

# FSC



2015 - 2016  
Annual Report



Financial Supervisory Commission, Taiwan



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# A MESSAGE FROM THE CHAIRMAN

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In the past year, the various financial measures adopted by the FSC have achieved significant results in terms of market development and expanding the scope of operation of financial institutions. In the area of banking business, credit card holders' burden has been eased, the implementation of the Program for Financial Support of Creative Industries is continuing to encourage banks to give loans to creative industries, and risk control, product transaction and sales management with respect to complex high risk financial products have been strengthened to protect the rights and interests of consumers. In the area of securities and futures, to increase Taiwan's global capital market competitiveness, the Securities Market Uplift Program implemented by the FSC has brought about a 10-15% rise in trading volume; as for insurance business, in 2015 domestic insurers were allowed to establish OIU. In the area of building a digitalized environment, the FSC put forward the four strategies of regulatory adjustment to meet requirements, enhancing consumer protection,

increasing information security and raising the level of financial information professional capability, and also adopted measures to build an environment conducive to the development of digital finance, to lay down a solid foundation for the further development of the financial industry.

At the end of 2015, the asset scale of the financial industry as a whole was NT\$79.8 trillion; the value of listed companies on the capital markets was NT\$27.2 trillion, and financial business and profitability have clearly improved; pre-tax profits of the banking industry in 2015 were NT\$371.7 billion; the non-performing loans ratio of domestic banks was 0.23%, and the NPL coverage ratio was 555.43%; in 2015, the life insurance industry had premium income of NT\$2.9 trillion and pre-tax profits of NT\$137.6 billion.

In the face of the challenges to Taiwan's economy, financial supervision and policy must be continually updated. Short term and long term development strategies will be quickly formulated. Through financial intermediation,

domestic real investment will be increased, and entrepreneurship also encouraged, with the aim of driving industrial development, increasing employment opportunities and promoting a positive economic cycle.

The FSC is implementing eight short-term strategies: (1) Finance assisting industry: Inter-agency cooperation will be strengthened, encouraging the financial industry to provide assistance to develop the economy and increase investment. (2) Increasing loans to SMEs: As well as continuing to actively promote the program for increasing loans to SMEs, the use of the Small and Medium Enterprise Credit Guarantee mechanism will be enhanced to increase the proportion of loans given to SMEs. (3) Encouraging innovation and entrepreneurship: The multi-level capital market mechanism which includes the Go Incubation Board for startup and acceleration firms, equity crowdfunding, and listing on the emerging stock market will be strengthened; cooperation with affiliated financial organizations will be enhanced (4) Promoting

financial products for the elderly: The development of products and services suitable for the elderly are encouraged and, in combination with the resources of medical and care service organizations, provision of the capital and care services the elderly need to live, to not only allow people to have more financial choices for retirement thus meet the needs of an aging society, but also expanding the scope of financial business. (5) Strengthening corporate governance, implementing graded management: the FSC will continue to strengthen the corporate governance system, and push ahead corporate social responsibility. (6) Developing FinTech business models: On the basis of fairness, security and risk management, the FSC will raise the level of information security and help financial employees transform in order to develop more diverse FinTech services, increase efficiency and protect consumers' rights and interests. (7) Reviewing the insurance RBC system: In calculating risk-based capital, the currently-used 6-month average price of stock is incomplete to have a counter-cyclical effect, therefore



the FSC will study to include the stock counter cyclical mechanism in the risk based capital system. (8) Making effective use of manpower to create job opportunities: In line with the human resources needs of listed companies, the FSC will promote industry-academia cooperation with the Ministry of Education, and will set up a platform or related mechanism to make effective use of retired financial industry personnel to serve as mentors, volunteers or consultants to assist the development of startups and micro business.

There are also the three long-term strategies of (1) Building a beneficial environment, bringing the financial intermediation function into play, promoting overall economic development, creating a win-win situation for finance and industry (2) Promoting the alignment of Taiwan's financial system with international norms and establishing of overseas presence by financial institutions while keeping roots in Taiwan (3) Building a sound financial market, providing diverse fund-raising and investment channels.

The FSC will continue to strive to fulfill its 5 responsibilities of "ensuring sound finances and business operation of financial institutions," "maintaining financial stability and market order," "protecting the rights and interests of consumers," "creating an environment beneficial for the promotion of financial development," and "promoting the bringing into play of the financial intermediation function to assist economic development". Measures beneficial to the development of finance will be formulated and the financial industry encouraged to upgrade competitiveness and provide the best assistance to general industry in Taiwan to make a greater contribution to economic development. The FSC will also maintain close communication and cooperation with supervisory authorities in other jurisdictions to jointly maintain regional and global financial stability.

**Ding, Kung Wha**  
Chairman



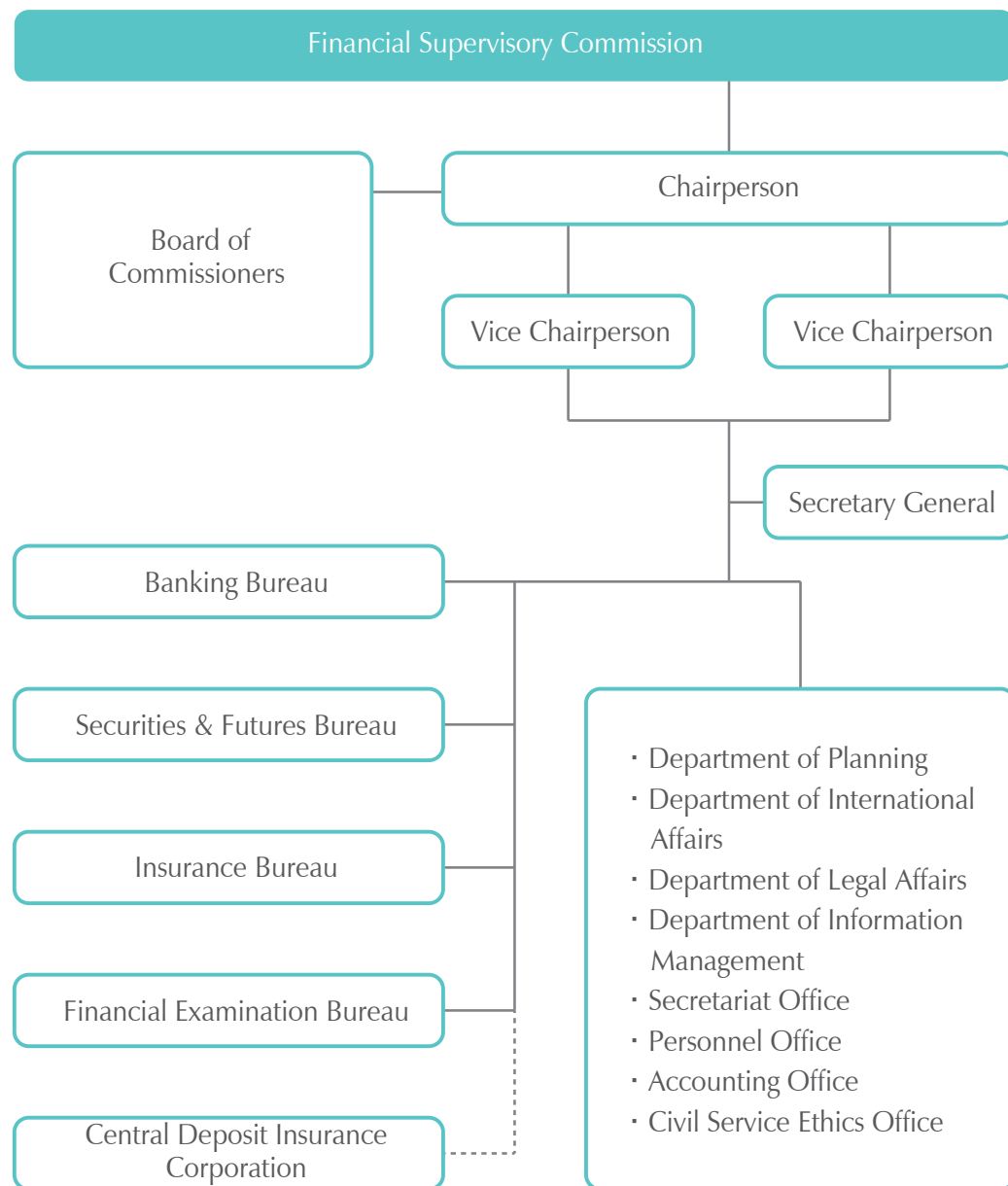
# ORGANIZATIONAL STRUCTURE AND FUNCTIONS OF THE FSC



The FSC was established on July 1, 2004, as the competent authority with overall responsibility for developing, supervising, regulating and examining the financial markets and financial services industry. The FSC seeks to ensure the sound operation of financial institutions, maintain financial stability and promote the development of financial markets.

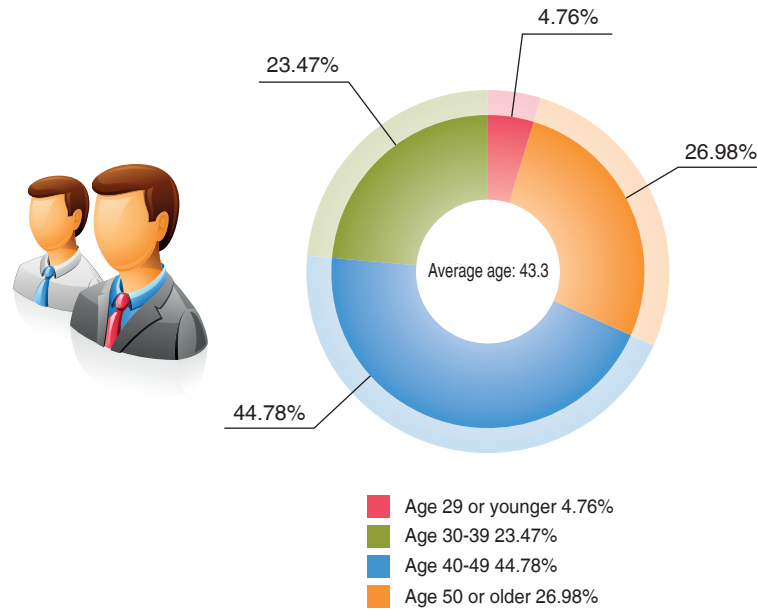


## ORGANIZATIONAL STRUCTURE

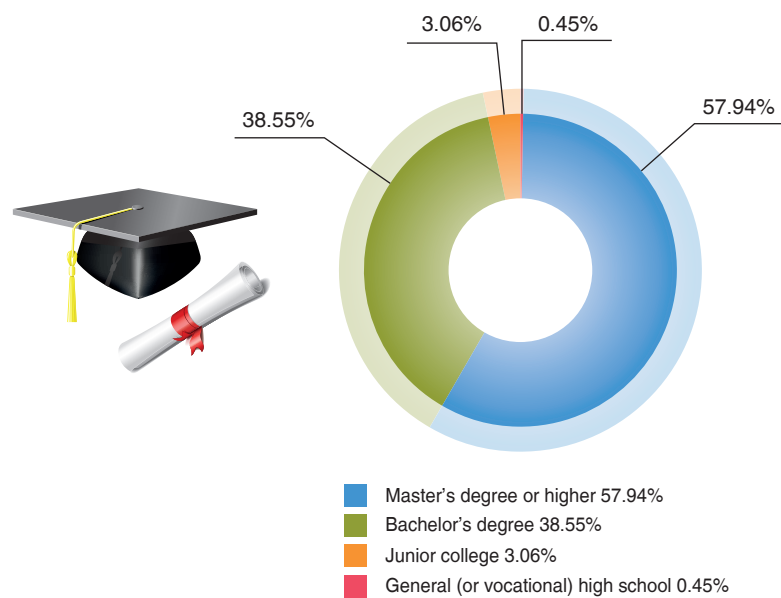


( The FSC has Representative Offices in New York and London )

