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\*The Chinese version rules if  
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Ministry of Justice Anti-Corruption Hotline 0800-286-586  
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- Amendments to the “Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance”
- Amendments to the “Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation”
- Promulgation of the “Regulations Governing the Declaration on Acquisition of Shares in Accordance with Paragraph 1, Article 43-1 of the Securities and Exchange Act”
- Promulgation of the “Operation Directions Governing Securities and Futures Businesses' Application for the Approval of Business Trial”

### Policy and Law

#### *Amendments to the “Approval Standards for Financial Institutions Applying to Participate in Deposit Insurance”*

In order to lay down the regulatory requirement on prompt participation in deposit insurance for newly-established financial institutions, the FSC issued an order for amendment of the Standards on September 27, 2019. Newly-established financial institutions are now required to apply for participation in deposit insurance in the period from the date of approval granted by the competent authority or the central competent authority of the agricultural finance for their establishment to two months after they launch operation instead of within six months after operation as required previously. The amendment significantly shortens the empty period of deposit insurance protection in order to protect the rights and interests of depositors.

#### *Amendments to the “Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation”*

The FSC amended the aforementioned Regulations on September 30, 2019. Key points of the amendments are as follows:

1. The amendments lay down the compliance requirements for financial institutions with outsourced operations that involve use of cloud service, including (1) assurance of proper operational risk control by the financial institutions; (2) undertaking of ultimate responsibility by financial institutions on monitoring of the cloud service provider; (3) assurance of the rights of the financial institutions, the competent authorities, the Central Banks or its designated person to access information about the outsourced operation and to carry out onsite audit; (4) measures to protect customer information such as encryption or encoding/tokenization; (5) customer's information processing and storage shall be in Taiwan in principle and unless otherwise approved, backup copies of customer's critical data shall be maintained in Taiwan; and (6) an appropriate contingency plan shall be in place.
2. The amendments lay down the criteria of outsourced material operations

#### Notification of E-journal of Financial Outlook Monthly

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Financial Supervisory Commission, Republic of China (Taiwan)



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that involve cloud service and documentation requirements on applications submitted for related approval or for the authority's reference.

#### ***Promulgation of the "Regulations Governing the Declaration on Acquisition of Shares in Accordance with Paragraph 1, Article 43-1 of the Securities and Exchange Act"***

On October 7, 2019, the FSC promulgated the aforementioned Regulations based on the "Directions for Filing Reports on Acquisition of Shares in Accordance with Paragraph 1 of Article 43-1 of the Securities and Exchange Act" with the authority specified in Paragraph 1 of Article 43-1 of the Securities and Exchange Act. Any person who acquires, either individually or jointly with other persons, more than 10% of the total issued shares of a public company shall report the number of shares acquired, the purpose and sources of funds for acquisition of the shares, changes to the specifics reported, public announcement, terms, and any other compliance matters to the competent authority and make such announcement according to the Regulations.

#### ***Promulgation of the "Operation Directions Governing Securities and Futures Businesses' Application for the Approval of Business Trial"***

The FSC promulgated the aforementioned Operation Directions on October 3, 2019 to encourage securities and futures businesses to keep on developing innovative financial products and services with pilot programs they may apply under the condition of appropriate risk control. These programs include (1) extension of approved business activities of securities and futures businesses; (2) "other business activity" that regulations authorize the competent authority may grant approvals; or (3) business activities related to the internal operations of securities and futures businesses which are still without any technical regulatory directions. These pilot programs may be the same as the innovation experiments that are approved by the Financial Technology Development and Innovative Experimentation Act. However, the business activities shall be applied through innovation experiments instead of pilot programs if they are involved in anything prohibited by laws and regulations. The aforementioned securities and futures businesses do not include Taiwan Stock Exchange, Taipei Exchange, Taiwan Futures Exchange and Taiwan Depository & Clearing Corporation.

#### ***Promulgation of the "Directions on the Defects of Filing Regulatory Data by the Domestic Banks"***

The FSC promulgated the aforementioned Directions on October 4, 2019 to enhance the quality of information filed by domestic banks for supervisory purpose and establish objective standards for the punishments for defects in the aforementioned reporting. Key points of the amendments are as follows:

1. When a domestic bank delays its filing of financial statements through Call-Report system or makes mistakes in such reported information, one point is recorded for each statement, in principle. More points may be recorded depending on gravity of the situation, cause and importance of the statement.
2. From January 1, 2020, Financial Examination Bureau of the FSC will collect the information about deficiency types of all information filed by domestic banks for supervisory purpose and points recorded and release such statistics on the website of Call-Report. Meanwhile, it will also take administrative actions to correct such mistakes or impose punishment for such deficiencies to enhance the quality and validity of information filed by domestic banks for supervisory purpose.

