

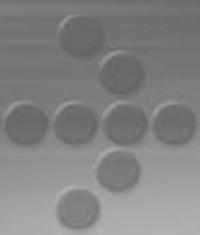


Financial Supervisory Commission, Taiwan





Financial Supervisory Commission, Taiwan
2009 Annual Report



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Commission,
Taiwan
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CHAIRMAN'S STATEMENT

Due to the lingering impact of the financial tsunami over the past year, development of global economic activity and trade has remained problematic, as has the state of the financial system. Faced with precarious economic and financial conditions, the Financial Supervisory Commission (FSC) has focused on stability and the long-term picture in working to steady the financial sector, ensure the safe and sound operation of financial institutions, expand the size of our capital markets, facilitate the efforts of enterprises to secure financing, and strengthen safeguards for consumers and investors.

On the domestic front, our primary objective this past year was to maintain stability in Taiwan's financial markets. We took a number of steps toward that end, including the following: (1) created a sound financial safety net by extending the blanket guarantee for bank deposits to the end of 2010, and strengthened the ability of financial institutions to manage capital adequacy and risks; (2) implemented the Executive Yuan's "government supports banks, banks support enterprises, enterprises support employees" policy, thereby helping enterprises obtain the working capital they need to maintain normal operations while pushing for financial institutions to reschedule loan repayments for individuals who are involuntarily unemployed; and (3) adopted a requirement for financial institutions to disclose information on professional fees paid to CPAs and remuneration paid to directors and supervisors, so as to strengthen corporate governance. In addition, we took a number of steps to expand the size of our capital markets, including the following: (1) continued working to encourage high-quality foreign companies to list on the Taiwan Stock Exchange or the GreTai Securities Market; (2) undertook a critical review of securities market trading regulations; and (3) entered into an agreement with the Hong Kong securities authority for cross-listing of ETFs. We also sought to help enterprises secure financing by: (1) continuing to implement the Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises; and (2) adopting numerous differential regulatory treatment measures to provide positive incentives that encourage banks to provide loans to small and medium enterprises so that they can obtain working capital.

Providing improved protections for consumers and investors was another key focus. Lehman Brothers touched off a flurry of problems in relation to structured notes when it filed for bankruptcy protection in September 2008. In dealing with the aftermath, the FSC sought first of all to encourage out-of-court settlements of structured notes disputes, and in order to achieve maximum efficiency we adopted a two-track system, combining the out-of-court settlement approach with a structured notes dispute resolution mechanism run by the ROC Bankers Association. Within this framework, we put top priority on handling disputes involving the elderly, persons with a low level of education, individuals suffering from major illness, and other investors in a relatively disadvantaged position. We also introduced a customer management system that differentiates between different types of customers in order to better safeguard the interests



Sean C. Chen, Chairman
Financial Supervisory Commission
(FSC), Executive Yuan
May 2010

of non-professional investors. In addition, we continued working to improve the financial literacy of the general public. We launched our MoneyWise website, for example, which assembles a strong collection of educational materials focusing on financial matters, including some very entertaining animation and games designed to help website visitors develop a proper understanding of how to use financial services, invest, and manage their personal finances. At the same time, in order to encourage the insurance industry to fulfill its social responsibilities, we have been working with insurers to get them to launch one-year personal injury policies and micro life insurance products, which will enable them to better serve the needs of the economically disadvantaged.

On the international front, we encouraged domestic banks to develop into regional financial institutions, and foreign banks to increase their participation in Taiwan's financial markets. We also continued working to sign bilateral and multilateral memorandums of understanding (MOUs) for financial supervisory cooperation with counterpart authorities and important international financial organizations; as of this writing, we have signed 41 bilateral MOUs. Major progress was also achieved last year in cross-strait financial ties when the FSC signed MOUs for financial supervisory cooperation on 16 November 2009 with the mainland's China Banking Regulatory Commission, China Insurance Regulatory Commission, and China Securities Regulatory Commission. In order to ensure stable development of Taiwan's domestic financial system, the FSC is moving slowly and deliberately, insisting on equal status at all times, as we work to coordinate with the mainland on laws, regulations, and regulatory measures related to financial markets.

Looking to the future, the FSC will continue monitoring the latest international trends in financial supervision. Matters receiving especially close attention recently include consumer and investor safeguards, management of capital adequacy and liquidity, amendment of accounting standards and efforts to familiarize financial institutions with the changes, cross-border supervisory cooperation mechanisms, and remuneration systems. In addition, in recognition of current economic and financial conditions in Taiwan, the need to stabilize our domestic financial sector will continue to be our main focus, and we are planning a two-pronged approach to achieve this end. We will adopt forward-looking domestic innovations, on the one hand, while at the same time moving as quickly as possible to discuss early harvest items for our financial markets in ongoing talks with mainland China on the Economic Cooperation Framework Agreement (ECFA). By adopting this latter approach, we hope to win preferential treatment for our financial industry on their access to the mainland market, so as to spur development of our financial industry and enhance the international competitiveness of our financial institutions. This, in turn, should contribute to real economic growth and spur the emergence of financial markets that mesh smoothly with the global financial system and are characterized by stability and a forward-looking mentality.



Organization And Functions

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

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.

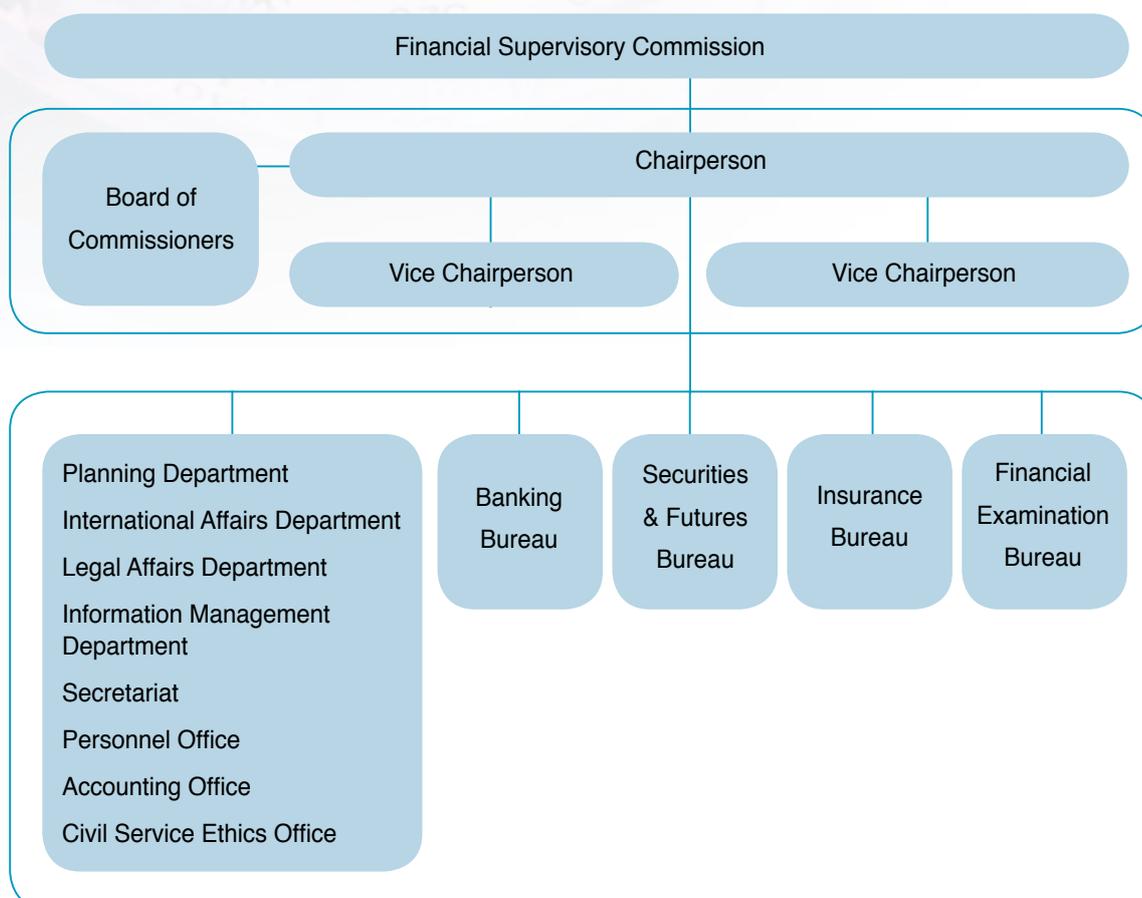
Commissioners and officers



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.

Organizational Chart



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 4 of the FSC Organic Act, the FSC is in charge of the following affairs:

1. Managing financial systems and supervisory policy issues;
2. Drafting, amending and repealing financial laws and regulations;
3. Supervising and regulating the following matters in connection with financial institutions: establishment, termination, revocation, changes of registered information, mergers, business suspensions, dissolutions, and approvals of business scope;
4. Development, supervision, and regulation of financial markets;
5. Examination of financial institutions;
6. Examination of matters relating to public companies and securities markets;
7. Handling of international financial matters;

8. Protection of financial consumers;
9. Enforcement of financial laws and regulations, punishment of violators, and handling of matters related thereto;
10. Collection, processing, and analysis of statistical information relating to financial supervision, regulation, and examination;
11. Inspection of other matters relating to financial supervision, regulation, and examination.

Board of Commissioners

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

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

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

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

Functions

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

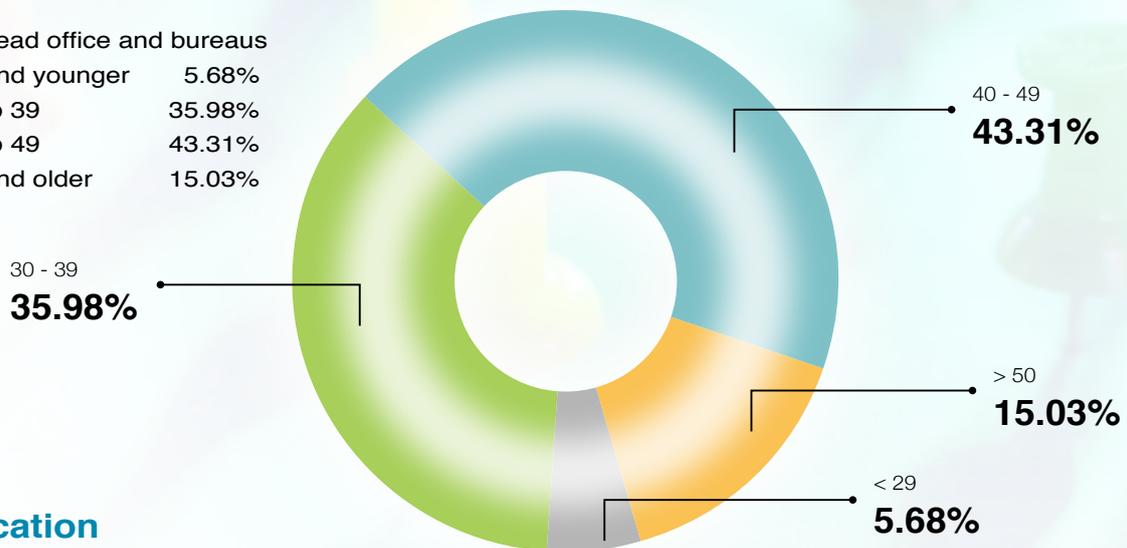
1. Banking Bureau: Supervises and regulates the banking market, money market, and banking enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.
2. Securities & Futures Bureau: Supervises and regulates the securities and futures markets as well as securities and futures enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.
3. 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.
6. Department of International Affairs: Acts as liaison to international financial organizations and foreign supervisory bodies; supervises FSC overseas offices; researches and promotes major international financial projects; and carries out international promotional activities.
7. Department of Legal Affairs: In charge of the integration, drafting, research, revision, and interpretation of financial supervisory laws and regulations, consulting regarding the same, as well as the collection, processing, editing, and translation of financial supervisory laws and regulations.
8. Department of Information Management: Develops, plans, and administers of information systems, and processes and performs analysis of data related to financial supervision, regulation, and examination.
9. 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 head office and 945 persons for all bureaus under the FSC. As of the end of 2009, the FSC head office had 89 employees while the bureaus employed 756 persons, totaling 845 persons.

