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- FSC issues order regarding the lines of business that may be conducted with approval of the competent authority per Article 3, Paragraph 3, Subparagraph 3 and Article 4, Paragraph 3, Subparagraph 3 of the Securities Investment Trust and Consulting Act
- FSC amends Articles 5 and 8 of the "Directions for the Establishment of Internal Control Procedures by Insurance Enterprises, Insurance Broker Companies, and Insurance Agent Companies to Prevent Insurance Solicitors from Misappropriating or Embezzling Policyholder's Funds"
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Policy and Law

FSC issues "Guidelines for Peer-to-Peer Lending Platform Operators"

To facilitate the positive development of peer-to-peer lending platforms (hereinafter referred to as P2P platforms), the FSC on 19 October 2023 issued the "Guidelines for Peer-to-Peer Lending Platform Operators" after understanding the domestic operational practices and referencing international regulatory requirements. Key points of the Guidelines are as follows:

1. The services provided by a P2P operator may not involve any financial business for which special approval is required, including but not limited to: (1) a P2P operator may not "accept deposits" as referred to in the "Banking Act" or "receive stored funds" as referred to in the "Act Governing Electronic Payment Institutions"; and (2) a P2P operator may not "issue securities" as referred to in the "Securities and Exchange Act" or "issue beneficial securities or asset-backed securities" as referred to in the "Financial Asset Securitization Act."
2. The risk management mechanisms to be adopted by P2P operators include: (1) a real-name account system for borrowers and lenders; (2) arrangements and control of cash flow for borrowing and lending funds; (3) related review mechanisms; (4) control of borrowing caps; (5) control of lending caps; and (6) measures to prevent illegal activities.
3. Consumer protection measures required of P2P operators include: (1) a mechanism for confirming the veracity of creditor claims; (2) protection of personal data; (3) information disclosure; (4) items that must be disclosed to lenders; (5) security of data transmissions; (6) customer dispute handling mechanisms; and (7) marketing, advertising, and solicitation activities.

When a financial institution engages in various transactions (e.g. deposits, loans, collection and payment services, funds custody) with a P2P operator, it may refer to the Guidelines to assist the P2P operator in strengthening its risk management mechanisms and consumer protection measures to maintain positive cooperation between the two parties. A private individual who opts to conduct business with a P2P operator may also refer to the key points of the Guidelines to check whether the P2P operator has proper measures in place.

FSC issues order regarding the lines of business that may be conducted with approval of the competent authority per Article 3, Paragraph 3, Subparagraph 3 and Article 4, Paragraph 3, Subparagraph 3 of the Securities Investment Trust and Consulting Act

To set out a clear list of the types of business involving the exercise of decision-making power or brokered trading that may be conducted by securities investment trust enterprises (SITs) and securities investment consulting enterprises (SICs), and to set out provisions that they are required to comply with, the FSC on 26 October 2023 issued an order regarding lines of business that SITs and SICs may conduct with the approval of the competent authority per Article 3, Paragraph 3, Subparagraph 3 and Article 4, Paragraph 3, Subparagraph 3 of the Securities Investment Trust and Consulting Act. The order allows SITs and SICs that are already authorized to conduct discretionary investment business to apply for permission to conduct business involving the exercise of decision-making power or brokered trading, provided that they do so in compliance with specific legal provisions. SITs and SICs already conducting these types of business are required to apply for after-the-fact permission within six months.

FSC amends Articles 5 and 8 of the "Directions for the Establishment of Internal Control Procedures by Insurance Enterprises, Insurance Broker Companies, and Insurance Agent Companies to Prevent Insurance Solicitors from Misappropriating or Embezzling Policyholder's Funds"

To strengthen insurers' internal control mechanisms for preventing solicitors from misappropriating customer funds, the FSC, after analyzing relevant patterns of misappropriation, amended the "Directions for the Establishment of Internal Control Procedures by Insurance Enterprises, Insurance Broker Companies, and Insurance Agent Companies to Prevent Insurance Solicitors from Misappropriating or Embezzling Policyholder's Funds." Key points of the amendment are as follows:

