

金融展望月刊

Financial Outlook Monthly

Publisher Wellington L. Koo

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GPN 2009305443

ISSN 1992-2507

*The Chinese version rules if
any contradiction in meaning
exists between the Chinese
version and English version!

February 2019

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Ministry of Justice Anti-Corruption Hotline 0800-286-586
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- Amendments to the Futures Trading Act
- FSC invited banks to discuss matters related to updating of customer data for anti-money laundering
- Issuance of the interpretive order pursuant to Article 2 of the Regulations Governing Use of Insurer's Funds in Special Projects, Public Utilities and Social Welfare Enterprise
- Amendments to the Directions for Insurance Companies to Engage in Microinsurance Business

Policy and Law

Amendments to the Futures Trading Act

To promote domestic regulations to be in line with international practice, the amendments to the Futures Trading Act were passed by the Legislative Yuan on December 25, 2018, and enacted by the President on January 16, 2019. The key amendments were: (1) the legal basis of central clearing of OTC derivatives was increased; (2) it is stipulated that when default has occurred in the futures market, the order of payment of the compensation funds is prescribed by the futures clearing house and approved by the competent authority; (3) in order to contribute to the consistency of securities and futures related regulations, the Act stipulates the restrictions imposed on the transfer of shares of futures exchanges, the regulations that futures trust funds can adopt the effective registration, obligation of providing a prospectus, civil liability and extinctive prescription; (4) it is amended from criminal punishment to administrative fine for violation of the restrictions of futures categories and exchanges of futures trading that a futures commission merchant was mandated to engage in; (5) in order to enhance the legal compliance of futures enterprises and related organizations, reprimand and other necessary measures were added to the disciplinary methods that the competent authority can use, the maximum of administrative fines was raised to NT\$2.4 million from NT\$0.6 million, and the competent authority is also authorized to give exemption from punishment if the violations were slight.

FSC invited banks to discuss matters related to updating of customer data for anti-money laundering

To resolve the situation that the implementation of anti-money laundering measures by some financial institutions caused misunderstanding and inconvenience for people, the FSC invited the Anti-money Laundering Office and the Bureau of Agricultural Finance, and banks on January 2, 2019 to discuss matter related to updating of customer data. The preliminary conclusions were as follows:

1. Financial institutions should invite customers to update their data in accordance with risk profiles and in batches, offer sufficient time for customers to prepare documents, and offer various channels for customers including phone, fax, internet, mail or at the counter to make updating of data easier.
2. For customers who cannot provide updated data on time, the related control measures of financial institutions should be proportionate, for

example, allowing customers to maintain low-risk transactions and keeping their accounts as normal.

3. As for accounts that have been idle for a long period of time or have balance below a certain threshold, financial institutions should provide customers with information about how to easily close their accounts for their choices. As for the questions frequently asked by customers, financial institutions should post Frequently Asked Questions on their websites to clarify those questions for customers.

Issuance of the interpretive order pursuant to Article 2 of the Regulations Governing Use of Insurer's Funds in Special Projects, Public Utilities and Social Welfare Enterprise

The FSC issued an interpretive order on December 7, 2018 allowing insurers to serve as a participating bank in a syndicated loan case and handle loan business for loans guaranteed by a foreign central government-established credit guarantee institution and used for investment in the 5+2 key innovative industries.

Amendments to the Directions for Insurance Companies to Engage in Microinsurance Business

The FSC announced amendments to Paragraph 2 and 9 of the aforementioned Directions on December 25, 2018, and the revised Directions took into force from the same date. The key points of the amendments are as follows:

1. The coverage of microinsurance was extended to the family members of the targets of such insurance to protect the family members of economically disadvantaged single parent families and people with special status. It is stipulated that the scope of family members includes the individual, his/her spouse and lineal blood relatives or family members.
2. The term "crippled" was changed to "disabled" to match the spirit of the Convention on the Rights of Persons with Disabilities.