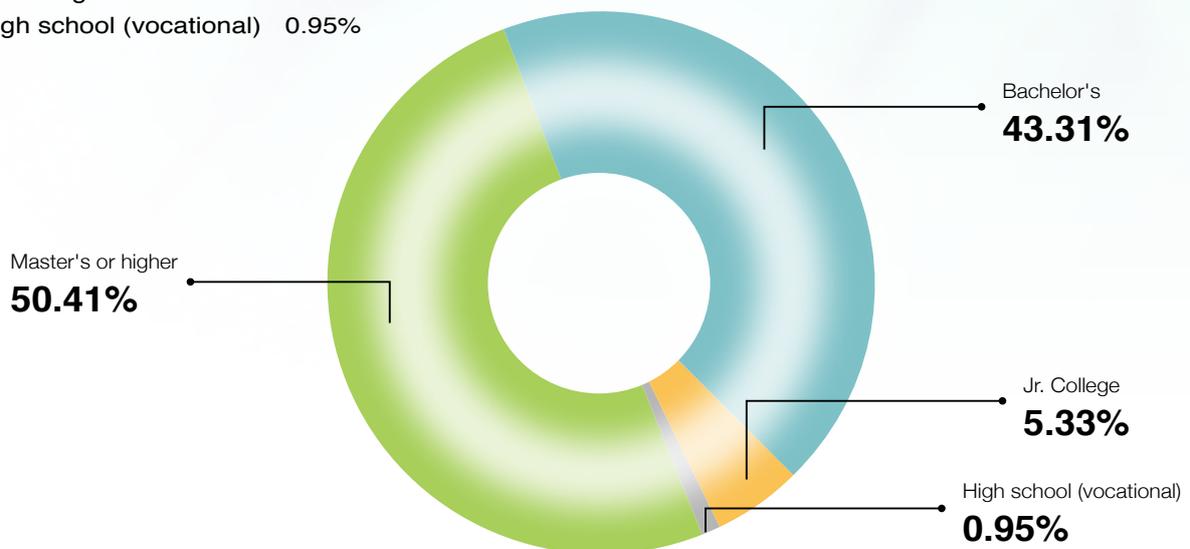
Age distribution

FSC head office and bureaus	
29 and younger	5.68%
30 to 39	35.98%
40 to 49	43.31%
50 and older	15.03%



Education

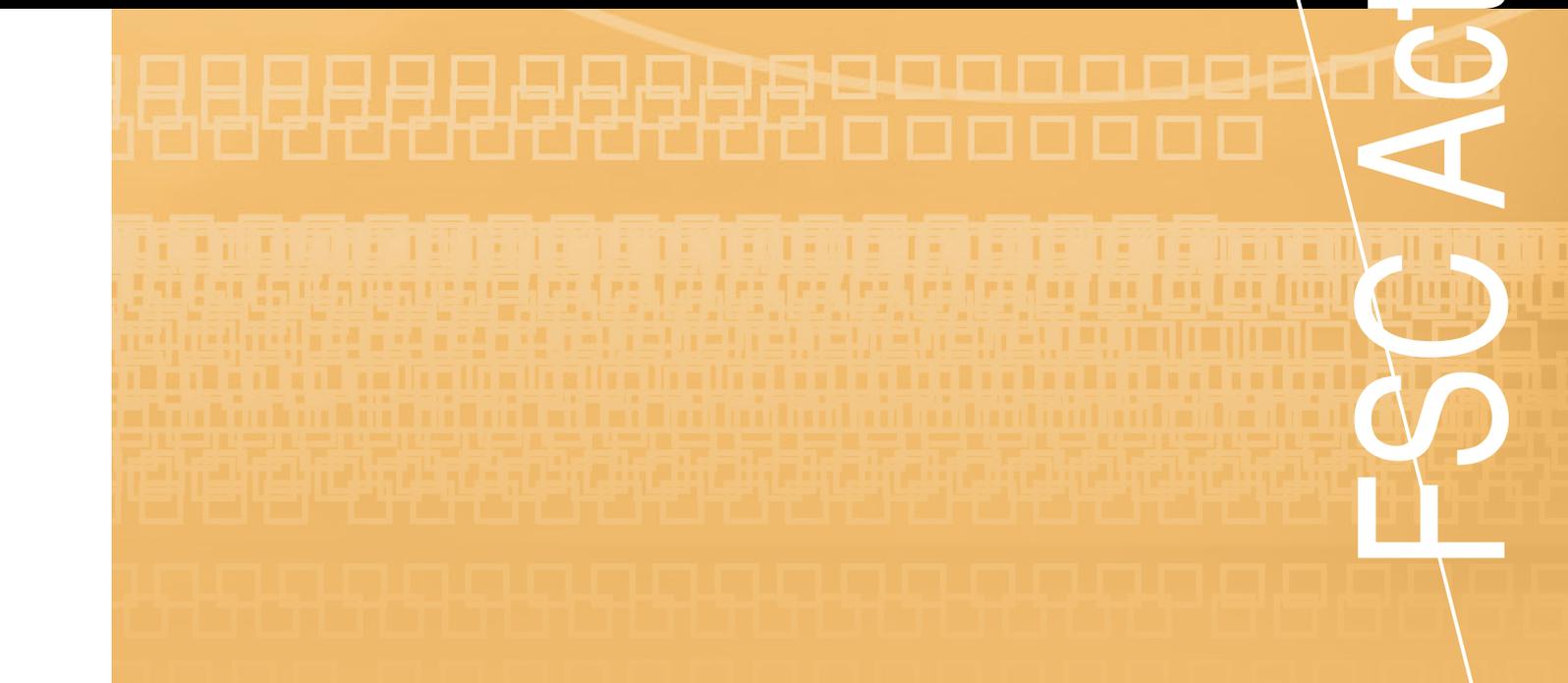
FSC head office and bureaus	
Master's or higher	50.41%
Bachelor's	43.31%
Jr. College	5.33%
High school (vocational)	0.95%





FSC Activities in 2009

In 2009, 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.



FSC Activities in 2009

Development of financial markets

Stimulating the securities markets

FSC ACTIVITIES IN 2009: (Continued re-examining securities market trading regulations)

The T+2 DVP Settlement System was implemented in the beginning of February 2009 to improve the settlement system and accord with international practice. Also, the periods for block trading were adjusted to 9 a.m. to 5 p.m. from 12 January 2009 to satisfy investor needs.

FUTURE PROSPECTS: (Switch to book-entry securities, implement continuous trading)

To increase trading efficiency, diversify trading order types, and shorten order matching time, TWSE will phase in continuous trading. First, warrant trading will move from the auction to the continuous trading method before the end of 2010. We will see how investors react, then consider implementing continuous trading for all listed stocks.

Invigorating the bond market

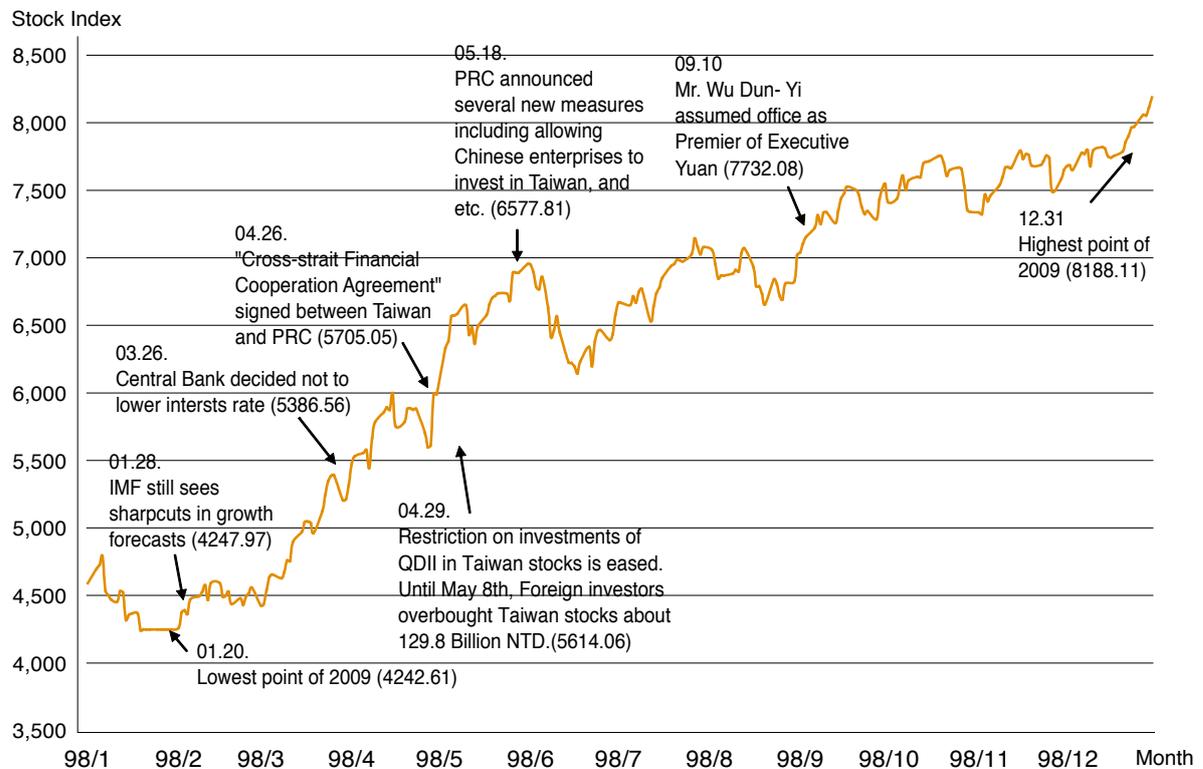
The GreTai Securities market launched its foreign government bond trading platform on 20 November 2009, which provides domestic financial institutions onshore access to the U.S. Treasury Market in an easier way and helps financial institutions to expand the extent of their trading and investments.