## PERSONNEL



## ACADEMIC BACKGROUND OF EMPLOYEES AT FSC HEADQUARTERS AND THE FOUR BUREAUS





Vice Chairman

**Hsien-Nung Kuei**

Chairman

**Kung-Wha Ding**

Vice Chairman

**Tien-Mu Huang**



Chief Secretary  
**Kuei-Mao Wu**

Director General,  
Financial  
Examination Bureau  
**Li-Chuan Wang**

Director General,  
Banking Bureau  
**Austin Chan**

Director General,  
Securities and Futures Bureau  
**Yung-Hsin Wang**

Director General,  
Insurance Bureau  
**Mang-Chih Lee**



Director General,  
Department of Information  
Management

**Fu-Longe Tsai**

Director General,  
International Affairs

**Joe Lai**



Director General,  
Planning

**Yu-Ching Su**

Director General,  
Legal Affairs

**Jui-Lan Chung**

# IMPORTANT ACHIEVEMENTS



## STRONGER ASIAN PRESENCE

To encourage domestic financial industries to seize more business opportunities offered by Asian economic growth, provide Taiwanese enterprises with necessary financial services and assist financial institutions to diversify risk and develop into regional financial institutions in Asia, the FSC has launched 4 promotion strategies to support their building up a stronger Asian presence, including “Regulatory relaxation”, “Enhanced supervisory cooperation”, “Talent cultivation” and “Database for overseas presence information”.

## **1. Regulatory relaxation and process simplification:**

- (1) The amendment to Article 74 of the Banking Act was promulgated in February 2015 to allow domestic banks to calculate the ceilings for both “total investment” and “total investment in non-financial related enterprises” on the basis of net worth, instead of paid-in capital. This helps banks expand their business in the international market through merger and acquisition.
- (2) To encourage insurance companies to establish or expand their overseas presence, the FSC amended “Regulations for Establishment, Transfer, or Withdraw Branch Units by Insurance Enterprises” on February 17, 2015, easing qualification to allow any insurance company that has not been subject to a major disciplinary sanction or accumulated fines of more than NT\$3 million in the past year to apply to set up a foreign subsidiary or branch.

## **2. Enhanced supervisory cooperation:**

- (1) The FSC hosted the supervisory college meeting for Cathay United Bank in 2015. A total of eight supervisory authorities around the world sent delegations to attend the meeting. It enabled the FSC to establish a liaison channel to discuss matters of specific interests with the Bank’s host supervisors and enhance cross-border supervisory cooperation.
- (2) To assist Taiwan’s financial institutions to expand their overseas markets in Asian countries, the FSC visited the Philippines, Myanmar, Indonesia and Vietnam and other countries to meet with representatives of the local financial institutions of Taiwan. In addition, courtesy calls were paid to those countries’ financial supervisory authorities to lay the groundwork for signing related cooperative documents, also helping to enhance bilateral financial supervisory cooperation.

## **3. International talent cultivation:**

- (1) The FSC has requested the ROC Bankers Association to design training programs related to international finance which are funded by the Financial Research, Training and Development Fund contributed by banks in accordance with Article 51-1 of the “Banking Act”. In 2015, the Fund provided training to 2,600 persons.



Former FSC Chairman Ming-Chung Tseng led a delegation to visit Manila in the Philippines on September 3-5, 2015.

- (2) The Securities and Futures Institute (SFI) offers advanced international financial professional training programs attended by 105 trainees per year. These training programs had accumulated total of 3,474 attendees by the end of 2015.
- (3) The Taiwan Insurance Institute (TII) held “2015 international talents training program” to broaden the global vision and strengthen the professional competence of insurance personnel.

#### **4. Establishment of a database for overseas presence information:**

The FSC has required the Bankers Association to build up a database for macroeconomic condition, rules and regulations, local financial institutions, Taiwanese enterprises overseas profiles and research papers of the Asian region. Content of the database will be continually supplemented.

The Presence of Financial Industry by the End of the Second Quarter of 2016

- (1) Taiwanese banks had 464 foreign offices, representing a 58% increase compared to the end of 2013. Among the foreign establishments, 367 of them are located in Asia, up by 82% for the same period.



- (2) Taiwan's securities firms had established 121 overseas presences, 5.2% up compared with the presences at the end of 2013. Among them, 84 presences are located in Asia, 15.1% up compared with the presences as of the end of 2013.
- (3) Insurance companies had established 44 presences abroad, growing 15.8% from 2013. Among the foreign offices, 42 of them are in the Asia region, up by 16.7% for the same period.
- (4) Taiwan's financial industry had established 629 overseas presences overall, up by 41% on the 446 at the end of 2013. 493 presences were in Asia, up by 58.5% on the 311 at the end of 2013.
- (5) Merger and Acquisition: The FSC approved 30 cases of merger and acquisition, including 5 cases in banking industry, 11 cases in securities and futures industry and 14 cases in insurance industry.



## PROMOTING FINANCIAL INNOVATION

Financial innovation is key to the sustainable development of financial institutions. The FSC set up a task force on Financial Innovation in March 2015 to carry out overall review and relaxation of regulations. The initial results are as follows:

### **1. Expedited or simplified the review process of 13 financial products after stock taking of all products to be reviewed:**

- (1) Adopted the classified review approach for trustees and sales institutions if their clients for offshore structured products are classified as professional investors.
- (2) When banks deal with the collective investment funds for entrusted investment by non-professional investors, collective trust funds and financial asset securitization cases, the review timeline has been reduced from 2 months to 30 days. Banks are allowed to engage in Taiwan stock-linked derivatives product business by ex-post reporting if such a product is not the first case in the market.
- (3) The review timescale of application for over-the-counter derivatives and leverage contract business has been shortened from 15 days to 10 days. The review timescale for the raising of futures trust funds directed at unspecified persons and not at specified persons has been reduced from 1-3 months and 1-2 months, to 1-2 months and 1 month, respectively.

Also, application (or registration) documents for Securities Investment Trust Enterprises (SITEs) to publicly offer a security investment trust fund or to make follow-on offerings of a securities investment trust fund have also been simplified.

- (4) The review timescale for insurance products subject to approval procedure has been reduced from 90 to 75 working days. The review period for resubmitting filings after rejection has been reduced to 45 working days.

## **2. Taking on board the suggestions of financial industry associations and affiliated financial organizations, 22 measures have been adopted, including**

- (1) Transactions not restricted by regulations may be conducted by banks after their internal assessment. These transactions include ATM inter-bank deposits, enhanced identity validation mechanism for credit extension by banks, ATM cash withdrawals without using ATM cards, etc.
- (2) Banking industry: regulations or measures relaxed include electronic transactions of structured products, deposit regulations and current asset ratio limitations of collective trust funds for entrusted investment by professional investors, trust beneficial rights as collateral conducted by financial institutions, items paid by natural persons at convenient stores, sale of OIU products by OBUs, discretionary investment of bank assets by the securities investment trust industries, etc.
- (3) Securities and Futures industries: The FSC has introduced several deregulations measures, including lifting the leverage limitation on foreign currency margin trading between leverage transaction merchants and natural person, allowing leverage transaction merchants to sell commodity structure products to general legal persons, increasing the number of underlying instruments of Taiwan equity-linked financial derivatives that are sold to professional investors, relaxing the qualification requirements for hedging operations personnel for public listings and subscription warrants, expanding the scope of reinvestment activities of investment trust companies, shortening the review period for fund products of SITEs, reducing restrictions regarding holding of concurrent positions by fund managers and lifting the limitation that the associated persons shall not have concurrent employment.

- (4) Insurance industry: Extending the exclusive sales period of innovative insurance products, reviewing loading charges of health insurance, and relaxing the recognition standards for insurers with good performance to adopt the use-and-file procedure for launching new types of insurance products.



## BUILDING A DIGITALIZED ENVIRONMENT

### 1. Expanding online finance and mobile payment services

#### (1) Broadening Online Financial Services

##### I. Banking industry:

- To foster a better FinTech environment for banks so they may provide convenient digital financial services to the public, the FSC launched the Digital Financial Environment 3.0 Program and amended related rules and regulations accordingly. Banks are allowed to provide 12 online services including deposit, lending, credit card, wealth management and cross-selling to existing customers. Application for credit loans, housing and auto loans, credit card and trust accounts can be admitted through the Internet. The Bankers Association has also been required by the FSC to adopt three self-regulatory rules and measures to enhance customer protection. As of the end of 2015, 32 banks were providing a variety of above-mentioned online services.
- With regard to online bank account application, a customer will be able to open a bank account online without physical presence at the bank through a certain identity verification process involving online submission of dual identity documents in the near future.

- II. Securities and Futures industry: to streamline the procedures of account opening and trading for investors, the FSC has allowed securities firms and futures commission merchants (FCMs) to offer account opening and other services through electronic media. As of the end of December 2015, the average percentage of electronic trading for FCMs and securities firms was 81.82% and 48.22%, respectively.

### III. Insurance industry:

- The FSC has continuously promoted online insurance businesses from 2014, including expanding types of insurance, increasing the maximum insured amount and adding online insurance services. The FSC has also required insurers to enhance information security.
- In order to further facilitate the purchase of insurance products, the FSC has allowed insurance intermediaries or banks engaging in insurance agency or brokerage businesses meeting certain qualifications to apply to conduct online insurance businesses.

#### (2) Universal mobile payment services

Financial institutions are encouraged to actively promote various mobile payment services, providing the public with more convenient mobile payment services.

