

Important Green Finance Measures and Achievements

(Quarterly Update)

February 12, 2020

- 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) has actively developed policy tools to create a financial legal framework conducive to the development of green finance and to encourage the financial industry's development of related businesses. In pursuing this undertaking, the FSC has: (a) recognized that green finance is one aspect of the government's overall environmental, economic, and industrial policies; (b) taken into account the relevant international green finance practices; (c) aligned with the government's policy objectives of energy transformation and lower environmental emissions; and (d) considered Taiwan's legal environment and the state of its industrial development.

The "Green Finance Action Plan" (the Plan), which was proposed by the FSC and approved by the Executive Yuan on November 6, 2017, is being jointly promoted by the FSC, the

Ministry of Economic Affairs, the Ministry of Finance, the National Development Council, the Environmental Protection Agency (EPA), and the National Development Fund. A total of 25 specific measures have been adopted in the following seven areas: extension of credit; investments; capital market financing; talent development; promotion of green financial products or services; disclosure of information; and promotion of the green sustainability concept.

The short-term goal of the Plan is to assist the green energy industry (especially solar photovoltaic and offshore wind power generation companies) to obtain funds for business development. Therefore, the short-term efforts of government agencies focus on: encouraging the adoption of international green-related voluntary investment and financing principles, such as the Equator Principles; strengthening talent development and improving financial professionals' understanding of the green energy industry; introducing financial measures to strengthen credit, investment and financing; and enabling the financial market to act on its own in support of the green energy industry.

The long-term goal of the Plan is to use the environmentally-friendly regulatory measures of the various ministries to make it easier for financial markets to get industrial firms, investors and consumers to pay more attention to green sustainability, and to transform Taiwan into a green low-carbon economy that takes a green approach to investment, consumption and life.

II. Status of the FSC's implementation of the Green Finance Action Plan

The FSC has been actively promoting green finance in a step-by-step manner. Important results achieved thus far are as follows:

1. Financial institutions (domestic banks, insurance companies) are being encouraged to extend credit to the green energy industry; the scope of domestic application of the Equator Principles has been expanded; and regulatory restrictions on bank credit have been relaxed to assist the green energy industry obtain bank financing, and to facilitate the participation of domestic banks in syndicated loans led by foreign banks so they can 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. The term "new key innovative industries" includes those engaged in green energy technology. Such loans are provided on the precondition that the recipients must exercise proper risk control. As of the end of 2019, the balance of loans by domestic banks to the green energy technology industry exceeded NT\$1.1 trillion, an increase of 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 environmental impacts when making credit decisions:

- A. As of February 12, 2020, 101 financial institutions in 38 countries have adopted the EPs, including 17 financial institutions in Asia. Five domestic banks in Taiwan have adopted the EPs.
 - B. The Bankers' Association of The Republic of China (BAROC) has been urged to incorporate the EPs into Article 20 of the "Regulations Governing Members' Credit Extension" provided by BAROC. 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 "Regulations Governing Members' Credit Extension", which originally only required banks to follow the principles of project finance for large-scale public works, covering such matters as due diligence, risk assessment, risk sharing mechanisms, and post-loan management. The amendments would extend the scope of application to all kinds of project financing and have been implemented since January 1, 2019 to enhance the ability of member banks to handle project financing.
- (3) The FSC relaxed regulations on financial institutions' provision of credit and financing. The purpose is to make it easier for renewable energy businesses with large working capital needs, such as offshore wind power firms, to acquire financing:
- A. Since September 1, 2017, banks have been allowed to handle

credit business involving credits guaranteed by credit guarantee institutions established by foreign central governments. The loans which a bank extends to a single juristic person and guaranteed by such a credit guarantee institution may be excluded from the aggregated amount of that bank's unsecured credit as set out in Article 2, subparagraph 2 of the "Regulations Setting Out Requirements as Authorized Under Article 33-3 of the Banking Act". However, it must still be included in the aggregated amount of the credit that has been extended to a single juristic person.

