

## Content

Title :	Regulations Governing Derivatives Transactions Conducted by Insurance Companies <b>Ch</b>
Date :	2017.08.23
Legislative :	Amended on 23 August 2017 per Order No. Jin-Guan-Bao-Cai-Zi- 10602503581 of the Financial Supervisory Commission
Content :	<p>Article 13 The following information shall be involved in the processing procedure for derivatives transactions, and the formation and alteration of the abovementioned procedure shall be carried out with auditors, senior executives of legal compliance and risk management agencies as well as relevant supervisors involved in:</p> <ol style="list-style-type: none"><li>1. Transaction principles and policies, including the types of derivatives transactions, major counterparties, trading strategies (including strategies for hedging purpose, enhancing the investment efficiency and transactions of structured products), overall and individual position limits;</li><li>2. Operational procedure, including the responsible management level, department in charge, authority limits, division of powers and duties and transaction procedure;</li><li>3. Internal control system, including the risk identification and assessment, assessment of legality, operation and management rules and regulations, transaction record keeping procedure, assessment method and frequency, irregularity reporting system;</li><li>4. Internal audit system, including internal audit framework, audit frequency, audit scope, audit report submission procedure and follow-up of improvement of deficiencies;</li><li>5. Accounting system, including book keeping and entry processing procedure, recognition of profit and loss, and disclosures in financial statement;</li><li>6. Risk management system, which shall include the identification, assessment, monitoring and reporting of transaction risks which shall at least include credit, market, liquidity, operational, legal and system risks.</li><li>7. Counterparty risk, which requires that when conducting over-the-counter transactions, the insurer shall perform credit risk assessment on the counterparties and assign to individual counterparties different transaction limits according to their credit positions, and the transaction limits shall be subject to constant monitoring; and</li><li>8. The items must be reported to the board of directors and risk management committee on a regular basis as indicated in Paragraph 2.</li></ol> <p>An insurer shall at a minimum report to the board of directors and the risk management committee on a regular basis as follows:</p> <ol style="list-style-type: none"><li>1. Items to be reported:<ol style="list-style-type: none"><li>(1) Total and net amount of contracts with the obligations which have not become due as well as unrealized gain or loss evaluated in accordance with the fair value;</li><li>(2) Compliance with the Procedure for Derivatives Transactions;</li><li>(3) Performance and risk assessment reports on the derivatives transactions.</li><li>(4) When a hedged item is anticipated investment position and the hedging effectiveness obtained for the expected portfolio differs from that for the actual portfolio by 20% or more, differences in and reasons for the hedging effectiveness as mentioned above shall be reported.</li></ol></li><li>2. Reporting frequency:<ol style="list-style-type: none"><li>(1) Reports about transactions for hedging purpose and transactions of structured products must be made to the board of directors and the risk management committee at least once every six months.</li></ol></li></ol>

(2) Reports about transactions for enhancing the investment efficiency must be made to the risk management committee and the board of directors or its authorized unit at least once a month. However, when the following conditions are met, reports to the board of directors and the risk management committee can be made on a quarterly basis:

(i) Immature transactions are engaged in pursuant to Article 8 and internal insurance company database is available to store related transaction information.

(ii) The sum of realized and unrealized losses for the effective period of any transaction in (i) does not exceed NTD50 million or 0.1% of the insurer's stockholder's equity, whichever is lower.

(iii) The sum of realized and unrealized losses for the effective periods of all transactions in (i) does not exceed NTD100 million or 0.2% of the insurer's stockholder's equity, whichever is lower.

Article 14 The board of directors of the insurer shall ratify the important policies and procedures concerning the derivatives transactions and risk management and perform review thereof at least annually, and shall appoint an senior executive to take responsibility to administer the derivatives transactions in accordance with the following principles:

1. The fulfilment of both the procedure for derivatives transactions and the regular review of the appropriateness thereof are actually being executed;

2. The appointment of the dealers, the authorization of each dealer's limits and the identification of each dealer's knowledge or professional training is sufficient enough are essentially his/her duties;

3. The identification of each accounting personnel's and internal auditor's knowledge or professional training is sufficient enough is essentially his/her duty;

4. The supervision of transaction performance and the in-time reports to the board of directors concerning the abnormal profit and loss are carried out dutifully;

5. The assessment of the positions of the derivatives, as well as the evaluation of whether the performance is in keeping with the preset strategies(including strategies for hedging, enhancing the investment efficiency and transactions of structured products) and whether the risk exposure may undermine the financial soundness of the company performance are implemented on a monthly basis;

6. For transactions for enhancing the investment efficiency, the performance evaluation reports shall be compiled on a daily basis in accordance with the fair value and reported to the chairman, general manager, and the highest ranking supervisor of risk management. However, when criteria established under the proviso in Paragraph 2 Subparagraph 2 Item 2 of the preceding article are met, compilation and reporting shall be done at least on a monthly basis.

Article 16 The audit department of the insurer shall perform the following duties and prepare a quarterly audit report which shall be passed by the board of directors:

1. To audit the compliance of the processing procedure for Derivatives Transactions as well as the relevant laws and regulations;

2. To audit the internal control measures, including the functions of internal checks and cross reference;

3. To assess the independence of the risk management operations and implementation of the risk limitation measures;

4. To verify the reliability of the sources of transaction documents and information; and

5. To audit the hedging effectiveness of transactions for hedging purpose and differences between hedging effectiveness obtained for the expected portfolio and that for the actual portfolio.