## 2. Establishing a legal framework for electronic payment institutions to further industry development:

- (1) The Electronic Payment Institutions Act and subordinate rules and regulations took effective on May 3, 2015. Approved electronic payment institutions are allowed to act as agents to engage in



The FSC held the first annual electronic payment award ceremony on August 28, 2015. Former Premier Chi-Kuo Mao, former Chairman of the FSC Ming-Chung Tseng and representatives of awarded enterprises had photos taken together during the occasion.



collecting and making payments for real transactions, accept deposit of funds as stored value funds and transfer funds between e-payment accounts.

- (2) As of the end of 2015, there were 21 electronic payment institutions, among which 3 are specialized electronic payment institutions and 18 institutions (banks and Chunghwa Post) concurrently conduct electronic payment business.

### **3. Promoting the analysis and application of “Open Data” and “Big Data”**

- (1) To assist industrial development and meet the public needs, the FSC had opened up 1,168 categories of financial data by July, 2016 and reached its goal of releasing more than 1,000 datasets.
- (2) The FSC has pushed forward 12 projects on big data application in 2015, among which 11 were completed by the end of 2015 and the remaining were finished in June 2016. Two projects of interest to the public that are worth mentioning are as follows:
  - I. Statistics on mortgage database: The statistics on mortgage database provides over 1,000,000 annual stock data and 40,000 quarterly flow data on residential mortgages collected by the Joint Credit Information Center (JCIC) since 2009. Under the database, users may conduct cross-analysis through three attributes, namely borrowers, outstanding loan balance and collaterals. Since its release in June 2015, the database has been downloaded over 30,000 times and is expected to minimize any margins of errors existing in real estate analysis.
  - II. Statistics on industrial financial information database: For users to understand the industrial financial status and changes in loan status of each industry, the database provides industrial financial ratios and financial structures based on 35,000 companies' financial reports collected by the JCIC. The database also provides loan summaries, including outstanding balances, categories, purposes and default rates of loans based on 160,000 companies' loan data reported by banks. This data is used for a variety of purposes, such as securities firms assisting SMEs with business transformation and competitiveness increase, guidance for IPO, company listing on Taipei Exchange or Taiwan Exchange, and financial profitability analysis, etc.

#### 4. Allowing the financial industry to invest in the Fintech industry

- (1) Financial holding companies, banks are allowed to invest up to 100% holding in FinTech enterprises engaging in big data analysis and application, cloud computing, machine learning, biometrics, online investment consultation, etc. The FSC issued a provision on October 7, 2015 to define “Other Insurance Related Business Recognized by Competent Authorities” as set forth in Paragraph 4, Article 146 of the “Insurance Act”, including financial technology business engaged in big data analysis, interface design, software development, internet of things (IoT), and wireless communications. The FSC also requires that more than 50% of the operating revenue or operating cost of the aforementioned financial technology business must come from the financial industry, among other related governing principles.
- (2) The FSC permitted domestic securities firms, SITEs, Securities Investment Consulting Enterprises (SICEs) and FCMs to invest in financial technology enterprises whose business is related to their operations or has an auxiliary function to them.

#### 5. Establishment of Financial Technology Office and Fintech Advisory Committee

The Fintech Office was established on September 24, 2015, with the aim of promoting the use of technology by the financial industry to provide innovative services, effectively integrate domestic industry-government-



The Opening Ceremony of FinTechBase was held on April 14, 2016. A group photo of FSC former Chairperson Li-Ling Wang with heads of financial associations and institutions.

academia-research resources and promote close cooperation between the financial industry and information industry talent. The Fintech Advisory Committee was also established, appointing leaders from the financial, information and technology industries with scholars and experts to serve as members, for listening to suggestions and forming a consensus amongst all quarters.



## BANKING INDUSTRY BUSINESS

### 1. Easing restrictions on investment by commercial banks

- (1) The Regulations Governing Investments in Real Estate by Commercial Banks were announced on July 23, 2015 to align with the amendment to Article 75 of the Banking Act. Commercial banks are required to abide by the Regulations when providing real estate to cultural, artistic or charity organization groups.
- (2) On September 14, 2015 the investment cap on securities trading by banks in the exchange market and over-the-counter-market was raised from 25% to 30%; a provision was also added allowing the limit to be adjusted by the competent authority in line with the domestic economic and financial situation.

### 2. Amendment to the Financial Institutions Merger Act

On November 24, 2015, the Legislative Yuan passed the amendment to the Financial Institutions Merger Act, which was promulgated by the President on December 9, 2015. The key amendments include: (1) clearly stipulating that the Act applies to financial holding companies; (2) adding a provision allowing cash and other properties to be used to pay the price for the merger of financial institutions; (3) adding means that the merger of financial institutions may adopt against a creditor; (4) revising of provisions regarding treatment of financial institutions' non-performing loans and (5) adding new tax incentives for merger deals with reference to the Business Mergers and Acquisitions Act. These amendments reinforce existing regulations governing mergers of financial institutions and facilitate the overseas market expansion of domestic financial institutions.

### **3. Lowering the interest rates of credit cards and cash cards**

According to Article 47-1 of the Banking Act amended on February 4, 2015, the interest rate charged by banks on cash card or the interest rate charged by institutions engaging in credit card business on revolving credit shall not exceed 15% per annum starting September 1, 2015. It is estimated that one million cardholders will benefit from the amendment.

### **4. Enhancing supervision of financial derivatives**

The following regulatory requirements were put in place in January 30, 2016 to further enhance bank risk controls and sales management of complex-and-high-risk products (CHRP) business:

- (1) The minimum total assets requirement for being classified as professional corporate customers has been raised from NT\$50 million to NT\$100 million.
- (2) Natural persons are prohibited from entering into CHRP transactions.
- (3) The contract term of foreign exchange CHRP has been limited to no longer than 1 year. The maximum loss amount of such products for non-hedging purpose has been lowered to 3.6 times average notional amount per fixing.
- (4) Banks are required to collect the minimum initial margins for derivatives transactions from customers.
- (5) Banks are required to implement controls on customer's total credit line for derivatives transactions.

### **5. Financial measures in support of the development of creative industries**

To facilitate the obtaining funding for business development by creative industries, the FSC adopted the Project for Financial Support of Creative Industries based on four approaches, namely "education and training", "project funding", "advisory services platform" and "coordinated measures"

- (1) Enhancing education and training to increase financial institutions' willingness to offer funding to creative industries: As of the end of 2015, the FSC had asked the ROC Bankers Association to entrust the Taiwan Academy of Banking and Finance to develop and provide 78 related forums and courses. A total of 4,115 persons attended such training. The FSC also encouraged financial institutions to allocate more resources to creative industry research.
- (2) Providing incentives to banks to actively extend loans to creative industries: The FSC launched the Project for Financial Support of Creative Industries and the Incentive Plan for Banks to Extend Loans to Creative Industries in January 2014. The target outstanding balance of such loans is NT\$360 billion within three years from NT\$180 billion at year end of 2014. The outstanding balance of such loans reached NT\$357.3 billion (an increase of 96.64%) at year end of 2015. Moreover, the FSC allowed the insurance industries to invest in 13 categories of creative industries. The investment limit of a financial holding company to invest in its subsidiary engaged in creative industries has also been relaxed.
- (3) Setting up an intangible asset appraisal mechanism for creative industries: The FSC has required the Accounting Research and Development Foundation to set accounting standards for intangible assets. Moreover, the FSC granted approval to the Taiwan Financial Asset Service Corporation to provide intangible asset appraisal services. The corporation has already received or completed successfully appraisal cases filed by creative industries.

## **6. Continuing to promote the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises**

Continuing to promote the SME funding program: The FSC will continue to implement the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises aimed to foster a favorable financing environment for SMEs. At the end of 2015, loans extended to SMEs by domestic banks amounted to NT\$5,452.4 billion, up by NT\$288.5 billion from the end of 2014.

## 7. Supporting industry— special loans for economic revitalization

Economic stimulus lending program: The Key Points for non-SME Financing and Credit Guarantees by Financial Institutions was announced on August 12, 2015. A total of NT\$500 trillion lending capacity is offered by the government. A borrower with insufficient collateral may apply for credit guarantees up to 80% of the lending amount from the Small and Medium Enterprises Guarantee Fund of Taiwan.

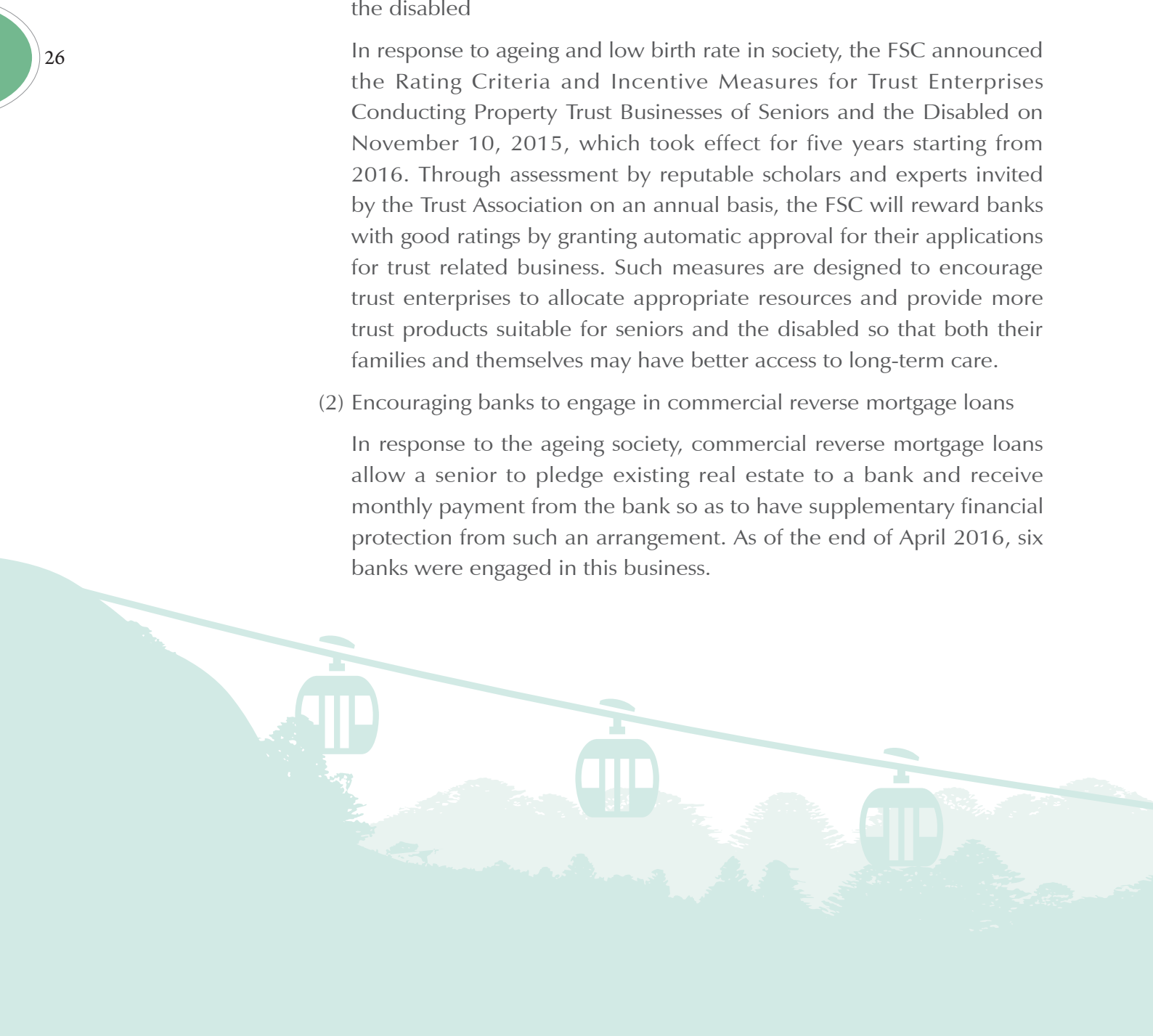
## 8. Promoting financial products related to seniors

