

Important Measures and Achievements of Green Finance Action Plan 2.0

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I. Introduction

In order to align with international trends of promoting sustainable finance, and to maximize the role of the financial system in the pursuit of sustainable development at the national level, the Financial Supervisory Commission (FSC) launched the “Green Finance Action Plan 2.0” (referred to as “Action Plan” hereunder) on 18 August 2020 after reviewing the promotion of Green Finance Action Plan 1.0 and taking into account the suggestions from specialized institutions, financial institutions and relevant central authorities. The Action Plan is implemented by central authorities including the FSC, Ministry of Economic Affairs (MOEA), Ministry of Finance (MOF), National Development Council (NDC), Ministry of Transportation and Communications (MOTC), Ministry of Labor (MOL), Ministry of Science and Technology (MOST), Environmental Protection Administration (EPA), Ministry of Civil Service (MOCS), National Development Fund (NDF), and integrates the resources of relevant financial industry associations, self-regulatory institutions, and non-profit organizations for joint creation of a sustainable finance ecosystem by public and private sectors.

The Action Plan is promoted through 3 core strategies, including facilitating effective information disclosure for effective business decision-making, pushing financial institutions to address climate change risks and capitalize on associated opportunities, and using market mechanism to steer the economy toward sustainable development. The Action Plan includes a total of 38 measures that cover the following 8 aspects: credit, investment, capital market fundraising, professional development, promotion of further development of green financial products or services, information disclosure, prudential supervision, international connection and incentive mechanism.

The short-term objectives of the Action Plan are to build a framework and the

foundation conducive to the effective operation of green and sustainable finance market, increase information transparency, and channel funds to support green and sustainable development industries. And the medium-term objectives are to guide the financial market on addressing the potential risks of climate change and capitalize on associated opportunities and strengthen the competitiveness of our financial industry and market, and furthermore, raise the awareness of businesses and investors to environmental, social, and corporate governance (ESG) issues through the financial mechanism to bring about a healthy cycle of investment and sustainable development.

II. Implementation status of the Green Finance Action Plan 2.0 important Measures

1. Financial institutions are being encouraged to grant credit and loans to green energy industries and sustainable development projects.

(1)The FSC continues to promote the “Program to encourage domestic banks to provide loans to new key innovative industries.” 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 December 2020, the balance of loans by domestic banks to the green energy technology industry about NT\$1.2 trillion, up by about NT\$230 billion compared to the balance before the implementation of this program (since the end of September 2016).

(2)The FSC continues to urge domestic banks (including subsidiaries of foreign banks in Taiwan) or Taiwan branches of foreign banks with experience in renewable energy financing to act as the lead bank in syndicated loans to related projects, and encourage other banks to participate in syndicated loans to facilitate the use of bank funds and

experience sharing. As of the end of December 2020, there have been cases of offshore wind power project financing by domestic banks and life insurance companies, and the amount of financing of offshore wind power that has been signed is about NT\$258 billion.

(3)The FSC encourages banks to support the policies and preferential mechanisms launched by central authorities in charge of respective industry in the financing of renewable energy projects. As of the end of December 2020, the balance of loans to the renewable energy projects by domestic banks in support of the policies by central authorities in charge of respective industry is about NT\$3.6 billion.

(4)On April 17, 2018, the “Regulations Governing Issuance of NTD Bank Debentures by Foreign Bank Branches” were adopted to allow foreign bank branches to issue NTD bank debentures to raise funds for financing of the green energy industry. As of the end of December 2020, four foreign bank branches in Taiwan have been approved to issue NTD bank debentures.

(5)The Bureau of Energy, Ministry of Economic Affairs, has set up the websites of “Thousand Wind Turbines Project” and “The Single Service Window for Solar PV” (the URL addresses are <https://www.twtpo.org.tw/> and <https://www.mrpv.org.tw/index.aspx>) to announce relevant promotion measures and the list of financial institutions willing to provide loans to these projects.