Promoting development of the futures market

The total trading volume of products launched by the Taiwan Futures Exchange (TAIFEX) reached 135,125,695 contracts, with an average daily volume of 538,349 contracts in 2009. There was noticeable volume growth in 2009 due to reduction of the tax on stock index futures in 2008. Compared with the previous year, trading volume in TAIEX futures and Mini TAIEX futures grew 24.24% and 53.75% respectively. On top of that, trading volume in financial futures products leaped by 15.34% compared to 2008.

In order to enlarge Taiwan's futures market, the FSC issued the "Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors" on April 30, 2009, to allow qualified mainland China institutional investors to trade in Taiwan futures market contracts.

TAIEX movements in 2009

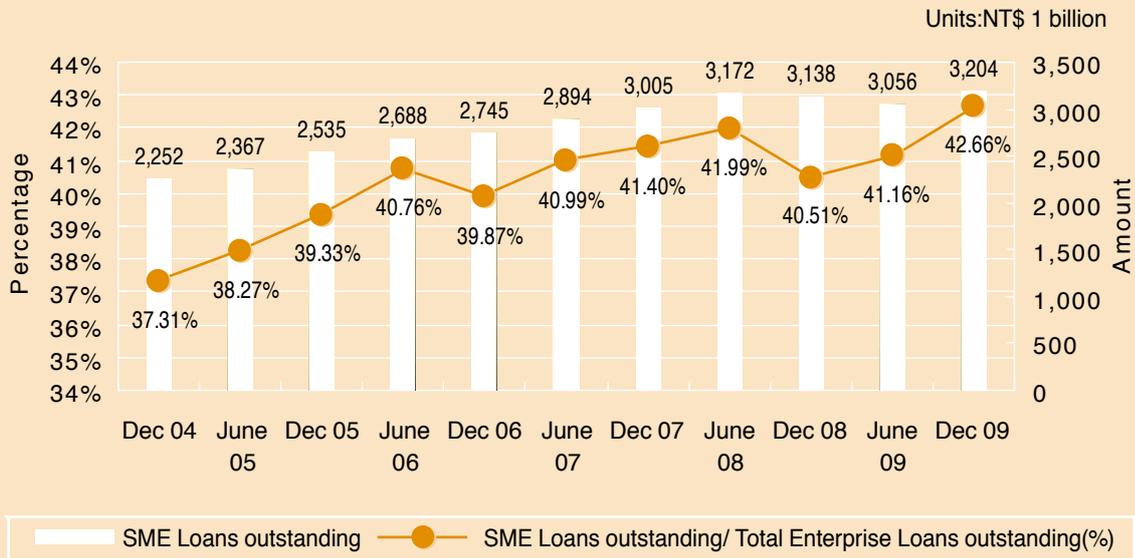


Increasing loans to small and medium enterprises (SMEs)

To help SMEs obtain working capital, the FSC has been promoting the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." By the end of Dec. 2009, the amount of outstanding loans extended to SMEs was NT\$3.2 trillion, 42.66% of total enterprises outstanding loans balance. Obviously, this ratio indicates that SMEs are getting much more attention in the lending market.

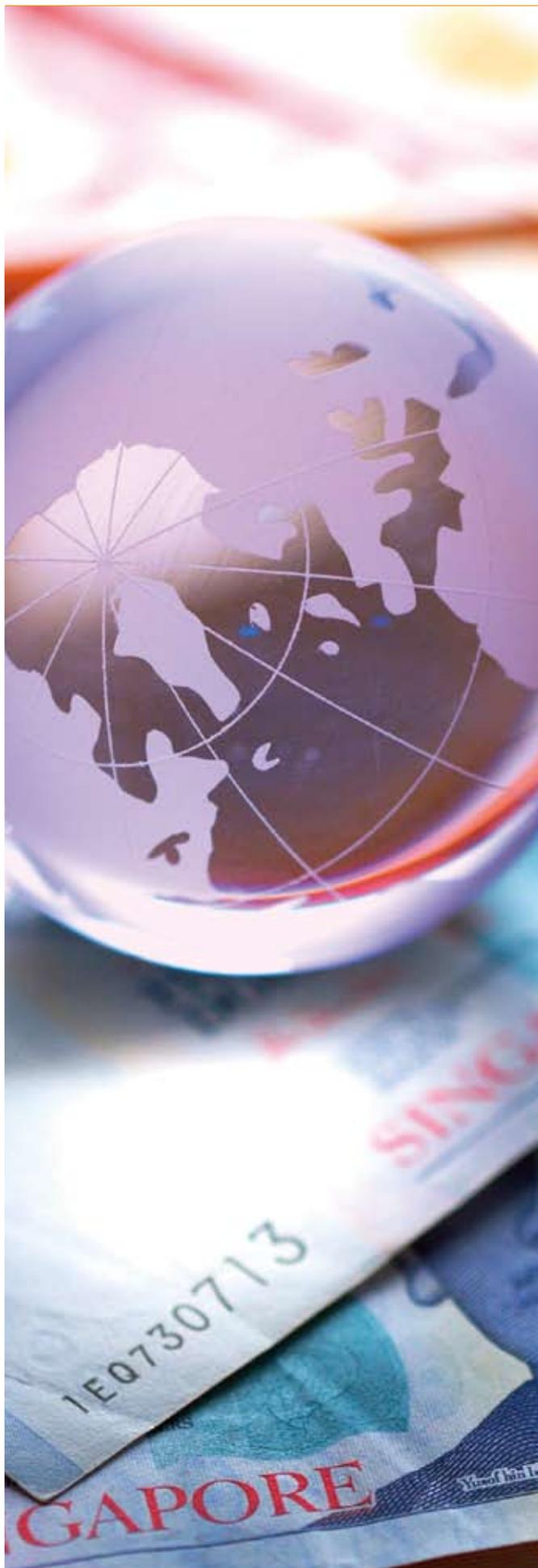


Outstanding SME loans by domestic banks



Promoting sound development of the insurance market

In order to enhance supervision of the business and financial status of insurers and to reflect the current state of the insurance market and the operational requirements of insurers, the FSC formulated or revised a number of regulations, including the "Regulations Governing Foreign Investments by Insurance Companies," "Regulations Governing Derivatives Transactions Conducted by Insurance Companies," "Regulations for Establishment and Administration of Foreign Insurance Enterprises," "Regulations Governing Required Qualifications for Responsible Persons of Insurance Enterprises," "Regulations Governing the Supervision of Insurance Solicitors," "Directions for Insurance Enterprises Engaging in Telemarketing of Insurance Products," "Directions for Banks, Insurance Companies, Insurance Agencies, Insurance Brokers Engaging in Bancassurance Business," "Payment Standards of the Compulsory Automobile Liability Insurance," "Regulations for Underwriting and Claim Adjustment Procedures under Compulsory Automobile Liability Insurance," "Regulations Governing the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance," and "Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance."



To ensure the sound development of investment-linked insurance and to coordinate with the implementation of the Regulations Governing Offshore Structured Products, the FSC revised the "Directions for the Review of Life Insurance Products" and issued the "Directions Regarding Custodian Institutions for the Special Ledgers of Investment-linked Insurance and the Investments Made in Connection Therewith."

Establishing new branch units for domestic banks and cooperatives

In accordance with the conclusions reached at the Conference on Sustaining Taiwan's Economic Development (COSTED), the FSC amended the "Regulations Governing the Establishment, Relocation, or Closure of Domestic Branches by Financial Institutions" and renamed them the "Regulations Governing the Domestic Branch Units of Financial Institutions" on 16 January 2007. The amended Regulations set out conditions under which financial institutions will be allowed to apply to set up new branch units or merge two mini-branches to form one regular bank branch. On 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. On 9 July 2009, the FSC approved applications by three domestic banks and two cooperatives to establish an additional four branches and three branch cooperatives respectively.

Promoting electronic stored value card business

With the promulgation of the "Act Governing Issuance of Stored Value Cards" on 23 January 2009, the FSC adopted relevant regulations and reviewed the establishment application of electronic stored value card issuing institutions. The FSC intends to facilitate the use of stored value cards, reduce the usage of cash, and strengthen the protection of the public interest.

Competitiveness of financial institutions

Encouraging financial industry consolidation

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.

Market-driven consolidation

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 safeguard the interests of shareholders, employees, and customers.

M & A deals

New M&A deals:

	Existing entity	Acquired (invested) entity	Merger date
1	Bank SinoPac	SinoPac Card Services	Jun. 1, 2009
2	Ta-Chong Commercial Bank	Second Credit Cooperative of Kaohsiung	Sept. 1, 2009

M&A deals in the insurance industry:

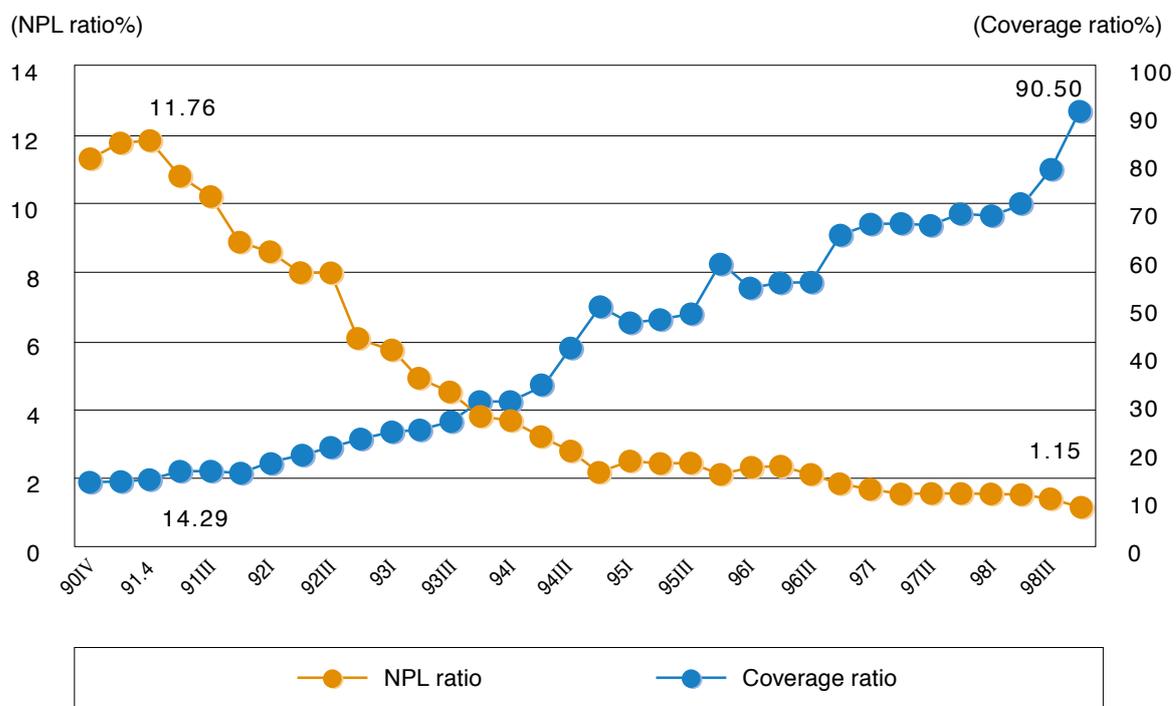
In October 2008, the FSC approved one spin-off application. Starting from 1 January 2009, Mitsui Sumitomo Insurance Co. Ltd. (MSI) transferred the operations of MSI Taipei (including all assets and liabilities) to its wholly owned subsidiary, MSIG Mingtai Insurance Co., Ltd.

