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- FSC amends Article 37 of "Regulations Governing Securities Firms" and Article 18 of "Regulations Governing Responsible Persons and Associated Persons of Securities Firms"
- FSC adopts "Interpretive Rule on Article 5, paragraph 2 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises"

Policy and Law

FSC continues to relax regulations on banks conducting wealth management business for high-asset customers

According to Article 9 of the "Regulations Governing Banks Conducting Financial Products and Services for High-Asset Customers," banks are permitted to conduct wealth management business for high-asset customers for three years from the date of approval by the FSC. At least six months before the expiration of this period, banks must apply for renewal. Currently, for banks that have been approved for the first renewal, the approval letter still specifies a three-year renewal period. Therefore, banks must apply for a second renewal before the expiration of the renewal period. Considering that the bank has engaged in this business for over five and a half years and accumulated considerable operational experience, and to balance supervisory requirements with the long-term planning of banks' operations, the FSC has relaxed the second renewal period to align with regular business supervision. After obtaining approval for the second renewal, the bank will no longer need to reapply for further renewals.

FSC amends Article 37 of "Regulations Governing Securities Firms" and Article 18 of "Regulations Governing Responsible Persons and Associated Persons of Securities Firms"

On 6 March 2024, the FSC issued amendments to Article 37, subparagraph 13 of the "Regulations Governing Securities Firms" and Article 18, paragraph 2, and subparagraph 20 of the "Regulations Governing Responsible Persons and Associated Persons of Securities Firms." The amended regulations allow securities firms, acting on the basis of a three-party contract between itself, a customer, and a securities investment consulting enterprise (SICE), to accept orders from a SICE to automatically execute automatic re-balancing transactions for clients through computer system. In so doing, a securities firm shall not be subject to legal requirements that a securities firm and its personnel shall not process an application for subscription, trading, or settlement of securities from a person who is not the customer or not an agent with a power of attorney from the customer.

FSC adopts "Interpretive Rule on Article 5, paragraph 2 of the Regulations Governing the Preparation of Financial Reports by Insurance Enterprises"

In order to align with IFRS 17, the FSC amended the "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" on 8 November 2023 and the amended

provisions will enter into force from the 2026 fiscal year. Therein, the amended provisions of Article 5, paragraph 2 require that a corrected financial report be reissued if the amount of the correction reaches a certain amount. For the sake of supervisory consistency, the standard for when an insurer must restate its financial statements will be based on Article 6 of the "Securities and Exchange Act Enforcement Rules," and the interpretive rule also sets the scope of an insurer's operating revenues.

FSC amends "Directions for Insurance Companies to Engage in Microinsurance Business"

To encourage insurers to develop various types of microinsurance products and provide basic insurance coverage for the economically disadvantaged and people with a specific status, the FSC amended Points 3, 5, and 6 of the "Directions for Insurance Companies to Engage in Microinsurance Business" on 22 February 2024, and the amended provisions came into force that same day. Key points of the amended Directions are as follows: (1) new types of microinsurance business that have been through successful pilot projects may be granted approval to launch as formal lines of business in order to expand the range of microinsurance products available on the market; and (2) the Directions also afford insurers the flexibility to conduct microinsurance on a pilot basis, which helps insurers to develop innovative microinsurance products, thereby expanding the variety of microinsurance products and the range of coverage that they offer.

FSC amends the "Directions Governing the Issuance of Corporate Bonds as Capital Instruments by Insurance Companies"

Because Taiwan's domestic bond market is of limited depth, the FSC amended the "Directions Governing the Issuance of Corporate Bonds as Capital Instruments by Insurance Companies" on 6 March 2024 in order to increase the fundraising channels available to insurers so they can enhance their capital structure and align with international systems. The amended Directions provide that an insurer may, with approval, establish a special-purpose overseas fundraising enterprise and act via that enterprise to issue corporate bonds as capital instruments overseas, and may also provide guarantees for those bonds. Before the aforementioned overseas fundraising enterprise may issue corporate bonds as an insurer's capital instruments, an insurer should file: (a) proof that the aforementioned overseas fundraising enterprise has applied for approval to establish; and (b) a certificate of the aforementioned overseas fundraising enterprise's registration from the overseas jurisdiction.

