

# Important Measures and Results of Green Finance (Updated Quarterly)

November 20, 2019

- I. The Executive Yuan approved the Green Finance Action Plan on November 6, 2017.

Article 8 of the Greenhouse Gas Reduction and Management Act designates that green finance is one of the promotion actions of relevant central authorities.

The Financial Supervisory Commission (FSC) takes into account the relevant international green finance practices, aligns with the government's policies of nuclear-free home, energy transformation and environmental emission reduction, and considers Taiwan's legal environment and industrial development, and has actively researched policy tools to create a legal environment conducive to the development of green finance and to encourage the financial industry's development of related business.

The "Green Financial Action Plan" (the Plan) proposed by the FSC was approved by the Executive Yuan on November 6, 2017, and jointly promoted by the FSC, the Ministry of Economic Affairs, the Ministry of Finance, the National Development Council, the Environmental Protection Agency (EPA), the National Development Fund, etc. The specific promotion includes 7 aspects including credit granting, investment, capital market

financing, capacity building, promotion of green financial products or services, disclosure of information, and promotion of green sustainability concept, and supported by 25 measures.

The short-term goal of the Plan is to assist the green energy industry, especially the solar photovoltaic and offshore wind power generation companies, to obtain funds for business development. Therefore, the government agencies' short-term effort focuses on encouraging the adoption of international green-related voluntary investment and financing principles such as the Equator Principles, strengthening capacity building and understanding of the green energy industry for financial talents, introducing financial measures to strengthen credit, investment and financing, and facilitating the financial market to operate on its own in support of the green energy industry.

The long-term goal of the Plan is to promote the environmentally-friendly normative measures by the ministries, and to make it easier for financial markets to guide physical industry, investors and consumers to pay attention to green sustainability, and transform Taiwan into a green low-carbon economy with green investment, and green consumption and life.

## II. The FSC's implementation status of the Green Financial Action Plan

The FSC has been actively promoting green finance in a step-by-step manner. The current important results are as follows:

1. Encouraging financial institutions (domestic banks, insurance companies) to extend credit to the green energy industry, expanding the scope of domestic application of the Equator Principles, and relaxing bank credit and fundraising regulations to assist the green energy industry in obtaining bank financing, and also facilitating the participation of domestic banks in syndicated loans led by foreign banks to gain related knowledge and experience:
  - (1) On September 30, 2016, the “Program to encourage domestic banks to provide loans to new key innovative industries” was introduced to encourage loans by domestic banks to new key innovative industries including green energy technology under the precondition of risk control. As of the end of September, 2019, the loan balance by domestic banks to the green energy technology industry exceeded NT\$1.1 trillion, which increased by about NT\$ 190 billion from before the implementation of this program and up by about NT\$ 70 billion from the end of 2018.
  - (2) The FSC encourages banks to adopt the voluntary international Equator Principles (EPs), and consider the impact of environmental impacts in credit decision-making:
    - A. So far (As of November 20, 2019), 101 financial institutions in 38 countries have adopted the EPs, including 17 financial institutions in Asia. 5 domestic banks in Taiwan have adopted the EPs.
    - B. Urging the Bankers’ Association of The Republic of China

(BAROC) incorporate the EPs into Article 20 of the “Regulations Governing Members’ Credit Extension”. Its scope of application has been expanded from "Project Financing" to "Corporate Credit" since July 5, 2017, which facilitates channeling of funds to the environmentally friendly green energy industry.

- C. On September 5, 2018, the FSC urged the BAROC to amend Article 20-1 of the Bank Regulations Governing Members’ Credit Extension which originally only required banks to follow the principles of project finance for large-scale public works, such as due diligence, risk assessment, and risk sharing mechanisms, post-loan management, etc., and extend the scope of application to all kinds of project financing. The amendments have been implemented since January 1, 2019 to enhance the ability of member banks to handle project financing.
- (3) The FSC relaxed the regulations on financial institution’s credit and financing to assist renewable energy businesses with huge working capital needs ,such as offshore wind power, in acquiring financing:
- A. Since September 1, 2017, banks have been allowed to handle the credit business guaranteed by the credit guarantee institutions established by foreign central governments. The loans which banks extend to a juristic same person and guaranteed by that credit guarantee institution may be excluded from the aggregated amount of the unsecured credit of the authorization provisions Article 2(2) in Article 33-3 of The

Banking Act of The Republic of China. However, it should still be included in the aggregated amount of the credit that is extended to a juristic same legal person.

