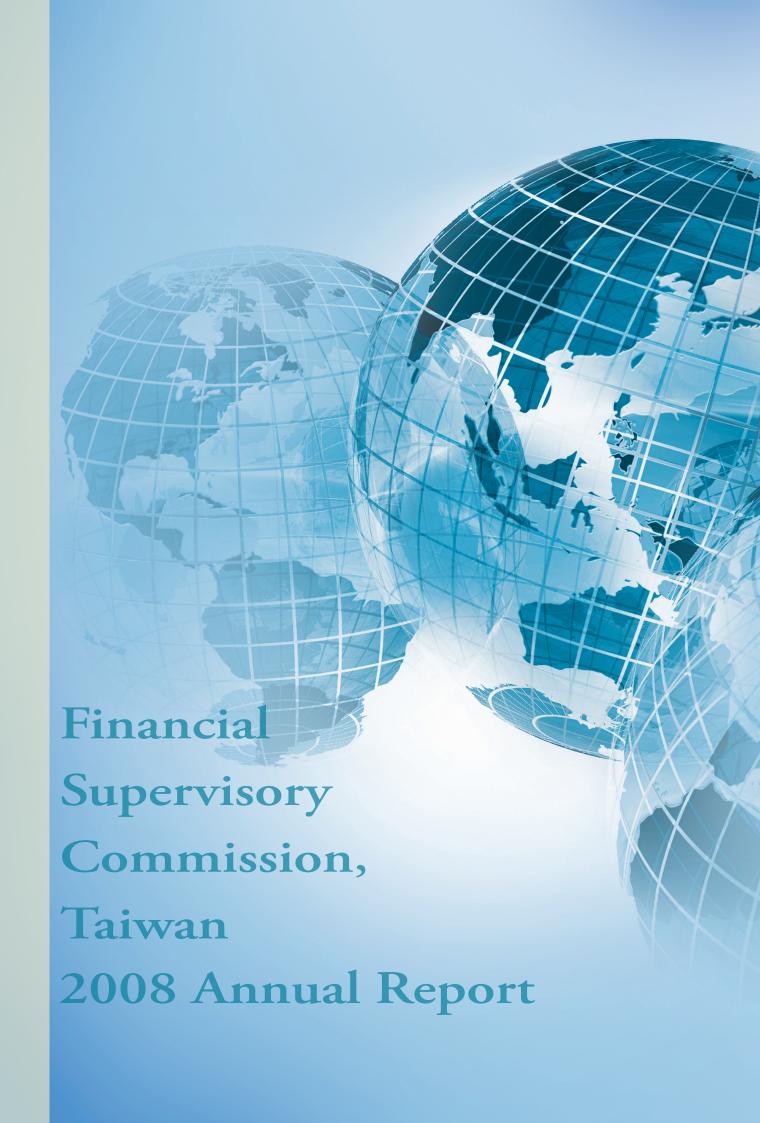


Financial Supervisory Commission, Taiwan







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The Financial Supervisory Commission (FSC) is the competent authority in charge of developing and supervising Taiwan's financial markets and financial services institutions. Ever since its establishment, the FSC has worked actively to achieve a set of core goals —to promote sound business management at financial institutions, safeguard financial stability, and promote the development of financial markets. Guided by the basic supervisory principle of maintaining a high-power financial industry and sustainable markets, we seek to strengthen our domestic markets, so that through them we can contribute to real economic growth and greater prosperity.

After the financial tsunami broke across the globe in the second half of last year, worldwide economic and trade activity plummeted and international financial markets were thrown into turmoil. Economies everywhere began contracting, and unemployment rates spiked sharply upward in the world's leading nations. Taiwan is an integral part of the global economy. As such, its domestic firms are naturally under pressure due to declining orders and poor access to credit, and unemployment is on the rise.

The FSC is moving aggressively in response to the economic crisis. Working in concert with the Ministry of Finance, Ministry of Economic Affairs, and Central Bank, we have issued the "Directions for the Provision of Special Loans and Credit Guarantees by Financial Institutions to Non-SMEs Under the Economic Stimulus Plan." This measure is expected to result in an extra NT\$600 billion in loans from financial institutions. In addition, we are also stepping up measures to encourage more lending to small and medium enterprises in order to ensure that banks can more fully play their role as financial intermediaries, always in the context of a stable financial system where financial institutions are soundly run. By achieving success in these initiatives, we aim to normalize enterprise capital raising activities and business operations, and spur safe and sound industrial development.

The FSC took a wide range of actions last year to maintain market stability. We continued working to get our financial institutions on sounder financial footing, strengthened corporate governance systems, implemented financial supervisory measures, spurred greater awareness of the need for risk management, and strictly enforced market exit procedures as necessary. Following the lead of several other nations, we have also adopted a temporary blanket guarantee of all deposits at financial institutions and stepped up our oversight of bank operations in order to bolster depositor confidence while ensuring sound development of financial institutions. In addition, to help local citizens through this difficult period, we have also taken steps to see that involuntarily unemployed persons living in owner-occupied homes can have the repayment period extended for their home mortgages and unsecured debts.

We must continue working to ensure healthy development of financial services firms, make our financial institutions more competitive, and push for financial reform. Much was done in 2008 to build a better legal framework. Among other actions, we completed amendments to several important financial laws (including the "Trust Enterprise Act," "Banking Act," "Financial Holding Company Act," and "Real Estate Securitization Act") and their subordinate regulations. These amendments will be very helpful on a number of different fronts, including efforts to ensure sound development of trust enterprises, establish prompt corrective action and market exit mechanisms for banks, strengthen supervision of financial holding companies, and spur further diversification of real estate securitization products. We also completed draft amendments of the "Securities and Exchange Act," "Securities Investor and Futures Trader Protection Act," "Financial Institutions Merger Act," "Offshore Banking Act," and "Foreign Exchange Control Act," and finalized a draft version of a new "Finance Company Act," and are now working hard to get these draft bills enacted into law.

To promote further development and internationalization of our financial markets, the FSC last year continued to urge domestic banks to develop into regional financial institutions. At the same time, we sought aggressively to encourage foreign banks to become more actively involved in Taiwan's markets, and took measures to get overseas companies to list their stock on the Taiwan Stock Exchange or the GreTai Securities Market. To promote stronger cross-strait financial ties and help domestic financial institutions develop the mainland China market, the FSC is working actively to design a cross-strait financial supervisory cooperation mechanism, and will work to implement it in a cautious and prudent manner. We also adopted numerous liberalization measures last year. Qualified domestic institutional investors (QDIIs) from mainland China, for example, are now allowed to invest in Taiwan in our securities and futures, and we are helping our financial institutions to develop markets in mainland China.

Safeguarding the interests of consumers and investors has always been one of the FSC's core missions. In response to enactment of the "Consumer Debt Clearance Act" on 11 April 2008, the FSC is urging the Bankers Association to set up a "Mechanism for Participation by Financial Institutions in Out-of-Court Pre-negotiations Under the Consumer Debt Clearance Act." After the Lehman Brothers bankruptcy of September 2008 set off a maelstrom in the market for structured notes, the FSC stepped in to protect investor interests. We set up a structured notes dispute resolution mechanism and asked banks to provide advisory services and accept customer complaints, for example, and have been working with banks to reach settlements with customers. In addition, we are moving as quickly as possible to adopt a structured notes review mechanism and raise the threshold for what types of customers such products can be sold to, and are studying the possibility of implementing a customer classification system to reduce the occurrence of disputes.

The FSC's top objectives amidst the current financial turmoil are to maintain stability in our domestic financial markets and help companies and individuals weather the storm. We want to make sure that depositors know their money is safe, investors remain upbeat, and insurance policyholders are not nervous about the solvency of their insurers. At this point in time, our financial institutions remain reasonably stable and are operating normally, but the global economy is still quite weak, so the FSC will continue to monitor the financial markets and move quickly and aggressively as necessary to adjust our policy priorities.

Sean C. Chen, Chairman Financial Supervisory Commission (FSC), Executive Yuan

(n. () June 2009

Chairman's Statement



Since our establishment, the Financial Supervisory Commission (FSC) has worked 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 promote sound business management at financial institutions, safeguard financial stability, and promote the development of financial markets. Ultimately, the objective of the FSC is to increase the competitiveness of Taiwan's financial industry.

Organization and Functions

FSC 2008 Annual Report

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.

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.

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.

Separate organic acts governing the establishment of each of the FSC's four bureaus were promulgated on 9 January 2008, and the Executive Yuan soon thereafter approved regulations governing the operations of each bureau. As a result of reorganization of the

four bureaus, the Banking Bureau now has six divisions and six offices, the Securities and Futures Bureau has six divisions and five offices, the Insurance Bureau has four divisions and four offices, and the Financial Examination Bureau has seven divisions and five offices.

