

The logo consists of the letters 'FSC' in a large, white, serif font. The letters are centered within a square frame that is part of a larger geometric design of overlapping circles and squares in a light brown color.

# FSC

2012 ~ 2013  
ANNUAL REPORT



Financial Supervisory Commission, Taiwan

FSC

2012 ~ 2013  
ANNUAL REPORT



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The Financial Supervisory Commission was established on 1 July 2004, to promote integrated financial supervision in Taiwan. The primary objectives of the Commission are to consolidate the supervision of banking, securities and insurance sectors, and to act as a single regulator for all of these industries.



A man with short dark hair and glasses, wearing a dark blue suit, white shirt, and blue tie, is seated in a black leather office chair. He is looking directly at the camera with a slight smile. The background shows a modern office interior with a wooden desk, a potted plant, and a large window. A semi-transparent brown banner is overlaid on the lower left of the image, containing the title text.

## *FSC 2012-2013 Annual Report Chairman's Statement*

The year 2012 marked the beginning of a new era. The Financial Supervisory Commission (FSC) adopted a big slate of deregulatory measures, and cross-strait financial industry ties, in particular, made big strides forward. In connection with the launch of a cross-strait currency settlement mechanism, for example, the FSC began allowing domestic banking units (DBUs) to handle RMB deposits, loans, and wire transfers. Financial institutions in Taiwan are thus now able to develop innovative new financial products. Development of our financial industry has entered an entirely new phase.

In addition, with the entry into force on 1 July 2012 of an amended version of the "Organic Act Governing the Establishment of the Financial Supervisory Commission," the words "Executive Yuan" have been eliminated from the FSC's name, and the FSC Board of Commissioners has

been reconfigured. The financial experts who had already been serving on the board have been joined by the Minister of Finance, the Minister of Economic Affairs, the Minister of Justice, and the Minister of Economic Planning and Development to facilitate communication and coordination on financial supervisory matters. Although the FSC's name has been changed, it retains the same organizational structure as before, and performs the same duties and functions. The FSC exercises its financial supervisory authority independently in accordance with the law, and continues to implement policies designed to promote financial industry development and execute financial supervision.

Among the various strategies that might be pursued in order to promote development of Taiwan's financial industry and make it more competitive, two strategies that trigger the most concern and discussion within society

are, firstly, how to expand cross-strait financial ties, and secondly, how to develop the asset management business. The FSC has adopted a "Program for Development of Financial Businesses with Cross-Strait Characteristics" and a "Program for Development of a Taiwan-Centric Wealth Management Platform for Domestic Consumers," both of which are currently being implemented. The establishment of a cross-strait currency settlement mechanism has long been anxiously awaited by our domestic financial institutions, which have for some time been seeking greater flexibility in the currency denomination of the instruments in which they invest, and a greater range of choice in investment targets or the underlying instruments of derivatives. Thanks in no small part to the efforts of financial services firms, considerable successes have already been achieved.

And after several years of hard work, we've now seen a breakthrough with the Cross-Strait Securities and Futures Supervisory Cooperation Platform, under which framework the FSC and the mainland's China Securities Regulatory Commission met for the first time in January 2013. The purposes of the meeting were to determine the supervisory cooperation matters to be addressed under the Platform, to establish a mechanism for regular meetings, and to reach conclusions regarding cross-strait market access and two-way capital flows. It is hoped that such meetings will yield a consensus between the two authorities on how to jointly promote sound management of the securities and futures industry and how to work for market stability. This was truly a milestone achievement, and the FSC intends to build upon it through continuing efforts to establish more open markets.

The assets of insurers are rapidly increasing. In addition to steps taken for the sake of stronger supervision, the FSC is also actively working to help insurers achieve better capital efficiency. In order to promote sound operation and development of insurance enterprises, the FSC intends to afford insurers a wider range of investment choices. With this end in mind, we have eased restrictions on overseas investments, and now allow insurers to invest in public utilities and social service enterprises. At the same time, the FSC is also requiring insurers to do a better job of risk management. In particular, we require that insurers establish clear self-regulatory rules to govern their real estate investments.

In order to improve the risk-bearing capacity of banks, regulatory amendments adopted by the FSC with reference to Basel III requirements expressly provide that an institution's common equity ratio, Tier 1 capital ratio,

and capital adequacy ratios must be factored into any determination regarding its capital adequacy, and minimum capital ratios will go up annually beginning from 2013. In addition, to help make banks more resilient to economic downturns, the FSC starting in 2013 will be implementing new differential incentives and regulatory measures to encourage banks to raise their bad debt allowances against guarantee liabilities for Class 1 credit assets to 1% or higher as quickly as possible.

The FSC has also been busy at work to safeguard the interests of financial consumers. The Financial Ombudsman Institution, which commenced operations on 2 January 2012, has a set of standard operating procedures in place to ensure effective resolution of complaints and ombudsman cases involving disputes between financial institutions and consumers. The public will save a lot on litigation expenses thanks to this system. In the meantime, we've identified the promotion financial literacy as one of the best things we can do to better safeguard the interests of financial consumers. With this goal in mind, we established a Financial Education Task Force in 2012 to integrate the resources of the FSC and the nation's various financial industry self-regulatory organizations. These resources will be put to use in our work to raise the level of general financial literacy in Taiwan. The FSC will continue overseeing the Financial Ombudsman Institution to ensure fair, reasonable, speedy, and effective resolution of financial consumer disputes, thereby safeguarding the interests of financial consumers and strengthening their confidence in our financial markets.

In order to build a more robust financial environment, the FSC will continue to deregulate and take measures to increase the size of our financial markets. And to support the development of cross-strait financial industry ties, we will encourage financial institutions to develop high-quality products. More active trading in our bond markets, coupled with further development of markets for fund products, derivatives, and stocks, are the keys to creating a more diverse range of financial products, which in turn will support the emergence of strong asset management services. At the same time, the FSC intends to employ more finely tuned differential regulatory measures to allow greater flexibility for well-run financial institutions, and we are going to continue with efforts to promote internationalization. Financial institutions will be encouraged to expand their overseas presence and provide better financial services to offshore customers, so as to expand Taiwan's financial markets.

Yuh-Chang Chen, Chairman







# *Organization and Duties*



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

Taipei 101: This towering skyscraper is one of the tallest buildings in the world.





## Organization

The FSC comprises four departments, four offices, four bureaus, and a government-owned business, as follows:

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

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

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

Government-owned business: Central Deposit Insurance Corporation

Representative Offices: Representative Office in New York;

Representative Office in London.

The "Organic Act Governing the Establishment of the Financial Supervisory Commission" ("FSC Organic Act") was amended on 29 June 2011, and entered into force from 1 July 2012. Under the amended provisions, the FSC has one chairperson, two vice chairpersons, and six to twelve commissioners. The Minister of Finance, the Minister of Economic and Energy Affairs, and the Minister of Justice serve as ex-officio commissioners while all commissioners who were appointed before the act was amended continue to serve as ex-officio commissioners until the end of their appointed terms. The rest of the commissioners are appointed (or retained) by the premier from persons with related expertise and senior government officials with a relevant portfolio.

Queen's Head: Located on Taiwan's northeast coast in the fishing village of Yeliu, this fantastic rock formation is the result of wind erosion.

