


Content

Title :	Conditions to Be Met and Documents to Be Submitted by Commercial Banks Investing in Other Enterprises 
Date :	2001.05.08
Legislative :	1.Full six points adopted and issued per 8 May 2001 Letter No. (90)- Tai-Tsai-Rong -(I)-90738588 of the Ministry of Finance.
Content :	<p>The following circumstances shall not exist at a commercial bank investing in a finance-related enterprise:</p> <p>(1) After deducting the amount of its investments in enterprises (including the current investment), the ratio of equity capital to risk-based assets does not meet the requirements of Article 44 of the Banking Act.</p> <p>(2) Inadequate allocation of allowances for bad debt.</p> <p>(3) Significant deficiency in the operation of internal controls, impeding sound management (e.g., significant deficiency in internal control operation when conducting business that causes the bank losses exceeding NT\$5 million or more; violation of financial laws and regulations resulting in administrative fines of NT\$2 million or more; three or more incidents of violations of financial laws or regulations that have not improved despite corrective action).</p> <p>When applying to invest in an enterprise, a commercial bank shall recalculate the ratio in subparagraph (1) if the most recent financial examination or Ministry of Finance review shows an increase in accumulated deficits or inadequate allocation of allowance for bad debt.</p> <p>A commercial bank investing in a non-finance-related enterprise shall meet the following requirements:</p> <p>(1) After deducting the amount of its investments in enterprises (including the current investment), the ratio of equity capital to risk-based assets must be 9 percent or more.</p> <p>(2) Has not been subject to any disposition for violating financial laws or regulations in the preceding fiscal year and up until the time of application.</p> <p>(3) Has allocated adequate allowance for bad debt.</p> <p>(4) The non-performing loan ratio in the most recent quarter is lower than the industry average.</p> <p>(5) There is no significant deficiency in internal management (e.g., results of the most recent financial examination show no unrecognized non-performing loans or financial statement misrepresentations); in the preceding fiscal year, there is no significant deficiency in the operation of internal controls that impedes sound management).</p> <p>(6) There are no losses in the average after-tax earnings for the past 3 years.</p> <p>(7) Coordinate with government plans to develop the domestic economy.</p> <p>When applying to invest in an enterprise, a commercial bank shall recalculate the ratio in subparagraph (1) if the most recent financial</p>

examination or Ministry of Finance review shows an increase in accumulated deficits or an inadequate allocation of allowance for bad debt.

When applying to invest in a finance-related enterprise, in addition to providing a self-assessment form showing it has not exceeded the investor shareholding ceiling provisions in Article 74, paragraph 3 of the Banking Act and is in compliance with point 1 of these directions, a commercial bank shall also submit the following documents:

- (1) Investment plan and objectives (including the shareholder structure, management team members, investment performance and feasibility analyses, and branch development plan of the invested enterprise).
- (2) The influence the investment will have on the bank's operations (including liquidity) and performance evaluation.
- (3) A performance analysis of any enterprise in which the bank has previously invested, and the management and risk assessment mechanisms it applies to all enterprises in which it invests.
- (4) Customer information confidentiality policies between the bank and the invested enterprise or third parties.
- (5) Internal rules concerning operational conflicts of interest and the prevention of insider trading between the bank and the invested enterprise.
- (6) Rules ensuring that transactions between the bank and the invested enterprise are arm's length transactions.
- (7) Other assessment information additionally required to be submitted in accordance with the special characteristics of the invested enterprise.

In addition to applying the provisions of the preceding paragraph *mutatis mutandis*, a commercial bank applying to invest in a non-finance-related enterprise shall provide an explanation of how the investment coordinates with government plans to develop the domestic economy.

In accordance with Article 89 of the Banking Act, these directions shall also apply *mutatis mutandis* to specialized banks unless otherwise provided by law or the Competent Authority

In accordance with the provisions of Article 115-1 of the Banking Act, these directions shall also apply *mutatis mutandis* to investment and trust companies, with the exception of business that has been approved by the Competent Authority in accordance with Article 101, paragraph 2.