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- FSC coordinates with relaxation of COVID-19 restrictions on entry at banks and insurance enterprises
- FSC continues to implement temporary bank supervision measures designed to promote financial intermediation functions of domestic banks and thereby support the economic relief and stimulus programs of government agencies
- FSC amends the “Securities Investor and Futures Trader Protection Act”

Policy and Law

FSC restores original cap on total securities borrowing and lending (“SBL”) short sale volumes during trading sessions, and cancels the measure that when the market closes down by 3.5% or more on any given trading day, short selling will not be allowed on the following day at or below the previous day’s closing price

Domestic and overseas stock markets have recently regained stability and most countries have discontinued short selling restrictions. Also, Taiwan has been quite successful in its fight against COVID-19, and relaxed anti-pandemic measures on 7 June 2020. Moreover, uncertainties in international markets are on the wane. Accordingly, the FSC on 9 June 2020 announced plans to take the following measures:

- 1.Reinstatement of old cap on total SBL short sale volumes during trading sessions: The cap on total SBL short sale volumes during trading sessions, which had been lowered to “10% of the average trading volume in any given security over the preceding 30 trading days” on 19 March 2020, was adjusted back to the previous 30% on 10 June 2020.
- 2.Discontinuation of policy allowing a broader range of collateral to meet margin calls: The FSC had previously announced on 19 March 2020, investors that have obtained the creditor’s consent would be allowed to meet a margin call (for either a margin purchase or a short sale) by posting any collateral that has market liquidity and can be objectively and reasonably valued. This measure was discontinued from 10 June 2020.
- 3.Cancellation of the restrictions providing that, for a security that closes down by 3.5% or more on any given trading day, regular short selling and SBL short selling of that security will not be allowed on the following day at or below the previous day’s closing price: The FSC had previously announced that, beginning from 19 March 2020, when a security that closes down by 3.5% or more on any given trading day, on the following trading day the investors are not permitted to engage in regular short selling and SBL short selling of borrowed securities at a price lower than the previous day’s closing price, and furthermore, if that same security again closes down by 3.5% or more on the next trading day, this same restriction will continue to apply. The restrictions mentioned above were eased as of 9 June 2020.
- 4.The FSC will continue to closely monitor the state of the fight against COVID-19 around

Notification of E-journal of Financial Outlook Monthly

Thank you for reading the Financial Outlook Monthly. We will stop printing and sending the paper-form journal since January 2021 (No.194), and still provide E-journals on our website. If you would like to receive E-journal every month, please send your E-mail address to yhhsu@fsc.gov.tw. You may also download E-journal files from our website through the QR code as the following or the URL (<https://www.fsc.gov.tw/en/home.jsp?id=55&parentpath=0,4>).

Many thanks,
Financial Supervisory Commission, Republic of China (Taiwan)



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the world, the latest political and economic developments, and the stability of financial markets, and will act in a timely manner to preserve stability if there is any irrational drop in stock prices.

FSC coordinates with relaxation of COVID-19 restrictions on entry at banks and insurance enterprises

The Central Epidemic Command Center (CECC) announced that rules regarding COVID-19 prevention measures would be relaxed, beginning from 7 June 2020, so the FSC coordinated this announcement (as well as suggestions put forward by the ROC Bankers Association and the ROC Life and Non-Life Insurance Associations) by announcing on 10 June 2020 that it would relax COVID-19 restrictions (previously adopted on 20 April and 13 May, respectively) on persons seeking to enter banks and insurance enterprises. Whereas the rules adopted in April and May made it compulsory for those entering banks or insurance enterprises to wear a face mask and have their temperature taken, the FSC has now decided to allow banks and insurers to exercise “self-management” in line with COVID-19 prevention measures that the CECC has recommended for the general public. The ROC Bankers Association and the ROC Life and Non-Life Insurance Associations discussed the matter and recommended that persons seeking to enter banks and insurance companies should still have their temperature taken, but need not wear face masks if they can observe the CECC’s social distancing guidelines.