# Organization



Vice Chairperson  
**Li-Ling Wang**

Commissioner  
**Jan-Juy Lin**





Chairman  
**Yuh-Chang Chen**

Vice Chairperson  
**Tang-Chieh Wu**

Commissioner  
**Ya-Hwei Yang**



Director-General of Securities and Futures Bureau  
**Tien-Mu Huang**

Chief Secretary  
**Tung-Liang Lin**

Director-General of Insurance Bureau  
**Yu-Chiung Tzeng**

Director-General of Banking Bureau  
**Hsien-Nung Kuei**

Director-General of Financial Examination Bureau  
**Huey-Jen Jong**

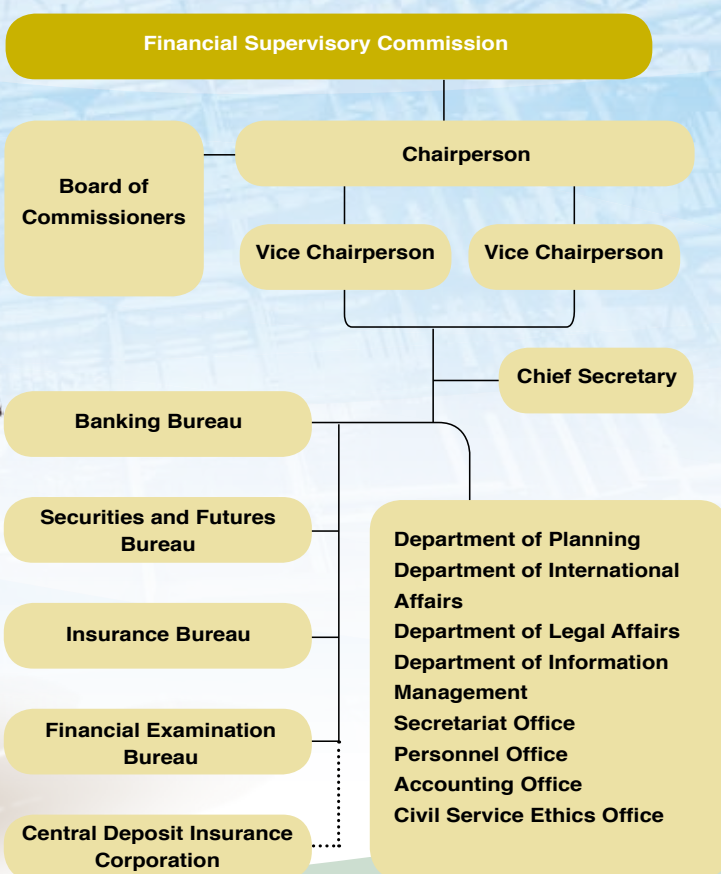




Director-General of Department of Legal Affairs  
**Mang-Chih Lee**

Director-General of Department of International Affairs  
**Joe Ming-Hsien Lai**

Director-General of Department of Planning  
**Yu-Ching Su**







Laomei Green Reef: Volcanoes and the sea have collaborated to create the green reefs of Laomei, a natural masterpiece found on Taiwan's northern coast in Shimen Township.

## Duties

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

- (1) Financial markets include the banking market, securities market, futures and derivatives market, insurance market, and their respective settlement systems.
- (2) Financial services enterprises include financial holding companies, the Financial Restructuring Fund, the Central Deposit Insurance Corporation, banking enterprises, securities enterprises, futures enterprises, insurance enterprises, electronic financial transaction enterprises, and other financial services enterprises. However, the Central Bank is the competent authority in charge of the payment system.

Pursuant to Article 3 of the "FSC Organic Act," the FSC is in charge of the following affairs:

- (1) Handling 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 international financial matters;
- (8) Protection of financial consumers;



- (9) Enforcement of financial laws and regulations, punishment of violators, and handling matters related thereto;
- (10) Collection, processing, and analysis of statistical information relating to financial supervision, regulation, and examination;
- (11) Handling other matters relating to financial supervision, regulation, and examination.

The "Certified Public Accountant Act" was enacted to establish a professional system for certified public accountants (CPAs) and safeguard the quality of the profession, so as to ensure that CPAs play their proper professional role in the economic sphere. According to Article 3 of the CPA Act, the FSC is the competent authority of CPAs and is in charge of the following affairs:

- (1) CPA supervisory systems and policies;
- (2) Drafting and amending the CPA Act and related regulations;
- (3) Regulating the auditing and attestation of financial reports by CPAs;
- (4) CPAs' continuing professional education;
- (5) Development, supervision, and regulation of CPA firms;
- (6) Financial examination of CPA firms; and
- (7) Disciplinary and enforcement actions for violations of the CPA Act.

## Personnel

According to the "FSC Organic Act," the authorized staffing of the FSC totals 1,058 persons, which includes 113 persons for the FSC head office and 945 persons for all bureaus under the FSC. As of the end of 2012, the FSC head office had 93 employees while the bureaus employed 783 persons, for a total of 876 persons.







# *Major Legislative Accomplishments in 2012*

## The banking industry

In order to implement the Basel III Accord, the FSC amended the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" and the "Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperatives."

In order to afford banks a greater range of options in how to invest in RMB assets, the FSC has amended the "Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest" to allow banks to invest in securities issued by mainland government entities and companies.

In order to implement the Basel III Accord and afford industrial banks a greater range of options in how to invest in RMB assets, the FSC amended the "Regulations Governing The Establishment Criteria and Administration of The Industrial Bank" on 27 December 2012.

In order to strengthen supervision of financial institutions outsourcing their operations to overseas service providers, the FSC amended the "Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Financial Institution Operation" on 8 February 2012.

## The securities and futures industry

Amendment of "Regulations Governing Public Tender Offers for Securities of Public Companies" and the "Regulations Governing Information to be Published in Public Tender Offer Prospectuses"

In order to strengthen the disclosure of information relating to public tender offerings, and to ensure reasonable pricing, the FSC on 5 July 2012 amended the "Regulations Governing Public Tender Offers for Securities of Public Companies" and the "Regulations Governing Information to be Published in Public Tender Offer Prospectuses." Key points include the following:

- (1) all disclosures must now be made via the Market Observation Post System (MOPS) website;
- (2) newly added provisions specify certain matters that must be re-filed and re-disclosed if the FSC orders it;
- (3) newly added provisions require the subject company of a public tender offering to establish an independent acquisition review committee, and set out procedural requirements for such a committee's operations;
- (4) a public tender offer prospectus must provide better disclosure of any financing plan and information on the delisting of the subject company's stock;
- (5) the public tender offer must disclose any agreement or covenant that it has reached with any insiders or related parties of the subject company.

## The insurance industry

In order to enhance the profitability and safety of insurers' investments, the FSC in 2012 amended the "Regulations Governing Foreign Investments by Insurance Companies," "Regulations Governing Use of Insurers' Funds in Special Projects, Public Utilities and Social Welfare Enterprises," and "Standards and Handling Principles for Determining What Constitutes Real Estate that Can Be Used Immediately With Reasonable Benefit." The amendments enable insurers to achieve better capital efficiency and encourage them to strengthen their internal control mechanisms.





The background of the page is a photograph of numerous glowing orange paper lanterns floating against a dark night sky. The lanterns are of various sizes and are scattered across the frame, creating a sense of depth and movement. The light from the lanterns is warm and inviting. In the upper right corner, there is a semi-transparent yellow rectangular area that serves as a backdrop for the title text. The title is written in a white, elegant, cursive script. The overall design is clean and visually appealing, with a focus on the cultural event of the Pingxi Sky Lantern Festival.

# *Important Financial Measures Taken in 2012*

Pingxi Sky Lanterns: Every year, the Lantern Festival is celebrated with special flair in New Taipei City's rural Pingxi District, where thousands of lighter-than-air paper lanterns are released into the sky as a prayer for good fortune.





## Adopted Program for Development of Financial Services with Cross-strait Characteristics



The FSC and six key financial industry associations jointly held a public meeting on 19 September 2012 to familiarize attendees with the government's "Program for Development of Financial Businesses with Cross-Strait Characteristics." FSC Chairman Yuh-Chang Chen delivered a speech at the event.

To coordinate with the development of cross-strait economic and trade relations, the FSC, the Central Bank, the Mainland Affairs Council, and the Ministry of Economic Affairs jointly adopted the "Program for Development of Financial Services with Cross-strait Characteristics," which was approved by the Executive Yuan on 6 September 2012.



In preparation for the establishment of a cross-strait currency settlement mechanism, the FSC had completed legislation governing the conduct of RMB business by banks by 27 December 2012. Since that time, there have been no restrictions on the conduct of RMB business by DBUs.

