

金融展望月刊

Financial Outlook Monthly

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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 version.

August 2017

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No.153

Ministry of Justice Anti-Corruption Hotline 0800-286-586

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- FSC draws up the Regulations Governing Anti-Money Laundering of Financial Institutions and amends related regulations
- Promulgation of the Regulations Governing Anti-Money Laundering for Certified Public Accountants and Directions Governing Anti-Money Laundering for Certified Public Accountants
- Amendments of the Regulations for Engaging in Non-Loan Transactions between Insurance Enterprises and Interested Parties
- The limitation that the investment of a privately placed REIT fund in development-oriented real estate falling under infrastructure should not exceed 40% of the value of the fund's trust property lifted
- Securities Investment Trust Enterprises (SITEs) now allowed to inject their own capital as seed money or seed capital for their own funds prior to inception

Policy and Law

FSC draws up the Regulations Governing Anti-Money Laundering of Financial Institutions and amends related regulations

Authorized by the first part of Paragraph 4 of Article 7 of the Money Laundering Control Act, the FSC completed and put the aforementioned regulations into effect on June 28, 2017. The regulations regulate confirmation of customer identity by financial institutions, record keeping, reporting of large amount cash transactions and suspicious money laundering or terrorism financing transactions. The Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of the Banking Sector, Electronic Payment Institutions and Electronic Stored-value Card Issuing Institutions, Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of the Securities and Futures Industry, and Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of the Insurance Industry were also amended in line with the contents of the aforementioned regulations. The main points of the amendments are: after completing or updating money laundering or terrorism financing risk assessment, financial institutions should file the risk assessment reports with the FSC for recordation. It is also stipulated that the board of directors of a financial institution bears ultimate responsibility for ensuring that suitable and effective anti-money laundering and countering terrorism financing internal control is established and maintained.

Promulgation of the Regulations Governing Anti-Money Laundering for Certified Public Accountants and Directions Governing Anti-Money Laundering for Certified Public Accountants

In line with the amendment of the Money Laundering Control Act announced on December 28, 2016, the FSC announced the two aforementioned regulations on June 26 and they entered into force on June 28, 2017.

1. Regulations Governing Anti-Money Laundering for Certified Public Accountants: When CPAs prepare for or carry out the type of transactions required by the Money Laundering Control Act, they should undertake customer due diligence (CDD) measures, conduct enhanced CDD and keep all information obtained through the CDD and all records on transactions. If a suspicious transaction is found, it should be reported to the Investigation Bureau of the Ministry of Justice.
2. Directions Governing Anti-Money Laundering for Certified Public Accountants: When CPAs prepare for or carry out the type of transactions required by the Money Laundering Control Act, they should attend on-the-job training and the CPA firms they have established or joined should undertake

internal control procedures. The FSC will dispatch personnel to inspect the aforementioned internal control procedures and can designate the National Federation of Certified Public Accountant Associations of the Republic of China to implement this inspection.

Amendments of the Regulations for Engaging in Non-Loan Transactions between Insurance Enterprises and Interested Parties

In order to achieve consistency of supervisory measures for financial institutions, the FSC amended Article 3, Article 4, and Article 6 of the Regulations on June 30, 2017. The key points of amendments are as follows:

1. When an insurance company purchases financial derivative or structured product linked to securities issued by interested parties from a non-interested party, such a transaction is considered a non-loan transaction between the insurance company and its interested parties.
2. The FSC relaxes the regulation related to the scope and conditions which an insurance company's board of directors may grant general authorization for.
3. When the board of directors of an insurance company grants general authorization for acquisition (through investment) or disposal of ETFs issued by interested parties, such general authorization is not subject to the restriction that the acquisition/disposal shall not exceed 10% of the total amount of issued beneficiary certificates of a single fund. However, the amount of acquisition (through investment) or disposal of ETFs issued by interested parties that exceeds 10% of the total amount of the issued beneficiary certificates of a single fund shall be included in the aggregate transaction amount.

