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- Promotion of cross-strait financial ties
- Promoting sound development of financial markets
- Promoting internationalization, seeking convergence with international practices
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- Hosting of international events in Taiwan
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2011 marked the 100th anniversary for founding the Republic of China in Taiwan, thus a year worthy of celebrating. For our financial services sector, it was a particularly important year.

Despite the impact of the eurozone debt crisis, an unexpectedly sluggish global economic recovery, and problems plaguing the efforts of some sectors of the Taiwan economy to achieve industrial upgrading, our domestic banks nevertheless managed to post pre-tax earnings in excess of NT$200 billion, while their average NPL ratio fell to 0.43% and their average NPL coverage ratio went up to 251.83%. All these figures are the best they have been in more than a decade. However, it cannot be denied that the global economy and financial markets continue to face uncertainty. Moreover, the Basel Committee on Banking Supervision (BCBS) has required the adoption of new capital adequacy requirements from 2013 in order to bolster the quality and quantity of capital, and our domestic banks need to prepare for the new requirements. The FSC on the one hand is aligning with global financial supervisory trends by continuing to study possible changes to Taiwan's capital adequacy regulations. At the same time, we are also encouraging banks to actively raise their NPL coverage ratios, improve their gross loan coverage ratios, and work out proper dividend policies in order to strengthen their risk-bearing capacity.

In order to better protect the interests of financial consumers, we have shepherded a "Financial Consumer Protection Act" (FCPA) through to enactment by our legislature, thus marking the beginning of a new era in the development of our financial services industry. The FCPA was promulgated by the President on 29 June 2011 and entered into force on 30 December. Moreover, the Financial Ombudsman Institution (FOI), a financial consumer dispute resolution body which was established upon the authority of the FCPA, commenced operations on 2 January 2012. The FSC will continue overseeing the FOI to ensure that it acts in line with the legislative intent of the FCPA by working in a professional, impartial, and proactive manner to handle financial consumer disputes, so as to win public trust.

In addition, an amendment to "Securities and Exchange Act" was promulgated on 4 January 2012 in order to further increase the depth and breadth of Taiwan's securities markets. Key amended provisions include the following: (1) a new chapter focusing specifically on foreign companies has been added in order to flesh out legislative provisions governing foreign companies when they seek to list their securities in Taiwan; (2) the range of companies that are required to prepare IFRS-compliant financial reports has been specified in order to facilitate efforts to bring Taiwan more closely in line with international accounting principles; (3) a newly added provision gives shareholders of companies listed on the Taiwan Stock Exchange, GreTai Securities Market, or the Emerging Stock Market the right
to apply for investigation of certain company matters in order to protect their interests; and (4) for applications to list securities, suspend a listing, reinstate a suspended listing, or permanently delist securities, the FSC has switched from a prior approval requirement to a registration requirement in order to accommodate standard operating practices within the industry.

We also completed an amendment to the "Insurance Act" in 2011, key points of which include the following: (1) life insurance enterprises engaged in foreign-currency denominated non-investment life insurance business are now allowed to apply to the competent authority for permission not to count investments made in connection with this type of business against the quota for their total foreign investments; and (2) all insurance agencies and insurance brokerages bigger than a certain size are required to establish internal control and internal audit systems in order to ensure sound development of the insurance industry. In addition, the need for prudential supervision and observance of financial accounting principles must be properly balanced with the business needs of insurers, the FSC established a foreign exchange volatility reserve mechanism in late 2011. Under the mechanism, life insurers since 1 March 2012 have had the option of regularly setting aside provisions to their foreign exchange volatility reserve to establish a buffer against foreign exchange volatility. The FSC has also adopted a coordinated set of related measures designed to afford life insurers greater flexibility in their efforts to manage currency risk and reduce costs, thereby achieving stronger financial footing.

2011 was also a very good year for cross-strait financial ties. The FSC and the mainland's China Banking Regulatory Commission established the Cross-Strait Banking Supervisory Cooperation Platform, thus inaugurating a framework for systematic, regular meetings between supervisory authorities from the two sides. The two sides have met twice so far, and have already helped the mainland branches of six Taiwan banks commence business operations. Thanks to commitments made under the Early Harvest lists of the Economic Cooperation Framework Agreement (ECFA), these banks have been able to apply for permission to handle RMB banking business for Taiwan-invested firms in the mainland, and one of the banks has already had its application approved. In addition, financial services firms are now much less restricted in the range of business activities that they are allowed to conduct on the other side of the Taiwan Strait. For example, we have eliminated restrictions on the permissible business scope of domestic banking units (DBUs), offshore banking units (OBUs), and offshore commercial representations of Taiwan banks, as well as restrictions on what kind of counterparties they are allowed to do business with. In addition, the OBUs and offshore commercial representations of Taiwan banks are now allowed to handle RMB banking business. The FSC will continue actively seeking to win more favorable market access conditions in the mainland for Taiwan's financial services firms, and will move forward steadily to promote closer cross-strait financial industry ties and cooperation.

To promote sound development of our financial services industry, the FSC has adopted a set of "financial services development" objectives and strategies, and these have been incorporated among the main policy focuses of the government's "Golden Decade, National Visions" plan. Looking to the future, the FSC will continue implementing a series of initiatives in line with the Golden Decade plan and the financial services development strategies. In this regard, we have identified "the development of financial services with special cross-strait characteristics" and "development of a Taiwan-centered Personal Financial Planning Platform" as the two main strategies for developing our financial services industry. By developing financial services with special cross-strait characteristics, we hope to see domestic financial services firms: (1) make use of cross-strait economic and trade activities as a foundation for integrating their domestic branches, overseas commercial branches, and their commercial presences in the mainland; and (2) plan for the development of services related to the needs of Taiwan-invested enterprises in the mainland. By developing a Taiwan-centered Personal Financial Planning Platform, we hope to achieve the goal of "getting the money of our citizens into domestic financial institutions, where it is handled by our citizens and invested globally to obtain maximum returns for our citizens."

Yuh-Chang Chen, Chairman
Financial Supervisory Commission (FSC)
Organization
And Duties

The Financial Supervisory Commission (FSC) was established on 1 July 2004 as the competent authority responsible for supervising, regulating, and facilitating the development of financial markets and financial services in Taiwan, and for conducting financial examinations. The FSC seeks to ensure safe and sound financial institutions, maintain financial stability, and promote the development of our financial markets. Since its establishment, the main goals of the FSC have been to: create a sound, fair, efficient, and internationalized environment for the financial industry; strengthen safeguards for consumers and investors; step up education efforts; help companies achieve sound development; maintain financial stability; and spur the financial industry to establish an international presence in order to make it more competitive internationally. Hopefully, the achievement of these goals will bring about the emergence of a more sophisticated financial sector that features stability and a forward-looking perspective.
Organization
The FSC comprises four departments, four offices, four bureaus, and a government-owned business, 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.

An amendment to the "FSC Organic Act" was promulgated on 29 June 2011, and entered into force from 1 July 2012. The FSC has one chairperson, two vice chairpersons, and six to twelve commissioners. The Minister of Finance, the Minister of Economic and Energy Affairs, and the Minister of Justice shall be ex-officio commissioners. In addition, all commissioners who were appointed before the act was amended shall be ex-officio commissioners until the end of their appointed terms, while the rest of the commissioners are appointed (or retained) by the premier from among persons with related expertise and senior government officials with a relevant portfolio.
Duties

1. 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 services enterprises. The terms "financial markets" and "financial services enterprises" are defined as follows:

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

   (2) Financial services 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 services enterprises. However, the Central Bank is the competent authority in charge of the payment system.

