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- FSC issues interpretive rule regarding banks' trust investments in offshore funds that do not have the nature of a securities investment trust fund
- FSC amends Articles 3, 7, and 19 of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies"
- FSC amends "Regulations Governing the Offering and Issuance of Securities by Securities Issuers"

Policy and Law

FSC issues interpretive rule regarding banks' trust investments in offshore funds that do not have the nature of a securities investment trust fund

On 15 August 2022, the FSC issued an interpretive rule allowing banks to conduct trust investments in offshore funds that do not have the nature of a securities investment trust fund in accordance with Article 5, Paragraph 1, Subparagraph 8 of the "Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers." The trustors are limited to professional institution investors, high-net-worth corporate investors, and high-asset customers. Following the issuance of the interpretive rule, banks will be able to provide more diversified products to high-asset customers and strengthen their competitiveness in the market.

FSC amends Articles 3, 7, and 19 of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies"

In order to set out clear procedures for the dismissal of company chairpersons, and to fully develop the spirit of corporate governance, the FSC amended the aforementioned Regulations on 5 August 2022. Key points of the amendment include the following:

1. A material matter on the agenda of a board of directors meeting shall not be raised as an extemporary motion: Considering that directors must have adequate information and time to assess material matters involving a company's business operations before they decide upon such matters, the Regulations expressly provide that any board meeting agenda item which will entail discussion of material matters involving the company's business operations must be listed in the notice of reasons for convening the board meeting, and shall not be raised as an extemporary motion, even if an emergency or some other legitimate need for doing so is cited.
2. The election or dismissal of a chairperson of the board of directors must be submitted to the board of directors or the board of managing directors for discussion: The "Company Act" expressly provides that the directors or managing directors shall elect a chairperson by a majority vote among themselves, and any dismissal of a chairperson must also be made by resolution of the same directors or managing directors who made the original election. In view of the fact that the dismissal or election of a board chairperson is a matter of material significance, the Regulations therefore expressly provide that the dismissal or election of a board chairperson must be submitted to the board of directors or the board of managing directors for discussion, and it shall not be raised as an extemporary motion, even if an emergency or some other legitimate need for doing so is cited.

FSC amends "Regulations Governing the Offering and Issuance of Securities by Securities Issuers"

To afford companies greater flexibility in the use of compensation tools, so that they can make timely use of such tools to attract or retain talent, the FSC has relaxing the issuance period of compensation tools from one year to two. Also, in order to implement corporate governance, to provide companies a proper legal basis for the issuance of employee compensation tools, to ensure that they will carry out related inspection procedures in issuing such compensation tools, and to enhance information disclosure, the FSC on 15 August 2022 amended the following four regulations: "Regulations Governing the Offering and Issuance of Securities by Securities Issuers"; "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies"; "Regulations Governing Information to be Published in Annual Reports of Public Companies"; and "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses."

FSC amends "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies"

In order to strengthen its regulation of proxy agents, to ensure more reasonable provisions in contracts related to proxy solicitation matters, and to ensure better legal compliance by proxy solicitors and proxy agents in their conduct of solicitation matters, the FSC amended the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" on 17 August 2022. Key objectives of the amendment include the following:

1. Improve compliance of solicitors and companies mandated to handle solicitation matters: For those who have seriously violated the Proxy Regulations and have been punished by the FSC (including proxy purchases, obtaining proxies by using others' names, using a solicited proxy as a non-solicited proxy for attendance of a shareholders' meeting, and being declared ineligible for being a solicitor), they will be disqualified from being solicitors or companies mandated to handle solicitation matters for the following year. In addition, the votes represented by violators will not be counted accordingly.
2. Enhance the qualifications and professionalism of companies mandated to handle solicitation matters: With references to "Regulations Governing the Administration of Shareholder Services of Public Companies" regarding the requirements for practical experiences of the shareholder services agent's executive personnel, at least one of the executives handling solicitation affairs at the companies mandated to handle solicitation matters should have at least five years' experience of shareholder services or solicitation work. Personnel who handle solicitation activities are also required to attend shareholder services training. Also, in order to improve the competency and understanding of all personnel at the place of solicitation, the amended Regulations require that employees must meet the shareholder services unit's internal control system standard rules regarding competency testing. To give the companies mandated to handle solicitation matters sufficient time to meet the new requirements described above, the requirements will not enter into force until 31 December 2022.
3. Strengthen the reasonableness and supervisory information of solicitation-related contracts: It is explicitly stipulated that solicitors entrusted by shareholders or companies mandated to handle solicitation matters by solicitors should specify their remuneration in their contracts. They should also thoroughly conduct the Know Your Customer work, examine the reasonableness of their contracts on a regular basis, and renew their contracts every

year. In addition, in view of the time it takes to implement the requirements set out in contracts related to proxy solicitation matters, the amended Regulations will not enter into force until 31 December 2022.

