

## Content

Title :	Regulations Governing Foreign Investments by Insurance Companies <b>Ch</b>
Date :	2019.12.31
Legislative :	Amended on 31 December 2019 per Order No. Jin-Guan-Bao-Cai-Zi- 10804964191 of the Financial Supervisory Commission
Content :	<p>Article 2 Definitions of the phases referred to herein are as follows:</p> <ol style="list-style-type: none"> <li>1. "Foreign government" means the central government and local government of a foreign country.</li> <li>2. "Foreign bank" means a foreign bank which is ranked among the world' s top five hundred banks in terms of its capital or assets or has established a branch within the territory of the Republic of China ( "ROC").</li> <li>3. "Foreign credit rating agencies" mean Moody' s Investors Service, Standard &amp; Poor's Corp. and Fitch Ratings Ltd.</li> <li>4. "Local credit rating agencies" mean Taiwan Ratings Corp. and Fitch Ratings Ltd., Taiwan Branch.</li> <li>5. "Overseas and Mainland China area real property" means the land in a foreign country and Mainland China area and any buildings thereon, the right to the yields from such land or the right to develop such land and construct buildings thereon.</li> <li>6. "Relationships of control and affiliation" have the same meaning as in Articles 369-2 and 369-3 of the Company Act and Article 6 of the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises.</li> <li>7. Major sanctions and penalties mean major sanctions and penalties specified in Subparagraph 1 to Subparagraph 12 of Article 2 of the Financial Supervisory Commission Regulations on the Publication of Material Penalties for Violations of Finance Laws or a fine of at least three times the minimum statutory amount for a single violation specified in Subparagraph 13.</li> </ol> <p>The total amount of the investment items as referred to as being rated by foreign credit rating agencies under these Regulations is calculated in the following manner:</p> <ol style="list-style-type: none"> <li>1. In cases where the rating level of such investment is above the minimum credit rating level as set forth hereunder, the total amount of the investment shall be calculated based on the amount of investment that remains at a certain level when or after the investment is made as well as the amount of the investment that is upgraded or downgraded after the investment;</li> <li>2. Save as otherwise provided in the preceding paragraph, in cases where such investment meets the minimum credit rating level set forth hereunder, the total amount of investment shall also include the total amount of investment downgraded under a certain rating level after the investment; provided that, however, if such investment is downgraded to a certain rating level that is not permitted hereunder, such investment shall be handled in accordance with the relevant insurance laws and regulations.</li> </ol> <p>If no bond issuance ratings are available for meeting the requirements for the credit rating of the bond specified in Subparagraph 1 of Paragraph 1, Item 1 to Item 3 of Subparagraph 1 of Paragraph 4, and Paragraph 7 of Article 6, Subparagraph 1 to Subparagraph 3 of Paragraph 2 and Subparagraph 3 of Paragraph 3 of Article 7, Paragraph 1 of Article 10, and Subparagraph 1 of Paragraph 1 of Article 17, the credit rating of the issuance or guarantee institution from a foreign credit rating agency shall be used instead.</p> <p>Article 3 Foreign investments made by an insurer shall be restricted to the following:</p> <ol style="list-style-type: none"> <li>1. Foreign exchange deposit;</li> </ol>

2. Foreign securities;
3. Foreign-currency loans;
4. Financial derivatives;
5. Overseas real properties;
6. Establishment of or investment in foreign insurance companies, insurance agency companies, insurance brokerage companies or other insurance-related enterprises approved by the competent authority;
7. Major investment projects approved by the Executive Yuan and launched in coordination with the economic development policies of the government; and
8. Other projects approved by the competent authority to use the fund of the insurer.

Where an insurer has established credit evaluation and loan approval procedures as well as risk management rules in accordance with the self-governance regulations set out by the insurance association and filed with the competent authority for reference, and such procedures and management rules have been approved by its board of directors, the insurer, in addition to making foreign-currency loans secured by foreign-currency life policy underwritten by it in accordance with these Regulations and applicable regulations of the Central Bank, may only act as a participating bank in the following secured foreign-currency syndicated loans where the arranger of the loan has a credit rating equivalent to BBB+ or above from a foreign credit rating agency after obtaining prior approval of the Central Bank of the Republic of China (Taiwan) (referred to as the "Central Bank" hereunder):

1. Loans guaranteed by a foreign central government or foreign bank listed in these Regulations or a domestic/foreign financial institution with a credit rating equivalent to A- or above, or loans guaranteed by an international organization or a multilateral development bank to which 50% risk weight or lower applies to its exposure as assessed in accordance with the guidelines set out by the Basel Committee on Banking Supervision.
2. Loans secured by real property.
3. Loans secured by aircraft or ship.
4. Loans pledged by qualified securities as provided in Article 5 herein.

The total outstanding balance of loans made by an insurer under Subparagraph 3 of Paragraph 1 hereof plus loans made under Subparagraph 1 to Subparagraph 3 of Paragraph 1, Article 146-3 of the Act shall not exceed 35% of the insurer's funds.

For loans under Subparagraph 3 of Paragraph 1 hereof made by an insurer, Paragraph 3, Article 146-3 and Paragraph 1, Article 146-7 of the Act shall apply mutatis mutandis to their terms and conditions and limits.