- (1) The FSC has amended the "Directions Governing Limits on Amounts of Coins and Bills Issued in the Mainland China Area Which May Enter or Exit the Taiwan Area." Under the amended Directions, when a financial institution conducts RMB business, the amount of RMB cash positions that are covered offshore is not subject to the restriction of RMB 20,000 on the amount of RMB allowed to be remitted to or from Taiwan.
- (2) The FSC has issued an interpretation of the exemption in Article 14 of the "Regulations Governing Approvals of Financial Institutions to Engage in Business and Investment Activities Between the Taiwan Area and the Mainland Area." In its interpretation, the FSC ruled that OBUs and DBUs are allowed to use RMB in the conduct of cross-strait financial business.
- (3) In order to afford banks a greater range of options in how to invest their RMB funds, the FSC has amended the "Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest" and the "Regulations Governing the Establishment Criteria and Administration of The Industrial Banks" to allow banks to invest in securities issued by mainland government entities and companies.

The FSC is establishing a Modern Cross-strait Money Remittance Platform. In the early stages, we will operate via the RMB clearing bank in Taiwan and SWIFT to handle RMB remittances. Over the medium and long term, our goal will be to set up an interbank RMB funds transfer system. The Bank of China's Taipei branch received the FSC's approval on 25 December 2012 to conduct RMB clearing business, and was approved by the Central Bank on 28 January 2013 as the RMB clearing bank in Taiwan. It already commenced RMB clearing business on 6



Aboriginal Harvest Festival in Hualien: Indigenous peoples in eastern Taiwan observe a harvest festival every summer to thank the gods for a year of peace and bountiful harvests.



February 2013. The FSC approved the Financial Information Service Company's "Program for Establishment of Foreign Currency Settlement Platform" on 27 February 2013. The platform commenced operations on 1 March 2013, and will begin conducting domestic RMB remittances in September 2013.

The FSC already allows domestic public companies to issue overseas RMB-denominated bonds, allows investment trust firms to issue RMB-denominated funds, and allows the issuance of investment-linked insurance that links to RMB assets. In addition, the FSC has plans to allow the issuance of other RMB-denominated products (such as structured notes and collective trust funds) and will follow proper procedure to complete the necessary legal amendments.

The FSC on 14 March 2012 allowed securities firms to engage in proprietary and brokerage trading of securities issued or managed by government agencies or companies from mainland China in Hong Kong, Macau, or another foreign securities market (such as US N-shares, Hong Kong H-shares, and Singapore S-shares).

On 20 September 2012, the FSC announced that securities firms will soon be allowed to open RMB accounts offshore and at DBUs in Taiwan (once DBUs in Taiwan are allowed to accept RMB deposits).

In preparation for the establishment of a cross-strait currency settlement mechanism, the FSC issued regulatory measures to govern RMB denominated investment-linked insurance products and provide a wider range of insurance products and asset allocation options for the public to choose from.

Restrictions that formerly prohibited securities investment trust funds and discretionary investment assets from investing in mainland China area securities were lifted on 28 September 2012.





## Promoted the establishment of a Taiwan-Centric Wealth Management Platform for Domestic Consumers



Five key financial industry associations jointly held a public meeting on 17 October 2012 to familiarize attendees with the government's "Taiwan-Centric Wealth Management Platform for Domestic Consumers." FSC Chairman Yuh-Chang Chen delivered a speech at the event.

The FSC is currently working to establish a Taiwan-Centric Wealth Management Platform for Domestic Consumers. The goal of the program is to achieve a situation in which "the wealth of Taiwan nationals is managed by domestic financial institutions." By launching the program, the FSC hopes to create an environment in which wealth management services for Taiwan nationals are provided by financial institutions based in Taiwan, and more global investment products are introduced by these financial institutions to fulfill customers' needs. This would not only expand the business of financial institutions, but also facilitate the cultivation of local

professionals, who will provide the foundation for the asset management industry in Taiwan. The main measures of this program include:

- (1) helping financial institutions issue a variety of RMB-denominated financial products;
- (2) allowing domestic mutual funds to invest in mainland securities, and allowing structured products to link to mainland stock prices, exchange rates, and interest rates;
- (3) increasing the range of financial products that banks can provide to their customers;
- (4) enhancing the asset management techniques of discretionary investment services; and
- (5) providing differential regulatory treatment to encourage banks to invest in human resources.

In 2012, the FSC lifted restrictions that had formerly prohibited securities investment trust funds and discretionary investment assets from investing in mainland China area securities. Also, foreign-currency-denominated securities investment trust funds may now be subscribed and redeemed in Taiwan dollars, and the range of securities investment trust funds adopting effective registrations has been expanded.

Danshui Fisherman's Wharf: This scenic riverside spot attracts multitudes to New Taipei City's Danshui District to enjoy the famed sunset, regarded as one of the ten most beautiful scenic views in Taiwan.



## Promoted cross-strait financial dealings

As of the end of November 2012, the FSC had granted approval for 12 domestic banks to set up banking subsidiaries, branches, or sub-branches in mainland China. Ten of these have already commenced business operations, while six representative offices have also been set up there. In the other direction, the Bank of China and the Bank of Communications each have branches now doing business in Taipei. Also, the FSC has issued approvals for five investment trust firms to establish fund management companies in the mainland, and two of them is already doing business there. In addition, nine domestic insurers have received approval to make strategic equity investments in the mainland, and six of them have commenced business operations.



The 1st meeting of the Cross-strait Securities and Futures Supervisory Cooperation Platform took place on 29 January 2013. Chairman Yuh-Chang Chen of the FSC and his mainland counterpart Chairman Shu-Qing Guo jointly presided over the meeting.



At the 1st meeting of the Cross-strait Securities and Futures Supervisory Cooperation Platform on 29 January 2013, the two sides reached consensus on several matters. After the meeting, Tien-Mu Huang (Director-General of the FSC Securities and Futures Bureau) and his mainland counterpart Dao-Chi Tong (Director-General of International Cooperation Department) held a joint press conference.

As of the end of December 2012, the FSC had granted approval for subsidiaries of Taiwanese banks or financial holding companies to set up 15 financial leasing companies, four venture capital enterprises, and one venture capital management company in mainland China..



The 3rd meeting of the Cross-strait Banking Supervisory Cooperation Platform took place on 1 April 2013. Chairman Yuh-Chang Chen of the FSC and his counterpart Chairman Fu-Lin Shang jointly presided over the meeting and signed a memorandum of understanding on supervision and regulation of offshore wealth management business conducted by mainland commercial banks.

Regarding the ECFA early harvest program, the mainland branches of six domestic banks have applied and received approval from the mainland authorities to handle RMB business for Taiwan-invested enterprises in the mainland (the Shenzhen branch of Hua Nan Bank, the Kunshan branch of Chang Hwa Bank, the Shanghai branch of Cathay United Bank, the Shanghai branch of First Commercial Bank, the Shanghai branch of the Land Bank of Taiwan, and the Suzhou branch of the Taiwan Cooperative Bank). In addition, another 14 domestic investment trust firms have applied with the mainland authorities for designation as Qualified Foreign Institutional Investors (QFIIs). Ten of them have been approved to invest a combined total of US\$ 1.17 billion. Also, eight domestic insurers have applied with the mainland authorities for designation as QFIIs. All of these have been designated as QFIIs, and eight of them have been approved to invest a combined total of US\$ 1 billion.

In order to make it easier for people from mainland China to use their credit cards in Taiwan, and to reap greater economic benefits from the government's decision to allow mainland tourists into Taiwan, the FSC has approved twelve financial institutions to provide acquiring services for online transactions paid for using the China UnionPay Card. As of May 2013, the amount of China UnionPay Card transactions in Taiwan was approximately NT\$111.1 billion.