International Activities

The Central Bank of Eswatini pays a visit to the FSC

A delegation led by Dr. Phil Mnisi, Governor of the Central Bank of Eswatini (seventh from the left), was warmly received by the FSC Vice Chairperson Tsuey-Ling Hsiao (eighth from the left) on March 5, 2024. Both sides engaged in an exchange of views on financial relevant issues and the future cooperation during the visit.

Industry Updates

FSC continues enhancing ETF supervision measures to safeguard investor interests

As of end-January 2024, the value of Taiwan's ETF market stood at NT\$4,017.9 billion, or 57.61% of the aggregate NT\$6,974.6 billion value of Taiwan's domestic investment funds. This was up by NT\$1,545.1 billion (62.48%) from the NT\$2,472.8 billion value of Taiwan's ETF market at end-January 2023. Our ETF market is thus growing very quickly, and Taiwanese ETFs are now among the principal wealth management products of Taiwanese investors. To safeguard investor interests, the FSC — acting with reference to the "Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds - Final Report" — is now implementing the following enhanced measures:

1. "Product structure" aspect:

- (1)ETF indicative net asset value (iNAV): When an ETF issuer uses an outside service provider to calculate iNAV, the issuer is required to include due diligence and ongoing monitoring measures in its internal control system, and on its website must disclose related risk warnings to remind investors to beware.
- (2)Enhanced regulation of participating securities firms and liquidity providers: Any contract that an ETF issuer enters into with participating securities firms and liquidity providers of its interested companies must be approved by a supermajority vote of the board of directors, and when an ETF only has one liquidity provider, the liquidity provider must not also be an interested company.

2. "Information Disclosures" aspect:

- (1)Enhanced disclosures of information on custom indexes and Smart Beta indexes ETFs: A securities investment trust enterprise (SITE) provides a clear and easily understood explanation on its website of how indexes are constructed. In the ETF prospectus, the SITE provides enhanced disclosure of the difference and related risks between a custom index and a traditional index. The SITE discloses that a Smart Beta index ETF might have a relatively high percentage of its holdings in small-cap companies. The review of custom indexes and ETF products is also enhanced.
- (2)Enhanced disclosures regarding ETF dividend distributions that come from an income equalization fund: SITES make enhanced disclosures of information regarding the proportions of different income components of distributing ETFs (e.g. dividends, realized capital gains, income equalization fund), and for ETFs that use an income equalization fund to distribute dividends a SITE must include income distribution principles in its internal control system.

3. "Provision of liquidity" aspect:

- (1)Measures to enhance regulation of ETF liquidity providers: New penal provisions have been adopted to deal with an ETF that fails to comply with the requirement to select a liquidity provider; meanwhile, SITES and the market are given a reasonable period of time to come up with solutions so that the ETF market can recover its original functions.
- (2)Measures to prevent ETFs from trading at excessive discounts or premiums: The Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX) are currently planning the launch of a big data dashboard that will offer an overview

of ETF market conditions. The dashboard will collect data on ETF net asset values, assets under management, discounts/premiums to NAV, and other information for supervisory reference. This will enhance the efficiency of risk management.

FSC grants approval for Taiwan Cooperative Bank to apply to establish a branch in Tokyo

In view of the fact that Japan is a major world economy that maintains close bilateral trade ties with Taiwan, and in response to the regionalization of global supply chains, Taiwan Cooperative Bank has decided to establish a branch in Tokyo in order to extend the reach of the bank's financial services to Northeast Asia and gradually build up the bank's overseas services network. The FSC agreed on 6 February 2024 that the bank may file an application with the competent authority of Japan for the establishment of its Tokyo Branch.

FSC grants approval for Taipei Fubon Commercial Bank to apply to establish a branch in Mumbai

In order to expand its overseas presence, and in view of India's important place in the global economy as well as its future growth prospects, Taipei Fubon Commercial Bank has decided to establish a branch in Mumbai because it will be able to serve the needs of offshore Taiwanese businesses and large local companies, and will have opportunities to participate in international syndicated loans. The FSC agreed on 21 February 2024 that the bank may file an application with the competent authority of India for the establishment of its Mumbai Branch.