The combined total of an insurer's investment in the stocks and corporate bonds of a company in accordance with Article 5 herein and the loans made by the insurer to the same company that are secured by the stocks and corporate bonds issued by the company in accordance with Subparagraph 4 of Paragraph 2 hereof shall not exceed 5% of the insurer's funds or 10% of the owners' equity of the issuing company.

An insurer shall carry out evaluation of asset quality, resolution of overdue loans and non-accrual loans, and write-off of bad debt for its foreign-currency loan assets in accordance with the Regulations for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises.

When conducting the derivatives transactions referred to in Subparagraph 4 of Paragraph 1 hereof, an insurer shall comply with the provisions of the Regulations Governing Financial Derivatives Transactions Conducted by Insurance Companies.

An insurer shall observe the self-governance regulations set out by the insurance association in making foreign investments.

Article 5 An insurer's funds may be allocated as investment to the following types of foreign securities:

1. Government bonds or treasury bills issued by foreign central governments; and bonds issued by institutions of such governments;
2. Bonds issued or guaranteed by foreign local governments; and bonds issued or guaranteed by institutions of such governments;
3. Financial bonds, negotiable certificates of deposit, medium-term floating rate notes issued or guaranteed by a foreign bank;

4. Foreign currency denominated negotiable certificates of deposit issued by a branch (including offshore banking units) of a foreign bank in Taiwan or a branch of a Mainland China bank in Taiwan;
5. Foreign currency denominated financial bonds or negotiable certificates of deposit issued by a domestic bank;
6. Foreign currency denominated corporate bonds issued by a domestic enterprise;
7. Foreign currency denominated commercial papers;
8. Listed or over-the-counter certificates of foreign stocks or bonds;
9. Securities representing interests in offshore funds;
10. Securitized asset-backed products;
11. Bonds issued by international organizations;
12. Foreign currency denominated listed or over-the-counter certificates of domestic stocks, bonds or Islamic fixed income securities( Hereinafter referred to as Sukuk);
13. Private placement of corporate bonds issued by a foreign listed company for trading in markets outside foreign centralized trading markets or OTC markets; and
14. Other securities approved by the competent authority.

Article 6 Where an insurer invests in the bonds issued by foreign central government related issuers mentioned in Subparagraph 1 of the preceding article, the investment shall be subject to the following conditions and limits:

1. The institution of the foreign central government shall have a rating of at least medium or its equivalent in terms of the level of support from the central government as determined by a foreign credit rating agency. In addition, the credit rating of the issuance of the bond shall have a rating of AA- or its equivalent from a foreign credit rating agency.

2. An insurer' s investment in bonds issued by an institution of a foreign central government shall not exceed 5% of the insurer' s funds.

An insurer' s investment in bonds issued or guaranteed by a foreign local government mentioned in Subparagraph 2 of the preceding article shall be subject to the following conditions and limits:

1. The bond shall have an issue rating equivalent to A- or above from a foreign credit rating agency, and the country the local government belongs to shall have a sovereign rating equivalent to AA- or above from a foreign credit rating agency.

2. The total amount of investment in bonds issued or guaranteed by a single foreign local government shall not exceed 5% of the insurer' s approved foreign investment limit.

An insurer' s investment in bonds issued or guaranteed by institutions of foreign local governments mentioned in Subparagraph 2 of the preceding article shall be subject to the following conditions and limits:

1. The institution of the foreign local government must be established and funded by the local government for the performance of public services or established with a special permit in accordance with laws. The appointment of its personnel, finances, or business management shall be directly or indirectly controlled by the local government. Funds gained from the institution's performance of public services or designated source of income of the institution shall be used as the source of funding for the repayment of debts.

2. The issuance and trading of the bonds and information disclosure shall meet related regulations established by the competent authority of securities in the respective countries of the issuers or other authorities established in accordance with securities laws of the country that are under the supervision of the competent authorities responsible for securities.

3. The bond shall have a rating of at least A- or its equivalent as determined by a foreign credit rating agency. The country the local government related issuers belongs to shall have a sovereign rating equivalent to AA- or above from a foreign credit rating agency.

4. An insurer' s total investment in bonds issued or guaranteed by institutions of each foreign local government plus the total investment in bonds issued or guaranteed by the same foreign local government shall not exceed 5% of the insurer' s approved foreign investment limit.

An insurer's investment in financial bonds, negotiable certificates of deposit or medium-term floating rate notes issued or guaranteed by a foreign bank shall be subject to the following conditions and limits:

1. Investment conditions:

(1) The bond issuer or guarantor shall have a credit rating equivalent to BBB+ or above from a foreign credit rating agency, unless the provisions of Items (2) or (3) hereof are met.

(2) An insurer that meets the following conditions may invest in bonds having a credit rating equivalent to BBB- or BB+ from a foreign credit rating agency:

A. The insurer was not subject to any major sanctions and penalties for violation of the Act in relation to foreign investment in the most recent year, or remedial actions for the violation, if any, have been taken and affirmed by the competent authority;

B. The insurer has set up a risk management committee under its board of directors and set up a risk management department with a chief risk officer appointed to assume de facto responsibility for the overall risk management of the company;

C. The board of directors sets risk exposure limits annually and such limits are regularly controlled by the risk management committee or risk management department; and

D. The insurer's risk-based capital ratio for the most recent period reaches 250% or above, or the insurer has a credit rating equivalent to AA or above from a local or foreign credit rating agency in the most recent year.