#### ***Announcement of the interpretive order for Paragraph 14 of Article 27 of the Business Mergers and Acquisitions Act***

After the announcement of the Regulations Governing the Declaration on Acquisition of Shares in Accordance with Paragraph 1, Article 43-1 of the Securities and Exchange Act on October 7, 2019, the FSC announced the aforementioned interpretive order on October 9, 2019. It stipulates that the particulars required for reporting for the purpose of the merger and acquisition to acquire the shares of a public company according to Paragraph 14 of Article 27 of the Business Mergers and Acquisitions Act shall comply with the "Regulations Governing the Declaration on Acquisition of Shares in Accordance with Paragraph 1 of Article 43-1 of the Securities and Exchange Act", and the format of declaration form was amended according to the aforementioned Regulations.

#### ***Amendments to the "Regulations Governing Certification of Corporate Stock and Bond Issues by Public Companies"***

The FSC amended the Article 2, 4 and 6 of the aforementioned Regulations on September 24, 2019 for alignment with the amendments to the Company Act. Key points of the amendments are as follows:

1. Considering that there is no trust and investment company in operation, the FSC has removed the provision that allows "trust and investment companies" to serve as registrars for issues of stocks or bonds and amended the text of "certification institutions" to "certification banks" for alignment with related amendments to the Company Act.
2. The provision governing the requirement for verification of the records kept for attestation of shares held by the promoter is removed for alignment with the removal of the provision on the limitations on share transfer by the promoter in the Company Act.
3. For alignment with Paragraph 2 of Article 3 of the Regulations Governing Attestation of Share Certificates Issued by Companies Limited by Shares of the Ministry of Economic Affairs, it stipulated that when shareholders did not file the shares they held with the company and those shares not filed shall become null and void as specified in the Paragraph 3 of Article 33 of the Business Mergers and Acquisitions Act, the attestation for new shares may be proceeded.
4. Reference to external opinions and for consistency with the Regulations Governing Attestation of Share Certificates Issued by Companies Limited by Shares of the Ministry of Economic Affairs, the certification period is extended from 5 days to 5 business days starting from the date of consignment.

#### ***Amendments to the "Regulations Governing the Management of the Taiwan Residential Earthquake Insurance Fund" and the "Rules of Management for Motor Vehicle Accident Compensation Fund"***

The FSC amended the "Regulations Governing the Management of the Taiwan Residential Earthquake Insurance Fund" on September 16, 2019 and amended the "Rules of Management for Motor Vehicle Accident Compensation Fund" along with the Ministry of Transportation and Communications on September 27, 2019 for alignment with the Foundations Act that took effect on February 1, 2019 and practical needs arising from foundations' operation. Key points of the amendments include: (1) amendments to provisions related to funds utilization and limits; (2) new procedural requirements for budget plan and final report and amendments to the deadline of presenting the budget plan and final report to the competent authority; and (3) new

requirement for reporting the appointments and dismissals of personnel at the level of manager and above within 15 days after the change.

### **Amendments to the “Regulations Governing Management of the Insurance Stabilization Funds”**

The FSC amended the aforementioned Regulations on September 19, 2019 for alignment with the Foundations Act that took effect on February 1, 2019 and also considering practical needs arising from operation of the Insurance Stabilization Funds. Key points of the amendments are as follows:

1. Amendments to provisions related to capital utilization and limits.
2. New procedural requirements for budget plan and final report and amendments to the deadline of presenting the budget plan and final report to the competent authority.
3. New requirement for reporting appointment and dismissal of personnel at the level of supervisor and above within 15 days after the change.
4. The number of directors is amended to 11, and the Regulations also stipulated the scope of duties and powers of board of directors and supervisor(s), the conditions under which the competent authority may remove the director(s) and supervisor(s), disqualification criteria for the chairman, supervisor(s) and director(s), and prohibitions against transactions between the Insurance Stabilization Funds and the director(s) and supervisor(s) including their related parties.

## **International Activities**

### **FSC was granted the Asia Risk Awards “Regulator of the Year in 2019”**

Professional international finance and economics magazine, the Asia Risk, held the award ceremony for the “20th Asia Risk Awards” on September 11, 2019 in Singapore. The FSC was granted the “Regulator of the Year” and the FSC Vice Chairman Chuang-Chang Chang received the award on behalf of the FSC. The Asia Risk magazine appraised the FSC as the “Regulator of the Year” in view of its efforts to enhance insurance industry supervisory measures and taking into account external evaluations of the FSC’s risk management policy.