- B. Since November 21, 2017, the credit of a foreign bank has been allowed to not be restricted by the regulation that the annual turnover of a single legal person should be higher than NT\$35 billion, if the credit of that foreign bank whose branches in Taiwan and sub-banks collaborate with the government's policy of promoting renewable energy and is for the renewable energy power generation equipment in the authorization provisions Article 4(1) of the "Renewable Energy Development Act".
- C. On March 31, 2018, the "Regulations Governing Foreign Bank Branches and Representative Offices" were amended to relax the limit of credit that a foreign bank branch may extend to a same customer (from the current NT\$7 billion to NT\$7 billion or two times the net worth of that foreign bank branch, whichever is higher), and the ratio of total loan balance of foreign bank branches to net worth (the multiple is revised from 30 times to 40 times). The deregulation will appropriately increase foreign bank branches' ability of credit and encourage foreign banks to cooperate with domestic banks to provide financing for construction investment projects such as renewable energy.
- D. On April 17, 2018, the "Regulations Governing Issuance of NTD Bank Debentures by Foreign Bank Branches" were introduced

to allow foreign banks or their local branches to issue NTD financial debentures to raise funds for the financing business of green energy industry.

- E. On May 15, 2018, the FSC interpreted that the official export credit agency of the OECD is the public sector, which is the qualified guarantor in the risk reduction tool in “Description of Calculation method of the Regulatory Capital and Risk-weighted Assets”. When calculating the capital requirement for claims on corporations involved credit protections given by Official Export Credits Agencies listed by the OECD, banks are allowed to apply a risk weight one category less favorable than that assigned to the guarantor’s sovereign of incorporation.
- F. The FSC issued an interpretive order on December 7, 2018 allowing insurers to serve as a participating bank in a syndicated loan case and extend loans guaranteed by a foreign central government-established credit guarantee institution and used for investment in the 5+2 key innovative industries.
- G. On October 22, 2019, the FSC amended and combined the orders of September 1, 2017 and May 15, 2018 as mentioned above to introduce different types of credit support from the credit guarantee institutions and enhance risk management and risk sharing mechanisms of a project financing.
  - (A) Banks were allowed to handle the credit business guaranteed or underwritten by the foreign central governments, the credit guarantee institutions established by foreign central governments and the official export credit agency of the OECD.

The loans which banks extended to a juristic same person and guaranteed/underwritten by that credit guarantee institution may be excluded from the aggregated amount of the unsecured credit of the authorization provisions Article 2(2) in Article 33-3 of the Banking Act of the Republic of China. However, it should still be included in the aggregated amount of the credit that is extended to a juristic same legal person.

(B) The credit guarantee institutions established by foreign central governments and the official export credit agencies listed by the OECD are the public sectors, which are the qualified guarantor in the risk reduction tool in “description of Calculation Method of the Regulatory Capital and Risk-weighted Assets”. When calculating the capital requirement for claims on corporations involved credit protections including guarantee and insurance given by the above institutions or agencies, banks are allowed to apply a risk weight one category less favorable than that assigned to the guarantor’s sovereign of incorporation.

2. Establishing and developing the green bond market in Taiwan to facilitate the industrial funding needs via capital markets for promoting environmental improvements, industrial green transformation, and socially responsible investments:

(1) Green bonds can be one of the financing tools in the capital markets for renewable energy power producers, companies intending to transit to green and low-carbon developments, or a funding source for green banking loans.

- (2) Under the supervision of FSC, the Taipei Exchange promulgated and implemented the Taipei Exchange Operational Directions for Green Bonds on 21 April 2017. The first four green bonds were listed and traded on the Taipei Exchange on 19 May 2017.
- (3) FSC will continue supervising and urging the Taipei Exchange to encourage issuers, intermediaries, and corporations to issue and to invest in the green bond market by bringing green bond issuance or investment into corporate governance evaluation and compiling the Taiwan Sustainable Index.
- (4) Pursuant to the order published by the FSC on November 30, 2018, proceeds raised by NTD denominated foreign bonds on the Professional Board shall only be used for major public infrastructure, offshore wind power, and other green energy industry. Such bonds are exempt from effective registration to encourage foreign wind power developers to invest in green energy facilities in Taiwan. The issuers of such bonds can apply for recognition as green bonds from Taipei Exchange as needed.
- (5) Under the supervision of FSC, the Taipei Exchange established a mechanism to issue and list green beneficial securities or asset-backed securities on the Taipei Exchange by amending the Taipei Exchange Operational Directions for Green Bonds on 19 January 2019. After the amendment, green beneficial securities or asset-backed securities are eligible for applying for Taipei Exchange green bond accreditation as well.
- (6) As of November 20, 2019, green bond issuances reached NTD