2. Pursuant to Article 4 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.

Personnel

According to the "FSC Organic Act," the authorized workforce of the FSC totals 1,091 persons, which includes 146 persons for the FSC head office and 945 persons for all bureaus under the FSC. As of the end of 2011, the FSC head office had 88 employees while the bureaus employed 783 persons, for a total of 871 persons.
COMMISSIONERS AND OFFICERS

Chairman
Yuh-Chang Chen

Vice Chairperson
Jih-Chuu Lee

Vice Chairperson
Tang-Chuieh Wu

Commissioner
Ya-Hwei Yang

Commissioner
Yin-Hua Yeh

Commissioner
Tsong-Rong Tsai

Commissioner
Chi-Chaun Lue

Commissioner
Yi-Hong Hsieh

Commissioner
Jan-Jyih Lin

Chief Secretary
Tiup-Chang Lin

Director General of
Banking Bureau
Haien-Hung Kuei

Director General of
Insurance Bureau
Tien-Mu Huang

Director General of
Securities and Futures Bureau
Ch-Halan Lue

Director General of
Financial Examination Bureau
Huay-Jai Jong
Major Legislative Accomplishments in 2011
Enactment of the "Financial Consumer Protection Act"

The "Financial Consumer Protection Act," which was promulgated by the President in June 2011 and entered into force on 30 December 2011, provides a legal basis for the establishment of a financial consumer dispute ombudsman body. Acting pursuant thereto, the FSC provided the capital to fund the establishment of the Financial Ombudsman Institution (FOI), which started operating on 2 January 2012 and takes two basic approaches to its work. The first is a proactive approach, which involves educating the public. The second is a reactive approach, i.e. dispute handling. The establishment of the FOI will make it possible to resolve financial consumer disputes more quickly, fairly, reasonably, and professionally.

Meanwhile, the "Financial Consumer Protection Act" provides that a financial services enterprise, in publishing or broadcasting advertisements or carrying out solicitation or promotional activities, shall not engage in falsehood, deception, concealment, or other conduct sufficient to mislead another party. It also provides that before a financial services enterprise enters into a contract with a financial consumer for the provision of financial products or services, it shall fully understand the information pertaining to the financial consumer in order to ascertain the suitability of those products or services to the financial consumer, and it shall also fully explain the important aspects of the contract to the financial consumer and fully disclose the associated risks.
Amendment of the "Securities and Exchange Act"

The "Securities and Exchange Act" is the main basis for the regulation of securities markets in Taiwan. The quality of its provisions and their enforcement affects prospects for sound development of our securities markets. Accordingly, this act has always attracted close scrutiny. The most recent amendment to the act was promulgated on 4 January 2012. A total of 26 articles were amended, and the key points of the amendments include the following:

- (1) Certain provisions of the "Business Entity Accounting Act" are rendered inapplicable in order to accommodate the efforts of public companies to adopt IFRSs.

- (2) In order to improve the quality and timeliness of corporate information disclosures, and to accommodate the adoption of IFRSs, the amended provisions require that a CPA issue a review opinion on the financial reports for Q1, Q2, and Q3 of 2013, and that these reports be submitted to the board of directors, publicly disclosed, and filed with the competent authority within 45 days of the end of each of the respective quarters.

- (3) In order to safeguard minority shareholders, and making reference to Article 245 of the "Company Act," the "Securities and Exchange Act" newly provides that any shareholder that has continuously held, for a period of 1 year or longer, 3 percent or more of the total number of the outstanding shares of a company listed on the Taiwan Stock Exchange (TWSE), the GreTai Securities Market (GTSM), or the Emerging Stock Market may—if they deem that a specific matter materially damages the interests of shareholders—apply (providing reasons, related evidence, and explanations of necessity) to have the competent authority inspect certain specified matters pertaining to the securities issuer, and the competent authority will proceed with an inspection if it deems it necessary.

- (4) A special chapter has been added to address matters pertaining to foreign companies. This provides a fully fleshed out legislative framework to govern primary and secondary listings by foreign companies in Taiwan, thereby better satisfying the principle that the regulation of foreign companies should be governed by laws that are clear and definite, as well as the principle of *nullum crimen sine lege*, i.e. there can be no crime unless a law prohibits the act. This addition will help to bring about more efficient securities markets.
Amendment of the "Insurance Act"

To coordinate with implementation of the "Personal Information Protection Act," and to strike a proper balance between the needs for protection of personal information and development of the insurance industry, the "Insurance Act" was amended on 29 June 2011 to provide that before an insurer collects, processes, or uses personal information such as medical records, medical treatment records, or health examination results of any individual, it must first obtain that person's written consent.

In order to maintain order in the financial services industry and safeguard consumer interests, wording that previously provided for administrative penalties against any insurer (or any foreign agent, broker, or solicitor) established in a manner not in accordance with the "Insurance Act," has been amended to provide instead for criminal penalties.

In order to afford insurers the opportunity for greater asset allocation efficiency, and to meet the need of local citizens for a more diverse range of choice in insurance products, Article 146-4 of the "Insurance Act" was amended on 30 November 2011 to add new language providing that an insurer that sells non-investment-linked insurance products denominated in a foreign currency may, if it meets certain conditions, apply with the competent authority for permission not to count investments made in connection with such products against its cap on total overseas investments.

Amendment of the "Banking Act"

Article 12-1 of the "Banking Act" was amended on 9 November 2011 to provide that, in extending a loan for an owner-occupied residence or a consumer loan, a bank shall not require provision of joint and several guarantor(s) for any reason whatsoever, and if the bank has obtained sufficient collateral, it shall not require provision of guarantor(s) for any reason whatsoever. In the wake of the amendment, a bank may ask for an ordinary guarantor only when the purpose is to enhance the credit of a borrower who is not sufficiently creditworthy, or when the creditor himself voluntarily provides a guarantor to the bank to enhance his credit. In the meantime, Article 12-2 was amended to provide that where a guarantor has been obtained for a loan for an owner-occupied residence or a consumer loan, the duration of the contract of guaranty shall not exceed fifteen years from the date of formation of the contract, unless written consent of the guarantor has been obtained.
Important Financial Measures Taken in 2011
Financial institutions allowed wider scope of business, greater operating flexibility

1. Greater scope of business, stronger competitiveness

(1) The FSC amended the “Directions for the Conduct of Wealth Management Business by Securities Firms” to lower from 250% to 200% the minimum capital adequacy ratio that must be maintained by a securities firm that operates a trust-type wealth management business. This change is intended to facilitate the efforts of securities firms to grow their businesses. When securities firms first started operating this type of business in February 2011, there were just two firms doing it, and their total assets under management (in 11 different accounts) amounted to a mere NT$300,000. By December of 2011, however, there were nine securities firms with NT$3.3 billion in assets under management (in 23,855 accounts).

(2) To satisfy the increasingly varied demands of investors and afford them another method of hedging risk, the FSC on 1 July 2011 began allowing the issuance by securities firms of callable bull/bear contracts. As of the end of 2011, the size of the overall market for warrants stood at NT$327.8 billion, or 1.05% of total market trading by value. Within this category, there were 190 callable bull/bear contracts listed on the TWSE or GTSM, and trading in them amounted to NT$6.35 billion.
(3) In order to continue building up a broader and deeper futures market, and to provide traders with a wider range of futures trading choices, the FSC:

a. agreed to a proposal to let the Taiwan Futures Exchange (TAIFEX) relax the criteria for what types of stocks are eligible as underlying stock of single-stock futures, with the relaxed criteria based on rules governing what types of securities are eligible as underlying stock of exchange-listed warrants;

b. simplified the rules for how to make adjustments when dividends are paid out on the underlying stock of a single-stock future;

c. established a regular market maker system to inject greater liquidity into the market for single-stock futures. The TAIFEX launched a combined 196 single-stock futures contracts on 3 May and 18 August 2011. As of the end of December 2011, a total of 234 such contracts had been launched, with an average day volume of 10,006 lots, up 226.03% from the average day volume of 3,069 lots in 2010.

(4) Bills houses are now allowed to conduct short-term foreign-denominated bills business.

(5) The FSC now allows an overseas fund issued by a domestic investment trust to invest up to 30% of its net asset value in securities listed on a mainland market, up from the previous cap of 10%. In addition, investments in exchange-traded funds (ETFs) are not counted against this cap.

(6) Securities firms are now allowed, when brokering the trading of foreign securities, to accept trading orders from professional institutional investors (that have been approved, by the competent authority with the relevant jurisdiction, to invest in mainland securities) and directly place orders with securities firms in the mainland to trade in mainland securities.

(7) Offshore banking units (OBUs) are now allowed to act as trustees of trust investments in, or do their own proprietary investments in, foreign-currency-denominated funds offered and issued domestically by a domestic securities investment trust enterprise.
The overseas branches and OBUs of commercial banks are now allowed to invest in securities issued by a government body or company from the mainland.

