resources, securities firms are now allowed to invest in private equity funds.
2. Allowing subsidiaries of securities firms created with their equity investments to launch venture capital funds or private equity funds and laying down related management provisions.
3. Increasing capital utilization efficiency and flexibility of securities firms: a securities firm may apply for the FSC's approval for lifting the ceiling of 20% net worth for its total equity reinvestment in non-securities/non-futures institutions when it has special need.
4. Increasing the momentum of investment in industrial entities: the limit of investment by a venture capital enterprise or private equity fund in any invested company is lifted. All securities firms are required to draw up internal guidelines to control and manage the investment limit and shareholding ratio of their equity investments in companies and other venture capital enterprises or private equity funds in which they make equity investments.
5. Reducing documentation requirements for the application: the number of documents that a securities firm is required to submit to the FSC for approval of capital increase of a domestic company in which it makes equity investment is reduced from 7 to 3, including the minutes of the board of directors, investment plans and financial and business information of the enterprise in which the securities firm plans to make equity investment.

### **Introduction of an order regarding Paragraph 2, Article 7 of the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors**

The FSC issued an order on June 8, 2018 about establishment of the management and control measures for direct investments from Mainland China in primary listed foreign companies. Under the condition that shares held by mainland Chinese investor(s) do not exceed 30% of total outstanding shares and that the Mainland Chinese investor(s) do not possess controlling power, Mainland Chinese investors are allowed to directly invest in primary listed foreign companies in Taiwan through private placement, cash capital increase, merger, acquisition and share exchange. Such investments are subject to review of and subsequent control by the Taiwan Stock Exchange and Taipei Exchange in terms of the investment limit. This explanatory order was issued to provide more financing resources to such companies and attract more outstanding foreign enterprises to get listed in Taiwan.

### **Amendments to the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises**

The FSC introduced amendments to partial articles of the Regulations on May 29, 2018, in order to increase insurance industry's information security awareness, urge big insurance companies to establish differentiated regulatory compliance risk management mechanisms, to set up insurance industry's internal report systems and to increase the subjects that the required anti-money laundering and combating the financing of terrorism (AML/CFT) plan at group level shall apply to. The key amendments are as follows:

1. In order to increase information security awareness of insurance industry, insurance companies are required to set up a business unit and a full-time officer to take charge of information security activities and adopt differentiated management approaches based on asset size of the company.

2. In order to improve the regulatory compliance performance of domestic big insurance companies, insurance companies with total asset value over NT\$ one trillion are required to set up a regulatory compliance unit, which may concurrently take charge of AML/CFT-related matters. The unit shall not concurrently engage in legal affairs that are not related to regulatory compliance system and other activities that have conflict of interest with its duties. The regulatory compliance officer at the headquarters may concurrently assume the position of the AML/CFT unit head, but shall not assume any other positions in the legal affairs unit or other internal units.
3. Big insurance companies shall establish company-wide regulatory risk management and supervision framework and lay down overall principles and rules about related responsibilities and authority, including creation of a company-wide regulatory risk management and supervision framework and independent regulatory risk management organization and duties and effective regulatory compliance performance reporting and supervision.
4. A specific deadline is imposed on insurance companies for establishment of internal report system and designation of an independent unit with appropriate authority to take charge of review and investigation of reported cases at the headquarters.
5. Insurance companies with subsidiaries shall prepare an AML/CFT plan at group level.

### **Promulgation of the Regulations Governing Anti-Money Laundering of Financial Leasing Enterprises**

According to Paragraph 2, Article 5 of the Money Laundering Control Act, the provisions governing financial institutions of this Act shall apply to financial leasing enterprises. On June 7, 2017, the Executive Yuan designated the FSC as the competent authority of anti-money laundering activities of financial leasing enterprises defined in Paragraph 2, Article 5 of the Money Laundering Control Act and specified the business scope of financial leasing enterprises on March 5, 2018. On June 20, 2018, the FSC promulgated the Regulations, which has a total of 14 articles. Key points of the Regulations are as follows.

1. Regulatory requirements on customer due diligence, enhanced due diligence, ongoing customer due diligence, and ongoing transaction monitoring of financial leasing enterprises.
2. The scope, method and period for records keeping of financial leasing enterprises.
3. The scope, method and procedure for reporting of cash transactions over a specific amount by financial leasing enterprises.
4. The scope, method and procedure for reporting of suspected money laundering or terrorist financing transactions by financial leasing enterprises.