(3) An insurer whose risk-based capital ratio for the most recent period reaches 200% or above and meeting the conditions set out in Sub-items A and B of Item (2) hereof may invest in bonds having a credit rating equivalent to BBB from a foreign credit rating agency.

(4) Where an insurer invests in subordinated bonds, the credit rating of such bonds set out in the preceding three items may not be replaced by the credit rating on the issuance or guarantee bank of the bond from a foreign credit rating agency.

2. Investment limits:

(1) The total amount of investment in subordinated bonds having an issue rating equivalent to BB+ from a foreign credit rating agency shall not exceed 2% of the insurer's approved foreign investment limit.

(2) The total amount of investment in subordinated bonds having an issue rating equivalent to BBB to BB+ from a foreign credit rating agency shall not exceed 7.5% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher. However, where the insurer obtains approval from the competent authority based on the proviso in Article 16, Paragraph 1 and the total amount of foreign securities mentioned in the preceding article that are put under the custody of Taiwan Depository & Clearing Corporation(hereinafter referred to as TDCC), domestic financial institutions, and branches of foreign financial institutions in Taiwan having a credit rating equivalent to A- or above from a local or foreign credit rating agency in the most recent year does not reach a certain percentage of the total amount of investment in foreign securities mentioned in the preceding article, the insurer shall observe the following provisions:

A. If the percentage of foreign securities under custody is less than 30% , the total amount of investment shall not exceed 6% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher.

B. If the percentage of foreign securities under custody is 30% or higher and less than 50%, the total amount of investment shall not exceed 7% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher.

(3) The total amount of investment in bonds and negotiable certificates of deposit issued or guaranteed by a single bank in combination with the total amount of investment in the stocks mentioned in Paragraph 1 of Article 7 herein issued by the same bank shall not exceed 5% of the insurer's funds and 10% of the owners' equity of the issuing bank.

(4) The total amount of investment in subordinated bonds having an issue rating equivalent to BBB, BBB- or BB+ from a foreign credit rating agency

and issued or guaranteed by a single bank shall not exceed 10% of the insurer's owners' equity.

An insurer's total amount of investment in foreign currency denominated negotiable certificates of deposit issued by a branch of a foreign bank in Taiwan (including offshore banking unit) or a branch of a Mainland China bank in Taiwan mentioned in Subparagraph 4 of the preceding article and in foreign currency denominated negotiable certificates of deposit issued by a domestic bank mentioned in Subparagraph 5 of the preceding article shall be subject to the limits specified in Paragraph 2 of Article 4 herein.

An insurer's investment in foreign currency denominated financial bonds issued by a domestic bank mentioned in Subparagraph 5 of the preceding article and in foreign currency denominated corporate bonds issued by a domestic enterprise mentioned in Subparagraph 6 of the preceding article shall be subject to the following conditions and limits:

1. Subparagraphs 2 and 4 of Paragraph 1 and Paragraph 2 of Article 146-1 of the Act shall apply mutatis mutandis to the investment conditions.

2. The investment amount shall be subject to the limits set out in Subparagraphs 2 and 4 of Paragraph 1 and Paragraph 2 of Article 146-1 of the Act.

An insurer's investment in foreign currency denominated commercial papers mentioned in Subparagraph 7 of the preceding article shall be subject to the condition that such commercial papers shall have a credit rating equivalent to BBB+ or above from a foreign credit rating agency and shall be subject to the following limits:

1. The total amount of investment in foreign currency denominated commercial papers issued or guaranteed by a single company and securities as specified in Subparagraph 13 of Article 5 or under the subparagraphs of Paragraph 1 of Article 7 herein which are issued or guaranteed by the same company shall not exceed 5% of the insurer's funds and 10% of the owners' equity of the issuing company, unless the provision of Subparagraph 2 hereof is met.

2. If the corporate bonds and commercial papers issued or guaranteed by a company are guaranteed by a third party and meet the following conditions, the total amount of investment in foreign currency denominated commercial papers issued or guaranteed by such company, as well as those issued or guaranteed by the third party, and securities mentioned as specified in Subparagraph 13 of Article 5 or under the subparagraphs of Paragraph 1 of Article 7 herein which are issued or guaranteed by such company and the third party shall not exceed 5% of the insurer's funds and 10% of the owners' equity of the third party:

(1) The third party and the company have prepared consolidated financial statements in accordance with generally accepted accounting principles (GAAP).

(2) The owners' equity of the third party exceeds that of the company.

Article 7 The listed or over-the-counter certificates of foreign stocks or bonds referred to in Subparagraph 8 of Article 5 herein include:

1. Stocks;
2. Initial public offerings of stocks;
3. Corporate bonds;
4. Depositary receipts, convertible bonds and corporate bonds with warrants issued by non-domestic enterprises.

An insurer's investment in the aforementioned corporate bonds, convertible bonds or corporate bonds with warrants issued by a non-domestic enterprise shall be subject to the following conditions:

1. The bonds shall have a credit rating equivalent to BBB+ or above from a foreign credit rating agency, unless the provisions of Subparagraphs 2 or 3 hereof are met.