1. Strengthening the audit of unusual circumstances: In cases of self-paid policies where insurance premiums have not been paid within three months after the due date of the most recent premium and are classified as high-risk (e.g. the original solicitor has resigned, the customer has switched mid-way to self-payment of premiums, or the customer's contact information has been changed), the insurer is required to ascertain on a case-by-case basis whether premiums have been paid and conduct audits when unusual circumstances are discovered.
2. Strengthening the audit of unusual circumstances in policyholders' contact information: Insurance enterprises, insurance broker companies, and insurance agent companies must periodically audit the insurance policies handled by individual solicitor to check whether the same contact information appears in multiple policies, and whether the contact information for different policyholders is identical or is abnormally similar. Additionally, these companies must also conduct audits to verify the authenticity of the contact information provided by policyholders.
3. Strengthening the audit of self-paid policies for which the solicitor submits policy-related documents: With respect to an insurance policy involving self-payment of premiums for which the solicitor submits the insurance policy, a binding receipt, a certificate of premium payment, or a receipt, the insurer is required to conduct an audit to confirm whether the information provided in the aforementioned documents received by the policyholder is consistent with the original underwriting information retained by the insurer.

FSC issues "Guidelines for Conducting Digital Identity Authentication by Financial Services Enterprises"

To provide the public with convenient, quick, and secure financial services, and to help financial services enterprises minimize potential risks associated with the use of digital identity authentication mechanisms, the FSC on 24 October 2023 issued the "Guidelines for Conducting Digital Identity Authentication by Financial Services Enterprises."

The Guidelines comprise the following ten key points: (1) Point 1 sets out the purpose of formulating the Guidelines; (2) Point 2 expressly provides that when a financial services enterprise conducts digital identity authentication, in addition to complying with applicable laws and regulations, it must also act in accordance with the Guidelines; (3) Point 3 defines the participants in digital identity authentication and its mechanisms, and describes how digital identity authentication mechanisms are utilized during the provision of digital financial services; (4) Point 4 describes the three phases of the identity authentication process: "identity enrollment," "credential management," and "identity authentication." (5) Point 5 states that the "risk level of application scenarios" of the financial services enterprises and the "assurance level of authentication mechanism" of customer identity should be matched, based on with the risk-based principles; (6) Point 6 describes the risks that might arise when digital identity authentication mechanisms malfunction, and how to evaluate the risk levels; (7) Point 7 defines the assurance levels of a digital identity authentication mechanism and specifies that financial service providers may categorize the assurance level into different levels based on the nature of their operations.; (8) Point 8 requires a financial services enterprise that conducts digital identity authentication to establish a risk management mechanism and to incorporate it into its internal control and internal audit systems; (9) Point 9 sets out certain matters which affect the interests of customers that financial services enterprises conducting digital identity authentication are required to take note of,

and (10) Point 10 provides that when the various financial industry associations and self-regulatory organizations adopt digital identity authentication operating procedures and assessment procedures, it is advisable for them to allow individual enterprises the flexibility to adopt their own internal rules, so that enterprises can respond to risks in a manner that fits their own particular circumstances.

The Guidelines are in the nature of administrative guidance, and the purpose is to ensure that financial services enterprises all operate in line with a common and consistent set of principles when they conduct digital identity authentication. In the future, the FSC will make reference to international regulations and consider the needs of domestic enterprises while taking timely action to adjust relevant laws and regulations in order to maintain innovative momentum and provide a friendlier digital finance environment.