### **Amendments to Article 7 of the Regulations Governing Off-Premises Automatic Teller Machines of Financial Institutions**

The FSC introduced amendments to the Regulation on June 15, 2018 to increase service efficiency of financial institutions and streamline their administrative procedures. Key points of the amendments are as follows:

1. In response to Fintech developments, when a financial institution sets up an automatic service area with automated service equipment outside its premise and has laid down internal management guidelines, which have been reported to and approved by the board of directors, the financial institution may appoint staff to provide information about use of the automatic service equipment and manage the equipment in this area (amendment to Paragraph 2, Article 7 of the amended Regulations).
2. When a financial institution appoints staff to serve customers in its automatic service area, it shall report this arrangement to the regulatory authority through online reporting system (amendment to Paragraph 3, Article 7 of the amended Regulations).
3. When a financial institution includes tax payment, account information inquiry and cash exchange of NTD and foreign currencies with its automatic service equipment, it does not need to submit the application to the FSC for approval (amendment to Paragraph 4, Article 7 of the amended Regulations).

### **Introduction of the Regulations Governing the Issuance of Exchange Traded Note by Securities Firms**

The FSC introduced the Regulations on June 28, 2018 to increase

the business scope of securities firms and meet investors' needs for product diversification. When a securities firm has net worth over NT\$ 10 billion, its capital adequacy ratio is not lower than 250% for consecutive 6 months, its financial status complies with related securities management regulations and the company has not received any punishment which is more serious than warning, the company may file the application appended the issuance plan and the prospectus to the FSC for its issuance of ETN after it obtains the listing approval letter issued by the Taiwan Stock Exchange or the Taipei Exchange.

### **Amendments to Directions for the Review of Non-life Insurance Products**

On May 10, 2018, the FSC announced the amendments to the above-mentioned Directions. The key points of the amendments include rules regarding: (1) commission rates of on-line insurance products paid to insurance brokers and insurance agents by non-life insurance industry; (2) the statistical periods that a non-life insurance company cites from domestic or foreign statistics; (3) reference clauses, standard contract and current related regulations that shall be followed when designing insurance policy, unless the amendments are better for consumers; (4) scopes of liability insurance products and employer compensation insurance products that non-life insurance industry may sell; (5) deductible of automobile insurance shall not be franchise deductible; (6) a non-life insurance company shall not eliminate coverage of its policy or add any exclusions in a way that is disproportionate to its pricing; (7) life insurance products or insurance products that cover accident or health coverage that a non-life insurance company sells shall comply with the Directions for Review of Life Insurance Products.

## **International Activities**

### **FSC Vice Chairman Cheng received a delegation of Senators and Representatives from New Mexico State and Arizona State**

The delegation of Senators and Representatives from New Mexico State and Arizona State was warmly welcomed by FSC Vice Chairman Cheng-ming Cheng on June 11, 2018. The two sides broadly exchanged views on economic and financial issues of mutual interest.

## **Industry Updates**

### **Approval of Issue of first NTD bank debentures by Societe Generale**

Societe Generale of France has become the first foreign bank to apply and be granted approval to issue NTD denominated bank debentures in accordance with the Regulations Governing Issuance of NTD Bank Debentures by Foreign Bank Branches, and the issue amount was NT\$15.6 billion. The funds raised will be used to issue loans for major construction, offshore, onshore wind power and solar power generation projects, and other green energy industry related investment projects. The bank will also apply to Taipei Exchange to be allowed to conduct green bond OTC trading, with the sales targets professional investors as defined in Paragraph 3 of Article 3 of the Regulations Governing Offshore Structured Products.

The FSC stated that this issue of green bank debentures will help provide medium- and long-term finance to the domestic green energy industry and will also provide an opportunity for domestic banks and foreign banks to cooperate on project financing, having a positive effect on the development of domestic green finance.

### **FSC agreed to allow First Commercial Bank to set up a branch in Frankfurt**

On May 22, 2018, the FSC agreed to allow First Commercial Bank to establish a branch in Frankfurt, Germany.

First Commercial Bank plans to set up a branch in Frankfurt to make its European presence more complete and allow EU business opportunities to be quickly grasped. The new branch will allow the bank to increase the momentum of overseas business growth, effectively use Frankfurt's financial center and transport hub advantages, expand its mainland Europe service network, develop the European market together with Taiwanese businesses, and develop income sources. Bank of Taiwan earlier set up a representative office

in Frankfurt, however, First Commercial Bank's branch will be the first branch of a Taiwan bank in the city.

### **FSC agreed to allow Bank of Taiwan to establish a representative office in Kuala Lumpur**

On June 12, 2018, the FSC agreed to allow Bank of Taiwan to apply to the financial competent authority in Malaysia for setting up a representative office in Kuala Lumpur, Malaysia.