2. An insurer that meets the following conditions set out in Sub-items A to D, Item (2), Subparagraph 1, Paragraph 4 of the preceding article may invest in bonds having a credit rating of BBB-, BB+, or its equivalent from a foreign credit rating agency. However, where there is no bond issue rating, it shall be replaced with the credit rating of the issuance or guarantee institution in accordance with Paragraph 3 of Article 2. Where the credit rating of the issuance or guarantee institution is BB+ or its equivalent, the issuance or guarantee institution must be one that has been

reviewed and qualified and announced by the insurance association in accordance with its standards and reported to the competent authority for recordation.

3. An insurer whose risk-based capital ratio for the most recent period reaches 200% or above and meeting the conditions set out in Sub-items A and B of Item (2), Subparagraph 1, Paragraph 4 of the preceding article may invest in bonds issued or guaranteed by a company having a credit rating equivalent to BBB from a foreign credit rating agency.

4. Where an insurer invests in subordinated bonds, the credit rating of such bonds set out in the preceding three Subparagraphs may not be replaced by the credit rating on the issuance or guarantee institution of the bond from a foreign credit rating agency.

An insurer's investment in securities specified in the preceding two paragraphs shall be subject to the following limits:

1. The total amount of investment in bonds with an issuance credit rating of BB+ or its equivalent from a foreign credit rating agency shall not exceed 2% of the insurer's approved foreign investment limit.

2. The total amount of investment in bonds mentioned in Subparagraphs 2 and 3 of the preceding paragraph shall not exceed 7.5% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher. However, where the insurer obtains approval from the competent authority based on the proviso in Article 16, Paragraph 1 and the total amount of foreign securities mentioned in the Article 5 that are put under the custody of TDCC, domestic financial institutions, and branches of foreign financial institutions in Taiwan having a credit rating equivalent to A- or above from a local or foreign credit rating agency in the most recent year does not reach a certain percentage of the total amount of investment in foreign securities mentioned in the Article 5, the insurer shall observe the following provisions:

(1) If the percentage of foreign securities under custody is less than 30%, the total amount of investment shall not exceed 6% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher.

(2) If the percentage of foreign securities under custody is 30% or higher and less than 50%, the total amount of investment shall not exceed 7% of the insurer's approved foreign investment limit or 30% of its owners' equity, whichever is higher.

3. Where an insurer invests in convertible bonds and corporate bonds with warrants having a credit rating equivalent to BBB+ to BB+ from a foreign credit rating agency, the amount and conditions of the abovementioned investments shall comply with Article 17 herein.

4. Paragraph 7 of the preceding article shall apply mutatis mutandis to the total amount an insurer may invest in the securities of a single company.

5. The total amount of an insurer's investment in accordance with the preceding paragraph in corporate bonds as well as convertible bonds and corporate bonds with warrants issued or guaranteed by a single company having a credit rating equivalent to BBB, BBB- or BB+ from a foreign credit rating agency shall not exceed 10% of the insurer's owners' equity.

6. The total amount of an insurer's investment in the securities specified in Subparagraphs 1, 2 and 4 of Paragraph 1 herein shall not exceed 40% of the insurer's approved foreign investment limit imposed in accordance with Article 146-4 of the Act.

Article 8 The securities representing interests in offshore funds referred to in Subparagraph 9 of Article 5 include:

1. Securities investment funds;
2. Index funds;
3. Exchange-traded funds;
4. Real estate investment trust funds;
5. Hedge funds;
6. Privately offered funds;
7. Infrastructure funds; and
8. Commodity funds.

Where an insurer invests in the securities representing interests in offshore funds, the total amount thereof shall not exceed 40% of the approved foreign investment limit imposed in accordance with Article 146-4

of the Act, and the total amount of investment in a single fund prescribed in the preceding Subparagraphs 1 to 4, 7 and 8 shall not exceed 5% of the insurer's funds and 10% of the total amount of the shares issued by the fund.

An insurer's investment in hedge funds and privately offered funds referred to in Subparagraphs 5 and 6 of Paragraph 1 of this Article shall be subject to the following limits and conditions:

1. The total amount of such investment plus the securities specified in Subparagraph 13 of Article 5 shall not exceed 2% of the insurer's funds. However, where the insurer files an application in accordance with Articles 15, Paragraph 4, Subparagraph 5 and the competent authority approves that its foreign investment limit may exceed 40% of its funds, the aforementioned total investment may not exceed 3% of its funds.

2. The total investment in a single fund shall not exceed 10% of the total amount of the shares issued by such fund.

3. Where the total investment in a single fund exceeds 0.05% of the insurer's funds, prior approval of the direct board of the insurer shall be required. The aforesaid limit on investment in a single fund is less than NT\$100 million, the limit may be set at NT\$100 million.

4. An insurer's investment in hedge funds shall be restricted to those administrated by fund management institutions with a sovereign credit rating of at least A+ or its equivalent from foreign credit rating agencies and registered in competent authorities of countries or regions that are signatories of the International Organization of Securities Commissions (IOSCO)'s Multilateral MOU (MMoU). The fund management institutions shall have engaged in management of hedge fund for at least two years and with no less than US\$200 million or equivalent of hedge fund assets under the management thereof.

