

1. The Bank revised *the Regulations Governing the Establishment and Administration of Foreign Currency Exchange Counters* in June 2018. These revisions mainly included: requiring the applicant to provide the responsible persons' police criminal record certificates showing no conviction record in Taiwan when applying for the establishment of foreign currency exchange counters or change of its responsible person; requiring compliance with standard operating procedures of AML/CFT; requesting to reject suspicious money laundering or terrorist financing (ML/TF) transactions; and amending terrorist financing reporting procedures.
2. In view of Recommendation 16 and assessment methodology of the FATF, the Bank amended *Directions Governing Banking Enterprises for Operating Foreign Exchange Business* in November 2018, such that upon receiving a request from the competent authorities, banks must provide the originator and beneficiary information available within three business days.

## 4.2 Measures undertaken by the FSC to maintain financial stability

From 2018 onwards, the FSC has continued promoting green financing and FinTech development, as well as paving the way for setting up internet-only banking and amending regulations relating to incentive measures for mergers of financial institutions. Additionally, the FSC has strengthened AML/CFT measures and regulatory compliance programs of financial institutions, as well as enhancing risk management and compliance effectiveness of financial institutions so as to maintain financial stability.

### 4.2.1 Strengthening Taiwan's AML/CFT measures

In response to the mutual evaluations of the APG and to fully align with the 40 Recommendations of the FATF, the FSC has introduced amendments to the related regulations:

1. In November 2018, the FSC amended the *Regulations Governing Anti-Money Laundering of Financial Institutions*. With regard to the regulation on customer due diligence for occasional transactions, the existing requirement applicable to cash transactions exceeding certain amounts has been amended to be not limited to cash transactions only. Moreover, suspected ML/TF transactions shall be filed promptly after approval by the responsible chief compliance officer at the institution, and the report shall be filed within two business days after the approval.

2. The FSC promulgated three regulations in November 2018, through amendments that made the “directions” governing AML/CFT internal control systems of financial institutions into “regulations”. The main contents of the regulations cover internal control and auditing systems for AML/CFT, ML/TF risk assessment, appointment of dedicated chief compliance officers and unit establishment.

#### **4.2.2 Enhancing risk management, corporate governance and legal compliance of the financial industry**

1. In October 2018, the FSC amended related regulations governing qualification requirements, concurrent serving restrictions and matters for compliance by the responsible persons of banks, as well as founders or responsible persons of financial holding companies. The amendments added the provisions for implementing non-compete clauses and raised the required proportion of professional natural person directors on the board of directors of financial institutions. Moreover, the FSC urged each industry’s association to revise corporate governance best-practice principles, and stipulated term limits for independent board directors of financial institutions.
2. The FSC required 36 domestic banks to conduct stress tests in 2018, applying the methodology adopted by advanced economies and including two-year period stress tests for the first time. The results of the overall stress tests revealed that in both mild and relatively serious scenarios, capital adequacy related ratios of domestic banks were all higher than the minimum requirements, showing that banks still have strong capacity to bear risks.
3. In April 2019, the FSC amended the *Banking Act* and the *Securities and Exchange Act* in order to strengthen regulatory compliance of the financial industry. The amendments raised the maximum fine for violating regulations and posing a hindrance to financial examinations, as well as adding regulations governing prohibition of conflicts of interest for responsible persons of banks.

#### **4.2.3 Continually reinforcing the insurance industry’s risk management**

1. In November 2018, to strengthen insurance companies’ management of FX-related risk associated with their overseas investments, the FSC amended the relevant requirements that the total amount of investments in international bonds plus foreign investments of insurance companies shall not exceed 145% of its approved foreign investment.

2. In order to further strengthen the mechanisms for FX valuation reserves held by life insurance companies, the FSC introduced the amendments to related directives in January 2019. The amendments required life insurance companies to raise the monthly fixed setting ratio of reserves set aside from 0.05% to 0.06%, and to raise both the monthly additional reserve setting ratio and the monthly additional offsetting ratio from 50% to 60% when the hedging cost in the foreign exchange market reaches 2% or more.

#### **4.2.4 Strengthening mechanism for whistleblower and InfoSec of financial industry**

1. In March and May 2018, the FSC amended the related rules governing internal control and auditing systems of financial holding companies, as well as banking, insurance, and securities and futures industries. The amendments required those financial institutions to establish an internal whistleblower mechanism and designate an independent unit to take charge of review and investigation of reported cases.
2. The FSC urged each industry's association to review and establish self-disciplinary regulations of InfoSec and required financial institutions to establish an InfoSec unit and appoint a chief officer to take charge of InfoSec activities. Moreover, the FSC set up the F-ISAC with the aim of building a joint financial defense system for InfoSec in Taiwan.

#### **4.2.5 Promoting risk-based internal audit system**

To urge internal auditors of financial institutions to focus on primary risks and conduct audits in depth, the FSC has approved the adoption of risk-based internal audit systems at 10 domestic banks. Additionally, the FSC encouraged large domestic banks to actively adopt this system, with a step-by-step plan divided into two stages according to asset scale.