Insurers that invest in mainland securities are now allowed to invest in specified types of RMB-denominated securities issued in Hong Kong, such as: Hong Kong red-chip shares; securities of companies incorporated in the PRC and nominated by the Chinese Government for listing and trading on the Hong Kong Stock Exchange ("H shares"); securities issued by companies whose shares are components of the Hang Seng China-Affiliated Corporations Index; and related ETFs. In addition, such insurers are also now allowed to invest in RMB-denominated corporate bonds and financial bonds issued by foreign entities on the Hong Kong Stock Exchange, and in bonds issued on the Hong Kong Stock Exchange by international bodies.

Insurers that meet certain criteria are now allowed to invest in the shares of futures trust funds offered to unspecified persons.

2. Steps to help insurers reduce operating overhead
A foreign exchange volatility reserve mechanism for life insurers has been established in order to afford life insurers greater flexibility in the management of currency risk and help them lower their hedging costs, thereby strengthening their solvency.

3. Continued encouraging top-notch foreign companies to apply for TWSE and GTSM listings

From the year 2009 to 31 December 2011, an additional 32 foreign companies had completed listings in 2011 of Taiwan depositary receipts (TDRs), bringing to 35 the total number of firms with TDRs listed here. In the meantime, 30 foreign companies had obtained primary TWSE or GTSM listings by that date, and 11 foreign firms had registered on the Emerging Stock Market. Also, 12 foreign companies had pending applications for primary TWSE or GTSM listings, two companies had pending TDR applications, and 63 foreign companies had entered into underwriting advisory contracts with domestic underwriters.

The FSC has recently taken a number of actions to strengthen investor safeguards, including the following supervisory measures: TWSE and GTSM listing applications are being examined more closely; securities underwriters are being held to a higher standard of liability; stronger procedures have been adopted to ensure that TDRs are reasonably priced; foreign issuers are now required to adopt more clear-cut dividend policies; the market-exit mechanism for foreign issuers has been improved; and information disclosure has been enhanced. These measures are designed to protect shareholder interests. As of 1 January 2012, foreign companies are now allowed to list stock at a par value of other than NT$10.

4. Strengthened securities market regulation, and reviewed trading rules
Out of consideration for the operating costs of securities firms and the financial condition of the TWSE and GTSM, the FSC lowered the rates for transaction and service charges on securities trades. Beginning from 1 December 2011, the TWSE securities transaction charge was lowered from NT$0.572 to NT$0.52 per NT$10,000 in transaction value, while the GTSM’s service charges were lowered from NT$0.65 to NT$0.585 per NT$10,000 in transaction value.
(2) In order to ensure market safety while simultaneously accommodating the need of securities firms to maximize capital efficiency, the FSC decreased the size of clearing and settlement fund deposited by securities firms from NT$10.8 billion to NT$8.4 billion. The required fund contributions of individual securities firms have been lowered from NT$7.4 billion to NT$5.0 billion, while the contributions of the TWSE and GTSM remain unchanged. In addition, a series of coordinated measures were also taken to maintain the security of transaction settlements in our securities markets.

(3) In order to afford securities investment trust funds greater flexibility and efficiency in their capital allocations, while at the same time regulating their investment risks, the FSC now allows investment trust funds to invest in: the shares of emerging-stock companies that have received approval from the FSC to list on either the TWSE or the GTSM; and US Rule 144A debt offerings. In addition, the FSC further began last year allowing bond funds that invest mainly in emerging market bonds to invest in high-yield bonds. The FSC also adopted caps that apply to such investments.

5. Facilitated efforts of firms to raise capital

(1) Adopted financial assistance measures as part of the government's Economic Stimulus Program

The strategies of "stabilizing the financial sector" and "helping industry" were adopted as part of the government's Economic Stimulus Program at a Cabinet meeting on 1 December 2011. These strategies include the following aspects:

a. Assurance of steady financial markets: The FSC acted in a timely manner to coordinate the ROC Bankers Association's administration of a program of mortgage principal deferment or rescheduling for involuntarily unemployed residents of owner-occupied homes.

b. Help for companies to obtain needed working capital and avoid liquidity crunches: For any firm which is operating normally and is current on the interest payments on its outstanding loans, but which—

* needs cash flow assistance, or

* has taken out a stock-secured loan but is now experiencing cash flow or operating difficulties due to depreciation of the stock,

—the FSC coordinated last year with the ROC Bankers Association to establish a mechanism for assisting such firms.

And for any firm which is operating normally but is experiencing liquidity or financial difficulties, the FSC worked via the small and medium enterprise (SME) advisory system of the Ministry of Economic Affairs to help such firms obtain the active assistance of financial institutions.
(2) Helped SMEs obtain funding

To help SMEs obtain working capital, the FSC continued promoting the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises," and encouraged banks to promote SME loans with proper risk control and management. The total outstanding loans extended to SMEs by domestic banks stood at NT$4,074 billion (or 46.88% of total outstanding loans to all enterprises, and 51.44% of total outstanding loans to all private-sector enterprises) as of the end of December 2011, up by NT$397.4 billion from the end of 2010 and far in excess (i.e. 198.70% of target) of the 2011 targeted increase of NT$200 billion. These figures show that banks are getting much more attention in the lending market to SMEs.
Continued helping listed companies to raise capital

The FSC actively promoted the development of Taiwan as a fund-raising platform for high-tech and innovative firms. Efforts to increase the size of our securities markets resulted in 164 new TWSE and GTSM listings from 2010 through the end of 2011, and all TWSE- and GTSM-listed companies had raised a combined total of NT$534.66 billion of capital in Taiwan as of the end of 2011. In addition, as of the end of 2011, the total market capitalization and securities trading value of TWSE-listed companies in Taiwan accounted for 1.34% and 1.41% of the respective global totals.

Efforts to encourage high-quality and high-priority companies to obtain exchange and OTC listings resulted in 103 new listings by high-tech and innovative companies, whose combined market capitalization now stands at NT$10,552 billion. The increased number of listed firms, and the increased amount of capital they’ve raised, have generated job opportunities at securities firms and other related lines of business.

New Listings Since 2010(Cumulative Statistics): Technology and Innovative Enterprises vs. All companies
Promoted cross-strait financial services dealings

1. Established the Cross-Strait Banking Supervisory Cooperation Platform

In order to establish a mechanism for institutionalized cross-strait communications and actively help domestic financial institutions access the mainland market on favorable terms, the FSC on 25 April 2011 held the first meeting of the Cross-Strait Banking Supervisory Cooperation Platform in Taipei to work out the content and operational mechanism of the platform. The second meeting of the Cross-Strait Banking Supervisory Cooperation Platform was held on 23 November 2011 in Beijing. Substantive discussions took place regarding currently pending applications for the establishment of commercial presences, and implementation of commitments made pursuant to the ECFA Early Harvest lists. These discussions led to a concrete consensus on numerous points.

2. Development of cross-strait financial services

Cross-strait economic and trade ties are very close. The demand for financial services stemming from trade activities constitutes the mainstay of related financial dealings, and is the key focus of efforts to open up the cross-strait provision of financial services. The FSC took a number of measures in 2011 to facilitate the development of this type of business, and as a result, Taiwan banks are now able to integrate the functions of their offshore banking units (OBUs), domestic foreign-exchange designated banking units (DBUs), and overseas branches. And, based on the needs generated by cross-strait economic and trade activities, they can also develop highly competitive corporate financial services that feature special cross-strait characteristics. The aforementioned measures include the following:

- (1) Restrictions on the scope of cross-strait financial business dealings conducted by DBUs and OBUs have been lifted. Such business dealings are now subject instead to the "Offshore Banking Act" and the regulatory requirements of the host jurisdiction where a given overseas branch is located.

- (2) The mainland lending of OBUs and overseas branches of Taiwan banks is no longer limited to mainland-based Taiwan-invested enterprises or mainland-based foreign enterprises; lending to mainland enterprises is also now allowed.

