FROM THE CHAIRMAN

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FSC ACTIVITIES IN 2007
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Competitiveness of Financial Institutions
Financial Order and Stability
Financial Globalization
Consumer and Investor Protection

FUTURE PROSPECTS
Updating of Financial Regulations
Efforts to Create a Secure and Efficient Financial Environment
Consolidation of Financial Institutions
Internationalization of the Financial Industry
Financial Literacy Initiatives
Over the past year, the Financial Supervisory Commission (FSC) has carried out reforms to improve stability, efficiency and openness of our financial markets in step with international practices. Our efforts can be characterized by a focus on the guiding principles of "innovation, service, and professionalism."

The FSC last year was successful in carrying out a number of important legislative initiatives as it won the passage by the Legislative Yuan of amendments to the "Deposit Insurance Act," "Insurance Act," "Certified Public Accountant Act," "Trust Enterprise Act," among others. These measures help promote sound development of the financial services industry by allowing speedy cleaning up of troubled financial institutions, improving insurance supervision, promoting the trust industry, enhancing financial transparency, and improving investor protection. The FSC has also completed draft amendments to the "Banking Act," "Financial Holding Company Act," and "Securities and Exchange Act," as well as a draft "Finance Company Act." Once they are enacted, the FSC will be able to take prompt corrective actions on troubled banks, strengthen supervision of financial holding companies, speed up legal actions against insider trading, and provide the general public with additional sources of financing.

Our financial institutions were put on a more solid financial footing last year as the FSC aggressively cleaned up troubled financial institutions. It appointed the Central Deposit Insurance Corporation (CDIC) as the conservator of five distressed institutions, of which the CDIC has already auctioned four off. The FSC also prompted three banks and three insurance companies to recapitalize.

Last year saw increasing internationalization of our financial institutions. A number of foreign financial institutions made acquisitions or gained control of our domestic financial institutions, while others expanded their presence by adding new branches. At the same time, the FSC encouraged our domestic financial institutions to expand overseas operations. It approved applications by 10 banks and 3 insurance companies to establish a total of 22 overseas branches or offices. It also moved actively to relax restrictions on activities of offshore banking units (OBUs) to strengthen their role as the capital-raising center for Taiwanese businesses operating overseas and in China.

The FSC continued to encourage foreign investment in Taiwan's securities. Foreign investors first began trading on our stock exchange in 1992, and their accumulated net inward remittances had reached US$137.6 billion as of the end of 2007, while their holdings accounted for 32.9% of total market capitalization on the Taiwan Stock Exchange. In order to establish a market for international bonds, the FSC has amended legal provisions, strengthened the trading system, and streamlined procedures for issuance and clearing and settlement of foreign-currency denominated international bonds. It has also begun allowing life insurers to offer traditional insurance in foreign currency to meet the needs of consumers who are now taking an increasingly international approach to their personal financial planning. The revised insurance law also allows insurance companies a greater freedom in portfolio allocation to overseas assets.

The FSC continued to take steps to improve the efficiency of our financial markets. It has simplified the documentation required of applications for listing in exchanges, shortened the time required for the registration of a public offering to become effective, raised margin trading caps, and introduced a futures calendar spread mechanism. These measures have opened the door to the development of new financial instruments. In addition, the FSC has now allowed domestic funds to invest in Hong Kong-listed shares of Chinese corporations under the same percentage limits that apply to offshore funds to provide investors with more diverse investment options. The FSC has also brought renewed vitality to our markets by expanding the range of business activities in which the securities, futures, and insurance industries are allowed to engage.
To develop Taiwan as a regional financial services center, the FSC has received a go-ahead from the Executive Yuan to list overseas companies in Taiwan’s exchanges. The FSC also intends to further ease restrictions on the business activities of OBUs. With these goals in mind, we are now working actively to amend the governing laws and regulations and implement related policies.

The FSC has already drafted a Financial Services Act that will serve as the basis for functional and integrated supervision, and we intend to gradually transit from rule-based supervision toward greater reliance on principles-based supervision. We will also continue to promote Taiwan as a regional asset management center by encouraging international financial institutions to increase their investments and establish back-office facilities in Taiwan to capitalize on Taiwan’s abundant supply of managerial and professional talent and its competitive advantage in information technology.
Since our establishment, the Financial Supervisory Commission (FSC) has been working vigorously to create a fair, sound, and profitable environment for the financial industry under an impartial and reasonable system. Armed with professional and practical experience, the FSC aims to maintain financial stability, implement financial reforms, promote further development of the financial industry, strengthen investor protection and enhance financial education of the public. Ultimately, the objective of the FSC is to increase the competitiveness of Taiwan’s financial industry.
Organization

Background

The FSC was officially established on 1 July 2004, in part to stay in line with the rest of the developed world (where one nation after another in recent years has established a single financial supervisory authority to consolidate the oversight of banking, securities, and insurance), and to meet the needs of Taiwan's financial institutions operating in cross-sector businesses. As a result, Taiwan's former system of sectoral regulation, with different regulatory authorities in charge of supervision and examination for the separate arms of the financial sector, was replaced by a single unified system under the FSC. The establishment of the FSC signifies more than just the transfer or consolidation of financial regulation. It represents the birth of a new service-driven culture of financial supervision in Taiwan.

Organizational structure

As required under the Organic Act Governing the Establishment of the Financial Supervisory Commission Executive Yuan (the "FSC Organic Act"), the FSC is headed by nine commissioners, one of whom serves as the chairperson and two others as vice chairpersons. All commissioners are nominated by the Premier to the President for appointment, and possess academic expertise or professional experience in a relevant field such as law, economics, banking, public finance, accounting, or management. Each commissioner serves a fixed term of office, ensuring that policies are well thought out and that their public authority is exercised in an impartial manner.

In order to ensure professionalism, fairness, and independence in the setting and implementation of policy, the FSC Organic Act mandates that commissioners belonging to a single political party shall not exceed one-third of the total number of commissioners. Further, the Act bars commissioners from taking part in the activities of any political party during their term in office. Financial systems and supervisory policies must be submitted to the commissioners for deliberation and resolution. A board resolution is adopted only if it is approved by a majority vote at a meeting attended by at least two thirds of the commissioners. The commissioners are required to hold meetings once a week, and extraordinary sessions may be convened when necessary. In addition, the FSC and the Central Bank must hold financial supervisory cooperation meetings, which other government agencies may be invited to attend, if necessary, to strengthen financial stability.
The FSC comprises four departments, four offices, and four bureaus, as follows:

**Departments:** Planning; International Affairs; Legal Affairs; Information Management.

**Offices:** Secretariat; Personnel; Accounting; Civil Service Ethics.

**Bureaus:** Banking; Securities and Futures; Insurance; Financial Examination.

In addition, the FSC has established a Financial Supervisory Fund to bolster the funding of financial supervisory activities, ensure our development as a regulator of financial markets and financial service enterprises, and guarantee our independence in the performance of supervision and financial examination.

▶ Commissioners and officers

Chairman
Sheng-Cheng Hu

Vice Chairperson
Susan S. Chang

Commissioner
Rebecca Chung-Fern Wu

Commissioner
Shyan-Yuan Lee

Commissioner
Kuo-Chuan Lin
Organizational Chart

Financial Supervisory Commission

Board of Commissioners Meeting

Chairperson

Vice Chairperson

Vice Chairperson

Chief Secretary

Civil Service Ethics Office

Accounting Office

Personnel Office

Secretariat Office

Information Management Department

Legal Affairs Department

International Affairs Department

Planning Department

Director General of Securities and Futures Bureau

Tang-Chieh Wu

Director General of Insurance Bureau

Tien-Mu Huang

Director General of Financial Examination Bureau

Ming-Chung Tseng

Commissioner Ya-Hwei Yang

Commissioner Shih-Chieh Bill Chang

Commissioner Ya-Hwei Yang

Commissioner Shih-Chieh Bill Chang

Director General of Securities and Futures Bureau

Tang-Chieh Wu

Director General of Insurance Bureau

Tien-Mu Huang

Director General of Financial Examination Bureau

Ming-Chung Tseng

Chief Secretary

Austin Chan
Functions and authority

Services

Pursuant to Article 2 of the FSC Organic Act, the FSC is the competent authority for development, oversight, regulation, and examination of financial markets and financial service enterprises. The terms "financial markets" and "financial service enterprises" are defined as follows:

1. Financial markets include the banking market, money market, securities market, futures and derivatives market, insurance market, and their respective settlement systems.

2. Financial service enterprises include financial holding companies, the Financial Restructuring Fund, the Central Deposit Insurance Corporation, banking enterprises, securities enterprises, futures enterprises, insurance enterprises, electronic financial transaction enterprises, and other financial service enterprises. However, the Central Bank is the competent authority in charge of the payment system.

Authority and responsibility

Pursuant to Article 2 of the FSC Organic Act, the FSC is in charge of the following affairs:

1. Managing financial systems and supervisory policy issues;

2. Drafting, amending and repealing financial laws and regulations;

3. Supervising and regulating the following matters in connection with financial institutions: establishment, termination, revocation, changes of registered information, mergers, business suspensions, dissolutions, and approvals of business scope;

4. Development, supervision, and regulation of financial markets;

5. Examination of financial institutions;

6. Examination of matters relating to public companies and securities markets;

7. Handling of international financial matters;

8. Protection of financial consumers;

9. Enforcement of financial laws and regulations, punishment of violators and handling of matters related thereto;

10. Collection, processing and analysis of statistical information relating to financial supervision, regulation and examination;

11. Inspection of other matters relating to financial supervision, regulation and examination.
Commissioners meetings

The FSC Board of Commissioners meets once a week. Meetings are chaired by the FSC chairperson, and resolutions are adopted once approved by a majority vote at a meeting attended by at least two thirds of the commissioners. In addition to abiding by the provisions of recusal in the Administrative Procedure Act, an FSC commissioner must exercise recusal when there is a proposal or deliberation regarding a case involving an organization or enterprise connected to the commissioner, the commissioner's spouse, a blood relative of the commissioner within the third degree of kinship, or a relative of the commissioner by marriage within the second degree of kinship. For any given case, recusal requirements also apply to other FSC personnel involved in the handling of that case.