International Activities

FSC Chairperson receives a visit on 10 August 2022 from Representative of the German Institute Taipei

Dr. Jörg Polster, the Representative of the German Institute Taipei, was warmly received by the FSC Chairperson Tien-Mu Huang on August 10, 2022. The two sides broadly exchanged views on major financial issues such as insurance and banking supervision, and looked forward to further exchanges and cooperation.

Industry Updates

FSC grants Fubon Insurance Co. approval to apply to establish reinsurance subsidiary in Labuan, Malaysia

The FSC has approved a plan by Fubon Insurance Co. to apply to establish the Fubon Reinsurance Labuan Co., Ltd. in Labuan, Malaysia. This is the first time a Taiwanese insurer has sought to establish a reinsurance company overseas, and it will help to provide more comprehensive risk planning services to Taiwan-invested firms in the region. Also, in coordination with the government's New Southbound Policy, the establishment of this new reinsurer will expand the Southeast Asia non-life insurance market and make Taiwan's insurers more internationally competitive.

FSC approves dissolution of Aberdeen Standard Investments Taiwan, with Manulife Investment Management (Taiwan) to be the asset manager for Aberdeen's funds registered in Taiwan

The FSC has approved an application for dissolution by Aberdeen Standard Investments Taiwan ("Aberdeen"), with its funds in Taiwan to be transferred to Manulife Investment Management (Taiwan). Aberdeen is scheduled to be dissolved on 31 October 2022, and will deal with employee matters in accordance with labor legislation provisions. All rights and obligations related to the two securities investment trust funds managed by Aberdeen will be assumed by Manulife in order to safeguard the rights and interests of employees and investors.

FSC approves application by Barclays Bank PLC to establish securities firm subsidiary in Taiwan

The FSC has approved an application by Barclays Bank PLC to establish a Taiwan subsidiary named Barclays Securities Taiwan Limited, which will do business as a securities broker and underwriter. Barclays Securities Taiwan is required by law to complete corporate registration and apply for a business license within six months of the date on which the FSC issued permission for its establishment.

NPL Ratio for Domestic Banks as of the End of July 2022

The total outstanding loans extended by the current 39 domestic banks increased by NT\$225.6 billion (US\$7.54 billion) as compared to the figure of previous month and amounted to NT\$35.64 trillion (US\$1,190.5 billion) at the end of July 2022. Meanwhile, the NPLs of these banks totaled at NT\$56.72 billion (US\$1.89 billion) which increased by NT\$0.4 billion (US\$0.01 billion) from NT\$56.32 billion (US\$1.88 billion) as of the end of the previous month. The average NPL ratio of the 39 banks remained at 0.16% compared to previous month, but was down by 0.05 percentage points compared to the same month last year.

The coverage ratio of allowances for NPLs stood at 839.71%. While

the ratio slightly increased by 9.97 percentage points from 829.74% of the previous month, it still remained stable at a higher level. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of July 2022. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of July 2022

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.728 billion as of the end of July 2022, generating an NPL ratio of 0.13%, same as the end of June 2022. The NPL coverage ratio was 1,606.10%, up by 19.60 percentage points from 1,586.50% at the end of June 2022.

Net foreign and mainland China investment in listed shares

As of the end of July 2022, foreign investors in the year to date had bought around NT\$10.6899 trillion and sold around NT\$11.5463 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$856.4 billion. In addition, foreign investors in the year to date had bought around NT\$1.7441 trillion and sold around NT\$1.7866 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$42.5 billion. Meanwhile, mainland China investors had bought around NT\$1.5 billion and sold around NT\$2.2 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.7 billion; and mainland China investors had bought NT\$0.1 billion and sold around NT\$0.3 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.2 billion. 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 July 2022 stood at approximately US\$218.3 billion, down by around US\$5.1 billion from US\$223.4 billion at the end of June 2022. The figure for cumulative net inward remittances by mainland China investors was US\$37.6 million, up by about US\$9.9 million from US\$27.7 million at the end of June 2022.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of May 2022

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of May 2022 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$236.579 billion, down by 7% from NT\$254.824 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$82.773 billion (around 35% of the total), down by 34% from NT\$125.45 billion year-on-year, and the sales of traditional insurance products totaled NT\$153.806 billion (around 65% of the total), up by 19% from NT\$129.374 billion year-on-year.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2022 through Q2

The FSC has approved or accepted registrations of 125 spillover-effect insurance products from 9 life insurance companies. In total, 577,586 new contracts for such products have been sold as of the second quarter of 2022, up by 78% from 323,950 compared to the second quarter of 2021. The first-year premium income was NT\$6,857.96 million, up by 128% from NT\$3,008.52 million compared to the second quarter of 2021.