2. Financial institutions and government agencies are encouraged to invest in sustainable development projects.

(1)As of the end of December 2020, the FSC has approved insurers to invest a total amount of approximately NT\$14.1 billion in renewable energy power plants. Among the investing insurers, 2 life insurance companies

invested in wind power plants with an amount of about NT\$4.2 billion. And as of the end of December 2020, the insurance industry invests approximately NT\$35.8 billion in green bonds.

(2) In order to boost up institutional investors' responsible investment, the Taiwan Stock Exchange (TWSE) amended the Stewardship Principles for Institutional Investors on 10 August 2020. The amendments include requiring institutional investors to integrate ESG considerations in their investment evaluation and decision-making process, strengthening dialogue and interaction with investees on ESG issues, and enhancing the disclosure of ESG information in their Stewardship Reports.

(3) The state-owned enterprises, government funds and state-owned financial institutions are encouraged to participate in investment in sustainable development projects. Their investment objects include: (1) green energy technology and circular economy industries in 5+2 new key industries; (2) enterprises which had won the National Sustainable Development Awards of the Executive Yuan or the Annual Enterprises Protection Award (AEEPA) of the EPA; (3) enterprises which had passed the Corporate Governance Assessment System of the Taiwan Corporate Governance Association (TCGA); (4) the top 50% performing listed companies of the TWSE Corporate Governance Evaluation; (5) enterprises which are components of TWSE RA Taiwan Employment Creation 99 Index (EMP 99), TWSE RAFT® Taiwan High Compensation 100 Index (HC 100), FTSE4Good TIP Taiwan ESG Index etc., and (6) green bonds.

3. The FSC continues to develop the green bond and sustainability bonds market in Taiwan.

(1) Green bonds: 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. The Taipei Exchange (TPEX) promulgated and implemented the “Taipei Exchange Operational Directions for Green Bonds” on 21 April 2017. As of the end of December 2020, there were 56 green bond issuances which had raised a total of NT\$160.7 billion, up by NT\$56.6 billion and 19 new green bond issuances compared to the end of 2019. The issuers include state-owned enterprises (Taiwan Power Company and the Chinese Petroleum Corporation, Taiwan), domestic banks, foreign banks (including the issuances of NT\$-denominated bonds by foreign banks in Taiwan) and domestic/foreign private enterprises.

(2) Sustainability bonds: In order to develop sustainable finance and to assist companies investing in the ESG, the TPEX promulgated and implemented the “Taipei Exchange Operational Directions for Sustainability bonds” on 6 October 2020 and established a sustainability bond market. As of 28 January 2021, there were 4 sustainability bond issuances which had raised a total of NT\$6.8 billion.

4. Stepping up efforts to cultivate professionals who understand green and sustainable finance

(1) Financial research and talent development institutions, such as the Taiwan Academy of Banking and Finance (TABF) and the Taiwan Insurance Institute (TII), continue to offer courses dedicated to cultivating green and sustainable financial professionals through training courses, assisting financing industry in obtaining related information, understanding the characteristics of the green energy industry, and accordingly being equipped to evaluate their risk control/assessing mechanism. Therefore, the trainings are targeted to encourage financial investment and increase willingness to underwrite the relevant risks, thus to foster green and

sustainable financial products development.

A. In 2020, the TABF held 15 courses attracting 422 participants. The course topics included “Project Finance and Risk Management,” “The Law Risk of Syndicated Loan and Project Finance,” “Advanced Banking Training Program- Complicated Credit Structure Workshop Module IV and VII,” “Case Studies in Project Loan & Syndicated Loan,” and “Topics on Solar Finance and Talent Training.”

B. In 2020, TII held 8 lectures for board members, directors/officers/supervisors and senior executives of insurance industry, attracting 157 participants to attend. The course topics contained “Corporate Governance Workshops for Directors and Supervisors (including Independent Directors and Supervisors) and Corporate Governance Officers- CSR and ESG Investment – The Importance of Cybersecurity and Privacy through Corporate Social Responsibility,” “Property Insurance Underwriter Training Selective Program – Climate Change and Natural Disaster Risks,” “Property Insurance Industry Elite Practice Program for Senior Management– Underwriting Performance and Catastrophe Risk Management in Property Insurance Market”, “Property Insurance Underwriter Training Selective Program – Introduction of Emerging Insurance Product –Development of Taiwan Agriculture (& Aquaculture) Insurance,” and “Corporate Governance Workshops for Directors and Supervisors (including Independent Directors and Supervisors) and Corporate Governance Officers - Green Finance.”