Under the terms of the " Cross-Strait Agreement on Trade in Services " signed on 21 June 2013, Taiwan and the mainland have both made commitments to allow access to their respective financial services markets, which will facilitate increased dealings between financial institutions on the two sides. By signing this agreement, the FSC has won concessions that will afford Taiwan's financial services firms access to the mainland market on terms more favorable than those available to other WTO members. This will help Taiwan's financial institutions expand their presence in the mainland, and will also provide Taiwan-invested firms in the mainland with access to more convenient financial services.



## Promoted financial internationalization

In order to implement the Basel III Accord, strengthen risk management at domestic banks, and harmonize Taiwan's bank capital adequacy regulations with international standards, the FSC amended the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" on 26 November 2012. Taiwan has followed the Basel III timeline by implementing the Basel III from 1 January 2013. The FSC also amended the "Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperatives" on 1 November 2012. Credit cooperatives implemented Basel II from 31 December 2012.

The FSC has taken various steps in preparation for the adoption of IFRSs, including the following:

- (1) Finished translating into traditional Chinese IFRSs of Version 2010, 2011, and 2012 versions of the IFRSs, reviewed the translations, and produced 34 illustrative examples of how the IFRSs may be implemented. All of the above are available for free download from the FSC website.
- (2) Produced templates of IFRSs transition, professional judgment handbooks, and so on. Moreover, the FSC set up a website with an integrated consultation platform to help companies through the IFRSs adoption process.
- (3) Amended relevant laws and regulations, such as the "Securities and Exchange Act," the "Securities and Exchange Act Enforcement Rules," and the series of regulations governing the preparation of financial reports by securities issuers and other types firms under the FSC's supervisory jurisdiction.
- (4) Held 1653 public awareness and training events with more than 131 thousand participants to help companies better understand the IFRSs.

In view of the fact that insurance brokerages and agencies solicit a steadily increasing share of insurers' business and therefore have an important role to play in money laundering control, the FSC on 5 March 2012 issued a determination that the term "financial institutions" as defined in Article 5, paragraph 1 of the "Money Laundering Control Act" includes insurance brokerages and agencies. This measure ensures that money laundering control in Taiwan is in line with international practice, and helps to build up a fully developed money laundering control regime. To date, 305 insurance brokerages and 400 insurance agencies



completed issuance of the Points for Attention of Money Laundering Prevention in accordance with Article 6 of the “Money Laundering Control Act.”

Brought Taiwan's financial markets more closely in line with international practices

On 14 March 2012, the FSC and the Bank Supervision Department of the South African Reserve Bank signed an MoU on cooperation in bank supervision. To date, the FSC has signed 46 bilateral and multilateral MoUs on financial supervisory cooperation with 46 other supervisory authorities

## Worked for more sound management of financial institutions

In order to ensure that banks have sufficient capacity to withstand an adverse business cycle and gradually increase their provisions for loan losses, on 21 November 2011 the FSC announced that, beginning from 1 January 2012, having a gross loan coverage ratio equal or greater than 1% has become one of the major requirements for banks to meet when they submit eight specific types of applications. At the end of January of 2013, the average loan coverage ratio of domestic banks was at 1.12%. In addition, the average NPL ratio was at 0.4%, significantly down from the peak of 11.76% at the end of April 2002. The average coverage ratio of allowances to NPLs was at 279.14%. These statistics show that the asset quality and financial structure of domestic banks has improved significantly, which means they have better ability to withstand risk.

Securities firms were formerly limited to contributing no more than 25 percent of the capital of a venture capital enterprise, but the FSC issued an amended directive on 15 March 2012 that completely removed this cap. By the same amended directive, the FSC began allowing securities firms to invest in venture capital management consulting companies. Additionally, to give securities firms greater flexibility in utilizing their own funds, limits are no longer imposed on how much a securities firm may invest in specific enterprises. Instead, a securities firm's aggregate long-term equity investments in other enterprises are now subject to an overall ceiling of 40 percent of the securities firm's net worth.



Taipei Dazhi Bridge: This traffic artery in Taipei City's Zhongshan District is the most beautiful cable-stayed bridge in the city.

In order to enhance the capital efficiency of insurers' investments and spur them to adopt more sound management practices, the FSC in 2012 amended the "Regulations Governing Foreign Investments by Insurance Companies," "Regulations Governing Use of Insurers' Funds in Special Projects, Public Utilities and Social Welfare Enterprises," and "Standards and Handling Principles for Determining What Constitutes Real Estate that Can Be Recognized as being Used Immediately With Reasonable Benefit," thereby providing insurers more options for the utilization of capital and encouraging them to improve their internal control mechanisms. Additionally, in order to afford insurers greater flexibility in the management of currency risk, and help to reduce hedging costs, the FSC issued the "Directions for the Setting Aside of Foreign Exchange Valuation Reserves by Life Insurance Enterprises," thereby strengthening their solvency and putting them on stronger financial footing.

In order to protect the interests of policyholders and maintain the stability of the financial industry, the FSC has overseen the efforts of the Taiwan Insurance Guaranty Fund, the conservator of Kuo Hua Life Insurance, to administer the conservatorship. The TIGF conducted a sale by public tender of Kuo Hua's assets, liabilities, and business operations on 27 November 2012, and the winning bid was submitted by TransGlobe Life Insurance.

## Strengthened corporate governance

On 22 August 2012, in order to harmonize with amendments to the "Securities and Exchange Act" and the "Company Act" and measures for the strengthening of corporate governance, the FSC issued amendments to the "Regulations Governing Procedures for Board of Directors Meetings of Public Companies."



In order to continue promoting and building consensus among domestic enterprises regarding corporate ethics, strengthen corporate governance, and advocate for corporate social responsibility, the FSC joined with the Taiwan Stock Exchange and the GreTai Securities Market to hold four seminars between 20 and 26 September 2012 in Taipei and Kaohsiung focusing on corporate ethics and corporate social responsibility. The events were attended by 976 senior executives from listed domestic companies. FSC Chairman Yuh-Chang Chen and Commissioner Ya-Hwei Yang are shown here in a group photo with some of the participants.





## Accelerated development of capital markets

The FSC continued working to develop Taiwan into a regional fund-raising platform for high-tech and innovative companies. From 2010 to the end of December 2012, 228 companies obtained listings on the Taiwan Stock Exchange (TWSE) or GreTai Securities Market (GTSM), raising a total of NT\$702 billion in capital and expanding the scale of the securities market. As of the end of December 2012, the total market capitalization of listed companies and the amount of trading by value in Taiwan's markets stood at 1.35% and 1.39% of the global totals, respectively. There are now 139 high-tech and innovative enterprises listed on the TWSE or GTSM, with a combined market capitalization of NT\$12,212 billion.

The FSC strengthened supervision of Taiwan depositary receipts (TDRs). Key measures included the following: (i) more rigorous review of TDR listing applications; (ii) stricter standards of liability for underwriters; (iii) enhanced disclosure of TDR information; (iv) a strengthened TDR delisting mechanism; (v) strengthened investor safeguards.

On 12 July 2012, the FSC issued the "Regulations Governing Leverage Transaction Merchants" to allow futures dealers that concurrently do business as leverage transaction merchants to conduct over-the-counter leverage contract trading.

Beipu Persimmons: Every year from September through November in Beipu Township, Hsinchu County, autumn winds come blowing in, making it a perfect time to hang persimmons out to dry. The beautiful fruits paint the township orange during this special time.

## Implemented financial supervisory measures

### 1. Financial examinations

In 2012, the FSC carried out 368 on-site examinations including 119 full-scope examinations at financial institutions, and 166 examinations at agricultural finance institutions on behalf of the Executive Yuan's Council of Agriculture. In addition, the FSC also conducted 83 targeted examinations (focusing on IT management, consumer loans, construction loans, and offshore banking unit (OBU) business for banks; cross-district business for credit cooperatives; the general agent for offshore funds offered by securities enterprises; discretionary investment services offered by securities investment trust enterprises; real estate loans and interest sensitive annuity for life insurance companies, etc).