## **Industry Updates**

### **4 SITEs were recognized by the FSC with meeting the requirements of the “Incentive Policy for Onshore Fund” and eligible for preferential measures**

In order to encourage securities investment trust enterprises (SITEs) to enhance their profession and techniques of asset management, increase their asset under management and help them expand business in the international market, the FSC has announced the “Incentive Policy for Onshore Fund”. SITEs that meet specific criteria of the Policy may be eligible for preferential measures. This year, 4 SITEs were recognized by the FSC with meeting the requirements of the Policy, including Cathay, Yuanta, Fuh Hwa and Fubon SITEs.

### **9 asset management groups were recognized by the FSC with meeting the requirements of the “Incentive Policy for Offshore Fund Development in Taiwan” and eligible for preferential measures**

With the intention of encouraging offshore fund institutions to increase their involvement in Taiwan and taking part in the development of the domestic asset management market, the FSC has announced the “Incentive Policy for Offshore

Fund Development in Taiwan”. The offshore fund institutions that meet the requirements of the Policy qualify for various preferential measures. This year, 9 asset management groups were recognized by the FSC with meeting the requirements of the Policy, including Alliance Bernstein, Allianz, Schroders, INVESCO, UBS, JP Morgan, Fidelity, Franklin and NNIP Asset Management Group.

### **Approval for transfer of business interests of Global Securities Finance Co., including the businesses of margin purchase and short sale, re-financing and secured loan with securities collaterals to Yuanta Securities Finance Co., Ltd.**

The FSC granted the transfer of business interests of Global Securities Finance Co. (“Global Securities”), including the businesses of margin purchase and short sale, re-financing and secured loan with securities collaterals to Yuanta Securities Finance Co., Ltd (“Yuanta Securities”).

Global Securities submitted the application for transfer of the aforementioned business activities to Yuanta Securities due to gradual decrease of securities firm clients of its agent service over the years and the difficulty of significantly increasing secured loans with securities collaterals it provided. Yuanta Securities submitted the application for transfer of Global Securities’ aforementioned business activities to expand its business size and increase its market share in the margin trading market.

### **2019 Conference on ERM in the Insurance Industry**

In order to urge insurance industry to recognize the importance of risk management and improve the operation of the insurance industry, Taiwan Insurance Institute held the “2019 Conference on ERM in the Insurance Industry” on September 25 and 26, 2019 at the FSC’s request. In response to the revolution in risk management and capital supervision of insurance industry internationally, the conference focused on the topics of Insurance Capital Standard (ICS) and IFRS 17 to help domestic insurance companies know more about the ICS that are being promoted in Taiwan and issues related to IFRS 17.

### **NPL ratio for domestic banks at 0.24% at the end of September 2019**

The total outstanding loans extended by the current 36 domestic banks at the end of September 2019 increased by NT\$57.5 billion as compared to the figure of the previous month and amounted to NT\$29.53 trillion. Meanwhile, the NPLs of these banks totaled at NT\$70.7 billion which increased by NT\$1.8 billion from the end of the previous month. The average NPL ratio of the 36 banks increased by 0.01 percentage point from the end of the previous month to 0.24%, and was down by 0.02 percentage points compared to the same month last year (2018).

The average coverage ratio of allowances for NPLs at the end of September 2019 decreased by 17.92 percentage points to 577.05% from 594.97% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures.

### **NPL situation of credit cooperatives at the end of September 2019**

Total NPLs at Taiwan’s 23 credit cooperatives stood at approximately NT\$0.63 billion as of the end of September 2019, generating an NPL ratio of 0.13%, up by 0.01 percentage points from 0.12% at the end of August 2019. The NPL coverage ratio was 1,588.68%, down by 89.14 percentage points from 1,677.82% at the end of August 2019.

### **Net foreign and Mainland China investment in listed shares**

As of the end of September 2019, foreign investors had bought around NT\$5,728.6 billion and sold around

NT\$5,719.9 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$8.7 billion. In addition, foreign investors had bought around NT\$670.6 billion and sold around NT\$656.5 billion worth of shares listed on Taipei Exchange, amounting to a net-buy of around NT\$14.1 billion. Meanwhile, Mainland China investors had bought around NT\$15,005 million and sold around NT\$15,602 million worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of NT\$597 million; Mainland China investors had bought around NT\$2,885 million and sold around NT\$2,102 million worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$783 million. As for inward remittances by foreign and Mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese and foreign nationals at the end of September 2019 stood at approximately US\$202.3 billion, up by around US\$3 billion from US\$199.3 billion at the end of August 2019. The figure for cumulative net inward remittances by Mainland China investors was US\$189 million, up by around US\$3 million from US\$186 million at the end of August 2019.