Bank of Taiwan plans the Kuala Lumpur representative office to keep abreast of emerging Asian development trends and to support the government's New Southbound policy; it will allow the bank to gain a deep understanding of the local financial environment and quickly grasp future business opportunities. Domestic banks already have two branches and one representative office in Malaysia.

### **NPL ratio for domestic banks at 0.27% as of the end of May 2018**

The total outstanding loans of domestic banks stood at NT\$27,746.3 billion as of the end of May 2018, up by NT\$226.3 billion from the previous month while their total NPLs were NT\$75.6 billion, down by NT\$1.7 billion from the previous month's figure of NT\$77.3 billion, generating an average NPL ratio of 0.27%, down by 0.01 percentage points from 0.28%, at the end of April 2018. The NPL coverage ratio of domestic banks stood at 495.23% at the end of May 2018, up by 14.34 percentage points from the figure of 480.89% at the end of the previous month.

### **NPL ratio for credit cooperatives at 0.13% as of the end of May 2018**

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$590 million as of the end of May 2018, generating an NPL ratio of 0.13%, down by 0.02 percentage points from 0.15%, at the end of April 2018. The NPL coverage ratio, in the meantime, was 1,540.92%, up by 173.24 percentage points from 1,367.68% at the end of April 2018.

### **Net foreign investment in listed shares**

As of the end of May 2018, foreign and Mainland China investors had bought around NT\$ 3,293.5 billion and sold around NT\$ 3,472.2 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative outward investment of around NT\$178.7 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$390.0 billion and sold around NT\$395.7 billion, making for a net outward investment of around NT\$ 5.7 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese and foreign nationals as of the end of May 2018 stood at approximately US\$206.7 billion, down by around US\$1.1 billion from the US\$207.8 billion at the end of April 2018.

## **Investor and Consumer Protection**

### **FSC explains the case of the prosecution of former responsible person of Singfor Life Insurance Co., Ltd. for violation of the Insurance Act reported in the media**

With respect to the illegal creation of pledge by former responsible person of Singfor Life Insurance Co., Ltd. (Singfor), Wen-Chung Teng (Teng) and others using around US\$433.84 million of the company's overseas assets, the FSC has passed related evidence to the organ of prosecution and investigation for investigation and requested the receiver/liquidator, the Taiwan Insurance Guaranty Fund (TIGF), to actively handle the filing of civil and criminal lawsuits to claim compensation and protect the interests of policy holders and Singfor. TIGF has so far reclaimed around US\$240 million of Singfor assets; a request for arbitration was submitted for the remaining amount and an arbitration award of the full amount has been received; TIGF will continue to handle the follow-up procedure. Also, with respect to civil and criminal lawsuits against the people involved in the case by the TIGF, Teng's sentence of 10 years in prison and a fine of NT\$350 million for receiving a pledge loan from Standard Chartered Bank (HK) Ltd. in breach of official duties was confirmed by the Supreme Court in 2017 Tai Zi Di No. 3461 criminal judgement on December 20, 2017. The FSC will continue to urge the TIGF to pursue the prosecution of those involved to severely punish illegality and correct financial order.

### **FSC reminds people to make effective use of the Insurance Industry Public Information Observation**



### Station to find the information they require

With the aim of making obtaining of insurance industry information more convenient for people, the FSC has drawn up the Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises and Regulations Governing Public Disclosure of Information by Life Insurance Enterprises; insurance firms are required to disclose related information on their websites and the special area the Insurance Industry Public Information Observation Station has been established on the website of the FSC Insurance Bureau, providing people with a convenient way to find and read the information they need.

Through the aforementioned Station, important information of a single insurance company, such as financial and business information, can be checked, and it also has a function for checking integrated information of all insurance firms. The Station is also linked to the Taiwan Insurance Institute's Insurance Product Database, where people can find detailed information on the various types of insurance products issued by each insurance company.

### Analysis of purchase behavior of personal insurance products

The Taiwan Insurance Institute examined consumer behavior with respect to three types of property insurance, namely Voluntary Automobile Insurance, Personal Injury Insurance and Residential Fire Insurance (personal insurance products). The main findings: (1) the age range of purchasers of personal insurance products is 30-59 years age, and almost 60% of consumers who buy Voluntary Automobile Insurance and Personal Injury Insurance buy it through the insurance salesperson channel; (2) almost 41% of purchasers of Residential Fire Insurance buy from an insurance broker of the bank that provided their mortgage; (3) almost 70% of consumers buy Voluntary Automobile Insurance and Personal Injury Insurance at the same time in the same area; (4) almost 80% of consumers buy Voluntary Automobile Insurance and Residential Fire Insurance at the same time in the same area, showing that local relationship has a marked effect on the sale of personal insurance products. The results of analysis can help outside circles understand consumer behavior and serve as reference for product promotion by insurance companies.