Amendments to the Eligible Assets Maintenance Requirements for a Local Subsidiary Bank of a Foreign Financial Institution

In order to create a level playing field for foreign banks and local banks in Taiwan and to help subsidiary banks of foreign banks increase capital utilization efficiency, reduce financing cost and allow more flexibility in offering financing services to corporate customers, the FSC introduced amendments to Article 3 of the aforementioned regulations on January 31, 2019. Key points of the amendments were as follows: (1) for a foreign financial institution, the average balance of the total net asset amount for each transaction of its subsidiary bank and branch(es) together is calculated on quarterly basis rather than daily basis, and the quarterly average balance shall not exceed 50% of the subsidiary bank's net worth as of the preceding fiscal year; (2) a subsidiary bank meeting the amended requirements is allowed to raise and manage the aforementioned ratio of total net asset amount to net worth; (3) to avoid the impacts of dramatic changes in domestic and foreign economies or financial markets on the stability of domestic financial market, the competent authority is authorized to, in a timely and prudential manner, review and approve the aforementioned ratio managed by the subsidiary banks of foreign banks.

Amendments to Article 2 and 4 of the Criteria for Transaction Limits between Credit Cooperatives and Non-Members

The FSC introduced the amendments to Article 2 and 4 of the aforementioned Criteria on January 10, 2019. Major amendments were as follows: (1) the additions of business transactions between credit cooperatives and non-members including bill/note discounting service and domestic guarantee; (2) a credit cooperative may provide loans to non-member who can offer its demand (saving) deposit as collateral and issue guarantee for performance bond of payments for pre-sale houses and real estate sale. The regulatory relaxation measures are launched to help credit cooperatives satisfy the financing needs of non-members.

Issuance of the interpretive order pursuant to Subparagraph 3 of Paragraph 1 of Article 23 of the Regulations Governing Offshore Funds

As international index-compiling companies have continuously increased the weights of China A shares in related indices, and in order to encourage offshore funds to put more resources into Taiwan according to the "Incentive Policy for Offshore Funds Development in Taiwan", the FSC issued the aforementioned order to relax regulatory requirements for investments by offshore funds in securities issued in Mainland China on January 4, 2019. The main points of the order were as follows:

1. The limit on total amount of securities investments in Mainland China by an offshore fund offered and sold in Taiwan is raised from 10% of the fund's net asset value to 20%.
2. For securities investments in Mainland China by an offshore fund that obtained recognition under the Incentive Policy for Offshore Funds Development in Taiwan, the limit on total amount of such investments is raised from 30% of the fund's net asset value to 40%.

Amendments to the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants

The FSC published amendments to the aforementioned Regulations on January 24, 2019 in response to the newly-announced auditing standards and accounting standards (including IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers", which were adopted on January 1, 2018 and IFRS 16 "Leases", which was adopted on January 1, 2019). In addition to the amendments of relevant audit process related to the above standards, the FSC also added extra requirements that CPAs should pay more attention to after reviewing recent common audit deficiencies.

From 2019, fund distributors should invite investors to sign a declaration to show that he/she fully understands the fees structure when subscribing to back-end load share class of offshore funds

In order to spur fund distributors to ensure that investors understand the fees burden of back-end load share class of offshore funds, the FSC requires that fund distributors should explain fees structure when selling such share class of offshore funds and, from 2019, fund distributors should invite investors to

sign the “Declaration for Fee Structure of Back-End Load Share Class of Offshore Funds” before selling.

Amendments to the Mandatory and Prohibitory Provisions of Standard Form Contract for Automobile Insurance

To align with related regulations and take into account the practice of automobile insurance, the FSC announced the amendments to the aforementioned regulations on December 21, 2018, which will be effective on April 1, 2019. After the effective date, all automobile insurance policies must meet the requirements of the Mandatory and Prohibitory Provisions of Standard Form Contract for Automobile Insurance and should be in accordance with the model contract. In addition, the FSC has required insurers to enhance training of employees and put solicitation and underwriting procedures into practice to protect consumers.