5. An insurer's investment in privately offered funds shall be restricted to those administrated by fund management institutions with a sovereign credit rating of at least A+ or its equivalent from foreign credit rating agencies and registered in competent authorities of countries or regions that are signatories of the International Organization of Securities Commissions (IOSCO)'s Multilateral MOU (MMoU). The fund management institutions shall have engaged in management of such funds for at least five years and with no less than US\$500 million or equivalent of fund assets under the management thereof. However, these restrictions shall not apply in the following circumstances:

(1) The fund management institutions, approved by competent authority as the investment business of our domestic financial holding companies, directly or indirectly register in overseas countries, engage in fund management business.

(2) The domestic fund management institutions have a recommendation letter from the authority of venture capital business for part or all of the venture capital businesses managed by them or the domestic securities investment trust authorized by the competent authority uses its own capital to invest in a subsidiary which serves as a general partner of the private equity fund, and the insurer has drawn up the standards for selecting domestic fund management institutions and such standards have been approved by its board of directors.

Where an insurer invests in a fund of funds which holds a portfolio of the funds listed in Paragraph 1 of this Article, such investment shall comply with the provisions for each type of funds involved.

The indices tracked by the index funds referred to in Subparagraph 2 of Paragraph 1 of this article shall be announced by the competent authority. The privately offered fund mentioned in Subparagraph 6 of Paragraph 1 hereof means a privately offered fund that invests in private equity, private debt and real estate.

Where an insurer invests in the funds specified in Subparagraphs 5 to 8 of Paragraph 1 of this article, the amount and conditions of such investment shall comply with the provisions of Article 17.

Article 10 Where an insurer invests in the bonds issued by international organizations referred to in Subparagraph 11 of Article 5, such bonds shall have a credit rating equivalent to A- or above from the foreign credit rating agencies. The total investment in the bonds issued by each

international organization shall not exceed 5% of the insurer's funds. An insurer's investment in foreign currency denominated certificates of stocks, bonds or Sukuk listed or traded over-the-counter on the domestic securities market mentioned in Subparagraph 12 of Article 5 shall be subject to the following conditions and limits:

1. Investment conditions:

(1) Based on the type of stock certificate, bond or Sukuk invested, the investment shall comply with the conditions set out in Paragraphs 1, Paragraphs 1, 2, 4, 6 and 7 of Article 6, Paragraph 2 of Article 7 and Paragraph 2 of Article 17 herein.

(2) For investment in bonds with covenants that the issuer may redeem the bond after a certain period of time, that period of time shall not be less than 5 years from the date of issue; for bonds acquired in the secondary market, the duration from the date of transaction settlement to the end of that period of time shall not be less than 3 years. The preceding provision does not apply to bonds already invested by the insurer before the amendment of these Regulations is implemented.

(3) For bonds that may be redeemed as specified in the preceding item, the redemption price shall be determined by the following two items, whichever is higher, and they shall not be subject to the regulations in the preceding item:

A. Face value of the bond plus interest receivable.

B. Sum of undistributed interest and principal in the period from the redemption to the maturity date after discount.

2. Investment limits:

(1) The total investment amount plus the foreign investment amount included in the limit for foreign investments shall not exceed 145% of the insurer's approved foreign investment limit. However, if the aforementioned total amount of the insurer has exceeded the limit prior to the promulgation of the amended Regulations, no additional investments in the securities mentioned in Subparagraph 12 of Article 5 shall be permitted.

(2) The amount of the investment shall be calculated, based on the type of stock certificate, bond or Sukuk invested, into respectively the limits provided in Paragraphs 1, Paragraphs 1, 2, 4, 6 and 7 of Article 6, Paragraph 3 of Article 7 and Paragraph 1 of Article 17 herein.

3. Total investments in sukuks may be calculated based on the owner's equity of the promoter. The other regulations on limits and the organization type of the issuance institution shall be applicable to the promoter.

The insurer's investment in private placement of corporate bonds as specified in Subparagraph 13 of Article 5 must be senior bonds. The credit rating of the issuance of the bond shall have a rating of BBB+ or its equivalent from a foreign credit rating agency.

Article 11 For insurer's investment in real estates overseas and those in the Mainland China area, such investment shall be limited to those that have been legally utilized and have generated profits at the time of investment and shall be subject to the following restrictions:

1. The ratio of regulator capital to risk-based capital at the end of the most recent period is at least 200%.

2. There are no major sanctions and penalties for violations of the Act in relation to foreign investment in the most recent two years and there are no major violations of the internal control procedures governing various applications of funds in the most recent two years, or rectification of those violations has been carried out and affirmed by the competent authority.

3. The board of directors shall establish a risk management committee or the company shall set up a risk management department and a chief risk officer in charge of overall risk management.

Total amount of investment as set forth in the preceding paragraph may not exceed 1% of the insurer's funds or 10% of its owners' equity.

Notwithstanding the foregoing, in cases where an insurer's risk-based capital ratio for the most recent period is above 250%, such total amount of investment may not exceed 2.5% of the insurer's funds and 40% of its owners' equity; in cases where an insurer's risk-based capital ratio for



the most recent period is above 300%, such total amount of investment may not exceed 3% of the insurer's funds and 40% of its owners' equity. The requirement that the real estate has been legally utilized and generated profits at the time of investment as set forth in paragraph 1 means that rent ratio is above 60% and meets the return on investment corresponding to the local economy.

