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《Chinese version please refer to page 1》

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- Amendments and issuance of regulations relating to providing incentives for mergers of financial institutions
- Amendments to the Regulations Governing Foreign Investments by Insurance Companies
- Relaxation of the qualifying requirements for issuers of NTD denominated foreign ordinary bonds
- Expansion of the applicable scope of mandatory establishment of independent directors and audit committees

Policy and Law

Amendments and issuance of regulations relating to providing incentives for mergers of financial institutions

To create a friendly environment for M&As, the FSC has announced amendments to 3 decrees relating to the merger of financial institutions such as the "Regulations Governing the Investing Activities of a Financial Holding Company" on November 28, 2018. These decrees relax the M&As process for eligible financial holding companies or banks by lowering the shareholding ratio of initial investment, which allow financial institutions to initially hold more than 10% shares of another financial institution and provide options for them to conduct equity participation first and then to seek the possibility of merger discussion. Besides, this policy grants a more flexible approach for capital charge as an incentive to unleash the market mechanism. The FSC expects that this policy will increase financial institutions' willingness to merge with others.

Amendments to the Regulations Governing Foreign Investments by Insurance Companies

According to amended Article 146-4 of the Insurance Act, the competent authority may impose a limit on the amount of investment by insurance companies in bonds issued by foreign entities through public offerings in Taiwan according to their financial conditions, risk management and regulatory compliance. Based on the Insurance Act, the FSC introduced amendments to the aforementioned Regulations on November 21, 2018 in order to strengthen insurance companies' risk management for foreign exchange rate on investments and the security of foreign securities' assets as well as increase their investment vehicles and their capital utilization efficiency and flexibility, according to the amended article. The main points of the amendment are as follows:

1. The total amount of investments in bonds issued by foreign entities through public offerings in Taiwan plus the investments that are

subjected to foreign investments by an insurance company shall not exceed 145% of the insurer's approved foreign investment limit.

2. In the calculation formula of Excluded Foreign Investment Amount, the reserve requirement for non-investment-linked life insurance business of an insurance company is raised from 25% to 35%.
3. Insurance companies may investment in bonds issued or guaranteed by subsidiary organizations of a foreign local government.
4. For an insurance company that has obtained approval of the competent authority to invest over 40% of its capital in foreign assets, the ceiling on its investments in hedge funds and privately offered funds is raised from 2% to 3%.

Relaxation of the qualifying requirements for issuers of NTD denominated foreign ordinary bonds

In coordination with Taiwan's policy of developing the green energy industry and to develop the domestic bond market, the FSC issued an interpretive order on November 30, 2018, allowing foreign issuers that meet the qualifying requirements stipulated in the Taipei Exchange Rules Governing the Review of Foreign Securities for Trading on the TPEX to issue NTD denominated foreign bonds in Taiwan for sale only to professional investors; the funds raised should be used for domestic major public infrastructure, offshore wind farm construction and other green energy projects.

Expansion of the applicable scope of mandatory establishment of independent directors and audit committees

With the aim of enhancing corporate governance, authorized by Article 14-2 and 14-4 of the Securities and Exchange Act, the FSC issued an administrative order on December 19, 2018 expanding the applicable scope of mandatory establishment of independent directors and audit committees. In the future, all TWSE- and TPEX-listed companies and emerging stock companies should, depending on the end of the terms of their current directors and supervisors, gradually complete the establishment of independent directors and audit committees between 2020 and 2022 to enhance the supervisory function of their board of directors.

Results of stress tests carried out by domestic banks in 2018

36 domestic banks conducted the stress tests in 2018 by referencing methodology adopted by advanced economies. It was the first time that they applied two-year period stress tests, covering adverse and severely adverse scenarios. The main risk factors were the increased credit risks, resulted from the

macroeconomic downturns (the slump economic growth rates of Taiwan, the US, Europe, China and Japan, the rising domestic unemployment rates, and the falling price of real estate), and the dramatic volatility of market prices (in the markets of bonds, stock, FX and commodities) and other factors that could increase losses, and impact on earnings, given reduced credit spread and decreased fee income. The banks were required to calculate the capital adequacy and leverage ratio under these stress scenarios.

According to the 36 domestic banks' results of the stress tests, under the adverse scenario, the average Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, Capital Adequacy Ratio and Leverage Ratio were 10.67%, 11.27%, 13.61% and 6.17% for the first year, respectively; and 10.90%, 11.51%, 13.79% and 6.29%, respectively, for the second year. Under the severely adverse scenario, the above ratios were 9.72%, 10.33%, 12.63% and 5.65% for the first year, and 9.32%, 9.93%, 12.19% and 5.43% for the second year. These ratios were all higher than the minimum requirements, indicating that domestic banks still have stable risk taking capabilities and capital adequacy if the global economic and financial conditions become adverse.