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 4.9% in June 2004 to 1.15% by the end of 2009. Over the same period, the coverage ratio was raised from 24.43% to 90.50%.



NPL ratio and coverage ratio of domestic banks



Increasing the competitiveness of the futures market

Under the FSC's instruction, the Taiwan Futures Exchange (TAIFEX) has launched a new product, Gold Options, to offer investors a more diversified range of investment/hedge vehicles. To attract the participation of foreign and institutional investors, the FSC has streamlined the daily filing work for omnibus accounts and allowed qualified institutional investors to increase their position limits.

In order to increase operating efficiency for securities firms concurrently operating FCM business, the FSC amended the "Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants" on November 11, 2009, to allow their managerial officers and associated persons who qualify as associated persons in both securities and futures business to concurrently engage in securities and futures businesses of the same type. For example, if a securities agent's associated persons are also qualified as FCM associated persons, those persons may concurrently engage in the clearing and settlement of securities and futures businesses.

Promoting development of the real estate securitization market

An amendment to the Real Estate Securitization Act was promulgated by the President on 21 January 2009. Key points of the amendment include the following: (1) real estate or related rights under developments, such as urban renewal, infrastructure or public amenities construction can now be securitized in order to provide for a more diverse range of real estate securitization products, boost the real estate securitization market, and improve returns on capital; (2) new provisions have been added to govern follow-on offerings and private placements involving REIT funds; and (3) new provisions have been added to strengthen safeguards for investor interests. Furthermore, the FSC has completed or approved nine pieces of secondary legislation adopted under the Act, including the Enforcement Rules of The Real Estate Securitization Act, and continued drawing up other related regulations.

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 "Guidelines for Securities Firms Engaging in Wealth Management Business" as well as the "Guidelines for Life Insurance Companies Engaging in Wealth Management Business" to regulate the qualifications of wealth managers and request institutions to establish know-your-customer (KYC) procedures, internal control procedures,

risk management systems, product suitability policies, and mechanisms for handling disputes. These guidelines enhance the risk management systems and internal control procedures of financial institutions that engage in wealth management business, govern their conduct in the sale of financial products and protect the rights of their customers, meanwhile promoting sound development of the wealth management business in Taiwan.

By December 2009, the FSC had granted approvals for 18 securities firms and 32 banks (including 6 foreign banks) to provide wealth management services. The FSC expects financial institutions to improve self-regulation and protect the interests of their customers.

Since January 2006, life insurers have been allowed to conduct wealth management business with the approval of the competent authority. By the end of 2009, Cathay Life Insurance Co., Ltd., Shin Kong Life Insurance Co., Ltd., and Nan Shan Life Insurance Co., Ltd., Fubon 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

Securities service business

In order to augment the business scope of securities service enterprises, the FSC on 6 November 2009 began permitting futures commission merchants to engage in securities introducing broker business. In addition, the FSC amended the "Directions for the Conduct of Wealth Management Business by Securities Firms" on 28 September 2009. Under the amended Directions, a securities firm that operates trust-type wealth management business and carries out asset allocations on behalf of customers and at their request, is allowed to apply to concurrently operate a money trust and a securities trust. Where a securities firm is allowed to concurrently operate one or both of these types of business, the trust business may be any of the following three types: (1) a non-discretionary individually managed trust; (2) a non-discretionary collectively managed trust; or (3) a semi-discretionary individually managed trust.

The FSC amended the "Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises," and the "Standards Governing the Establishment of Securities Investment Consulting Enterprises" on 20 August 2009, to allow SITEs and SICEs to operate a trust-type discretionary investment business.

In order to afford securities investment trust enterprises (SITEs) greater flexibility in timing the launch of new securities investment trust funds, the FSC recently amended Article 7, paragraph 3 of the "Regulations Governing the Public Offering of Securities Investment Trust Funds by Securities Investment Trust Enterprises." Prior to the amendment, the Regulations required a SITE to begin an public offering within three months after successfully applying (or registering) to do an offering, and allowed a SITE to apply once for a three-month extension of the deadline. The amendment changes each of these three-month periods to six months.



Acting pursuant to authorization granted in Article 5, paragraph 1 of the "Regulations Governing Securities Investment Trust Funds," the FSC as of 21 December 2009 now allows a securities investment trust enterprise (SITE) to delegate a third party to determine how to invest fund assets overseas in markets other than Asia and Oceania.

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.

Futures business

In order to broaden the business scope of futures introducing brokers and enable FCMs to handle margin calls and compulsory position liquidations more efficiently, the FSC amended the "Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms" on 8 July 2009 to allow an introducing broker to accept an FCM's authorization to give margin call notices to futures traders and to make liquidating trades on their behalf.

Insurance business

A number of regulations were newly issued or amended in 2009, including the "Regulations Governing Foreign Investments by Insurance Companies," "Regulations Governing Organization and Management of Insurance Guaranty Funds" (in order to pave the way for a transition from the old "Life Insurance Guaranty Fund" and "Non-Life Insurance Guaranty Fund"), "Standards and Handling Principles for Determining What Real Estate that Can Be Recognized as Being Used Immediately With Reasonable Benefit" (a further specification as to the regulation concerning the use of insurer's funds), and "Regulations

Governing Insurance Enterprises in Making Loans to and Engaging in Other Transactions with a Single Party, Single Group of Related Parties, or Single Group of Affiliated Enterprises." 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 policyholders 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), besides the US dollar, the FSC further began allowing life insurers to sell non-investment-linked life insurance denominated in Australian dollars and Euros. In addition, the FSC has also provided for the introduction of microinsurance business, which helps to enhance the basic insurance coverage of economically disadvantaged persons and facilitate the establishment of a sound social safety net. As of December 2009, the FSC has approved 4 microinsurance products.



1. In order to provide investors with a more diversified selection of foreign-currency assets, to reduce currency mismatch risks between assets and liabilities, and to promote the efficiency of asset liability management (ALM), life insurers must apply for permission if they wish to sell non-investment-linked life insurance denominated in a foreign currency. In addition, the FSC has also provided for the introduction of preferred life insurance business, which rewards non-smokers and other customers with low-risk lifestyles. Such customers receive reduced insurance premiums or increased coverage. This change is expected to significantly spur the innovation of insurance products, satisfy diverse consumer needs, and spur insurers to upgrade their underwriting techniques
2. The FSC continues to study the possibility of further expanding the scope of business activities that insurers are allowed to conduct. Fifteen non-life insurers received permission to conduct health insurance in 2009. 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

On 30 June 2009, the FSC amended the "Regulations Governing Approvals of Banks to Engage in Banking Activities Between the Taiwan Area and the Mainland Area" to allow domestic banks to engage in banking activities denominated in New Taiwan Dollars with individuals and enterprises from mainland China. The amended Regulations also adopted the negative list method for approval of remittance business. On 15 July 2009, FSC amended the above Regulations again to allow the use (not including cash withdrawal) of UnionPay in Taiwan.

As of 31 December 2009, the FSC has allowed ten Taiwanese banks to set up representative offices in mainland China, nine of which have also received permission from the mainland China authorities. In addition, one Taiwanese financial holding company has been allowed to make an equity investment in mainland China.

On 16 November 2009, the FSC signed three financial memorandums of understanding (MOUs on banking supervision, securities and futures supervision, and insurance supervision) with mainland China authorities through an exchange of letters. The three MOUs are modeled upon prevailing international practice, and provide for such matters as sharing of information, protection of information, on-site inspections, ongoing coordination, and crisis management. The MOUs will enable the FSC to perform effective supervision on the mainland operations of domestic financial institutions.

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, and investment in mainland China, and to offer reinsurance. By the end of 2009, the FSC has granted approval for insurers to set up 42 representative offices and 8 joint ventures 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 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 had further discussion with relevant parties in 2009.

Adoption of the "Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland China Area Investors"

In accordance with the "Proposal for Appropriate Easing of Restrictions on Investment in Domestic Stock Markets by Mainland China Investors," the FSC enacted and promulgated the "Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland China Area Investors" on 30 April 2009. This change is expected to help Taiwan develop into an Asia-Pacific capital-raising center by expanding Taiwan's securities and futures markets and increasing internationalization.



Financial stability

Improving the regulatory environment for financial markets

Strengthened regulatory measures regarding disclosure of remuneration for directors, supervisors, and managerial officers of securities firms, SITEs, SICEs and FCMs.

To make their remuneration and compensation consistent with actual services rendered, Articles 26 and 34 of the "Regulations Governing the Preparation of Financial Reports by Securities Firms," and Article 25 of the "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants" were amended on 28 August 2009 and the "Corporate Governance Best-Practice Principles for Securities Investment Trust (SITE) and Securities Investment Consulting Enterprises (SICEs)" were amended on 5 October 2009 to require securities firms, SITEs, SICEs and FCMs to disclose information regarding the remuneration of directors, supervisors, general managers, and assistant general managers.

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 a financial holding company.

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.

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 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 2009, including the "Directions for Handling by Insurance Enterprises of Cross-line Charge of Losses Among the Special Risk-volatility Reserves for Different Products," the "Regulations Governing Reserving for Universal Life Insurance Companies," 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\$50 billion in capital during 2009. In order to ensure safe and sound operation and maintain the confidence of policyholders, a number of temporary measures announced by the FSC at the end of 2008 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.

The FSC amended the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" to coordinate with the requirement that special reserves shall not be recorded under liabilities, and the liability adequacy tests shall be conducted in accordance with the Statement of Financial Accounting Standards No.40: Insurance Contracts.

Promoting corporate governance

To strengthen the corporate governance and remuneration of financial institution, the FSC required the Bankers Association and Bills Finance Association to amend the "Corporate Governance Best-Practice Principles for Banks," "Corporate Governance Best-Practice Principles for Financial Holding Companies" and "Corporate Governance Best-Practice Principles for Bills Finance Companies." The key amendments included that the principles of performance evaluation standard, and remuneration standard for managers and salesmen, and the structure and system of remuneration for directors and supervisors are added. The performance evaluation should be based on future risks and the long-term profits of the companies. In addition, the role and the mission of the board of director in risk management are amended.

The FSC will accept the joint filing of an amendment to the "Corporate Governance Best-Practice Principles for Insurance Enterprises" by the Non-Life Insurance Association and Life Insurance Association to ensure that the remuneration systems of insurers take proper account of performance and future risks, while strengthening the role of their internal audit systems. In addition, the FSC also intends to push insurers to take the corporate governance performance of potential investment targets into account when making investment decisions.