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





















Organizational Chart

Chairperson

Board of Commissioners' Vice Chairperson

Chief Secretary

Civil Service Ethics Office

Accounting Office

Personnel Office

Secretariat

Information Management
Department

Legal Affairs Department

International Affairs Department

Planning Department

Planning Department

Organization and Functions









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;
- 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:

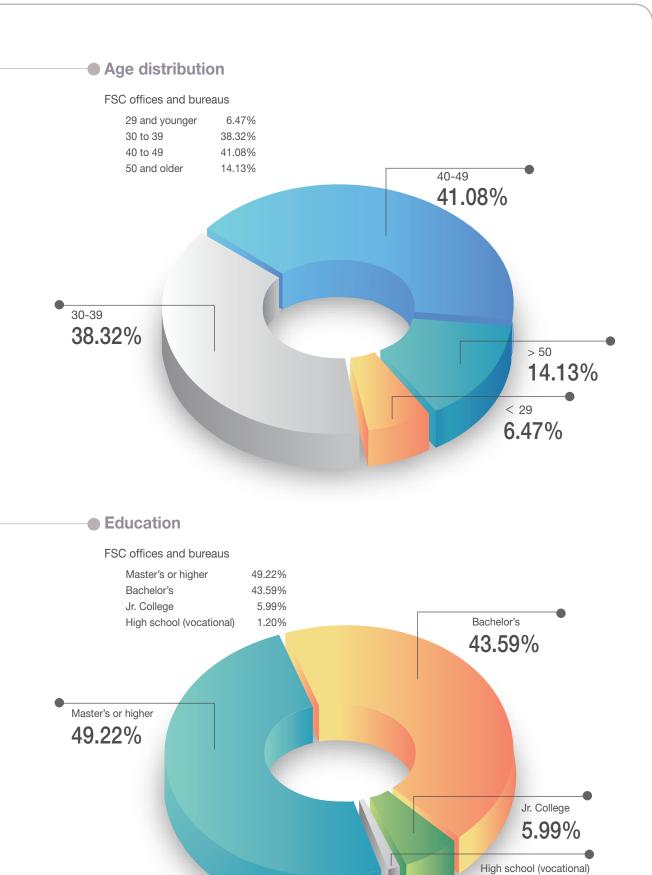
1. Banking Bureau: Supervises and regulates the banking market, money market, and banking enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.

Organization and Functions

- 2. Securities & Futures Bureau: Supervises and regulates the securities and futures markets as well as securities and futures enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.
- Insurance Bureau: Supervises and regulates the insurance market and insurance enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.
- 4. Financial Examination Bureau: Supervises and examines financial institutions, and 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; and prepares and disseminates FSC books and periodicals.
- 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: Develops, plans, and administers of information systems, and processes and performs analysis of data related to financial supervision, regulation, and examination.
- Secretariat: 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.
- 11. Personnel Office: Responsible for personnel management matters.
- 12. Civil Service Ethics Office: Responsible for ethics-related matters.

Workforce

According to the FSC Organic Act, the authorized size of the FSC workforce totals 1,091 persons, which includes 146 persons for the FSC offices and 945 persons for all bureaus under the FSC. As of the end of 2008, the FSC offices had 84 employees while the bureaus employed 751 persons, totaling 835 persons.



Organization and Functions

FSC 2008 Annual Report

1.20%



In 2008, 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.

Activities In 2008

FSC

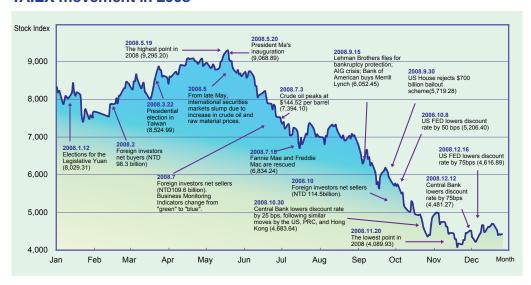
FSC 2008 Annual Report

Development of financial markets

Stimulating the securities markets

The 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, allowing foreign companies to list in Taiwan, easing restrictions on the use of capital raised in Taiwan to invest in mainland China, and revising accounting principles to bring them in line with international standards.

TAIEX movement in 2008



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 totaled NT\$66 trillion (67%) in 2008, thus satisfying 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 help increase the liquidity of coupon-bearing bonds.

By the end of 2008, a total of NT\$81.8 billion worth of strip bonds were issued (including NT\$208 million in government bonds, NT\$28.8 billion in corporate bonds, and NT\$52.8 billion in financial debentures), which facilitated the disposal of structured bonds.

Promoting development of the futures market

Taiwan's futures market marked its 10th consecutive record-breaking year in 2008. Annual trading volume reached a new high of 136,719,777 contracts, surpassing the previous record of 115,150,624 contracts set in 2007. In addition, the market launched one new product, and adopted four new trading and clearing measures.

In accordance with the policy of allowing domestic securities and futures related enterprises to invest in the mainland China area, and to enhance the competitive niche of futures commission merchants, the FSC has amended the "Regulations Governing Approval of Securities and Futures Transactions Between the Taiwan Area and the Mainland China Area" and the "Regulations Governing Futures Commission Merchants," allowing futures commission merchants or their overseas subsidiaries to invest in futures companies in the mainland China area. The amendments were promulgated on August 4, 2008.

To keep in line with international practices and to increase the operational flexibility and competitiveness of Taiwan's futures trust enterprises and managed futures enterprises, the FSC has amended the "Regulations Governing Approval of Securities and Futures Transactions Between the Taiwan Area and the Mainland China Area." Under the amended Regulations, futures trust enterprises are now allowed to utilize futures trust funds to invest in securities listed on markets in mainland China, provided that such investments do not exceed 10% of net asset value or assets under management. In addition, managed futures enterprises are likewise allowed to utilize assets from discretionary account operations to trade in futures in mainland China, subject to the same 10% cap.

To facilitate the successful offering and issuance of futures trust funds, guide the establishment of specialized futures trust enterprises, and uphold the principle of deregulation, the FSC on 30 October 2008, having deliberated upon the suggestions of the Chinese National Futures Association, issued amendments to the "Standards Governing the Establishment of Futures Trust Enterprises," "Regulations Governing Futures Trust Enterprises," and "Regulations Governing Futures Trust Funds." The amendments ease the qualification requirements for a foreign financial holding company or integrated securities firm wishing to act as the promoter of a futures trust enterprise, relax rules regarding qualifications and training of fund distributor personnel, simplify a portion of the risk disclosure operations, relax regulations regarding the lock-up period for the initial offering of a fund and the permitted ratio of futures trading that may be conducted by a fund, and add a provision requiring a firewall system separating all funds issued by a futures trust enterprise.

Promoting development of the securitization market

An 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 promulgated into law on 21 January 2009. In 2008, three securitization deals worth a total of NT\$33 billion were approved by the FSC. This figure is lower than that of the previous year due to the sub-prime mortgage crisis in the U.S. The outstanding balance of issued securitization deals stood at NT\$320.64 billion at the end of 2008.

Total securitization issues

Units: NT\$1 billion

Year	Financia	al asset se	curitization	Real e	state sec	uritization	Total			
	Amount approved	Amount issued	Outstanding balance	Amount approved	Amount issued	Outstanding balance	Amount approved	Amount issued	Outstanding balance	
2003	32.69	26.98	15.88	-	-	-	32.69	26.98	15.88	
2004	39.69	42.15	47.82	13.38	9.98	9.92	53.07	52.13	57.74	
2005	165.19	141.86	165.34	34.14	37.54	46.34	199.33	179.40	211.68	
2006	211.40	411.94	282.88	22.20	20.82	62.70	233.61	432.77	345.58	
2007	90.61	616.95	345.32	8.11	9.51	72.09	98.72	626.46	417.41	
2008	33.00	441.18	248.98	-	-	71.66	33.00	441.18	320.64	
Total	572.57	1,681.07	-	77.85	77.85	-	650.42	1,758.92	-	

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 was 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 NT\$200 billion every year, with the program scheduled to continue for three years. The program expired at the end of June 2008, by which time the amount of loans to SMEs had increased by NT\$805 billion. In view of this success, the FSC decided on 29 August 2008 to continue carrying out the Program. At the end of 2008, the balance of lending to SMEs stood at NT\$3,138 billion, a year-on-year increase of NT\$133 billion, or 4.4%. 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

Units:NT\$1 billion



FSC Activities In 2008

Promoting sound development of the insurance market

In order to enhance supervision of the business and financial status of insurers and to reflect the current state of the insurance market and the operation requirements of insurers, the FSC formulated or revised a number of regulations, including the "Regulations Governing Non-Life Insurance Enterprises Engaging in Injury Insurance and Health Insurance," "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms," "Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises," "Regulations for Establishment, Transfer, or Withdraw Branch Units by Insurance Enterprises," "Regulations for Establishment and Administration of Foreign Insurance Enterprises," "Regulations for establishment and administration of insurance enterprises," "Regulations Governing the Review and Management of Insurance Industry Engaging in Insurance Trust Business" These amendments were also adopted to bring the regulations in line with the Insurance Act as amended on 18 July 2007.