Contracted convenience stores and supermarkets may accept payments for fees, taxes and fines with credit cards on behalf of government and public utilities

In order to minimize the inconvenience of cash payments for government fees, taxes and fines, the FSC has allowed contracted merchants of card acquirers, including convenience stores and supermarkets, to collect these payments via credit cards on behalf of the government and public utilities. When a dispute or disputed purchase occurs, the card issuer shall provide assistance in resolving such dispute in accordance with Article 13 of the "Template of Standard Form Contract for Credit Card".

Amendments to the Regulations Governing the Applicable Scope of Special Circumstances for the Public Announcement and Filing of Financial Reports and Operational Status Reports by Public Companies

Considering that an issuer may not be able to report the operational status on a monthly basis according to Subparagraph 3, Paragraph 1, Article 36 of the Securities and Exchange Act, the FSC introduced the amendments on December 26, 2018. Key points of the amendments are as follows:

1. When the issuer may not be able to make public announcement of monthly operation status due to consecutive holidays or other special conditions, the competent authority may announce the extension

of its announcement deadline. In the case of earthquake, flood or other force majeure, the issuer may submit an application to the competent authority for extending the announcement deadline.

2. According to the amendment, the starting date of an obligation period is the date of occurrence of the event.

Amendments to the Regulations Governing Investment in Insurance-Related Enterprises by Insurance Companies

The FSC introduced amendments to the Regulations on December 3, 2018 to (1) strengthen requirements with regard to several aspects, including the applicant qualifications, documentation of the application, investment risks, and operation management mechanism of an insurance company when it applies for investment in insurance-related enterprises; and (2) specify the post-investment control mechanism which insurance companies shall comply with.

Issuance of the Regulations Governing Implementation of Internal Control and Audit System for Anti-Money Laundering and Countering Terrorism Financing of Insurance Companies, Post Offices Engaging in Simple Life Insurance Business and Other Financial Institutions Designated by the FSC

The FSC renamed the “Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Insurance Sector” to the one mentioned in the title on November 9, 2018, for alignment with the amendments to Article 6 of the Money Laundering Control Act. As stated by the Regulations, insurance agent companies, insurance broker companies and individuals practicing as insurance agents/brokers are also subject to the internal audit requirements for anti-money laundering and countering terrorism financing. Requirements on the audit of the institutions it governs are also stipulated.

International Activities

Chairman Koo received representatives from Poland and Arizona State of the US

Delegations from Polish Financial Supervision Authority and US Office of Arizona Attorney General, as well as officials from the Polish Office in Taipei and American Institute in Taiwan, were warmly received by FSC Chairman Koo on December 6, 2018. They exchanged views on FinTech development.

Industry Updates

FSC agreed to allow ANZ Banking Group Limited to merge with ANZ Bank (Taiwan) Limited

On December 6, 2018, the FSC agreed to allow ANZ Banking Group Limited to merge with ANZ Bank (Taiwan) Limited **【ANZ Bank (Taiwan) hereafter】**, with ANZ Banking Group Limited Taipei Branch assuming all ANZ Bank (Taiwan) assets and liabilities and all rights and obligations.

The FSC stated that ANZ Banking Group has long had a branch in Taiwan (since October 1980, 38 years to date). In line with adjustment of the Group’s Asia strategy, after selling its consumer banking and wealth management business to DBS (Taiwan) Ltd. in December 2017, ANZ Bank (Taiwan) has focused on corporate banking business. The Group stated that corporate customers will continue to receive excellent service after this merger through integration of the Group’s resources.

NPL ratio for domestic banks at 0.26% as of the end of November 2018

The total outstanding loans of domestic banks stood at NT\$28.469 trillion as of the end of November 2018, up by NT\$148.7 billion from the previous month while their total NPLs were NT\$74.3 billion, down by NT\$0.6 billion from the previous month’s figure of NT\$74.9 billion. The average NPL ratio kept flat at 0.26%, compared to that at the end of previous month.

The NPL coverage ratio of domestic banks stood at 526.67% at the end of November 2018, up by 5.89 percentage points from the figure of 520.78% at the end of the previous month.