#### On-site examinations in 2012

units: number of financial institutions

| Full-scope examinations                                                                     |    | 119 |
|---------------------------------------------------------------------------------------------|----|-----|
| Financial holding companies                                                                 | 8  |     |
| Head offices of domestic banks (including Chunghwa Post Co.)                                | 19 |     |
| Branches of domestic banks                                                                  | 6  |     |
| Taiwan branches of foreign banks                                                            | 12 |     |
| Credit cooperative associations (including South Data Processing Center)                    | 14 |     |
| Bills finance companies                                                                     | 5  |     |
| Securities firms, securities finance companies, and securities investment trust enterprises | 29 |     |
| Insurance companies                                                                         | 26 |     |
| Commissioned examinations                                                                   |    | 166 |
| Targeted examinations                                                                       |    | 83  |
| Total                                                                                       |    | 368 |

## **2. Differential examinations**

The FSC has implemented a system of differential examinations for domestic banks, Taiwan branches of foreign banks, credit cooperatives, securities firms, securities investment trust enterprises (SITEs), and insurers. Based on the results of on-site examinations and call reports, and depending on the legal compliance performance and financial condition of any given financial institution, the system assigns different risk grades and examination frequencies to different institutions.

## **3. More effective internal audits**

To enhance the internal control and internal audit functions of banks, the FSC carried out examinations especially focusing on internal control and internal audit functions to help banks conduct better self-oversight.

The FSC not only requires that financial institutions report improvements in areas where examinations reveal shortcomings within a reasonable time period and appropriately takes corrective actions, but also, if necessary, invites the auditors general of institutions to specify what sort of improvements need to be made.

## **4. Disclosure of examination information**

The FSC posted its examination manuals, the key focal points of its financial examinations, the principal discrepancies discovered in the course of financial examinations, and statistics on completed financial examinations for the current year and past two years, to the website of the FSC Financial Examination Bureau. The content of information disclosures is periodically reviewed and updated.

The FSC established the E-Learning Platform on the website of the FSC Financial Examination Bureau in 2012. It includes digital training classes in eight subjects (deposit business; money laundering; internal administration; loan business; investment business; trust business; sale of financial products; IT management). Class content was designed with reference to the key points of examinations, the principal discrepancies discovered in the course of financial examinations, and actual examination cases in order to help the public understand financial supervision and gain a better understanding of the technical aspects of examinations.



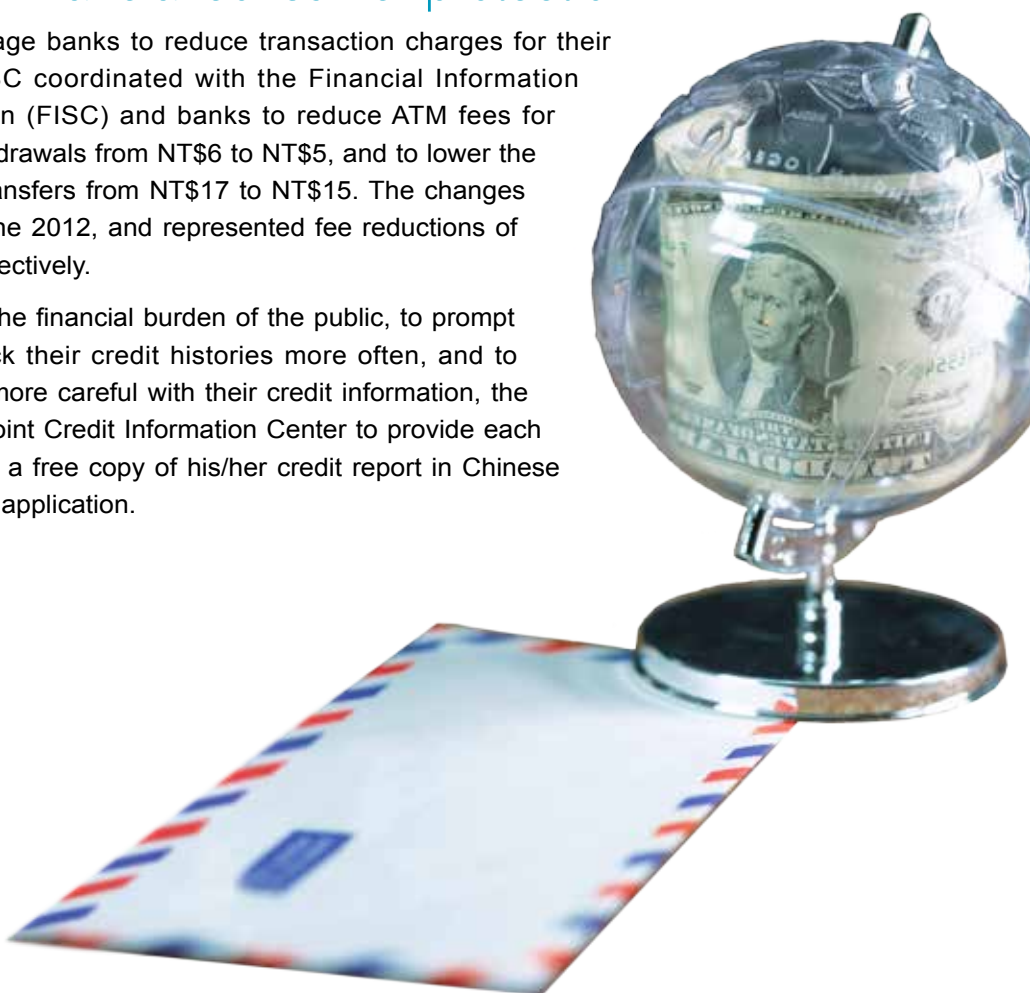
### 5. The financial examination rating system for domestic banks

The FSC has implemented a financial examination rating system for domestic banks since 2011. Through the rating system, the FSC evaluates the business condition of banks based on their financial soundness, legal compliance, consumer protection, and risk management. In 2012, the FSC completed on-site examination rating processes for 21 banks. The evaluation results will provide a reference for the implementation of differential regulatory treatment, so that different examination frequencies can be assigned to different institutions.

## Enhanced financial consumer protection

In order to encourage banks to reduce transaction charges for their customers, the FSC coordinated with the Financial Information Service Corporation (FISC) and banks to reduce ATM fees for interbank cash withdrawals from NT\$6 to NT\$5, and to lower the fee for interbank transfers from NT\$17 to NT\$15. The changes took effect on 1 June 2012, and represented fee reductions of 17% and 12%, respectively.

In order to reduce the financial burden of the public, to prompt consumers to check their credit histories more often, and to spur people to be more careful with their credit information, the FSC requires the Joint Credit Information Center to provide each individual in Taiwan a free copy of his/her credit report in Chinese once per year upon application.



The FSC, acting in accordance with the authority granted it under Article 177-1 of the "Company Act," has studied and defined the scope of companies that are required to use electronic voting. In order to facilitate the exercise of shareholders' voting power, the FSC on 20 February 2012 adopted a rule which provides that, beginning this year, any TWSE- or GTSM-listed company that has both authorized capital of NT\$10 billion or more and 10,000 or more shareholders is required to provide the option of electronic voting at shareholder meetings. In addition, any company which held an election or by-election of directors or supervisors at its 2012 shareholders meeting and also amended its articles of incorporation to adopt a candidate nomination system was given a grace period such that it is not required to conduct electronic voting until its next shareholders meeting .

In order to promote basic insurance protection for the economically disadvantaged, and to encourage insurers to fully discharge their social responsibilities, the FSC has thus far approved the launch of 17 microinsurance products, and insurers have sold microinsurance to a cumulative total of 46,421 policyholders from November 2009 through 31 December 2012. The total coverage under these policies adds up to NT\$13.7 billion. In addition, to coordinate with the implementation of government policy on long-term care insurance, the FSC has been urging insurers to promote commercial long-term care insurance products to supplement social insurance provided by the government. This would provide people with more choices, so they can purchase insurance protection which fits their financial capability and is tailored to their needs.