The limitation that the investment of a privately placed REIT fund in development-oriented real estate falling under infrastructure should not exceed 40% of the value of the fund's trust property lifted

On June 30, 2017, the FSC amended the Regulations Governing the Investment Ceiling for the Investment of a Public Offered or Privately Placed REIT Fund in Development-Oriented Real Estate or Related Rights of Real Estate, requiring that the investment of a privately placed REIT fund in development-oriented real estate or related rights of real estate will not be subject to 40% of the value of the fund's trust property when investing in infrastructure as defined in the Act for Promotion of Private Participation in Infrastructure Projects and participating in infrastructure approved by the competent authority.

Securities Investment Trust Enterprises (SITES) now allowed to inject their own capital as seed money or seed capital for their own funds prior to inception

With the aim of increasing the competitiveness of SITES to facilitate alignment with international norms, on June 30, 2017, the FSC announced an adjustment to an order, allowing SITES to adopt the seed money or seed capital mechanism for the purpose of fund marketing, and investment strategy experimentation and other purposes. When a SITE gains approval from the FSC, it can invest the capital in its own publically-offered investment trust funds or offshore funds that it is commissioned to manage before they are inception, it will be exempt from the regulation that places an investment ceiling of 5% of the SITE's total net value in a single fund and also the regulation that the amount of investment must not exceed 5% of the invested fund's net asset value on the previous day; however, the amount invested in all funds by a SITE must not exceed 40% of its net value.

The FSC announced final amendments to Regulation Governing the Preparation of Financial Reports by Securities Issuers

On June 28, 2017, the FSC announced the final amendment to Regulation Governing the Preparation of Financial Reports by Securities Issuers to enable the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers". The amendment will be effective from January 1, 2018 to be in line with IASB's effective date. The main amendments consist of adjusting related accounting items and attached forms, and specifying the disclosure requirements on financial instruments and contracts with customers.

The FSC introduced the amendments of Article 2, Article 3, and Article 4 of the Standards for the Levy Rates of Life and Non-life Insurance Guaranty Fund

The FSC introduced the amendments of Article 2, Article 3, and Article 4 of Standards for the Levy Rates of Life and Non-life Insurance Guaranty Fund ("the Standards") on July 18, 2017, in order to (1) encourage the insurance

industry to provide insurance to people with physical and mental disabilities and insurance with minimum coverage to senior people, and provide the insurance industry more incentives to launch such products, (2) give the insurance industry a grace period for introduction of new (risk) indicators, and (3) obtain accurate measurement results of operation and management performance using various indicators. The key points of the amendments are:

1. Life insurance: the FSC introduced new indicators for measurement of operation and management performance. Such performance is a factor that determines an insurance company's rate of contribution to the Life Insurance Guarantee Fund.
 - (1) Two new indicators under "indicator-related business" category, or premium income from life insurance for people with physical and mental disabilities and premium income from insurance with minimum coverage to senior people, were incorporated (into the measurement of operation and management performance). Weightings of the indicators were adjusted and the number of indicators (for the measurement of operation and management performance) was increased from 9 to 11.
 - (2) Change of calculation formula for the indicator measured by average sum insured of death benefit of a policy.
 - (3) Change of rating criteria for the indicator measured by premium income of micro-insurance.
 - (4) Change of criteria for point deduction due to the authority's reprimanding for the regulatory compliance indicator.
2. Non-Life insurance: the FSC introduced a new indicator for measurement of operation and management performance. Such performance is a factor that determines an insurance company's rate of contribution to the Non-Life Insurance Guarantee Fund.
 - (1) One new indicator under "indicator-related business" category, or premium income from injury and health insurance for people with physical and mental disabilities, was incorporated (into the measurement of operation and management performance). Weightings of the indicators were adjusted and the number of indicators (for the measurement of operation and management performance) was increased from 9 to 10.
 - (2) Incorporation of the definition of formal and informal qualification of an actuary in the non-life insurance industry into the rating criteria of the indicator measured by the number of actuaries (with formal and informal qualification) in a non-life insurance business.
 - (3) Change of rating criteria for the indicator measured by premium income of micro-insurance.
 - (4) Change of criteria for point deduction due to the authority's reprimanding for the regulatory compliance indicator.