### **Sales situation of foreign-currency denominated products by life insurance industry as of the end of July 2019**

The sales situation of foreign-currency denominated products by life insurance industry as of the end of July 2019 (accumulated) was as follows: the premium revenue from new foreign-currency denominated policies was equivalent to around NT\$328.951 billion, down by 18% from NT\$402.8 billion compared with the same period last year. Among them, investment-linked insurance products accounted for NT\$101.501 billion (around 31% of the total), down by 36% from NT\$159.631 billion compared with the same period last year, and the sales of traditional insurance products totaled NT\$227.45 billion (around 69% of the total), down by 6% from the NT\$243.169 billion compared with the same period last year.

### **Profit/loss, net value and exchange gains/losses of the insurance industry in August 2019**

Pre-tax profit of insurance enterprises at the end of August 2019 was NT\$178.3 billion; pre-tax profit of life insurance enterprises was NT\$166.2 billion, an increase of NT\$50 billion, or 43%, compared with the same period in 2018; pre-tax profit of non-life insurance enterprises was NT\$12.1 billion, down by NT\$700 million or 5.5% compared with the same period in 2018.

Owners' equity of insurance enterprises at the end of August 2019 was NT\$2.532 trillion; owners' equity of life insurance enterprises was NT\$1.9228 trillion, an increase of NT\$471.4 billion, or 32.5%, compared with the same period in 2018; owners' equity of non-life insurance enterprises was NT\$130.4 billion, an increase of NT\$10.2 billion or 8.5% compared with the same period in 2018.

Up to the end of August 2019, depreciation of the NT\$/US\$ exchange rate was 2.20%, and the balance of foreign exchange valuation reserve of life insurance enterprises was NT\$94.3 billion, increasing NT\$10.6 billion from last month. Pre-tax profit of life insurance enterprises at the end of August 2019 including the exchange gains/losses, hedging gains/losses, and the net effects of foreign exchange valuation reserve was NT\$166.2 billion.

## **Investor and Consumer Protection**

### **2019 School and Community Financial Literacy Campaign**

As part of 2019 School and Community Financial Literacy Campaign, in October 2019 the FSC held 61 financial literacy promotion sessions at schools and organizations, including

Taipei Mingde Elementary School, with a total of 6,790 participants. The sessions are free and have struck a chord with many people since their inception in 2006. As of the end of September 2019, in all 6,179 sessions had been held and over 1 million people had attended. The target participants include students at all levels of schools, communities, women's 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**

### **Nan Shan Life Insurance Company, Ltd. was fined**

When carrying out a project inspection of Nan Shan Life's "Envision Program" and in light of many serious problems caused when the Program went online, the FSC discovered serious deficiencies in supervision, management and internal control of the Program, which were in violation of the Insurance Act and also giving rise to concerns about the sound operation of the company. The FSC thus imposed a fine of NT\$30 million on Nan Shan Life and issued 5 reprimands in accordance with the Insurance Act. The company was ordered to cease issuing investment-linked insurance product new contracts until the information system for investment-linked insurance products has been improved as well as checked and verified by a third-party professional institution recognized by the FSC and granted approval from the FSC. The company was ordered to reduce the salary of former Chief Auditor 〇〇, Yang by 30% for 1 year and bar her from serving as Chief Auditor again for 3 years; the company was also ordered to halt the positions of chairman and director of Nan Shan's Chairman 〇〇, Du for 2 years and was prohibited to pay or give any form of remuneration or benefiting during this period.

### **Nan Shan General Insurance Company, Ltd. was fined**

In an inspection of ordinary businesses, the FSC discovered that the board of directors of Nan Shan General Insurance Company had approved an establishment contract for a transfer system from its parent company and had signed a rights conversion contract on the same day, which was in violation of insurance related regulations. The FSC thus imposed a fine of NT\$6 million on the company.

### **Reliance Securities Co., Ltd. was fined**

For deficiencies of failing to supervise the subsidiary properly and exercise proper implementation of internal control when engaging in proprietary investment, Reliance Securities was fined NT\$2.4 million in accordance with Subparagraph 4, Paragraph 1 of Article 178-1 and Article 66 of the Securities Exchange Act and also ordered to remove the chairman and the director at the time of the conduct from their positions. Reliance Securities was ordered to entrust an independent CPA with presenting a project review report, and the company was prohibited from increasing investment in its subsidiaries before the CPA has issued a Declaration on the effectiveness of the design and implementation of the internal control system. Also, the Reliance Securities' managing director and 5 employees were ordered to halt execution of business from 1 to 6 months in accordance with Article 56 of the Securities Exchange Act.

### **Fubon Life Insurance Co., Ltd. was fined**

In an inspection of Fubon Financial Holdings' ordinary business in 2018, the FSC discovered that Fubon Life Insurance Co., Ltd. was in violation of insurance related regulations and thus imposed the company a fined of NT\$2.4 million.