### 2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in June 2018, the FSC held 60 financial literacy promotion sessions at schools and organizations, including Fuhshing Elementary School, and a total of 6,209 participants attended. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of 2017, in all, 5,228 sessions had been held and over 890,000 people 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 2018. 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)89689709.

### Analysis of gender of insurance salespersons in 2016 and 2017

As of the end of 2017, there were 218,393 personal insurance salespersons who are qualified and registered with the Non-Life Insurance Association of the ROC; of this number, 143,645 were female (65.77%), compared to 74,748 male (34.23%); these figures show that one out of every two personal insurance salespersons are female and one is male. Also, in terms of the overall population gender ratio (number of men/number of women x 100%), women accounted for 52.04% at the end of 2017, not much different to the 51.86% at the end of 2016.

### Analysis of gender ratio of directors of banks and financial holding companies in 2017

As of the end of 2017, domestic banks had a total of 490 directors, of which 429 were male (87.55%) and 61 were female (12.45%); branches of foreign banks in Taiwan had a total of 41 directors, of which 31 were male (75.61%) and 10 were female (24.39%); these figures show that foreign banks in Taiwan have a higher proportion of female directors than domestic banks. Financial holding companies had a total of 205 directors, of which 171 were male (83.41%) and 34

were female (16.59%).

## Major Enforcement Actions

### Farglory Life Insurance Inc. was found to be in violation of Insurance Act when handling legal compliance business and was fined NT\$2.4 million and given four reprimands under Paragraph 4, Article 171-1 of the same Act

When handling legal compliance business, Farglory Life Insurance Inc.'s legal compliance unit was found to have major shortcomings with regard compliance, including only collecting the summaries and handling situation reported by each business unit and failing to analyze the cases and put forward suggestions for improvement, failing to confirm whether overseas investment operations and management rules had been updated in line with related regulations and not following-up and supervising revision of internal operating regulations by the responsible departments in accordance with changes in regulations. The company was in violation of Paragraph 2, Article 30-1 and Subparagraph 2, Paragraph 3, Article 32 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises authorized by Paragraph 1, Article 148-3 of the Insurance Act and was thus fined NT\$2.4 million and given four reprimands under Paragraph 1, Article 149 of the Insurance Act.

### Insurance Company of North America, Taiwan Branch violated insurance regulations when conducting insurance business and was fined NT\$1.2 million under Paragraph 5, Article 171-1 of the Insurance Act

When handling travel related insurance with O Air website, insurance company North America, Taiwan Branch issued policies without collecting some application documents, leaving it unable to confirm the suitability of the product for the applicants and to review the signatures of the insurance applicants and the insured. The company failed to fulfil the requirements of Subparagraph 6, Paragraph 1 of Article 6, Item 5, Subparagraph 8, Paragraph 1 of Article 7, and Article 17 of the Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises authorized by Paragraph 2, Article 148-3 of the Insurance Act, and was thus fined NT\$1.2 million under Paragraph 5, Article 171-1 of the Insurance Act.

### SinoPac Securities Corporation warned and its responsible person suspended

The Enforcement Rules Governing Management of Trading by Insiders drawn up by SinoPac Securities were found to not meet the requirements of the Regulations Governing Insiders of Securities Firms Opening Accounts at Their Securities Firms for Securities Brokerage Trading and internal control systems such as its Management Regulations Governing Stratified Responsibility and insiders' trading control inspection were not implemented; supervision of the credit risk control operations of its subsidiary SinoPac Securities (Asia) Limited was also insufficient. Also, General Manager Ye OO of the company used information obtained in his position to trade listed securities.

SinoPac Securities was thus issued a warning under Subparagraph 1, Article 66 of the Securities and Exchange Act and the company was ordered to suspend Ye OO from his position for five months.

## Personnel Changes

### Personnel changes at the FSC

FSC Securities and Futures Bureau deputy director-general Zhou Hui-mei retired honorably on June 4 and was replaced by transferring deputy director-general of the Insurance Bureau Tsai Li-ling; the post of deputy director-general of the Insurance Bureau was filled by promoting the bureau's chief secretary Wang Li-hui; the post of chief secretary was filled by promoting director Lin Yao-Tung of the same bureau. All the appointees took up their positions on June 4.

FSC Financial Examination Bureau deputy director-general Ye Shu-yuan retired honorably on June 11 and was replaced by promoting the bureau's chief secretary Chen Su-fen; the post of chief secretary was filled by promoting Cheng Tzy-hao, director of the bureau's Division of Financial Holding Company. The appointees took up their positions on June 11.