The FSC amended the Premium Table of Compulsory Automobile Liability Insurance for Car, Regulations for Underwriting and Claim Adjustment Procedures under Compulsory Automobile Liability Insurance, and the Payment Standards of Compulsory Automobile Liability Insurance

The FSC amended the Premium Table of Compulsory Automobile Liability Insurance for Car, Article 8 of the Regulations for Underwriting and Claim Adjustment Procedures under Compulsory Automobile Liability Insurance ("the Regulations"), and Article 2 of the Payment Standards of Compulsory Automobile Liability Insurance ("the Payment Standards") on July 17, 2017. Key points of the amendments are as follows:

1. Premium Table:
 - (1) Specific conditions are set for reducing charge for business expense of the insurer in compulsory automobile liability insurance ("the Insurance").
 - (A) When the policyholder or his/her trustee (not solicitor of the insurance company) purchases the insurance by visiting a business venue of an insurance company (including its branch) in person or the website of the insurance company or participation in public bidding, the insurance company shall give premium discounts.
 - (B) Insurance brokers and agents that have obtained the approval for accepting online insurance applications shall give premium discount with the cost saved through online application. Such discount shall not exceed the service fee and the discount offered by the insurer to the insurance applicant.
 - (2) Traffic violation and drunk driving records of the insured during three months prior to the policy expiration shall be adjusted to annual premium of the following year.
2. Article 8 of the Regulations: before the amendment, the metrology unit of exhaust volume of motorcycles and automobiles was "cc". Now the wording "cc" is changed to "cubic centimeter", which is the official wording used for the unit of legal metrology and highway-related

regulation.

- Article 2 of the Payment Standards: in order to avoid the misunderstanding that the NT\$ 20,000 limit for "transportation expense" of the injury medical expense benefit of this insurance only applies to round trips of physician visits and does not include transportation fees incurred from transfers and hospital discharge, the fourth paragraph of this article is amended to "the transportation fee stipulated in Subparagraph 3, Paragraph 2 of this Article shall not exceed the limit of NT\$ 20,000 (which now includes round trips of physician visits and transportation fees incurred from transfers and hospital discharge).

Relaxing the regulation governing sharing of business venue and staff between securities business unit concurrently operated by a bank and other business units

On June 27, 2017, the FSC introduced the amendment to Article 5 of the Regulations Governing Operation Scopes and Risk Management for Banks Conducting Trust or Securities Business. In the case of business activities with the same nature as concurrent operation and without conflict of interest, the activities of transaction end, marketing end and back desk are separated and securities business units concurrently operated by the bank are allowed to share business venue and staff with other business units.

Amendments of the Regulations Governing Insurance Brokers and the Regulations Governing Insurance Agents

In order to streamline the process of (document) signing by insurance brokers/insurance agents, achieve consistency with amendment to Article 163 of the Insurance Act regarding authorization for the competent authority to define the applicable scope of written analysis report, and meet practical needs of reinsurance brokerage business of insurance brokerage companies, the FSC introduced amendments of the two Regulations and issued an interpretative order regarding the waiving of (document) signing requirement stipulated in first paragraph of Article 34 of the two Regulations on June 27, 2017.

Approval of amendment to Article 8 of the Standards of the Expense Allocations for the Directors, Supervisors, and Membership Representatives of Credit Cooperatives

On July 3, 2017, the FSC approved the amendment to Article 8 of the Standards to raise the limit of funds available for expense allocation due to business need and introduce new expense items of workshop participation by membership representatives that the credit cooperative may allocate its fund to.