Article 12 In cases where the board of directors of an insurer has adopted the relevant transaction procedures and risk management measures and determines the foreign currency risk limit each year for which the risk management committee or risk management department monitors periodically, such company may use its funds in items denominated in RMB. Provided that, however, the use of funds of such company in relation to government or corporate securities is limited to the following items and the risk-based capital ratio of the most recent period at the time of the investment shall be at least 200%, and there is no situation as listed in Article 17, paragraph 2, sub-paragraphs 1 and 3:

1. Government bonds and treasury bills in the Mainland China area, including those traded among banks on the bond market.
2. The stocks transacted in the centralized markets and the initial public offering (IPO) stocks before being listed in centralized market.
3. Corporate bonds and financial bonds traded on the centralized market or among banks in the Mainland China area.
4. The securities investment funds and Exchange Traded Funds (ETF) listed in the Mainland China area.
5. Transactions of financial derivatives may be engaged for hedging purposes within the actual investment amounts under Subparagraphs I to IV of this Paragraph.

The investments of government or corporate securities of the Mainland China in accordance with the previous paragraph shall satisfy the following regulations :

1. There is no situation as listed in Article 17, paragraph 2, sub-paragraphs 1 and 3.
2. Unless an insurer is permitted by the competent authority to make an investment in accordance with subparagraph 3 and 4 of the previous paragraph, where the risk-based capital ratio of the most recent period at the time of the investment does not reach 200%, the investment of an insurer shall be limited to subparagraph 1 and 5 of the previous paragraph.
3. The total amount of such investment, in accordance with the preceding subparagraph, shall not exceed 5% of the foreign investment limits approved for that insurer.

Where an insurer invests in corporate bonds or financial bonds listed under Subparagraph 3 of Paragraph 1 hereof, the credit rating of the issuance of the bond shall have a rating of BBB+ or its equivalent from a foreign credit rating agency. However, where there is no bond issue rating, the credit rating of the issuer or guarantee provider of the abovementioned bonds shall comply with the following provisions:

1. In cases of corporate bonds or financial bonds other than subordinated bonds, the credit rating of the issuer or guarantee provider from a foreign credit rating agency shall be equivalent to A- or above; and
2. In cases of subordinated corporate bonds or subordinated financial bonds, the credit rating of the issuer or guarantee provider from a foreign credit rating agency shall be equivalent to A+ or above.

The competent authority may, if necessary, restrict the investment items that the funds of an insurer may be used for as enumerated under paragraph 1.

Items of investment provided within paragraph 1, in addition to being bound by the respective conditions as provided for by the law, shall have their transaction amounts calculated respectively into each item's limit amount, conforming to the following conditions:

1. The total amount of investment in the government bonds and treasury bills in the Mainland China area shall not exceed 5% of the approved limit on foreign investment for that insurer.
2. The total amount of investment in subordinated corporate bonds and financial bonds mentioned in Subparagraph 3 of Paragraph 1 hereof shall not exceed 1% of the insurer's approved foreign investment limit.

3. The total amount of investment in the securities issued by the same corporation with attributes satisfactory to Subparagraphs 2 and 3 of Paragraph 1 shall not exceed 1% of the insurer's approved foreign investment limit and shall not exceed 10% of the owners' Equity.

4. The total amount of investment in each of the securities investment funds and exchange traded funds listed in the Mainland China area shall not exceed 1% of the insurer's approved foreign investment limit and shall not exceed 10% of the total amount already issued by that fund.

5. The grand total of investment in securities and exchange traded funds as defined under Subparagraphs 1/4 under Paragraph 1 shall not exceed 10% of the insurer's approved foreign investment limit.

An insurer shall, while utilizing funds defined under any subparagraph of Paragraph 1, faithfully comply with requirements by the laws and ordinances concerned and the internal operating norms regarding utilization of the funds. The non-life and life insurers shall, respectively pursuant to the requirements set forth in Article 11 of Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises and Article 11 of Regulations Governing Public Disclosure of Information by Life Insurance Enterprises, make disclosure to the public under the notes which should be made under the information disclosure website the total amount of the funds utilized for investment under Paragraph 1 and the profitability performance and shall keep such information renewed on a quarterly basis.

Article 13-1 To file an application to invest in an overseas banking enterprise, the insurer must meet the following requirements:

1. The insurer must meet at least one of the following requirements:
    - (1) The average risk-based capital ratio of the insurer over the most recent 3 years is above 250%.
    - (2) The owner's equity at the end of the most recent period divided by the total asset excluding separate account is above 6%.
  2. The insurer shall possess the professional capability and experience for sound operation and management of a banking enterprise.
  3. The insurer's various reserve funds amortized during the previous year must be consistent with the legal requirements.
  4. The insurer is not subject to any event that may interfere with sound operation, as determined by the competent authority, and in the immediately preceding year, the insurer has not been subject to any major sanctions and penalties by the competent authority, except if such event has been substantially improved, as determined by the competent authority.
  5. The investment is subject to the approval of the insurer's board of directors. If the insurer is a subsidiary of a financial holding company, the investment is subject to the approval of the board of directors of such financial holding company.
  6. The insurer shall establish an internal procedure related to the investment in overseas banks and the operation and management of the other businesses invested by such banks. Such procedure, including any amendment shall be implemented after approval by the insurer's board of directors. If the insurer is a subsidiary of a financial holding company, such internal procedure, including any amendment, shall be implemented after approval by the board of directors of the financial holding company.
  7. The insurer's board of directors shall establish a risk management committee or an interior risk management department and one chief risk officer shall assume responsibility for the overall risk management of the company.
  8. An effective investment management and risk control procedure shall be established and implemented after approval by the board of directors.
- When applying to invest in any overseas insurance-related enterprise other than the banking enterprise, in addition to Subparagraphs 3 to 5, Subparagraph 7 and 8 of the previous paragraph, the insurer must also meet the following requirements:
1. The insurer must meet at least one of the following requirements:
    - (1) The average risk-based capital ratio of the insurer over the most recent 3 years is above 200%.
    - (2) The owner's equity at the end of the most recent period divided by the total asset excluding separate account is above 6%.
  2. If the insurer's shareholding in the invested insurance-related