- (3) Guarantees provided by mainland financial institutions that meet certain conditions may be deemed "secured credit" as defined in Article 12 of the "Banking Act."
The FSC guided domestic banks in their efforts to break into the mainland market, made use of cross-strait financial supervisory cooperation, and acted in accordance with international cross-border supervisory rules to exercise effective regulation:

■ (1) The "Regulations Governing the Banking Activity and the Establishment and the Investment by Financial Institution Between the Taiwan Area and the Mainland Area " were amended to eliminate the provisions whereby a Taiwan bank wishing to establish a mainland branch or subsidiary or take a strategic equity stake in a mainland bank could either do so itself, or do so via a banking subsidiary in a third jurisdiction, but had to choose between one or the other of these routes. In addition, the 2011 amendment also eliminated the provisions whereby such a Taiwan bank or a third-jurisdiction subsidiary thereof could only do two of the three aforementioned investments – i.e. establish a mainland branch; establish a mainland subsidiary; or take a strategic equity stake in a mainland bank – and a strategic equity position could only be taken in one mainland bank.

■ (2) Restrictions on the range and number of mainland financial services enterprises in which financial holding companies and banks are allowed to invest have been relaxed. The FSC has already approved 10 applications by financial holding companies or banks seeking permission for a subsidiary to establish financial leasing companies in the mainland, one application by an entity seeking to establish a venture capital firm there, and two applications by industrial banks seeking permission for a subsidiary to invest in a mainland venture capital firm.
3. Establishment of cross-strait business locations

- (1) Banking
  As of the end of June 2012, the FSC has granted approvals for 11 Taiwan banks to set up branches (or sub-branches) in the mainland, of which eight branches have already opened. Taiwan banks have also established eight representative offices in the mainland. As of the end of July 2012, mainland banks have established two branches and two representative offices in Taiwan.

- (2) Securities and futures
  As of the end of 2011, the FSC has issued approvals for four securities investment trust enterprises to make equity investments to establish new mainland fund management companies, one of which is already in business. In addition, 13 securities firms have established 25 representative offices in the mainland, while two securities investment trust enterprises have set up representative offices there.
  Seven domestic securities investment trust enterprises have applied with mainland authorities for recognition as Qualified Foreign Institutional Investors (QFIIs). Six have received recognition as QFIIs from the mainland securities regulatory authority, and all of them have been approved by the mainland foreign exchange regulatory authority to invest up to a maximum of US$570 million. Seven domestic insurers have applied with mainland authorities for recognition as QFIIs. Four have been recognized as QFIIs by the mainland securities regulatory authority, but none has yet received an investment clearance from the mainland foreign exchange regulatory authority.

- (3) Insurance
  As of the end of June 2012, nine Taiwan insurers have received approvals to make strategic equity investments in the mainland, and six of them have already completed the investments. In addition, 11 domestic insurers have established 14 representative offices in the mainland.
Internationalization of Taiwan's financial services markets and alignment with international practices

1. Promoting IFRS adoption by public companies and other entities

In order to make Taiwan's capital markets more internationally competitive, and to lower the overall cost to Taiwan companies when they raise capital abroad, the FSC will require listed companies and financial institutions supervised by the FSC to prepare IFRS-compliant financial reports beginning from 2013. Such companies have had to prepare IFRS-compliant financial statements since 1 January 2012. Taiwan, in other words, has entered upon the first year of "the IFRS era."

(1) Legislative amendments: To coordinate with IFRSs adoption, the FSC amended regulations governing the preparation of financial reports by securities issuers, securities firms, futures firms, banks, bills finance companies, financial holding companies, and insurers. In addition, the FSC also amended regulations governing establishment of internal control systems by public companies as well as securities and futures service enterprises.

(2) Established a communications platform: The IFRSs Service Center was established on 8 June 2011 to provide an integrated service platform for helping enterprises solve problems arising in connection with IFRS adoption.

(3) IFRSs troubleshooting: The FSC prepared five IFRSs conversion case studies, a handbook for information systems adjustment, case studies on the procedures employed in reaching professional judgments, and a collection of frequently asked questions pertaining to IFRSs. We also established a self-examination and control mechanism for enterprises, and stepped up guidance of their efforts to adopt IFRSs.

(4) Efforts to raise awareness and educate: The FSC held 1,064 large-scale public meetings on IFRSs adoption, seven seminars for senior executives, a camp for seed instructors, and an event to mark the beginning of the first year of "the IFRS era."

(5) Continued cross-agency talks: FSC officials paid visits in April and August 2011 to the Ministry of Finance and the Ministry of Education to discuss cross-agency issues arising in connection IFRSs adoption.

(6) Invited the big four CPA firms to discuss the adequacy of IFRSs consultation fees and the availability of manpower.
FSC Chairman Yuh-Chang Chen hosted ceremony on 8 June 2011 marking commencement of operations at the IFRSs Service Center.

2. Encouraged financial institutions to establish international presence

In order to encourage Taiwan Banks to develop into regional financial institutions, the FSC in 2011 issued approvals for four domestic banks to set up four overseas branches in Vietnam, Cambodia, and Singapore.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Approving Date</th>
<th>Establishing Place</th>
<th>Name of the Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.SUN Commercial Bank</td>
<td>2011.10.18</td>
<td>Singapore</td>
<td>E.SUN Commercial Bank, Singapore Branch</td>
</tr>
<tr>
<td>Cathay United Bank</td>
<td>2011.11.3</td>
<td>Cambodia</td>
<td>Cathay United Bank, Phnom Penh Branch</td>
</tr>
<tr>
<td>Hua Nan Bank</td>
<td>2011.11.8</td>
<td>Vietnam</td>
<td>Hua Nan Bank, Hanoi Branch</td>
</tr>
<tr>
<td>Taiwan Cooperative Bank</td>
<td>2011.12.6</td>
<td>Cambodia</td>
<td>Taiwan Cooperative Bank, Phnom Penh Branch</td>
</tr>
</tbody>
</table>
3. Encouraged high-quality foreign financial institutions to set up business locations in Taiwan

The FSC on 18 August 2011 approved an application by BBVA of Spain to establish a bank branch in Taipei. BBVA is the first Spanish bank to establish a branch in Taiwan. BBVA will be the 29th foreign bank to set up a branch in Taiwan.

4. Pushed for listed and emerging-stock companies to file financial reports in XBRL format

Beginning with the public disclosure and filing of FY 2010 financial reports in April 2011, TWSE-listed, GTSM-listed, and emerging-stock companies switched completely over to XBRL format (i.e. the use of TXT format was discontinued) for preparation of the reports. The switch to XBRL lessens the administrative burden associated with the filing of information, and enables companies to include more timely disclosures in their financial reports. In addition, the FSC in 2011 repealed the rule that formerly allowed companies to file their financial reports one month after the statutory deadline if filing in XBRL format. This rule change has enabled investors to use financial information more conveniently, and to access it in a more timely manner.

Vice President Vincent C. Siew and FSC Vice Chairperson Tang-Chieh Wu attended the event held by the Taiwan Depository and Clearing Corporation on 2 September 2011 to mark the successful dematerialization of all securities.
5. Full dematerialization of all securities in Taiwan

In order to improve transaction security and efficiency, and to keep in step with international practice, the FSC has sought for several years to achieve full dematerialization of all securities in Taiwan, and the Taiwan Depository & Clearing Corporation has worked actively to familiarize the financial industry with dematerialization operations. These efforts have paid off, as all securities in Taiwan were fully dematerialized as of the end of July 2011.

6. Enhanced international financial supervisory cooperation

The FSC signed the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information of the International Organization of Securities Commissions (the "IOSCO MMoU") on 15 March 2011, thus becoming the 80th securities authority to sign the MMoU, which provides for exchange of information, investigative assistance, and other types of cross-border supervisory cooperation. This will facilitate efforts to jointly fight against cross-border securities market crime.

The FSC signed a Memorandum of Understanding (MoU) for banking supervisory cooperation with the Hong Kong Monetary Authority on 11 August 2011, and also signed a Statement of Protocol for supervisory cooperation with the US-based Public Company Accounting Oversight Board (PCAOB) on 18 November 2011. Then on 14 March 2012 the FSC signed a memorandum of understanding with the Bank Supervision Department of the South African Reserve Bank. The signing of these MoUs will make it easier for the financial authorities to exchange views and assist each other with their financial supervisory work.
Worked for sound financial and operational conditions at financial institutions

1. Worked to build a sound financial safety net and make financial institutions more robust

(1) The Financial Restructuring Fund completed its assigned task and wound up operations at the end of December 2011. From its establishment in July 2001 through the end of 2011, the Fund handled the market exit of 56 financial institutions and successfully encouraged three others to either merge with a stronger competitor or achieve a turnaround. In addition, a number of other financial institutions have been purchased and assumed by other institutions, which has done much to safeguard the interests of depositors and maintain financial stability.