International Activities

Taiwan-Hong Kong Banking Supervision Joint Meeting held

The FSC and the Hong Kong Monetary Authority (HKMA) held this year's Taiwan-Hong Kong Banking Supervision Joint Meeting by video on July 4, 2017. The Meeting was co-chaired by FSC's Vice Chairman Tian-mu Huang and Mr. Arthur K H Yuen, Deputy Chief Executive of HKMA. The two sides exchanged opinions on mutual establishment of commercial presence, wealth management and anti-money laundering. The Meeting was fruitful and came to a successful conclusion.

Industry Updates

List of approved applications for the establishment of new branches from financial institutions for 2017

Taking into account changes in the overall economic and financial situation, balanced urban-rural development and level of cooperation with policy, in line with Regulations Governing Domestic Branches of Financial Institutions (the Regulations below), the FSC approved the following applications from domestic banks and credit cooperatives to establish new branches for 2017:

1. Domestic banks

- Establishment of one branch by King's Town Bank and two branches by CTBC Bank approved.
- Establishment of one branch by Taichung Commercial Bank in an area where financial services are lacking was approved (Yanchao District in Kaohsiung). Establishment of two branches by Bank of Panhsin in an area where financial services are lacking was approved (Yanchao District in Kaohsiung and Tongluo Township in Miaoli County)

2. Credit cooperatives

- Establishment of one branch by each of the following credit

cooperatives was approved: the Keelung Second Credit Cooperative (Anle District, Keelung,)The Tamshui Credit Cooperative (Banqiao District, New Taipei City,) The Tamshui First Credit Cooperative (Shulin District, New Taipei City,)The Third Credit Cooperative of Hsinchu (Toufen City, Miaoli County,) The First Credit Cooperative of Hsinchu (Yangmei District, Taoyuan City,)The Taichung Second Credit Cooperative (South District, Taichung City,) The First Credit Cooperative of Changhua (Fengyuan District, Taichung City,) The Kaohsiung Third Credit Cooperative (Fengshan District, Kaohsiung City,)The Credit Cooperative of Yilan (Luodong Township, Yilan County,)The Hualien Second Credit Cooperative (Zuoying District, Kaohsiung City.)

- Establishment of one branch by The Fifth Credit Cooperative of Changhua in an area where financial services are lacking was approved (Fenyuan Township, Changhua County).

In response to digital finance, taking into account the universality of financial services and to encourage the provision of financial services in remote areas, the FSC is studying the amendment of the Regulations and plans to relax the qualifying requirements for establishing new branches and increase the number of times that applications can be made from once to twice per year. It is expected that banks and credit cooperatives will be allowed to apply again to set up new branches in November this year.

FSC agrees to allow Cathay United Bank and Cathay Life Insurance Co., Ltd to apply to acquire 100% equity stake in the Bank of Nova Scotia Berhad

On May 19, 2017, the FSC agreed to allow Cathay United Bank and Cathay Life Insurance Co., Ltd to apply to the competent authority in Malaysia to invest USD 268 million, equivalent to MYR 1.096 billion (around NT\$7.9 billion), in The Bank of Nova Scotia Berhad (BNSB) to acquire 100% equity stake in BNSB. Cathay United Bank and Cathay Life Insurance will hold 51% and 49% equity stake in BNSB respectively.

At present, two Taiwan's banks, namely Mega International Commercial Bank and Cathay United Bank, have established offshore banking units in Malaysia. This application is not only the first case that a domestic bank applies to establish a subsidiary bank in Malaysia but also the first case in which a domestic bank and life insurance company have jointly invested in an overseas bank.

FSC approves Euler Hermes SA to set up Taiwan branch

On June 26, 2017, the FSC approved the application of Euler Hermes SA to setup a Taiwan branch. The company has branches in 18 countries worldwide and already has branches in Asia, including Hong Kong, Singapore and Japan, making Taiwan the fourth country in Asia where it will have a branch. The business scope of the Taiwan branch includes trade credit insurance, performance liability insurance and guarantee insurance.