enterprise or in any business further invested by such invested business constitutes a relationship of control and affiliation as defined in the Chapter of Affiliates under the Company Act, an internal procedure related to operation and management shall be established and implemented only after approval by the insurer's board of directors. The same shall be applicable in case of any amendment.

Article 15 Where an insurer has formulated the processing procedure and risk monitoring and management measures concerning the foreign investment and obtained the approval of the board of directors, the insurer may proceed with the foreign investment within the limit of 10% of its funds. The processing procedure concerning the foreign investment according to the preceding Paragraph of this Article shall include the making of written analysis reports, the records of the implementation of the procedure, and the submittal of the review reports. Relevant documents shall be kept for at least five years.

The risk monitoring and management measures for foreign investment mentioned in the first Paragraph of this Article shall include risk management policies, risk management framework and risk management system. The risk management system shall include the identification, assessment and monitoring of the risks of foreign investments, the execution of the control over exposure limit, and the alteration procedure.

To increase the limit on foreign investment, the insurer shall submit the application form (as shown in the appendix) according to the following provisions:

1. Where the insurer complies with the following provisions, the limit on its total overseas investment may be enhanced to 25% of its funds:

(1) The insurer complies with the provisions of Paragraph 1 to Paragraph 3 of this Article.

(2) There are no major violations of the internal control procedure governing various applications of funds in the immediately preceding year, or the violations have been rectified and the rectification has been affirmed by the competent authority.

(3) According to the evaluation of a certified actuary or an external investment organization, the proposed overseas investment is beneficial to the business of the insurer.

(4) The insurer produces a complete investment handbook with instructions of risk management system.

2. Where the insurer complies with the following provisions, the limit on its total foreign investment may be enhanced to 30% of its funds:

(1) The insurer complies with the provisions of the preceding Subparagraph.

(2) In the immediately preceding year, the insurer has not been subject to any major sanctions and penalties by the competent authority, or its rectification of the violations has been done and got affirmed by the competent authority.

3. Where the insurer complies with the following provisions, the limit on its total foreign investment may be enhanced to 35% of its funds:

(1) The insurer complies with the provisions of the preceding Subparagraph.

(2) The value-at-risk of the foreign investment classified to financial assets at fair value through profit or loss, financial assets measured at fair value through other comprehensive income has been calculated, and the calculation is performed at least once a week.

(3) For the foreign investment classified to financial assets measured at amortized cost, an appropriate model has been designed to analyze, identify and quantify the associated risks and reported that the risk assessment of the situation to the board of directors at least once every half year.

(4) In the immediately preceding two years, the insurer has not been subjected to any fine or disciplinary actions by the competent authority, or the rectification of the violations has been done and got affirmed by the competent authority.

(5) In addition to set up a risk control committee under the board of directors, the insurer has also established a risk control department with an assigned chief risk controller to assume de facto responsibility for the overall risk management of the company. The scope of risk management over the foreign investment at least shall include assessment and management of associated risks and impact on the insurer's solvency.

4. The insurer which applies for increase of limit on total foreign investment to more than 35% of its funds shall comply with the following provisions:

- (1) The insurer complies with the provisions of the preceding Subparagraph.
- (2) It has been more than one year since the insurer obtained the approval for increase of the limit on total foreign investment to 35% of its funds.
- (3) The board of directors specifies the exposure limit each year and regular risk management is implemented by the risk management committee or risk management department.
- (4) The insurer's risk-based capital ratio as of the end of the most recent period reaches 250% or above, or the insurer has a AA- equivalent or higher credit rating from the foreign or local credit rating agencies in the immediately preceding year.
- (5) The insurer has not obtained any other approval for increase of the limit on total foreign investment in the current year.

5. The insurer which applies for increase of limit on total foreign investment over 40% of its funds shall comply with the following provisions:

- (1) The insurer complies with the provisions of the preceding Subparagraph.
- (2) The insurer's risk-based capital ratio, both in the most recent year and the average of the most recent 3 years, has never fallen below 250%, or the insurer has a AA+ equivalent or higher credit rating from the foreign or domestic credit rating agencies in the immediately preceding year.
- (3) The insurer has established an internal risk model to quantify the overall risk of the company.
- (4) The insurer has not obtained any other approval for increase of the limit on total foreign investment in the current year.

Calculation of "value at risk" referred to in Item (2) of Subparagraph 3 of the preceding paragraph of this Article means that on the basis of data of the samples which are taken either on a weekly basis for a minimum period of three years or on a daily basis for a minimum period of one year, with the data updated once a week at least, the value at risk for ten trading days is calculated with the confidence level set at 99% and the back testing is performed every month.