- (1) Encouraging trust enterprises to develop trust products for seniors and the disabled

In response to ageing and low birth rate in society, the FSC announced the Rating Criteria and Incentive Measures for Trust Enterprises Conducting Property Trust Businesses of Seniors and the Disabled on November 10, 2015, which took effect for five years starting from 2016. Through assessment by reputable scholars and experts invited by the Trust Association on an annual basis, the FSC will reward banks with good ratings by granting automatic approval for their applications for trust related business. Such measures are designed to encourage trust enterprises to allocate appropriate resources and provide more trust products suitable for seniors and the disabled so that both their families and themselves may have better access to long-term care.

- (2) Encouraging banks to engage in commercial reverse mortgage loans

In response to the ageing society, commercial reverse mortgage loans allow a senior to pledge existing real estate to a bank and receive monthly payment from the bank so as to have supplementary financial protection from such an arrangement. As of the end of April 2016, six banks were engaged in this business.





# 第二屆

提升企業經營綜效 落實投資人權益保護 發揮企業社會責任

## 上市上櫃公司

## 公司治理評鑑

## 頒獎典禮

強化董事會結構與運作 平等對待股東  
資訊透明度 維護股東權益  
Corporate Governance 正派經營  
好人做好事 成就好企業  
經濟繁榮 社會公義



Chairman Kung-Wha Ding addressed at the 2<sup>nd</sup> Corporate Governance Award Ceremony held by Taiwan Stock Exchange Corporation on June 6, 2016.



### SECURITIES AND FUTURES BUSINESS

#### 1. Securities Market Stimulation Program

##### (1) Stage 1 concrete measures

- I. The FSC announced the program to boost the securities market in February 2015, which consists of 8 strategies and 15 measures. In 2015, the following measures were completed in advance: easing the price fluctuation limit to 10%, enhancing securities firms' settlement account functions, streamlining the procedures of account opening and trading for the securities investors and futures traders, enlarging the scope of targets for day-trading, lifting the limits on margin purchases and short sales and allowing lending institutions control the limits independently, promoting products such as USD/CNT FX Futures, USD/CNH FX Futures and exchange-traded futures trust funds (Futures ETFs). The FSC also implemented the Corporate Governance Roadmap, released results of corporate governance evaluation, and launched the "TWSE Corporate Governance 100 Index" (100 constituents) and the "TPEx Corporate Governance Index" (60 constituents) in 2015.

- II. In November 2015, the FSC amended related regulations to expand sources of securities for securities firm and securities finance enterprise margin and securities lending businesses, which permit the above firms to expand sources of securities to customers or other securities firms or securities finance enterprises.

(2) Stage 1 implementation achievements

- I. After the FSC lifted the limits on margin purchases and short sales, adding up the total amount that an investor's margin purchase / short sale transaction exceeds the previous limits on the margin purchase/ short sale balance of each account per investor, the average amount per day increased from NT\$684 million billion (July 2015) to NT\$2.439 billion (December 2015), the average trading accounts per day increased from 57 (July 2015) to 128 (December 2015). This shows that the new measure meets the needs of investors.
- II. Statistics shows that in December 2015, the proportion of the trading value of securities eligible for day trading in the TWSE exchange and Taipei exchange rose to 8.87% and 11.49% from 3.67% and 4.93% in December 2014. The measure provides investors with more trading strategy options, and these statistic results show that investors are gradually becoming familiar with this mechanism and making good use of it.

(3) Advance Securities Market Stimulation Program

- I. Deregulating equity crowdfunding platforms business scope

The FSC lifted the limit of funds raised through equity crowdfunding platforms to NT\$30 million and removed the limit on angel investment (angel investors include professional investment firms, venture capital and high net worth juristic persons) on January 7, 2016. In addition, the business scope of equity crowdfunding platforms has been broadened to allow crowdfunding platforms to subscribe shares of fund-raising companies, to charge investors fees and to solicit investors for individual fund-raising companies.

- II. Permitting Securities Firms to Conduct Borrowing and Lending of Funds for Unrestricted Purposes



To facilitate use of investors' holdings for reinvestment, and to enable securities firms to use their funds more efficiently, the FSC issued an order on January 18, 2016, allowing securities firms to conduct borrowing and lending of funds for unrestricted purposes. The scope of collateral are TWSE or TPEx listed securities, trust funds raised and invested in Taiwan, central government bonds, and spot gold registered for trading on the TPEx.

### III. Expanding the scope of targets for day trading

The FSC has lifted restrictions on day trading in stages since 2014. Following the measure to broaden sources of securities lending on 1 Feb 2016, allowing securities firm to engage in securities borrowing or lending with clients, other securities firms and securities finance enterprise, and lend securities to clients to balance the difference made in day trading, the FSC has allowed investors to conduct day trading with all types of securities which are eligible for margin purchase and short sale. This measure is intended to increase trading instruments for strategic transaction purposes and boost market momentum.

## 2. Developing a multi-layer capital market

Providing multiple fund raising channel for micro and small-medium innovative companies

- (1) Since the Incubation Board for Startup and Acceleration Firms (GISA) was launched on January 3, 2014, 82 companies have registered on the GISA board and approximately raised NT\$214 million through GISA platform up to December 31, 2015. We helped 3 of the GISA companies grow and transfer from the GISA board to publicly issue shares. One of them registered successfully on the Emerging Stock Board (ESB) and another one registered successfully on the TPEx General Stock Board. Besides, the GISA retail investor's annual investment amount limit was raised, from NT\$60,000 to \$150,000 in June 2015, which will increase capital raising flexibility for fundraising companies.
- (2) To provide financing assistance for innovative and creative micro businesses, the FSC gave the green light to securities brokers meeting certain criteria to offer equity crowdfunding services. As of December 31, 2015, six companies had obtained business approval from the FSC, and three of them are already conducting equity crowdfunding business.

### **3. Continuing to develop the bond market in Taiwan**

- (1) To improve the issuance efficiency on the listing of bonds and decrease interest rate risk, the FSC requires that ordinary corporate bonds are offered publicly through securities underwriters, and simplified the registration procedures.
- (2) In order to provide diversified investment targets to professional institutional investors and to guide foreign investment of financial institution back to the domestic market, on January 8, 2016, the FSC allowed qualified foreign banks to issue subordinated debt to professional institutional investors. The measure aims to enlarge the benefits of the Financial Import Substitution Program.

### **4. Assisting Venture Capital firms to list in Taiwan**

On January 25, 2016, the TWSE announced the criteria for the public listing of sustainable entrepreneurial ventures. Venture capital companies meeting the aforementioned criteria may apply for public listing according to the relevant regulations.

The purpose is to motivate venture capital companies to engage in large investment in biotech companies or startups with longer return periods.

### **5. Giving securities firms more operating flexibility**

- (1) The FSC introduced amendments to the “Regulations Governing Securities Firms” on February 4, 2015. Key points of the amendments include specific provisions regarding factors to be considered by a securities firm when collecting fees for its operations, lowering operating bonds for individual branch units of a securities firm to NT\$5 million, easing limits on the size of securities firms' holdings of securities issued by any single foreign company, and adding provisions under which customers' settlement funds may be temporarily deposited in the securities firm's settlement account.
- (2) The FSC allowed securities firm to accept orders from non-professional investors to trade foreign gold ETFs without leveraging or short selling on May 25, 2015.

- (3) The ceiling of foreign currency deposit held by a securities firm not for business operation purpose was raised to 30% of the firm's net worth on June 5, 2015. Foreign currency deposits held for business operation were made subject to applicable business regulations.
- (4) The FSC amended the "Regulations Governing Securities Firms" on July 3, 2015. The provision added that a customer's overall contribution can be used as a factor in determining the fees to be collected, and revoking the requirement that the self-regulatory rules governing the matters to be considered in determining the reasonable fees to be collected for the business operations of a securities firm should be prescribed by the Taiwan Securities Association.
- (5) On August 7, 2015, the FSC issued an order permitting invested foreign enterprises in which the parent securities firm owns 50% or more of the shares or over which the parent has defacto control to lend funds to and make endorsements of one another. The order also stated that when invested foreign enterprises that are registered in an IOSCO MMoU signatory place and hold a securities or futures license make changes to the business items that their local securities and futures competent authority have supervise, or establish businesses requiring special approval over which their local securities and futures competent authority supervise, and these changes do not involve the outward remittance of funds by the parent domestic securities firm, these matters may be reported to Taiwan's competent authority after the fact for future reference.
- (6) The FSC amended some articles of "Regulations Governing Borrowing or Lending Money in Connection with Securities Business by Securities Firms" on September 15, 2015. The main amendments included enlarging the scope of financing instruments and collaterals.
- (7) The FSC amended the Regulations Governing Securities Firms on November 12, 2015. Key changes are as below.
  - I. The FSC stated explicitly that the underwriting and sale of ordinary corporate bonds that only target professional investors and that underwriting announcements already published on the Taiwan Securities Association website are not subject to the requirement that securities underwriting announcements be published in the local daily newspaper.

II. To address the digitization of the financial environment, the FSC permitted securities firms to use digital media as well as paper records to store information related to their own trading. The FSC also permitted securities firms to electronically handle explanations of the process of trading securities and of the contents of the brokerage contracts, and for the discretionary investment departments of such firms to electronically obtain their customers' consent to purchase securities that the firm itself has underwritten.