- B. For foreign banks that have both branches and subsidiaries in Taiwan and support the government's renewable energy policy by making loans to fund the purchase of renewable energy power generation equipment (determined as such in accordance with the provisions of Article 4, paragraph 1 of the "Regulations for Installation and Management of Renewable Energy Generation Equipment", which were adopted upon the authority of the "Renewable Energy Development Act"), the FSC on November 21, 2017 waived the requirement that a single legal person must have annual turnover of more than NT\$35 billion.
- C. On March 31, 2018, the "Regulations Governing Foreign Bank Branches and Representative Offices" were amended to relax the limit on the amount of credit that a foreign bank branch may extend to a single customer (the current NT\$7 billion limit has been changed to either NT\$7 billion or two times the net

worth of that foreign bank branch, whichever is higher), and the maximum ratio of total loan balance to net worth for foreign bank branches has been revised from 30:1 to 40:1. This deregulatory measure will appropriately increase foreign bank branches' lending capacity and encourage foreign banks to cooperate with domestic banks to finance investments in construction projects in such fields as renewable energy.

- D. On April 17, 2018, the "Regulations Governing Issuance of NTD Bank Debentures by Foreign Bank Branches" were adopted to allow foreign banks or their local branches to issue NTD financial debentures to fund their financing of the green energy industry.
- E. On May 15, 2018, the FSC issued an interpretation to clarify that entities included by the OECD on its list of official export credit agencies are among the "public sector entities" that provide credit risk mitigation by acting as eligible guarantors, as referred to in the "standardized approach to credit risk" section of the "Explanation of Methods for Calculating the Regulatory Capital and Risk-Weighted Assets of Banks." Therefore, when a bank provides a loan that is guaranteed by one of the aforementioned eligible guarantors, a risk weight that is one category less favorable than a sovereign risk weight may be applied.
- F. The FSC issued an interpretive order on December 7, 2018 allowing insurers to serve as a participating bank in syndicated loans and to extend loans guaranteed by a credit guarantee

institution established by a foreign central government and used for investments in the 5+2 key innovative industries. This measure was further eased on November 18, 2019: the FSC issued a new interpretive order allowing insurers to serve as a participating bank in syndicated loans to the 5+2 key innovative industries, where the loans are guaranteed or insured by foreign central governments, credit guarantee institutions set up by foreign central governments, or entities included by the OECD on its list of official export credit agencies.

G. On October 22, 2019, the FSC amended and combined the aforementioned orders of September 1, 2017 and May 15, 2018 to introduce different types of credit support from international credit guarantee institutions (e.g. guarantees and insurance) and to ensure that banks, when engaging in project financing, further enhance risk management and risk sharing mechanisms. Under the amended provisions:

(A) Banks were allowed to handle credit business guaranteed or underwritten by foreign central governments, credit guarantee institutions established by foreign central governments, or entities included by the OECD on its list of official export credit agencies. Loans which a bank has extended to a single juristic person and are guaranteed/underwritten by a credit guarantee institution may be excluded from the aggregated amount of unsecured credit as set out in Article 2, subparagraph 2 of the "Regulations Setting Out Requirements as Authorized Under

Article 33-3 of the Banking Act". However, it should still be included in the aggregated amount of credit extended to a single juristic person.

