

4.2 Measures undertaken by the FSC to maintain financial stability

From 2017 onwards, the FSC has continued promoting green financing and building a digital financial environment, as well as encouraging the development of FinTech and supporting industries to realize new business opportunities under the government's New Southbound Policy. Additionally, the FSC has strengthened financial supervision and risk management of financial institutions so as to maintain financial stability.

4.2.1 Strengthening Taiwan's AML/CFT measures

1. To enhance Taiwan's AML/CFT mechanisms and to prepare Taiwan for the *Mutual Evaluation* by the APG in November 2018, the FSC has introduced amendments to the related regulations:
 - (1) In May and August 2017, the FSC amended the rules governing OBUs, offshore securities units (OSUs) and offshore insurance units (OIUs), requiring them to perform customer due diligence and incorporate relevant schemes into their internal control and audit systems according to the regulations related to money laundering, as well as industry codes issued by each industry's association.
 - (2) The FSC completed and put the *Regulations Governing Anti-Money Laundering of Financial Institutions* into effect in June 2017. The directions governing internal control systems of AML/CFT of the banking sector, securities and futures industry, as well as the insurance industry were also amended in line with the contents of the aforementioned regulations.
2. The FSC has brought the compliance with AML/CFT regulations into its financial examination focus. The FSC will strengthen financial inspection and urge financial institutions to remedy deficiencies found during examinations.

4.2.2 Persistently enhancing risk management of the banking industry and financial holding companies

1. To enhance banks' risk management of financial derivatives and to protect customers' interests, the FSC introduced amendments to the regulations in May 2017 and February 2018, requiring banks to conduct better "Know Your Customer" procedures and evaluation of customer attributes and control of structured product transactions.

2. The FSC amended the *Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries* in March 2018. The key amendments were as follows: (1) requiring big banks⁷⁰ to set up legal compliance units; (2) stipulating that banks should establish an InfoSec unit and appoint a delegate in charge of InfoSec activities; and (3) requiring financial holding companies and banks to establish an internal whistleblower mechanism.
3. In November 2017, to reinforce the supervisory mechanisms relating to financial holding companies and banks reinvesting in their financial leasing subsidiaries, the FSC required them to establish supervision and management mechanisms and to ensure full implementation of such mechanisms.

4.2.3 Continually reinforcing the insurance industry's risk management and risk-bearing abilities

1. In June 2017, the FSC amended the *Regulations Governing Foreign Investments by Insurance Companies* in order to address insurers' maturity mismatch between assets and liabilities. The amendments require that insurance companies can only invest in callable international bonds that may be redeemed no less than five years from the issue date. For such callable bonds traded in the secondary market, insurance companies can only purchase those that will be redeemed no less than three years after the settlement date.
2. In January 2018, the FSC amended the mechanisms for FX valuation reserves held by life insurance companies. The amendments include: (1) increasing the fixed percentage that shall be set aside for monthly reserves to 0.05%; (2) changing the calculation formula for minimum reserve requirements after FX loss offsetting; (3) raising the valuation change reserves ratio to 75% when the reserves decrease to the minimum level for three consecutive months until the actual reserves recover to more than three times the minimum reserve requirements.

4.2.4 Urging banks to enhance credit checking and post-loan management of syndicated loans

The FSC required banks to strengthen credit checking and loan management of syndicated loans, including: (1) reinforcing credit investigation and financial analysis prior to providing a loan; (2) strengthening the evaluation of each customer's working capital gap and own funds; (3) verifying transaction authenticity and capital flows; (4) fully carrying out post-loan management; and (5) establishing borrower's early warning mechanism.

⁷⁰ Big banks include those with total assets of the previous year over NT\$1 trillion as audited by a CPA.

4.2.5 Constantly making efforts to establish mechanism for reinforcing management of InfoSec in financial markets

In view of Fintech development and InfoSec incidents that have taken place at home and abroad, the FSC urged financial institutions to strengthen the management of InfoSec in 2017. The measures included reporting the results of InfoSec execution to the board of directors on an annual basis and promoting the integration of financial supervision and InfoSec. Moreover, the FSC conducted InfoSec targeted examinations focusing on both digital financial services and their SWIFT systems, and required financial industry associations to review relevant InfoSec rules and guidelines.