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 15 February 2007) and "Directions Concerning the Negative List for Banks Conducting Finance-Related Business" (issued on 23 March 2005).

2. Differential regulatory treatment for the underwriting system:

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

The FSC amended Article 13 of the "Regulations Governing Securities Investment Trust Enterprises" to provide for more sound financial and operating conditions at securities investment trust enterprises (SITEs), and to accord differential regulatory treatment to such enterprises. The amendment included that when a SITE files a financial report that indicates that the firm's net worth per share is below par value, the competent authority may order the firm to make an improvement within a prescribed period of time and restrict its ability to offer securities investment trust funds publicly. In addition, the competent authority may also, depending on whether the firm's net worth per share falls short of one-half of par value, respectively, order the firm to improve within one year, and immediately restrict its ability to offer a securities investment trust fund either privately.

To expand the range of permissible use of FCMs' own funds, on 15 October 2009 the FSC granted permission for FCMs to invest funds in futures trust fund beneficial interest certificates offered and issued domestically to non-specific persons by a futures trust enterprise. However, FCMs are not permitted to purchase beneficial certificates offered and issued by a futures trust enterprise in which the FCM is invested.

As of 9 November 2009, the FSC now allows securities firms that concurrently operate proprietary futures trading business to transfer securities held by their securities departments for posting as margin for proprietary futures trades, and has specified procedures and price calculation methods for securities transferred between departments as well as caps on the amount of securities transferred.

To enable managed futures enterprises to make more efficient use of their own funds, the FSC now allows them to invest up to 30% of the company's net asset value in securities investment trust funds, futures trust funds, and offshore 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.

Dealing with problem financial institutions

After the Kaohsiung Second Credit Co-operative (KSCC) lost over one-third of its membership share value, the FSC appointed the Central Deposit Insurance Corporation to enter the cooperative to assist its operation. The KSCC later merged with Ta Chong Bank on 1 September 2009.

The assets, liabilities, and business operations of Chinfon Bank were auctioned off on 27 October 2009. Since December 2006, the Financial Restructuring Fund (FRF) has forced six troubled financial institutions (Taitung Business Bank, Hualien Business Bank, Chinese Bank, China United Trust and Investment Corp, Bowa International Commercial Bank, and Asia Trust and Investment Corp) to exit the market, and sold off Chinfon Bank. The FRF's work to facilitate exit mechanism is almost completed.

The FSC on 30 March 2009 amended Articles 2 and 28 of the "Regulations Governing Organization and Management of Insurance Guaranty Funds" in order to pave the way for a transition from the old "Life Insurance Guaranty Fund" and "Non-life Insurance Guaranty Fund" to the new Insurance Guaranty fund, into which the two funds are to be combined. These changes make the market-exit mechanism more efficient and stabilize the financial system.

Concerned about the recurring losses from Kuo Hua Life's business through operating and investment losses, the lack of active steps to inject capital to replenish its negative equity position within the period of time set by the FSC, deficient corporate governance due to the frequent replacement of their directors and supervisors, and the adverse changes in shareholder structure, which suggested there might be future damage brought upon its policyholders if those situations continued getting worse, the FSC took Kuo Hua Life Insurance Co. under receivership from 4 August 2009 to 3 May 2010, and appointed the Taiwan Insurance Guaranty Fund as the conservator of the company under the authorization of the Insurance Act.

The FSC, acting upon authorization granted in Article 149 of the Insurance Act, on 17 January 2009 ordered Walsun Insurance to suspend business activities and enter into provisional liquidation proceedings.



Blanket deposit guarantee extended to the end of 2010

In October 2008, in order to quickly shore up the financial system and bolster the confidence of depositors, the FSC announced that it would guarantee all deposits placed with financial institutions until 31 December 2009. In October 2009, the FSC extended the blanket deposit guarantee to the end of 2010. The decision in part reflected the fact that the global and domestic economic and financial crisis remains unresolved, and was also taken to avoid unhealthy competition for funds with neighboring jurisdictions.

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 18 December 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 18 March 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.

Implementation of financial supervisory measures

1. In 2009, the Financial Examination Bureau (FEB) carried out 452 on-site examinations, including 216 full-scope examinations and 86 targeted examinations (focusing on the corporate governance of financial holding companies; bank deposits, anti-money laundering, loan business, and structured notes) on financial institutions, and 150 examinations on

agricultural financial institutions, which were carried out on behalf of the Council of Agriculture. In addition, the FEB now discloses relevant examination information on its website to improve the transparency of examination information and help the public understand its implementation of financial examinations and supervisory concerns.

On-site examinations in 2009

Units: number of financial institutions

Full-scope examinations										Commissioned examinations	Targeted examinations	Total
Financial holding companies	Head Office Of domestic banks (including Chungwa 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			
12	23	84 (*1)	12	13	3	37 (*2)	32 (*3)	0	216	150	86	452

*1 including 11 foreign subsidiaries.

*2 including 1 foreign subsidiary.

*3 including 8 Taiwan branches of foreign insurance companies.

2. Cooperation between financial and law enforcement agencies to combat financial crimes

(1) In 2009, the FSC referred 45 cases of suspected financial criminal activity to prosecutor's offices or the Investigation Bureau of the Ministry of Justice.

(2) The FSC designated financial professionals as "consulting commissioners" to help law enforcement agencies investigate significant financial crimes.

3. The FSC also adopted the "Operating Procedures for Monitoring and Evaluation of Efforts by a Financial Institution to Make Improvements Where an Examination by the FSC Financial Examination Bureau Reveals Shortcomings." The procedures require that all the findings for examination reports be classified according to their significance. To effectively review the improvements made on the basis of examination findings, the FSC will place priority focus on the most significant findings and require examinees to establish sound internal control systems.

Enhancing the risk-management of financial institutions

"Practical Guidelines for the Risk Management of Insurance Companies" were adopted by both the Life Insurance Association and the Non-life Insurance Association on the basis of ERM, and were put into practice on 1 January 2010.

Enhancing risk management and strengthening capital management of bills finance companies

The FSC amended the "Regulations Governing the Capital Adequacy Ratio of Bills Finance Companies." Key points of the amendment include adding the capital requirement for operational risk, revising the capital requirement calculating methods for credit risk and market risk, and changing the reporting frequency from bi-annual to quarterly. These Regulations shall become effective from 1 January 2010.

Enhancing supervision on liquidity and capital adequacy of foreign banks

In the wake of the financial tsunami that erupted in 2008, financial supervisory authorities in jurisdictions with major financial markets are conscious of the importance to impose more stringent requirements on liquidity and capital adequacy. In order to be in compliance with international standards, the FSC amended the "Regulations Governing Foreign Bank Branches And Representative Offices" on 8 December 2009 with the aim of ensuring financial stability and enhancing the protection of depositors.

Information disclosure

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 31 March 2009.

Based on International Financial Reporting Standard 8 (IFRS 8) "Operating Segments," the Accounting Research and Development Foundation in Taiwan established and issued "Statement of Financial Accounting Standards No.41: Operating Segments (SFAS No.41)" to replace SFAS No.20 "Segment Reporting" on



4 April 2009. SFAS No.41 will take effect on 1 January 2011. SFAS No.41 requires an entity to identify its operating segments by the business management organization and disclose operating segment information to enable users of financial statements to evaluate the nature and financial effects of an entity's business activities.

In order to enhance corporate governance and bring about more transparent disclosure of information relating to CPA professional fees, underwriting fees, and remuneration for directors and supervisors, the FSC amended the "Regulations Governing Information to be Published in Annual Reports of Public Companies" and the "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses" on 22 December 2009.

The FSC has established an ad hoc team to assist insurance enterprises with the transition to SFAS No.40, to consult about the relevant accounting and actuarial standards, and to study implementation problems and the resolution thereof. The FSC amended the "Regulations Governing the Preparation of Financial and Business Reports by Insurance Industry" and the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" in December 2009. In order to help shareholders and policyholders exercise closer scrutiny of the compensation paid to directors, supervisors, and senior management of insurance enterprises, the FSC has issued new rules governing the circumstances under which insurers be required to individually disclose the compensation of such persons. The rules entered into force retroactively from 1 January 2009.



Financial globalization

International cooperation in financial supervision

In 2009, the FSC was visited by officials from the financial supervisory authorities of many different jurisdictions, including the United States, Japan, China, Hong Kong and Vietnam, as well as officials from such international bodies as the European Bank for Reconstruction and Development (EBRD) and the International Association of Insurance Supervisors (IAIS). In addition, the FSC maintained friendly ties with representatives of many different countries in Taiwan. Senior FSC officials also made frequent trips overseas to establish and maintain direct communication channels with the financial authorities of other countries. In 2009, FSC officials visited such countries as Australia, Brazil, Cambodia, China, France, Israel, Japan Jordan, Malaysia, Romania, Singapore, Spain, Sweden, Switzerland, UK, the US and Vietnam.

In light of the increasing prevalence of cross-border financial activities, 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 2009, the FSC signed or confirmed MOUs, EOLs, or side letters for cooperation in single-sector or cross-sector supervision with California, Hong Kong, Belgium, Ireland, and China. In addition, the FSC became a signatory to the IAIS Multilateral Memorandum of Understanding (MMoU). This is the first time that the FSC has signed a MMoU with an international institution. The objective of this MMoU is to establish a formal basis for cooperation and information exchange between the signatory authorities regarding the supervision of insurance companies where cross-border aspects arise. Furthermore, the FSC signed and exchanged a side letter to the MOU with Hong Kong which has facilitated cross listing of exchange-traded funds in each other's markets.

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 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:

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 an offshore overseas Chinese or foreign individual investor (FIDI). This effectively removes investment ceilings for those investors.

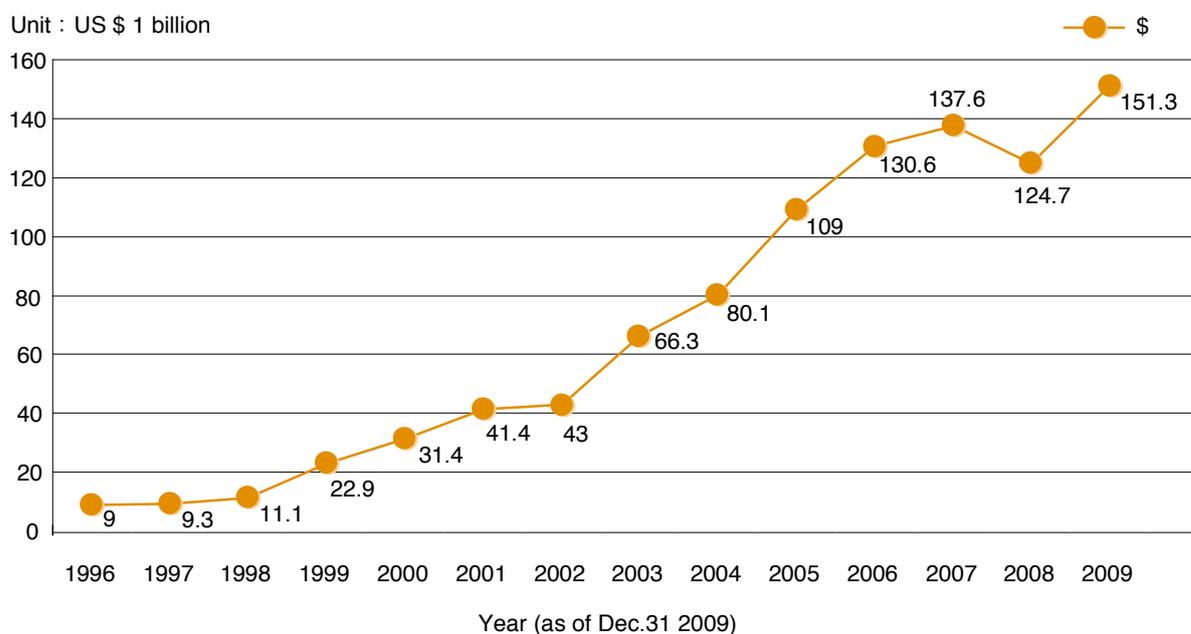


The Financial Supervisory Commission signs a Memorandum of Understanding with the Irish Financial Services Regulatory Authority (IFSRA).