- (B) Credit guarantee institutions established by foreign central governments and entities included by the OECD on its list of official export credit agencies are among the "public sector entities" that provide credit risk mitigation by acting as eligible guarantors, as referred to in the "standardized approach to credit risk" section of the "Explanation of Methods for Calculating the Regulatory Capital and Risk-Weighted Assets of Banks." Therefore, when a bank provides a loan that is guaranteed by one of the aforementioned eligible guarantors, a risk weight that is one category less favorable than a sovereign risk weight may be applied.
2. The FSC has established and continues to develop the green bond market in Taiwan to assist industrial firms raise capital needed to pursue environmental improvements and transition to green industry, and is guiding Taiwan's capital markets to support socially responsible investments, as follows:
- (1) Renewable energy producers, companies intending to transit to green and low-carbon development, and banks seeking to fund green lending, can take advantage of green bonds to raise needed capital.
 - (2) Under the supervision of the 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) The 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 factoring green bond issuance or investments into corporate governance evaluations, and by compiling the Taiwan Sustainable Index.
- (4) Pursuant to an order issued by the FSC on November 30, 2018, capital raised by the issuance of NTD denominated foreign bonds on the Professional Board shall only be used for major public infrastructure, offshore wind power, and other green energy industry projects. To encourage foreign wind power developers to invest in green energy facilities in Taiwan, such bonds are exempt from the requirement to file for effective registration. The issuers of such bonds can apply for recognition as green bonds from Taipei Exchange as needed.
- (5) Under the supervision of the 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. Under the amended provisions, interested parties may apply with the Taipei Exchange to have green beneficial securities or asset-backed securities accredited as green bonds.

- (6) As of February 11, 2020, 37 green bond issuances had raised a total of NTD 104.1 billion in capital (up by NTD 50.2 billion and 14 new green bonds from the end of 2018, when 23 green bond issuances had raised a total of NTD 53.9 billion). 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 sectors of the economy. This indicates that green bonds not only add product variety to the market, but also signal a positive development in the market.
- (7) To promote an awareness among institutional investors of the importance of environmental, social, and governance (ESG) issues, and to encourage them to make responsible investments, the Taiwan Index Plus Corporation (a subsidiary of the Taiwan Stock Exchange) worked with FTSE Russell to compile and publish the FTSE4Good TIP Taiwan ESG Index on December 18, 2017. This is the first index in Taiwan that factors E (environmental), S (social), G (corporate governance) performance along with financial indicators into the screening process. 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. The first ETF linked to the ESG index mentioned above was launched in August 2019, and assets under management stood at NT\$5.87 billion as of the end of 2019.

3. The FSC is encouraging insurers and other entities 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) Encouragement of investment by the insurance industry:

A. An insurer desiring to invest in public utilities such as solar power plants 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 interpretive order to include green energy technology in the scope of "other use in line with the government policies" referred to 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” sector, 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 2019, the FSC has approved insurers to invest a total amount of approximately NT\$ 13 billion in 9 renewable energy power plants (including 2 life insurance companies that invested in 1 offshore wind power company).
- (2) The FSC has relaxed regulations to expand pipeline of investments in the green energy industry, such as private equity funds, venture capital firms, venture capital consultants, 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 definition of what constitutes a "venture capital business or a venture capital management and advisory business" has been relaxed to include "other financial related businesses recognized by the competent authority" as set out in Article 74 paragraph 4 of The Banking Act of The

Republic of China. The maximum equity stake that a bank investing in these businesses is allowed to acquire can be increased from 5% to 100%. However, for the purpose of risk control, the direct investment of that bank in a venture capital business cannot exceed 3% of that bank's net worth (the total amount the overall domestic banks may invest is about NT\$100 billion).

- C. Since June 1, 2018, the FSC has relaxed regulations governing investments by securities companies in venture capital firms and private equity funds. The purpose is to support the development of the real economy, including green energy.
4. Stepping up efforts to cultivate financial professionals who understand the green energy industry:
- (1) Financial research and talent development institutions such as the Taiwan Academy of Banking and Finance (TABF) offer courses to equip green financial professionals to assist the financial industry in obtaining information, understanding the characteristics of the green energy industry, and accordingly evaluating the risk control/review mechanism to make the financial industry more willing to invest in, finance, or provide insurance underwriting for green energy projects. That will contribute to the development of green financial commodities.
 - (2) In 2017 and 2018, the TABF held 24 and 45 courses, respectively, attracting 2,282 and 2,327 participants. As of the end of December 2019, the TABF has held 25 courses that attracted 1,109 participants. Course topics, taking 2019 as an example,

include syndicated lending and the legal risks of project finance, the risks of offshore wind power financing, offshore wind power and solar photovoltaic financing, etc. These courses contribute to enhancing the professional ability of green energy project financing professionals.