(2)Bureau of Standards, Metrology & Inspection, MOEA (BSMI) has established the “Renewable Energy Investment/Financing Third-Party Testing and Verification Center”, which provides 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. Since 2017, the BSMI has continued to hold regular meetings of the third-party testing and verification communication platform for renewable energy investment and financing, and has invited relevant ministries, financial institutions, academics, and representatives of industry to conduct research and study on project verification, due diligence and maritime warranty supervision. In 2020, the BSMI held 2 meetings as of the end of December. 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 institutions to actively participate.

5. The FSC promotes the development of financial products.

(1) Banks are encouraged to develop and promote green credit cards. A survey report of the business status and promotion results of green credit cards by credit card issuers as of the end of December 2020 is as follows:

- A. Actively campaigning and promoting the use of electronic billing, mobile billing, and online payments by cardholders. Among them, 1.29 million applications applied for mobile billing.
- B. Promoting the ratio of credit card applications submitted through automated channels. 3.45 million credit cards were applied for online.
- 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. Among them, 1.64 million credit cards meeting the standard for a carbon footprint label have been issued.

D. Promoting the use of credit cards to pay for green consumption and green energy. NT\$11.7 billion purchase amount due to promotion activities for green consumption or green energy.

(2)Securities investment trust enterprises (SITEs) are encouraged to launch green funds: The FSC has provided preferential treatment in the “Incentive Policy for Onshore Funds” to encourage SITEs to launch or manage mutual funds (including ETFs) or discretionary investment accounts which invest in domestic securities with the theme of environmental protection (green), corporate governance or corporate social responsibility. The status of green funds (ETFs) launched by SITEs as of the end of November 2020 is as follows:

A. 6 funds had a total of NT\$11.2 billion in assets under management, and featured investment policies focusing on water resources, anti-global warming, green energy trends, and natural resources.

B. 13 funds with investment policies focusing on ESG issues had a total of NT\$84.3 billion in assets under management.

C. One fund with an investment policy focusing on corporate governance had a total of about NT\$6.9 billion in assets under management.

(3)The FSC encourages the development of green insurance products: In order to encourage insurance companies to participate in green insurance and assist the relevant authorities to promote climate change disaster-related insurance, the FSC has amended the “Standards for the Levy Rates of the Life and Non-life Insurance Guaranty Funds” to include the

underwriting of offshore wind insurance and agriculture insurance in the Non-Life Insurance Guaranty Fund levy rate standard as an incentive. The results are as follows:

- A. Offshore wind insurance: About 10 insurers currently offer this type of insurance, and the cumulative premium income from 2018 to the end of September 2020 is about NT\$3.1 billion.
- B. Agriculture insurance: The FSC has cooperated with the Council of Agriculture (COA) and local governments in developing agriculture insurance. Up to the present time, 20 types of agriculture insurance products have been rolled out that provide coverage for paddy field rice, pear, mango, rose apple, papaya, pineapple, pomelo, banana, persimmon, guava, date and lychee, grouper, milk fish, perch, tilapia, avian influenza, and green house, reducing the property loss risks caused by climate change. The cumulative premium income from 2015 to the end of September 2020 is about NT\$0.5 billion.

6. Strengthening the quality of ESG disclosure

In order to provide financial market participants with comparable and consistent information, the FSC plans to strengthen the quality of ESG disclosure by companies through the following 4 directions: (1) Strengthening content: The FSC is considering adopting recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on climate-related information disclosure in the CSR report or annual report of listed companies; (2) Improving quality: The FSC is considering expanding the scope of listed companies whose CSR reports require third-party verification; (3) Expanding scope: Listed companies with a paid-in capital of more than NT\$2 billion will be required to prepare and file sustainability reports starting from 2023, and (4) Data sharing: The FSC is considering integrating climate change and

environment-related information gathered by relevant ministries to promote an industry sustainable development database platform for use by businesses and financial institutions in the assessment of potential risks and scenario analysis, and the construction of an integration platform that discloses data about sustainable and responsible investment, mutual funds, loans, and insurance products.