97.3 billion with 35 launched; the issuance amount increased by NTD 343.4 billion with 12 green bonds from the end of 2018 (at the end of 2018, the issuance amount was NTD 53.9 billion with 23 launched). The issuers include state-owned enterprises (Taiwan Power Company and the Chinese Petroleum Corporation, Taiwan), domestic banks, foreign banks (including the issuances of NTD-denominated bonds by foreign banks in Taiwan) and domestic/foreign private enterprises. The green bond market in Taiwan has now been developing for two years and the issuers have come from different segments. This indicates that green bonds not only add product variety to the market, but also signal a positive development in the market.

- (7) The market has domestic corporate governance indexes and ETF financial products, which help listed companies pay more attention to corporate social responsibility and green issues.
- (8) The Taiwan Index Plus Corporation (a subsidiary of the Taiwan Stock Exchange) worked with FTSE Russell to compile and publish the FTSE4G TIP Taiwan ESG Index on December 18, 2017. The index is the first ESG index in Taiwan that combines E (environmental), S (social), G (corporate governance) factors along with financial indicators into the screening process. It helps institutional investors pay attention to environmental, social and governance issues and make responsible investment. . The index has been adopted as the benchmark by the Bureau of Labor Funds of the Ministry of Labor for handling

the domestic entrusted management of the new labor pension fund. On December 5, 2018, a Securities Investment Trust Enterprise (SITE) was authorized for the first time to issue index-based green fund (ETF) in the future.

3. Encouraging the insurance industry and other funds to invest in the green energy industry, including indirectly investing in the green energy industry through private equity funds, venture capital, venture capital management, etc.:

- (1) Encourage investment by the insurance industry:

- A. An insurer desiring to use its funds for utilities such as solar photovoltaic power can apply for project approval from the competent authority in accordance with the provisions of Sub-Paragraph 2 of Article 3 of the Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises.
- B. On March 21, 2017, the FSC issued an interpretative order to include green energy technology in the scope of "other use in line with the government policies" in Sub-Paragraph 6 of Article 2 of the Regulations Governing Use of Insurer's Funds in Special Projects, Public Utilities and Social Welfare Enterprises.
- C. On December 29, 2017, the FSC amended the Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises, and issued relevant interpretive orders on January 2 and September 3, 2018, allowing insurers to invest in domestic private equity funds created by national investment companies, subsidiaries of

investment trust enterprises or subsidiaries of securities companies for investments in enterprises in the “5+2 innovative industries” such as the green energy industry and infrastructure projects.

- D. On September 25, 2017 the FSC introduced the Program to Encourage Insurers to invest in the 5+2 innovative Industries, including the green energy industry and infrastructure projects.
  - E. As of the end of October 2019, the FSC has approved insurers to invest in 9 renewable energy power plants with a total amount of approximately NT\$ 14 billion (including 2 life insurance companies invest 1 offshore wind power company).
- (2) Relaxing related funds’ investment in green energy industry through private equity funds, venture capital, venture capital consultant and other channels:
- A. Since August 3, 2017, the subsidiaries of Securities Investment Trust Enterprises (SITEs) have been allowed to engage in private equity fund related business. The first application was approved on October 26, 2017. A subsidiary of the first approved SITE completed registration in the first quarter of 2019 and has already invested in the green energy industry.
  - B. Since December 25, 2017, the management consulting business of the venture capital investment business and the venture capital investment business have been relaxed to be “other financial related businesses recognized by the competent authority” in Article 74(4) of The Banking Act of The

Republic of China . The ratio of a bank investing in these businesses can be increased from 5% of the original investment business to 100%. However, based on risk control, the direct investment of that bank in venture capital businesses cannot exceed 3% of that bank's net worth (the total investable amount of domestic banks is about NT\$100 billion ) .