- (3) The FSC will continue to supervise the TABF and the BAROC's arranging of training courses and seminars, and will invite domestic and foreign experts to share experience and communicate to develop project financing models suitable for Taiwan (no recourse or limited recourse) to enhance lending capability for local project financing. So far, there have been cases of offshore wind power project financing by domestic banks and life insurance companies. As of the end of 2019, the amount of financing of offshore wind power that has been signed is about NT\$ 180 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, with financing green energy industries as its early-stage focus. The Task Force for Financial Promotion of Renewable Energy Power Generation Enterprises, led by the National Development Council, continues to operate. Also, the Bureau of Standards, Metrology & Inspection, M.O.E.A. (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 of the third-party testing and verification communication platform for renewable energy investment and financing, and invite relevant ministries, financial institutions, academics and representatives of industry to conduct research and study on project verification, due diligence and maritime warranty supervision. Through studying cases of cooperation with international wind power consortiums in the BSMI platform, financial institutions and investors can get a better understanding of the risks of the development and operation of offshore wind farms, and can effectively cultivate financial industry professionals with expertise in wind power project financing. The FSC has encouraged banks, the ROC Non-Life Insurance Association, the ROC Life Insurance Association, and financial industry players to actively participate.

5. Encourage banks to develop and promote green credit cards to facilitate general public's green living and green consumption:
 - (1) Environmental-friendly practices, adopted by each credit card issuer to promote their business and simultaneously pursue

environmental sustainability and carbon reduction, include but are not limited to:

- A. Actively campaigning and promoting the use of electronic billing, mobile billing, and online payments by cardholders.
 - B. Promoting the ratio of credit card applications submitted through automated channels.
 - C. Issuing credit cards that qualify for a carbon footprint label, and using environmentally friendly materials to reduce the use of raw materials such as paper and plastic.
 - D. Promoting the use of of credit cards to pay for green consumption and green energy.
- (2) A survey of credit card issuers shows that promoting green credit cards has yielded the following successes as of the end of 2019:
- A. 1.54 million applications for electronic billing.
 - B. 3.04 million credit cards were applied for online.
 - C. 1.18 million credit cards meeting the standard for a carbon footprint label have been issued.
 - D. NT\$3.5 billion purchase amount due to promotion activities for green consumption or green energy.

6. Promotion of green indices, green ETFs, green evaluations, green insurance, and carbon trading markets:

Some measures of the Plan feature medium- and long-term focuses. It takes time for the market to mature and to influence the public. The FSC will continue to observe the market

conditions and launch relevant measures in due course, including:

- (1) Green stock/bond indices and green investment funds:
 - A. In December 2017, Taiwan's first green stock index, "the FTSE4Good TIP Taiwan ESG Index," (Taiwan Sustainability Index) was launched as mentioned above (the first ETF linked to the ESG Index was listed in 2019). As for green stock indices for other industries, 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 and select component stocks.
 - B. Regarding Taiwan's green bond index, considering that 37 green bonds have been launched as mentioned above, therefore, it is still necessary to wait for the domestic green bond quantity, market scale, and liquidity to reach a certain level. Then, there will be sufficient components to serve as the basis of the Green Bond Index. The FSC has instructed the Taipei Exchange to consider the development of the market and to list this as a medium- to long-term promotion plan.
 - C. Promoting the issuance of green funds by SITEs:
 - (A) In order to encourage SITEs to issue green funds (including ETFs), the FSC amended the Plan to Advance Excellence for SITEs on January 4, 2018 to provide preferential treatment to encourage SITEs to issue green funds.
 - (B) Overview of green funds (including ETFs) issued by SITEs as of the end of 2019: seven funds had a total of NT\$12.5 billion in assets under management, and featured investment policies

focusing on water resources, anti-global warming, green energy trends, and natural resources. Two funds with investment policies focusing on ESG issues had a total of NT\$12.2 billion in assets under management. One fund with an investment policy focusing on corporate governance had a total of about NT\$4.9 billion in assets under management.