- (8) On November 19, 2015, the FSC issued an order allowing a securities firm to serve as a joint guarantee if its overseas subsidiary is an issuer or guarantor of offshore structured products and its domestic parent company serve as a master agent. In addition, the deregulation of limitation on mutual capital loans and endorsements/guarantees between overseas reinvestment businesses may apply if approved by the FSC.

## **6. Building a sound futures market**

- (1) On January 6, 2015, the FSC amended regulations so that when a futures enterprise, due to a violation of law or regulation, is subject to an FSC disposition or a sanction by the TAIFEX or other organization pursuant to its corporate bylaws, but the enterprise has shown concrete improvement recognized by the FSC, it may apply to concurrently engage in futures business, establish branch units, or add new types of business.

In addition, for facilitating the cooperation between TAIFEX and foreign institutions, the procedure of TAIFEX entering into any cooperation agreement or memorandum with a foreign exchange, self-regulatory institution, or other institution was streamlined to reporting to the FSC for review and recording by TAIFEX.

- (2) For more convenience of futures transactions made by foreign investors, on January 29, 2015, the FSC announced partial amendment of Directions for Futures Trading by Overseas Chinese and Foreign Nationals. After the revision, a securities firm with approval from the FSC for custodian business may serve as the agent for overseas foreign investors and handle matters such as account opening, clearing and settlement activities and information reporting for overseas foreign investors engaging in futures transactions.



The CNFA held the Taipei International Futures Forum on September 30, 2015. FSC Vice Chairman Tien-Mu Huang delivered a speech at the opening session.

- (3) To make the business operation of futures companies sounder, facilitate overseas expansion and strengthen the supervision of the overseas businesses of futures companies, on July 9, 2015 the FSC announced partial amendment of Regulations Governing Futures Commission Merchants, stipulating that futures companies should not solicit or conduct business using unreasonable fees; futures companies or their subsidiaries are also allowed to apply to invest in non-securities and non-futures institutions in Mainland China, and futures companies should report the changes to already-approved investment matters and the operating situation of overseas subsidiaries or business.
- (4) To provide new channels for investors to hedge their FX risks, and diversify domestic futures products, the FSC supervised the Taiwan Futures Exchange (TAIFEX) listing of two RMB futures, USD/CNT FX futures and USD/CNH FX futures on July 20, 2015.
- (5) To facilitate cooperation between TAIFEX and foreign institutions, the FSC continues to support TAIFEX's signing of agreements with foreign exchanges and index providers on licensing of related index futures or options, in an effort to develop Taiwan's futures market.



The TAIFEX signed a licensing agreement to use Tokyo Stock Price Index (TOPIX) for futures contract trading with Tokyo Stock Exchange (TSE) on November 16, 2015.

The TOPIX futures was launched by TAIFEX on December 21, 2015, which was the first time TAIFEX has listed a foreign stock index futures in its market.

## **7. Actively promoting corporate governance and strengthening corporate social responsibility**

- (1) To protect shareholders' rights, public companies are now required to form a special committee to review the fairness and reasonableness of M & A plan and transaction of the merger/consolidation or acquisition, the FSC promulgated the Regulations Governing the Establishment and Related Matters of Special Committees of Public Companies for Merger/Consolidation and Acquisition" in line with Article 6 of the "Business Mergers and Acquisitions Act.
- (2) In order to assist listed companies to fulfill their social responsibilities and enhance the quality of non-financial information, the FSC worked with the TWSE and TPEx to require listed companies in the food industry, financial industry, chemical industry, and companies with paid-in capital equal to or greater than NT\$10 billion to compile a Corporate Social Responsibility Report (CSR report) starting from 2015. In October 2015, the TWSE and TPEx further announced that listed companies with paid-in capital no less than NT\$5 billion and below NT\$10 billion are required to prepare and file CSR reports starting from 2017, while the above-mentioned companies with accumulative loss should file CSR reports starting from 2019.
- (3) Enhancing the convenience of shareholder e-voting  
To enhance the operational efficiency of cross-border voting and make it easier for shareholders to exercise their voting rights, the FSC supervised the TDCC's completion of the straight-through-process (STP) mechanism and has provided an e-voting APP service since 2015.

## 8. Enhancing the FSC's CPA General Inspection Reports

The Securities and Futures Bureau (SFB) under the FSC is Taiwan's independent audit regulator. The SFB is in charge of the supervision of registration, inspection, investigation and sanction against Certified Public Accountants (CPAs) and audit firms. Any auditor's improper conduct, violation of regulations or negligence with respect to their professional duties will be subject to disciplinary action under "Chapter 6 Disciplinary Matters" of the CPA Act. After a disciplinary action against a CPA becomes final, the results of its resolution will be published. The statistical results of the CPA disciplinary actions for the previous 5 years are, in accordance with the CPA Act and the Securities and Exchange Law, summarized and published on the SFB's website. The General Inspection Reports (summarized report without noting detailed inspection findings for each firm) from 2009 to the 2014(English version) have been announced on the SFB website. Additionally, from the 2014 Inspection report, the audit industry capacity and inspection findings statistics as well as related analysis have been added to the inspection report.

## INSURANCE BUSINESS

### 1. Allowing insurers to establish Offshore Insurance Unit (OIU)

- (1) The FSC allowed insurers to establish Offshore Insurance Unit (OIU) to conduct offshore life, non-life and reinsurance business denominated in foreign currency on February 4, 2015, to promote the international competitiveness of our insurance market.
- (2) As of the end of May 2016, the FSC has approved 19 insurance companies to engage in OIU business, of which 14 companies have started their business. The FSC will continue encouraging OIU to innovate insurance products and relax related regulations to expand insurers' business opportunities.



- (3) In order to improve the competitiveness of OIU products for life insurers, the FSC set the Directions Governing the Hypotheses in Calculating and Setting Aside Reserves for Life Insurance Products of Offshore Insurance Branches on June 26, 2015.

## **2. Reviewing insurance industry fund use regulations to promote the efficiency of insurers' fund utilization**

- (1) The FSC amended the "Regulations Governing Loans Extended by the Insurance Enterprises to the Same Party, the Same Related Party or the Same Affiliate Enterprise and Other Transactions" on April 7, 2015, which added that the amount of transaction meeting the following criteria may be excluded from the calculation of "single transaction amount" or "total balance of transaction" : (1) The transaction is related to a construction and maintenance project and is carried out by the insurance enterprise to conduct capital injection, financial or business improvement or merger plans approved by the regulatory authority according to the law; (2) Such a transaction has followed open tendering procedures, the assessment report for such transaction has been presented to the board of directors and its approval has been obtained and written opinions of directors and the supervisor(s) have been offered.
- (2) The FSC laid down the regulations regarding investments of insurance company in exchange-traded futures trust funds issued and sold in Taiwan on August 11, 2015, stipulating (1) exchange-traded futures trust funds which are sold and issued with the FSC's approval and are delivered in cash for subscription and repurchase are categorized as "other securities with approval of the regulatory authority for insurance enterprises to purchase" according to subparagraph 6 of paragraph 1 of Article 146-1 of the Insurance Act; (2) total investments of an insurance company in exchange-traded futures trust funds, securitized products and other types of securities approved by the regulatory authority shall not exceed 10% of funds owned by the insurance company. In addition, the total investment of an insurance company in one exchange-traded futures trust fund shall not exceed 5% of all beneficiary certificates issued by such a fund and 0.5% of the insurance company's funds.



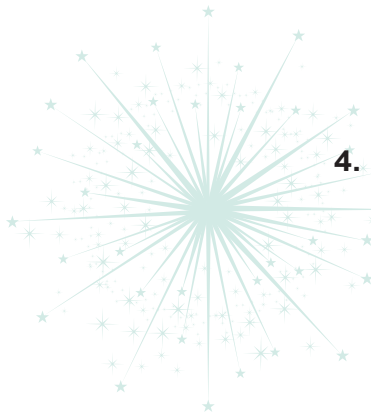
### 3. Encouraging insurers to invest in public construction

(1) To comply with the policy of the Executive Yuan to actively lead the investment of insurer funds in public utilities and social welfare enterprises, as well as take policyholders' interests, public welfare, and economic development into consideration, the FSC amended the "Regulations Governing Use of Insurer's fund in Special Projects, Public Utilities, and Social Welfare Enterprises" on April 7, 2015. The key provisions include:

- I. If an insurer meeting certain conditions invests in public utilities and social welfare enterprises and files for the competent authority's approval, the amount the insurer invests in the same entity can exceed 45% of the paid-in capital of the invested entity.
- II. If the invested entity is an entity regulated by the Act for Promotion of Private Participation in Infrastructure Projects and the amount the insurer invests in same entity is less than NT\$500 million, and less than 10% of the paid-in capital of the insurer, the insurer can submit the required document to the FSC for after-the-fact review.

On February 3, 2016, the FSC amended the aforesaid threshold for the submission of documents for FSC after-the-fact review when an insurer invests in an entity regulated by the aforementioned Act. The threshold was relaxed from "less than NT\$500 million and less than 10% of the paid-in capital of the insurer" to "less than NT\$5 billion and less than 10% of the insurer's equity" if the insurer meets certain conditions.

- (2) To continuously encourage and lead insurer's fund investment in cases regulated by the Act for Promotion of Private Participation in Infrastructure Projects, the FSC held a meeting with the Ministry of Finance ("MOF") and reached a consensus on August 14, 2015. On September 2, 2015, the MOF required the authorities in charge of cases regulated by the aforementioned Act to reasonably extend the period for insurers to prepare the required tender documents by at least 3 months if the case is suitable for the insurer to bid in cooperation with a third party.
- (3) To guide the investment of insurer funds into public utilities and social welfare enterprises, the FSC intends to amend Article 146-5 of the "Insurance Act to allow an insurer investing in public utilities and social welfare enterprises to be or appoint a representative to be the director or supervisor of the invested entity.



#### 4. Developing insurance products related to the elderly

##### (1) Continuing to promote insurance policy activation measures

In order to deal with the ageing society and the living needs of the elderly, and promote insurance policy activation, the FSC allowed the business of Insurance Policy Conversion in 2014. On August 28, 2014, the FSC approved "Life Insurance Self-regulatory Rules for the Conversion of Insurance Contract and Payment Period" submitted by the Life Insurance Association of the R.O.C. On the basis of the same premium, the insured can choose to convert the original insurance policy, including mortality protection to health insurance, including long-term care insurance, or annuity insurance. As of December 31, 2015, 3,611 contracts had been converted, and the sum of the converted amounts, on the basis of the original contracts, reached NT\$1.166 billion.