- C. Since June 1, 2018, the FSC has relaxed the related regulations for securities companies to invest in venture capital investment and private equity funds, and supported the development of real economy including green energy.
4. Strengthening capacity building of financial talent to understand the green energy industry:
- (1) With relevant courses held continuously by financial peripheral institutions such as the Financial Research Institute (TABF), green financial talents are equipped to assist the financial industry in obtaining information, understand the characteristics of the green energy industry, and accordingly evaluate the risk control/ review mechanism to improve the willingness of investment, financing or insurance underwriting. That will contribute to the development of green financial commodities.
  - (2) In 2017 and 2018, the TABF held 24 and 45 courses respectively, with 2,282 and 2,327 participants. As of the end of September, 2019, the TABF has held 23 courses with 1,070 participants. Related course topics, taking 2019 as an example, include syndicated lending practice and the legal risk of project finance,

the risk of offshore wind power financing, offshore wind power and solar photovoltaic financing practice, etc. These courses contribute to enhancing the professional ability of green energy project financing talent.

- (3) The FSC will continue to supervise the TABF and the BAROC's arranging of relevant training courses and seminars, and invite domestic and foreign experts to share experience and communicate to develop project financing models suitable for Taiwan (no recourse or limited recourse) to enrich the lending capability of local project financing. So far, there have been cases of offshore wind power project financing by domestic banks. As of the third quarter of 2019, the amount of financing of offshore wind power that has been signed has exceeded NT\$100 billion.
- (4) In addition, the Office of Energy and Carbon Reduction, under the Executive Yuan, has integrated and coordinated the resources of various ministries to promote green finance. The Financial Promotion Group for Renewable Energy Power Generation Industry, led by the National Development Council, continues to operate. Also, the Bureau of Standards, Metrology & Inspection, M.O.E.A. (referred to as the BSMI) has established a "Renewable Energy Investment/ Financing Third-Party Testing and Verification Center" with the support of the forward-looking infrastructure program budget. In the future, it can provide credible testing and verification information for

financial industry reference, as the risk management basis for offshore wind farm project financing and underwriting, and thus improve the quality of decision-making and the willingness to invest and finance.

The BSMI will continue to hold regular meetings on third-party testing and verification communication platform for renewable energy investment and financing, invite relevant ministries, finance, academics and industry to conduct research and study on project verification, due diligence and maritime guarantee supervision. Through practical cases of cooperation with international professional teams, financial institutions with investors can understand the risks of the development and operation of offshore wind farms, and effectively build up capacity of financial industry project financing talents. The FSC has encouraged banks, producers/life insurance associations and financial industry players to actively participate.

5. Promotion of green indices, green ETFs, green evaluation, green insurance, and carbon trading markets:

Some measures of the Plan are medium- and long-term focuses. It will take time for the market to mature. The FSC will continue to observe the market conditions and launch relevant measures in due course, including:

- (1) Green stock/bond index and green fund commodities:
  - A. In December 2017, Taiwan's first green stock index "the FTSE4G TIP Taiwan ESG Index" (Taiwan Sustainable Index) was launched as mentioned above. As for the green stock index of other

industry themes, after the number and scale of listed companies in the green-related industries have reached a certain level, there will be sufficient indicators for the index company to evaluate the screening index.

- B. Regarding Taiwan's green bond index, considering as of November 20 2019, there are 35 green bonds launched as mentioned above, therefore, it is still waiting for the domestic green bond quantity and market scale to reach a certain level. Then, there will be sufficient subjects as the basis of the Green Bond Index. The FSC has instructed the counter buying center to consider the development of the market and to list this as a medium- and long-term promotion plan.
- C. Promoting the issuance of green funds by the SITEs:
  - (A) At present, there are about 7 green-related funds, such as water resources fund, anti-global warming fund, and green energy trend fund. As of the end of May 2019, the scale was about NT\$12.7 billion, mainly invested in stocks of overseas green industry companies.
  - (B) In order to encourage SITEs to issue green funds (including ETF) that invest in domestic green industry/or ESG related stocks, the FSC amended the Incentive Policy for Onshore Fund on January 4, 2018, providing preferential measures to encourage SITEs to issue green funds.
  - (C) Depending on the development of domestic green industry and the needs of investors, the SITEs are encouraged to launch a domestic green fund in a timely manner to support the

government's green energy industry policy.

