

2013 ◌ **2014**



Financial Supervisory Commission, Taiwan

Annual Report



FSC



2013 ◉ 2014 Annual Report



Financial Supervisory Commission, Taiwan

FSC

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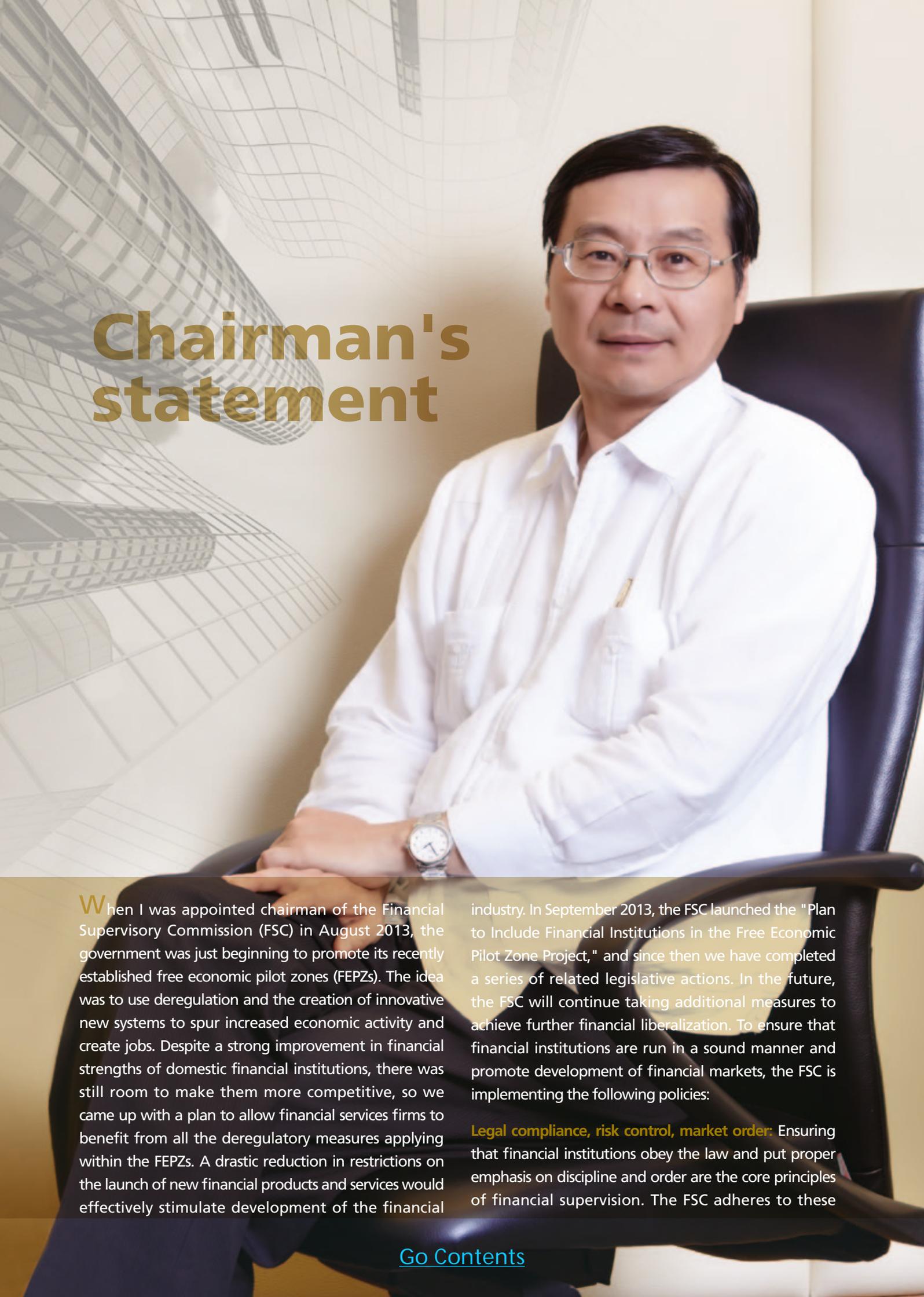
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Chairman's statement

When I was appointed chairman of the Financial Supervisory Commission (FSC) in August 2013, the government was just beginning to promote its recently established free economic pilot zones (FEPZs). The idea was to use deregulation and the creation of innovative new systems to spur increased economic activity and create jobs. Despite a strong improvement in financial strengths of domestic financial institutions, there was still room to make them more competitive, so we came up with a plan to allow financial services firms to benefit from all the deregulatory measures applying within the FEPZs. A drastic reduction in restrictions on the launch of new financial products and services would effectively stimulate development of the financial

industry. In September 2013, the FSC launched the "Plan to Include Financial Institutions in the Free Economic Pilot Zone Project," and since then we have completed a series of related legislative actions. In the future, the FSC will continue taking additional measures to achieve further financial liberalization. To ensure that financial institutions are run in a sound manner and promote development of financial markets, the FSC is implementing the following policies:

Legal compliance, risk control, market order: Ensuring that financial institutions obey the law and put proper emphasis on discipline and order are the core principles of financial supervision. The FSC adheres to these

principles and takes an open attitude in supporting the development of financial services firms and ensuring proper order in financial markets.