7. Oversaw work by related organizations and SROs to strengthen international cooperation

The FSC continued to encourage and oversee efforts by related organizations and financial industry self-regulatory organizations (SROs) active in the fields of banking, insurance, and securities & futures to enter into MoUs with important international SROs, thus improving information exchange and cross-border cooperation. The following six MoUs have been signed in 2011 and 2012:

<table>
<thead>
<tr>
<th>Taiwan entity</th>
<th>Overseas entity</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>GreTai Securities Market (GTSM)</td>
<td>The Korea Exchange, INC., KRK</td>
<td>2011.4.1</td>
</tr>
<tr>
<td></td>
<td>HoChiMinh Stock Exchange, HOSE</td>
<td>2011.9.23</td>
</tr>
<tr>
<td>Taiwan Stock Exchange Corporation (TWSE)</td>
<td>The Stock Exchange of Hong Kong Ltd.</td>
<td>2011.5.12</td>
</tr>
<tr>
<td>Taiwan Securities Association</td>
<td>ASSOSIM, Italy</td>
<td>2011.10.4</td>
</tr>
<tr>
<td>Securities &amp; Futures Institute</td>
<td>Eurex</td>
<td>2011.11.16</td>
</tr>
<tr>
<td>Taiwan Insurance Institute</td>
<td>Korea Insurance Development Institute, KIDI</td>
<td>2012.2.1</td>
</tr>
</tbody>
</table>
(2) The FSC has continued overseeing efforts by Taiwan banks to actively write off bad debts and lower their non-performing loan (NPL) ratios so they can get onto stronger financial footing. The average NPL ratio of domestic banks fell from 4.9% in June 2004 to 0.58% as of the end of May 2012, and their average NPL coverage ratio rose from 24.43% to 185.36% over that same period. The quality of bank assets has thus improved dramatically, and banks are much more robust than before.

![NPL Ratio & Coverage Ratio of Domestic Banks](image)

(3) The FSC continued to oversee efforts by credit cooperatives to get on stronger financial footing. The average NPL ratio of Taiwan’s credit cooperatives fell from 5.97% in June 2004 to 0.41% as of the end of December 2011, and their average NPL coverage ratio rose from 29.98% to 378.64% over that same period. The quality of their assets has thus improved dramatically, and they are in much more robust condition than before.
2. Strengthened corporate governance mechanisms

(1) Required companies to establish remuneration committees

In view of the fact that remuneration systems constitute an important aspect of corporate governance and risk management, and also because the "Securities and Exchange Act" now contains a new provision (Article 14-6) which requires that a "company whose stock is listed on the stock exchange or traded over-the-counter shall establish a remuneration committee," the FSC issued the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter" on 18 March 2011. The regulations set out requirements governing the composition of the committee, the scope of its powers, rules of procedure, professional qualifications, and its independence. They also include provisions governing the committee's exercise of its powers. The purpose of the regulations is to ensure a sound remuneration system for company board members, supervisors, and executive officers. All TWSE-listed, GTSM-listed, and emerging-stock companies were required to establish a remuneration committee by the end of December 2011, and they now have all set up committees and appointed members to them.

(2) Broadened applicability of requirement for independent directors

In order to strengthen corporate governance, the FSC re-issued a circular entitled "Scope of the Public Companies Required to Appoint Independent Directors." Heretofore, the requirement to appoint independent directors applied only to: financial holding companies; banks; bills houses; insurers; full-service securities firms that are either TWSE- or GTSM-listed or are a subsidiary of a financial holding company; and non-financial institutions that have paid-in capital of NT$50 billion and are TWSE-listed or GTSM-listed. On 22 March 2011, however, the FSC expanded the requirement such that it now applies a greater range of public companies. Companies not previously covered by the requirement that will now have to appoint independent directors include publicly traded SITEs, full-service securities firms and TWSE/GTSM-listed FCMs that are not TWSE/GTSM-listed or are subsidiaries of a financial holding company, and TWSE/GTSM-listed non-financial institutions that have paid-in capital of at least NT$10 billion but less than NT$50 billion.


a. set out required corporate governance disclosures;

b. specify the required frequency for updating disclosures of a company's overall status, financial situation, and business situation;

c. require disclosure of premium deficiency reserves and liability adequacy reserves;

d. insurers are now subject to amended requirements regarding disclosures to be made in connection with complaints.

These changes are intended to strengthen the corporate governance of insurers and the quality of their information disclosures.
3. Implemented financial supervisory measures

(1) Financial examinations

In 2011, the FSC carried out 459 on-site examinations, including 221 full-scope financial examinations on financial institutions and 170 examinations on agricultural finance institutions on behalf of the Executive Yuan's Council of Agriculture. In addition, the FSC also conducted 68 targeted examinations (focusing on syndicated loans, the efficacy of internal controls and internal audits, real estate loans, information operations, and corporate governance of the banking industry (including credit cooperatives); and the underwriting activities of securities firms).

### On-site examinations in 2011

<table>
<thead>
<tr>
<th>Full-scope examinations</th>
<th>Units: Number of Financial Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial holding companies</td>
<td>7</td>
</tr>
<tr>
<td>Head offices of domestic banks (including Chunghwa Post Co.)</td>
<td>22</td>
</tr>
<tr>
<td>Branches of domestic banks</td>
<td>100</td>
</tr>
<tr>
<td>Taiwan branches of foreign banks</td>
<td>7</td>
</tr>
<tr>
<td>Credit cooperative associations (including South Data Processing Center)</td>
<td>13</td>
</tr>
<tr>
<td>Bills finance companies</td>
<td>3</td>
</tr>
<tr>
<td>Securities firms, securities finance companies, and securities investment trust enterprises</td>
<td>41</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>28</td>
</tr>
<tr>
<td>Commissioned examinations</td>
<td>170</td>
</tr>
<tr>
<td>Targeted examinations</td>
<td>68</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>459</strong></td>
</tr>
</tbody>
</table>
(2) Differential examinations

The FSC has implemented a system of differential examinations for banks, securities firms, and insurers, and this system was expanded in 2011 to cover credit cooperatives, securities investment trust enterprises (SITEs), and the Taiwan branches of foreign banks. Examinations are carried out at differing frequencies and levels of rigor to encourage financial services providers to establish effective risk management and internal audit systems.

(3) Targeted examinations on the information operations of domestic banks

In order to spur financial institutions to strengthen information security and better protect the secrecy of personal information, the FSC in 2011 for the first time conducted targeted examinations on the information operations of domestic banks. The examinations focused on four areas: organizational management; security controls for online banking; security maintenance for the personal information of customers; and disaster response management. The information operations of 10 domestic banks were examined in 2011.

(4) Further improved financial examinations of domestic banks

In conducting full-scope financial examinations at domestic banks, the FSC continued to focus on their financial soundness, legal compliance, consumer protection, and risk management in order to evaluate the state of their operations and identify weaknesses in their business management. In addition, the FSC adjusted the structure of its examination reports, and used ratings explanations and examination opinions to enable financial services firms to understand where they need to improve their management. The goal is to achieve risk-focused examinations.

(5) Strengthened disclosure of information on financial examinations

The FSC last year posted the key focal points of its financial examinations, the principal discrepancies discovered in the course of financial examinations, and statistics on completed financial examinations, to the website of the FSC Financial Examination Bureau. In addition, the content of information disclosures was increased. For example:

a. descriptions of the principal discrepancies discovered in the course of 2011 annual financial examinations were expanded to include a comprehensive summary;

b. matters that need to be addressed or improved systematically were listed;

c. discrepancies discovered in the course of targeted examinations were disclosed for the first time;

d. the disclosures were expanded to cover securities investment consulting enterprises and insurance brokers (agents) companies.
4. Strengthened risk management of financial services firms

■ (1) Strengthened risk management for bank real estate lending
In order to strengthen risk management for bank real estate lending, the FSC stepped up its monitoring and control of banks with an excessive concentration in real estate lending. To do this, we focused on two key ratios—"ratio of the outstanding balance of construction loans to total outstanding loans" and "ratio of ‘loans for the purchase of homes + outstanding balance of home improvement loans’ to total outstanding loans." As of the end of May 2012, these two ratios stood at 12.17% and 31.72%, respectively (down by 0.39 and 4.32 percentage points, respectively, from the end of December 2010). These figures show that the FSC’s measures to supervise banks engaged in excessive real estate lending have yielded some preliminary progress.