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 minibranches to form one regular bank branch. On 26 July 2008, 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

A. Financial reform is a long-term task

The main purpose of financial reform is to enhance the competitiveness of financial institutions and respond to rapid changes in the current financial environment; therefore, the government will continue pushing forward with financial reform and review plans regularly.

B. Banking consolidation should be market-driven

The worldwide impact of the recent financial crisis cannot be ignored, even though its impact on Taiwan's financial institutions has been relatively limited. However, ongoing financial consolidation is still necessary for local financial institutions to strengthen their competitiveness. The FSC will not only fully respect market mechanisms, but also watch M&A deals closely to ensure that consolidation procedures are fair, transparent, and in line with standard business practices. In addition, the FSC will also work hard to safeguard the interests of shareholders, employees, and customers.

FSC Activities In 2008

Dec. 27, 2008

Dec. 27, 2008

FSC 2008 Annual Report

C. M & A deals

5

6

a. New M&A deals

Standard Chartered Bank

Standard Chartered Bank

	Existing Entity	Acquired Entity	Merger Date
1	HSBC	Chinese Commercial Bank	Mar. 29, 2008
2	China Trust Commercial Bank	China Trust Bills Finance Corp.	Apr. 26, 2008
3	DBS Bank	Bowa Commercial Bank	May 24, 2008
1	Hua Nan Commorcial Bank	Hua Nan Bills Finance Corn	May 23, 2008

American Express Bank

Asia Trust and Investment Corporation

- b. A total of six M&A deals were completed in 2008. Three of the deals involved foreign banks (HSBC, DBS and Standard Chartered Bank), a strong indication of foreign participants' commitment to Taiwan's financial market.
- c. M&A deals in the insurance industry: In October 2008, the FSC approved one spin-off application. Starting from 1 January 2009, Mitsui Sumitomo Insurance Co. Ltd. (MSI) transferred the operations of MSI Taipei (including all assets and liabilities) to its wholly owned subsidiary, MSIG Mingtai Insurance Co., Ltd.

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 1.54% by the end of 2008. Over the same period, the coverage ratio was raised from 30.34% to 69.48%.

NPL ratio and coverage ratio of domestic banks



Increasing the competitiveness of the futures market

Under an amendment to the "Futures Transaction Tax Act," the tax rate (which formerly ranged from 0.01% to 0.06%) was reduced to between 0.0000125% and 0.06%. The Ministry of Finance announced on 2 October 2008 that the futures transaction tax rate for equity futures was cut from 0.01% to 0.004%, effective as of 6 October 2008. The tax reduction is expected to enhance market competitiveness, and provides incentives for domestic and offshore institutions to use the futures market for hedging purposes.

Under the FSC's instruction, the Taiwan Futures Exchange (TAIFEX) has launched a new product, NT Dollar Gold Futures, to offer investors a more diversified range of investment/ hedge vehicles. In addition, four new trading and clearing measures, including institutional investor hedge accounts, marginable securities, application of SPAN margining to traders, and a new method for calculating final settlement prices for TAIFEX stock index futures and options, were introduced to increase the capital efficiency of market participants, and to attract the participation of foreign and institutional investors.

Futures traders are now allowed to post the following types of securities as futures trading margin or futures/options premium: book-entry central government bonds, Formosa Bonds traded on the GreTai Securities Market, component stocks of the Taiwan 50 Index, and underlying stocks of equity options. The value of securities posted as collateral must not exceed 50% of the required clearing margin.

The FSC approved a plan by the TAIFEX to adopt a system for disclosure of information on the futures trading activities of foreign institutional traders, investment trusts, and dealers. The purposes of this system are to mitigate the asymmetry of information between futures and spot markets and provide for more transparent futures market data.

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

- The FSC now allows overseas Chinese and foreign investors to pay in six different foreign currencies (US Dollars, Euros, Japanese Yen, British Pounds, Australian Dollars, and Hong Kong Dollars) for NT Dollar denominated contracts.
- In order to satisfy the hedging needs of institutional investors, the FSC introduced the "Institutional Investor Hedge Account" on 13 October 2008.

Expanding the trading scope in derivatives by bills finance companies

In order to allow bills finance companies to trade in a broader range of fixed income products so as to enhance their competitiveness, the FSC amended the "Regulations Governing Trading in Derivative Financial Products by Bills Finance Companies" in December 2008. Under the amended provisions, bills finance companies are allowed to engage in convertible bond asset swaps, and to trade in foreign currency-denominated derivatives for hedging purposes.

Deregulating the real estate securitization business

An amendment to the Real Estate Securitization Act was promulgated by the President on 21 January 2009 in order to provide for a more diversified range of real estate securitization products, boost the real estate securitization market, improve returns on capital, ensure sound regulation of the real estate securitization market, and better safeguard investor interests. Key points of the amendment include the following: (1) real estate development project and real estate-related rights can now be securitized, and related measures have been adopted to provide for a more diversified range of real estate securitization products; (2) new provisions have been added to strengthen safeguards for investor interests; and (3) the terms "closed-end fund" and "open-end fund" are now defined, and new provisions have been added to govern follow-on offerings and private placements involving REIT funds.

Adopting new regulations governing concurrent conduct of trust business

In order to accommodate recent development in the trust business, the FSC recently adopted the "Regulations Governing Concurrent Conduct of Trust Business by Securities firms, Securities Investment Trusts, and Securities Investment Consulting Enterprises." The Regulation includes provisions governing the following matters: (1) the types of trust business that securities investment trust enterprises (SITEs), securities investment consulting enterprises (SICEs), and securities firms are allowed to concurrently conduct; (2) application procedures; and (3) rules governing financial and business operations. The FSC adopted the Regulations pursuant to Article 3 of the Trust Enterprise Act, which allows qualified SITEs, SICEs, and securities firms to concurrently conduct certain types of trust business. Article 3 of the Trust Enterprise Act also authorizes the FSC to issue regulations governing the types of trust business such firms may operate, the eligibility requirements for applicants, dismissal of an application or revocation of an approval, financial and business operation requirements, etc.

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

FSC Activities In 2008

management systems and internal control procedures of financial institutions that engage in wealth management business, govern their conduct in the sale of financial products and protect the rights of their customers, meanwhile promoting sound development of the wealth management business in Taiwan.

By December 2008, 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 interests of their customers. Under FSC supervision, the Bankers Association of the Republic of China amended self-regulatory guidelines for its members in 2008 in order to further protect the rights of customers. The amendments included the banks' due diligence on structured notes, verification of consumer suitability, procedures used at the point of sale, and the training of wealth managers and persons selling financial products.

Since January 2006, life insurers have been allowed to conduct wealth management business with the approval of the competent authority. By the end of 2008, Cathay Life Insurance Co., Ltd., Shin-Kong Life Insurance Co., Ltd., and Nan-Shan Life Insurance Co., Ltd., ING Life Insurance Co., Ltd., and China Life Insurance Co., Ltd. had been approved to operate such business.

Broadening business scope and easing capital allocation restrictions

Industrial Banks: In light of the huge contribution of the service sector to domestic GDP, the FSC promulgated an amendment to the Scope of Producer Enterprises that Industrial Banks May Invested In. The amendment allows industrial banks to invest in wholesale and retail enterprises, urban renewal enterprises and seven other new categories which were previously off limits.

Securities service business: 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.

The FSC now allows banks to apply to underwrite and broker 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.

Moreover, pursuant to subparagraph 5 of paragraph 1 and paragraph 2 of Article 60 of the "Securities and Exchange Act," the FSC issued the "Regulations Governing Securities Firms Keeping Custody of and Investing Funds on Behalf of Customers" on 19 February 2008. The new regulations allow securities firms and clients to stipulate that the securities firm may transfer funds from a client's securities trading balance receivable upon settlement to a cash management account on the same day, and the securities firm may keep custody of the account and allocate funds from it to make investments under the securities firm's name.

FSC Activities In 2008

FSC 2008 Annual Report

In addition, to expand the business scope of securities firms, to help them become more international in their operations, and to satisfy the need of investors for a more diverse range of trading instruments, the FSC amended Article 8 of the "Regulations Governing Applications for Issuance of Call (Put) Warrants by Issuers" on 29 December. 2008 These amendments allow securities firms to issue call and put warrants on indices that track indices maintained by either the Taiwan Stock Exchange or the GreTai Securities Market.