Human resources, channels, Asian presence: Human resources are the foundation of sound development of financial services firms to achieve sound development, and the Asian region is becoming the main engine of global economic growth. For these reasons, the FSC encourages financial services firms to step up efforts to equip their personnel with the skills they need to handle international financial business. Having established a strong position for themselves in Taiwan, these firms can actively build up their presence in the Asian region.

Stability, openness, and innovation: While paying due attention to the need for control of risks, the FSC will continue taking measured steps to further open Taiwan's financial markets, and will encourage firms to launch innovative new financial products to satisfy diverse customer needs.

Integrity, social responsibility, and concern for the environment: The FSC will encourage financial services firms to show concern for the environment and for future generations, to practice ethical corporate management, to fulfill their corporate social responsibility, and to create an environment where sustainable development is possible.

Win-win for financial services and industry: Access to finance is the lifeline of industrial development. And when industry prospers, the financial sector thrives, so the FSC will continue studying the possible adoption of financial policies and measures that would facilitate the emergence of a more sophisticated financial industry and the development of industry and the larger economy.

Strategy for development of the financial industry: The FSC has established an offshore securities unit (OSU) system and issued 15 OSU business permits, and banks' offshore banking units (OBUs) are now allowed to conduct any foreign exchange business that does not appear on a negative list. Both of these changes constitute major breakthroughs.

Development of RMB businesses: The FSC since 2013 has allowed banks to handle RMB deposits, loans, and remittances. Our banks have amassed considerable RMB deposits and launched many RMB products, including investment funds, bonds, and insurance policies. Close economic and trade relations across the Taiwan Strait, and the increasing internationalization of the RMB, are generating a lot of business opportunities, so the FSC will continue pursuing a strategy of developing Taiwan as an offshore RMB market.

Support for industrial development: The FSC has adopted a four-pronged action plan for support of creative enterprises with strong development potential, which entails the following four approaches: (a) education and training; (b) special financing projects; (c) an advisory platform; and (d) coordinated measures. At the same time, the FSC worked with the GreTai Securities Market (GTSM) to establish the Gofunding Zone website and the Go Incubation Board for Startup and Acceleration Firms (GISA) to facilitate the development of micro-businesses and creative enterprises, so they can grow and internationalize, which would inject increased vitality into Taiwan's capital markets.

Sound development of the financial sector is key to a sustainable national economy. To continue liberalizing the financial industry and ensure sound management of financial institutions, the FSC will encourage financial services firms to seize upon opportunities that arise as a result of deregulatory measures. During the course of this effort, the FSC will take care to pay due attention to supervisory concerns, such as legal compliance, self-regulation, and risk management. By ensuring that "the financial services support industry, and industry injects vitality into the financial sector," the FSC seeks to bolster Taiwan's economy, create jobs, and spur economic development.

Chairman

Ming-Chung Tseng

A close-up photograph of several hands holding together several interlocking puzzle pieces in various colors (orange, red, green, white). The background is a blurred office setting.

Organizational structure and functions of the FSC

The FSC was established on 1 July 2004 as the competent authority with overall responsibility 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.

The FSC exercises its supervisory duties independently in accordance with the law, and within the scope of its authority will continue working to promote various financial development policies and carry out financial supervision.



▶ Vice Chairperson
Li-Ling Wang

▶ Chairman
Ming-Chung Tseng

▶ Vice Chairperson
Tien-Mu Huang



▶ Director-General of Securities and Futures Bureau
Yui-Chun Wu

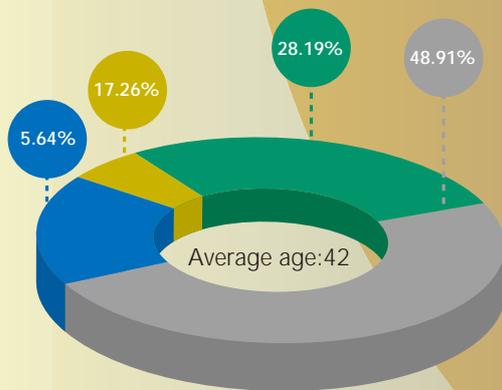
▶ Director-General of Banking Bureau
Austin Chan