Issuance of the interpretive order pursuant to Subparagraph 8 of Paragraph 1 of Article 3 of the Regulations Governing Foreign Investments by Insurance Companies

To meet the insurers’ needs of short-term foreign currency funds procurement and increase overall foreign currency funds earnings rate, on December 24, 2018 the FSC announced the interpretive order to allow insurance companies to conduct Repurchase Agreement/Re-Sell Agreement (RP/RS) transactions of foreign central government bonds and treasury bills. The total transaction amount can be up to 2% of an insurer’s approved foreign investment amount. The FSC also set related trading requirements and required insurance companies to add related handling procedures.

Amendments to the Directions for Life Insurance Companies to Engage the Credited Rates of Interest Sensitive Products

The FSC introduced the amendments to Article 3 and 5 of the aforementioned Directions on December 28, 2018. The amendments are as follows: (1) the declared interest rate shall not exceed the 24-month average rate of return on investment before the month of declaration plus 0.5% markup; (2) in the case that all segregated assets of a life insurance company are measured by fair values, the company may introduce a measure to enhance management of segregated asset accounts (such as a mechanism for maintenance of declared interest rate stability) after approval has been given by the competent authority. The amendments aim to facilitate sound operation of life insurance companies and maintain a reasonable and stable level of declared interest rate for protection of the policyholders’ rights and interests.

Amendments to the Directions for Insurance Companies to Engage in Electronic Commerce

Aimed at boosting the development of online insurance business and enhancing its conveniences for consumers, more online insurance products, accompanied by diverse service consumer identity verification mechanisms are allowed for insurance companies. What’s more, the requirement for telephone interview when a property insurance product policy is renewed has also been waived, and the maximum amount of travel insurance that can be

taken out by new customers is increased. Therefore, the FSC amended the aforementioned Directions to facilitate compliance by insurers.

Amendments to the Standards for the Levy Rates of Life and Non-life Insurance Guaranty Fund

The FSC introduced the amendments to Article 2, 3 and 4 of the aforementioned Standards on January 2, 2019 in order to encourage insurance companies to strengthen information security management and control, encourage non-life insurance companies to develop a variety of insurance products promoted by the Financial Development Action Plan, and comply with the amendments to the calculation of the product structure composite score. Key points of the amendments are as follows:

1. Addition or amendment of the calculation of operation and management performance indicators related to the contribution to the Life Insurance Guaranty Fund: (1) introduction of “Information Security Management Indicator”; (2) amendment of “Legal Compliance Indicator” and addition of the weighting of “Information Security Management Indicator” in 2019; (3) amendment of the formula or definition of product structure composite score and introduction of applicable standards for 2020.
2. Addition or amendment of the calculation of operation and management performance indicators related to the contribution rate to the Non-life Insurance Guaranty Fund: (1) introduction of “Information Security Management Indicator” and “Situation of Providing Insurance Coverage in Support of Government Policies”; (2) amendments of the weightings of “Legal Compliance Indicator” and “Import Substitution of Financial Services Indicator” and addition of the weightings of “Information Security Management Indicator” and “Situation of Providing Insurance Coverage in Support of Government Policies” in 2019.

International Activities

The delegation of Legislative Assembly of Ontario, Canada, visited the FSC

The delegation of Legislative Assembly of Ontario, Canada, was warmly received by the FSC Vice Chairman Thomas Huang on January 10, 2019. The both sides broadly exchanged views on FinTech and cyber security issues.

Industry Updates

List of approved financial institutions in the second application for establishing new domestic branches in 2018

Taking into account the overall economic and financial outlook, balanced urban-rural development and the financial and business condition of the applying institutions, the FSC approved the following new branches in the second applications for establishment of new branches by domestic banks and credit cooperatives in 2018:

1. Domestic banks: 2 applications were approved, involving 3 places: Cathay United Bank will add 1 new branch (Linkou District, New Taipei City) and

CTBC Bank will add 2 branches (Rende District, Tainan City and Gangshan District, Kaohsiung City).
2. Credit cooperatives: 2 applications were approved, involving 2 places: First Credit Cooperative of Hsinchu (Zhongli District, Taoyuan City) and Tamsui Credit Cooperative (Sanchong District, New Taipei City) will add 1 new branch, respectively.