■ (2) Banks’ gross loan coverage ratios have risen
The FSC announced on 21 November 2011 that it would use differential regulatory treatment to help banks build up their capacity to withstand adverse circumstances, and to implement risk-based regulation of credit extension activities. The announcement indicated that beginning in 2012, for example, whether or not the gross loan coverage ratio is under 1% would be treated as an important focal point during the review of applications submitted by banks.

■ (3) Strengthened the solvency of non-life insurers after the financial impact of natural disasters
In order to strengthen the solvency of non-life insurers that have had to deal with the financial impact of a natural disaster, the FSC issued the "Rules Governing Reserving for the Commercial Earthquake Insurance and Typhoon Flooding Insurance of Non-Life Insurance Enterprises." The Rules expressly provide that:

a. special catastrophe reserves and equalization reserves are to be set aside at ratios set out in these new Rules;

b. the total amount of accumulated special catastrophe reserves and equalization reserves set aside against commercial earthquake and typhoon flooding insurance must be equal to 18 times and 8 times, respectively, the amount of an insurer’s retained earned insurance premiums for the current fiscal period.

■ (4) Risk management by insurers
Since the "Risk Management Best-Practice Principles for Insurers" entered into force in January 2010, the FSC has been working to get insurers to voluntarily strengthen risk management, and the mandatory provisions of the Best-Practice Principles were incorporated in early 2012 into the "Regulations Governing Implementation of Internal Control and Audit Systems by Insurance Enterprises." As of the fourth quarter of 2011, the insurance industry was 90% compliant with the Best-Practice Principles. The FSC will continue monitoring life and non-life insurers to ensure compliance moving forward.
5. Financial industry M&A activity

Four M&A deals involving financial holding companies and banks were completed in 2011, highlighting the fact that Taiwan’s highly sound and competitive financial institutions continue to actively engage in M&A activity in an effort to expand assets and the scope of operations. The FSC will continue promoting financial industry consolidation, while at the same time respecting market principles. It will also supervise M&A processes to make sure that everything is equitable, fair, open, and in keeping with standard precedents in the business world. At the same time, steps will also be taken to safeguard the interests of shareholders, employees, and customers.

M&A deals involving banks and FHCs in 2011

<table>
<thead>
<tr>
<th>Merger Date</th>
<th>Surviving (Purchasing) Entity</th>
<th>Acquired Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011.01.22</td>
<td>Taishin International Bank</td>
<td>Taishin Bills Finance Corporation</td>
</tr>
<tr>
<td>2011.07.09</td>
<td>E.SUN Commercial Bank</td>
<td>Chu Nan Credit Cooperative Association</td>
</tr>
<tr>
<td>2011.10.03</td>
<td>Yuanta Financial Holding Co., Ltd</td>
<td>Polaris Securities Co.</td>
</tr>
<tr>
<td>2011.11.01</td>
<td>Chinatrust Financial Holding Co., Ltd</td>
<td>Metlife Taiwan Insurance Co., Ltd.</td>
</tr>
</tbody>
</table>
Consumer and investor safeguards

1. Strengthened consumer safeguard mechanisms

- (1) The "Financial Consumer Protection Act," which entered into force on 30 December 2011, required the establishment of an ombudsman institution for the handling of financial consumer disputes. Accordingly, the FOI commenced operations on 2 January 2012. This provides an organization, procedures, and a set of unified rules for the handling of financial consumer disputes, and paves the way for fair, reasonable, speedy, and effective resolution of such matters, thereby safeguarding the interests of financial consumers.

- (2) In order to prevent banks from marketing consumer credit loans and describing them deceptively as "zero interest," the FSC adopted a set of principles regarding the methods used in collecting fees in connection with unsecured consumer loans. As of 1 August 2011, when banks provide consumer credit loans, they are not allowed to collect fees on a monthly basis, but are instead required to receive them in a single payment, and when a bank provides the same type of loan on multiple occasions, its fees must not vary from one instance to the next simply because the borrower or loan amount is different.

- (3) To prevent security weaknesses in magnetic strip cards from affecting the security of financial transactions, the ROC Bankers Association announced in 2006 that it would begin encouraging holders of magnetic strip financial cards to switch to chip cards, and that by 30 June 2011 all magnetic strip card domestic transaction functions would be terminated. This action was taken to further improve the security of financial card transactions, and to better safeguard cardholder interests.

- (4) In order to prompt banks to charge reasonable service fees and provide consumers with convenient access to information on fees, the FSC in January 2011 urged banks to use eye-catching print in contracts to indicate the fee types, pricing units, and dollar amounts. The FSC also urged banks to post this information at business locations and on their websites.
The FSC adopted a set of “Mandatory Provisions to be Included and Prohibitory Provisions in Standard Form Contract for ATM Card Accessory to Demand (Savings) Deposit Contract” and the template amendment, that took effect on 24 January 2012. Key provisions include the following:

a. a bank is required to take immediate action to help depositors handle account transfer mistakes;

b. rules and standards are set out to govern the calculation of fees, and provide for other consumer safeguards.

The FSC adopted a set of “Directions Concerning Required and Prohibited Stipulations in Standard Insurance Contracts for Private Automobiles” to implement consumer safeguards and improve the quality of insurance product design, thereby protecting the interests of consumers who purchase insurance for private automobiles.

Because banks have become an important marketing channel for insurance products, the FSC now requires insurers to conduct telephone surveys of policyholders who have purchased either an “investment-linked insurance product” or a “non-investment-linked life insurance products denominated in a foreign currency” to:

a. ascertain who solicited the products to the policyholders, and whether the solicitors fully explained the products;

b. find out the policyholders’ needs and whether the product is suitable for them.

A system for disclosure by fund marketers of their income sources was launched last year. As of 3 March 2011, a fund marketing intermediary is now required before selling a product to disclose to the investor where it derives its income from as an intermediary. In addition, a standard list of required disclosure items was also adopted. These measures enable investors to compare the income sources of different fund marketers and make good investment decisions.
2. Financial literacy initiatives

The FSC continued promoting financial literacy in 2011. Related measures include the inclusion of educational content on the FSC website, such as games, prize quizzes, and a contest for junior high students. In addition, the FSC continued:

a. the School and Community Financial Literacy Campaign;

b. a campaign to familiarize the public with protection and annuity products;

c. the "Invest in the Future" series of lectures. A total of 496 events were held in 2011.

The FSC also oversaw efforts by various financial industry self-regulatory organizations to use the Internet, television, radio, and newspapers, flyers, leaflets, and posters to communicate all kinds of information to the public, including important policies and changes to various systems. These measures were undertaken to ensure sound development of our financial markets, instill a correct understanding of financial matters, and safeguard the interests of investors.

FSC Banking Bureau Director-General Hsien-Nung Kuei hosted “Brush-up Seminar for Financial Literacy Campaign Instructors” on 21 October 2011.
3. Protection of credit cardholders

In order to protect the interests of credit cardholders, the FSC tightened rules governing credit card installment payment services by requiring card issuers that provide an installment payment plan to first explain all important related information to the cardholder. As of 4 February 2011, issuers are now required in each monthly bill to disclose the “principal, interest, fees, outstanding balance, and the annual percentage rate of all charges payable” in connection with each installment transaction.

4. Safeguarding the vulnerable

■ (1) In order to make it more convenient for the visually impaired to use ATM machines to make cash withdrawals, check account balances, and change passwords, nine financial institutions have set up voice-operated ATM machines in 11 different locations. In reviewing applications by financial institutions to establish domestic branches, the FSC will take into account whether the applicant has set up voice-operated ATM machines. This policy is intended to encourage banks to set up voice-operated ATM machines and fulfill their social responsibilities.

■ (2) In order to safeguard the interests of insurance policyholders, the FSC adopted a template of “Standard Form Contract for Online Insurance Services,” which expressly requires insurers to take appropriate security measures to ensure the confidentiality of information on all policy applicants, insured parties, and interested parties.