- (C) Depending on the development of the domestic green industry and the needs of investors for ESG and responsible investment options, SITEs are encouraged to launch domestic green funds in a timely manner to support the government's policy of creating a low-carbon economy.
- (2) Green evaluation services: The FSC has actively used various opportunities or attended seminars to encourage domestic credit rating agencies to provide green evaluation services. On March 28, 2019, the FSC for the first time approved an application by a credit rating agency to provide “green evaluation” service.
- (3) Green insurance:
To assist 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 the Life and Non-life Insurance Guaranty Funds” were amended to include the underwriting of offshore wind insurance in the Non-Life Insurance Guaranty Fund levy rate standard.

Current commercial insurance products are listed below. The FSC will continue to encourage insurers to promote and develop 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 endorsements, and green building material upgrade endorsements.
 - B. Negative insurance products related to transfer of risk. For example, accidental pollution liability insurance, petroleum industry liability insurance, environmental pollution liability insurance, and toxic chemical operators liability insurance.
 - C. Insurance products related to renewable energy: 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 endorsements) for solar power plants.
- (4) Carbon trading market:
- A. The competent authority for the Greenhouse Gas Reduction and Management Act 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 by assisting 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.

7. The FSC requires companies in the financial and insurance industries to disclose their management approach to sustainable finance in their CSR reports:

In order to strengthen the promotion of Green Finance and be in line with the Global Reporting Initiative (GRI) standards, the FSC required TWSE and TPEx to amend their Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports on January 4, 2019 and January 11, 2019 respectively.

According to Subparagraph 3, Paragraph 1 of Article 4 of the Rules, listed companies in the financial and insurance industries 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 Finance Action Plan. The amendments entered into force from 2019.

In addition, the Rules were further amended on January 2, 2020 to require that CSR reports must include environmental, social and corporate governance (ESG) risk assessments, and adopt related performance indicators to manage major topics

identified by the assessments. The FSC also amended the "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses" and the "Regulations Governing Information to be Published in Annual Reports of Public Companies" on January 22, 2020 to require that the prospectus and annual reports of reporting companies must: (a) disclose ESG risk assessment issues related to the company's operations; (b) set out relevant risk management policies or strategies; (c) disclose whether the company has assessed the present and future potential risks posed by climate change to the company; and (d) set out climate change response measures. The purpose of these requirements is to improve the quality of disclosure of non-financial information.

III. Conclusion

Article 8 of the Greenhouse Gas Reduction and Management Act requires relevant central authorities to promote green finance. The FSC has listed the development of green finance as a key policy, is actively implementing the “Green Finance Action Plan,” and is engaged in an ongoing effort to develop financial policy tools that will create a favorable domestic financial environment and encourage the financial industry to develop green finance. This approach is in line with the goals of international initiatives such as the Paris Climate Agreement and the United Nations Sustainable Development.

To implement the Green Finance Action Plan, the FSC is

working to: encourage green financing and investing; develop green capital markets and green finance products (e.g. green bonds, sustainability indices, ESG ETFs, green credit cards); cultivate green finance professionals; and strengthen disclosure of information. Initial successes have been achieved on all these fronts.

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). The FSC will continue to provide the necessary assistance.

The FSC and related ministries continue to promote the "Green Finance Action Plan" to support the development of green industries, such as green energy. We believe the Plan can: spur the financial industry to direct resources toward the implementation of green and low-carbon development as well as green consumption; assist economic restructuring; support the pursuit of a new economic model of sustainable development; and facilitate the common development of the financial sector and other industries.