FSC has approved merger between Taishin Securities and Ta Chong Securities

On June 30, 2017, the FSC approved the merger of Taishin Securities Co. Ltd and Ta Chong Securities Co. Ltd. With the aim of increasing its market share, in line with the requirements of Article 128-1 of The Company Law, Taishin Securities convened a board of directors' meeting to act on behalf of the shareholders' meeting and Ta Chong passed the merger at a special meeting of shareholders. Taishin will absorb Ta Chong and will establish 14 branches at Ta Chong's current head office and branches. After the merger, Taishin's brokerage business outlets will increase to 17 and it is estimated its share of the brokerage market will increase from 0.593% to 1.299%, taking its ranking for market share from 33rd to 24th. Ta Chong is an OTC listed company, while Taishin is a subsidiary company of Taishin Financial Holding Co. Ltd. Ta Chong Securities will apply to TPEx to cease OTC trading of Ta Chong's shares.

NPL ratio for domestic banks at 0.30% as of the end of June 2017

The total outstanding loans of domestic banks stood at NT\$26,470.8 billion as of the end of June 2017, up by NT\$47.1 billion from the previous month, while their total NPLs were NT\$78.7 billion, down by NT\$2.1 billion from the previous month's figure of NT\$80.8 billion, generating an average NPL ratio of 0.30%, down by 0.01 percentage points from 0.31% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 455.56% at the end of June 2017, up by 15.26 percentage points from the figure of 440.3% at the end of the previous month.

NPL ratio for credit cooperatives at 0.13% as of the end of June 2017

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

NT\$575 million as of the end of June 2017, generating an NPL ratio of 0.13%, up by 0.01 percentage points from 0.12%, at the end of May 2017. The NPL coverage ratio, in the meantime, was 1,487.03%, down by 157.29 percentage points from 1,644.32%, at the end of May 2017.

Lending by domestic bank to small and medium enterprises at the end of May 2017

At the end of May 2017, the balance of outstanding loans provided by domestic banks to SMEs totaled NT\$ 5,826.1 billion, up by NT\$56.8 billion from the figure in previous month.

At the end of May 2017, the balance of loans provided to SMEs accounted for 59.12% of loans provided to all enterprises and 61.80% of loans provided to private enterprises, decreased by 0.07 and 0.09 percentage points from the ratios in previous month, respectively. At the end of May 2017, the average NPL ratio of SME loans was 0.46%, the same as the ratio in previous month.

Net foreign investments in listed shares

As of the end of June 2017, foreign and Mainland China investors had bought around NT\$ 3,103.6 billion and sold around NT\$ 2,837.3 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$266.3 billion. Meanwhile, on the Taipei Exchange, foreign and Mainland China investors bought around NT\$ 279.5 billion and sold around NT\$270.2 billion, making for a net inward investment of around NT\$ 9.3 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese, and offshore foreign nationals as of the end of June 2017 stood at approximately US\$212.8 billion, up by around US\$700 million from the US\$212.1 billion as of the end of May 2017.

Investor and Consumer Protection

FSC reminds people to take out travel insurance and travel inconvenience insurance when they travel in summer vacation

Summer vacation is the peak time for travel in Taiwan. The FSC suggests that citizens plan travel insurance and travel inconvenience insurance before setting off on holiday to disperse related risks.

The payment items for the travel inconvenience policies offered by insurance companies at present are loss of luggage, tickets and travel documents, emergency assistance expenses, shortened trip expenses, delayed itinerary expenses, delayed luggage expenses and hijack distress allowance. As for travel insurance, most policies can add an injury medical expense additional clause. Consumers can take out insurance according to their own needs. Before buying a policy, the protection content, scope and claim application documents of policies offered by various different companies should be understood in detail by consumers to protect their rights and interests. Suitable travel insurance can then be purchased to cope with related travel risks.