##### (2) Promoting settlement options for life insurance benefits

In response to the economic security protection needs in the ageing society, the FSC approved the demonstration terms proposed by the Life Insurance Association on February 16, 2015, the original lump-sum payment of the death benefit, total and permanent disability benefit or maturity benefit for life insurance products can now be paid in installments.

##### (3) Relaxing the payment frequency and amount of insurance benefit for life insurance products

To meet the consumer's retirement planning needs, on March 17, 2015, the FSC allowed more payment frequency of the living benefit for life insurance products and also more flexible benefit payment to the old aged insured for interest sensitive life insurance products.





Opening ceremony was held for 2015 University Student Financial Employment Public Benefit Course on May 7, 2015. A group photo of FSC former Chairman Ming-Chung Tseng and distinguished guests.

#### (4) Approving the demonstration terms related to insurance products for the elderly

In order to protect the economic security of the elderly, the FSC approved the demonstration provisions of long-term care insurance policies on March 26, 2015, providing people with long-term care insurance to supplement the policy long-term care system needs. The FSC also approved the provisions of group annuity insurance policies (interest-sensitive) on December 18, 2015, to assist business owners to plan staff retirement arrangements, and to allow the public to fill the gap in commercial annuities.

#### (5) Promoting professional institution liability insurance

To allow long-term care institutions to transfer their liability risk and meet diversified insurance demand, the FSC encourages long-term care institutions to take out professional institution liability insurance.



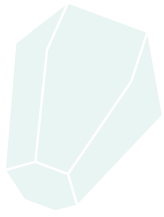
## 5. Encouraging and promoting innovative insurance products

### (1) Coordinating with national policies

- I. Mountaineering insurance: in coordination with the policy of the National Fire Agency of the Ministry of Interior, and to fulfill climbers' needs for insurance protection, non-life insurance companies were approved to sell mountaineering insurance in March 2014. At the end of the same year, the costs related to search and rescue were included in the insurance coverage. In 2015, the FSC urged the insurance companies to raise the insured amount for search and rescue. In the future, the FSC will keep reviewing the (actual) loss ratio and consumer's needs and urge insurance companies to properly adjust the insured amount to ensure protection for consumers.
- II. Agricultural insurance products: In order to reduce the losses farmers suffer from natural hazards and to respond to the need for crop insurance, the FSC set the "Self-Regulatory Rules on Non-Life Insurance Engaging in Parametric Weather Insurance Business" on February 16, 2015. Based on the above self-regulatory rules, non-life insurers can develop parametric agricultural insurance products. Currently, domestic commercial fishery insurance includes "Aquaculture Stock Mortality Insurance", sold from 2015. As for agricultural insurance, the FSC encourages insurers to actively research and design agricultural insurance products such as top-grafted pear insurance. The new insurance product "Top-Grafted Pear Crop Insurance" was approved on September 2, 2014 and start to be sold in November 2015. Now, the FSC is analyzing and discussing several measures including guiding non-life insurers to extend agricultural crop insurance products and facility insurance products, etc. The FSC also encourage farmers to voluntarily take out this type of insurance to reduce the losses caused by natural hazards, building a safety net to make up agricultural losses.

### (2) Conforming to market development

- I. In-kind payment businesses: in order to provide a wide choice of protection for the public, the FSC allowed life insurers to engage in in-kind payment insurance businesses on August 21, 2015. In-

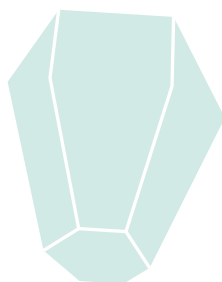


kind payment includes health management, medical, nursing, long-term care, elderly care and funeral arrangement services and items necessary for delivery of the aforementioned services.

- II. Investment in international bonds for investment-linked policies (including Formosa bonds): The deregulation of investment in international bonds by investment-linked policy was introduced to diversify the investment instruments of ILPs and to meet the need of people for diversified insurance products. On August 21, 2015, the FSC revised the regulations regarding investment in international bonds for investment-linked policies (including Formosa bonds).
- III. Expanding the scope of business: after learning from the experience of non-life insurance enterprises engaging in health insurance in Japan and Singapore, the FSC amended Regulations Governing Non-Life Insurance Enterprises Engaging in Injury Insurance and Health Insurance on December 31, 2015 to allow non-life insurance enterprises that meet specific qualifying requirements to apply to the competent authority to offer injury insurance and health insurance policies with a term of less than three years and no guaranteed renewal.

## 6. Promoting microinsurance :

As of 2015, there were 25 insurance companies engaging in microinsurance businesses (14 life insurers and 11 non-life insurers), the accumulated number of individuals covered by microinsurance had reached 220,949 persons and the total insured amount more than NT \$75.8 billion, showing a big increase on the 130,000 people covered and total insured amount of the end of 2014. Microinsurance now provides basic protection to many economically disadvantaged people.





## **7. Strengthening the insurers' solvency and enhancing risk management mechanism**

- (1) In line with the addition of grades of inadequate capital and significantly inadequate capital and Prompt Corrective Action mechanism to the Insurance Act announced on February 4, 2015, the FSC added a provision to "Regulations Governing Capital Adequacy of Insurance Companies" on May 18, 2015, governing establishment of an prompt corrective action mechanism, introducing a 4-tier regulatory requirement for the RBC ratio of insurance companies, and stipulating that insurance companies disclose their capital adequacy ratio from the fiscal year of 2015.
- (2) In line with the addition of regulations relating to external reviewing actuaries in the Insurance Act announced on February 4, 2015, the FSC announced an amendment to the "Regulations Governing Appointed Actuaries and External Reviewing Actuaries of Insurance Companies" on June 10, 2015. Insurance companies are required to appoint a reviewing actuary to be responsible for reviewing the Appointed Actuaries Report from 2016.
- (3) On June 22, 2015, the FSC promulgated the Directions of the Special Catastrophe Reserve and Equalization Reserve of Life Insurance, Health Insurance and Accident Insurance with a Policy Period of One Year or Less" to improve the solvency of insurance companies.
- (4) In order to assist insurers to implement risk management mechanisms and to align the system in Taiwan with the international solvency system, on August 6, 2015 the FSC required insurers to establish Own Risk and Solvency Assessment by 2015.
- (5) On June 30 and December 31, 2015, the FSC issued regulations on the scope and formula of regulatory capital and risk-based capital to reasonably reflect insurers' overall risk.

## **8. Curbing inappropriate competition in the insurance market**

- (1) To maintain loan market order and protect the interests of customers, the FSC amended the Regulations for Establishment and Administration of Insurance Enterprises on July 24, 2015. The amendment requires insurance enterprises to set the prices of loans in consideration of factors such as market rates, operating costs, reasonable profits and





The FSC held the Child & Youth Global Money Week opening ceremony on March 14, 2016. FSC former Chairperson Li-Ling Wang and distinguished guests were pictured together.

to not extend loans at unreasonable prices to maintain the sound operation of insurers, a stable market and fair competition.

- (2) In order to strengthen the business operation of insurance companies, avoid inappropriate premium competition and protect financial consumers, the FSC amended Regulations Governing Pre-sale Procedures for Insurance Products on July 31, 2015, stipulating that the premiums of insurance products should reflect various costs and reasonable profit. Insurers are not allowed to solicit or insure business by means of unreasonable product pricing, and the premium rate pricing of non-life insurers should be in accordance with the specific range of the reference premium rate.

## 9. Promoting sound operation of insurers

- (1) In January 2015, the FSC put into practice the “Contract issue after premium pay” measure. Considering the complexity of practical operations, the part of checks was postponed until July 2015. The FSC also conducted the differentiated supervision to safeguard the rights and interests of policyholders and ensure insurers’ sound operation.
- (2) In order to strengthen supervision of insurance intermediaries and conform with the Insurance Act amended on February 4, 2015, the law included banks as regulated entities applying for permits to concurrently engage in insurance broker business or insurance agent business, and posting bond and obtaining related insurance. The law also set up the application procedures, qualification requirements and other compliance matters for banks.

- (3) To implement differentiated supervision, the scope of incentive for outstanding companies was increased and internal control mechanism added, while also relaxing restrictions on approval application frequency and penalty-related determination conditions.
- (4) The FSC announced differentiated supervision on underwriting on October 22, 2015 which took effect from April 1, 2016, allowing insurance companies with good “legal compliance” and “consumer protection performance” to set their own underwriting standards. This new measure encourages insurance companies to enhance their underwriting capacity and strengthen consumer protection.



## ENHANCEMENT OF PROTECTION OF THE RIGHTS AND INTERESTS OF FINANCIAL CONSUMERS

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### 1. Amendment of the Financial Consumer Protection Act

Parts of the Financial Consumer Protection Act were amended on February 4, 2015, and the Act went into effect on 3 May the same year. The FSC also amended relevant regulations. The primary amendments of the Act included the following:

- (1) With respect to assisting disadvantaged financial consumers, a group ombudsman mechanism has been added;
- (2) When a financial institution infringes financial customer rights against the law, the FSC may impose an administrative penalty, such as giving warning, imposing prohibition on its sales activities, etc., depending on the seriousness of the breach. Moreover, the FSC may revoke the business license in the case of serious violation;
- (3) When a financial institution infringes financial customer rights against the law, there is no amount limitation for imposition of a fine, which will be imposed within the scope of benefit gained in the case of serious violation;
- (4) In order to enhance the responsibility of the Board of Directors, both the salesperson remuneration system and the initial sale of complex and high-risk products by financial services enterprises shall be reported to and approved by the Board of Directors or the Executive Board of Directors.

## **2. Supervising the establishment of the standard operation procedure of the consumer disputes by financial services enterprises**

- (1) In order to enhance the handling consumer disputes by financial services enterprises, elevate the efficiency and quality of handling disputes, protect the rights and interests of the financial consumer, and to avoid the punishment by the FSC due to regulation violation, the FSC promulgated that all financial services enterprises shall set a consumer dispute handling policy and related standard operating procedure in May 2015. In addition, the procedure shall be reported to and approved by the Board of Directors and truly implemented by financial services enterprises. The above policy shall include at least the scope of the consumer dispute, framework, application method, handling procedure, timeline, searching the process of application case, tracking and auditing the case, education and training, and regularly review, etc., The FSC will review the financial services enterprises implementation situation when the annual financial examinations are conducted.
- (2) To strengthen the protection of financial consumer rights and interests, the FSC conducted 114, 200, and 235 consumer-protection related examinations in 2013, 2014 and 2015 respectively.