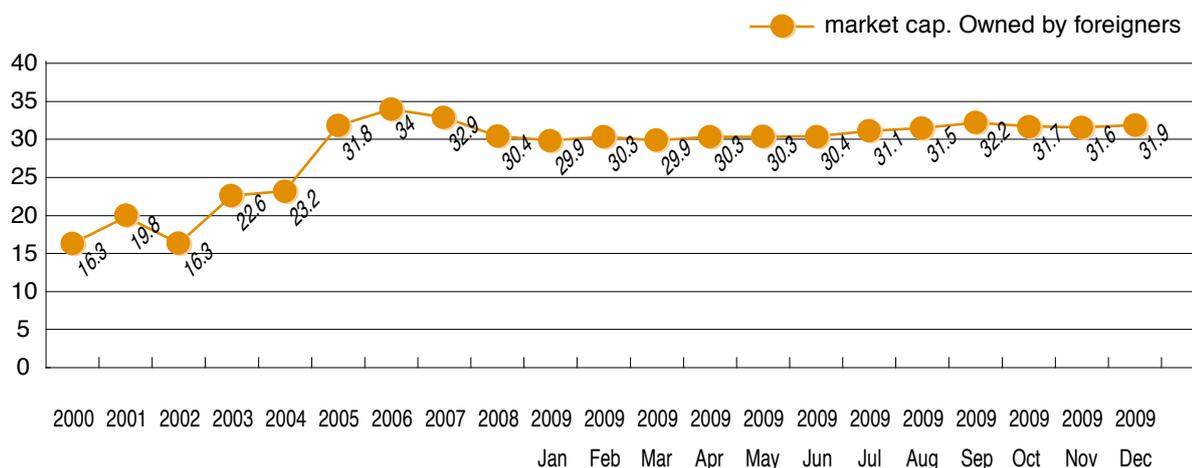
In addition, the FSC has continuously liberalized regulations regarding investment in Taiwan securities markets by foreign investors by making reasonable adjustments to the trading system. Moreover, the FSC has eased restrictions on foreign asset transfers and adopted after-the-fact registration. Foreign 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.

To respond to changes in the economic environment and as recommended by the Central Bank, on 10 November 2009 the FSC amended and issued directives so that, beginning from that date, inward remittances by overseas Chinese and foreign nationals may not be placed in time deposits. Inward remittance funds already placed in time deposits by overseas Chinese and foreign nationals may be held until the date of maturity, but may not be renewed, and prior to maturity, such funds are still subject to the restriction above prohibiting the investment amount from exceeding 30 percent of the investor's inwardly remitted funds.

Net inward remittances on foreign investments in TSE-listed shares



TSE market cap. held by foreign & institutional investors



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 2009, net inward remittances of foreign investors on the year in connection with stock purchases on the TWSE was US\$26.6 billion, an increase of US\$39.5 billion from 2008 (when net outward remittances amounted to US\$12.9 billion), while net accumulated remittances since 1992 were over US\$151.3 billion. In 2009, foreign investors were net buyers of NT\$511 billion worth of securities in Taiwan. Furthermore, at the end of December 2009, foreign investors held 30.05% of the total market capitalization, also setting a record high.

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 2009 were as follows:

1. International Organization of Securities Commissions (IOSCO)

The FSC attended the IOSCO annual conference in Tel Aviv, Israel, the IOSCO Emerging Markets Committee Meeting in Bucharest, Romania, and the IOSCO Asia-Pacific Regional Committee in Melbourne, Australia. 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 founding members of the IAIS. In 2009, the FSC sent delegates to attend the IAIS Triannual Meetings in Basel and Annual Conference in Rio de Janeiro, Brazil. The FSC now participates actively in the IAIS Technical Committee, Implementing Committee, Accounting Subcommittee, Implementation Activities Approval Subcommittee, Solvency & Actuarial Issues Subcommittee, Insurance Groups and Cross-Sectoral Issues Subcommittee, Governance and Compliance Subcommittee, Insurance Contract Subcommittee and Regional Coordination Subcommittee. The FSC hosted the IAIS Triannual Meetings and Global Seminar in Taipei in 2009.

3. World Trade Organization (WTO)

The FSC attended services cluster meetings on 29 March to 5 April and 7 to 15 November 2009 in Geneva.

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 18th Annual Meeting of the Board of Governors of the EBRD in May 2009. The event took place in London of the United Kingdom.

5. International Forum of Independent Audit Regulator (IFIAR) The FSC became the member of the IFIAR since September 2008. The FSC attended the IFIAR plenary meetings in Sweden, Switzerland and Singapore in 2009.

Promoting Taiwan's financial markets

Commissioners Tzong-Rong Tsai and Ya-Hwei Yang represented the FSC at Taiwan investment forums held in London (8 September 2009) and New York (10 September 2009), where they briefed European and US investors on Taiwan's economy, the advantages of investing here, how our government has responded to the global financial crisis, and recent developments in cross-strait relations. While in London, Commissioner Tsai witnessed the signing of an MOU between the Taiwan Securities Association and the International Capital Market Association. In New York, Commissioner Yang delivered the keynote speech at the Chinese American Academic & Professional Society (CAAPS) 34th Annual Convention. These activities served a very useful

purpose in furthering the level of understanding of the current state of Taiwan's capital markets among European and US investors, overseas Chinese communities, and top executives at Taiwan-invested firms located overseas, and will also help future efforts to encourage foreign companies to list their securities in Taiwan.

Holding international conferences

On 12 November 2009, the FSC held the 6th Taipei Corporate Governance Forum and Roundtable in Taipei, featuring distinguished speakers and panelists including Dr. Chi SCHIVE, Chairman of Taiwan Stock Exchange, Mr. Yancey Hai, Vice Chairman & CEO of Delta Electronics, Inc., Dr. Niven C. C. Huang, Secretary General of the Business Council for Sustainable Development of Taiwan, Mr. Sean Gilbert, China Director of Global Reporting Initiative (GRI), Dr. Edward Chow, Professor in the Department of Finance, National Chengchi University, Mr. Harvey Chang, President of Taiwan Mobile Co., Ltd., Mr. Y.T. Du, Chairman of Taiwan Citigroup Global Markets Taiwan Limited, Mr. K.A. Chang, Executive Vice President of Chief Human Resource Officer, Singapore Exchange (SGX), Mr. Frédéric Gits, Senior Director of Fitch Ratings, Dr. Len-Yu Liu, Board of Directors of the Taiwan Stock Exchange, Dr. Chen-en Ko, Professor in the Department of Accounting, National Taiwan University, Dr. Rebecca (Chung-Fern) Wu, Professor in the Department of Accounting, National Taiwan University, Mr. Mark Francis Dickens, Head of Listing & secretary to the Listing Committees, Hong Kong Exchanges and Clearing Limited, Mr. Chin Ping CHIA, CFA, Head of Asia Equity Research MSCI Inc, Mr. Steve C. Wang, President of the Taiwan Futures Exchange, Dr. Gang Shyy, Chairman of Fubon Futures Co., Ltd., Dr. Connie (Guang-Hwa) Yang, Professor in the Department of International Business, National Cheng-chi University, Ms. Cathleen Downs, Associate Director, Audits Dept. of CME Group Inc., and Mr. Vincent Gros, Secrétaire Général of LCH.Clearnet SA. Over 700 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 6th Taipei Corporate Governance Forum



The FSC hosts the 4th Asian Forum of Insurance Regulators (AFIR) on April 15 to 17, 2009.

The FSC hosted the 4th Asian Forum of Insurance Regulators (AFIR) on April 15 to 17, 2009. High-ranking insurance regulators from 13 jurisdictions participated in the forum, where they discussed topical issues relating to international insurance supervision, and exchanged opinions and experiences. The purpose of this forum was to reach shared views on important insurance issues among regulators of the Asia-Pacific region, so that in future international insurance supervisory meetings — such as those held by the International Association of Insurance Supervisors (IAIS) and the International Accounting Standards Board (IASB) — participants will be able to put forward concrete proposals that address the needs of insurers and the characteristics of insurance supervision in East Asia.

The FSC hosted the International Association of Insurance Supervisors (IAIS) Triannual Meetings and Global Seminar on 23-26 June 2009. Around 200 insurance supervisors and insurance industry professionals from around the world attended the event. The Global Seminar updated the attendees on development of the IAIS latest issues, while the Triannual Meetings provided a venue for discussion of the work of the IAIS Subcommittees and progress in standard setting activities.



The FSC hosts the International Association of Insurance Supervisors (IAIS) Triannual Meetings and Global Seminar on 23-26 June 2009.

Other international activities

David Green, former Secretary of the International Forum of Independent Audit Regulators, visited Taiwan at the invitation of the FSC and delivered two speeches on 3 November 2009 at the Global Financial Regulation Seminar, which was held at the Center for Public and Business Administration Education at National Chengchi University. Mr. Green spoke on the topics of "Global Financial Regulation: Lessons from the Crisis" and "International Cooperation in Financial Reporting: Global Interdependence in Auditing and Accounting." FSC Commissioner Liu Chi-Chun delivered the opening remarks at the event, which was attended by over 100 persons representing banks, securities firms, insurers, and accounting firms. Mr. Green's talks contributed greatly to an increased understanding of the latest global trends in financial supervision in the wake of the financial crisis, and will also be very helpful to efforts to bring Taiwan's accounting standards in line with international standards.

During the financial crisis, the FSC invited a renowned professor from the NUC Kenan-Flagler Business School to deliver an address on the issue of fair value accounting.