In order to implement a collective decision-making system, the FSC in November 2006 adopted the "Directions for Meetings of the Financial Supervisory Commission, Executive Yuan." The Directions require that the entire proceedings of commissioners meetings be preserved in audio and/or video recordings. In addition, for the sake of due process and full disclosure of government information, the Directions allow for an individual commissioner to submit a concurring or dissenting opinion for posting on the Internet along with any given FSC resolution.

Pursuant to Article 10 of the FSC Organic Act, the following matters related to financial markets and financial services shall be implemented only upon the resolution of a commissioners meeting:

1. Adoption and review of financial systems and supervisory policies;
2. Proposals for the enactment, amendment, or repeal of financial laws or regulations;
3. Review and approval of any plan for a financial institution's establishment, termination, revocation, change of registered information, merger, business suspension, or dissolution;
4. Review and approval of any material sanction or handling of a violation of a financial law or regulation;
5. Deliberations on proposals by commissioners;
6. Deliberations upon any other measures of material importance to the financial industry;
7. Any other matters requiring adoption by a resolution of a commissioners meeting.

Functions

The functions of the FSC bureaus, departments and offices are as described below:

1. Banking Bureau: Supervises and regulates the banking market, money market, and banking enterprises; formulates, plans, and implements policies, laws, and regulations connected therewith.
2. Securities & Futures Bureau: Supervises and regulates the securities and futures markets as well as securities and futures enterprises; formulates, plans, and implements policies, laws, and regulations connected therewith.

3. Insurance Bureau: Supervises and regulates the insurance market and insurance enterprises; formulates, plans, and implements policies, laws, and regulations connected therewith.

4. Financial Examination Bureau: Supervises and examines financial institutions; formulates, plans, and implements policies, laws, and regulations connected therewith.

5. Department of Planning: Drafts and proposes financial systems and supervisory policies; performs research and development work related to the improvement of the financial industry; performs research and analysis of domestic financial dynamics; performs research and analysis of international financial dynamics, including mainland China; prepares and disseminates FSC books and periodicals.

6. Department of International Affairs: Acts as liaison to international financial organizations and foreign supervisory bodies; supervises FSC overseas offices; researches and promotes major international financial projects; and carries out international promotional activities.

7. Department of Legal Affairs: In charge of the integration, drafting, research, revision, and interpretation of financial supervisory laws and regulations, consulting regarding the same, as well as the collection, processing, editing, and translation of financial supervisory laws and regulations.

8. Department of Information Management: Performs the development, planning, and administration of information systems; processes and performs analysis of data related to financial supervision, regulation, and examination.

9. Secretariat Office: Responsible for confidential matters, research and evaluation, meeting logistics, manuscript review, documents and files, official seals, cashier operations, general affairs, public relations, and other matters that do not fall under the authority of other departments or offices.

10. Accounting Office: Responsible for budgeting, accounting, and statistical matters.


**Workforce**

According to the FSC Organic Act, the authorized size of the FSC workforce totals 1,056 persons, which includes 146 persons for the FSC offices and 910 persons for all bureaus under the FSC. As of the end of 2007, the FSC offices had 89 employees while the bureaus employed 742 persons, totaling 831 persons.
Age distribution

FSC offices and bureaus
- 29 and younger: 6.15%
- 30 to 39: 40.91%
- 40 to 49: 40.91%
- 50 and older: 12.03%

Average age: 43 years

Education

FSC offices and bureaus
- Master's or higher: 48.01%
- Bachelor's: 44.16%
- Jr. College: 6.87%
- High school (vocational): 0.96%

High school (vocational): 0.96%
Master's or higher: 48.01%
Bachelor's: 44.16%
Jr. College: 6.87%
FSC ACTIVITIES IN 2007

In 2007, the FSC continued to push forward with financial reforms, promote the development of a healthy financial market, and help strengthen the competitiveness of financial institutions. The FSC also endeavored to maintain financial stability, to push for globalization of our financial markets, and to improve consumer and investor protection and public education. All these efforts were designed to provide an environment conducive to the sound development of the financial industry and markets, as well as to build up momentum for economic growth.
Development of financial markets

Stimulating the securities markets

FSC has taken a number of measures to stimulate the securities markets, which include: implementing a new underwriting system, strengthening corporate governance, introducing an independent directors system and audit committee system, enhancing regulations governing market insider trading, expanding the business scope of securities firms, and revising accounting principles to bring them in line with international standards.

Invigorating the bond market

In order to increase market efficiency and enhance the bond shorting mechanism, the GreTai Securities Market implemented repo trading on its Electronic Bond Trading System. Repo trading value totaled NTD 11.0 trillion in 2007, thus satisfying a demand for short selling. Strip government bonds and corporate bonds, which separate into interest and principal coupons, were introduced to facilitate participation in the secondary market by retail investors, and to increase the liquidity of coupon-bearing bonds.

By the end of 2007, a total of NTD 111.78 billion worth of strip bonds were issued (including NTD 212 million in government bonds, NTD 31.3 billion in corporate bonds, and NTD 80.27 billion in financial debentures), which facilitated the disposal of structured bonds.
Promoting development of the futures market

Taiwan's futures market marked its 9th consecutive record-breaking year in 2007. Annual trading volume reached a new high of 115,150,624 contracts, surpassing the previous record of 114,603,379 contracts set in 2006. In addition, the market launched four products, and adopted five new trading and clearing measures.

In order to strengthen the asset management capability of the futures industry, to offer investors more diversified investment vehicles, and to attract international talent, corporations and funds, the FSC promulgated four regulations on 10 July 2007 to allow the establishment of futures trust enterprises and the offering of futures trust funds.

Promoting development of the securitization market

A draft amendment to the Real Estate Securitization Act, which allows for the securitization of real estate development projects and provides the industry an additional financing alternative, was submitted to the Legislative Yuan for review on 13 October 2005, but has not been approved yet. In 2007, 12 securitization deals worth a total of NTD 98.72 billion were approved by the FSC. This figure is lower than the previous year due to the sub-prime mortgage crisis in the U.S. The outstanding balance of issued securitization deals reached NTD 417.41 billion at the end of 2007; even after deducting the outstanding balance of REITs (NTD 56.17 billion); this figure surpasses the target of NTD 350 billion that was set for 2007 under the Vision of Economic Development by 2015.

Total securitization issues

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial asset securitization</th>
<th>Real estate securitization</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount approved</td>
<td>Amount issued</td>
<td>Outstanding balance</td>
</tr>
<tr>
<td>2003</td>
<td>32.69</td>
<td>26.98</td>
<td>15.88</td>
</tr>
<tr>
<td>2004</td>
<td>39.69</td>
<td>42.15</td>
<td>47.82</td>
</tr>
<tr>
<td>2005</td>
<td>165.19</td>
<td>141.86</td>
<td>165.34</td>
</tr>
<tr>
<td>2006</td>
<td>211.40</td>
<td>411.94</td>
<td>282.88</td>
</tr>
<tr>
<td>2007</td>
<td>90.61</td>
<td>616.95</td>
<td>345.32</td>
</tr>
<tr>
<td>Total</td>
<td>539.57</td>
<td>1,239.89</td>
<td>77.85</td>
</tr>
</tbody>
</table>

Total securitization issues

Units: NTD 1 billion

Increasing loans to small and medium enterprises (SMEs)

On 1 July 2005, the FSC announced and put into practice the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises. The program is meant to encourage domestic banks to lend to SMEs, thereby enhancing the function of domestic banks as financial intermediaries. Lending to SMEs was expected to increase by NTD 200 billion every year, with the program scheduled to continue for three years. As of the end of
December 2007, the balance of lending to SMEs reached NTD 3,057 billion, an increase of
NTD 112 billion compared to that of 30 June 2007 and an increase of NTD 260 billion, or 9.3%,
compared to the same period in the previous year. The program was designed to build a long-
term relationship between banks and SMEs, thereby balancing the development of consumer
banking and SME financing while benefiting the financial industry as a whole.

Outstanding amount of SME loans by domestic banks

Promoting sound development of the insurance market

In order to enhance supervision of the business and financial status of insurers and to reflect
the development of the insurance market and the operation requirements of insurers, the
Insurance Act was amended on 18 July 2007. Provisions governing the business scope of
life and non-life insurers and capital allocation of insurers have been revised, the limit on the
foreign investments of insurers has been raised, and the national insurance associations have
been given an enhanced self-regulatory role.

Establishing new branch units for domestic banks and cooperatives

In accordance with the conclusions reached at the Conference on Sustaining Taiwan's
Economic Development (COSTED), the FSC amended the "Regulations Governing the
Establishment, Relocation, or Closure of Domestic Branches by Financial Institutions"
and renamed them the "Regulations Governing the Domestic Branch Units of Financial
Institutions" on 16 January 2007. The amended Regulations set out conditions under which
financial institutions will be allowed to apply to set up new branch units or merge two mini-
branches to form one regular bank branch. On 19 July 2007, the FSC approved applications
by eight domestic banks and three cooperatives to establish an additional ten branches and
three branch cooperatives respectively.
Competitiveness of financial institutions

Encouraging financial industry consolidation

The government has pushed forward with the second phase of financial reform by conducting a differential supervisory policy, providing incentives for financial consolidation, and removing legal obstacles to consolidation. While fully respecting market mechanisms, the government has taken measures to encourage the consolidation of financial institutions and promote the sustainable development of financial markets.

