

Content

Title :	Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt Ch
Date :	2013.12.04
Legislative :	<ol style="list-style-type: none">1. Full text of 18 articles adopted and promulgated on 9 April 20022. Full text of 18 articles amended and issued 7 March 2005 per Order No. Jin-Kuan-Yin-(IV)-0940003623 of the Financial Supervisory Commission, Executive Yuan; for enforcement from 1 July 20053. Article 6 amended and issued on 4 December 2013
Content :	<p>Article 1</p> <p>These Regulations are adopted pursuant to Article 32 of the Act Governing Bills Finance Business.</p> <p>Article 2</p> <p>In these Regulations, "non-performing credit" means the balance of guaranteed and endorsed credit that is in arrears more than three months past the maturity date, or not yet in arrears more than three months, but for which there has been legal action for recovery against the primary debtor and secondary debtor or disposal of collateral.</p> <p>Where a credit balance is restructured for repayment in installments, with annual payment of the principal and interest over 10%, and the maximum loan period shall be 5 years, and where performance has been carried out under the agreed terms for 6 months or more at an agreed interest rate not less than the rate on new underwritings of the same maturity by the bills finance company, the credit balance may be exempted from reporting as non-performing credit. Notwithstanding the preceding, when payments under the terms of the agreement again fall into arrears for over three months during the period of non-reporting, reporting shall resume.</p> <p>"Maturity date" in paragraph 1 refers to the maturity date of commercial paper, provided that where a bills finance company makes a claim for early repayment in accordance with contract, the date thereby designated for repayment shall be the maturity date.</p> <p>Article 3</p> <p>For credit under surveillance that has not reached the maturity date but that meets the following conditions, a bills finance company shall report to the Competent Authority in accordance with Article 17:</p> <ol style="list-style-type: none">1. The borrower has applied for reorganization.2. The borrower has issued dishonored notes, or has delayed payment on debt at another financial institution, and the commercial paper issued has an interest rate lower than that of commercial paper of the same maturity issued by the bills finance company. <p>Article 4</p> <p>A bills finance company performing valuation of its on or off balance sheet</p>

non-credit assets shall estimate possible losses based on the characteristics of the assets, generally accepted accounting principles and relevant regulations, and allocate a sufficient loss reserve.

Article 5

A bills finance company performing evaluation of its on and off balance sheet credit assets shall classify normal credit assets as Class 1. The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time in arrears and classified as the following types of credit assets:

1. Class 2, "Special Mention": Where evaluation shows sufficient collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for 1 month to 12 months past the maturity date; or where evaluation shows no collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for 1 month to 3 months past the maturity date; or where the credit assets have not reached the maturity date but there are other instances of poor creditworthiness of the borrower.
2. Class 3, "Substandard": Where evaluation shows sufficient collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for over 12 months past the maturity date; or where evaluation shows no collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for a period of 3 months to 6 months past the maturity date.
3. Class 4, "Doubtful": Where evaluation shows no collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for 6 months to 12 months past the maturity date.
4. Class 5, "Losses": Where evaluation shows no collateral for the credit assets and the balance of the borrower's guaranteed or endorsed credit has been in arrears for over 12 months past the maturity date; or where evaluation shows the assets to be unrecoverable.

For credit assets restructured for installment repayment in conformance with Article 2, paragraph 2, the bills finance company may, within 6 months of establishing a separate contract, perform evaluation and categorize the credit assets based on the borrower's solvency and the status of the collateral. The bills finance company may not classify the assets under Class 1, however, and shall provide evidence to corroborate its classification.

Article 6

A bills finance company shall evaluate on and off balance sheet credit assets in accordance with the preceding article and allocate bad debt allowance and reserve for guarantee liabilities that, based on empirical principles, will be sufficient to offset possible losses. The minimum standard for allocation shall be the sum of 1 percent of the balance of Class 1 credit assets (excluding assets that represent claims against an ROC government agency), 2 percent of the balance of Class 2 credit assets, 10 percent of the balance of Class 3 credit assets, 50 percent of the balance of Class 4 credit assets, and the full balance of Class 5 credit assets.

Article 7

When evaluation by the Competent Authority or designated professional or technical personnel finds that the loss reserves, bad debt allowances and reserves for guarantee liabilities set aside a bills finance company in accordance with Articles 4 to 6 are insufficient, the bills finance company shall supplement those reserves within the deadline prescribed by the Competent Authority.

Article 8

Non-performing credit that has not been repaid more than six months after the maturity date shall be listed on the balance sheet under the non-accrual credit account title, provided that credit balances that have been restructured for installment payment pursuant to Article 2, paragraph 2, where performance is proceeding according to contract, are not subject to this requirement.

Article 9

A bills finance company shall actively clear up non-performing credit and non-accrual credit in accordance with the following provisions:

1. After a bills finance company evaluates the debtor's financial and business condition and finds that it remains operationally viable, it may amend the repayment terms of the original credit agreement in view of the credit balance outstanding and report the amendment to the managing directors or board of directors for recordation.
2. Non-performing credit and non-accrual credit shall be actively cleared up in accordance with the Code of Civil Procedure, the Compulsory Execution Act and other relevant laws and regulations, provided that credit balances that have been restructured for installment payment are not subject to this restriction.
3. If the primary and secondary debtors are found through evaluation to be unable to make full repayment, the bills finance company may formulate a settlement proposal and report it to the managing directors or board of directors for approval.