FSC amends "Regulations Governing Information to be Published in Annual Reports of Public Companies" and "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses"

To enhance the transparency regarding the remuneration of directors at listed companies, and to promote listed companies to disclose carbon reduction information and file their annual reports ahead of schedule in accordance with the "Sustainable Development Action Plans for TWSE- and TPEX- Listed Companies" issued on 28 March 2023, the FSC amended the aforementioned Regulations on 10 November 2023. Key points of the amendment include the following:

1. The range of conditions under which a listed company is required to disclose the remuneration of individual directors has been expanded: To enhance the transparency regarding the remuneration of directors at listed companies, to guide profitable companies to share the fruits of their success with employees, and to help bring about reasonable director remuneration and employee salaries, the FSC amended related provisions to require the remuneration paid to individual directors shall be disclosed in the annual report and investor prospectuses, including: (1) the recent-year corporate governance evaluation results, initially categorized as the lowest tier, have been expanded to include the two lowest tiers; (2) a listed company's net income after tax "in the most recent fiscal year increased by 10% or more, but the average annual salary of the full-time non-supervisory employees did not increase"; (3) a listed company's "net income after tax in the most recent fiscal year decreased by 10% or more and by an amount of more than NT\$5 million, but the average remuneration per director (not including compensation paid for any concurrently held position as a company employee) increased by 10% and by an amount of more than NT\$100,000."
2. Newly added provisions require listed companies to disclose a baseline year for greenhouse gas (GHG) emission reductions, as well as reduction targets, strategies, and action plans: The amended Regulations require the disclosure of GHG emission reduction information in the annual report appendix concurrently with the year of the GHG inventory disclosure in the consolidated financial report. For example, a listed company with authorized capital of NT\$10 billion or more must disclose its 2024 GHG inventory information as well as its 2024 reduction targets, strategies, and action plan in 2025, and if the GHG inventory called for in its consolidated financial report has been completed ahead of schedule, the company may treat the earlier year as the baseline year. To facilitate companies' compliance, the FSC will ask the Taiwan Stock Exchange to post best practice cases to the website of the Taiwan Stock Exchange Corporate Governance Center.
3. The original "GHG Inventory and Assurance Information" appendix has been changed to an open-style table, and the "State of the Company's Promotion of Sustainable Development" appendix has been amended to enhance disclosure of fire incidents and spur companies to improve their management of fire prevention.
4. The amended Regulations encourage listed companies to file their annual reports ahead of schedule: In a phased manner, listed companies with authorized capital of NT\$2 billion or more will be required to file their annual reports 14 days prior to their shareholders meetings. This will give investors more time to review the annual reports before voting on shareholder meetings.

FSC issues "Core Principles and Policies for AI Applications in the Financial Industry"

To assist financial institutions in leveraging the benefits of AI technology, and to effectively manage risks, the FSC on 17 October

2023 released a document with reference to international practices and industry feedback, and after soliciting external feedback through the public policy participation platform "JOIN" and other channels. This document is titled "Core Principles and Policies for AI Applications in the Financial Industry," which outlines six core principles and eight supporting policies for AI application, in the financial sector. The key points are as follows:

1. The six core principles for use of AI by the financial industry are the following: (1) Establishing governance and accountability mechanisms: Financial institutions should be responsible for internal governance and protection of consumer rights, and should establish risk management mechanisms. (2) Emphasizing fairness and human-centric values: Financial institutions should strive to mitigate unfairness caused by algorithmic bias and adhere to human-centric and human-in-control principles. (3) Safeguarding privacy and customer rights: Financial institutions should protect customer privacy, and also respect the customer's choice regarding the use of AI services while informing the customer about the availability of alternative options. (4) Ensuring system robustness and security: Financial institutions should commit to maintain the robustness and security of AI systems, and exercise proper risk management and oversight over third-party providers. (5) Emphasizing transparency and explainability: Financial institutions should ensure transparency and explainability in AI system operations, and should appropriately disclose relevant information when using AI to interact directly with consumers. (6) Promoting sustainable development: Financial institutions should ensure that their AI development strategies and implementations align with sustainable development principles, and make efforts to protect the right to work for employees.
2. The eight supporting policies are the following: (1) establishing the "Guidelines for AI Applications in the Financial Industry," (2) reviewing relevant regulations and necessary regulatory adjustments, (3) utilizing AI technologies in supotech, (4) engaging in exchanges and collaborations with international organizations and foreign financial regulatory agencies, (5) encouraging the active participation of the financial sector in AI research, development, and application, as well as adopting best practices, (6) assessing the actual use of AI in the financial industry, (7) requiring financial industry associations to establish self-regulatory standards and best practices for the usage of AI system, and (8) overseeing financial institutions to ensure fair treatment of customers and compliance with friendly financial guidelines, as well as to reduce digital divide through financial literacy programs.