The FSC has taken many actions to remove obstacles in M&A laws and regulations, including the following:

1. Financial holding company (FHC) subsidiaries with surplus capital are now allowed to reduce capital and transfer the surplus to the holding company, in order to ensure the efficiency of capital allocation.

2. An FHC intending to make a strategic investment was formerly required to acquire a stake of no less than 25% in the target company, but to eliminate the obstacle to hostile takeovers this threshold has now been reduced to 5%.

3. Legal provisions governing the public tender process have been revised to enhance the hostile takeover mechanism.

4. Guidelines for the approval of foreign FHC application documents and review requirements have been amended, as follows:
   - Suitable eligibility requirements have been adopted for foreign applicants.
   - New provisions require that an applicant's management team have adequate experience and expertise in handling capital adequacy matters and managing an FHC group.
   - The capital strength of the home country financial institution is now allowed to be factored in when assessing the strength of the bank it plans to control.

Banking consolidation policy (Measures for accelerating banking industry restructuring):

A. M&A-related regulations have been amended:

a) An FHC subsidiary with excess capital may reduce capital and transfer the difference to the parent company.

b) Measures concerning tender offers will be amended to expand the range of assets treated as consideration acceptable for tender offer.

c) The FSC has eased the rule requiring that a foreign financial holding company making a strategic investment in a domestic bank must acquire a stake of more than 25% of the shares.
d) Cash and other property may now be used as consideration payable to the shareholders of merged institutions.

B. Incentives available:

a) Financial institutions with a non-performing loan ratio (NPL ratio) lower than 2.5% and a market share of 10% or more will receive priority processing of applications for approval to establish offshore branches or to merge foreign financial institutions.

b) Where a financial institution merges with another financial institution, the removed branches of the latter may apply for re-establishment and relocation.

c) Financial institutions with an NPL ratio lower than 2.5% receive automatic approval to engage in a set list of 12 lines of business.

d) New provisions in the Financial Institutions Merger Act and the Financial Holding Company Act allow for consolidated tax treatment and provide various tax incentives.

C. M & A deals:

a) New M&A deals:

<table>
<thead>
<tr>
<th>Existing Entity</th>
<th>Acquired Entity</th>
<th>Merger Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cathay United Bank</td>
<td>Lucky Bank</td>
<td>2007.1.1</td>
</tr>
<tr>
<td>2 Standard Chartered Bank</td>
<td>Hsinchu International Bank</td>
<td>2007.6.30</td>
</tr>
<tr>
<td>3 Bank of Taiwan</td>
<td>Central Trust of China</td>
<td>2007.7.1</td>
</tr>
<tr>
<td>4 China Trust Commercial Bank</td>
<td>Hualien Business Bank</td>
<td>2007.9.8</td>
</tr>
<tr>
<td>5 ABN AMRO Bank N.V. Taiwan</td>
<td>Taitung Business Bank</td>
<td>2007.9.22</td>
</tr>
<tr>
<td>6 Citibank Taiwan Ltd.</td>
<td>Bank of Overseas Chinese</td>
<td>2007.12.1</td>
</tr>
<tr>
<td>7 Cathay United Bank</td>
<td>China United Trust and Investment Corporation</td>
<td>2007.12.29</td>
</tr>
<tr>
<td>8 HSBC</td>
<td>Chinese Bank</td>
<td>2007.12.21 contract signed</td>
</tr>
</tbody>
</table>

b) The FSC granted approval for a merger between Citibank Taiwan Ltd. and the Bank of Overseas Chinese (BOOC). Citibank Taiwan Ltd. acquired the entire operations, assets and liabilities of BOOC by cash, and the deal closed on 1 December 2007. Citibank Taiwan is the surviving entity, and the BOOC's head office and 54 branches continue to operate as part of Citibank Taiwan's network.

c) The FSC approved the establishment of Taiwan Financial Holding Co. The date of establishment was 2 January 2008. Taiwan Financial Holding Co. is a state-run enterprise wholly owned by the government. Its subsidiaries include the Bank of Taiwan, the Land Bank of Taiwan, and the Export-Import Bank of the Republic of China.
M&A deals in the insurance industry:

In October 2007, the FSC approved two consolidation applications. Firstly, AIU Insurance Company Taiwan Branch transferred its whole business, including assets, liabilities, businesses, and insurance policies, to AIG General Insurance (Taiwan) Co., Ltd., a member of the American International Group, Inc., pursuant to the Business Mergers and Acquisitions Act. Secondly, China Life Insurance Co., Ltd. assumed the whole assets and liabilities of Winterthur Life Insurance Taiwan Branch in accordance with the Financial Institutions Merger Act and the Business Mergers and Acquisitions Act.

Improving the asset quality of banks

In order to reduce NPL ratios and improve the asset quality of banks, the FSC amended the Measures to Accelerate the Reduction of Non-performing Loans of Domestic Banks on 5 February 2005. The amended Measures allow for supervisory indicators to be adjusted to reflect improvements in a bank’s NPL ratio. The average NPL ratio for domestic banks was reduced from 3.80% in December 2004 to 1.84% by the end of 2007. Over the same period, the coverage ratio was raised from 30.34% to 64.82%.

NPL ratio and coverage ratio of domestic banks

Increasing the competitiveness of the futures market

Under FSC supervision, the TAIFEX has launched four new products to offer investors more diversified investment/hedge vehicles, including futures and options on the GreTai Securities Market Capitalization Weighted Stock Index and the Taiwan Stock Exchange NonFinance NonElectronics Sub-Index. In addition, five new trading and clearing measures, including the futures market maker program, futures calendar spread mechanism, futures spread marging
mechanism, day trade margin reduction, and SPAN system, were introduced to increase the capital efficiency of market participants, and attract the participation of foreign and institutional investors.

To attract foreign participation and speed the internationalization of Taiwan's futures market, the FSC has adopted the following measures:

1. The FSC now allows overseas Chinese and foreign investors to pay in US Dollars for current NT Dollar denominated contracts.

2. Under FSC supervision, the TAIFEX has launched three US Dollar denominated futures and options products: Gold Futures, MSCI futures, and MSCI options.

3. Foreign traders allowed to participate in Taiwan’s futures market through omnibus account: For offshore Chinese or foreign nationals who may have difficulties opening direct accounts with local futures commission merchants (FCMs), omnibus accounts provide easier access to Taiwan’s futures market. The omnibus account can be treated and processed as a single account regardless how many traders are behind it. Overseas FCMs can choose whether or not to disclose their clients’ identification and trading information to TAIFEX FCMs.

Permitting bills finance companies to deal in brokerage and proprietary trading of fixed-income securities

The FSC expects to increase the number of participants in the fixed-income securities market. As of December 2007, the FSC had granted approvals for seven bills finance companies to deal in brokerage or proprietary trading of fixed-income securities to enhance the trading volume of fixed-income securities. Furthermore, the FSC since October 2007 has allowed bills finance companies to engage in the secondary market for foreign bonds to diversify their asset portfolio risks and enhance asset allocation efficiency. The "Regulations Governing Brokering, Dealing, and Investing by Bills Finance Companies in Foreign Currency Debt Obligations" was then promulgated. Bills finance companies have to meet the qualifications and establish internal control procedure before commencing activities in this line of business.

Deregulating the wealth management business

To enlarge the business scope of financial institutions, the FSC now allows banks, securities firms, and insurance firms to engage in wealth management business to provide customers with asset allocation and financial planning services. In addition, the FSC has amended the "Directions for Banks Engaging in Wealth Management Business", and issued the "Directions for Banks Selling Financial Products to Customers Other Than the Clients of its Wealth Management Department", the "Guideline for Securities Firms Engaging in Wealth Management Business" as well as the "Guideline for Life Insurance Companies Engaging in Wealth Management Business" to regulate the qualifications of wealth managers and request institutions to establish know-your-customer (KYC) procedures, internal control procedures,
risk management systems, product suitability policies, and mechanisms for handling disputes. These guidelines enhance the risk management systems and internal control procedures of financial institutions that engage in wealth management business, govern their conduct in the sale of financial products, protect the rights of their customers, and promote sound development of the wealth management business in Taiwan.

As of December 2007, the FSC had granted approvals for 18 securities firms and 37 banks (including seven foreign banks) to provide wealth management services. The FSC expects financial institutions to improve self-regulation and protect the rights and benefits of their customers. Under FSC supervision, the Bankers Association of the Republic of China issued self-regulatory guidelines for its members in 2007 in order to further protect the rights of customers.

Since January 2006, life insurers have been allowed to conduct wealth management business with the approval of the competent authority. As at the end of 2007, Cathay Life Insurance Co., Ltd., Shin-Kong Life Insurance Co., Ltd., and Nan-Shan Life Insurance Co., Ltd. had been approved to operate the business.

**Broadening business scope and easing capital allocation restrictions**

**Industrial Banks:** In 2007, the FSC amended the "Regulations Governing the Establishment and Administration of Industrial Banks" in order to keep pace with changes in the banking environment and spur further development of industrial banks. The amended Regulations allow industrial banks to invest in an expanded range of securities, raise securities investment caps, revise the formula for calculating the ratio of regulatory capital to risk-weighted assets, allow industrial banks to invest bigger sums in venture capital enterprises, require that investments in manufacturing enterprises made by any company over which an industrial bank exercises control must be included when calculating the amount of such investments made by the bank, and simplify the procedures for reorganizing a surviving entity or newly established entity as an industrial bank after an industrial bank has been dissolved as the result of a merger with another financial institution.

**Bills finance business:** Bills finance companies are allowed to invest in stock-related products to diversify their asset portfolio risks. They may also engage in stock-linked derivatives for their own accounts. Moreover, to reduce credit risks that bills finance companies may encounter by holding on- or off-balance-sheet positions, these companies are allowed to engage in credit derivative transactions for both their own accounts and those of their customers.