NPL ratio for credit cooperatives at 0.14% as of the end of November 2018

Total NPLs at Taiwan’s 23 credit cooperatives stood at approximately NT\$0.66 billion as of the end of November 2018, generating an NPL ratio of 0.14%, the same as the ratio at the end of October 2018. The NPL coverage ratio was 1,419.12%, down by 7.71 percentage points from 1,426.83% at the end of October 2018.

Net foreign investment in listed shares

As of the end of November 2018, foreign investors had bought around NT\$7,703.1 billion and sold around NT\$7,990.5 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$287.4 billion. In addition, foreign investors had bought around NT\$904.8 billion and sold around NT\$913.2 billion worth of shares listed on Taipei Exchange, amounting to a net-sell of around NT\$8.4 billion. Meanwhile, Mainland China investors had bought around NT\$21.2 billion and sold around NT\$21.7 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$500 million; Mainland China investors had bought around NT\$3.4 billion and sold around NT\$3.6

billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$200 million. As for inward remittances by foreign and Mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese and foreign nationals as of the end of November 2018 stood at approximately US\$199.1 billion, up by around US\$2.1 billion from the US\$197.0 billion at the end of October 2018. The figure for cumulative net inward remittances by Mainland China investors as of November 30, 2018 was US\$191.6 million, up by around US\$0.8 million from the US\$190.8 million at the end of October 2018.

Investor and Consumer Protection

FSC reminds citizens that they can purchase travel accident insurance before setting out

The FSC reminds people that they can buy appropriate travel accident insurance protection to suit their needs in advance through various insurer channels, not just for overseas travel but also for domestic travel, to obtain more complete protection when travelling; injury or illness medical protection can also be arranged if required. Before taking out travel accident insurance, attention should be paid to the contents and scope of protection to avoid disputes arising later on.

2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in December 2018, the FSC held 39 financial literacy promotion sessions at schools and organizations, including New Taipei District Prosecutors Office, and a total of 2,508 participants attended. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of 2018, in all 5,781 sessions have been held and over 950,000 people have attended. The target participants include students at all levels of schools, communities, women' groups, indigenous people, immigrants and military service personnel. The Banking Bureau of the FSC will continue the financial literacy campaign in 2019. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call (02)8968-9709.

Major Enforcement Actions

Fubon Life Insurance Co., Ltd. was fined

Fubon Life Insurance Co., Ltd. was deemed to have shortcomings of insurance business, in violation of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area, the Insurance

Act and related regulations. The FSC thus imposed fines of NT\$2.6 million on the company in accordance with Paragraph 1, Article 18 of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area and Paragraph 5, Article 171-1 of the Insurance Act, and ordered 5 corrections under Paragraph 1, Article 149 of the Insurance Act.

Taiwan Life Insurance Co., Ltd. was fined

When handling management of segregated accounts for interest-sensitive insurance product assets, Taiwan Life Insurance Co., Ltd. was found to have transferred non-cash assets into the segregated accounts and failed to save assessment data; when participating in capital injection by cash of a domestic company, the decision of the board of directors was not carried out and there was a failure to assess the contractual capacity of the transaction counterparty. The above and other shortcomings violated the Insurance Act and gave rise to concern about the soundness of the company's operations, so the FSC imposed fines of NT\$2.4 million and ordered 9 corrections on the company in accordance with Paragraph 1, Article 149 and Paragraph 4, Article 171-1 of the Insurance Act.

COTA Commercial Bank, Ltd. was fined

COTA Commercial Bank, Ltd. was deemed to have deficiencies in its operations of anti-money laundering, trust business and credit asset evaluation. The deficiencies were in violation of the related regulations and disturbed the sound operation of the bank. The FSC thus imposed fines of NT\$1.6 million on the bank in accordance with Paragraph 3, Article 7 of the Money Laundering Control Act and Paragraph 1, Article 30-1 of the Financial Consumer Protection Act; the bank was ordered correction in accordance with Paragraph 1, Article 61-1 of the Banking Act.

Personnel changes

Personnel changed at the FSC

Former Director General of the FSC Insurance Bureau Kuei-Mao Wu retired on December 31, 2018 and the vacant position was filled by Chiung-Hwa Shih, the Chief Secretary of the FSC, on the same day. Tsui-wen Hsu, the Director General of Department of Legal Affairs of the FSC, will act as Chief Secretary of the FSC temporarily.

Former Chief Secretary of the FSC Banking Bureau Yen-Yi Chen retired on December 11, 2018 and the vacant position was filled by Chen-Chang Tong, the Deputy Director General of Department of Planning of the FSC on the same day. The position of Deputy Director General of the Department of Planning was filled by Brenda Hu, the Assistant Director General of the Department. The personnel change became effective on December 11, 2018.