Article 10

The bills finance company shall cease calculating the interest income recorded on its books with respect to non-performing and non-accrual credit and continue collection efforts as per the terms of the agreement; a notation of accrued interest shall be made in the interest column in each individual borrower's account, or a memorandum entry shall be made.

Article 11

When any of the following circumstances applies to non-performing or non-accrual credit, the credit shall be written off as bad debt after deduction of the estimated recoverable portion:

1. All or part of the debt is unrecoverable due to the dissolution, flight, settlement, or bankruptcy of the debtor or other reason.
2. The debt cannot be repaid, or no financial benefit would accrue from execution after deduction of senior mortgages on the collateral and the

property of the primary and secondary debtor.

3. Where there no buyers for the collateral and the property of the primary and secondary debtor after being auctioned at successively lower prices, and their assumption would bring no financial benefit for the bills finance company.

4. More than two years have elapsed since the maturity date of the non-performing or non-accrual credit and collection efforts have failed.

Where less than two years have elapsed since the maturity date of non-performing or non-accrual credit and collection has not resulted in recovery, it may be written off as bad debt after deduction of any recoverable portion.

Any uncollateralized non-performing or non-accrual credit shall be written off as bad debt within six months after the maturity date, provided that this requirement shall not apply when it can be proven that a claim against the property of the primary or secondary debtor would yield benefit.

Article 12

The write-off of non-performing or non-accrual credit shall be authorized by a resolution passed by the board of directors, with notification to the supervisors. Credit must be written off immediately, however, when the Competent Authority so requests, and reported at the subsequent board meeting, with notification to the supervisors for recordation. When the board of directors is in recess, the board of managing directors may exercise authority on its behalf, and shall notify the supervisors and report the matter to the board of directors for recordation.

The provisions of the preceding paragraph shall require the concurrence of three-fourths of the directors present at a meeting of the board with a two-thirds quorum if the amount of the credit, either when credit was extended or when written off as bad debt, was at or above the amount prescribed by the mutatis mutandis application of Article 33 of the Banking Act under Article 49 of the Act Governing Bills Finance Business.

Article 13

When writing off non-performing or non-accrual credit, amounts provided under bad debt allowance or reserves for guarantee liabilities shall first be used to offset the loan. When those are insufficient, [the remainder] may be recognized as a current-year loss.

Article 14

A bills finance company shall establish an internal management system and procedures for evaluations, provision of loss reserves, liquidation of non-performing and non-accrual credit, and writing off of bad debt, which shall be reported to the board of directors for passage and submitted to the Competent Authority for recordation; the same shall apply to any amendment thereto. The management system and procedures shall include at least the following:

1. Evaluation and classification of assets.
2. Policies governing provision of bad debt allowances and loss reserves.
3. Measures to be adopted with respect to non-performing and non-accrual credit.

4. Rules governing collection procedures.
5. Rules governing procedures for amending original credit repayment terms of non-performing and non-accrual credit and establishing settlement procedures and authorization.
6. Accounting treatment of non-performing and non-accrual credit and write-off of bad debt.
7. Accounting treatment of debt to be pursued and recovery of such debt.
8. Key points used by the auditors when conducting an audit.
9. Internal responsibilities and measures for discipline and reward.

Article 15

When writing off non-performing or non-accrual credit, a bills finance company shall investigate whether, at the time of the credit extension, it was made in accordance with applicable laws and regulations and the internal rules of the bills finance company. If it finds breach of duty or unlawful conduct, the bills finance company shall assess the matter and take disciplinary measures according to the level of responsibility and the circumstances of the authorization, or report the matter to the prosecutorial authority for investigation.

Article 16

When non-performing or non-accrual credit is written off as bad debt in accordance with these Regulations, the debt to be pursued shall be entered in the balance sheet, and a detailed entry made for reference in the relevant register books. If it is discovered that the primary or secondary debtor has executable property, it shall be pursued in accordance with the law.

When evaluation shows the debt to be pursued under the preceding paragraph is unrecoverable, the debt may, with the approval of the board of directors or the board of managing directors, be exempted from balance sheet listing, and a detailed entry shall be made for reference in the relevant accounting register book.

Article 17

Prior to the 15th of each month, a bills finance company shall fill out a report, in conformance with the formatting and content required by the Competent Authority, on the non-performing credit, credit under surveillance, and writing off of bad debt as of the previous month's end, and submit the report to the Competent Authority or an agency designated by it.

Prior to the 15th of the month that follows the end of each quarter, a bills finance company shall report to the Competent Authority an asset evaluation statement and information on provision of bad debt allowances and reserves.

Article 18

These Regulations shall enter into force from the date of issuance.

The articles of these Regulations amended and issued on _____ shall enter into force from 1 July 2005.