In order to improve cross-strait financial ties, the FSC has amended the "Regulations Governing Approval of Securities and Futures Transactions Between the Taiwan Area and the Mainland China Area" and the "Regulations Governing Securities Investment Trust Enterprises" to allow securities investment trust enterprises from Taiwan to invest in PRC investment fund management companies.

Furthermore, to make it easier for Taiwan securities firms to engage in overseas operations, the FSC amended relative regulations of the "Regulations Governing Approval of Securities and Futures Transactions Between the Taiwan Area and the Mainland China Area" and the "Regulations Governing Securities Firms" on 4 August 2008. The abovementioned regulations allow Taiwan securities firms and their subsidiaries to invest in securities companies, securities investment fund management companies, and futures companies in the PRC.

The FSC amended 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" on 2 May 2008, to strengthen supervision of securities investment consulting enterprises (SICEs). The amendments require SICEs to raise minimum paid-in capital and lodge an operating bond.

To enhance asset management enterprises' operational flexibility and meet the needs of investors, the FSC has eased restrictions on the amount of onshore funds, offshore funds, discretionary investment assets, and private equity funds that may be invested in securities issued in mainland China, Hong Kong, and Macao. Domestic funds are now allowed to invest up to 10% of net asset value in securities listed on mainland Chinese markets, and investments in H-shares and red-chip shares are no longer subject to any limits.

The FSC now allows futures brokers to manage futures enterprises and futures trust enterprises, and allows insurance enterprises to concurrently operate discretionary investment business.

Likewise, for financing offered to margin traders and short sellers for periods of up to one year, the FSC now allows securities finance enterprises and securities firms to extend the financing for up to a maximum of six additional months if they are found upon review to be sufficiently creditworthy.

The FSC has amended relevant regulations to promote the cross listing and distribution of Exchange Traded Funds (ETFs) on the stock exchanges in both jurisdictions.

In order to help securities firms offer more competitive wealth management services, the FSC amended the "Directions for the Conduct of Wealth Management Business by Securities Firms" on 11 April 2008. These amendments allow securities firms to accept engagements to provide discretionary allocation of customer assets under management. At the end of 2008, there were six securities firms approved to conduct this type of business.

On 11 November 2008, the FSC granted permission for domestic securities firms and banks to engage in "trading of derivatives linked to Taiwan equities" (as regulated under the "GreTai Securities Market Rules Governing Over-the-Counter Trading of Financial Derivatives by Securities Firms") with offshore overseas Chinese and foreign nationals that are not domestically registered pursuant to the "Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals."

In order to improve the ability of securities firms to manage capital adequacy and risks, and to ensure that domestic securities firms calculate their capital charges more accurately and allocate their assets more efficiently, the FSC amended the "Regulations Governing Securities Firms" on 23 December 2008, making reference as it drafted the amendments to the New Basel Capital Accord and subsequent revisions thereto. The FSC will carry out a phased implementation of the new capital adequacy system to bring practices in Taiwan more closely in line with those in other countries.

Futures business: Additionally, the FSC has now permits concurrent operation of futures advisory enterprises by managed futures enterprises and by foreign futures brokerage merchants that only conduct sub-brokered foreign futures trading services, and has prescribed the qualifications of analysts for futures advisory enterprises that engage in futures trading analysis in the mass media. The amendments are intended to expand the operational niche occupied by existing futures advisory enterprises and address practical operational needs, while establishing consistency with the supervision of securities investment consulting enterprises (SICEs).

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, a number of regulations were newly issued or amended in 2008, including the "Regulations Governing Capital Adequacy of Insurance Enterprises," "Regulations Governing the Foreign Investments of Insurance Enterprises," "the formula for Calculating Total Adjusted Capital and Risk Based Capital of Insurance Companies," "Regulations Governing the Conservatorship and Receivership of Insurance Enterprises" and "Regulations Governing Organization and Management of Insurance Stabilization Funds." These amendments will enhance the supervisory framework for capital allocations of insurers as well as the implementation of differential regulatory treatment and risk control.

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. This change is expected to significantly spur the innovation of insurance products, satisfy diverse consumer needs,

The FSC continues to study the possibility of further expanding the scope of business activities that insurers are allowed to conduct. Twelve non-life insurers were allowed to start offering health insurance in 2008. In addition, the FSC will allow insurers to provide discretionary investment services to policyholders via investment-linked insurance contracts.

Practical approach to financial dealings across the Taiwan Strait

and spur insurers to upgrade their underwriting techniques

On 14 March 2008, the FSC amended the "Regulations Governing Approvals of Banks to Engage in Financial Activities between the Taiwan Area and Mainland China Area." Key amendments include the following: (1) Offshore subsidiaries of financial holding companies and banks are now allowed to make equity investments in mainland China. This change will allow such subsidiaries to integrate their financial service platforms for mainland-based Taiwanese businesses. (2) Limits have been relaxed on the amount of unsecured credit (as a percentage of their assets) that OBUs and offshore bank branches are allowed to extend to mainland-based Taiwanese businesses. (3) OBUs and offshore bank branches are now allowed to provide credit to the mainland-based branch units of foreign enterprises, and to engage in factoring of accounts receivable generated from transactions in mainland China.

To coordinate with the decision to allow mainland Chinese tourists to visit Taiwan, the FSC has amended the "Directions Governing Limits on Amounts of Coins and Bills Issued in the Mainland China Area Which May Enter or Exit the Taiwan Area" (which are authorized under Article 38, paragraphs 1 and 5 of the "Act Governing Relations Between Peoples of the Taiwan Area and the Mainland Area") to allow travelers to carry as much as RMB 20,000 to or from Taiwan. In accordance with Article 2 of the same Act, the FSC has also amended the "Regulations Governing Permission for Entry and Exit to and from the Taiwan Area of Currency Issued in the Mainland Area" to provide a complete set of procedures for regulating RMB flows to and from Taiwan.

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, and subsidiaries in mainland China, and to offer reinsurance. As of January 2009, the Insurance Bureau has granted approval for insurers to set up 42 representative offices and subsidiaries in mainland China. On top of that, in order to afford insurers higher financial flexibility and operational stability, issues such as allowing investment of insurance funds

FSC Activities In 2008

in mainland China's real estate and financial markets have been under discussion since June 2008. The Insurance Bureau drafted an amendment to Article 12 of the "Regulations Governing the Foreign Investment of Insurance Enterprises" in 2008 and will further discuss it with relevant parties in 2009.

Financial order and stability

Improving the regulatory environment for financial markets

President promulgates amendment to Banking Act

An amendment to the Banking Act was promulgated by the President on 30 December 2008. The amendment is designed to strengthen the competitiveness of Taiwan's financial markets, enhance the early warning system, improve financial supervision and corporate governance, and provide a pertinent legal framework for the market exit mechanism of banks.

Key points of the amended provisions are as follows: (1) In order to enhance the transparency of equity ownership and ensure that major shareholders meet "fit and proper" requirements, a single party or single group of related parties that holds an equity stake of more than 5% in a company is now required to file with the competent authority, and such a party or group must also obtain prior approval from the competent authority whenever it seeks further increase its equity stake past the thresholds of 10%, 25%, and 50%. (2) Capital adequacy ratios have been adopted as one of the criteria for market exit of banks. (3) For the sake of social justice, banks are required to disclose information on delinquent borrowers who meet certain criteria. (4) Banks that satisfy the competent authority's standards for financial soundness and have set aside enough legal reserve to meet the requirement set out in the Company Act may be exempted from legal requirements regarding earnings distributions and periodic provisions to their legal reserve.

President promulgates partial amendment to Financial Holding Company Act

An amendment to the "Financial Holding Company Act" was promulgated by the President on 21 January 2009 in order to achieve the following objectives: strengthen supervision of financial holding companies and their controlling shareholders; establish regulatory mechanisms for oversight of the aggregate levels of equity investments by financial holding companies and their subsidiaries; strictly implement the policy of maintaining a firewall between the financial industry and other industries; and further enhance synergies among different subsidiaries of the financial holding company.

FSC Activities In 2008

FSC 2008 Annual Report

Key points of the amendments include the following: (1) the scope of the term "single group of related parties" has been redefined, and the names of shareholders owning a stake of 5% or more in a financial holding company must now be filed with the competent authority; (2) a provision that prohibited the banking subsidiaries of a financial holding company from making equity investments in other companies, has been repealed; (3) a new provision has been added to prohibit the combined shareholdings of a financial holding company and its subsidiaries in any non-financial firm from exceeding a certain percentage; and (4) a new provision has been added that requires a financial holding company to have comprehensive rules governing the use of resources by its subsidiaries when they engage in cross-selling.