FSC grants approval for Chang Hwa Bank to apply to establish a branch in Toronto

In view of the close economic and trade ties between Taiwan and Canada, which make Canada a key focus of efforts by offshore Taiwanese businesses to build up their global networks, Chang Hwa Bank has decided to establish a branch in Toronto to provide top-flight financial services to offshore Taiwanese businesses and the expatriate community in Canada, and to share in the fruits of regional economic growth and diversified resource allocations. The FSC agreed on 5 March 2024 that the bank may file an application with the competent authority of Canada for the establishment of its Toronto Branch.

FSC grants approval for E.Sun Commercial Bank to apply to establish a branch in Toronto

In view of Canada's position among the top ten economies of the world, its mature and stable financial market, and rapid growth in bilateral trade ties between Taiwan and Canada, E.Sun Commercial Bank plans to set up a Toronto Branch to improve its international financial services, enhance the brand and image of its international financial services, and further build out its overseas financial services platform. The FSC agreed on 13 March 2024 that the bank may file an application with the competent authority of Canada for the establishment of its Toronto Branch.

NPL Ratio for Domestic Banks as of the End of February 2024

The total outstanding loans extended by the current 38 domestic banks increased by NT\$323.3billion (US\$10.24billion) as compared to the figure of previous month and amounted to NT\$39.1trillion

(US\$1,239billion) at the end of February 2024. Meanwhile, the NPLs of these banks totaled at NT\$63.17billion (US\$2billion) which increased by NT\$5.38billion (US\$170.31million) from NT\$57.79billion (US\$1.83billion) as of the end of the previous month. The average NPL ratio of the 38 banks increased by 0.01 percentage points and therefore rose to a figure of 0.16% from 0.15% of the previous month, and was at the same figure compared to the same month last year.

The coverage ratios of allowances for NPLs decreased by 80.34 percentage points and therefore declined to a figure of 847.96% from 928.31% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of February 2024. 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 February 2024

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.664 billion as of the end of February 2024, generating an NPL ratio of 0.11%, up by 0.01 percentage points from 0.10% at the end of January 2024. The NPL coverage ratio was 2,152.95%, down by 219.67 percentage points from 2,372.62% at the end of January 2024.

Net foreign and mainland China investment in listed shares

As of the end of February 2024, foreign investors in the year to date had bought around NT\$3,802.5 billion and sold around NT\$3,697.4 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-buy of around NT\$105.1 billion. In addition, foreign investors in the year to date had bought around NT\$621.4 billion and sold around NT\$616.4 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$5 billion. Meanwhile, mainland China investors had bought around NT\$0.192 billion and sold around NT\$0.401 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.209 billion; and mainland China investors had bought NT\$0.082 billion and sold around NT\$0.054 billion worth of shares listed on the Taipei Exchange, amounting to a net-buy of around NT\$0.028 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 February 2024 stood at approximately US\$254 billion, up by around US\$5.1 billion from US\$248.9 billion at the end of January 2024. The figure for cumulative net inward remittances by mainland China investors was US\$0.045955 billion, up by roughly US\$0.005485 billion from US\$0.040470 billion at the end of January 2024.

Sales statistics of foreign-currency denominated products by life insurance industry as of the end of December 2023

The sales statistics of foreign-currency denominated products by life insurance industry as of the end of December 2023 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$263.752 billion, down by 36% from NT\$411.164 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$62.072 billion (around 24% of the total), down by 51% from NT\$125.751 billion year-on-year, and the sales of traditional insurance products totaled NT\$201.68

billion (around 76% of the total), down by 29% from NT\$285.413 billion year-on-year.