FSC continues to implement temporary bank supervision measures designed to promote financial intermediation functions of domestic banks and thereby support the economic relief and stimulus programs of government agencies

To respond to the impact of the COVID-19 pandemic on the economy and financial markets, the FSC has asked banks to take steps to assist individuals and enterprises that have been adversely affected by the pandemic. To ensure that domestic banks are able to take active part in the government’s various economic relief measures, continue enhancing the function of financial intermediaries, and provide credits to the market, the FSC continues to take the following actions:

1. One-year deferral in implementation of the Basel III final rule:

(1) In line with the recent action by the Basel Committee on Banking Supervision (BCBS) to respond to the COVID-19 pandemic, the FSC recently adjusted the timetable for implementation of the Basel III final rule. To keep in step with the rest of the world, the FSC has set a target of 2023 for implementation of the final rule. With regard to the Real Estate Exposures on the basis of the Loan-to-Value Ratio under the Standardized Approach for Credit Risk, the tentative implementation date was delayed by one year to June of 2021.

(2) The requirements of the 2% banks’ internal capital buffer and the contingency plans for business crisis on the D-SIBs were also postponed by one year.

2. Principles for assessment and handling of expected credit losses (ECLs) on relief loans and other credit assets: To ensure that banks are on the same basis in measuring the ECLs of relief loans under the IFRS 9, the FSC, with reference to the principles interpreted by the BCBS and the IASB, is cooperating with the Banking Association to collect opinions from banks and will issue the FAQs on the classification and the ECL measurement of relief loans.

FSC amends the “Securities Investor and Futures Trader Protection Act”

To improve the regulatory framework for derivative suits and discharge suits, to promote corporate governance, to improve mediation procedure, and expand the protection institution’s scale of operations, amended version of the aforementioned Act was passed by the Legislative Yuan on 22 May 2020 and promulgated by the president on 10 June 2020. Key points of the amendments include the following: (1) the protection institution may request the company to institute an action against a past director or supervisor; (2) the protection institution may, with respect to the same underlying transaction or occurrence, join a suit as a co-party or file additional claims against those who should duly be held liable for compensation for that transaction or occurrence and who furthermore manage the operation of the company and are authorized to sign relevant business documents for the company; (3) the causes for which a discharge suit may be brought against a director or supervisor will no

longer be limited to causes that occurred during the term the director or supervisor is serving at the time of filing of the suit; and (4) a director or supervisor who is discharged from office by a decision of a court shall not be appointed as a director or supervisor of a TWSE listed, TPEX listed or Emerging Stock company.

FSC amends the “Directions Concerning Compliance with the Paragraph 1, Article 139-1 of Insurance Act Regarding the Reporting for Holding the Issued Shares with Voting Rights”

On 21 May 2020 the FSC, making reference to the “Regulations Governing Anti-Money Laundering of Financial Institutions,” issued an amendment to the aforementioned Directions. The main amendment, which is set to take effect on 1 July 2020, is to incorporate the beneficial owner concept into insurance company equity management, thereby achieving greater transparency in equity ownership. Key points of the amendments include the following: (1) a single party or group of related parties, or a third party as defined in Paragraph 3, Article 139-1 of the Insurance Act that is a legal person, must now be reported if it is a beneficial owner or the ultimate controlling party; (2) in light of the FSC’s supervisory needs with respect to the beneficial owners or ultimate controlling party behind a corporate shareholder, the FSC issued a new provision to exempt the requirement of identification of beneficial owners for financial institutions; and (3) to coordinate with modifications to related reporting forms, reporting entities are required to provide charts showing ownership structure and control structure.

FSC amends the “Payment Standards of the Compulsory Automobiles Liability Insurance”

To provide greater clarity in the diagnostic criteria for what constitutes a “mental disorder” (one of the types of disability for which disability benefits are payable pursuant to the provisions of the “Compulsory Automobile Liability Insurance Act”), and to strengthen injured party protections under the Compulsory Automobile Liability Insurance Act without changing any coverages, in light of common sense and practical experience, the FSC on 28 May 2020 amended the “Compulsory Automobile Liability Insurance Disability Payment Standards Table” (which is an attachment to Article 3 of the aforementioned Payment Standards).