The FSC amended the "Directions Governing the Acquisition of Treasury Stock by Exchange-listed and OTC-listed Financial Institutions" to lower the minimum capital adequacy ratio that a financial holding company must meet before it is allowed to carry out a stock buyback. Since the amendment applies to all subsidiaries of a financial holding company, the financial holding company as a whole will naturally also be in compliance, therefore the amendment was adopted in order to allow properly run financial holding companies to engage in flexible operations while still ensuring their financial soundness.

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.

To coordinate with the amendment of the "Certified Public Accountant Act" that was promulgated on 26 December 2007, the FSC amended nine secondary regulations governing the CPA profession. The key points of the amendments include the following: (1) New provisions govern the number of the representatives of a CPA Discipline Committee. (2) New requirements have been adopted with respect to minimum capital, minimum professional liability insurance, and amendment registrations of a CPA corporation. (3) CPA corporations are allowed to apply to provide attestation services for public companies, and new provisions set out qualification requirements that must be met in order to do so.

To respond to current conditions in the insurance market and enhance the risk management of reinsurers, the FSC newly issued or amended a number of regulations in 2008, including the "Rules Governing Reserving for the Investment-Linked Insurance Products of Life Insurance Enterprises", "Methods for the Setting Aside by Insurance Enterprises of Reserves for Unqualified Outward Reinsurance," the "Auto-adjust Actuarial Formula for Reserve Valuation Rates on New US Dollar Life Insurance Policies," and the "Auto-adjust Actuarial Formula for Reserve Valuation Rates on New Life Insurance Policies."

In response to the ongoing global financial tsunami, insurers raised more than NT\$100 billion in capital during 2008. In order to ensure safe and sound operation of insurance and maintain the confidence of policyholders, the FSC has announced a number of temporary measures which will remain in place until the end of 2009, including the following: (1) In coordination with Article 143, subparagraph 3 of the Insurance Act, insurers are now allowed to count hybrid capital instruments toward adjusted capital. (2) Insurers are allowed to count 20% of unrealized gains on stocks, equity ETFs, and equity funds toward adjusted capital, and 20% of unrealized losses on such assets need not be deducted from adjusted capital. (3) Life insurance companies are allowed to count the special reserve for catastrophe toward adjusted capital.

In addition, to allow insurers access to a wider range of funding sources, the FSC issued the "Directions for the Issuance of Corporate Bonds as Capital Instruments by Insurance Enterprises" on November 19, 2008.

To understand the operation of insurance enterprises, the FSC announced that appointed actuaries have to comment on the investment strategies and solvency of insurance enterprises in their actuarial reports from 2008.

Promoting corporate governance and efficiency of shareholder proxy management and enhancing the fairness of the proxy solicitation process

- 1. On 26 February 2008, the FSC amended the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" to strengthen supervision of persons that engage in proxy solicitation matters. To maintain the fairness of the solicitation process, in addition to requiring companies to send proxy forms via mail or e-mail to all shareholders on the same day, the amended regulations also introduce a provision regarding the method of requests for the delivery of shareholder meeting souvenirs by a proxy solicitor or proxy agent. Provisions governing the statistical tallying and verification of proxies have also been amended to maintain the impartiality of those processes.
- 2. On 20 May of 2008, the FSC amended the "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" to address current needs in enterprise capitalization, and to maintain consistency with Judicial Yuan Council of Grand Justices Interpretation No. 638 of 7 March 2008. Key changes include four additional shareholding ranges under the existing structure, and express provisions requiring that total shareholding by government and juristic-person shareholders, or their representatives, that are elected as directors or supervisors be calculated using that government or juristic-person shareholder's total number of registered shares. Some provisions were also deleted, including provisions setting a specified period of time for directors and supervisors to supplement their shareholdings when such holdings are insufficient, and provisions regarding parties to be penalized and the method for imposing responsibility when a violation of obligations under administrative law is committed by multiple parties.

Differential supervision

- 1. The 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).
- 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 NT\$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.

FSC Activities In 2008

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 efficient use of the Fund's limited resources, the FSC requires problem financial institutions to submit a turnaround 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 seven troubled financial institutions (Taitung Business Bank, Hualien Business Bank, Chinese Commercial Bank, China United Trust and Investment Co., Bowa Commercial Bank, Asia Trust and Investment Corp. and Chinfon Bank). All of these failing banks (except for Chinfon Bank) have been sold off. In total, the FRF has dealt with 55 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 insurance stabilization funds) and Article 149 (which relates to market-exit mechanisms). The amended provisions strengthen the role of the stabilization funds; 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 effectively stabilize the financial system, bolster the confidence of depositors, safeguard the soundness of financial institutions, and work for healthy, sustainable development of the financial markets, the FSC (acting upon authorization granted under Articles 28 and 29 of the Deposit Insurance Act) has announced that it will guarantee until 31 December 2009 all deposits placed with financial institutions. The protection covers interbank funding and deposits from individuals and government agencies. To prevent moral hazard and build up the deposit insurance fund, it will charge a special insurance premium in proportion to the amount of interbank loans

■ Tightening the AML/CFT regulatory regime in the financial sector

In response to recommendations put forward after the APG mutual evaluation in 2007, the FSC issued the "Regulations Governing Cash Transaction Reports and Suspicious Transaction Reports by Financial Institutions" on December 18, 2008 after a comprehensive review of the existing regulatory regime governing cash transaction reports (CTRs) and suspicious transaction reports (STRs) by financial institutions. The Regulations entered into force on March 18, 2009. In line with international standards, the Regulations lower from NT\$1 million (approximately US\$30,000) to NT\$500,000 the threshold for occasional cash transactions that trigger the customer due diligence (CDD) obligation and require a cash transaction report. By and large, the AML/CFT regulatory regime and integrity of the financial sector will be tightened with the implementation of these Regulations.

Conducting financial examinations, reporting examination findings and proposing reforms

1. To improve the effectiveness of financial supervision and foster the safe and sound operation of financial institutions, the FSC carried out 466 on-site examinations in 2008, including 191 full-scope examinations, 161 examinations on agricultural financial institutions on behalf of the Council of Agriculture, and 114 targeted examinations on standardized contracts, wealth management, structured notes for domestic banks, car insurance for branches of property insurance companies, and solicitation practices used by brokers and agents of insurance companies.

On-site examinations in 2008

Units: number of financial institutions

Full-scope examinations												
Financial holding companies	Head Office Of domestic banks (including Chunghwa post co.)	Branches of domestic banks	Taiwan branches of foreign banks	Credit cooperative association (including south information center)	Bills finance companies	Securities firms, securities finance co. and securities investment trust enterprises	Insurance companies	others	subtotal	Commissioned examinations	Targeted examinations	Total
5	25	54 (*1)	20	16	9	36 (*2)	25 (*3)	1	191	161 (*4)	114 (*5)	466

^{*1:}including 13 foreign branches.

- To enhance the effectiveness of financial examinations, the FSC reports examination findings and conducts follow-up monitoring to make sure that financial institutions take corrective actions and comply with applicable regulations to mitigate their business risks.
- 3. In 2008, the Financial Supervisory Joint Committee (which includes representatives of the FSC and other supervisory agencies) had four meetings to share and communicate supervisory information. Furthermore, the FSC and the Council of Agriculture also had two meetings to communicate examination findings and exchange views on the credit departments of farmers' and fishermen's associations.

FSC Activities In 2008

^{*2:}including 1 foreign subsidiary.

st 3:including 5 domestic branches and 1 foreign branch.

^{*5:}including 1 foreign branch.

4. The FSC has cut down on the frequency and scope of examinations on reinsurance companies. Some matters covered by home supervisors in their own examinations, for example, can now be excluded from FSC examinations.

Enhancing the risk-management of financial institutions

To enhance the risk-management of financial institutions, the FSC has adopted a risk-based approach to its financial examinations, established a responsible group to review the implementation of risk-management by financial institutions, and required their internal auditors to review the risk-management mechanism.

Enhancing disclosure on the implementation of financial examinations

To improve the transparency of information obtained in the course of financial examinations, the FSC has changed the way it discloses such information. The results of financial examinations for the past two years and current year, for example, are now posted to the website of the FSC Financial Examination Bureau, as are major examination findings for the past year and the examination priorities for current year. These disclosure methods have been adopted to help the public better understand the meaning of financial examinations, and to make sure that financial institutions know what the authorities are most concerned about, so that they will not keep repeating the same mistakes over and over again.