The cap on basic coverage provided under residential earthquake insurance was raised from NT\$1.2 million to NT\$1.5 million, and the contingent living expense coverage was also raised from NT\$180,000 to NT\$200,000, effective from 1 January 2012. The death benefit under compulsory automobile liability insurance was raised from NT\$1.6 million to NT\$2 million for each person, effective from 1 March 2012. The compulsory liability insurance rate was reduced, with an average 1.3% rate reduction for motorcycles and rate unchanged for automobiles, effective from 1 March 2013.

The "Financial Consumer Protection Act" (FCPA) and secondary legislation issued thereunder entered into force on 30 December 2011. The Financial Ombudsman Institution (FOI), which is totally funded by the government, was established in accordance with the FCPA and commenced operations on 2 January 2012. The FOI handles financial consumer disputes, and conducts education and awareness programs for financial services enterprises and financial consumers. In 2012, 2,504 financial customer disputes were filed with the FOI for ombudsman service, and approximately 74% of the cases were closed. Of these, 965 cases (approximately 52%) were closed because financial customers withdrew their applications or the FOI successfully mediated or upheld the customer complaint.



The Taiwan Residential Earthquake Insurance Fund (TREIF) held a fair in Chiayi City to mark the 10th anniversary of the establishment of the earthquake insurance system, and to encourage more people to take advantage of it. Chairman Yuh-Chang Chen delivered a speech at the event.



The Financial Ombudsman Institution (FOI) began official operations on 2 January 2012, thus marking the start of a new era in the protection of financial consumers in Taiwan. FSC Chairman Yuh-Chang Chen and FOI Chairman Kuo-Chuan Lin are shown here unveiling the organization's name plate.



Sun Yat-Sen Memorial Hall is one of popular tourist spots in Taipei. It offers a rare retreat from the bustle of Taipei's swanky Xinyi District.

## Enhanced financial literacy

In order to enhance financial literacy, the FSC launched Phase three (2012-2014) of Financial Literacy Program. The strategic action plan of phase three aims to expand the scope of financial literacy activities to cover multiple generations and groups via different channels. We made good use of the resources of the FSC and various financial industry self-regulatory organizations.



FSC Banking Bureau Director-General Hsien-Nung Kuei appeared at a "School and Community Financial Literacy Campaign" brush-up seminar for instructors on 29 November 2012. He is shown here together with several of the participants.

Promoted financial education and introduced basic financial knowledge at different school levels, and added financial knowledge into curriculums at the senior high school, junior high school, and elementary school levels.

Helped the public develop a better understanding of financial matters, financial consumer protection, and financial policies through various financial education campaigns—including the School and Community Financial Literacy Campaign—to build up a correct understanding of financial matters by using promotion videos, instructors, and Q & A sessions.

Established an educational website called MoneyWise as a comprehensive information platform to the public

## Sought to enhance the quality of audits by accounting firms, and actively participated in IFIAR activities

Since 2009, the FSC delegates have attended the Plenary Meetings of the International Forum of Independent Audit Regulators (IFIAR), as well as meetings of the IFIAR's Inspection Workshop Working Group. In these meetings, members have shared the findings of recent audit inspections and discussed issues relating to audit policy development, International Audit Standards (IAS) implementation, audit firm quality control, current challenges, and regulatory issues requiring a collaborative focus.

The FSC inspected audit quality at six small- and medium-sized audit firms, and also checked the quality of services provided by 38 small- and medium-sized audit firms to assist companies with IFRS adoption, so as to spur audit firms to make more efforts to improve audit quality.





# *Future Outlook*

Aerial tram at Wulai Waterfalls is located  
at Wulai District in New Taipei City.





## Continue the Program for Development of Financial Services with Cross-strait Characteristics

The FSC will continue to promote and execute the "Program for Development of Financial Services with Cross-strait Characteristics" to help our financial services firms fully tap into the unique opportunities afforded by their cross-strait presence, so that such firms can take advantage of the economic and trade activities of Taiwan-invested enterprises in the mainland to expand their competitive advantages in cross-strait financial markets.

In order to promote cross-strait cooperation in supervision of the securities and futures industry, ensure sound operation of Taiwanese securities firms and futures firms, and maintain stable development of Taiwanese securities markets, the first meeting for the cross-strait securities and futures supervisory cooperation platform was held in Taipei on 29 January 2013. The content of the platform and its operating procedures were worked out at the meeting, and views were exchanged on issues of concern to both sides. The establishment of this platform will bring about closer cross-strait ties in the securities and futures industry.

The FSC will continue to study possible amendments to regulations, and will communicate with the China Insurance Regulatory Commission (CIRC) to help Taiwan insurers expand their business scope and business presence in the mainland.

## Continue to promote the Taiwan-Centric Wealth Management Platform for Domestic Consumers

The FSC is currently promoting a "Taiwan-Centric Wealth Management Platform for Domestic Consumers" project. Within this project, the main measures related to the development of an RMB market include:

- (1) helping financial institutions to issue various types of RMB-denominated products;
- (2) allowing domestic mutual funds to invest in mainland securities; and
- (3) allowing structured notes to link to mainland stock prices, exchange rates and interest rates. These measures will enable banks to provide customers with a wider range of personal financial planning products.

Under the program to build a Taiwan-Centric Wealth Management Platform for Domestic Consumers, securities firms will be allowed to engage in offshore securities business, and the FSC will also consider easing restrictions on foreign currency risk exposures. In addition, so as to increase trading volume in the futures market and meet the hedging needs of traders, the FSC will continue promoting the listing of short-term futures contracts, will urge insurers to develop RMB-denominated insurance products, and will allow investment vehicles denominated in RMB to be linked to by investment-linked insurance products.



FSC Vice Chairperson Li-Ling Wang delivered a speech at the ceremony marking the launch of renminbi-dominated bonds, dubbed "Formosa Bonds" at the over-the-counter Greta Securities Market on 3 March 2013.



Dragon Boat Race: One of the most important holidays of the year is the Dragon Boat Festival, which is marked throughout Taiwan by colorful dragon boat races.

## Promote cross-strait financial dealings

The FSC has established an institutionalized mechanism for regular meetings with the China Banking Regulatory Commission (CBRC). The first meeting of the Cross-Strait Banking Supervisory Cooperation Platform was held on 25 April 2011 in Taipei, and the second meeting was held on 23 November 2011 in Beijing. The FSC will continue co-hosting regular meetings of the platform to enhance exchange of supervisory information and regulatory views with the CBRC to improve the safety and soundness of the cross-strait banking industry.

The FSC is currently negotiating an MoU with the China Banking Regulatory Commission (CBRC) on cooperation in the supervision of overseas wealth management. Once the MoU is concluded, mainland commercial banks will be able to provide overseas wealth management services under China's Qualified Domestic Institutional Investor (QDII) program by investing in securities issued in Taiwan, including listed stocks, securities investment trust funds, treasury bonds, and corporate bonds, which will bolster Taiwan's securities markets.

In order to coordinate with ECFA follow-up negotiations on trade in services, the FSC will coordinate and initiate financial services talks with the mainland authorities as soon as possible to help Taiwan's financial services firms gain favorable access to mainland markets and expand their businesses there.



## Continue to promote financial internationalization

The FSC will hold the 20th IAIS Annual Conference from 16 to 19 October 2013. There will be about 500 participants from global insurance supervisory authorities and insurance companies. The FSC is now hard at work in preparation for the conference.

The FSC will continue seeking to host international conferences and play important roles in international financial bodies. We will also work to sign bilateral and multilateral MoUs for cooperation with financial supervisory authorities from other countries, so as to strengthen international financial supervisory cooperation and bring Taiwan's financial markets and financial systems more closely in line with international practices.

## Continue to work for sounder management of financial institutions

In order to ensure that the banking system is sufficiently resilient to weather adverse situations, and to improve credit risk management at banks, the FSC issued a set of "Measures to Enhance the Management of Credit Risk of Domestic Banks" on 7 January 2013. The FSC encourages banks to maintain 1% provisions against Class 1 (normally performing) credit assets and seek better credit risk management by providing differential incentives and differential regulatory treatment.