5. Basic residential earthquake insurance protection raised

As of 1 January 2012, basic protection provided under residential earthquake insurance has been raised. While the insurance premium of NT$1,350 remains unchanged, the previous NT$1.2 million payout cap has been raised to NT$1.5 million, and the benefit to defray contingent living expense has been raised from the previous NT$180,000 to NT$200,000.
6. FSC lowers compulsory automobile liability insurance premium rates, raises death and disability benefits

Premium rates for compulsory automobile liability insurance were lowered a ninth time on 1 March 2011. For motorcycles and automobiles together, gross premiums were cut by an average of 4.3%. In addition, death benefits and benefits for injuries classed in the highest disability level were increased for the fourth time on 1 March 2012 from NT$1.6 million to NT$2 million. Benefits for other disability levels were also adjusted upward pro rata.

7. FSC raises maximum payout under protection fund for securities investors and futures traders

The maximum payout under the protection fund for securities investors and futures traders has been raised from NT$1 million to NT$1.2 million for any individual person, while the maximum for total payouts to the customers of any single securities firms or futures commission merchants has been raised from NT$1 billion to NT$1.2 billion.
Future Outlook
Greater scope of business, more competitive institutions

(1) The FSC intends to help asset management firms solicit business acting as local trading agents for offshore institutions that invest in Taiwan stocks. In order to lower such firms’ costs, the FSC has deregulated the regulatory restriction which bars people holding one of three specified positions in Taiwan (investment trust fund manager, discretionary investment manager, or investment advisor) from concurrently holding either of the other two positions, and is studying ways to simplify related procedures.

(2) The FSC intends to facilitate the efforts of overseas commercial representations of Taiwan banks to cooperate with the Taiwan parent company in the provision of customer services. And we will also study possible easing of legal and regulatory restrictions on the provision by banks of personal financial planning services.

(3) In response to payment service demand trends that have resulted from the rapid development of e-commerce, the FSC intends to encourage domestic banks to actively develop services that allow them to act as collection and payment agents.

(4) The FSC will continue seeking to expand the size of Taiwan’s securities markets. We will actively encourage high-quality companies from both Taiwan and abroad to list in Taiwan, so as to increase the depth and breadth of our markets.

(5) The FSC will actively push for integration of the data transmission systems used by securities and futures SROs. This would enable them to cut costs to the industry by about NT$130 million per year, and would also make our securities and futures markets more secure and efficient.
Financial services with special cross-strait characteristics

1. The FSC has established a cross-ministerial task force on "the development of financial services with special cross-strait characteristics." The task force will actively develop and promote the emergence of financial services with special cross-strait characteristics, so that Taiwan’s financial service providers can capitalize on the advantage of having business locations on both sides of the Taiwan Strait and use the economic and trade activities of Taiwan-invested enterprises in the mainland to expand their competitive niche in cross-strait financial markets.

2. Now that the mainland’s pilot program for use of the RMB as the basis of cross-border trade has been implemented throughout the mainland area, the FSC will study the possibility of allowing OBUs to engage in a wider range of business activities so that they can make more flexible use of their RMB assets. We also intend to take steps to help financial firms offer related financial services and make it easier for business and industrial firms to obtain RMB funding.

3. In order to help Taiwan-based online merchants as well as small- and medium-sized enterprises (SMEs) seize business opportunities in the mainland, in addition to granting approval for financial institutions to provide acquiring services for domestic online transactions in which payment is made with the China UnionPay Card, the FSC also plans to facilitate the efforts of domestic banks to establish an electronic payment services platform and develop collection and payment services for cross-strait transactions.

Promotion of cross-strait financial ties

1. The FSC will continue to convene meetings of the Cross-Strait Banking Supervisory Cooperation Platform, and in order to promote cross-strait financial supervisory cooperation in the fields of securities & futures as well as insurance, the FSC will actively help domestic firms establish a regional presence. We will also promote the establishment of supervisory cooperation platforms for securities & futures as well as insurance, and will set up a systematic, regularly scheduled consultations mechanism.

2. The FSC intends to continue facilitating the efforts of domestic financial institutions to develop commercial representations and expand the scope of their business activities in the mainland, and will carry out effective regulation in accordance with international rules on cross-border supervision.
Promoting sound development of financial markets

(1) In order to build an environment conducive to SME financing, the FSC in 2012 will continue promoting the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." Under this program, the target for 2012 is to increase the outstanding balance of SME loans by NT$220 billion. And for the sake of geographically balanced development, banks will also be encouraged to increase their lending to SMEs in the central, southern, and eastern parts of Taiwan as well as its outlying islands.

(2) The FSC will work with banks to get them to continue boosting their contributions to the Small and Medium Enterprise Credit Guarantee Fund of Taiwan (SMEG), and will also encourage banks to take full advantage of SMEG credit guarantees in order to spread credit risks.

(3) To deal with the impact of the European debt crisis on Taiwan, the FSC will continue to provide financial assistance to ensure a steady supply of credit. In addition, we will also work with financial institutions to ensure their full cooperation.

(4) For companies listed on a foreign exchange that list Taiwan depositary receipts (TDRs) in Taiwan, the FSC will continue strengthening listing reviews and post-listing supervision, and will also take steps to improve the TDR delisting mechanism.

(5) The FSC will continue to strengthen the disclosures and filings of offshore fund information, and will also study the possibility of adopting differential regulatory treatment for offshore fund institutions depending on how much a given institution has contributed to the asset management business in Taiwan.

(6) In order to strengthen the risk management of futures commission merchants (FCMs) and ensure a safe futures market, the FSC will work with the Taiwan Futures Exchange to strengthen risk management measures, and will take timely action to carry out both routine and special audits of FCMs.
(7) In the wake of issuance by the FSC of various items of secondary regulation under the "Financial Consumer Protection Act," the FSC will work with the Taiwan Stock Exchange, the Taiwan Futures Exchange, the Taiwan Securities Association, and the Chinese National Futures Association to amend related internal control standards and other self-regulatory requirements that apply to the securities and futures industries.

(8) The FSC will continue working with insurers to ensure that they carefully focus on risk management and the reasonableness of their pricing. The idea is to strengthen the legal compliance of insurers and the quality of the education that they provide to their qualified signatories. This is intended to ensure proper implementation of voluntary self-regulation by insurers and qualified signatories.

(9) The FSC will continue studying possible amendments to risk management best-practice principles in order to gradually improve the relevant criteria, and bring risk management in Taiwan more closely in line with the spirit of Solvency II. The amendments would also encourage insurers to properly implement risk management and practice sound business management.

(10) The FSC will continue to strengthen regulation of insurance marketing channels, and will act in a timely manner to consider possible amendments to requirements governing insurance intermediaries.

(11) The FSC will continue to conduct examinations of financial institutions, and will act in a timely manner to provide education and training. We will also explain the key focal points of financial examinations, the shortcomings discovered in the course of our examinations, and matters that examined institutions need to pay especially close attention to in their internal audits.

(12) The FSC is going to amend rules governing the filing by financial institutions of internal audit plans, internal audit results, and other related information. The purpose is to urge institutions to properly implement risk-based internal audits, and to get them to critically evaluate shortcomings in their systems.
Promoting internationalization, seeking convergence with international practices

1. The FSC intends to tailor its activities to the global footprint of Taiwan firms. In addition to helping financial service providers establish commercial representations in the mainland, the FSC will also take active steps to encourage Taiwan financial firms to expand further in Southeast Asia and other areas where there are especially high concentrations of Taiwan-invested business and industrial firms. The FSC's purpose in doing so is to spur financial service providers to become regional financial institutions.

2. The FSC is planning to allow the offshore commercial representations of Taiwan financial services firms to be governed by the laws of the host country. This policy will make such entities better able to compete with local counterparts.

3. In light of the general move in international capital markets toward direct adoption of the International Financial Reporting Standards (IFRSs), the FSC will continue actively helping companies with various aspects of IFRSs adoption – including IFRS 1 exemptions and implementation decisions, the selection of IFRSs accounting policies, the preparation of an opening balance sheet, and establishment of internal control and internal audit systems – so as to facilitate the preparation of IFRSs financial reports beginning in 2013.

4. The FSC became a signatory to the International Association of Insurance Supervisors Multilateral Memorandum of Understanding on Cooperation and Information Exchange (IAIS MMoU) on 25 June 2009, and then became a signatory to the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information of the International Organization of Securities Commissions (IOSCO MMoU) on 15 March 2011. These achievements show that Taiwan's securities and insurance legislation are in line with international practices, and they provide a basis for Taiwan to exercise stronger supervision of cross-border securities and insurance business operations, and to engage effectively in global cooperation and information exchange.