Setting up the review and analysis mechanism on call reports submitted by financial institutions and the financial examination rating system for banking enterprises

- 1. The FSC has set up a "One-Stop Window for Reporting of Financial Supervisory Information" and established an information sharing mechanism to cut the reporting costs borne by financial institutions. Additionally, the FSC has also set up a financial information rating system for domestic banks, Taiwan branches of foreign banks, and bills finance companies. Through this rating system, the FSC acquires important supervisory information to fully understand the current state of the financial industry and the health of each financial institution.
- 2. "The financial examination rating system for banking enterprises" is modeled in part after similar examination systems employed by other financial regulators. In 2008, the FSC conducted examinations and assigned trial ratings to twelve domestic banks, and completely reviewed the trial rating results of eight banks. According to the trial rating results, the FSC modified the financial examination rating system to establish a risk-based financial examination system and enhance the effectiveness of financial examinations.

Promoting the internal audit function of financial institutions

The FSC periodically evaluates the internal audit performance of domestic banks, credit cooperative associations, and bills finance companies to enhance their internal-control functions and corporate governance practices. In 2008, the FSC held three meetings with internal auditors from domestic banks, credit cooperative associations, and bills finance companies to discuss issues of relevance to their internal audit work. As of November 1, 2008, the FSC requires financial institutions to submit their internal audit reports on CD-ROM instead of paper to promote energy conservation.

Information disclosure

or "below 200%."

In an effort 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 2 March 2008.

Taiwan's accounting practices are now more in line with international standards. During 2008, the Accounting Research and Development Foundation in Taiwan issued "Statement of Financial Accounting Standards No. 40: Insurance Contracts (SFAS No.40)" and adopted amendments to the "Statement of Financial Accounting Standards No. 34: Financial Instruments: Disclosure and Presentation (SFAS NO. 34)." SFAS No.40 and the amended version of SFAS No. 34 will take effect on 1 January 2011. SFAS No.40 is designed to make insurers better account for insurance contracts, and requires them to disclose and explain the amounts in an insurer's financial statements arising from insurance contracts, so as to help users of those financial statements understand the amounts, timing, and uncertainty of future cash flows from insurance contracts.

Acting upon authorization granted under Article 8 of the "Regulations Governing the Capital Adequacy of Insurance Companies," the FSC issued the "Methods of Disclosure by Insurance Enterprises of Risk-based Capital" on April 24, 2008. Insurers are required to disclose their capital adequacy ratios as "higher than 300%," "between 200% and 300%,"

FSC Activities In 2008

Financial globalization

International cooperation in financial supervision

In 2008, the FSC received visits from representatives of the US Board of Governors of the Federal Reserve System, the Lord Mayor of the City of London, and the State Bank of Vietnam.

Senior FSC officials take advantage of international meetings or visits to establish direct communication channels with the financial authorities of other countries. In 2008, FSC officials visited Belgium, Luxemburg, India, US, UK, Singapore, Vietnam, Australia, Peru, Thailand, Indonesia, Germany, Switzerland and Dubai, where they met with senior officials of financial supervisory agencies.

In light of the increasing prevalence of cross-border financial activity, prevention of cross-border financial crimes has become a high priority concern of financial regulators. The FSC has been actively seeking to sign memorandums of understanding (MOUs) addressing cooperation in the field of financial supervision. In 2008, the FSC signed or confirmed MOUs for cooperation in single-sector or cross-sector supervision with Morocco, Jordon, Canada and Dubai.



The Financial Supervisory Commission signs a Memorandum of Understanding with Dubai Financial Services Authority.

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 2008, 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:

FSC Activities In 2008

FSC 2008 Annual Report

First of all, to encourage offshore companies to list on the Taiwan Stock Exchange and the GreTai Securities Market, and to attract investment in Taiwan securities markets by offshore overseas Chinese and foreign individual investors, the FSC issued an order repealing provisions that set a ceiling of US\$5 million for investments in domestic securities by each an offshore overseas Chinese or foreign individual investor (FIDI). This effectively removes investment ceilings for those investors.

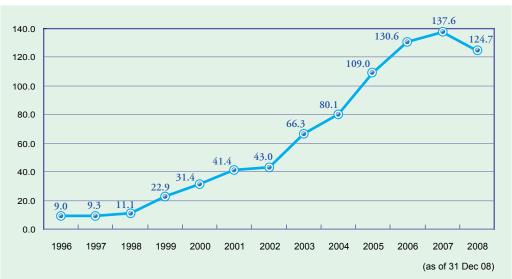
In addition, the FSC has continuously liberalized regulations regarding investment in Taiwan securities markets by foreign investors by making reasonable adjustments to the trading system. Moreover, the FSC has eased restrictions on foreign asset transfers and adopted after-the-fact registration. Foreign investors are now permitted to trade structured instruments and equity derivatives with domestic securities firms and banks. Furthermore, the FSC now allows offshore overseas Chinese and foreign nationals to invest in the securities issued by companies with a primary or secondary listing on the Taiwan Stock Exchange, GreTai Securities Market, or the Emerging Stock Market, and has eliminated regulations requiring the notarization of the evidentiary documentation for asset transfers.

Finally, existing holders of shares of an overseas enterprise are now permitted, once the enterprise has been listed for trading on the Taiwan market, to directly apply for foreign investor account status and retain funds derived from disposal of the holdings in a domestic settlement fund account for the purpose of making subsequent investments.

As of the end of December 2008, net outward remittances of foreign investors on the year in connection with stock purchases on the TWSE was US\$12.9 billion, a decrease of US\$19.9 billion from 2007 (when net inward remittances amounted to US\$7 billion), while net accumulated remittances since 1992 were over US\$124.7 billion. In 2008, foreign investors were net sellers of NT\$495 billion worth of securities in Taiwan. Furthermore, at the end of December 2008, foreign investors held 28.98% of the total market capitalization, also setting a record high.

Net inward remittances on foreign investments in TSE-listed shares

Unit: US\$ 1 billion



TSE market cap. held by foreign & institutional investors



(as of 31.Dec.2008)

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 2008 were as follows:

- International Organization of Securities Commissions (IOSCO)
 The FSC attended the IOSCO annual conference in Paris, France, the IOSCO Emerging Markets Committee Meeting in Morocco, and the IOSCO Asia-Pacific Regional Committee in Bali, Indonesia. In addition, FSC has been listed in Appendix B to the IOSCO Multilateral Memorandum of Understanding (MMOU) since 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 2008, the FSC sent delegates to attend the IAIS Triannual Meetings in Basel and Seoul, and the IAIS Annual Conference in Budapest, Hungary. The FSC obtained the right to host the IAIS Triannual Meetings and Global Seminar in Taipei in 2009. The FSC now participates actively in the IAIS Technical Committee, Implementing Committee, Accounting Subcommittee, Insurance Fraud Subcommittee, Solvency & Actuarial Issues Subcommittee, Financial Conglomerates Subcommittee, Governance and Compliance Subcommittee, Insurance Contract Subcommittee and Regional Coordination Subcommittee.
- 3. World Trade Organization (WTO)

 The FSC attended a services cluster meeting on 1 to 3 December 2008 in Geneva, and the transitional review under section 18 of the protocol on the accession of the People's Republic of China.

4. The European Bank for Reconstruction and Development (EBRD) The EBRD continued to provide secondment opportunities for the FSC. Currently the FSC has one staff member working for the EBRD. The FSC participated in the 17th Annual Meeting of the Board of Governors of the EBRD in May 2008. The event took place in Ukraine of the Russian Federation.

FSC Activities In 2008

FSC 2008 Annual Report

Promoting Taiwan's financial markets

In May 2008, former Chairman Sheng-Cheng Hu traveled to New York to attend the 2008 US-Taiwan Financial Services Joint Conference, where he delivered a speech in English entitled "The Taiwan Economy and Financial Markets" to familiarize listeners with the overall state of Taiwan's economy, our financial reforms, and future prospects for our financial markets. The speech met with an enthusiastic response from the audience of over 100 persons, including US government officials and professionals and scholars from Taiwan and US.

Former Chairman Gordon Chen attended the 26th World Chinese Traders Convention on 12-15 September in New York, where he met with representatives of leading financial institutions and held a roadshow aimed at encouraging overseas firms run by ethnic Chinese to list shares and invest in Taiwan. Ethnic Chinese running businesses on the US east coast were invited to the roadshow, and the response was enthusiastic.