NPL ratio for domestic banks at 0.24% as of the end of December 2018

The total outstanding loans of domestic banks stood at NT\$28.54 trillion as of the end of December 2018, up by NT\$70.4 billion from the previous month while their total NPLs were NT\$68.4 billion, down by NT\$5.9 billion from the previous month's figure of NT\$74.3 billion. The average NPL ratio was 0.24%, down by 0.02 percentage points from the figure of 0.26% at the end of previous month.

The NPL coverage ratio of domestic banks stood at 575.44% at the end of December 2018, up by 48.77 percentage points from the figure of 526.67% at the end of the previous month.

NPL ratio for credit cooperatives at 0.10% as of the end of December 2018

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.49 billion as of the end of December 2018, generating an NPL ratio of 0.10%, down by 0.04 percentage points from 0.14% at the end of November 2018. The NPL coverage ratio was 1,909.78%, up by 490.66 percentage points from 1,419.12% at the end of November 2018.

Net foreign investment in listed shares

As of the end of December 2018, foreign investors had bought around NT\$ 8,222.2 billion and sold around NT\$8,576.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$354.2 billion. In addition, foreign investors had bought around NT\$989 billion and sold around NT\$ 1,002.2 billion worth of shares listed on Taipei Exchange, amounting to a net-sell of around NT\$ 13.2 billion. Meanwhile, Mainland China investors had bought around NT\$22.2 billion and sold around NT\$22.8 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$600 million; Mainland China investors had bought around NT\$3.5 billion and sold around NT\$3.7 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 December 2018 stood at approximately US\$197.5 billion, down by around US\$1.6 billion from the US\$199.1 billion at the end of November 2018. The figure for cumulative net inward remittances by Mainland China investors as of December 31, 2018 was US\$191.6 million, same as the amount of inward remittances at the end of November 2018.

Investor and Consumer Protection

FSC reminds people that they can buy long-term care insurance products that meet their own needs at the right time and matters for attention

As Taiwan becomes an aging society, the FSC reminds people that they can buy long-term care insurance products which meet their own needs to prepare in advance for long-term care risks. Before buying such products, people should pay attention to the definition of related terms, the required documents of insurance claim, elimination period, and other matters. What's more, they should carefully assess their own needs of coverage and understand the characteristics of the insurance products to avoid dispute arising later on due to differences in understanding.

2018 School and Community Financial Literacy Campaign

As part of 2018 School and Community Financial Literacy Campaign, in 2018, the FSC held 553 financial literacy promotion sessions at schools and organizations, including San-Tian Elementary School in Taichung City, and a total of 59,049 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

TLG Insurance Co., Ltd. was fined

When carrying out information security management operations, TLG Insurance Co., Ltd. failed to carry out suitable protection measures for personal data files to prevent personal data from being stolen or disclosed according to Paragraph 1 of Article 27 of the Personal Information Protection Act. What's more, the company did not conduct in accordance with the control activities in accordance with Subparagraphs 4, 8 and 10 of Paragraph 1 of Article 6 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises which is issued pursuant to Paragraph 1 of Article 148-3 of the Insurance Act. The FSC thus imposed a fine of NT\$1.8 million on the company in accordance with Paragraph 4 of Article 171-1 of the Insurance Act.

Financial Information Service Co., Ltd. was fined

Because the breakdown of the IBM mainframe Information Management System caused ATM interbank services to be cut off on August 18, 2018, Financial Information Service Co., Ltd. (FISC hereafter) was deemed to have failed to properly maintain the operation of national critical infrastructure, which was in violation of Article 31 of "the Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement." Given that FISC has taken related rectification measures, the FSC imposed a fine of NT\$1.5 million on the company in accordance with Article 132 of the Banking Act.