Consumer and investor protection

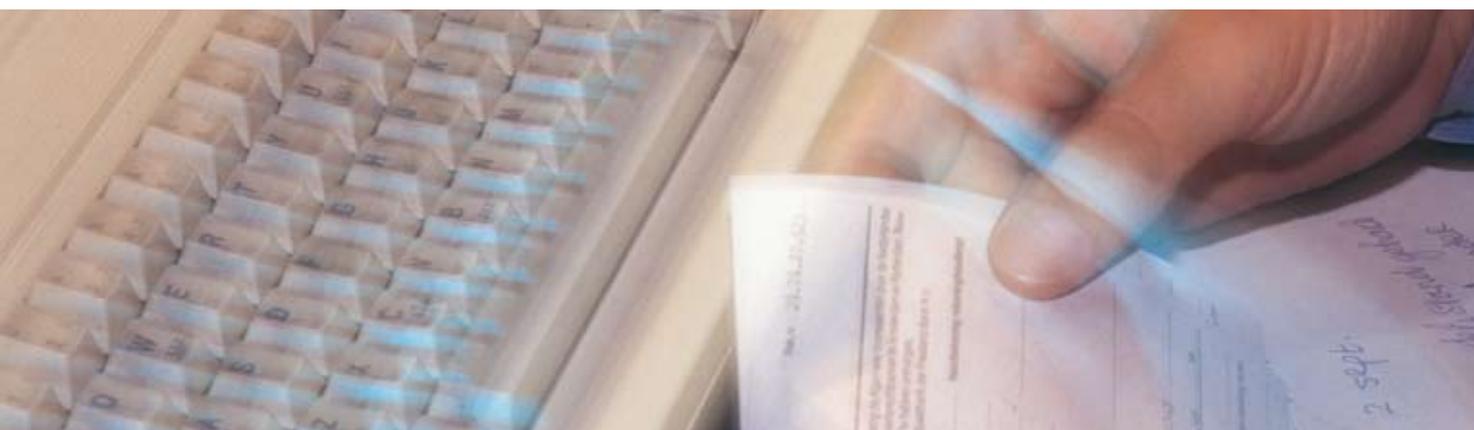
Proactive steps to address the structured note issue

Owing to the bankruptcy protection filed by Lehman Brothers in September 2008, the FSC undertook several measures to protect the interests of those who had invested in structured notes issued by Lehman Brothers and other financial institutions. A mechanism for settling structured note disputes, such as strengthening the function of the ROC Bankers Association's Committee on Banking Consumer Disputes Resolution and promoting the committee's impartiality and objectiveness. Three contact windows were set up for handling requests for structured note dispute settlement were created (one each at the FSC, the Securities and Futures Investors Protection Center, and the Bankers Association). As of 5 January 2010, the arbitration board of the Bankers Association had completed the evaluation of all review cases, totally 10,432. With FSC's encouragement for banks to make settlement with the clients, settlement was reached in 18,506 cases, or 78.93%, by the end of December 2009. In addition, the FSC issued the "Regulations Governing Offshore Structured Products" on 23 July 2009 and amended the "Directions for Banks Conducting Financial Derivatives Businesses" on 31 December 2009 to strengthen investor protection. The FSC has undertaken differential supervision to accord different treatment to professional and non-professional investors. The regulations impose a looser control on the sales of offshore structured products to professional investors, while setting stricter rules on sales to non-professional investors.

Financial literacy program

The FSC has set up the MoneyWise website (URL: <http://moneywise.fsc.gov.tw>) as part of its Financial Literacy Campaign. The website provides the public an opportunity to acquire financial knowledge online. By the end of February 2010, the website had attracted more than 430,000 visits. And in order to enrich the content of the website, the FSC expanded it with new sections. With vivid digital material, animation, and eBook content, MoneyWise is a unique financial literacy portal.

In addition, the FSC continued to carry out its "School and Community Financial Literacy Campaign," "Elementary and Junior Teacher Financial Literacy Workshop," and "Investing in the Future Seminar." The FSC also edited the "Basic Teaching Material of Financial Literacy" as well as teacher handbooks for use at the elementary through high school levels. The FSC also sponsored financial literacy activities organized by campus clubs and academic departments at colleges and universities.



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 80,054 investors in 108 class action suits against underwriters, board directors, public companies, accountants, and civil defendants that engaged in illegal activities. The center has reached settlement agreements with the above-mentioned parties and won some NT\$402.1 million from accountants and underwriters, NT\$318.9 million from directors and supervisors, and NT\$460.1 million from public companies, and NT\$167.8 million from civil defendants, resulting in a total compensation of some NT\$1,348.9 million.

Amendment of the Compulsory Automobile Liability Insurance Act and related regulations

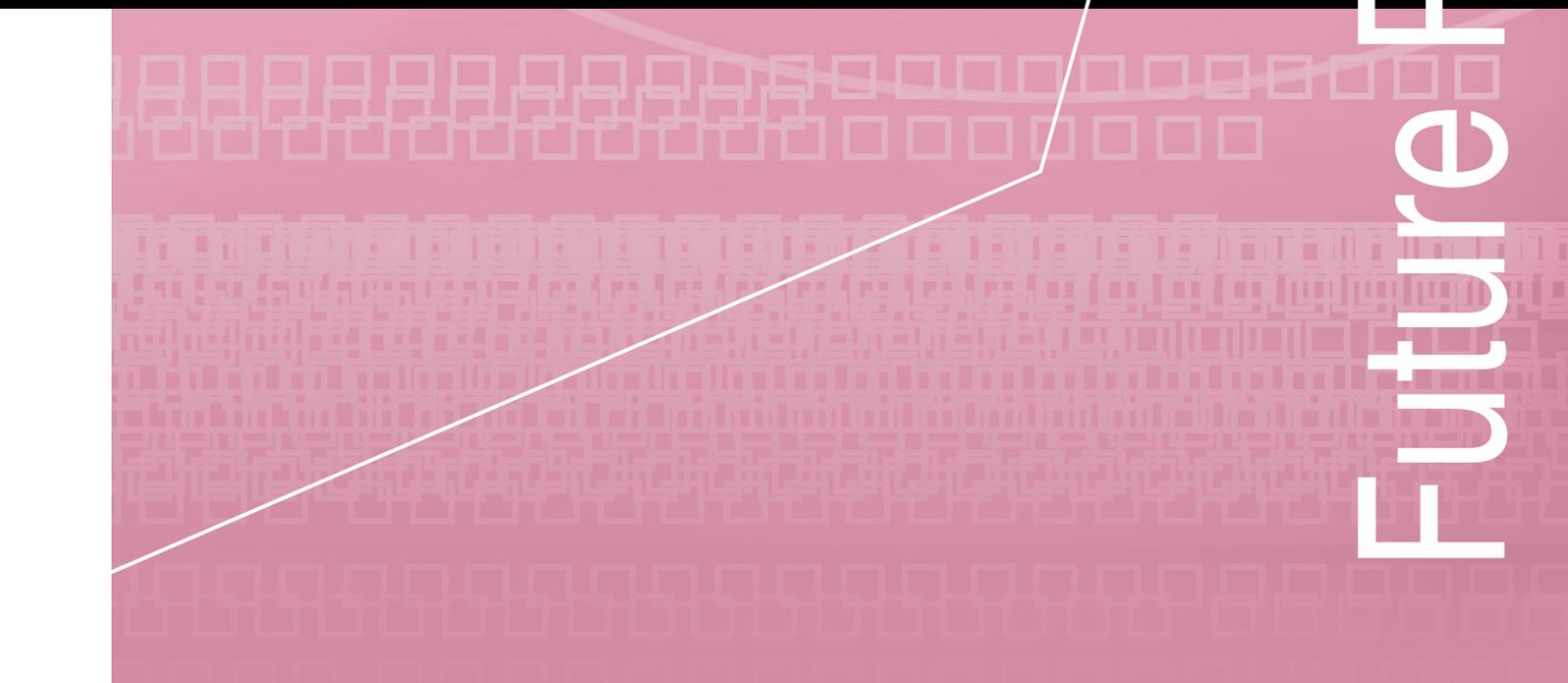
1. The FSC amended the "Payment Standards of the Compulsory Automobile Liability Insurance" in 2009. After 11 years since the launch of compulsory auto liability insurance, the Standards increase benefits for hospitalization expenses, meal expenses, artificial limbs, supplementary equipment, and nursing expenses to help injured parties in automobile accidents.
2. The FSC amended the "Regulations Governing Compulsory Automobile Liability Insurance Underwriting and Claims Handling" twice in 2009. The first amendment was to address the fact that an insurer must register the correct underwriting data and transfer it to the agencies designated by FSC and the Ministry of Transportation and Communications in a timely manner. The amendments also provide for insurers pay out benefits according to the related regulations. The second amendment was to correct some legal terms to avoid mistakes in the use of language.
3. The FSC continued promoting compulsory automobile liability insurance phase II independent accounting work. The FSC amended the "Regulations Governing the Accounting Arrangement and Procedure of Submitting Business and Financial Reports of Compulsory Automobile Liability Insurance" and "Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance."
4. The FSC and the Ministry of Transportation and Communications on 30 November 2009 jointly issued an amendment to the compulsory automobile liability insurance premium rate, with the revised premium rate scheduled for implementation from 1 March 2010. Overall gross premium for motorcycles will fall by 7.0%, while that for automobiles will decline by 11.2%. For motorcycles and automobiles together, gross premium will fall by an average of 9.5%.





Future Prospects

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.



Future Prospects

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; (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. 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.

3. Insurance Act

In order to establish oversight regarding the suitability of proposed owners seeking to acquire controlling interest in insurance companies, the FSC has drafted a amendment to Articles 139-1, 139-2, and 171-2 of the Insurance Act, and the Executive Yuan has sent the draft to the Legislative Yuan.

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.
2. In response to the recommendations and principles of the Asia/Pacific Group on Money Laundering (APG), the Financial Action Task Force (FATF), and World Bank for supporting better regulation of alternative remittance systems, the FSC is currently considering an amendment to Article 29 of the Banking Act after a comprehensive study to encourage a shift of remittance from informal to regulated channels.

3. 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," "Regulations Governing Public Disclosure of Information by Life Insurance Enterprises," "Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises," "Regulations Governing the Supervision of Insurance Solicitors," and "Regulations Governing Business Solicitation, Policy Underwriting, and Claim Adjusting of Insurance Enterprises." In addition, the FSC has also prepared a draft of the "Regulations Governing Approvals of the Same Persons or Same Concerned Persons Applications to Own More Than a Certain Percentage of the Issued Voting Shares of a Same Insurance Company" based on a draft amendment to Articles 139-1, 139-2, and 171-2 of the Insurance Act.
4. To coordinate with amendments to the Banking Act and the Financial Holding Company Act on 30 December 2008 and 21 January 2009, the FSC is in the process of revising and drafting related rules and regulations.
5. To coordinate with an 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.
6. The amendment of the Securities and Exchange Act and the Futures Trading Act.
To enhance securities market internationalization, strengthen supervision mechanisms, and protect investor interests, the FSC revised and clarified related regulations to allow a juristic person registered under the laws of a foreign nation to publicly offer, issue, trade, or privately place securities within the territory of the Republic of China. The amended Act contains rules relating to the examination of securities for public listing and the contract for public listing, terminating the public listing of securities, suspension of trading, and reinstatement of the listing of such securities, with power of approval over such matters shifted from the FSC to the stock exchange. In addition, the Commercial Arbitration Act of The Republic Of China was revised and replaced by the the Arbitration Law of ROC, which was promulgated on 24 June 1998 and entered into effect on 24 December 1998. For these reasons, the FSC drafted amendments to the Securities and Exchange Act and the Futures Trading Act.
7. An amendment of the "Regulations Governing the Offering and Issuance of Securities by Foreign Securities Issuers" has been drafted to introduce shelf registration and non-sponsored TDRs, making the issuance of TDRs more diversified and flexible. In addition, foreign companies will be required to follow the same offering and issuance regulations that apply to domestic companies, so as to accord equal supervisory treatment to domestic and foreign companies.
8. To coordinate with the requirement that the special reserves shall not be recorded under liabilities, and the liability adequacy tests shall be conducted in accordance with the Statement of Financial Accounting Standards No.40: Insurance Contracts, the FSC is in the process of revising and drafting the "Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises."
9. The FSC is studying an amendment to the Compulsory Automobile Liability Insurance Act to help improve protection for the insured party in automobile accidents, reflect the needs of insurers, and strengthen the principle of "no revenues, no losses" in 2009. The draft was submitted to the Executive Yuan on 22 December 2009.