7. Prompting financial institutions to build their ability to respond to and manage climate-related risks

(1) In order to strengthen insurance companies' ability to respond to climate-related risks, the FSC has adopted the following measures:

- A. Insurance companies are required to include climate-related risks into their 2020 Own Risk and Solvency Assessment (ORSA) supervision reports, including the identification of climate-related risk, major exposures, and assessment methods and measures in response to climate-related risks.
- B. The TII had included catastrophe scenario into non-life insurer's stress test in 2020.
- C. The FSC issued the 2020 insurance industry's applicable Risk-Based Capital (RBC) filling-in forms and manuals on 1 December 2020. Non-life insurance and reinsurance companies are required to include natural disaster risks (earthquake, typhoon and flood) into the calculation of RBC as the end of 2020. The FSC continues to consider the catastrophe risk calculation method of Insurance Capital Standard (ICS) and introduce into the current system.

(2) The FSC continues to observe the development of incorporating climate-related risks into financial institutions' stress test and capital requirement

by the supervisory authorities of other countries and the Basel Committee of Banking Supervision (BCBS). And the FSC has invited relevant financial associations to discuss and evaluate the international trends in order to incorporate into its regulations.

8. The FSC continues to adopt measures in line with international trends and promote the concept of sustainability.

(1)The FSC and the EPA jointly commissioned a research project of the “sustainable finance taxonomy” in order to help enterprises and financial industries clarify the scope of sustainable activities, communicate in a common language and avoid the occurrence of greenwashing. Taking into account international practices and referring to the recommendations of the industries, government and academia, the commissioned research project will establish the environmental sustainability taxonomy for main investment and financing industries by domestic financial institutions at first with regard to local conditions, industrial development, and regulations. The procurement of the research project had been conducted by the FSC in December 2020, and the taxonomy is expected to be completed by the end of 2021.

(2)Financial institutions are encouraged to participate in, sign up for or comply with international initiatives or principles: As of 20 February 2021, 116 financial institutions in 37 countries have adopted the Equator Principles (EPs), including 29 financial institutions in Asia. 8 domestic banks in Taiwan have adopted the EPs, and it ranks first with Japan in Asia. The FSC will continue to promote and encourage financial institutions to participate in, sign up for or comply with international initiatives and principles related to sustainable finance.

(3)The FSC evaluated the performance of financial institutions in conducting

green finance businesses:

- A. At the TABF 10th Taiwan Banking and Finance Best Practice Awards in 2020, the “Best Green Project Financing Award” was once again given out to help spur sustainable development of green industry. In addition, in order to comply with international trends and urge financial institutions to pay attention to the environment, social responsibility and corporate governance, the “Best Social Responsibility Award” has been renamed to the “Best ESG Award.”
- B. The Securities and Futures Institute (SFI) once again listed "green finance" as one of the themes of the call for papers in the 12th Best Securities & Futures Paper Award in 2020.
- C. The TII has planned to reward selected Insurers the “Emerging Risks Protection Product Award” under the “2021 Taiwan Insurance Best Performance Award,” and set up the selection criteria in regard to promoting green insurance and performance of developing business.

III. Conclusion

The FSC has listed sustainable finance as one of its major policies, and is actively implementing the “Green Finance Action Plan 2.0” with relevant central authorities and self-regulatory organizations. The FSC is engaged in an ongoing effort to develop financial policy tools and align with international trends, in order to build a more comprehensive green and sustainable finance system and guidelines, including enhancing quality and transparency of ESG disclosure, establishing the sustainable taxonomy, and promoting data integration platforms, etc. The aims are to guide the financial sector step-by-step toward investing in and financing renewable energy projects, and then, supporting green and sustainable development. Furthermore, the Action Plan aims to assist financial institutions in building climate resilience. With the forces of financial market in

full play, it will steer and support the development of physical industries while bringing about low-carbon transformation to drive a positive cycle of sustainable finance ecosphere, and create a win-win situation for financial sector, physical industries, and society as a whole.