**Securities service business:**

1. In order to enlarge the business scope of securities service enterprises, the FSC now allows securities trust enterprises and futures trust businesses to conduct each other’s business, and also allows securities finance enterprises to engage in securities lending.
2. In accordance with offshore fund investment regulations, the FSC adjusted limits on the use of domestic securities investment trust funds and discretionary investment assets for investment in the H-shares and red-chip shares listed in Hong Kong and Macao, and also for investment in securities listed in China.

3. To spur increased securities market activity and decrease the cost of regulation, the FSC relaxed the limits on margin trading and short selling of securities and eased price restrictions on shorting common stock of component companies of either the Taiwan Mid-Cap 100 Index or the Taiwan Technology Index.

The FSC now allows banks to apply for the underwriting and brokerage of beneficial interest securities and asset-backed securities pursuant to the Financial Asset Securitization Act and the Real Estate Securitization Act. This move is intended to ensure that consumers benefit from more efficient investment services.

In order to continue enhancing securities firms' competitiveness in the area of new financial commodities and introduce foreign professional financial expertise from overseas, while also meeting the demands for tailoring such products to specific customers and allowing a diversified range of underlying assets to which they are linked, the FSC on 17 December 2007 amended the "Regulations Governing Securities Firms" adopting a negative listing approach to define the scope of financial derivatives that securities firms and institutional investors are allowed to make.

To broaden the business scope of securities firms and help them internationalize their business operations, the FSC amended the "Regulations Governing Applications for Issuance of Call (Put) Warrants by Issuers" on 28 December 2007 to allow securities firms to issue foreign call and put warrants.

Furthermore, to foster sound development of our securities markets, encourage increased institutional participation, and strengthen financial order and stability, the FSC modified the "Standards Governing the Establishment of Securities Firms" on 2 October 2007 to allow futures commission merchants to concurrently engage in dealing and brokerage of securities business. This change was made to meet the increasingly diverse financial service needs of investors.
**Futures business:** To promote the development of managed futures enterprises and increase their operational efficiency, the FSC now allows managed futures business to be concurrently conducted by enterprises principally engaged in securities and futures business. In addition, the FSC has also expanded the range of assets that managed futures enterprises are allowed to manage for customers.

**Insurance business:** The Insurance Act was amended on 18 July 2007. Among other changes, Article 146 was revised to raise the foreign investment cap to 45% of enterprise funds. In addition, insurers are not allowed to act as directors and supervisors of companies in which they have invested. Furthermore, on 29 August 2007 the Insurance Bureau completed amendments of seven regulations issued under authorization of the Insurance Act, including the "Regulations Governing Insurance Enterprises Engaging in Financial Derivatives Trading." These amendments will enhance the supervisory framework for capital allocations of insurers as well as the implementation of differential regulatory treatment and risk control.

1. In order to provide investors with a more diversified selection of foreign-currency assets, to reduce currency mismatch risks between assets and liabilities, and to promote the efficiency of asset liability management (ALM), life insurers must apply for permission if they wish to sell non-investment-linked life insurance denominated in a foreign currency. In addition, the FSC has also provided for the introduction of "preferred life insurance business," which rewards non-smokers and other customers with low-risk lifestyles. Such customers receive reduced insurance premiums or increased coverage of such consumers. This change is expected to significantly spur the innovation of insurance products, satisfy diverse consumer needs, and upgrade the underwriting techniques of insurers.

2. The FSC continues to study the possibility of further expanding the scope of business activities that insurers are allowed to conduct. It is expected that non-life insurers will be allowed to start offering health insurance in 2008. In addition, the FSC will allow insurers to provide discretionary investment services so that policyholders are able to authorize an insurance company to exercise discretionary allocations of their assets via an investment-linked insurance contract.

3. Encouraging product diversity is an important policy objective of the FSC. An 18 July 2007 amendment to the Insurance Act authorizes the competent authority to grant permission to non-life insurers to engage in health insurance business. In addition, according to the amended Act, insurers are allowed to engage in insurance trust services. This ensures that persons who are minors, mentally impaired, or of diminished mental capacity receive insurance benefits, and helps to ensure that insurance will better fulfill its role of maintaining a stable society.
Practical approach to financial dealings across the Taiwan Strait

In order to coordinate with national policy regarding mainland China, and to meet the needs of insurers, the FSC allows insurers to set up representative offices, branches, subsidiaries in mainland China, and to offer reinsurance there. As at January 2008, the Insurance Bureau has granted approval for insurers to set up 42 representative offices in mainland China.

Financial order and stability

Improving the regulatory environment for financial markets

In accordance with the nine consensual opinions reached at the Conference on Sustaining Taiwan's Economic Development (COSTED) regarding the building of a sound financial market, the FSC has revised the "Operational Principles Governing the Investing Activities of Financial Holding Companies" to make the review mechanism more transparent and thorough.

To encourage foreign institutions to participate in merger and acquisition deals in Taiwan, the FSC has revised the "Standards Governing the Establishment of Commercial Banks" and has approved the application of Citibank to establish a commercial bank.

On 2 October 2007, the FSC amended the "Directions Concerning Applications to Own More Than Fifteen Percent of the Issued Voting Shares of a Same Bank."

In order to strengthen the professional role of CPAs and improve the practice of their profession, the FSC completed an amendment to the Certified Public Accountant Act, with the amendment taking effect on 28 December 2007. Key provisions include the following: introduction of incorporated CPA firms as a new form of CPA firm organization; introduction of CPA professional indemnity insurance; enhancement of the self-regulatory function of the CPA profession; strengthening of CPA independence; and improved supervision of CPA firms.

To enhance the supervision of the business and financial status of insurers and reflect the development of the insurance market and the operation requirements of insurers, an amendment to the Insurance Act was promulgated into law on 18 July 2007. Among other changes, the amended provisions: expand the permitted business scope of non-life insurers and the allowable capital allocations of insurers; raise the limit on foreign investments of insurers; and strengthen the self-regulatory function of the national insurance associations.

Promoting corporate governance and implementing supervision over personal handling shareholder services

1. On 14 February 2007, the FSC issued an amendment to the "Regulations Governing the Administration of Shareholder Services of Public Companies" in order to facilitate the non-physical issuance of securities and to implement supervision over personal handling shareholder services.
2. To promote corporate governance and encourage corporations to establish audit committees and independent directors, on 16 October 2007 the FSC amended Article 2 of the "Regulations Governing Director and Supervisor Share Ownership Ratios at Public Companies and the Auditing Thereof."

3. For the purpose of allowing shareholders to learn about the meeting procedures and contents ahead of a shareholders' meeting and to attend such meeting and exercise their rights actively, the FSC amended Article 6 of the "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies" on 21 December 2007.

**Differential supervision**

1. FSC is working to encourage further improvements in asset quality, streamline application procedures, and encourage more innovation by banks. In order to do so, there shall be fewer restrictions on the business of certain financial institutions in compliance with the criteria set forth in the "Measures to Accelerate the Reduction of Non-Performing Loans of Domestic Banks" (revised on 5 February 2005) and "Directions Concerning the Negative List for Banks Conducting Finance-Related Business" (issued on 23 March 2005).

2. Differential regulatory treatment for the underwriting system:

   In order to strengthen the professional function of underwriters, the FSC will apply differential regulatory treatment based on the performance of underwriters.

   The FSC has amended the "Regulations Governing the Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises" in order to provide a clear definition of what constitutes an onshore funds distributor and to apply consistent treatment to onshore and offshore funds distributors.

   In the futures industry, FCMs are allowed to invest in foreign enterprises and engage in OTC options trading for hedging purposes. In addition, futures proprietary merchants are allowed to borrow ETFs that are listed on the Taiwan Stock Exchange for hedging purposes. Securities firms with concurrent operations in futures are allowed to invest in component stocks of ETFs and the Taiwan 50 index.

   As to the discretionary account operations of managed futures enterprises, the FSC has lowered the minimum amount that managed futures enterprises are allowed to accept from principals to NTD 2.5 million, in order to attract more retail customers. In addition, the FSC has granted permission for managed futures enterprises to possess foreign currency deposits and to invest in bond funds.

3. In order to achieve the goal of differential supervision and encourage insurers to file products carefully, an incentive mechanism for product filing has been established. Insurers
who satisfy certain conditions and gain approval from the competent authority are allowed to adopt the use-and-file system for some insurance products that would otherwise be subject to the prior approval system. In addition, insurers must meet certain qualification requirements before they are allowed to sell non-investment-linked life insurance denominated in a foreign currency. These changes are designed to ensure that insurers will receive differential regulatory treatment that rewards those who run their business well.

Strengthening market exit mechanisms for financial institutions

The establishment of the Financial Restructuring Fund (FRF) is aimed at the cleanup of distressed financial institutions. To make use of the Fund's limited resources, the FSC requires problem financial institutions to submit a self-rescue plan, including a timetable for capital injection and/or merger, and to fulfill the plan under supervision. Troubled financial institutions that fail to complete the plan will be taken over by the government and forced to exit the market. Since 2006, the FSC has directed the Central Deposit Insurance Corporation to take over five troubled financial institutions (Taitung Business Bank, Hualien Business Bank, Chinese Bank, China United Trust and Investment Co., and Bowa International Commercial Bank). In 2007, all of these failing banks (except for Bowa International Commercial Bank) were sold off. In total, the FRF has dealt with 52 troubled financial institutions to date.

The Insurance Act was amended on 18 July 2007. Therein, revisions have been made to Article 143 (which governs the stabilization fund) and Article 149 (which relates to market-exit mechanisms). The amended provisions: strengthen the role of the stabilization fund; empower the competent authority and conservators to apply to the court for reorganization; and restrict the period of conservatorship. These changes make the market-exit mechanism more efficient and stabilize the financial system.