Holding international conferences



5th Taipei Corporate Governance Forum

On 6-8 November 2008, the FSC held the 5th Taipei Corporate Governance Forum and Roundtable in Taipei, featuring distinguished speakers and panelists including David W. Knott, Chief Executive of Dubai Financial Services Authority, Dr. Morris Chang, Chairman of Taiwan Semiconductor Manufacturing Company, Mr. Michael Peters, Member of the Executive Board of Eurex Frankfurt AG., Ms. Jane Zhu, Head of Asia Pacific London Stock Exchange, Mr. Mats Isaksson, Head of the OECD Corporate Affairs Division, Mr. Paul Hoff, Managing Director of FTSE Asia Pacific, Peter Sutton, Head of Research, CLSA Asia-Pacific Markets, Mr. Joseph Borg, Director of the US Alabama Securities Commission, and Dr. Louis Chen, Vice Chairman of Corporate Governance Association in Taiwan. 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 Vice Chairman Wu gives the welcoming remarks at the Welcome Reception of the 5th Taipei Corporate Governance Forum.



The FSC Vice Chairperson Lee is shown here at the 44th Annual Seminar of the International Insurance Society (IIS) handing over the "Hosting Stick" to the next host-Jordon.

The 44th Annual Seminar of the International Insurance Society (IIS) was held on 13 to 16 July 2008 in Taipei. The theme of the seminar, which attracted over 500 insurance supervisory officials, academics, and other insurance elites from 36 nations, was "Meeting the Global Demand for Insurance." Participants also took advantage of the seminar to engage in a full exchange of views on marketing issues and the innovation of new insurance products.



The ROC Vice Premier Chiu gives the welcoming remarks at the 44th Annual Seminar of the IIS.

Consumer and investor protection

Consumer Debt Clearance Act

Under the Consumer Debt Clearance Act, which entered into force on 11 April 2008, a debtor intending to apply for rehabilitation or liquidation must first submit a creditors list to their largest creditor and discuss a workout. Only after such workout discussions fail, may the debtor file in court for rehabilitation or liquidation. Under the guidance of the FSC, the ROC Bankers Association has established an out-of-court pre-negotiation mechanism and has posted information about the pre-negotiation process on its website (information available in Chinese at www.ba.org.tw). A total of 35,175 debtors applied for pre-negotiation of debts totaling some NT\$60.3 billion) by the end of 2008. In addition, the Bankers Association has also set up a hotline at (02) 8596-1629 to provide assistance to debtors.

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 completed a three-year plan to run from 2006 through 2008. The following are some of the main 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 2008, 1,014 activities had been carried out, attracting a total attendance of around 329,000.
- 2. The FSC has sponsored financial literacy activities organized by campus clubs and academic departments at colleges and universities. By the end of 2008, 150 activities had been held at 70 different campuses.
- 3. 27 Financial Whiz Kids Camps have been held where the younger generation had a chance to learn about financial matters in a fun and entertaining way.
- 4. The FSC has compiled textbooks for introductory financial courses, which were incorporated into supplementary curricula at the junior and senior high school levels by the end of the 2008. This represents an important step towards introducing financial literacy at a younger age.
- 5. Financial literacy workshops have been held for elementary and junior high school teachers. By the end of 2008, these workshops had attracted a total attendance of 3,287 persons, and should prove very effective in spreading financial literacy.

FSC Activities In 2008

- 6. 104 "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 has established 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 regularly observe "Know Your Customer" rules when opening accounts for potential customers. (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 remittances 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 the Economic Crimes Investigation Center, Taiwan High Prosecutors Office, and the 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 70,201 investors in 34 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 won some NT\$373.7 million from accountants and underwriters, NT\$752.4 million from directors and supervisors, and NT\$108.4 million from public companies, resulting in a total compensation of some NT\$1,234 million.

Amendment of the Compulsory Automobile Liability Insurance Act and related regulations

- 1. The FSC amended the "Regulations Governing Compulsory Automobile Liability Insurance Underwriting and Claims Handling" in 2008 to address difficulties experienced by some insurance claimants in receiving insurance benefits. Under the pre-amendment provisions of the Regulations, an insurer must pay out benefits either by wiring payment to the claimant's bank account, or by depositing in that account a crossed check that is non-endorsable and non-transferable. Difficulties arise, however, when a claimant's bank account has been frozen and the claimant is unable to access the funds. Under the amended Regulations, if a claimant can provide documentary proof that he/she is either unable to open a bank account or an existing account has been frozen, the claimant may ask the insurer to pay out the benefits by making out a crossed check payable to the claimant. In addition, to make it easier for insurers to handle small insurance payouts, the Regulations also allow benefits of NT\$5,000 or less per person to be paid out in cash directly to the claimants.
- 2. The "Regulations Governing the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance" were amended in 2008 with due consideration given to the adequacy of the assets of the Compulsory Automobile Liability Insurance program. An insurer participating in the Compulsory Automobile Liability Insurance program is required to add a note to the accounting titles under the current accounting system to show the name of this insurance. The FSC also requires the insurer to use the format required by the competent authority to produce the Assets and Liabilities Exhibits of Compulsory Automobile Liability Insurance which shall be audited and certified by the professional person stipulated in this regulation and be submitted to the competent authority within 4 months after the end of the accounting year.
- 3. Amendment of the 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 1 December
 2008, with the revised tariff scheduled for implementation from 1 March 2009. Overall,
 gross premiums for motorcycles will fall by 7.31%, while those for automobiles will
 decline by 4.49%. For motorcycles and automobiles together, gross premiums will fall
 by an average of 7.64%.

FSC Activities In 2008



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

Draft bills under review in the Legislative Yuan

1. Securities and Exchange Act

We pushed 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 TWSE and GTSM listed companies (whereas they are now required to file their financial reports within four months of the end of the year, this deadline would be shortened to three months); and (3) promotion of Taiwan's efforts to become a signatory of the IOSCO MMOU. In addition, the amended provisions would 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. Financial Services Enterprise Act

The FSC has proposed the draft bill for a Financial Services Enterprise Act which would regulate the management of financial services enterprises in order to promote a greater diversity of financing channels.

Future Prospects

Amendments currently being drafted

- 1. A Financial Services Enterprise 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.
- 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, and to exercise tighter supervision of business groups.
- The FSC is studying an amendment to the Banking Act which would establish capitalbased 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 require that NPL disposal transactions are carried out in accordance with general accounting principles, and to build up M&A infrastructure.
- 5. In order to strengthen the management of insurance marketing, the FSC will amend the "Regulations Governing Required Qualifications for Responsible Persons of Insurance Enterprises," "Regulations Governing Insurance Agents," "Regulations Governing Insurance Brokers," and "Regulations Governing the Supervision of Insurance Solicitors" as well as "Regulations Governing Business Solicitation, Policy Underwriting, and Claim Adjusting of Insurance Enterprises."
- 6. To coordinate with amendments to the Banking Act and the Financial Holding Company Act on 30 December 2008 and 21 January 2009 respectively, the FSC is in the process of revising and drafting related rules and regulations.
- 7. To coordinate with the amendment to the Real Estate Securitization Act promulgated on 21 January 2009, the FSC is in the process of revising and drafting related rules and regulations.



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

In order to implement the New Basel Capital Accord, strengthen risk management of domestic banks, and harmonize Taiwan's bank capital adequacy requirements with international standards, Taiwan has followed the BIS schedule and implemented Basel II since 2007. The overall capital adequacy ratio of domestic banks at the end of the third quarter of 2008 is 11.92%

In addition, under Pillar 2 - supervisory review, local banks are required as of April 2008 to file business plans, internal capital adequacy assessments, and demonstrations of their risk indicator self-assessments. Based on the information provided, the FSC will assess the robustness of these banks' risk management and internal control architecture. Under Pillar 3, all domestic banks have disclosed their own qualitative and quantitative risk information of each type of risk since April 2008. The FSC will review and evaluate the Pillar 3 disclosures of banks. It is expected that Pillar 3 implementation will enhance market discipline, provide for better oversight of corporate operations and governance, and contribute to the soundness of the financial industry.

Outlook for Taiwanese banks (competitiveness)

A. Wealth management business:

In recent years, due to a growing elderly population and a decreasing number of children in families, households with more disposable income now demand more new financial products to earn reasonable returns. This has given banks in Taiwan a chance to build up their wealth management business, and spurred them to design new financial products to satisfy customers' needs. By the end of December 2007, the total assets of the wealth management market in Taiwan amounted to NT\$8,745 billion, and by December 2008 the scale of the market had expanded to NT\$9,072 billion (annual growth rate of 3.74%). The FSC will continue to review related regulations and to promote the sound development of the wealth management business.

B. 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 East-Asian capital management center for mainland China-based Taiwanese businesses, ethnic Chinese, and foreigners.

By the end of December 2008, the sales revenue of all overseas branches of domestic banks and OBUs was NT\$333.3 billion. Meanwhile, owing to the recent financial crisis, the before-tax earnings of all overseas branches of domestic banks and OBUs declined to NT\$7 billion.