The FSC has approved or accepted registrations of 36 in-kind payment insurance products from 6 life insurance companies. In total, 95,166 new contracts for such products have been sold as of the second quarter of 2022, up by 1,718% from 5,234 compared to the second quarter of 2021. The first-year premium income was NT\$1,437.76 million, up by 4,229% from NT\$33.21 million in the second quarter of 2021.

Profit/loss, net value, exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of end-June 2022

The pre-tax profit of insurance enterprises at the end of June 2022 was NT\$166.9 billion, up by NT\$103.8 billion, or 38.3%, year-on-year. Breaking down that figure, the pre-tax profit of life insurance enterprises was NT\$213.8 billion, down NT\$44.7 billion, or 17.3%, year-on-year, while the pre-tax profit of non-life insurance enterprises was NT\$46.9 billion, down NT\$59.1 billion, or 484.4%, year-on-year. The owners' equity of all insurance enterprises at the end of June 2022 was NT\$1,358.2 billion, down by NT\$1,426.2 billion, or 51.2%, from the corresponding period. Breaking down that figure, the owners' equity of life insurance enterprises was NT\$1,255.5 billion, a decrease of NT\$1,377.5 billion, or 52.3%, and the owners' equity of non-life insurance enterprises was NT\$102.7 billion, down by NT\$48.7 billion or 32.2%.

As of the end of June 2022, the NT Dollar had depreciated by 7.4% against the US Dollar since the end of 2021, and the cumulative balance of the foreign exchange valuation reserves of life insurance enterprises was NT\$166.5 billion, up by NT\$122.8 billion. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses, and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises as of end-June 2022 was a NT\$40.1 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$623.3 billion.

Investor and Consumer Protection

FSC holds Awards Ceremony for Outstanding Financial Literacy Teaching Plans and Courses

On 4 August 2022 the FSC held the 2020–2021 Awards Ceremony for Outstanding Financial Literacy Teaching Plans and Courses. FSC Chairperson Tien-Mu Huang, who personally presided over the ceremony, spoke in praise of the organizations that received awards for their "Outstanding Financial Literacy Teaching Plans" and "Outstanding Financial Literacy Courses," and presented awards and certificates of appreciation.

Award winners for Outstanding Teaching Plans included the following organizations: Taiwan Depository & Clearing Corporation; Financial Ombudsman Institution; Taiwan Stock Exchange (TWSE); Taiwan Academy of Banking and Finance; Taipei Exchange (TPEX). The award-winning teaching plans combine financial knowledge with daily application, employ a diverse range of educational materials to communicate proper concepts regarding financial consumption and risk avoidance, and help the public to better understand related financial information.

Award winners for Outstanding Financial Literacy Courses included the following organizations: Taipei Exchange (TPEX); Taiwan Futures Exchange (TAIFEX); Taiwan Academy of Banking and Finance; Securities and Futures Institute (SFI); Taiwan Insurance Institute. The award winners for Outstanding Financial Literacy Courses have made especially valuable contributions to government policy efforts by raising the level of public financial literacy, instilling proper ways of thinking in the minds of the general public, conducting outreach activities in remote districts, helping to achieve financial inclusion, and assisting in the fight against financial exploitation and fraud.

The FSC will continue to improve the quality of financial literacy activities, and will step up its efforts to more effectively introduce financial knowledge into different regions and fields in order to enhance the quality of financial education outreach programs in Taiwan, further familiarize the public with financial markets and services, and raise the level of overall public financial literacy.

2022 Financial Literacy Campaign for the Campus and Community

In the month of August 2022, the FSC held 30 activities at different locations, including the Armed Forces Hsinchu Finance Section, as part of the 2022 Financial Literacy Campaign for the Campus and Community, attracting 1,627 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2021, a total of 7,351 events had been held and over 1.1 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2022. Schools or community groups interested in the campaign are invited to register through the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

Major Enforcement Actions

FSC imposes sanctions on China Development Financial Holding Co.

In conducting a financial examination on the China Development Financial Holding Co., the FSC discovered corporate governance and internal control deficiencies, including failures to properly manage subsidiaries that constituted violations of Article 51 of the "Financial Holding Company Act" as well as Articles 3 and 8 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" (these latter were issued upon the authority of the said Article 51). The aforementioned deficiencies also constituted a likely hindrance to sound operations. An administrative fine of NT\$20 million was imposed on the basis of Article 60, Subparagraph 16 of the "Financial Holding Company Act," an official reprimand was issued on the basis of Article 54, Paragraph 1 of the same Act, the company's chairman was suspended from his job for six months on the basis of Subparagraph 4 under that same Paragraph 1, and the monthly salary of the company's general manager was cut by 30 percent for three months on the basis of Subparagraph 7 under that same Paragraph 1.