▶ Director-General of Insurance Bureau
Yu-Chiung Tzeng

▶ Director-General of Financial Examination Bureau
Li-Chuan Wang

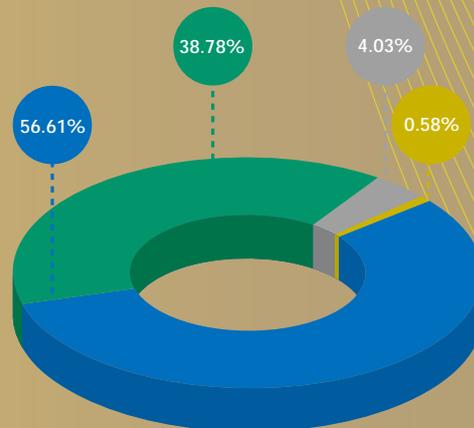
▶ Chief Secretary
Mang-Chih Lee

Personnel



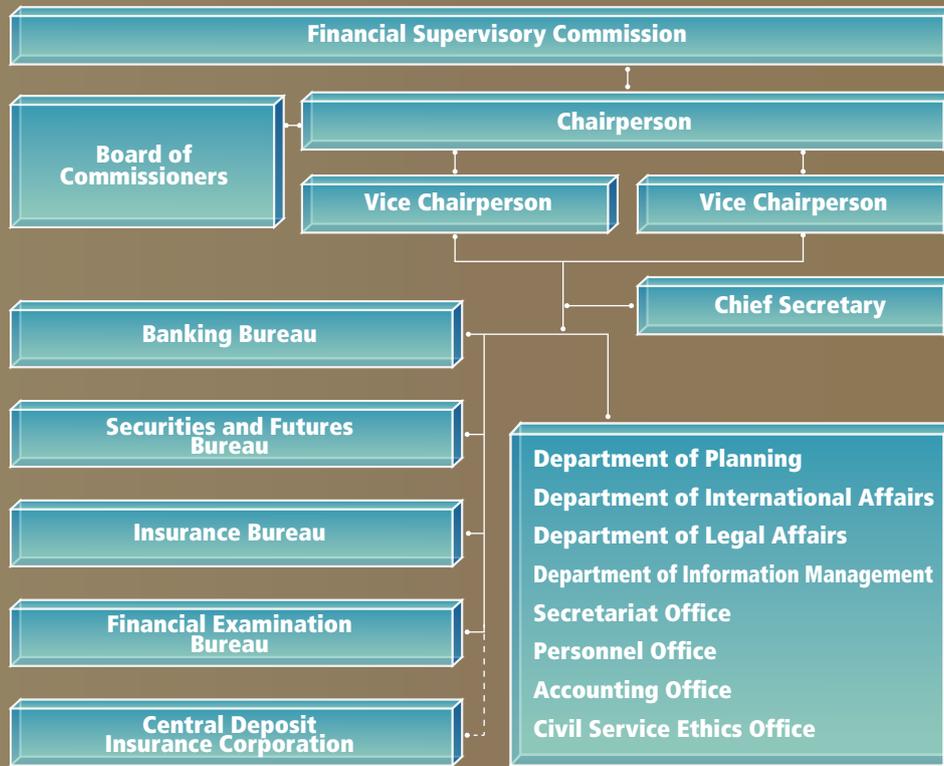
- Age 29 or younger 5.64%
- Age 30-39 28.19%
- Age 40-49 48.91%
- Age 50 or older 17.26%

Academic background of employees at FSC headquarters and the four bureaus



- Master's degree or higher 56.61%
- Bachelor's degree 38.78%
- Junior college 4.03%
- General (or vocational) high school 0.58%

Organization



➤ Director-General of Department of Information Management
Fu-Longe Tsai

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

➤ Director-General of Department of International Affairs
Joe Lai

A close-up photograph of a hand holding a wooden chess piece, likely a king or queen, over a chessboard. The piece is in sharp focus, while the other pieces and the board are blurred in the background. The lighting is warm, highlighting the texture of the wood.

Main policy focuses

Since the financial tsunami of 2008, international financial supervisory bodies and the world's major countries have undertaken financial supervisory reforms to ensure financial stability. First, they are requiring financial institutions to strengthen their capital adequacy by making improvements in terms of both quantity and quality. The FSC has responded to the issuance of standards by international financial supervisory bodies by amending related laws and regulations, and by requiring financial institutions to take timely action to achieve compliance with the new standards. At the same time, they have also been stressing the importance of risk management and internal controls, pushing for better corporate governance, market discipline, and information disclosures, and improving financial consumer protections. All of these approaches are important trends in international financial supervision, and are key focuses of financial supervisory authorities in countries throughout the world. The FSC has adopted related measures after making reference to these international supervisory trends and taking the particular characteristics of Taiwan's financial services firms into account. In carrying out its policies, the FSC has been guided by the following key points:

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Legal compliance, risk controls, market order

The most important objective of financial regulation is to ensure that financial institutions obey the law and control risks. With these two objectives uppermost in mind, the FSC takes an open-minded attitude to the task of facilitating the development of the financial services industry. The FSC will also continue pursuing a policy of differential regulatory treatment to reward financial institutions that do a good job of implementing internal controls, legal compliance, and risk management. Well-run institutions are allowed greater opportunities for development, while heavy sanctions are meted out to institutions involved in major legal infractions, breach of trust, or other serious wrongdoing.

Order in the financial markets is key to sustainable development of the financial services industry. To keep financial services firms from engaging in destructive price competition, the FSC has taken successful steps to discourage banks from offering unreasonably low interest rates on syndicated loans and unreasonably high yields on RMB-denominated bonds. If other types of financial services firms engage in destructive price competition, the FSC will also adopt appropriate measures.