5. The FSC has entered into 46 MoUs/EoLs with other financial supervisory authorities for cooperation in the supervision of the banking, securities, futures, and insurance industries, and various cross-industry combinations thereof. These MoUs/EoLs address such matters as the financial information exchange, on-site examinations, and ongoing cooperation, and they carry substantive significance with respect to bilateral financial supervisory cooperation.
Meeting a diverse range of financial needs

(1) Encouraging financial institutions to develop financial products that meet the financial planning and investment needs of local citizens
The private sector in Taiwan is flush with cash, but most local citizens have a preference for investing in diversified overseas securities, or for investing via offshore locations (such as Hong Kong) in related financial instruments. Statistics indicate that the amount of money invested by Taiwan citizens via non-discretionary money trusts in foreign securities has been rising annually. In order to spur domestic financial services firms to develop personal financial planning and asset management businesses, the FSC intends to encourage financial institutions to develop financial products that meet the needs of the public, and to provide different types of financial services to satisfy the needs of different types of customers.

(2) Cultivating capital-raising platform for agriculture as well as cultural and creative industries
Most domestic SMEs obtain their funding from banks. In the future, we can also help industries with strong development potential – such as agriculture as well and cultural and creative industries – to get their funding via the capital markets, and in the process we can cultivate the emergence of a capital-raising platform for agriculture and the cultural and creative industries.

(3) Encouraging development of financial products suited to the aging of society and falling birth rates
In response to the aging of Taiwan’s society and falling birth rates, the FSC is helping the general public to prepare for their old-age financial and healthcare needs. Toward that end, we are encouraging insurers to develop suitable protection products, annuity products, health insurance, and long-term care insurance. We are also studying how to tap into the private insurance market to ensure that senior citizens get proper long-term care, which will be a big boost to the social safety net.
Continued promotion of financial consumer protection

(1) The FOI commenced operations on 2 January 2012, and the FSC will be overseeing efforts by the FOI to organize educational events and establish mechanisms that provide for efficient, fair, and reasonable hearing of financial consumer disputes in order to act upon the legislative intent of the "Financial Consumer Protection Act," to win the trust of financial consumers in our markets, and to ensure sound development of the financial services industry.

(2) To coordinate with a recent amendment to Articles 12-1 and 12-2 of the "Banking Act" (whereby: the use of guarantors in connection with consumer loans, and loans for the purchase of owner-occupied residences, is now restricted; language governing how a bank may press claim against guarantors has been revised; and a maximum duration has been adopted for guaranty agreements), the FSC is planning to study a possible amendment to the "Directions Concerning Required and Prohibited Stipulations in Standard Contracts for the Personal Purchase of Automobiles or Real Estate."

Tighter regulation of bank capital adequacy, establishment of a sound financial safety net

In coordination with Basel III, the FSC will study a possible amendment to legislative provisions governing bank capital adequacy. In the future, the FSC will annually increase capital adequacy standards until the minimum requirements are 7% for common equity ratio, 8.5% for Tier 1 capital ratio, and 10.5% for total capital ratio. These changes will strengthen the capital of domestic banks and improve their risk bearing capacity.
International Conferences
Hosting of international events in Taiwan

(1) 2011 Conference on ERM in the Insurance Industry: Developments and Trends

In order to promote enterprise risk management in the insurance industry, to spur insurers to implement the "Risk Management Best-Practice Principles for Insurers," and to exchange ideas with authorities and industry professionals from other countries, the FSC and the Taiwan Insurance Institute worked together to hold the Conference on ERM on 22-23 September 2011.
Representatives of over 100 self-regulatory organizations (SROs) and supervisory authorities from 21 different countries came to Taiwan to take part from 31 October to 3 November 2011 in the 4th IOSCO SROCC Training Seminar & Mid-Year Meeting, which was jointly held by the Japan Securities Dealers Association (JSDA), the US Financial Regulatory Authority (FINRA), the IOSCO Emerging Markets Committee (EMC), the FSC, and the Taiwan Stock Exchange (TWSE).

FSC Vice Chairperson Tang-Chieh Wu gave the opening remarks at the 4th International Organization of Securities Commission (IOSCO) SROCC Training Seminar on 1 November 2011.

(2)4th IOSCO SROCC Training Seminar & Mid-Year Meeting

Representatives of over 100 self-regulatory organizations (SROs) and supervisory authorities from 21 different countries came to Taiwan to take part from 31 October to 3 November 2011 in the 4th IOSCO SROCC Training Seminar & Mid-Year Meeting, which was jointly held by the Japan Securities Dealers Association (JSDA), the US Financial Regulatory Authority (FINRA), the IOSCO Emerging Markets Committee (EMC), the FSC, and the Taiwan Stock Exchange (TWSE).
(3) 2013 IAIS Annual Conference

The International Association of Insurance Supervisors (IAIS) officially announced in October 2011 that the 2013 IAIS Annual Conference would be held in Taiwan. Insurance supervisory officials and insurance professionals from 190 jurisdictions are expected to come to Taiwan to take part in this very special event, which will help to bring Taiwan's insurance supervisory work more closely in line with international practice. It also promises to improve the professional image of Taiwan's insurance industry.

FSC Insurance Bureau Director-General Tien-Mu Huang led the delegation to attend IAIS 2011 Annual Conference, taking photo with IAIS Secretary-General Yoshihiro Kawai.
(4) 7th Taipei Corporate Governance Forum

The FSC held the 7th Taipei Corporate Governance Forum (TAICGOF) on 24 and 25 November 2011. The Forum focused on discussing the current state of Taiwan’s capital markets and global trends in corporate governance and invited international financial experts from all fields to participate in the event. There were a total of 700-plus participants at this year's TAICGOF, including listed companies CEOs, senior managers and 23 foreign guests from 13 different countries.

(5) APEC programs

In view of the fact that Taiwan has achieved a good deal of success in recent years in its efforts to promote corporate governance, the APEC Economic Committee decided to have Taiwan organize the project on lessons from the financial crisis on corporate governance and law.
Participation in international events

(1) The FSC has been an active participant year after year in the conferences and training activities of the International Organization of Securities Commissions (IOSCO). For example, FSC delegates attended the Annual Conference of the Emerging Markets Committee (EMC) (Dominican Republic, 17 to 19 October 2011), the Asia-Pacific Regional Committee (APRC) Annual Meeting (1 and 2 December 2011, Kuala Lumpur, Malaysia), and served as panelists at both of the meetings.

FSC Securities and Futures Bureau Director-General Chi-Hsien Lee attended MMoU Signing Ceremony of 36th IOSCO Annual Conference on 17-21 April 2011 and took a picture with IOSCO Secretary General.
(2) The FSC participates in 13 IAIS committees and working groups, including the Technical Committee, the Implementation Committee and working groups thereunder, and attends IAIS annual meeting and committee meetings every year.

(3) The FSC took part in the 2011 Annual Conference of the International Network of Financial Services Ombudsman Schemes (INFO Network), which was held in Vancouver. At that time, the FSC stated that the FOI would like to apply for INFO membership.

(4) The FSC participates each year in the annual conference of the Financial Services Authority of the UK and the financial stability forums held by the Financial Stability Institute in order to discuss the latest developments and important topics in the area of international supervisory systems. We take advantage of these meetings to establish closer contacts with counterpart authorities from around the world and strengthen international information sharing and supervisory cooperation.

(5) Since 2009, FSC delegates have attended the Plenary Meeting of the International Forum of Independent Audit Regulators (IFIAR), as well as meetings of the IFIAR’s Inspection Workshop Working Group. In these meetings, members have shared the findings of recent audit inspections and discussed issues relating to audit policy development, International Audit Standards (IAS) applications, engagement quality control, current challenges, and regulatory issues requiring a collaborative focus.
The FSC takes active part in APEC working groups, sub-forums, and ministerial and sub-ministerial meetings, and each year participates in professional forums and policy dialogues held by the host countries of various APEC initiatives.

The FSC participates in the WTO Committee on Financial Services in Trade, where it works together with the other members to research the latest conditions in the financial services industry and issues affecting trade in financial services. FSC officials attended the Workshop on Trade in Financial Services and Development in June 2012, where they shared Taiwan's experience in financial supervision.
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