- (D) After the launch of the Green Financial Action Plan, the first domestic ESG Sustainable ETF (Linked to “the FTSE4G TIP Taiwan ESG Index”) has been listed on August 23, 2019.
- (2) Green evaluation service: The FSC has actively used various opportunities or attended seminar to encourage domestic credit rating agencies to provide green evaluation services. The FSC approved the first credit rating agency to apply for “green evaluation” service on March 28, 2019.

- (3) Green insurance:

To help promote green energy technology and green finance, the FSC actively encourages insurers to develop relevant insurance products. On January 2, 2019, the “Standards for the Levy Rates of Life and Non-life Insurance Guaranty Fund was amended and the underwriting of offshore wind insurance is included in the property insurance guaranty fund accrual standard.

Current commercial insurance products are listed below. The FSC will continue to encourage insurers to promote and develop relevant green insurance products, and actively cooperate with the relevant authorities to provide necessary assistance:

- A. Active insurance products related to energy conservation and carbon reduction. For example, usage-based vehicle insurance, green vehicle endorsement, green building material upgrade endorsement.

- B. Negative insurance products related to transferring risk. For example, Accidental Pollution Liability Insurance, Petroleum Industry Liability Insurance, Environmental Pollution Liability Insurance, and Toxic Chemical Operators Liability Insurance.
  - C. Renewable energy related insurance products. For example, offshore wind insurance provides complete protection for the construction and operation phases, as well as erection all risks insurance and electronic equipment insurance (including typhoons, floods, earthquakes and other endorsement) for solar power plants.
- (4) Carbon trading market:
- A. The competent authority for greenhouse gas reduction and management laws and carbon trading is the Environmental Protection Agency of the Executive Yuan (EPA).
  - B. The FSC will cooperate with the EPA's planning for the Total Greenhouse Gas Emission Control Plan to assist the EPA in promoting relevant matters under the legal framework of the Greenhouse Gas Reduction and Management Act. For example, based on the progress of the actual operation of the EPA carbon emissions spot trading, the possibility of development of financial products such as carbon futures or options will be discussed in a timely way.
6. Requiring the financial and insurance industry to disclose its management policies of sustainable finance in their CSR Report:
- The Taiwan Stock Exchange (TWSE) and the Taipei Exchange (TPEX) amended the "Rules Governing the preparation and filing

of Corporate Social Responsibility Reports by TWSE/ TPEX Listed Companies” (the Rules) on October 19, 2015 and October 21, 2015 respectively. Paragraph 3 of Article 4, of the Rules articulates that the financial and insurance industry shall enhance disclosure of the specific management approaches and performance indicators of the environmental and social aspects for financial products or services provided by the listed companies (such as products or services can reduce environmental impact; products provide renewable energy, water conservation, biodiversity, or energy efficiency). According to the statistics of TWSE and TPEX, the listed financial and insurance companies have compiled their 2016 CSR reports and 2017 CSR reports in accordance with the Rules.

In order to strengthen the promotion of Green Finance and be in line with the GRI standards, The FSC required TWSE and TPEX to amend the Rules on January 4, 2019 and January 11, 2019 respectively.

According to Subparagraph 3, Paragraph 1 of Article 4, of the Rules, listed companies within the financial and insurance industry shall disclose their management approaches, topic-specific disclosures and their reporting requirements for major topics on sustainable finance. Their reporting requirements shall include, at least, products and services designed by individual operating units to create benefits for the society or environment.

The amendments mentioned above are in line with the goal requirements of the Green Financial Action Plan. The

amendments are implemented from 2019.

### III. Conclusion

Article 8 of the Greenhouse Gas Reduction and Management Act stipulates that relevant central authorities should promote green finance. The FSC has listed the development of green finance as an important driving principle, actively implemented the “Green Financial Action Plan”, and studied financial policy tools to create a favorable domestic environment, and encourage the financial industry to develop green finance.

The FSC has already begun to make achievements in terms of encouraging credit granting, investment, capital market financing, capacity building, and disclosure of information.

In addition, some financial measures still need to be further developed in the market (such as the green bond index, green evaluation services, green insurance and green funds and the diversification of green bond listings), or promoted in accordance with the planning of the relevant authorities (such as carbon trading), and the FSC will continue to provide the necessary assistance.

The FSC and related ministries continue to promote the "Green Financial Action Plan" to support the development of the green energy industry. We believe the Plan can promote the financial industry resources to focus on green industry and green consumer life, assist economic restructuring, pursue a new

economic model of sustainable development, and facilitate the common development of financial sector and other industries.