Human resources, channels, Asian presence

People drive the development of the financial services industry. To step up efforts to train personnel with the skills needed to conduct international business, the FSC has asked the Taiwan Academy of Banking and Finance, the ROC Securities and Futures Institute, and the Taiwan Insurance Institute to develop relevant courses. Financial services firms are encouraged to train their local staff members, and to invest more in the development of new financial products and services.

In addition, it bears noting that the engine of global economic growth is shifting from West to East. According to the Asian Development Bank, the Asian region accounted for about 36% of global GDP in 2012, and this share is expected to grow over 50% by 2050. Taiwan's banks need to expand their channels, and with this in mind the FSC is encouraging them to set up new branch units in areas of Southeast Asia where there are large concentrations of Taiwan-invested enterprises. This approach would expand the range of markets in which our financial services firms could operate. The FSC also intends to help insurers, securities firms, and investment trust enterprises to solidify their roots in Taiwan while further building up their presence throughout Asia and expanding the range of their markets.



Stability, openness, and innovation

In the ongoing effort to promote financial liberalization, the FSC will act in a measured manner, carrying out prudent evaluations before moving ahead with deregulatory actions, and will encourage all financial services firms to actively develop and launch innovative new products.

Taiwan's financial services industry has made suggestions about how to further relax restrictions on the range of products and services that financial services firms are allowed to offer, and the FSC has responded by carrying out a study of conditions in Singapore, Hong Kong, and Taiwan to compare how the three jurisdictions regulate various products and services. For suggestions that appear likely to enhance the competitiveness of Taiwanese financial markets, the FSC has conducted feasibility studies and found about half of the suggestions to be workable. The FSC will assign high priority to the task of getting these suggestions implemented.

Integrity, social responsibility, and concern for the environment

Financial services firms attract funds from the public and then utilize the funds, which means they are to a high degree a public characteristic. Good corporate governance is key to sound development of financial institutions. In order to strengthen corporate governance and improve the competitiveness of Taiwan's financial services firms and listed companies, and bolster investor confidence, the FSC continues to actively promote corporate social responsibility and ethical corporate management. Many foreign financial institutions have declared their intentions to abide by the Equator Principles in their handling of project finance as a means of assessing environmental and social risk in projects. In light of this fact, and to encourage financial services firms to fully meet their corporate social responsibility, the FSC intends to push for domestic banks to adopt the Equator Principles. The idea is to get companies to pay attention to more than just profits and focus also on sustainable development of Taiwan's environment, take vigorous action to fulfill their corporate social responsibility, and internalize the concept of corporate social responsibility so that it actually becomes an integral part of their corporate culture.

Win-win for financial services and industry

Taiwan's economy was formerly driven largely by labor-intensive manufacturing, but it later transitioned to a capital-intensive model, and more recently has come to be a technology-intensive and knowledge-intensive economy driven by innovation. Ordinary industries are the backbone of our economic development, and financial services cannot operate in isolation from changes taking place in the economy as a whole or in individual industries. While taking care to achieve sound development, financial services firms also need to be concerned about other industries. While paying due attention to risk and legal compliance, the FSC continues to develop and implement financial policies and measures designed to facilitate the emergency of a more sophisticated financial industry, and to spur further industrial and economic development. By adopting a variety of deregulatory steps, we seek to afford financial services firms appropriate opportunity for development and encourage them to support the development of companies in other sectors of the economy, thereby creating win-win situations.



Important achievements

Afforded financial services firms a broader scope of business, made them more competitive

Financial services firms benefit from FEPZ deregulatory measures

The "Free Economic Pilot Zone Phase I Development Project" approved by the Executive Yuan on 16 August 2013 includes a "virtual presence" concept. The FSC acted on the "virtual presence" concept by developing the "Plan to Include Financial Institutions in the Free Economic Pilot Zone Project." The principles of the plan are as follows: 1) adoption of a "virtual pilot zone" concept; 2) deregulation; 3) extending the FEPZs to cover all of Taiwan; and 4) keeping talent and assets inside the country. The FSC will in principle allow financial services firms to provide a wider range of products and services to both overseas non-residents and Taiwanese professional investors. In principle, overseas non-residents are fully exempt from restrictions on the scope of products and services. Restrictions on dealings with locally based professional institutional investors have been greatly reduced, while dealings with locally based ordinary retail investors are being gradually relaxed, subject to the need to ensure proper investor safeguards. Since the 19 November 2013 adoption of the "Plan to Include Financial Institutions in the Free Economic Pilot Zone Project," a number of related laws and regulations have been adopted or amended. Deregulatory measures therein include the following:

- 1. Offshore banking units (OBUs) are in principle free of restrictions on the scope of products and client statutory thresholds when conducting trust and derivatives business. New type business is subject to negative list, and OBUs are allowed to conduct fixed-income securities brokerage business.
- 2. Securities firms are now allowed to establish offshore securities units (OSUs), deal in derivatives, invest via trust arrangements in foreign products, broker trading in foreign-denominated securities, and provide account custodian services. At the same time, procedures required to apply for approval to conduct such business activities has been simplified. On 5 March 2014, the FSC approved applications by 12 securities firms to establish OSUs. As of the end of July 2014, the FSC approved applications by 15 securities firms to establish OSUs.
- 3. The FSC has further eased restrictions on dealing by banks in RMB derivatives. Also, we now allow securities firms to handle trades in unlisted foreign-currency-denominated foreign bonds, and allow banks to broker trades in foreign bonds. At the same time, we have expanded the range of purchasers that securities firms are permitted to deal with when brokering trades in foreign bonds, and we no longer limit trading in foreign bonds to transactions on secondary markets.
- 4. An insurer that buys undeveloped land in an FEPZ is exempt from: (a) the timetable restriction for investment of undeveloped land; and (b) the requirement that an insurer furnish an "intent to lease" statement which demonstrates prior to purchase of the land that the real estate that can be used immediately with reasonable benefit. To help insurers achieve better capital efficiency and afford them greater flexibility in their capital allocations.

Possible further deregulatory steps for the financial services industry

Taiwan's financial services industry has made suggestions about how to further relax restrictions on the range of products and services that financial services firms are allowed to offer, and the FSC has responded by carrying out a study of conditions in Singapore, Hong Kong, and Taiwan to compare how the three jurisdictions regulate various products and services. Among the suggestions that appear likely to enhance the competitiveness of Taiwanese financial markets, 26 appear to be feasible. In principle, the FSC will act within a half-year to complete related deregulatory measures, and will collect information on deregulatory steps taken in other countries, such as the United States and the United Kingdom, in order to make comparisons and actively review possible steps to be taken in Taiwan.

- » On 5 March 2014, the FSC held a ceremony to mark the launch of Taiwan's FEPZs. The event was attended by Premier JIANG Yi-huah (front row, center), Deputy Governor YANG Chin-long of the Central Bank (front row, first from left), Chairman LEE Sushder of the Taiwan Financial Services Roundtable (front row, first from right), Minister KUAN Chung-ming of National Development Council (front row, second from left), Chairman Ming-Chung Tseng of the FSC (front row, second from right), and a number of important guests.





Development of RMB businesses

- 1. On 6 February 2013, the FSC announced that banks' (DBUs) would henceforth be allowed to accept RMB deposits, provide RMB loans, and handle RMB remittances. As of the end of June 2014, total RMB deposits stood at RMB 292.7 billion. Also, as of that date, securities firms, investment trust firms, investment consulting firms, and insurers are allowed to handle RMB-denominated products. There are 19 Formosa Bond products (total capital raised: RMB 14.4 billion) and 22 RMB-denominated funds in markets. In addition, 15 insurers have launched investment-linked insurance products denominated in RMB.

» Vice Chairperson Li-Ling Wang of the FSC (front row, fourth from right) and Deputy Director General Li-Chen Chang of the FSC Securities and Futures Bureau (front row, second from right) attended a ceremony held by the GreTai Securities Market (GTSM) on 12 March 2013 to mark the first listing of Formosa Bonds. They are shown here together with the GTSM chairperson WU and other important guests.



- 2. On 30 January 2013, the FSC issued an amendment to the "Directions for Banks Conducting Financial Derivatives Business." Under the amended provisions, banks' designated forex banking units (DBUs) are allowed to apply directly with the Central Bank for permission to deal in RMB derivatives. Also, on 5 February and 31 December 2013, the FSC recorded the amendments to ROC Bankers Association's "Self-regulatory Rules for Banks Conducting Financial Derivatives Business" for reference. The said self-regulatory rules allow individual customers to purchase RMB derivatives (including structured products).
- 3. In order to provide ROC citizens with a diverse range of insurance products and asset allocation choices, the FSC on 20 December 2013 announced that insurers would henceforth be allowed to sell non-investment-linked life insurance products denominated in RMB (often referred to as "traditional RMB products").
- 4. Allow securities firms to do proprietary trading in securities listed on the Mainland Area market or broker trades thereof on behalf of institutional investors, and allow securities firms to handle onshore structured notes that link to interest rates or equities of the Mainland Area.
- 5. In connection with the decision to allow insurers to sell non-investment-linked life insurance products denominated in RMB, the FSC has issued approvals for insurers to sell traditional insurance products denominated in RMB. This measure will provide our citizens with a more diverse range of insurance products and asset allocation options to choose from.
- 6. To coordinate with efforts to further develop the domestic bond market, the FSC has eased regulatory restrictions on investments of foreign-currency-denominated bond by insurers, and has also eased restrictions on the manner in which insurers invest in foreign real estate.



- 7. Efforts are underway to establish offshore RMB markets around the world in cities such as Hong Kong, Singapore, and London. Due to increasingly close cross-strait economic and trade ties, Taiwan has accumulated a very large pool of RMB deposits, which puts us in a very advantageous position to build up our RMB businesses. The two main focuses of our development strategy will be "RMB repatriation mechanisms" and "development of RMB products." We intend to solicit a wide range of opinions from the financial services industry as well as scholars and experts in an active effort to identify ways to move forward.