Strengthening the deposit insurance mechanism

In order to maintain financial stability, the Deposit Insurance Act was amended on 18 January 2007. The major amendments to the Act include: measures to strengthen the financial safety net centered on the depository insurance mechanism; steps to bolster the risk management mechanism; means of dealing with systemic risk, such as a bridge bank mechanism; and provision for replenishment of the insurance reserve fund. The amendment will ensure that trouble financial institutions are dealt with in a timely and effective manner.

Financial examination system reform

The FSC has adopted measures designed to ensure that examiners are able to collect complete information on the operational status and risks of financial institutions in order to determine the most useful line of inquiry in an upcoming full-scope examination. These
new measures are modeled in part after similar examination procedures implemented by financial regulators in the USA, UK, Japan and Singapore. As of 1 July 2007, the FSC now notifies financial institutions of a full-scope examination in advance instead of conducting surprise examinations (such as cash and securities inspections), and also asks that financial institutions enhance their control procedures.

Fostering sound operations of financial industry by conducting financial examinations

To improve the effectiveness of financial examinations, limited examination resources have been focused on financial institutions and businesses with higher risks. In 2007, the Financial Examination Bureau carried out 869 on-site examinations, including 236 full-scope examinations and 633 targeted examinations.

On-site examinations in 2007

<table>
<thead>
<tr>
<th>Financial holding companies</th>
<th>Banks</th>
<th>Securities firms</th>
<th>Insurance companies</th>
<th>Others</th>
<th>Subtotal</th>
<th>Financial holding companies</th>
<th>Targeted examinations</th>
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<tbody>
<tr>
<td>Full-scope examinations</td>
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<td>Targeted examinations</td>
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<td>5</td>
<td>4</td>
<td>550</td>
<td>633</td>
<td>869</td>
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Cooperation between financial and law enforcement agencies

In 2007, the FSC referred 105 cases of suspected financial criminal activity to prosecutor's offices or the Investigation Bureau of the Ministry of Justice. Among them, 96 cases have been reviewed by prosecutors or investigated by the Investigation Bureau, and nine cases resulted in an indictment or were closed by prosecutors without an indictment. In addition, the FSC designated financial professionals as "consulting commissioners" to help law enforcement agencies investigate 20 cases of significant financial crimes. Cooperation between financial and law enforcement agencies is an effective way to curtail financial crimes and maintain financial order.

One-stop window for reporting of financial supervisory information

Utilizing the information sharing mechanism to simplify the process of sending of call reports by financial institutions, the FSC has joined forces with the Central Bank and the Central Deposit Insurance Corporation to establish a "One-Stop Window for Reporting of Financial Supervisory Information." We have also completed reporting forms for domestic and foreign banks and bills finance corporations. Through the information sharing platform, the above mentioned agencies are able to obtain necessary information to produce supervisory reports.
that meet their various requirements. The agencies share supervisory information through this mechanism to enhance supervisory effectiveness and cut the reporting costs borne by financial institutions.

Information disclosure

In an effort to improve the quality of the information disclosed by financial institutions, and to bring Taiwan’s accounting principles in line with international standards, the “Regulations Governing the Preparation of Financial Reports by Publicly Held Banks” and the “Regulations Governing the Preparation of Financial Reports by Financial Holding Companies” were amended on 28 June 2007.

Moreover, in order to further implement corporate governance and enforce greater transparency regarding the remuneration of directors, supervisors, presidents, and vice presidents, the FSC amended the “Regulations Governing Information to be Published in the Annual Reports of Banks,” the “Regulations Governing Information to be Published in Annual Reports of Financial Holding Companies,” and the “Regulations Governing Information to be Published in Annual Reports of Bills Finance Companies” on 11 April 2007.

Taiwan’s accounting practices are now more in line with international standards. During 2007, the Accounting Research and Development Foundation in Taiwan issued “Statement of Financial Accounting Standards No. 39: Accounting for Share-based Payment (SFAS No. 39)” and adopted amendments to the “Statement of Financial Accounting Standards No. 10: Inventories (SFAS No. 10).” SFAS No. 39 took effect on 1 January 2008, and the amended version of SFAS No. 10 will take effect on 1 January 2009. In addition to the Statements of Financial Accounting Standards, the “Statement of Auditing Standards No.44: Quality Control for Audits of Historical Financial Information (SAS No.44)” has also been published to bring Taiwan’s auditing practices more closely in line with international auditing standards.

In coordination with the implementation of SFAS No. 34 and SFAS No. 36 from 1 January 2007, the FSC has established an ad hoc team to assist enterprises in switching to the fair value method, and has amended the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants.”

In December 2007, the FSC amended the “Regulations Governing Preparation of Financial Reports by Enterprises Engaging in Life Insurance” and the “Regulations Governing Preparation of Financial Reports by Enterprises Engaging in Non-life Insurance.” In addition to bringing Taiwan more closely in line with the latest trends in international accounting standards, this action was also taken in order to dovetail with amendments to Article 148-1 paragraph 3 of the Insurance Act, the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises,” and the “Business Accounting Act,” and well as the issuance of various Statements of Financial Accounting Standards. The amendments to the two aforementioned financial report regulations include the following requirements: expressing
reinsurance contracts in gross amount; setting aside of premium deficiency reserves; amendments to account title definitions and accounting treatment requirements to coordinate with amendments to the Statements of Financial Accounting Standards; financial reports of life insurers must disclose information regarding how the proceeds of investment linked insurance are invested; and the list of various other disclosure items has been revised.

Financial globalization

International cooperation in financial supervision

From September to December 2007, the FSC received visits from representatives of the US Treasury, Federal Reserve Bank of San Francisco, California Department of Financial Institutions, New York State Banking Department, and French Ministry of Economy, Finance and Industry.

FSC senior officials always use the opportunity at international meetings or visits to establish direct communication channels with the financial authorities of other countries. In 2007, FSC officials visited the India, US, UK, Singapore, Vietnam, Australia, Peru, Thailand, Indonesia, Germany, Switzerland and Dubai and have met with senior officials of financial supervisory agencies in those countries.

In light of the increasing prevalence of cross-border financial activity, prevention of cross-border financial crimes has become a high priority concern of almost all financial regulators. The FSC has been actively seeking to sign memorandums of understanding (MOUs) addressing cooperation in the field of financial supervision. In 2007, the FSC signed or confirmed MOUs for cooperation in single-sector or cross-sector supervision with the UK, Philippines, Australia, India, Jordan, Egypt, and New York State Department.
Attracting foreign investors

Over the past years, the FSC has continuously eased restrictions on foreign investment in the domestic securities markets and rationalized the trading system. During 2007, the FSC made the block trading system more flexible and simplified the registration procedures for offshore overseas Chinese and foreign nationals. In addition, the FSC has adopted the following measures to encourage offshore overseas Chinese and foreign nationals to invest in Taiwan and promote the internationalization of local securities markets:

1. As of 12 January 2007, domestic finance institutions are now allowed to provide securities settlement financing to offshore overseas Chinese and foreign nationals.

2. As of 21 March 2007, offshore foreign institutes that run privately placed mutual funds and unit trust funds are now allowed to engage in securities borrowing and lending (SBL) transactions.

3. As of 14 April 2007, offshore overseas Chinese and foreign nationals are now allowed to trade in over-the-counter equity derivatives conducted by domestic securities firms.

4. As of 15 June 2007, offshore overseas Chinese and foreign nationals are now allowed to borrow securities from securities finance enterprises.

5. As of 30 July 2007, foreign investors are now permitted to mandate domestic discretionary investment management institutions to conduct discretionary securities investment.

6. As of 1 August 2007, when a global custodian institution changes its domestic custodian institution and transfers its customers as a block to another institution, an agent or a representative who receives joint authorization from the offshore foreign investors may act as their signatory.

7. As of 15 November 2007, for offshore overseas Chinese and foreign nationals who have invested in exchange-listed, OTC-listed, or emerging stocks which are later de-listed from the exchange or OTC market, any transfer of shareholdings within one year from the date of delisting will not require approval from the Investment Commission of the Ministry of Economic Affairs.

As of the end of December 2007, net inward remittances of foreign investors on the year in connection with stock purchases on the TSEC was USD 7.0 billion, an decrease of USD 14.7 billion over 2006 (USD 21.7 billion), while net accumulated remittances since 1992 were over USD 137.6 billion. In 2007, foreign investors were net purchasers of NTD 60.9 billion worth of securities in Taiwan, a decrease of NTD 494.0 billion, or 89%, from the 2006 figure of NTD 554.9 billion. Furthermore, at the end of December 2007, foreign investors held 31.10% of the total market capitalization, also setting a historical record.
### Net Inward Remittances on Foreign Investments in TSE-Listed Shares

![Graph showing net inward remittances from 1996 to 2007.](graph.png)

#### TSE Market Cap. Held by Foreign & Institutional Investors

![Graph showing market cap from 2000 to 2007.](graph.png)

### 2007 Foreign Investment in the Banking Market

<table>
<thead>
<tr>
<th>Foreign Investor</th>
<th>Domestic Financial Institution</th>
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<tbody>
<tr>
<td>1. GE Capital</td>
<td>Cosmos Bank</td>
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<tr>
<td>2. SAC Capital Partners</td>
<td>Cosmos Bank</td>
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<td>3. Longreach Edith Investment Cooperatief, UA</td>
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<td>4. ORIX Group</td>
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<tr>
<td>5. The Carlyle Group</td>
<td>Ta Chong Bank</td>
</tr>
<tr>
<td>6. Gable Fund</td>
<td>Ta Chong Bank</td>
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</table>
Participating in international organizations and activities

To bring our financial market systems more in step with international practice, we actively participate in the activities of international organizations to keep abreast of the latest international trends in the area of financial regulations. We have also been negotiating with a number of countries on market liberalization in order to create more business opportunities for our financial industry. Our interactions with major international organizations in 2007 are as follows:

1. International Organization of Securities Commissions (IOSCO)
   The FSC has attended the IOSCO annual conference in Mumbai, India, the 2006 IOSCO Technical Committee Conference in Japan, and the IOSCO Asia-Pacific Regional Committee in Korea. In addition, we were approved to be listed in Appendix B to the IOSCO Multilateral Memorandum of Understanding (MMOU) in June 2007.