In preparation for the adoption of IFRSs by credit cooperatives from 2015, the FSC will amend relevant laws and regulations including the "Uniform Accounting System for Credit Cooperatives."

In order to improve the market exit mechanism for failing insurance companies, the FSC will continue overseeing the efforts of the Taiwan Insurance Guaranty Fund to research domestic and international regulations and practical experiences in conservatorship, so as to review the implementation of the insurers' market exit mechanism and related regulations, thereby improving the market exit mechanism.

## Continue helping SMEs to obtain funding

To help SMEs obtain working capital, the FSC continued to carry out the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." The FSC adopted a target of raising the balance of SME loans by domestic banks in 2013 by NT\$240 billion. The total outstanding loans extended to SMEs by domestic banks stood at NT\$4,448 billion (or 50.18% of total outstanding loans to all enterprises, and 53.94% of total outstanding loans to all private-sector enterprises) as of the end of December 2012, up by NT\$379.8 billion from the end of 2011 and far in excess of the 2012 targeted increase of NT\$220 billion (i.e. 172.62% of target). These figures show that banks are paying much more attention to lending to SMEs. The FSC will encourage banks to step up lending to SMEs while paying proper attention to risk control.



FSC invited relevant organizations such as Council for Economic Planning and Development to hold the conference of "SME Financial Affairs and Meeting of Business Connections with General Managers of Domestic Bank". Participants in the meeting jointly prescribed the measures to help small and medium enterprises, and set up a goal for small and medium enterprises loans of domestic bank.

## Continue to accelerate development of capital markets

To coordinate with the development strategy of building up Taiwan as a fund-raising platform for high-tech and innovative firms, and to encourage participation in our capital markets by state-run companies and other domestic firms that have strong potential in such areas as scientific and technological innovation, agriculture, cultural and creative undertakings, the FSC will actively encourage domestic firms in emerging industries to list on the TWSE or GTSM

A photograph of a terraced tea plantation on a mountain slope. The tea bushes are arranged in neat, curved rows, creating a rhythmic pattern of green. The background shows more of the mountain and some trees under a slightly hazy sky.

Nantou Tea Garden: This centuries-old tea plantation turns out the very best high mountain teas in Taiwan.

The FSC will actively encourage foreign companies with key technologies to obtain primary listings on the TWSE or GTSM. High-quality foreign companies in which mainland Chinese hold a stake of 30% or more will also be encouraged to list on the TWSE or the GTSM, subject to case-by-case permission.

In coordination with plans to cut the securities transaction tax for hedge trades by warrant market makers, the FSC will study the feasibility of:

- (1) allowing cash instruments in hedging accounts to be used for day-trading; and
- (2) allowing warrants in regular investors' accounts to be also used for day-trading.

In order to make our securities firms more competitive by allowing them more flexibility in the use of their foreign currency funds, the FSC will study the possibility of increasing their access to foreign currency funds.

The FSC will continue overseeing the efforts of the Securities and Futures Investors Protection Center to strengthen protection of investors and traders. In addition, to ensure that shareholders meetings proceed smoothly, the FSC will study possible amendments to applicable legislation. Changes to be considered include the possible adoption of criteria to determine what types of companies are subject to a mandatory requirement to adopt electronic voting, and the possible adoption of strengthened provisions governing companies' handling of shareholder services, use of proxies, and shareholders meetings. In order to enhance trading efficiency, the FSC will move step-by-step to establish continuous trading in the securities markets to bring trading systems in line with international standards.

## CContinue to enhance financial literacy

As part of an ongoing campaign to promote a better general understanding of financial matters, the FSC has launched phase three (2012~2014) of its Financial Literacy Program, under which a variety of channels and methods are being employed to continue improving the financial literacy of different age and social groups. The following five strategies have been adopted to achieve the program's goals: holding education and awareness activities; establishing stronger ties to schools; making better use of the mass media for publicity purposes; tapping into resources available within the larger society (e.g. public interest groups and volunteers); and carrying out financial literacy surveys.



## Promote development of the bond market

The bond market plays an important role in our capital markets, and there is high demand for bonds among domestic institutional investors. Therefore, there is good potential for further development of the bond market. To promote the development of the domestic bond market, enhance its international competitiveness, and offer a wider range of products to attract investment of RMB funds, the FSC will promote several projects to achieve the targets mentioned above, including:

1. Encouraging domestic and foreign entities to issue RMB-denominated Formosa Bonds in Taiwan.
2. Studying the possibility of allowing foreign institutions to issue Formosa Bonds offshore through the OBUs of domestic banks in order to help the OBUs achieve better returns on their foreign capital and develop a more diverse range of bond products.
3. The FSC will continue reviewing relevant regulations and amend them as appropriate to increase incentives to attract domestic and foreign entities to issue bonds in Taiwan and ensure sound development of Taiwan's bond market. The amendments will be designed to improve trading mechanisms, facilitate innovation and diversification of bonds, improve information transparency and market demand.

## Expand securities market and upgrade international position

In order to establish a sounder system for the issuance and trading of securities, promote diversification of products, and spur increased capital market activity, the Executive Yuan on 8 February 2013 adopted a stock market stimulus plan under which the government will work to:

- (1) spur the emergence of more diversified and higher quality financial products;
- (2) reduce trading costs and spur increased trading activity;
- (3) increase the size of Taiwan's capital markets; and
- (4) increase the international visibility of Taiwan's stock markets and strengthen corporate governance. The plan is designed to make Taiwan's capital markets more internationally competitive, thereby providing for the long-term stable growth of our stock markets.

## Allow insurers a broader scope of business and greater flexibility in investments

To help insurers develop their business in mainland China, the FSC will amend the "Regulations Governing Permission of Insurance Business Transactions and Investment Between the Taiwan Area and the Mainland Area."

In order to help insurers earn better returns on their real estate investments, and to encourage them to strengthen internal rules on such investments, the FSC will continue reviewing regulations governing insurers' investments in foreign securities and foreign real estate.

To cope with the aging of Taiwan's population, the FSC will promote protection products and annuity insurance products. In October 2011, the Executive Yuan launched the Golden Decade initiative. One of the visions put forward under this initiative calls for the government to keep a close eye on the trends toward an aging population and smaller families, and to encourage financial institutions to actively develop financial products designed to respond to these trends. These are among the key policy focuses of the government, which intends to encourage life insurers to develop commercial annuity insurance and long-term care insurance.



## Facilitate the operation of the cross-strait insurance supervision platform

To facilitate cooperation and exchange among insurers on the two sides of the Taiwan Strait, the FSC has been actively working to establish a cross-strait insurance supervision platform. Cross-strait meetings between financial supervisory officials have been arranged, and a scheme for regular negotiation talks on insurance supervision has been set up.

## Encourage financial institutions to build up their overseas presence

The FSC has been working to encourage Taiwanese banks develop markets in the Chinese mainland, Southeast Asia, and elsewhere overseas. Since June 2011 we have seen domestic banks establish 22 overseas branches, including nine in the mainland, three in Vietnam, three in Singapore, three in Cambodia, one in Thailand, one in Indonesia, one in India, and one in Burma.

In view of the fact that Taiwan-invested firms are already active across the globe, in order to better enable our financial institutions to serve these firms, the FSC, in addition to continuing its work to facilitate the efforts of financial institutions to expand their presence in mainland China and Southeast Asia, will also evaluate the feasibility of a push by Taiwan financial institutions to develop markets in the emerging markets of South Africa, Eastern Europe, Central Asia, and Western Asia.

The FSC will help domestic insurers develop markets in mainland China and Southeast Asian nations. Domestic life insurers have set up two representative offices in mainland China since 2012.