Allow offshore securities units (OSUs) to conduct international securities business

In order to expand our capital markets and make Taiwan's securities firms more internationally competitive, the FSC and the Central Bank jointly drafted an amendment to the "Offshore Banking Act" that was passed by the legislature on 31 May 2013 and promulgated by the president on 19 June of that same year. Under the amended provisions, an integrated securities firm that meets minimum requirements regarding company size and financial soundness will be eligible to apply for permission to establish an offshore securities branch, with approved applicants allowed to engage in offshore securities business. And on 26 December 2013 the FSC amended the "Offshore Banking Act Enforcement Rules" and issued the "Regulations Governing Offshore Securities Branches." The new regulations set out rules governing the establishment and management of offshore securities units to facilitate the efforts of securities firms to conduct offshore securities business and maintain legal compliance.

Support development of domestic asset management business

- 1. Expand the range of assets in which domestic trust funds can invest and increase greater flexibility in the allocation of funds.
- (1) The FSC on 16 October 2013 amended the "Regulations Governing Securities Investment Trust Funds." Key points of the amendments include the following: (a) the limit on the percentage of a trust fund's total investments in the shares of other funds has been raised; (b) restrictions on the equity holdings of balanced funds have been eased; (c) bond funds are allowed to invest in convertible corporate bonds and other bonds with equity characteristics; (d) the legal basis for trust funds' bank borrowings has been expressly stated; (e) a trust fund will now be allowed to lend foreign securities that it holds; and (f) restrictions on trust fund mergers have been eased, while the announcement period of mergers has been lengthened when such newly merged trust funds are not required to call a meeting of beneficial owners.
 - (2) On April 3, domestic securities investment trust funds are allowed to invest in corporate bonds issued overseas by Taiwanese companies. On March 31 2014, restrictions on securities investment trust funds purchases of high-yield bonds and convertible corporate bonds are relaxed. On July 3 2014, securities investment trust enterprises are allowed to offer and



issue leveraged ETFs and inverse ETFs. On July 8 2014, bond funds are allowed to engage in forward currency transactions and currency swaps to enhance investment efficiency. On July 14 2014, privately placed funds are allowed to engage in trading of physical commodities such as gold, minerals, raw materials and related products.

- 2. Measures to ensure self-discipline by investment trust personnel and implement internal control mechanisms have been strengthened. The FSC has established a "core shareholdings" system, which is supplemented by the establishment of risk control committees or risk control officers. The FSC established a fund manager compensation system that is both reasonable and incentivizes desirable behavior. The system stresses long-term performance. Ethics education is provided, and legal compliance awareness courses have been strengthened.
- 3. The FSC is promoting a "Plan to Encourage Stronger Business Ties in Taiwan for Offshore Funds." Offshore fund entities that sell offshore funds in Taiwan are encouraged to invest more money, manpower, expertise, and other resources here. This should help to increase the size of Taiwan's asset management business, and cultivate local asset management talent.
- 4. Brokerage personnel at a securities firm's branch office who are properly licensed are now allowed to conduct certain types of wealth management business, and brokerage personnel at the brokerage division of a securities firm's head office or branch office are now allowed to sell OTC derivatives handled by their firm's dealing division. The idea is to effectively use human resources and spur development of OTC derivatives business.

Afford securities firms and futures commission merchants (FCMs) greater operational flexibility

- 1. In order to satisfy the demand of professional institutional investors in Taiwan for offshore fixed-income products: (a) the FSC now allows financial institutions to broker foreign bond trades as a side business; (b) the FSC allows securities firms (including securities firms concurrently operated by banks as a side business) to broker transactions in a wider range of foreign bonds; (c) securities firms which broker foreign bond transactions are no longer limited to trading in secondary markets; and (d) brokered bonds are no longer subject to any minimum rating requirement.
- 2. The FSC took steps to make it possible for securities firms, FCMs, and leverage transaction merchants to make more flexible use of personnel, and provide customers with a diverse and full range of products and services:
 - (1) The FSC eliminated the former provision requiring that associated persons at securities firms and futures commission merchants had to be full-time employees, and a provision which required that associated persons at securities firms who handle brokerage trading had to be full-time employees. Instead, a negative list now shows the jobs that an associated person is not allowed to simultaneously perform within the same company.
 - (2) Brokerage personnel at a securities firm's branch office who are properly licensed are

now allowed to make product recommendations, conduct sales, provide risk disclosure statements, open accounts, and accept customer transaction instructions in connection with the conduct of wealth management trust business. The idea is to allow personnel at a securities firm's branch office brokerage division to handle more types of business.