International Activities

FSC receives the visit from delegation led by Lithuanian Vice-Minister of the Ministry of Finance on 24 October 2023

A delegation led by Ms. Vaida Markevičienė, Vice-Minister of the Ministry of Finance of the Republic of Lithuania, was warmly received by the FSC Vice Chairperson Hsiao on 24 October 2023. The two sides broadly exchanged views on major financial issues such as Fintech and banking supervision.

FSC signs MoU on information sharing with New Jersey Department of Banking and Insurance

The FSC and the New Jersey Department of Banking and Insurance (NJDOBI) on 20 October 2023 completed the signing of an MoU on information sharing. The signing was witnessed by New Jersey's State Governor Philip D. Murphy in person, who was visiting in Taiwan. The MoU will enhance the sharing of financial supervision-related information and exchange of experience between the FSC and the NJDOBI.

Industry Updates

FSC publishes the first "Financial Education Compilation Publication" to encourage more financial institutions and private organizations to join the financial education initiative

On 30 October 2023, the FSC published its first "Financial Education Compilation Publication," which describes the FSC's financial literacy activities and achievements over the past two years, and calls on financial institutions and civil society organizations to get more

involved in financial literacy activities.

The FSC launched its "Financial Literacy Promotion Plan" in 2006 and later established a Financial Education Task Force. Working together with financial peripheral organizations and financial institutions, the FSC has carried out a wide variety of financial literacy activities. From 2022 through the end of June 2023, the Financial Education Task Force held more than 13,000 financial literacy events that attracted a total attendance of some 700,000. In addition, the FSC expanded the "Outstanding Financial Literacy Teaching Plans and Courses" event this year for the first time to give public recognition to entities that have made exceptional contributions to financial literacy efforts, and to invite financial peripheral organizations, financial industry associations, and financial institutions to share their experiences in participating in financial literacy activities.

Financial education can instill greater confidence in the financial environment. Moving forward, the FSC will continue promoting financial literacy and publishing the Financial Education Compilation Publication annually, with the hope that all sectors will collaborate to achieve our financial literacy ideals.

Gender composition of securities & futures firms, and SITEs & SICEs in 2022

Securities and futures firms at end-2022 had a total of 70,921 employees, of whom 47,313 (66.71%) were women and 23,608 (33.29%) were male, making for a gender ratio (i.e. number of males ÷ number of females × 100%) of 49.9%. This ratio was not much changed from the gender ratio of 50.25% at end-2021 (when the total of 70,237 employees included 46,747 females and 23,490 males). Gender statistics for employees at securities & futures firms, and SITEs & SICEs as of end-2022 were as follows:

1. Securities firms: Women numbered 27,384 (a 67.06% share) versus 13,450 males (32.94%), making for a gender ratio of 49.12%.
2. Futures firms: Women numbered 16,382 (a 68.67% share) versus 7,475 males (31.33%), making for a gender ratio of 45.63%.
3. SITEs: Women numbered 2,763 (a 62.94% share) versus 1,627 males (37.06%), making for a gender ratio of 58.89%.
4. SICEs: Women numbered 784 (a 42.61% share) versus 1,056 males (57.39%), making for a gender ratio of 134.69%.

NPL Ratio for Domestic Banks as of the End of October 2023

The total outstanding loans extended by the current 38 domestic banks increased by NT\$134.6 billion (US\$4.15 billion) as compared to the figure of previous month and amounted to NT\$38.14 trillion (US\$1,177 billion) at the end of October 2023. Meanwhile, the NPLs of these banks totaled at NT\$61.83 billion (US\$1.91 billion) which increased by NT\$1.65 billion (US\$0.05 billion) from NT\$60.19 billion (US\$1.86 billion) as of the end of the previous month. The average NPL ratio of the 38 banks remained at 0.16% compared to the previous month and the same month last year.