FSC imposes sanctions on Bank of Taiwan

The FSC recently discovered that a former employee of the Bank of Taiwan had misappropriated customer funds in a manner that revealed a failure to properly establish and sufficiently implement internal controls and constituted a violation of Article 45-1, Paragraph 1 of the "Banking Act." The FSC therefore imposed an administrative fine of NT\$14 million on the Bank of Taiwan in accordance with Article 129, Subparagraph 7 of the same Act.

FSC imposes sanctions on Capital Target Limited

Capital Target Limited (Hong Kong) (CTL) as of 31 May 2022 still held a 9.23% equity stake in Jih Sun Financial Holding Co., Ltd. (JSFH), in violation of an order issued by the FSC on 27 May 2021 whereby CTL was required to reduce its holdings in JSFH to 5% by a specified deadline. For this violation of Article 60, Subparagraph 4 of the "Financial Holding Company Act," the FSC imposed an administrative fine of NT\$12 million on CTL, and ordered CTL to reduce its holdings in JSFH to 5% by 31 December 2022.

FSC sanctions China Life Insurance Co. for violations of the Insurance Act

The FSC recently discovered in the course of a routine financial examination that China Life Insurance Co., Ltd. ("China Life") — in its implementation of corporate governance, its leasing of real estate to interested parties, and its implementation of internal controls in

other operations — had violated various provisions of the "Insurance Act" that had possibly hindered sound business operations. The FSC imposed China Life an administrative fine of NT\$6 million in accordance with Article 171-1, Paragraph 4 of the "Insurance Act," issued an official reprimand in accordance with Article 149, Paragraph 1 of the same Act, and ordered the company to cut the monthly salary of its chairperson by 10 percent and the monthly salary of its president by 30 percent, for three months in each case, beginning from the day next following delivery of the administrative ruling.

FSC sanctions Eastspring Securities Investment Trust Company

The FSC recently discovered that the former chief investment officer at Eastspring Securities Investment Trust Company Ltd. ("Eastspring Investments") had violated personal trading rules while employed with the company, and used securities investment trust funds and discretionary investment assets to buy stocks while violating investment procedure rules. These violations revealed a breakdown in the company's internal control system. The company failed to exercise due care and fiduciary responsibility, and did not observe the principle of good faith in conducting its business, which clearly affected the company's capacity for normal operation of funds and discretionary investment business. Accordingly, acting on the basis of Article 103, Subparagraph 3 of the "Securities Investment Trust and Consulting Act," the FSC ordered the company to refrain for three months from signing new contracts with any customers to provide discretionary investment services or to offer securities investment trust funds. Also, with respect to the company's violations of Article 59, Subparagraph 8 and Article 69 of the same Act, the FSC imposed administrative fines of NT\$2 million each (total of NT\$4 million). On the basis of Article 104 of the same Act, the FSC ordered Eastspring Investments to dismiss its former chief investment officer, and on the basis of Article 33 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" the FSC ordered Eastspring Investments to hire a CPA (not employed by the CPA firm that certifies financial reports of public companies) to prepare a special audit report on post-corrective action in implementing the internal control system.

FSC imposes sanctions on KGI Securities

The FSC recently discovered that KGI Securities had seriously violated the principles of corporate governance and failed to properly implement internal controls, thereby affecting the operation of its securities business and leading to violations of securities legislation. Acting on the basis of Article 178-1, Paragraph 1, subparagraph 4 of the "Securities and Exchange Act," the FSC imposed an administrative fine of NT\$2.4 million upon KGI Securities, and on the basis of Article 65 of the same Act issued the company an official reprimand. Also, acting on the basis of Article 66, Subparagraph 5 of the same Act, the FSC ordered the company's Audit Committee to take necessary measures to address the deficiencies listed in the FSC's financial examination, and to report on the implementation of these measures to the board of directors, and ordered the company to cut the monthly salary of its chairperson by 20 percent for three months beginning from the day next following delivery of the administrative ruling. In addition, acting on the basis of Article 56 of the "Securities and Exchange Act," the FSC also ordered the company to suspend its chairperson from the job for six months.

FSC cancels practice licenses of Hantai Insurance Brokerage Co. and Markowitz Insurance Brokerage Co.

Hantai Insurance Brokerage Co. and Markowitz Insurance Brokerage Co. recently committed serious violations of the provisions of the "Regulations Governing Insurance Brokers" when they failed to file their financial reports and then suspended business operations without going through proper procedures. The FSC, acting on the basis of Article 167-2 of the "Insurance Act," revoked the two firms' business permits and canceled their practice licenses.