The new contract policy reserve rates in each currency for 2nd-half 2020

In view of the impact of the outbreak of COVID-19 on the global economy in early 2020, the Federal Reserve Board and central banks around the world have recently reduced interest rates. Taking into account that the Treasury bond rates of each currency are going downward, in order to give balanced attention to the needs for stability of premium rates and companies’ solvency, the FSC on 14 May 2020 announced the new contract policy reserve rates that will apply to life insurance policies in various currencies in the second half of 2020. Compared with the reserve rates that have applied since 1 January 2020, the new contract policy reserve rate with liability durations in NT Dollars, US Dollars, and Australian Dollars have been lowered by 0.25, 0.50, and 1.00 percentage points, respectively. The rate for policies having euro-denominated liabilities with a duration of 10 years or less have been kept unchanged, while for those with a duration exceeding 10 years the rate has been lowered by 0.25 percentage points. For new policies with liabilities denominated in Renminbi, the policy reserve rate has been cut by 0.75 percentage points for policies having liabilities with a duration of 10 to 20 years, while the rate for policies having liabilities with other durations has been lowered by 0.50 percentage points.

International Activities

FSC signs FinTech Cooperation Agreement with Canada

In early June 2020, the FSC Chairman Tien-Mu Huang signed a financial technology (FinTech) cooperation agreement with members of the Canadian Securities Administrators (CSA), which are securities regulatory authorities in 8 Canadian provinces. This is the fourth FinTech cooperation agreement completed by the FSC after signing with Poland, the US State of Arizona, and France. This agreement will enhance FinTech supervisory cooperation between the two sides, as well as create more opportunities for FinTech enterprises from Taiwan and Canada to expand into each other’s markets.

FSC Chairman Tien-Mu Huang meets delegation from Japan-Taiwan Exchange Association

On 11 June 2020, the FSC Chairman Tien-Mu Huang received a visit from a delegation led by Mitsuo Hoshino, Chief Deputy Representative of the Japan-Taiwan Exchange Association, Taipei Office. The two sides engaged in a wide-ranging exchange of views regarding Taiwan-Japan cooperation and other matters.

Industry Updates

NPL ratio for domestic banks as of the end of May 2020

The total outstanding loans extended by the current 36 domestic banks increased by NT\$242.1 billion (US\$8.06 billion) as compared to the figure of previous month and amounted to NT\$30.63 trillion (US\$1,019.91 billion) at the end of May 2020. Meanwhile, the NPLs of these banks totaled at NT\$74.9 billion (US\$2.49 billion) which increased by NT\$1.2 billion (US\$39.96 million) from NT\$73.7 billion (US\$2.45 billion) as of the end of the previous month. The average NPL ratio of the 36 banks remained at 0.24% compared to previous month, and remained the same ratio as the same month last year. The coverage ratio of allowances for NPLs stood at 563.14%. While the ratio decreased by 8.7 percentage points from 571.84% of the previous month, it still remained stable at a higher level.

NPL situation of credit cooperatives at the end of May 2020

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.57 billion as of the end of May 2020, generating an NPL ratio of 0.11%, up by 0.01 percentage points from 0.1% at the end of April 2020. The NPL coverage ratio was 1,808.6%, down by 205.07 percentage points from 2,013.67% at the end of April 2020.

Net foreign and mainland China investment in listed shares

As of the end of May 2020, foreign investors had bought around NT\$4,038 billion and sold around NT\$4,703 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$665 billion. In addition, foreign investors had bought around NT\$419.9 billion and sold around NT\$440.7 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$20.8 billion. Meanwhile, mainland China investors had bought around NT\$6,360 million and sold around NT\$6,390 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$30 million; mainland China investors had bought around NT\$1,465 million and sold around NT\$2,296 million worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$831 million. As for inward remittances by foreign and mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese and foreign nationals at the end of May 2020 stood at approximately US\$196.6 billion, down by around US\$3.4 billion from US\$200 billion at the end of April 2020. The figure for cumulative net inward remittances by mainland China investors was US\$177 million, up by around US\$1 million from US\$176 million at the end of April 2020.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of March 2020