➤3. Afford securities firms and futures commission merchants greater flexibility in their allocation of funds:

- (1) The FSC now exempts securities firms from a prohibition against accepting (in connection with the conduct of securities lending business) foreign-currency-denominated collateral in excess of 30% of net worth, and the Taiwan Stock Exchange (TWSE) has revised its rules accordingly. In addition, a securities firm that conducts this type of business is now allowed to take the foreign-currency-denominated collateral accepted in connection with its securities lending business and use it: (a) in foreign exchange swaps with banks to convert foreign-currency-denominated collateral into New Taiwan dollars; and (b) in any of the other ways that the applicable regulations allow such collateral to be used.
- (2) Enterprises exclusively engaged in FCM business are now allowed to hold both exchange- and OTC-listed securities (including Formosa bonds). Also, securities firms that engage in futures brokering as a sideline business are now allowed to hold foreign-currency-denominated deposits for the needs on the utilization of proprietary fund, and the limit on such foreign-currency-denominated deposits held by FCMs has been raised to 20% of its net worth.
- (3) The FSC amended the "Regulations Governing Securities Firms" to provide that when securities firms trade in foreign derivatives, such trades are no longer limited to those entered into for hedge purposes. Also, provisions governing proprietary trading have been amended to subject the trading procedures to a securities firm's internal controls, provisions relating to credit ratings have been deleted and replaced with requirements concerning a securities firm's financial and operational conditions, and investors are now allowed to execute long day trades (i.e. purchase precedes sale) of shares paid for in cash.

➤4. Continue expanding the range of permissible securities and futures business activities, and spur development of new financial products.

- (1) The FSC: (a) studies the possibility of allowing securities to deal in a wider range of foreign securities and financial derivatives; (b) strengthened the warrant issuer market maker system; (c) allowed the launch of new-type warrants; and (d) allowed futures trust enterprises to offer and issue futures ETFs.
- (2) In order to promote the internationalization of Taiwan's futures products, the Taiwan Futures Exchange (TAIFEX) has authorized Eurex Frankfurt AG to list Daily Futures on TAIEX Futures of TAIFEX and Daily Futures on TAIEX Options of TAIFEX on 15 May 2014. On the other hand, TAIFEX studies ways to get overseas securities exchanges or index providers to authorize TAIFEX to list overseas futures products for trading in Taiwan.



Encourage insurers to invest in public infrastructure projects and long-term care industry

- 1. To encourage insurers to invest more in public infrastructure projects, the FSC amended regulations as follows: (a) insurers are now allowed to invest in securitization products backed by infrastructure projects and social services firms; (b) insurers are now allowed to invest and take part in the management of facilities needed by social services firms (including long-term care firms); (c) the cap on investments by an insurer in any single infrastructure company or social services firm has been raised from 10% to 45% of the investment target's paid-in capital; and (d) rules have been issued to govern insurer participation in publicly run urban renewal projects.
- 2. The FSC and the Ministry of Finance (MOF) jointly established a mode for participation by insurers in BOT projects. The MOF issued a directive declaring that an entity in charge of an infrastructure project may, with the consent of the arranging authority, outsource to a qualified company the operating obligations which it has contracted to undertake. This approach splits up responsibility for investing, building, and operation of an infrastructure project, with the qualified company taking responsibility for operation. It also provides insurers an avenue by which to invest in public infrastructure projects, and give them greater incentive to do so.
- 3. To support the efforts of the Ministry of Health and Welfare to encourage insurers and other private-sector entities to invest in the long-term care industry or enter into business tie-ups involving the provision of long-term care, the FSC actively encouraged insurers to evaluate possible investments in the long-term care industry or provision of related financial services.
- 4. FSC will continue requesting the Life Insurance Association of the Republic of China (Taiwan) to develop "standard provision of long-term care insurance" so that this kind of insurance products can be promoted to the public easily. Besides, in order to supplement the insufficient coverage of the social welfare insurance, the development of commercial insurance products will be reviewed and adjusted in accordance with the progress of the social welfare long-term care insurance.

Continue expanding Taiwan's capital markets

To effectively spur the emergence of more business opportunities in connection with Formosa Bonds and other foreign-currency-denominated bonds listed in Taiwan, and to support further development of Taiwan's bond market, the FSC completed a "Bond Market Development Project" and adopted a set of related measures. Making reference to regulations in neighboring countries, the FSC eliminated rules that formerly required a prospective bond issue to be accompanied by a credit rating report; instead, an issuer is allowed to decide for itself whether it wishes to obtain a credit rating report. In addition, we adopted multi-tier regulation of bond investors, subject only to the requirement that buyers must be qualified institutional investors. Bond registration procedures and documentation requirements were greatly simplified in order

to lower the costs incurred by bond issuers. Moreover, the scope of investors is expanded to professional investors (including juristic persons and high-net-worth individuals.)