The coverage ratios of allowances for NPLs decreased by 15.94 percentage points and therefore declined to a figure of 841.88% from 857.82% of the previous month. The asset quality of domestic banks continuously remained manageable according to the above figures as of the end of October 2023. The FSC will request banks to undertake measures to improve asset quality and financial structure on an ongoing basis.

NPL situation of credit cooperatives at the end of October 2023

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$0.666 billion as of the end of October 2023, generating an NPL ratio of 0.11%, same as the end of September 2023. The NPL coverage ratio was 2,039.62%, up by 49.39 percentage points from 1,990.23% at the end of September 2023.

Net foreign and mainland China investment in listed shares

As of the end of October 2023, foreign investors in the year to date had bought around NT\$16.5541 trillion and sold around NT\$16.6815 trillion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of around NT\$127.4 billion. In addition, foreign investors in the year to date had bought around NT\$3.116 trillion and sold around NT\$3.098 trillion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$86.4 billion.

Meanwhile, mainland China investors had bought around NT\$1.737 billion and sold around NT\$1.892 billion worth of shares listed on the Taiwan Stock Exchange, amounting to a net-sell of about NT\$0.155 billion; and mainland China investors had bought NT\$0.599 billion and sold around NT\$0.779 billion worth of shares listed on the Taipei Exchange, amounting to a net-sell of around NT\$0.18 billion. As for inward remittances by foreign and mainland China investors, the figure for cumulative net inward remittances by offshore foreign institutional investors, offshore overseas Chinese, and foreign nationals at the end of October 2023 stood at approximately US\$225.5 billion, down by around US\$1 billion from US\$226.5 billion at the end of September 2023. The figure for cumulative net inward remittances by mainland China investors was US\$0.0333 billion, down by roughly US\$0.0036 billion from US\$0.0369 billion at the end of September 2023.

The sales statistics of foreign-currency denominated products by the life insurance industry as of the end of August 2023 were as follows: premium revenues from new foreign-currency denominated policies amounted to around NT\$184.998 billion, down by 44% from NT\$329.139 billion year-on-year. Within these figures, investment-linked insurance products accounted for NT\$46.223 billion (around 25% of the total), down by 56% from NT\$105.149 billion year-on-year, and the sales of traditional insurance products totaled NT\$138.775 billion (around 75% of the total), down by 38% from NT\$223.99 billion year-on-year.

Profit/loss, net value and exchange gains/losses of the insurance industry in September 2023

The pre-tax profit of all insurance enterprises at the end of September 2023 was NT\$187.1 billion, the same as the previous year; the pre-tax profit of life insurance enterprises was NT\$174.7 billion, decreasing by NT\$122.8 billion or 41.3% from the previous year, while the pre-tax profit of non-life insurance enterprises was NT\$12.4 billion, increasing by NT\$122.8 billion or 111.2% from the previous year.

The owners' equity of insurance enterprises at the end of September 2023 was NT\$2,086.6 billion, going up by NT\$1,181.3 billion or 130.5% from the previous year; the owners' equity of life insurance enterprises was NT\$1,964.6 billion, going up by NT\$1,136.1 billion or 137.1% from the previous year, while the owners' equity of non-life insurance enterprises was NT\$122 billion, going up by NT\$45.2 billion or 58.9%.

As of the end of September 2023, the NT Dollar had depreciated by 4.83% against the US Dollar since the end of 2022, and the cumulative balance of the foreign exchange valuation reserve of life insurance enterprises was NT\$216.2 billion, decreasing by NT\$12.7 billion compared to the end of 2022. Meanwhile, the combined impact of exchange gains/losses, hedging gains/losses and the net effect of volatility on the foreign exchange valuation reserve of life insurance enterprises was NT\$-80.7 billion. Over the same period, the overseas investments of life insurers resulted in net gains (including exchange gains/losses and hedging gains/losses, but not including the net effect of volatility on the foreign exchange valuation reserve) of NT\$589.5 billion.