2. International Association of Insurance Supervisors (IAIS)
   IAIS was founded in 1994 and is the most important international organization for insurance supervisors. Taiwan is one of the initial members of the IAIS. In 2007, the FSC sent delegates to attend the IAIS Triannual Meetings in Basel and Dubai. FSC Administrative Vice Chairperson Susan Chang led a delegation to the IAIS Annual Conference in Fort Lauderdale, USA and obtained the right to host an IAIS regional seminar on insurance supervision in Taipei in 2008. The FSC now participates actively in the IAIS Technical Committee, Implementing Committee, Accounting Subcommittee, Insurance Fraud Subcommittee, Solvency & Actuarial Issues Subcommittee, Financial Conglomerates Subcommittee, and Regional Coordination Subcommittee.
3. International Insurance Society (IIS)
FSC Vice Chairperson Susan Change led a delegation in attendance at the 43rd annual seminar of the IIS in Berlin from 8 to 11 July 2007. At the ceremony, Ms. Chang received the IIS "talking stick" from Dr. Jorg von Furstenwerth, CEO of the German Insurance Association in a traditional ceremony carried out between the present host country and the next host country. The 2008 seminar will be held in Taipei next July.

4. World Trade Organization (WTO)
The FSC held a WTO National Seminar on Financial Services on 28 - 29 August, and invited Mr. Juan Marchetti, a counselor in the WTO Trade in Services Division, to serve as an instructor.
5. The European Bank for Reconstruction and Development (EBRD)

The EBRD continued to provide secondment opportunity for the FSC. Currently the FSC has one staff member working for the EBRD. The FSC participated in the 16th Annual Meeting of the Board of Governors of the EBRD in May 2007. The event took place in Kazan, capital city of the Republic of Tatarstan, in the Russian Federation.

6. The Asia /Pacific Group on Money Laundering (APG)

Taiwan was represented at the annual meeting of the Asia/Pacific Group on Money Laundering (held in Perth, Australia on 23 - 27 July, 2007) by the FSC, Ministry of Justice (MOJ), Central Bank, Ministry of Foreign Affairs, MOJ Investigation Bureau Money Laundering Prevention Center, and National Police Administration. On 24 July, the APG general assembly passed a motion to recognize the results of the APG Mutual Evaluation Report on Chinese Taipei carried out earlier in the year. The Mutual Evaluation Report gave high overall marks to our financial institutions for their anti-money laundering measures, and to our government for its supervisory system. The positive evaluation promises to improve the international image of our financial supervisory regime and our financial institutions.

7. In 2007, senior officials of the FSC were invited to attend and speak at the meetings of a number of government and private international financial organizations. A couple of examples include “the Asian Financial Crisis Revisited: Challenges Over the Next Decade” (a conference held by the Federal Reserve Bank of San Francisco) and the annual meeting of the APEC FRTI advisory group

Promoting Taiwan’s financial markets
FSC chairman Sheng-Cheng Hu led a delegation to attend investment roadshows held by the Taiwan Stock Exchange in New York on 6-7 September and London on 10-11 September 2007. While there, Chairman Hu delivered two addresses on “Development of the Economy and Financial Markets in Taiwan” to update US and European investors on the current status and future prospects of Taiwan’s financial markets, as well as investment opportunities to be found here. Chairman Hu also rang the opening bell at the New York Stock Exchange on 7 September and again at the London Stock Exchange on 11 September, visited with top executives at a dozen or so key financial institutions, and met for exclusive interviews with Reuters and four other heavyweight media organizations. These activities were an effective means of familiarizing overseas audiences with investment opportunities in Taiwan’s financial markets, and are expected to result in increased foreign investment.

Holding international conferences

On 6-9 June 2007, the FSC held the 4th Taipei Corporate Governance Forum and Roundtable in Taipei, featuring distinguished speakers and panelists including Mr. Martin Wheatly, CEO of the Securities and Futures Commission of Hong Kong, Dr. Louis Chen, Chairman of the Public Television Service Foundation, Dr. Chen-En Ko, Chairman of the Corporate Governance Association, Mr. Olivier Douvreleur, Head of the Legal Department of AMF, Mr. Thirachai Phuvanatnaranubala, Secretary General of the Securities and Exchange Commission of Thailand, Mr. Joseph P. Borg, Director of the Alabama Securities Commission, Mr. Jamie Allen, Secretary General of the Asian Corporate Governance Association and Mr.
Andreas Utermann, Global CIO of Allianz Global Investors AG. Over 800 participants took part in the forum, including directors, supervisors, and senior executives of local listed companies, securities firms, and financial enterprises. The highly successful forum made substantial contributions to strengthening corporate governance concepts among the management of Taiwan's listed companies, and contributed to the effort to bring local corporate governance more closely in line with international standards.

The FSC hosted Regulators’ Meeting of the 3rd FIA Asia Derivatives Conference on 11 October 2007 in Taipei. In addition to regulators from the United States, Germany, Indonesia, Thailand, and Malaysia, a number of local industry representatives were also among the roughly 65 participants at the events, who met to exchange views on Asian derivatives markets. In addition to providing a platform for communication among Asian derivatives regulators, the event also provided Taiwan with an opportunity to show the progress it has made in internationalizing its futures market.

Inauguration of FSC’s London Representative Office

The FSC London Office marked its opening by holding a reception on 12 July 2007 at the Great Eastern Hotel. Invitees included such notables as David Lewis, Sheriff of the City of London. The London Office will work actively to build up supervisory cooperation between the FSC and its European counterparts, strengthen investor relations, and raise the international profile of Taiwan’s financial market.
Consumer and investor protection

Card debt issues

1. The Debt Negotiation Mechanism was set up on 1 January 2006 and terminated operations on 31 December 2006. Once the program was wound down, the problems of unsecured consumer financing debt reverted once again to being negotiated directly between individual debtors and their card-issuing institutions, which have established dedicated contact points to assist debtors dealing with their debt.

2. The Bankers Association also set up an “Unsecured Consumer Debt Committee” on 1 January 2007 to provide debt advisory services to the public. As of 31 December 2007, the Committee had received a total of 35,755 calls. In cases where follow-up was needed, callers were referred to related banks.

3. To ensure sound development of the credit card and cash card markets and strengthen consumer protection, the FSC promulgated the “Regulations Governing the Cash Card Business of Financial Institutions” on 22 May 2007. In addition, the FSC is planning to amend the “Regulations Governing Institutions Engaging In Credit Card Business” in the near future.

4. To impart to consumers accurate concepts regarding consumption and money management, the FSC will continue working with schools and communities to step up consumer education.

Financial literacy program

The FSC in April 2005 began studying the possibility of launching a Financial Literacy Campaign. After receiving approval from the Executive Yuan, it adopted a three-year plan to run from 2006 through 2008. The following is a quick overview of some basic facts about activities carried out to date:

1. A “School and Community Financial Literacy Campaign” was launched and met with a very enthusiastic response. By the end of 2007, 622 activities had been carried out, attracting a total attendance of around 225,000.

2. The FSC has sponsored financial literacy activities organized by campus clubs and academic departments at colleges and universities. By the end of 2007, 102 activities had been held at 50 different campuses, attracting a total attendance of some 237,000.

3. 17 Financial Whiz Kids Camps have been held where the young generation had a chance to learn about financial matters in a fun and entertaining way.

4. The FSC began compiling textbooks for introductory financial courses, which are scheduled for incorporation into supplementary curricula at the elementary and senior high school
levels by the end of the 2008 school year. This represents an important step towards introducing financial literacy at a younger age.

5. Financial literacy workshops have been held for elementary and junior teachers. By the end of 2007, these workshops had attracted a total attendance of 1,399, and should prove very effective in spreading financial literacy.

6. 44 "Investing in the Future" seminars have been held to help cultivate a proper understanding of personal financial management.

7. The FSC has produced brochures, leaflets, and an animated video addressing matters with an immediate impact on consumer interests. For example, we have printed leaflets advising the public how to avoid falling victim to swindlers, and produced "Financial Whiz" handbooks.

8. A "Financial Literacy Carnival" was held in October 2007 that attracted attendance of some 40,000 to 50,000. The event used entertaining means to inform visitors about new financial products and instill a proper understanding of personal financial management.

9. The FSC has completed a study on how to implement a survey to determine how well the general public understands banking and finance, the first study of its kind in Taiwan.

10. The FSC is currently working to establish a highly functional online learning platform that will integrate financial education resources and tools to provide basic financial knowledge to people at each stage of life. We are also working on animated clips and video games designed to spread financial literacy in a fun way and attract members of the public to visit pages on our website where they will be able to learn more.
Combating financial fraud

As a proactive move to curb financial fraud and the use of dummy accounts, the FSC has adopted the following measures: (1) Asked financial institutions to observe "Know Your Customer" rules when opening accounts for potential customers on a regular basis. (2) Asked the Bankers Association to issue model examination procedures for processing deposit account opening applications, which financial institutions will be required to comply with. (3) Required financial institutions to establish information systems to help inspect for unusual deposit account transactions and to assign a specific individual to inspect deposit accounts with unusual transactions, make necessary follow-ups and prepare an inspection record for on-going monitoring and control. (4) Required financial institutions, when dealing with over-the-counter remittance transactions, to actively inquire about the purpose of remittance and ask whether the remitter is acquainted with the recipient. (5) Called on financial institutions to cooperate with the police to promptly freeze funds that have been swindled from their rightful owner.

