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Title :	Regulations Governing Derivatives Transactions Conducted by Insurance Companies Ch
Date :	2022.05.20
Legislative :	Amended on 20 May 2022 per Order No. Jin-Guan-Bao-Cai-Zi- 11104916623 of the Financial Supervisory Commission
Content :	<p>Article 4 An insurer meeting the following eligibility criteria and approved by the competent authority in accordance with the requirements of Paragraph 2 may engage in derivative transactions for hedging purposes with hedged items being anticipated investment positions:</p> <ol style="list-style-type: none">1. Eligibility criteria indicated in Article 5 Paragraph 1; and2. Approval from the competent authority in accordance with the requirements in Article 5 Paragraph 3 for engaging in derivatives transactions for enhancing the investment efficiency. <p>When an insurer intends to engage in the derivatives transactions for hedging purposes with hedged items being anticipated investment positions, approval of the board of directors shall be obtained and the application form along with the following documents shall be submitted in advance to the competent authority for approval:</p> <ol style="list-style-type: none">1. Supporting documents for meeting the eligibility criteria in the preceding paragraph;2. Documents listed in Article 3 Paragraph 1 ; and3. Descriptions of the levels of influence of the following different factors on hedging effectiveness that can be specifically distinguished using the mathematical method for calculating the hedging effectiveness:<ol style="list-style-type: none">(1) Influence of expected differences in the execution of portfolio asset allocation plans indicated in Paragraph 3 Subparagraph 1; and(2) Other factors than those indicated in the preceding item. <p>An insurer approved by the competent authority to engage in derivatives transactions for hedging purposes in accordance with the requirements in the preceding paragraph shall follow the requirements below:</p> <ol style="list-style-type: none">1. It shall detail specific asset allocation plans for the expected portfolio and analysis of hedging effectiveness in official written documents before transactions; the said analysis of hedging effectiveness shall be reviewed by a risk management unit independent of the transaction department.2. When the hedging effectiveness obtained for the expected portfolio differs from that for the actual portfolio by 20% or more, as a result of the difference in the implementation of the asset allocation plan for the expected portfolio as mentioned in the preceding subparagraph, the value of transactions for the effective periods of respective transactions shall be included as part of the limits for derivatives transactions for enhancing the investment efficiency. <p>Article 5 An insurer with the following qualifications and get approved from the competent authority may engage in the derivatives transactions for enhancing the investment efficiency:</p> <ol style="list-style-type: none">1. The insurer's risk-based capital ratio is equivalent to 250% or above;2. The value-at-risk calculation is performed every day to measure and manage the risk exposure of derivatives positions;3. In the immediately preceding year, there are no major violations of performing the insurer's internal control procedure with regard to the use of funds, or the rectification of such violations have been done and get affirmed by the competent authorities;4. There have been no major sanctions and disciplinary actions related to the usage of insurer' s funds imposed by the competent authority in the most recent year, however, this does not include violations that have been

rectified and affirmed by the competent authority; and
5. Other eligible qualifications required by the competent authority.
The major sanctions and disciplinary actions as prescribed in Subparagraph 4 of the preceding Paragraph refer to Article 2 of the Regulations Governing Public Disclosure by the Financial Supervisory Commission of Material Enforcement Actions for Violations of Financial Legislation.

An insurer intending to engage in the derivatives transactions for enhancing the investment efficiency shall submit the trading proposal which has got approved by the board of directors, together with the application form and the documents in support of the qualification provided in the Paragraph 1 of this article to the competent authority for getting a prior approval. The trading proposal shall record forth the following information:

- 1.Types of derivatives;
 - 2.Restrictions on manipulation of derivatives;
 - 3.The objects of investment efficiency enhancement and the way to assess its performance;
 - 4.Mechanism with regard to risk-limit management, including the limit on total position, stop-loss strategies and the frequency of assessment etc.
- Where the trading proposal mentioned in the preceding Paragraph is amended and get approved by the board of directors, it shall be submitted to the competent authority for reference purpose after it.