Analysis of the gender and age of the subjects of long-term care insurance cover at the end of 2016

At the end of 2016, Taiwan's life insurance industry had 580,467 valid long-term care insurance contracts. 45.48% of the insured were men and 54.52% were women, showing that there is slightly higher need for long-term care insurance by women. In terms of the effect of age on need for long-term care insurance, the ages of the insured were concentrated in the 40-49 years old range, with men and women in this age group accounting for 25.08% and 30.31% of the total insured, respectively. This situation is related to the gradual increase in importance attached to health and future long-term care need when people become older and are more financially stable. The percentages drop sharply for people over the age of 60, the main reasons include premiums for people of this age are excessively high or they are unable to take out such insurance due to poor health. In the future, promotion and advocacy of this type of insurance product will seek to enhance the "plan early" concept to increase the willingness of young people (aged 20-29 years old) to purchase long-term care insurance.

2017 School and Community Financial Literacy Campaign

In July 2017, FSC held 26 financial literacy promotion sessions at schools

and groups, including Hsing-Hwa Senior High School in Chiayi City, as part of its 2017 School and Community Financial Literacy Campaign. A total of 2,633 participants attended. These sessions are free of charge and have been very well received since their inception in 2006. As of the end of 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include students from elementary, junior high, high schools and universities, community and women's groups, indigenous people, immigrants, and military service personnel.

The FSC's Banking Bureau will continue its financial literacy campaign in 2017. 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.

Major Enforcement Actions

Land Bank of Taiwan fined NT\$3 million

After an employee of Land Bank of Taiwan misappropriated customer deposits, the bank's internal control system was found to be lacking. For violation of Paragraph 1 of Article 45-1 of the Banking Act the bank was fined NT\$3 million and ordered to relieve the offending employee from his/her position.

Taichung Commercial Bank fined NT\$1.8 million and reprimanded

Taichung Commercial Bank was found to have shortcomings with regard to prevention of money laundering, and financial product sale and transaction amount examination and review, in violation of regulations and also giving rise to concern about possible impediment to sound bank operation. The bank was thus fined NT\$1.8 million in accordance with the regulations that were violated and issued with a reprimand.

Taipei Fubon Commercial Bank fined NT\$1 million and given a reprimand

The bank's shortcomings included, when engaging in deposit account opening and money laundering prevention operations, failing to report large amount cash withdrawals to the Bureau of Investigation of the Ministry of Justice, and also failing to implement Know Your Customer principles when carrying out deposit account opening operations. Taipei Fubon Commercial Bank was thus fined NT\$1 million and given a reprimand.

SinoPac Securities (Asia) fined NT\$600,000

SinoPac Securities (Asia) Co. Ltd (foreign-owned) was commissioned by a mainland Chinese enterprise-invested company in Hong Kong to trade listed shares and was deemed to have been jointly in deliberate violation of its obligations under Paragraph 1, Article 73 of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area. SinoPac Securities (Asia) was thus fined NT\$600,000 under Paragraph 1 of Article 93-1 of the Act.

Sinopac Securities warned and ordered to suspend general manager for one month

SinoPac Securities was deemed to have failed to manage the legal compliance, risk management and internal auditing of its subsidiary company SinoPac Securities (Asia) Co. Ltd, and to also have shortcomings with regard to prevention of money laundering. SinoPac was thus issued a warning under Sub-paragraph 1 of Article 66 of the Securities and Exchange Act. The company was also ordered to suspend General Manager Ye OO for one month under Article 56 of the same Act.

Personnel Changes

Personnel changes in the FSC's Banking Bureau

The deputy director general of the FSC's Banking Bureau Hui-rong Lue retired on July 3, 2017. The vacancy was filled on the same day by Li-chun Wang who was promoted from the position of director of the Banking Bureau's Legal Affairs Division.