In order to prevent moral hazard and adverse selection, the Insurance Bureau has urged insurers to establish a mechanism for the sharing of information on insurance coverage decisions. In addition, the Insurance Bureau has held periodic seminars on insurance crime and related subjects to help law enforcement agencies develop a better understanding of insurance matters. Additionally, the Insurance Bureau participates actively in presentations made by the Consultation and Coordination Committee of Economic Crimes Investigation Center, Taiwan High Prosecutors Office and Economic Crime Prevention Task Force Committee (ECPTFC) of the Ministry of Justice Investigation Bureau to maintain close cooperation with prosecutors, police, and investigation units.

Enhanced investor protection

The FSC has asked the Securities and Futures Investors Protection Center to represent 63,393 investors in 48 class action suits against accountants, underwriters, board directors and public companies that engaged in illegal activities. The center has reached settlement agreements with the above-mentioned parties and received NTD 334 million from accountants and underwriters, NTD 642 million from directors and supervisors, and NTD 40 million from public companies, resulting in a total compensation of some NTD 1,016 million.
Amendment of the Compulsory Automobile Liability Insurance Act and related regulations

1. The "Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance" and the "Regulations Governing the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance" were both amended in 2007 with due consideration given to the trade-off between security and liquidity. Restrictions on the range of assets in which funds parked in the compulsory automobile liability insurance reserves may be invested have been eased. And in order to reflect operational requirements, when insurers suspend business or stop offering this type of insurance, they are classified into two categories: insurers with operational capability that are merely discontinuing sales of compulsory auto liability insurance, and insurers whose financial or operating status has deteriorated so significantly that they are no longer solvent or are unable to perform contractual obligations, and there is no other insurer interested in assuming their business. In the former case, the insurer should transfer the various reserves set aside from compulsory auto liability to the insurers that assume its business. In the latter case, the insurer should transfer the various reserve funds for this type of insurance to the Non-life Insurance Stabilization Fund, which then assumes final liability for indemnity.

2. Amendment of Compulsory Automobile Liability Insurance Tariff

The FSC and the Ministry of Transportation and Communications jointly issued an amendment to the Compulsory Automobile Liability Insurance Tariff on 30 November 2007, with the revised tariff scheduled for implementation from 1 March 2008. Overall, gross premiums for motorcycles will fall by 1.12%, while those for automobiles will decline by 4.49%. For motorcycles and automobiles together, gross premiums will fall by an average of 3.78%.
Guided by a service-driven supervisory culture and the principles of differential regulatory treatment, the FSC will continue to push forward with financial reform in order to facilitate Taiwan’s economic development and keep in step with the trend toward financial internationalization and liberalization. The FSC will work to keep financial regulations and systems up-to-date with international trends, bolster financial supervision, and promote the liberalization and internationalization of our financial markets. Our ultimate goal is to create a fair, sound, and competitive financial environment in Taiwan while strengthening the overall competitiveness of our financial industry in international markets.
Updating of financial regulations

Drafted bills under review in the Legislative Yuan

1. Securities and Exchange Act

We plan to push for the passage of an amendment to the Securities and Exchange Act in 2008. The amendment is expected to provide a number of benefits, including the following: (1) clearer provisions regarding insider trading should help insiders to be law abiding; (2) shorter financial report declaration deadline for all TSEC and GTSM listed companies (whereas they were formerly required to file their financial reports within four months of the end of the year, this deadline has been shortened to three months); and (3) promotion of Taiwan's efforts to become a signatory of the IOSCO MMOU. In addition, the amended provisions also promote international cooperation among securities markets. Where a party is suspected of having violated foreign financial laws and a foreign government investigating, prosecuting, or otherwise involved in legal proceedings regarding the matter requests investigative assistance within the framework of an executed treaty or agreement, the amended Act would authorize the competent authority to demand that agencies, juristic persons, organizations, or individuals connected with suspicious securities transactions furnish relevant account books and documentation or that they appear at an appointed place to provide explanations, and the competent authority may also, as necessary, ask the foreign government in question to dispatch personnel to assist with investigative matters.

2. Certified Public Accountant Act

The FSC has proposed to amend the Certified Public Accountant Act to improve the environment in which CPAs practice their jobs, the quality of their performance, and the regulation of their profession. Major amendments include: allowing the establishment of an accounting firm as a legal person with limited partnership, introducing the professional indemnity insurance mechanism, establishing a single nationwide CPA association, and strengthening the independence and regulation of CPAs.

3. Real Estate Securitization Act

A draft amendment to the Real Estate Securitization Act which would add development property to the list of asset types eligible for securitization was sent to the Legislative Yuan for deliberations in 2005, but deliberations on the amendment were not completed during the sixth Legislative Yuan, so the FSC will re-submit the draft amendment to the seventh Legislative Yuan for review in 2008. In 2007, two real estate securitization cases worth a combined total of NTD 8.11 billion were approved by the FSC. The
amended Act would further improve the ability of businesses to raise capital directly from
the market.

4. Financing Company Act

The FSC has proposed the draft bill for a Financing Company Act which would regulate the
management of financing companies in order to promote a greater diversity of financing
channels.

5. Foreign Exchange Control Act and Offshore Banking Act

To provide the legal basis for financial sanctions in response to the implementation of UN
Resolutions, the FSC and the Central Bank have jointly proposed draft amendments to
Article 19-3 of the Foreign Exchange Control Act and Article 5-2 of the Offshore Banking
Act. The draft amendments related to foreign exchange control are expected to prevent the
provision of financial resources or supports to any person or institution designated by the
UN or other international organizations.

Amendments currently being drafted

1. A Financial Services Act currently being drafted would introduce functional supervision,
seek to better safeguard the interests of financial consumers and investors, and integrate
cross-industry participation in financial services.

2. The FSC is studying an amendment to the Financial Holding Company Act to help improve
cross-selling among holding company subsidiaries and business operations of financial
holding companies, as well as to exercise tighter supervision of business groups.

3. The FSC is studying an amendment to the Banking Act which would establish capital-based
disciplinary measures such as prompt corrective action and a market exit mechanism.

4. The FSC is studying an amendment to the Financial Institutions Merger Act to that NPL
disposal transactions are carried out in accordance with general accounting principles, and
to build up M&A infrastructure.

5. An amendment to the Insurance Act has been drafted to strengthen management of
insurance funds, deregulate fund investments, permit insurers to engage in more types of
businesses, adjust legal procedures and measures for dealing with exiting insurers, and
enhance self-regulation in the insurance industry.

6. In 2007, the Legislative Yuan passed an amendment to the Trust Enterprise Act that
allows securities firms, securities investment trusts, and securities investment consulting
enterprises to engage in trust business. The amended Act also provides for tighter
regulation over trust business operations. And to coordinate with this amendment of the
Trust Enterprise Act, the FSC is studying amendments to related regulations that would
specify: (1) qualification requirements for enterprises intending to conduct this business; and (2) the permitted business scope for such enterprises.

7. In order to strengthen supervision of securities investment consulting enterprises (SICEs), the FSC plans to amend the "Standards Governing the Establishment of Securities Investment Consulting Enterprises," the "Regulations Governing Securities Investment Consulting Enterprises," and the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises." The amendments will require SICEs to raise minimum paid-in capital and lodge an operating bond.

8. The FSC plans to gradually ease the derivatives position applying to offshore funds. This change will be made in order to increase trading flexibility.

**Efforts to create a secure and efficient financial environment**

- **Stronger credit risk control**

  The FSC has directed the Joint Credit Information Center to set up a "Real Estate Evaluation Platform" in order to increase transparency and reduce the risks assumed by financial institutions when they extend loans on real estate transactions.

- **Implementation of the Basel Capital II Accord**

  The FSC prescribed the "Regulations Governing the Capital Adequacy of Banks" on 4 January 2007. All of our domestic banks are required to formally file capital adequacy data according to our revised regulations from 2007.

  In addition, the FSC has also issued requirements concerning Pillar II (supervisory review) and Pillar III (market discipline) of the Basel II Accord on 14 February 2007. To give our banks sufficient time for preparation, Pillar II and Pillar III will be implemented from 2008.

- **Outlook for Taiwanese banks (competitiveness)**

  **A. Revision of the requirements for setting up a new financial holding company:**

  To provide a platform and boost the momentum for financial industry consolidation, the FSC has revised the requirements for setting up new financial holding companies in accordance with the consensual opinions reached at the Conference on Sustaining Taiwan's Economic Development (COSTED). The revised rules impose tougher eligibility criteria for entities seeking to establish FHCs. The idea is to ensure that the competitive pressures faced by existing FHCs are healthy in nature. Currently, several existing financial holding companies do not meet the new requirements, but the FSC is encouraging them to enhance their operational scale and group synergy, or to seek opportunities in merger and acquisition.
B. Wealth management business:

In recent years, banks in Taiwan have actively sought to build up their asset management businesses, utilizing abundant market funds to develop wealth management business and designing new financial products to satisfy demand from the growing population of elderly people, and from the growing number of younger families choosing not to have many children. At the end of December 2006, the total assets of the wealth management market in Taiwan stood at NT$7,477 billion, and by December 2007 the scale of the market had expanded to NT$8,745 billion (annual growth rate: 16.96%). The wealth management market in Taiwan is expected to keep growing in the coming year. Furthermore, the FSC will continue to review related regulations and to promote the sound development of the wealth management business.

C. Overseas branches and offshore banking units (OBUs):

Domestic banks in Taiwan have continued to increase the number of their overseas branches, raising revenue generated from cross border business and developing OBU business. Under the Financial Market Package Project proposed by the FSC in 2006, the Banking Bureau plans to strengthen the function of OBUs, broaden the scope of cross-strait financial activities conducted by OBUs, and promote OBUs as the Asia capital management center for mainland China-based Taiwanese businesses, ethnic Chinese, and foreigners.