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of March 2020 were as follows: Premium revenues from new foreign-currency denominated policies amounted to around NT\$133.152 billion, down by 13% from NT\$153.474 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$35.747 billion (around 27% of the total), down by 25% from NT\$47.611 billion year-on-year, and the sales of traditional insurance products totaled NT\$97.405 billion (around 73% of the total), down by 8% from NT\$105.863 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in April 2020

The pre-tax profit of insurance enterprises at the end of April 2020 was NT\$74.4 billion; the pre-tax profit of life insurance enterprises was NT\$70 billion, an increase of NT\$22.4 billion, or 47.1%, compared with the same period in 2019; the pre-tax profit of non-life insurance enterprises was NT\$4.4 billion, down by NT\$1.4 billion or 24.1% compared with the same period in 2019.

Owners' equity of insurance enterprises at the end of April 2020 was NT\$1,908.3 billion; owners' equity of life insurance enterprises was NT\$1,777.8 billion, an increase of NT\$205.8 billion, or 13.1%, compared with the same period in 2019; owners' equity of non-life insurance enterprises was NT\$130.5 billion, up by NT\$4.7 billion or 3.7% compared with the same period in 2019.

As of the end of April 2020, the NT Dollar had appreciated by 1.0% versus the US Dollar from the end of 2019. Meanwhile, the pre-

tax profit of life insurance enterprises at the end of April 2020—into which is factored the combined negative NT\$97.9 billion impact of exchange gains/losses, hedging gains/losses, and the net effect of volatility on the foreign exchange valuation reserve—was NT\$70 billion.

Investor and Consumer Protection

FSC urges consumers who engage in forex margin trading to use legal channels to avoid being swindled

The FSC recently reminded consumers that forex margin trading is a type of futures trading subject to the provisions of the Futures Trading Act, and called on consumers to protect their own interests by trading via legitimate firms. The Regulations Governing Leverage Transaction Merchants, which the FSC issued on 12 July 2012, allow leverage transaction merchants to conduct forex margin trading and other types of leverage contract trading. The public who wish to conduct forex margin trading via a leverage contract merchant can visit the website of the FSC Securities and Futures Bureau to check a list of legitimate leverage contract merchants. Also, in order to keep consumers from being swindled by illegitimate futures merchants, the Securities and Futures Bureau website provides a list of "illegal types of futures business" and a special section focusing on how to avoid getting scammed by underground futures firms.

FSC reminds consumers not to be induced by sales agents to purchase insurance by taking out loans or terminating time deposits

The FSC recently reminded consumers that when buying insurance they should accurately fill out application forms, truthfully indicate the state of their finances, and carefully consider their insurance needs as well as the affordability of the premiums. In particular, consumers are urged not to purchase insurance by taking out bank loans or policy loans, terminating time deposits, or terminating insurance policies, so as not to assume risks beyond what they can bear.

FSC urges employers to consider purchasing employer's liability insurance

The FSC recently called on employers to provide healthy and safe working environments to prevent workplace accidents, and to buy employer's liability insurance to protect against liability for civil damages that they might face if an employee has an accident at the place of employment. When purchasing such insurance, an employer should take special note of the following matters: (1) the level of liability for damages borne by the employer per accident, and whether the insurance company is liable for coverage of damages in excess of the deductible when an insured event occurs; (2) the payee of a settlement paid out under employer's liability insurance is the employer, but where the employer has been determined liable to indemnify an employee for loss, the employee may claim for payment of indemnification, within the scope of the insured amount and based on the ratio to which the third party is entitled, directly from the insurer; and (3) employer's liability insurance is founded on the principle that the employer is legally liable to indemnify employees for certain events, so when an employee dies due to illness, or when an employee suffers losses due to an accident that occurs while the employee is not discharging employment duties, the employer is not liable to the employee for indemnification, and such losses do not fall within the scope of coverage under this type of insurance.