## **3. Enacting the Principle of Fair Treatment of Customers by Financial Services Enterprises**

In order to achieve the goal that all financial consumers are treated equitably and fairly at all stages of their relationship with financial service enterprises, with reference to the UK, Singapore and Hong Kong model and reviewing relevant financial consumer protection laws, the FSC formulated the Principle of Fair Treatment of Customers by Financial Services Enterprises, as the guideline of consumer protection for the financial industry. In addition, the FSC held the “Financial Services Enterprise Treating Customers Fairly Principle Symposium” and Signing Ceremony in November 2015, showing the determination to attach importance to consumer protection. Moreover, all financial service enterprises shall establish its own Principle of Fair Treatment of Customers policy and method, and have them approved by the Board of Directors by April 30, 2016. The FSC is about to implement examination in order to will urge enterprises to implement said Principle when annual financial examinations are carried out.

#### 4. Online application for JCIC personal credit reports

In response to the FSC's policy of building a digital financial environment and to provide the public with better access to personal credit reports, the JCIC has put in place an online channel for obtaining such reports. Any person over age 20 may file an application on the JCIC website using his/her citizen digital certificate issued by the Ministry of Interior.

#### 5. Protecting policyholder rights and interests

- (1) In order to reduce claim disputes and protect the rights and interests of policyholders, the FSC held the Life Insurance Claim Seminar on June 29, 2015. Heads and personnel of claims departments in life and non-life insurance companies, the Life Insurance Association of the Republic of China, the Non-Life Insurance Association of the Republic of China, and the Financial Ombudsman Institution were invited to discuss common types and cases of claim disputes so that insurance companies could establish general principles for claims settlement.
- (2) On July 1, 2015, the FSC implemented the model provisions for long-term care insurance policies, to promote commercial long-term care insurance and safeguard the interests of consumers. After the implementation of the model provisions, the definition of "long-term care status" of insurance products is now consistent.

In order to strengthen and reinforce the implementation of insurance companies' internal control and auditing, on July 28, 2015, the FSC organized a seminar titled Solicitation and Policy Underwriting of Insurance Companies to review general flaws in cases of solicitation and policy underwriting. Insurance companies were invited to share their experiences of implementation of internal control to reinforce financial underwriting and notification mechanisms so that insurance



companies could review the integrity of their underwriting and solicitation mechanism and thus strengthen operating procedures with respect to solicitation and underwriting and also reduce consumer complaints.

- (3) In order to urge the executive managers of insurance companies to attach importance to consumer rights and interests, the FSC, as a reference for administrative supervision, posted "the combined complaint rate" for individual insurers, which was comprised of "non-claim complaint rate", "claim complaint rate" and "number of claim handling days" and announced the rates in the "Public Petition and Financial Consumer Disputes Management System" on March 30, 2015, and September 30, 2015.
- (4) To return to the protection policy of insurance and increase the amount of insurance protection of the people, the Ministry of Transportation and Communications and the FSC jointly set NT\$6 million as the maximum insured amount for Postal Simple Life Insurance as well as the limit for the total insured amount of an individual on November 26, 2015 in accordance with the Simple Life Insurance Act.



## STRENGTHENING THE RISK MANAGEMENT MECHANISM

### 1. Establishing a mechanism for detecting material risks of financial institutions

- (1) As operating risks of financial institutions have increased due to rapid changes in the international financial industry, stock and foreign exchange markets, the FSC issued the Guidelines for Material Risk Detection for Financial Institutions on November 9, 2015, in order to enhance off-site market monitoring effectiveness, identify material risks in a timely manner and maintain financial stability. The risk detection criteria include capital adequacy, asset quality, management capability, profitability and liquidity of financial institutions. The risk detection focuses on sources of profit, foreign risk exposure, investment position, off balance sheet items and consumer petition. The FSC analyzes data reported from financial institution together with daily supervisory information and examination findings and holds a meeting periodically. The FSC will adopt appropriate supervisory measures according to the conclusion of the meeting.

- (2) The FSC requested banks, insurance companies and securities firms to confirm whether appropriate internal guidelines for operating risk detection are in place by the end of 2015 and the internal guidelines will be presented to the board of directors. In addition, to strengthen the risk control capability of financial institutions, the FSC will methodically promote risk-based internal audit systems to implement the risk control mechanism of financial institutions.

## **2. Continually conducting differential examinations, enhancing conducting targeted examinations and disclosing financial examination information**

### **(1) Conducting financial examinations**

To implement a risk-based examination mechanism, the FSC continues to carry out differential examinations. According to differential examination frequency, the FSC observes the financial, business and overall operating conditions of financial institutions when conducting full-scope examinations periodically. Furthermore, with reference to specific supervisory needs, financial market changes and significant issues of concern to the public, the FSC conducts examinations across institutions targeted at specific business or items. In 2015, the FSC carried out full-scope financial examinations at 132 financial institutions, and also 193 targeted examinations in response to specific supervisory needs. In addition, the FSC carried out commissioned examinations at 143 agricultural finance institutions empowered by the Council of Agriculture, Executive Yuan.

### **(2) Transparency of examination information**

- I. Various information pertaining to financial examinations (e.g. financial examination manuals, the key focal points of examinations carried out in the current year, statistics on completed financial examinations in the two preceding years as well as the current year, and the main problems discovered in the course of financial examinations) is posted to the Financial Examination Bureau's website, and is regularly reviewed and updated.



- II. The "financial examination classroom" is the e-learning platform that has been set up on the Chinese-language version of the Financial Examination Bureau's website. It presents courses that contain information on the key focal points of financial examinations, the main problems discovered in the course of financial examinations, and examination cases. Studying this information can help financial services professionals and the general public to better understand financial supervision and financial examination. The learning materials are periodically revised and updated in response to regulation changes and financial examination practices.

### 3. Reinforcing risk assumption capability of the financial industry

- (1) The amendment of Regulations for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises was announced on July 22, 2015, stipulating that, when necessary, the competent authority can require that insurance firms must raise the specific loan asset allowance for bad debts. Also, on July 24, the FSC announced that insurance companies are now required to maintain a ratio of allowance for bad debts of at least 1.5% against loans for home purchase, refurbishment, or construction, and meet that new requirement by the end of 2016.
- (2) Related guidelines were amended on August 17, 2015 to prevent delay of unfinished building projects affecting the rights and interests of buyers, and also taking into account that enhancing the continued construction mechanism is conducive to achieving a situation in which buyers, landowners, building company and banks all win, and to urge greater transparency with respect to the procedure for the sale of non-performing loans by financial institutions to allow the market mechanism to be brought fully into play.
- (3) The FSC introduced an amendment to Point 2 of the Directions Concerning Sales of Nonperforming Loans by Insurers on November 26, 2015. According to the amendment, the insurance company can now sell its non-performing loan under the following conditions: the construction company does not fulfill its contractual obligation, the negotiations to help buyers to acquire their property fail and such NPL sale is approved by the board of directors. However, the non-performing loan sales agreement shall specify that the NPL buyer shall do its best to help the property buyers protect their rights and interests.



The FSC hosted the 11th Asian Forum of Insurance Regulators (AFIR) on April 21-22, 2016. The event was attended by FSC former chairperson Li-Ling Wang and representatives of regulators in Asia.

- (4) On April 29, 2015, the FSC announced the amendments of the Regulations Governing Required Qualifications for Responsible Persons of Insurance Enterprises. To strengthen professional management of insurance firms and enhance corporate governance and promote the sound operation of insurance firms, it is required that a certain number of managing directors possess professional insurance qualifications.

## PROMOTING INTERNATIONAL SUPERVISORY COOPERATION

### 1. Signing of financial supervision MOU

Since the FSC was established, it has actively sought to enhance bilateral supervisory cooperation with its overseas counterparts. To enhance cooperation with the financial supervisory authorities of various countries, as of the end of June 2016, 51 memorandums of understanding had been signed with 36 countries/regions, including signing banking industry supervisory MOU with the European Central Bank and the Central Bank of Vietnam and exchange of letters on insurance industry supervisory cooperation with the Bureau of Insurance of the Ministry of Finance of Vietnam.

## 2. Hosting and attending international meetings

The FSC hosted the International Association of Deposit Insurers (IADI) Asia-Pacific Regional Committee (APRC) 13th Annual Meeting and International Conference in April 2015 at which opinions on the latest developments in international financial supervision and the content of important financial industry policies and measures in Taiwan were exchanged with supervisory authorities from various countries and international organizations.

- (1) The International Forum of Independent Audit Regulators (IFIAR) is a platform for international audit regulators to share and communicate auditors' oversight issues and inspection experience. To be more actively involved with the IFIAR and to contribute more to it, the FSC hosted the 15th International Forum of Independent Audit Regulators (IFIAR) plenary meeting on April 21-23, 2015. Around 140 representatives from 40 independent audit regulators joined the IFIAR Taipei plenary meeting. The Taipei meeting raised the awareness of the importance of audit quality, enhanced Taiwan's audit oversight practices and professional competence in line with international norms, and raised the FSC's international profile.
- (2) In cooperation with the Japan Financial Services Agency (JFSA,) former JFSA commissioner Mr. Ryutaro Hatanaka was invited to give a speech in Taiwan. The speech analyzed the latest developments in financial supervision in Japan and internationally and was of assistance in terms of allowing the financial industry and related government and academic circles to understand the latest changes in financial supervision globally in a timely way.
- (3) The FSC and the U.S. Securities and Exchange Commission (SEC) jointly held the first-ever Advanced Financial Professionals Training Program in Taipei October 12-16, 2015. Representatives from financial regulators and self-regulatory organizations in 12 jurisdictions across Asia joined this event. Through the program, the FSC strengthened its financial cooperation with the US and increased Taiwan's visibility at the international level.

- (4) To actively engage in interaction with international insurance supervision organizations, the FSC has joined the Capital Development Working Group (CDWG) and Field Testing Working Group (FTWG) under International Association of Insurance Supervisors (IAIS) in 2015 to discuss global capital standards, quantitative field testing and other issues. Moreover, the FSC attended the IAIS Morocco Annual Conference in November 2015 to understand the most recent trends in international insurance supervision and strengthen interaction with other countries' supervisors.