## Take care of the financial needs of the disadvantaged, the elderly, and innovators

While continuing to implement a range of different financial industry development policies, the FSC hopes at the same time that financial services providers can show concern for society by providing better financial services to the disadvantaged and the elderly. The FSC also would like to see financial firms actively facilitate the efforts of innovators to pursue their dreams, thereby spurring the emergence and growth of micro-businesses.

Financial institutions have worked hard to make financial services accessible to persons with disabilities, and the FSC has asked the ROC Bankers Association and the two national insurance associations to continue communicating with advocacy groups for the disabled in order to better understand their needs and provide them more suitable financial services. The FSC also encourages trust firms to fulfill their social responsibilities by providing special needs trusts to protect the assets of people with disabilities.

In order to help citizens prepare for old age, the FSC urges insurers to develop financial services and products for an aging society by promoting qualified annuity and long-term care insurance, preparing for the transition to commercial long-term care insurance after the launch of public long-term care insurance, and promoting trust products for the elderly.



The FSC has asked the GTSM to initiate a "crowd-funding platform" project designed to encourage and help individuals or small businesses with creative ideas to obtain capital to put their ideas into practice. This project will take a two-pronged approach to achieve its goals. Firstly, the GTSM proposes to create a "guidance mechanism" to offer free and comprehensive services for small-sized enterprises to help them incorporate and establish sustainable business practices, so they can easily access our capital markets. Secondly, the GTSM also proposes to support the launch of a non-equity crowd-funding platform operator by establishing an information disclosure system on its website to enhance the safety of crowd-funding transactions. These measures are intended to expand the size of our securities markets.

## Adopt differential regulatory treatment to reward well-run insurance firms

The quality of certified actuarial reports has a bearing on the soundness of an insurer's management. In order to strengthen insurers' solvency, the FSC has been studying the possibility of relying on self-regulation and differential regulatory treatment to introduce an external review system for certified actuarial reports. We intend to encourage insurers to retain outside actuarial certification institutions to review their certified actuarial reports, so as to enhance the quality and reliability of the reports. At the same time, the FSC plans to coordinate the efforts of various agencies to develop related training courses in an active push to cultivate local actuarial talent and spur sound development of insurance enterprises.

## International conferences and events

The FSC dispatched officials to participate in AML/CFT (anti-money laundering / countering the financing of terrorism) activities held by the Asia/Pacific Group on Money Laundering (APG) and the Financial Action Task Force (FATF) in 2012, including APG's annual meeting in Brisbane on 17-20 July, the two plenary meetings of FATF in Paris on 20-22 February and 17-19 October, and other relevant conferences. We took advantage of these meetings to exchange experience and promote cooperation on AML/CFT with peer authorities around the world.

The FSC participated in IAIS committees and working groups, including the Technical Committee, the Implementation Committee, and working groups thereunder. Ms. Jih-Chu Lee, former Vice Chairperson of the FSC, led a delegation to attend the 19th IAIS Annual Conference from 7 to 12 October 2012 in Washington, DC and delivered a speech to invite all participants to attend the 20th IAIS Annual Conference in Taipei in 2013.



Director-General Yu-Chiung Tzeng of the FSC Insurance Bureau attended the 19th Annual Conference and General Meeting of the International Association of Insurance Supervisors (IAIS) from 7 to 12 October 2012 in Washington, DC. Director-General Tzeng delivered a speech at the event.





Shifen Waterfalls: Sightseers throng to New Taipei City's Pingxi District to enjoy the scenic waterfalls and stroll through the old streets in the nearby town.

During the period of 13 to 17 July 2013, IAIS Secretary General Dr. Yoshihiro Kawai visited Taiwan and gained first hand information regarding preparations of the 20th IAIS Annual Conference to be held in Taipei this October. During his visit, Dr. Kawai also delivered a speech entitled “New International Regulatory Coordination” to the FSC, insurers, and insurance industry SROs. In addition, Dr. Kawai visited FSC Chairman Chen to exchange views on the preparations for the Annual Conference and Taiwan’s insurance policies.



IAIS Secretary-General Yoshihiro Kawai visited FSC Chairman Chen on 16 July 2013.



The FSC dispatched officials to attend APEC Economic Committee (EC) Plenary Meetings in 2012 on 14-15 February and 30-31 May, and in 2013 on 1-2 February. Our delegates at these meetings proposed to have the FSC host the "Lessons from the Financial Crisis for Corporate Governance and Law" workshop. The workshop will be held before the second EC plenary meeting in 2013. In order to inspire APEC member economies to think about the key focal points of corporate governance reform, and formulate action plans to bring such reforms about, the FSC will invite professionals on corporate governance and supervisory officials with a relevant portfolio to share experiences at the workshop.

The OECD Asian Roundtable on Corporate Governance was held on 24-25 October 2012 in Tokyo, attended by 110 participants from 14 economies. Meeting participants resolved that an enforcement task force should survey the state of public sector enforcement in the 14 economies and complete a draft report on best implementation programs before the next roundtable meeting, to be held in June 2013 in Malaysia. The FSC has joined the enforcement task force and will assist with the survey and report.

The FSC on 25 and 26 October 2012 held the 8th Taipei Corporate Governance Forum (TAICGOF) at the Taipei International Convention Center. In addition to keynote speakers Stan Shih (Acer Group founder and chairman) and Maria Helena Santana (former chairperson of the Securities and Exchange Commission of Brazil), the FSC also invited Schive Chi (chairperson of the Taiwan Stock Exchange) and David Thomas (Chairman of the International Network of Financial Services Ombudsman Schemes, and principal ombudsman of the UK Financial Ombudsman Service) to moderate roundtable discussions at the event. In all, the event was attended by over 500 people.



FSC hosted the 8th Taipei Corporate Governance Forum (TAICGOF) on 25-26 October 2012 at the Taipei International Convention Center.



An FSC delegation visited Turkey from 5 to 8 November 2012 to discuss capital markets with the Capital Markets Board of Turkey (CMB). During the three-day series of events, the two sides cemented bilateral friendship and cooperation, and completed a conference on future opportunities for cooperation between the capital markets of Taiwan and Turkey. The delegation also visited the Istanbul Stock Exchange and several important institutional investors in Turkey to find bilateral investment and cooperation opportunities. In addition, while in Turkey the FSC delegation participated in the Interim Meeting of the International Council of Securities Associations and the IOSCO SRO Consultative Committee Mid-Year Meeting. The delegation also engaged in discussions with the IOSCO Secretariat, speakers, and members of the SRO Consultative Committee, which successfully raised Taiwan's international profile.

The FSC has been an active participant year after year in the conferences and training activities of the IOSCO. For example, FSC delegations attended the Annual Conference of the Emerging Markets Committee (EMC) in Chile (19-21 November 2012), and the Asia-Pacific Regional Committee (APRC) Annual Meeting in Thailand (28-30 November 2012). Our delegations shared information with other participants about legal enforcement in Taiwan's securities markets, which successfully increased Taiwan's international visibility.

The IOSCO merged the policy and standard-setting work of the Technical Committee Standing Committees and Emerging Markets Committee Working Groups into seven committees in 2012. The FSC was allowed to join two of these—the Committee on Issuer Accounting, Audit and Disclosure (C1) and the Committee on Credit Agencies (C6). In addition, FSC held the first 2013 meeting of C6 on 19-20 March and has been actively participating in committee meetings. At the C6 meetings, the FSC has been able to facilitate the sharing of experiences, exchange views with other securities regulatory authorities, and contribute to the discussion on international supervisory mechanisms of credit rating agencies. Overall, this has bolstered the robust development of Taiwan's financial markets.

The FSC participated in an IFIAR Inspection Workshop on 3-5 March 2012 and an IFIAR Plenary meeting on 1-3 October 2012. At these events, the FSC discussed and shared recent auditing developments. The FSC will continue to attend IFIAR meetings, actively provide our views on audit related issues, and share reports on our inspections of CPA firms.



FSC Vice Chairperson Tang-Chieh Wu gave the opening remarks at the 8th TAICGOF.





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