The competent authority may, in view of the business performance of the insurer, determine the exact increment in the limit referred to in Subparagraphs 4 or 5 of Paragraph 4.

The aforesaid increment shall be limited to 5% of the insurer's funds.

However, the competent authority may, in view of the overall business performance of the insurer, make proper adjustment thereto year by year.

If the product structure consolidated score of a life insurance company for the most recent year meets the criteria determined by the competent authority, one of the following measures may be adopted:

1. Within the maximum limit stipulated under Paragraph 2, Article 146-4 of the Act, the limit of overseas investment allowed under Paragraph 1 or 4 may be increased by 1% of the funds.
2. In the calculation formula under Paragraph 2, Article 15-2, 35% of various reserves for non-investment-linked life insurance business may be increased to 37%.

Article 16 An insurer may put its foreign investment assets under the custody of a custodian institution or under its own custody in accordance with the Regulations Governing Book-Entry Operations for Centrally Deposited Securities, and in addition, the custodian institution shall be TDCC or a domestic financial institution, or a branch of a foreign financial institution in Taiwan with a credit rating equivalent to A- or above from a local or foreign credit rating agency in the most recent year. However, this restriction shall not apply if it is approved by the competent authority and the insurer may appoint a foreign financial institution meeting the following requirements as the custodian:

1. Having been established for more than three years and having a branch or subsidiary in Taiwan that has been approved to conduct custody business;
2. Having a credit rating equivalent to A- or above for the most recent year from a domestic or foreign credit rating agency; and
3. A bank ranking in the world's top 500 by assets or net worth for the most recent year or an institution with more than US\$500 billion assets

under custody.

An insurer whose risk-based capital ratio for the most recent period is under 200% shall put its foreign assets under the custody of TDCC or a domestic financial institution or the branch of a foreign financial institution in Taiwan whose ratio of its capital to risk-weighted assets for the most recent period meets the regulatory requirements.

An insurer shall put its investments in foreign currency denominated listed or over-the-counter certificates of domestic stocks, bonds or Sukuk under custody in accordance with the Regulations Governing Book-Entry Operations for Centrally Deposited Securities.

An insurer with its foreign investment limit reaching 35% or higher of its funds or with its overall foreign investment reaching or above US\$1 billion shall put all its foreign securities, except those representing interests in offshore funds and those from special-purpose money trust funds conducted by financial institutions, under the custody of not more than five custodian institutions, excluding TDCC.

Where an insurer entrusts an overseas custodian for the custody of its overseas assets, the institution being appointed to handle its discretionary account and the entrusted custodian institution shall belong to different financial institutions, and in addition, the execution and modification of the overseas custodian agreement and changes to the authorized signatories on the custodial account must be approved by the insurer's board of directors, and the insurer shall ensure that the custodian agreement contains the following provisions:

1. If deemed necessary, the competent authority may dispatch personnel or order the insurer to appoint an accountant or other professionals to examine the insurer's overseas assets under the custody of the custodian institution and to submit a report or express opinions to the competent authority. In such event, the custodian institution entrusted by the insurer shall not refuse the related examination;
2. The overseas custodial account of the insurer may not be used to provide any form of guarantee for the debt of others;
3. Unless with the consent of the insurer, the custodian institution shall not transfer the assets in the insurer's custodial account to any third parties;
4. For matters relating to insurer's custodial account as inquired by the certifying accountant of the insurer for confirmation (including whether the account balance matches, whether any asset in the account is used to provide guarantee, etc.), the custodian shall directly reply by letter to the accounting firm after verifying each inquiry item;
5. The custodian agreement shall specify that the ultimate beneficiary of the agreement, the owners of assets, and the beneficiary of master and sub accounts shall be the insurer only; and
6. Other matters designated by the competent authority.

Article 17 The aggregate amount of the following investments shall not exceed 5% of the disposable funds of the insurer:

1. Convertible bonds and corporate bonds with warrants shall have a credit rating a credit rating equivalent to BBB+ to BB+ from a foreign credit rating agency;
2. Private placement of corporate bonds mentioned in Subparagraph 13 of the article 5.
3. Hedge funds, privately offered funds, infrastructure funds and commodity funds;
4. Collateralized debt obligations of which part of the underlying assets are below BBB- or equivalent credit rating from the foreign credit rating agencies, except those with less than 5% of its underlying assets below the above rating and were invested in accordance with relevant regulations before the promulgation of these Regulations.
5. Collateralized debt obligations with such underlying asset pool based on a leverage financing structure or contains subprime mortgage loans or leverage loans.

Insurers with any of the following circumstances are not allowed to conduct the investment listed in the preceding Paragraph:

1. The insurer has been subjected to major sanctions and penalties in the immediately preceding year for violations of the Act with regard to foreign

investment, except that remedial actions for the violation, if any, have been taken and affirmed by the competent authority.

2.The ratio of regulatory capital to risk-based capital at the end of the most recent period is less than 250%, except that the above ratio is between 200% and 250% and the insurer gets a AA equivalent credit rating or above.

3.Neither a risk management committee subordinate to the director board has been set up, nor a chief risk officer has been assigned and an interior risk management department has been established to assume de facto responsibility for the overall risk management of the company.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System