Profit/loss, net value, exchange gains/losses, hedging gains and losses, and foreign exchange volatility reserves of insurance enterprises as of January 2024

The pre-tax profit of all insurance enterprises at the end of January 2024 was NT\$34.7 billion, up by NT\$55.4 billion or 267.6% from the previous year; the pre-tax profit of life insurance enterprises was NT\$31.8 billion, up by NT\$53.7 billion or 245.2% from the previous year, while the pre-tax profit of non-life insurance enterprises was NT\$2.9 billion, up by NT\$1.7 billion or 141.7% from the previous year.

The owners' equity of insurance enterprises at the end of January 2024 was NT\$2,354.9 billion, up by NT\$426 billion or 22.1% from the previous year; the owners' equity of life insurance enterprises was NT\$2,225.2 billion, up by NT\$367 billion or 19.8% from the previous year, while the owners' equity of non-life insurance enterprises was NT\$129.7 billion, up by NT\$59 billion or 83.5%.

As of the end of January 2024, the NT Dollar had depreciated by 1.81% against the US Dollar since the end of 2023, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$114.6 billion, up by NT\$22.6 billion compared to the end of 2023. 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 was NT\$-20.2 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\$94.2 billion.

Investor and Consumer Protection

2024 Financial Literacy Campaign for the Campus and Community

In the month of March 2024, the FSC held 96 activities at different locations, including National Chunan High School, as part of the 2024 Financial Literacy Campaign for the Campus and Community, attracting 5,713 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 2023, a total of 8,509 events had been held and over 1.19 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 2024. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau. For more information, please contact us at (02) 8968-9708.

Major Enforcement Actions

FSC imposes sanctions on Cathay United Bank

It was recently discovered that Cathay United Bank had failed to

implement mechanisms for reviewing the process of re-encoding magnetic stripe of customers' passbooks, failed to implement the custody and control of tax payment collection stamps and credit card payment collection procedures, and failed to effectively urge employees to comply with the code of conduct. These problems revealed that the bank had failed to rigorously implement a comprehensive internal control system, which violated regulations in Article 45-1, paragraph 1 of the Banking Act, and Article 3 paragraph 1 and Article 8, paragraphs 1 and 3 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," established based on the authorization of said provisions of the "Banking Act". The FSC imposed an administrative fine of NT\$8 million upon the Bank in accordance with Article 129, subparagraph 7 of the "Banking Act."

FSC imposes sanctions on Time Securities Investment Consulting Co.

The FSC recently discovered that the General Manager Mr. Li of Time Securities Investment Consulting Co. (hereinafter referred to as "Time Investment Consulting") has requested resigning employee Ms. Wang register as a discretionary investment manager, while the actual execution of investment decision-making was made by Mr. Li. The General Manager Mr. Li violated the regulation prohibiting him from concurrently acting as the discretionary investment manager, Ms. Wang agreed to allow others to act in her name as a discretionary investment manager, and the then-department supervisor Mr. Wu failed to fulfill his supervisory responsibilities. The company failed to allocate sufficient and competent business personnel, did not appoint qualified personnel as representatives, and the internal control system design and implementation lacked effectiveness. Furthermore, the business was not conducted in accordance with the duty of care, the fiduciary duty, and the principle of good faith and trust of a good administrator. These actions were found to violate the "Securities Investment Trust and Consulting Act" (Article 7 paragraph 1, Article 50, and Article 69), the "Regulations Governing Securities Investment Consulting Enterprises" (Article 2 paragraph 2), the "Regulations Governing the Establishing of Internal Control Systems by Service Enterprises in Securities and Futures Markets" (Article 6 paragraph 2), the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises" (Article 7 paragraph 1, Article 11 paragraph 1, Article 15 paragraph 1 and paragraph 2 subparagraph 10), and the "Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises" (Article 8 paragraphs 1 and 3). The FSC issued a warning to Time Investment Consulting pursuant to Article 103, subparagraph 1 of the "Securities Investment Trust and Consulting Act" and imposed an administrative fine of NT\$1.2 million in accordance with Article 111, subparagraph 7 of the same Act. Furthermore, in accordance with Article 104 of the "Securities Investment Trust and Consulting Act", the FSC ordered Time Investment Consulting to suspend General Manager Mr. Li, Ms. Wang, and Mr. Wu from their duties for 1 year, 6 months, and 1 month, respectively.