FSC urges consumers not to buy unapproved offshore insurance products

The FSC occasionally receives tips regarding domestic citizens who, purporting to act in the name of an asset management company or a financial consulting firm, solicit or recommend investment-linked insurance policies that link to offshore feeder funds without approved by the competent authority, and they claim the policies are appropriate as long-term investments that will yield excellent returns. However, when the seller of such a product is a foreign insurer that has not been approved by the FSC to do insurance business in Taiwan, its insurance products will not have been examined and approved by the FSC (and will thus be what is generally called a "black market insurance policy"). The FSC recently urged consumers to protect their interests by refraining from purchasing offshore insurance products that have not been approved by the competent authority.

2020 School and Community Financial Literacy Campaign

As part of the 2020 School and Community Financial Literacy Campaign, the FSC held 77 financial literacy events in June 2020 at

schools and organizations, including the I-Lan Commercial Vocational Senior High School, attracting a total attendance of 6,846 participants. The events are free of charge, and have struck a chord with many people since their inception in 2006. As of May 2020, a total of 6,441 events had been held and over 1.02 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, and social welfare groups. The Banking Bureau of the FSC will continue the financial literacy campaign in 2020. 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.

Gender and ages of persons holding digital deposit accounts at domestic banks

There were a total of 2.33 million digital deposit accounts at domestic banks as of end-June 2019. At the five banks with the highest number of total accounts, there were a total of 2.15 million accounts, or 92% of accounts at all banks. Of these accounts, 56.4% were held by women, and 43.6% by men. A relatively high share of such accounts were held by people aged 20-39, with approximately 1 million account holders aged 20-29, of whom women accounted for 57.5% and men for 42.5%. Some 790,000 accounts were held by customers aged 30-39, of whom women accounted for 54.2% and men for 45.8%.

Major Enforcement Actions

FSC fines Taishin International Bank

The FSC recently imposed an administrative fine of NT\$8 million on Taishin International Bank for the bank's violation of Paragraph 1 of Article 45-1 of the Banking Act involving deficiencies in its sales of investment-linked insurance policies to customers, who took out mortgage loans and policy loans to finance their purchases. The fine was imposed pursuant to Subparagraph 7 of Article 129 of the same Act.

FSC imposes sanctions on the Taiwan Branch of Cardif Assurance Vie

The FSC recently imposed sanctions on the Taiwan Branch of Cardif Assurance Vie after discovering that, with respect to customers who used policy loans to finance their purchase of investment-linked insurance policies, the Branch had: (a) failed to establish a mechanism for monitoring and control of such purchases; (b) failed to increase the rigor of measures to identify and review the source of funds used by customers to finance premium payments; and (c) failed to check whether customers understood the associated risks. The Branch had thus committed a serious failure to properly understand and assess applicants' insurance needs or product suitability, thus violating the Financial Consumer Protection Act and the Insurance Act. An administrative fine of NT\$6 million was imposed pursuant to the Insurance Act. In addition, there were problems with the Branch's management of high-level authorizations and passwords for server accounts, and problems with mechanisms for protection of data transmitted to external recipients via email; for these two deficiencies, the FSC issued 2 official reprimands in accordance with the provisions of the Insurance Act.

FSC fines Shin Kong Life Insurance

While carrying out a full-scope examination at Shin Kong Financial Holding Co. (SKFH), the FSC discovered that SKFH subsidiary Shin Kong Life Insurance, in handling the sale by tender of real estate under conditions that qualified the sale as an interested-party transaction, had failed to submit the matter to its board of directors for approval, in violation of: (a) Paragraph 1, Article 45 of the Financial Holding Company Act in effect at the time; and (b) Paragraph 1, Article 4 of the "Regulations Governing Transactions Other Than Loans between Insurance Enterprises and Interested Parties" (which were issued by the FSC upon the authority of Paragraph 3, Article 146-7 of the Insurance Act). An administrative fine of NT\$4 million was imposed pursuant to the Financial Holding Company Act.