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 fourth quarter of 2009 is 11.86%.

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.

The FSC envisages a two-phased implementation of the new capital adequacy system for securities firms, to bring practices in Taiwan more closely in line with the New Basel Capital Accord (Basel II). In phase one, the objectives are to have securities subsidiaries of financial holding companies adopt the system in January 2009, applying it to information from December 2008, and have the other integrated securities firms apply it case by case. In phase two, all integrated securities firms are compelled to implement.

Outlook for Taiwanese banks (competitiveness)

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 2008, the total assets of the wealth management market in Taiwan amounted to NT\$9,072 billion, and by December 2009 the scale of the market had

expanded to NT\$9,769 billion (annual growth rate of 7.68%). The FSC will continue to review related regulations and to promote sound development of the wealth management business.

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 2009, the sales revenue of all overseas branches of domestic banks and OBUs was NT\$169.5 billion. Meanwhile, owing to the recovery from the global financial crisis, the before-tax earnings of all overseas branches of domestic banks and OBUs increased to NT\$37.8 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

Assessing new warrant products issued by securities firms. In order to expand the business scope of securities firms, and to satisfy the need of investors for a more diverse range of trading instruments, the FSC is considering the possibility of allowing securities firms to issue Callable Bull/Bear Contracts ("CBBC").

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 further develop the Taiwan ETF market, the FSC is arranging for cross-listing and distribution of ETFs between Taiwan and other countries under the principle of mutual recognition and cross border distribution. The FSC has accomplished the cross-listing and distribution of Taiwan and Hong Kong ETFs. At the end of 2009, there were three Hong Kong ETFs cross-listed on the Taiwan stock exchange and one Taiwan ETF cross-listed on the Hong Kong Stock Exchange.

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.

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.

Promotion of Mortality Insurance, Annuity Insurance and Long-term Care Insurance

To cope with low average life insurance coverage and the aging of society, the FSC will adopt measures to encourage insurance companies to develop mortality insurance, annuity insurance, and long-term care insurance products and promote such products to the general public. It is expected this policy could further enhance the basic insurance coverage of the society and assist citizens in planning for retirement.

Stronger consumer safeguards

The FSC will strengthen regulation of insurance agencies and insurance brokers, and critically review and amend laws and regulations governing bancassurance channels to ensure proper accountability in bancassurance channels.

With respect to solicitors using improper solicitation methods, the FSC will administer sanctions in accordance with regulations, and as necessary will also restrict their solicitor registration status, order them to suspend product sales, or otherwise restrict the offender's business activities. The FSC will also urge insurers to take customer complaints very seriously.

Continued review of the Taiwan Residential Earthquake Insurance system

Taiwan's Residential Earthquake Insurance scheme has been running smoothly since 1 April 2002. As of 31 December 2009, the take-up rate has reached 27.45%. As part of our efforts to continuously improve the system, the FSC in 2009 amended the "Guidelines for the Handling of Residential Earthquake Insurance Coverage and Claim Settlement Matters," "Operating Rules for the Reinsurance of Residential Earthquake Insurance," "Operating Rules for the Pool of Residential Earthquake Insurance," "Accounting Treatment Principles of the Non-life Insurers Conducting Residential Earthquake Insurance Business," and "Operating Rules for the Auditing of Residential Earthquake Insurance Business." The FSC also issued the "Guidelines for the Management of the Residential Earthquake Insurance Qualified Adjustor" and "Criteria for Total Loss Assessment of Residential Earthquake Insurance."

Establishing a financial examination rating system for banking institutions

The FSC set up the "Financial Examination Rating System for Banking Institutions" which is modeled in part after similar examination systems employed by other financial regulators. Working on the basis of trial rating results, the FSC is modifying the financial examination rating system to establish a risk-based financial examination system and enhance the effectiveness of financial examinations.

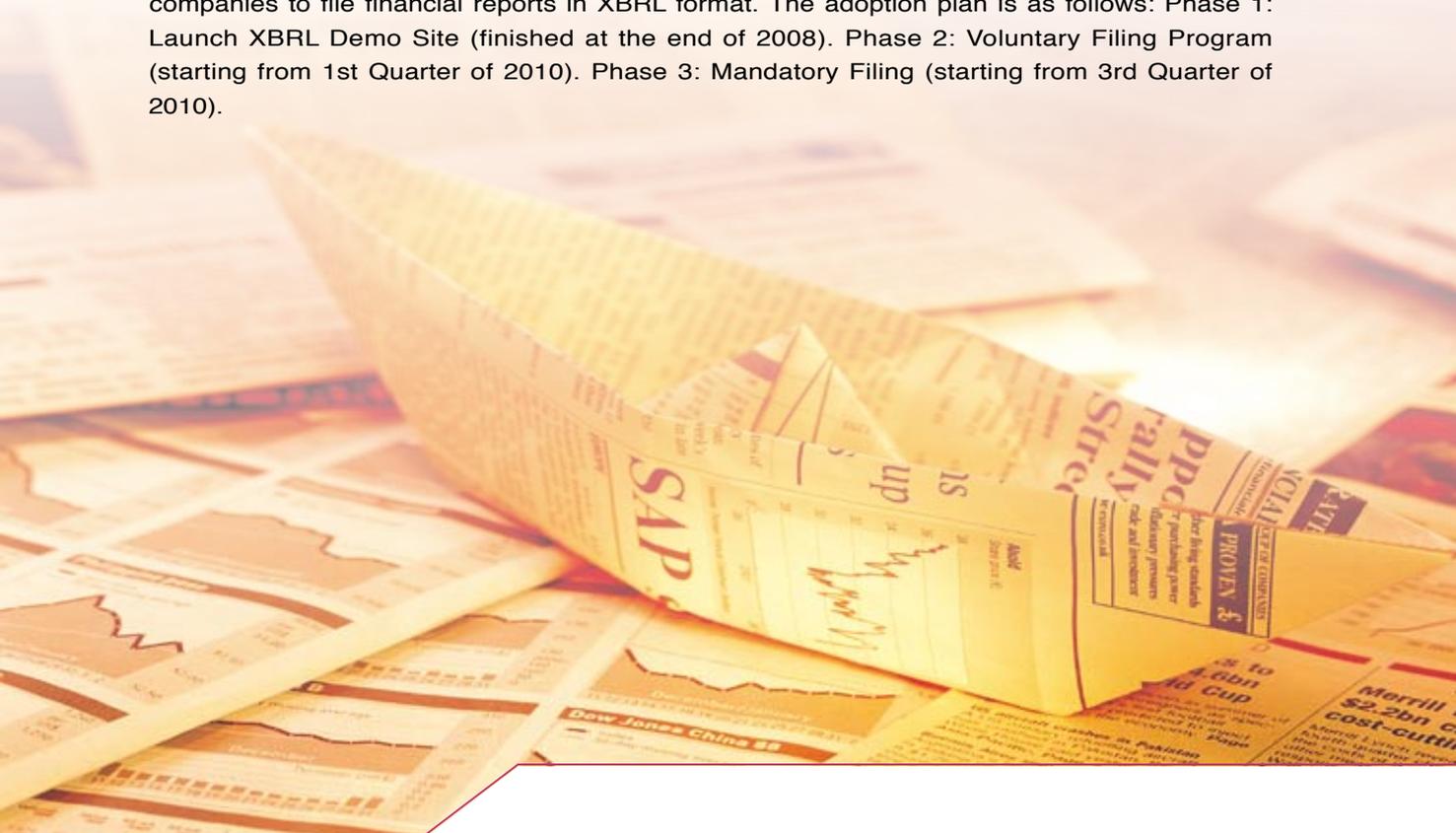
Applying the differential financial examination mechanism to all financial institutions

To implement the risk-based examination mechanism, the FSC established a differential examination mechanism for domestic banks in 2009 and will also apply the mechanism for insurance and securities companies in 2010. The mechanism will assign financial institutions different risk grades to ensure efficient utilization of examination resources and promote the effectiveness of examinations.

Adopting International Financial Reporting Standards (IFRSs) and filing financial reports by XBRL

With the international trend toward full adoption of IFRSs, the FSC has established an IFRS Taskforce and published a Roadmap for Taiwan's adoption of the IFRSs on 14 May 2009. In phase 1, listed companies and financial institutions supervised by the FSC, except for credit cooperatives, credit card companies, and insurance intermediaries, will be required to prepare financial statements in accordance with Taiwan-IFRSs starting from 1 January 2013, and optional early adoption of IFRSs will be permitted for qualified issuers starting from 1 January 2012. In phase 2, unlisted public companies, credit cooperatives, and credit card companies will be required to prepare financial statements in accordance with Taiwan-IFRS starting from 1 January 2015, and early adoption will be permitted starting from 1 January 2013. To assist companies in implementing IFRS adoption projects, the FSC will continue to enhance IFRS publicity and training activities to facilitate the companies' understanding of IFRSs in preparing financial statements.

The SFB has planned an XBRL adoption initiative which will be implemented gradually for companies to file financial reports in XBRL format. The adoption plan is as follows: Phase 1: Launch XBRL Demo Site (finished at the end of 2008). Phase 2: Voluntary Filing Program (starting from 1st Quarter of 2010). Phase 3: Mandatory Filing (starting from 3rd Quarter of 2010).





Consolidation of financial institutions

Two M&A deals were completed in the market in 2009. 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:

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.

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

Rely on market mechanism to put pressure on existing financial holding companies that have performed poorly yet have no intention to merge.

Internationalization of the financial industry

Pushing for internationalization of Taiwan's capital 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

The FSC co-held a financial sector roundtable with AIT, where important financial issues were discussed with AIT and representatives from financial service industry.

In connection with an 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 letters, to ensure fast access to relevant information when a cross-border financial incident occurs, thereby protecting the interests of 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 their international markets. In addition, as the securities markets of several major developing countries are still in the developmental 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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