To promote OBUs as a regional capital center, the FSC will continue to strengthen the functions of OBUs.

Securities firms to act as depositories 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 and 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 (TWSE), Taiwan Futures Exchange (TAIFEX), GreTai Securities Market (GTSM), and Taiwan Depository & Clearing Corporation (TDCC) together as subsidiaries under a single 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 through integration.

Continued development of the Taiwan ETF market

To diversify ETF products, enhance strategic allocation among different ETFs, and help investors achieve better returns, the Taiwan Stock Exchange introduced four new ETFs to the market in 2008. They are the Polaris / P-Shares TWSE Taiwan Non-Tech 50 ETF, Fubon/MSCI Taiwan ETF, Fubon/Taiwan Eight Industries ETF and Fubon/Taiwan Finance ETF. The FSC continues to work closely with securities investment trusts to launch new ETFs and invigorate the Taiwan ETF market.

Strengthening the solvency of insurance companies

- 1. The FSC has responded to the global crisis by easing risk-based capital requirements through the end of 2009, and during this period will continue to work with insurers planning to issue stock or hybrid bonds, while pushing weakly capitalized insurers that haven't put forward any concrete turnaround plans to take expedited action to improve their capital base. To strengthen and stabilize the solvency of insurance companies, the FSC will continue to urge insurers to improve their risk management systems and corporate governance. The FSC will also enhance marketing management and continue to amend regulations governing the capital allocation of insurance enterprises.
- 2. To protect the interests of insurance customers and strengthen the insurance market, the FSC will continue to review and amend rules and regulations pertaining to the setting aside of various reserves. In addition, the FSC will keep a watchful eye on appointed actuaries to see that they fulfill newly adopted requirements to comment on investment strategies and the solvency of insurance companies in their actuarial reports, as this will help company management and supervisory authorities to understand and improve the operation of insurance companies.

Future Prospects

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 the self-regulatory function of insurers and signatories, and to enhance the role of post-audits. Within two years of implementing the system, the industry-wide ratio of insurance products filed under prior approval rules was reduced to less than 4%, 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 of December 31, 2008, the take-up rate has reached 26.02%. The FSC recently amended the "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance" in response to steadily rising enrolment in earthquake insurance and a growing awareness among consumers of risk. After conducting a periodic review, the FSC decided to raise the claim-paying capacity of the residential earthquake insurance scheme. Key points of the amendments include the following: (1) raising the capacity of the scheme from NT\$60 billion to NT\$70 billion and adjusting the capacity of each tier; (2) the criteria for determining what constitutes a single earthquake incident have been revised; (3) new criteria have been added governing determinations on whether a structure has been totally destroyed; (4) augmenting a new provision governing guidelines of qualified adjustors for residential earthquake insurance; and (5) new provisions have been added regarding the various reserves to be set aside by members of the residential earthquake insurance pool.

Implementing the differential financial examination mechanism

To implement the risk-based examination mechanism, the FSC is setting up a differential examination mechanism for domestic banks which will be implemented from 2009. The mechanism will assign different risk grades and examination frequencies to different financial institutions, so as to make efficient use of examination resources and encourage banks to establish effective risk management and internal audit systems. Furthermore, the FSC will continue to prepare differential financial examination mechanisms for the securities industry, insurance industry, and financial holding companies.



Future Prospects

FSC 2008 Annual Report

Enhancing cooperation between financial and law enforcement agencies to combat financial crimes

The FSC and law enforcement agencies periodically meet to discuss financial crimes. At the meetings, the FSC is briefed on the progress of cases that it has referred to prosecutors. Where an investigation does not lead to an indictment, or an indictment does not lead to conviction, or a case is closed by prosecutors without an indictment in order to propose corrective measures, the handling of the case is given a comprehensive review to see where there might be room for improvement, The FSC will continue to provide professional support to ensure that investigations do not have an undue impact upon our financial markets.

Consolidation of financial institutions

Six M&A deals were completed in the market in 2008, including a few where foreign banks invested in local banks. These events show that the measures we have taken so far have borne fruit. The FSC's plan for consolidation of the financial industry is summarized as follows:

- 1. Provide more incentives for consolidation while honoring the market mechanism to build a fair and transparent environment for consolidation.
- 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. Rely on market mechanism to put pressure on existing financial holding companies that have performed poorly yet have no intention to merge.



Pushing for internationalization of Taiwan's capital markets

The FSC continues to promote and internationalize Taiwan's capital markets through the development of Formosa Bonds 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 markets. These efforts will help Taiwan to become a regional capital-raising and assets management center, and will also increase employment opportunities and tax revenues in Taiwan.

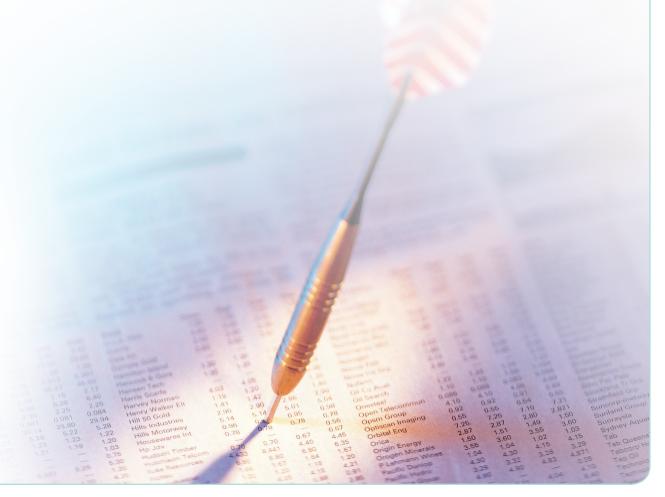
Promoting corporate governance

In connection with the amendment to the Securities and Exchange Act, the FSC has issued 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, 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.



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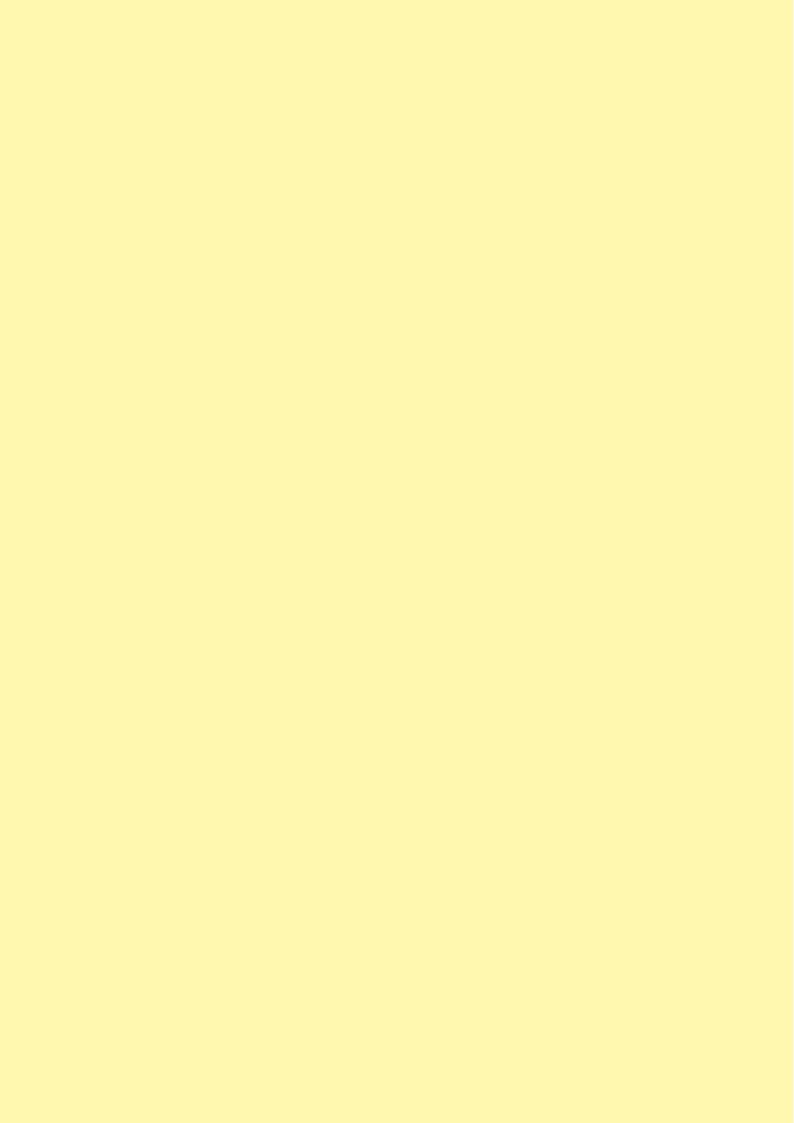
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