At the end of December 2007, the amount of sales revenue of all overseas branches of domestic banks and OBUs was NT$262 billion, and the before-tax earnings of all overseas branches of domestic banks and OBUs was NT$33 billion. Over the next three years, the sales revenue of all overseas branches of domestic banks and OBUs is projected to grow at a 22% average annual rate, while before-tax earnings are expected to grow 21% per year.

- Securities firms to act as depository and manage client funds

To satisfy the increasingly varied demands of investors, and to enhance securities firms' competitiveness, the FSC will allow securities firms to act as depository for clients or manage their funds.

- Integration of securities and futures self-regulatory organizations

In order to boost the international competitiveness and service quality of Taiwan's capital markets, as well as reduce the transaction costs of securities firms, futures commission merchants, and investors, the FSC is planning to establish a holding company that will bring the Taiwan Stock Exchange Corporation (TSEC), Taiwan Futures Exchange (TAIFEX), GreTai Securities Market (GTSM), and Taiwan Depository & Clearing Corporation (TDCC) together as subsidiaries of the holding company.
The holding company will be in charge of mapping out integrated business plans and schedules for the subsidiaries, in order to achieve synergy of integration.

 Continued development of the Taiwan ETF market

To diversify ETF products, enhance strategic allocation among different ETFs, and to help investors achieve better returns, the Taiwan Stock Exchange introduced four new ETFs to the market in 2007. They are the Polaris/P-Shares S&P Custom China Play 50 ETF, Polaris/P-Shares Taiwan Electronics Tech ETF, Polaris/P-Shares MSCI Taiwan Financials ETF, and Polaris/P-shares Taiwan Dividend Plus ETF. The FSC will work closely with securities investment trusts to launch new ETFs and invigorate the Taiwan ETF market.

 Strengthening the solvency of insurance companies

1. In 2007, 12 life insurers increased capital by NTD14.2 billion by way of cash capital increase, capital increase out of earnings, or injection of additional working capital. In addition, two non-life insurers increased capital by NTD 2 billion by way of cash capital increase. These capital injections should help strengthen the solvency of insurance companies.

2. Amendment to the "Regulations Governing the Capital Adequacy Ratio of Insurance Companies"

In the 18 July 2007 amendment to the Insurance Act, Article 143-4 was revised with reference to insurance supervisory mechanisms in America and Europe. Amendments to the "Regulations Governing the Capital Adequacy Ratio of Insurance Companies" set out the regulatory actions to be taken when an insurer's capital adequacy ratio falls below 200% and a requirement regarding how often insurers must file capital adequacy ratios with the competent authorities.

3. Adopting cash flow testing to analyze the reserve adequacy of life insurers

The analysis of life insurers' reserve adequacy is mainly based on the results of cash flow testing. In addition to the best estimate interest scenario and the seven interest rate scenarios required under the Standard of Practice for Appointed Actuaries, the appointed actuary has to run another 200 or more interest scenarios for reserve adequacy analysis so as to enhance the appointed actuary's professional judgment on reserve adequacy.

 Amending the insurance product review system

An amended insurance product review system went into effect on 1 September 2006. Under the new system, a negative list approach has been adopted to streamline product review procedures. In addition, measures have been taken to strengthen self-regulatory function of insurers and signatories, and to enhance the role of post-audits. Within a year of implementing
the system, the industry-wide ratio of insurance products filed under prior approval rules was reduced below 3%, which is precisely what the FSC had intended to achieve when it launched the new product review system. However, the insurance product review system will be reviewed continuously to safeguard consumer interests and prompt insurers to maintain proper business management practices.

- **Continued review of the Taiwan Residential Earthquake Insurance system**

Taiwan’s Residential Earthquake Insurance scheme has been running smoothly since April 1, 2002. As at December 31, 2007, the take-up rate has reached 24.63%. In order to coordinate with the July 2007 amendment to the Insurance Act, Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance was subsequently amended later in 2007. The amended regulations specifically identify the Taiwan Residential Earthquake Insurance Fund (TREIF) as the organization with primary responsibility for Taiwan’s residential earthquake insurance system. The TREIF is in charge of assuming, diversifying, and managing the residential earthquake insurance risks insured by non-life insurance companies. The amendments are designed to head off the possibility that reinsurance default or the possibility thereof might result in uncertainty over who bears liability for risks, and to improve the efficiency of the system. In addition, the amended regulations also establish standard operating procedures for claims settlement, and require the holding of simulation practices; these provisions are designed to ensure that claim settlements can be handled smoothly when earthquakes happen, so that people affected by an earthquake will obtain indemnification without delay.

- **Financial institutions urged to implement a loan pricing policy**

Examiners have been paying more attention to reviewing how well financial institutions comply with their loan pricing policies. Therefore, the FSC urges financial institutions to improve their risk management capability and implement a risk-based loan pricing mechanism in order to assure sound operations and protect the interests of depositors and consumers.

- **Enhancing the preventive function of financial examinations**

If a financial institution is involved in an irregular activity and the matter is discovered due a tip from a citizen, the filing of a complaint, or observations made in the course of a financial examination, the FSC will take appropriate action to limit the operational risks faced by the institution. If it is discovered that a financial institution engaged in relatively risky types of
business has been involved in irregular activity, the FSC will report examination findings and conduct follow-up monitoring to make sure that financial institutions take corrective action to put their business back on sound footing and maintain financial stability.

**Consolidation of financial institutions**

The second phase financial reform is intended to help Taiwan develop into a regional financial service center through consolidation of financial institutions. Ideally, we will have one to three big banks with regional competitiveness co-existing with small niche banks. We have adopted a policy of differential regulatory treatment to provide incentives for consolidation and have formulated supporting regulatory measures. In supervising the consolidation process, the FSC will focus on maintaining the steady development of our financial system and markets while safeguarding the interests of the public and bank employees.

Seven M&A deals were completed in the market in 2007, including a few where foreign banks invested in local banks. These events show that the measures we have taken so far have borne fruit. Our plans for consolidation of the financial industry are summed up as follows:

1. We will provide more incentives for consolidation while honoring the market mechanism to build a fair and transparent environment for consolidation.

2. We will tap into the power of market competition by adopting differential regulatory treatment and promoting greater financial transparency, as well as increasing the availability of financial services and holding financial institutions to a higher standard of social responsibility.

3. Quality financial institutions with good performance and strong competitiveness will be allowed to form financial holding companies through mergers and acquisitions.

4. We will rely on the market mechanism to put pressure on existing financial holding companies that have performed poorly yet have no intention to merge.
Internationalization of the financial industry

Pushing for internationalization of Taiwan's capital market
The FSC continues to promote and internationalize Taiwan's capital market through the development of the foreign currency-denominated international bond market and by bringing Taiwan's financial environment and systems in line with international standards. We hope to attract reputable foreign companies to list in Taiwan and encourage foreign portfolio investors to participate in our markets, which will enhance the competitiveness of Taiwan's capital market. These efforts will help Taiwan to become a regional fund-raising and assets management center, and will also increase employment opportunities and tax revenues in Taiwan.

Promoting corporate governance
In connection with the amendment to the Securities and Exchange Act, the FSC has promulgated the "Regulations Governing the Installation of Independent Directors of Public Companies and Related Compliance Matters", the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies", and the "Regulations Governing the Proceedings of Board of Directors Meetings of Public Companies" to facilitate implementation of various corporate governance measures and provide public companies with compliance requirements. The FSC will hold international conferences, such as the Taipei Corporate Governance Forum, on an ongoing basis to give guidance on improving corporate governance and information transparency as well as to boost investor confidence.

International cooperation
The FSC aims to establish more communication channels with the financial regulators of other countries and bring about the signing of bilateral cooperation agreements, such as MOUs or exchanges of notes, to ensure fast access to relevant information when a cross-border financial incident occurs, in order to protect the interests of our consumers.
The FSC will also actively participate in WTO talks to negotiate with more countries about market liberalization. This will essentially create more business opportunities for our financial industry and help domestic financial institutions develop in international markets. In addition, as the securities markets of several major developing countries are still in the budding stages, Taiwan is moving steadily towards joining the ranks of developed markets. The FSC is willing and ready to share our experiences with developing countries to aid the development of their securities markets while taking the opportunity to help our financial institutions enter into overseas markets.

**Financial literacy initiatives**

Because consumption activities are directly related to a person's daily life, it is essential to cultivate healthy consumption habits and responsible attitudes toward investing. In addition to proceeding with current efforts, future projects will entail:

1. Implementation of financial literacy on campuses through the inclusion of financial education in textbooks, distribution of editorial supplemental materials and mandates for teachers, encouragement for teaching of financial literacy in schools, as well as informational seminars for teachers.

2. Collaboration with The Bankers Association R.O.C., The National Federation of Co-operatives R.O.C., Taiwan Academy of Banking and Finance, and ROC Consumer's Foundation to carry out financial literacy campaigns on campuses and throughout Taiwan, and to extend further the activities for the benefit of military personnel and indigenous communities. As well as to hold events showing educational videos and holding lectures to help students and the public develop correct attitudes toward consumption and personal financial planning.

3. Cooperation with volunteer groups to serve the indigenous communities of Taiwan for increasing financial literacy and competence.

4. Sponsorship of financial literacy activities organized by qualified universities and associations.

5. Consolidation of resources scattered among different financial licensing and training agencies to effectively foster the development of financial talent.
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Address
(22041)18F., No.7, Sec. 2, Sianmin Blvd., Banciao City, Taipei County 220, Taiwan (R.O.C.)

Tel
886-2-8968-0899

Fax
886-2-8969-1215

Website
www.fsc.gov.tw

Art Design & Printing
RandL Design

Address
2F., No.17, Section 3 Jinan Road, Taipei, Taiwan (R.O.C.)

Tel
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