FSC imposes sanctions on the Taiwan Branch of Chubb Tempest Life Reinsurance Limited

The FSC recently imposed sanctions on the Taiwan Branch of Chubb Tempest Life Reinsurance Limited after learning that the Branch, with respect to the possibility that solicitors might, in handling insurance sales, submit insurance solicitation reports with untruthful information regarding the sources of funds used by customers to finance premium payments. The FSC learned that the Branch had: (a) failed to establish a proper mechanism for reviewing and auditing such insurance policies; and (b) failed to properly assess product

suitability or the customers' ability to afford premium payments going forward. And as for its handling of complaints, the Branch had often failed to properly determine accountability or determine whether its sales channels had engaged in improper soliciting behavior, and to take appropriate follow-up measures. Also, in handling purchases of insurance by corporate entities, the Branch had either failed to check why the customer sought to purchase insurance, or had failed to assess the appropriateness of the customer's reason for the purchase. For these violations of various items of insurance legislation, the FSC handed the Branch an administrative fine of NT\$3 million in accordance with Paragraph 5, Article 171-1 of the Insurance Act. In addition, due to shortcomings in policy conservation work, the FSC also issued 2 official reprimands in accordance with Paragraph 1, Article 149 of the Insurance Act.

FSC imposes sanctions on Bank SinoPac and EnTie Commercial Bank

The FSC recently imposed sanctions on Bank SinoPac and EnTie Commercial Bank after learning that, in their conduct of insurance agent businesses: the two banks had allowed customers to use policy loans to fund their purchase of insurance policies; when the solicitor handling the policy loan and the solicitor selling the insurance were often the same person, but the solicitors often submitted insurance solicitation reports with untruthful information regarding the sources of funds used by customers to finance premium payments. In addition, EnTie Commercial Bank failed to detect anomalies when customers frequently switched investments and solicitors repeatedly submitted "Applications for switch of investment" on behalf of policyholders in order to switch investments. The FSC, acting in accordance with Article 167-2 of the Insurance Act, ordered Bank SinoPac to take corrective action within 1 month, and handed it an administrative fine of NT\$1.8 million. As for EnTie Commercial Bank, the FSC ordered corrective action within 1 month and imposed an administrative fine of NT\$1.8 million in accordance with Article 167-2 of the Insurance Act, and also issued 2 official reprimands in accordance with Paragraph 1, Article 164-1 of the same Act.

FSC imposes sanctions on Nan Shan Life Insurance

In a targeted examination at Nan Shan Life Insurance, the FSC discovered that the insurer had violated insurance legislation in the following ways: (a) with respect to customers who used policy loans to finance their purchase of investment-linked insurance policies, the insurer had failed to properly assess product suitability; (b) in handling consumer disputes, the insurer had failed to properly record its due diligence procedures and results; (c) in recording the sales process, the insurer only acted in conformance with the company's own "Template for Recording of a Sales Process," which merely required the provision of a word-for-word recitation of certain required notifications to customers, and was thus not conducive to confirmation of product suitability; and (d) in handling pre-launch product examinations, the insurer's product analyses were rather perfunctory (i.e. advertising, promotional materials, and insurance prospectuses were prepared without any reference made to fund prospectuses or applicable securities legislations; disclosed product information and cautionary statements, and information provided in insurance product advertising, were not consistent with the content of fund prospectuses; and product prospectuses did not fully disclose the risks associated with target maturity bond funds). The FSC, acting in accordance with Paragraph 1, Article 149 and Paragraph 5, Article 171-1 of the Insurance Act, handed Nan Shan Life Insurance an administrative fine of NT\$1.8 million and issued 2 official reprimands.

FSC issues fines to Concord International Securities Co.

During a full-scope examination of Concord International Securities Co. in 2019, the FSC discovered that the firm had failed to properly implement anti-money laundering operations and internal control systems. Based on this discovery, the FSC imposed an administrative fine of NT\$500,000 in accordance with Paragraph 5, Article 7 of the Money Laundering Control Act, plus a second administrative fine of NT\$480,000 in accordance with Subparagraph 4, Paragraph 1, Article 178-1 of the Securities and Exchange Act.

Personnel Changes

Personnel changes at the FSC headquarters

After former FSC Banking Bureau Director General Jean Chiu was promoted to the position of the FSC Administrative Vice Chairperson, her vacated position was filled through promotion of the Banking Bureau's Deputy Director General Hsou Yuan Chuang. These actions were approved by the Executive Yuan on 12 June 2020, and both assumed their new duties on 15 June 2020.