Sales of spillover-effect insurance products and provision of in-kind benefits by life insurers in 2023 through Q3

The FSC has approved or accepted registrations of 197 spillover-effect insurance products from 13 life insurance companies. In total, 846,835 new contracts for such products have been sold as of the third quarter of 2023, down by 5% from 894,728 compared to the same period of 2022. The first-year premium income was NT\$16,357.03 million, up by 48% from NT\$11,080.03 million compared to the same period of 2022. The FSC has approved or accepted registrations of 44 in-kind payment insurance products from 6 life insurance companies. In total, 198,847 new contracts for such products had been sold as of the third quarter of 2023, up by 19% from 167,349 compared to the same period of 2022. The first-year premium income was NT\$2,673.78 million, up by 8% from NT\$2,465.32 million compared to the same period of 2022.

Investor and Consumer Protection

FSC reminds the public to conduct foreign exchange

transactions only via authorized financial institutions, and to be alert for financial scams

The FSC has recently received reports from the public regarding companies with unclear identities engaging in foreign exchange margin trading and other foreign exchange-related businesses, or have exercised foreign exchange trading on behalf of customers and claimed to offer guaranteed returns. The FSC calls upon the public to do foreign exchange trading only via authorized financial institutions to protect their own rights, and also reminds them that foreign exchange investment services provided by unlicensed institutions may involve financial fraud. The FSC has launched a special anti-fraud section on its Moneywise website to provide information on common financial scams, along with information on prevention and actions to take if one falls victim to fraud. The information in this anti-fraud section is continually updated so that website visitors can find a wide range of information on financial fraud and improve their ability to identify scams.

2023 Financial Literacy Campaign for the Campus and Community

In November 2023, the FSC held 54 activities at different locations, including the Yilan Prison of the Agency of Corrections, as part of the 2023 Financial Literacy Campaign for the Campus and Community, attracting 4,561 participants. The Financial Literacy Campaign is free of charge, and has struck a chord with many people since its inception in 2006. As of the end of 2022, a total of 7,846 events had been held and over 1.14 million people had attended. The target participants include students at all levels, communities, women's groups, indigenous people, immigrants, military service personnel, correctional institutions, social welfare groups, senior citizens' groups, police, fire fighters, coast guard personnel, and taxi drivers.

The Banking Bureau of the FSC will continue to promote the financial literacy campaign in 2023. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau. For more information, please contact us at (02) 8968-9710.

Major Enforcement Actions

FSC imposes fine on Union Bank of Taiwan

The FSC recently discovered that the manner in which Union Bank of Taiwan conducted the opening of accounts and large-amount service counter cash withdrawals involved deficiencies that constituted violations of both Article 45-1, Paragraph 1 of the "Banking Act" and Articles 3 and 8 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," which were issued upon the authority of the aforementioned provision of the "Banking Act." The FSC imposed an administrative fine of NT\$12 million upon the Bank in accordance with Article 129, Subparagraph 7 of the "Banking Act."

FSC imposes sanctions on Sinopac Financial Holdings and Bank SinoPac

The FSC discovered that Sinopac Financial Holdings and Bank SinoPac had corporate governance and internal control deficiencies, including failures to properly manage subsidiaries, that constituted violations of Article 51 of the "Financial Holding Company Act" as well as Article 3, Paragraph 1 and Article 8, Paragraphs 1 and 2 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," which were issued upon the authority of the said Article 51. An administrative fine of NT\$10 million was imposed upon Sinopac Financial Holdings on the basis of Article 60, Subparagraph 16 of the "Financial Holding Company Act," an official reprimand was issued on the basis of Article 54, Paragraph 1 of the same Act, and the monthly salary of the chairperson of Sinopac Financial Holdings was cut by 30% for six months on the basis of Subparagraph 7 under Paragraph 1 of said Article 54 of the same Act. Meanwhile, an official reprimand was issued on Bank SinoPac on the basis of Article 61-1, Paragraph 1 of the Banking Act, and the monthly salary of the head of Legal Division at Bank SinoPac, was cut by 30% for three months on the basis of Subparagraph 9 under Paragraph 1 of the same Article.