### **3. The FSC actively promotes adoption of International Financial Reporting Standards (IFRSs) in Taiwan**

- (1) Beginning from 2015, all public companies, financial industries, credit cooperatives and credit card companies have fully adoption of IFRSs version 2013 (excluding IFRS 9 "Financial Instruments").
- (2) In order for non-life insurers to adopt IFRS4 Phase II, the FSC announced the revision of the Rules for Special Reserve Set Aside with Revaluation Surplus of Real Estates Investment Property of Insurance Company Measured at Fair Value after Purchase on January 23, 2015, to ensure the soundness of non-life insurers.
- (3) To help insurance enterprises in Taiwan adopt IFRS 9 Financial Instruments, the FSC issued an official letter to the Non-life Insurance Association of the R.O.C. and the Life Insurance Association of the R.O.C. to ask them to set up a special group with all the insurance enterprises on January 13, 2015. The insurance enterprises were required to report the preparation progress to their board of directors and the associations required to control the progress of all the enterprises with the goal of IFRS 9 adoption in early 2016. In addition,







Vice chairman Hsien-Nung Kuei and Alderman the Lord Mountevans, Lord Mayor of the City of London, attended the FinTech Forum held by Business Weekly in Taipei on July 11, 2016.

to reduce the impact of IFRS 9 adoption on the investments in debt instruments without an active market of the insurance enterprises, the FSC issued an official letter to ask the enterprises to engage a CPA to execute the agreed-upon procedure, set adoption plans, and report to the board of directors.

- (4) On July 28, 2015, the FSC amended the Guidelines Governing the Preparation of Financial Reports by Public Banks. Under the amended Guidelines, the investment property held by a publicly listed bank is allowed to be subsequently measured at fair value other than the income approach. A floor discount rate was abolished accordingly. Supporting measures for the amendment have also been developed by the FSC.







## PROMOTING CROSS-STRAIT FINANCIAL INTERACTION

### 1. Continuing to promote cross-strait supervisory cooperation

- (1) The 5<sup>th</sup> Meeting of the Cross-Straits Banking Supervisory Cooperation Platform was held in Puli, Nantou County on September 14, 2015. Key conclusions of the meeting were as follows:
  - I. Both sides will continue to strengthen supervisory cooperation. It has been confirmed that the second Cross-Strait Financial Development and Supervisory Experience Conference will be held in 2016.
  - II. Both sides will continue to promote two-way interaction and closer businesses cooperation between banks across the Taiwan Strait based on the principle of prudential supervision.
  - III. The Cross-Strait Banking Supervision Cooperation Platform is now in its fifth year and banking supervisory regulators on both sides of the Taiwan Strait have continued to maintain close contact and keep communication channels open, effectively protecting financial stability and cross-strait economic development. In the future, both sides will maintain a good cooperative relationship and continue to push cross-strait finance in a mutually beneficial development direction.
- (2) The third meeting of the Cross-strait Insurance Supervisory Cooperation Platform was held on the morning of October 22, 2015, at Xitou in Nantou County. The meeting focused on deepening supervisory exchange and cooperation; the main points and concrete consensuses included sharing insurance supervisory experiences, continuing to promote cross-strait insurance business interaction and continuing exchange through the supervisory cooperation platform mechanism. The FSC will continue to actively exchange and share with Mainland China with respect to insurance supervision issues through this mechanism, promoting the steady development of insurance industries across the Taiwan Strait to assist Taiwan's insurance institutions to operate soundly.

- (3) The 3rd meeting of the Cross-strait Securities and Futures Supervisory Cooperation Platform was held on December 28, 2015. In this meeting, besides introducing Taiwan's margin trading system development and supervision, the two sides engaged in communication with respect to easing restrictions on QFII, RQFII and QDII, implementing the early harvest list of ECFA and joint stock index authorization by cross-straits stock exchanges. The two sides agreed to continue promoting cross-strait securities and futures business interaction and to continue communicating and exchanging through the Cross-strait Securities and Futures Supervisory Cooperation Platform.

## **2. Strengthening the risk control measures of domestic banks with respect to Mainland China**

- (1) Key measures adopted by the FSC to manage bank credit exposure to Mainland China:
- I. Reinforcing bank examination to ensure the implementation of effective risk control.
  - II. Overseeing the developing of credit protection measures by banks appropriate to the host market conditions.
  - III. Requiring banks' internal management guidelines to include measures related to credit investigation, credit extension and post-loan management of extended credit in Mainland China, and requiring banks to report their significant credit risk events in Mainland China.
  - IV. Evaluating bank credit management performance as a criterion of the bank's application to set up overseas branches.

V. Coordinating with the Central Deposit Insurance Corporation and the Joint Credit Information Center to monitor Mainland China's credit risk and enhance the supervision over banks' reporting on exposure to Mainland China.

(2) In addition to the aforementioned measures, considering the fact that credit risk in Mainland China has kept on rising in recent years, the FSC required the ratio of allowance for bad debt with regard to the credit balance of domestic banks in Mainland China to reach 1.5% by the end of 2015.

### 3. Cross-strait setting up of branches/subsidiaries

- (1) Banking industry: By the end of 2015, the FSC had granted approval for 13 Taiwanese banks to establish branches (or sub-branches) or banking subsidiaries in Mainland China, which include two banking subsidiaries, 26 branches, 12 sub-branches and three representative offices. In addition, banks from Mainland China have set up three branches and two representative offices in Taiwan.
- (2) Up to December 2015, the FSC had approved the application of one securities firm to make equity investment in a futures company in the Mainland, and the applications of four SITEs to equity invest in fund management companies in the Mainland. In addition, 10 securities firms have set up 16 representative offices in the Mainland.
- (3) As of May 2016, seven insurance companies and 2 insurance agency companies in Taiwan has invested in 7 insurance companies and 2 insurance agency companies in Mainland China, respectively. In addition, 12 insurers (5 non-life and 7 life) have established 13 representative offices in Mainland China.



### PROMOTING AFFILIATED FINANCIAL ORGANIZATIONS CHARITY ACTIVITIES

1. To build correct financial concepts amongst the general public and students, FSC continues to implement its School and Community Financial Literacy Campaign. 4,312 sessions were attended by over 780,000 people from 2006 to 2015. The financial industry is also encouraged to take from society and give back to society, contributing



Awards Ceremony of the 2015 Educational Public Welfare Scholarship from Financial Services was held by the Taiwan Financial Services Roundtable on May 28, 2015. A group photo of former President Ma, FSC former Chairman Ming-Chung Tseng and distinguished guests.

more to society. The promotion strategy began from financial related institutions, providing a certain percentage of profits used for public welfare. It is hoped all financial institutions will take part in the second stage, with the ultimate aim that all listed companies engage in public welfare activities, fulfilling their corporate social responsibility.

2. The FSC invited financial related institutions to plan joint public welfare activities in the beginning of 2015. They held a series of activities as follows: Children's Welfare Fundraising, University Students Financial Employment Public Benefit Courses, Educational Public Welfare Scholarship from Financial Services, Food(Goods) Bank, Care for the Elders and Realize the Dreams of Athletes, etc. The total donations in 2015 from financial related institutions reached NT\$230 million, assisting many people and groups in need. The Educational Public Welfare Scholarship from Financial Services provides a NT\$50,000 scholarship for each student yearly. 2,000 university students benefitted from the financial aid in 2015. University Students Financial Employment Public Benefit Courses provided 216 hours of basic financial education for 800 university students. The students also received living allowance, and will be assisted to obtain financial professional licenses and recommended for employment at financial institutions after graduation.



# OUTLOOK FOR THE FUTURE



The FSC will continue to promote differentiated management and attach importance to legal compliance and risk control. Looking forward, it will continue to promote various important policies that are vital to the development of the financial markets, including:





## **BOOSTING STOCK MARKET MOMENTUM AND MAINTAINING MARKET STABILITY**

The FSC announced a program to boost the securities market in 2015. The program has increased market liquidity, and provided more diverse and flexible investment strategies to meet investors' trading needs. The FSC will study allowing mainland area investors to invest in fund and foreign-currency-denominated bonds in Taiwan in the future.



## **INCREASING OIU AND OBU BUSINESS MOMENTUM**

The FSC allowed securities firms to engage in offshore securities business in 2013. To date, the FSC has licensed 17 securities firms to conduct offshore securities business.

The FSC allowed insurance companies to set up Offshore Insurance Unit (OIU) in 2015. So far, 19 OIU have been approved to provide financial services. The FSC will continue to expand and develop OIU businesses, including allowing premium financing, assisting offshore customers to pay premiums via credit cards and allowing electronic payment institutions to collect and make payments for OIU insurance products.



## **ENCOURAGING THE DEVELOPMENT INNOVATIVE PRODUCTS AND SERVICES SUITABLE FOR AN AGEING SOCIETY**

In response to the financial needs of the ageing society, the FSC encourages financial institutions to develop products and services suitable for seniors through incentive measures. The FSC also encourages banks to engage in commercial reverse mortgage loans (or so-called “living off one’s own housing while in retirement”) so that seniors have better financial protection and access to long-term care facilities from such arrangements.



## **FINANCIAL TECHNOLOGY ADVISORY COMMITTEE CONTINUES TO MEET AND HAS COMPLETED THE FINTECH WHITE PAPER**

The FSC has formulated the Financial Technology Development Strategy White paper to plan the vision and strategy for the promotion of Fintech innovative services in Taiwan. The vision of achieving “Full use of ICT, creating smart financial institutions, innovative digital convenient services and enhanced virtual risk control” before 2020 has been put forward. Analyzing the four aspects of application, management, resources and foundation, 11 priority development objectives have been identified, including electronic payment, bank, securities and insurance Fintech, virtual financial institutions, regulatory adjustment, risk management, talent nurturing, entrepreneurship, blockchain, and ID validation as the guiding principles for promotion of policies going forward.



## **ESTABLISHING A MANAGEMENT SYSTEM FOR INSURANCE INDUSTRY OVERSEAS REAL ESTATE INVESTMENT**

In order to enhance the flexibility of insurers’ investments in overseas real estate with acceptable risk, the FSC amended Regulations Governing Foreign Investments by Insurance Companies on March 31, 2016, loosening the limits on the amounts of investment in such real estate for insurers with strong solvency and good risk management. Also, the above amendments also included relaxing the investment review procedure for an insurer that has acquired other real estate in the same country or area.



## **ENHANCING RISK CONTROL OF BANKS ENGAGING IN TRF PRODUCTS**

To protect financial customers and maintain market stability, the FSC not only continues its on-site examinations of banks’ derivatives business, with a focus on TRF to ensure their compliance with all regulatory requirements, it also executes off-site reviews and monitoring to understand banks’ risk management and risk exposures to derivatives positions.

In addition, with the aim of helping settle disputes between banks and their customers, a mediation mechanism for TRF transaction disputes was initiated by the FSC and was launched by the Financial Ombudsman Institution (FOI) on April 15, 2016.



## CURBING VICIOUS COMPETITION IN THE INSURANCE MARKET

Stemming vicious low price competition in the financial industry is one of the supervisory focuses of the FSC, especially with regards to commercial fire insurance. In order to elevate the retention-layer premium rate adequately and reasonably, FSC will modify relevant regulations and inspect non-life insurance enterprises to rectify market pricing discipline. If non-life insurance enterprises solicit or bid for insurance business by inadequate pricing, the FSC will take necessary disciplinary action.









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