To build up channels for reinvestment and repatriation of RMB funds, the FSC took steps to expand the range of eligible participants in the market for Formosa Bonds, and the FSC now allows enterprises in the Mainland Area to issue RMB-denominated straight corporate bonds in Taiwan. The following three types of entities are allowed to issue such bonds here: (a) a qualified bank in the Mainland Area or an overseas subsidiary (or branch) thereof; (b) a banking subsidiary set up in the Mainland Area by a Taiwanese financial institution; or (c) a controlled company set up in the Mainland Area by an exchange- or OTC-listed Taiwanese company (must be included in the latter's consolidated financial statements). The bonds in question may only be sold to qualified institutional investors. To safeguard investor interests, the FSC tightened its reviews of the reasonableness of the yields of Formosa Bonds issued in Taiwan by enterprises in the Mainland Area. As of 31 July 2014, 19 Formosa Bond issues have been carried out, raising a total of RMB 14.4 billion.

The FSC encouraged the development of innovative firms by allowing for flexibility in the setting of par value for shares. The former requirement that all stocks had to be issued at a par value of NT\$10 per share was eliminated, and financial industry self-regulatory organizations were asked to coordinate with this decision by amending related listing rules, trading systems, and related supervisory measures. In addition, the FSC stepped up its efforts to educate issuers, investors, securities firms, and other market participants about the new arrangements.

Companies incorporated in Japan are now allowed to obtain primary listings in Taiwan or register shares for trading on the Emerging Stock Market without being subject to provisions in the "Securities and Exchange Act" that govern ipso facto cause for dismissal of directors and supervisors, systems for nomination and election of candidates for the post of independent director, establishment of audit committees, exercise of shareholder voting rights, the convening of shareholders meetings, and decisions of record date for distribution of dividends and bonuses. These exemptions are intended to encourage foreign companies as operationed entities from Japan and other countries to list in Taiwan, and will facilitate the internationalization of Taiwan's capital markets.

Better trading systems and trading efficiency

➤ 1. Stock market stimulus measures

- (1) To afford securities dealers greater flexibility in their operations, the FSC now allows securities dealers to give quotes for the purchase (or sale) of securities at the limit-up (or limit-down) price.
- (2) Investors were allowed to short sell a total of 150 listed stocks at below the previous trading day's closing price, but they are now allowed to do so with any securities eligible for margin purchases and short sales. This change will make it easier for investors execute strategic and hedge trades.



- (3) As of 6 January 2014, investors are allowed to execute long day trades (where the purchase precedes the sale) in a total of 200 different stocks (the component stocks of the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the GreTai 50 Index).
- (4) To counterbalance to the long day trading system and build out our securities trading mechanisms, investors are allowed to execute short day trades (where the sale precedes the purchase) in a total of 200 different stocks (the component stocks of the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the GreTai 50 Index) from 30 June 2014.
- 2. To make it possible for Taiwan's futures market trading system to better meet the needs of traders, the FSC as of 2 December 2013 allows negotiated block trading in the futures market. To meet the needs of futures traders, the Taiwan Futures Exchange raised the minimum position for stock index futures, reduced the number of brackets in equity product position limits, eased position limits within each bracket, and launched Mini-TAIFEX Weekly Futures contracts.
- 3. In order to strengthen the function of recommending securities firms in the Emerging Stock Market, the FSC adopted new trading systems for this market. Key aspects include the following: (a) the principle for order allocation was changed such that an order is now allocated first to the best quote; (b) the use of designated orders has been discontinued; (c) trades by appointment in amounts of NT\$5 million or more may now be negotiated off-system; (d) the minimum volume for a price quote submitted by a recommending securities firm now varies on the basis of price brackets; (e) a system of demerit points and sanctions was established to handle recommending securities firm that are found to have problems; and (f) regulation of off-system trades by appointment was strengthened. These changes are designed to improve the ability of recommending securities firms to maintain price continuity and stability.
- 4. In order to improve trading efficiency, the FSC shortened the call auction matching cycle from 20 seconds to 15 seconds on 1 July 2013. On 24 February 2014 it was shortened to 10 seconds, and it will be further shortened to 5 seconds on 29 December 2014. We will observe how the system works and decide whether or not to make a complete switch to continuous trading.
- 5. In order to update futures market trading information at a faster frequency, the Taiwan Futures Exchange on 2 December 2013 increased the update rate for prices and quantities of the best 5 ask/bid quotes to 8 times per second, up from 4 times per second previously.

Methodical promotion of cross-strait financial industry dealings

Ongoing cross-strait financial supervisory cooperation

- 1. The first meeting of the Cross-strait Securities and Futures Supervisory Cooperation Platform was held on 29 January 2013. The purposes of the meeting were to: (a) confirm the two sides' common understanding of the actual details and operating procedures of the supervisory cooperation platform; and (b) use this communications platform to exchange views on such matters as coordination of market access policy, securities and futures business operations, and supervisory laws and regulations. The two sides reached numerous points of consensus regarding matters of concern to financial services firms, and these were incorporated into the Cross-Strait Trade in Services Agreement signed on 21 June 2013. Under the terms of this pact, the authority of the Mainland Area has agreed to permit Taiwan-invested financial institutions to establish subsidiary securities firms within specific areas of the Mainland Area and to invest as RMB Qualified Foreign Institutional Investors (RQFIs) in capital markets in the Mainland Area. In addition to affording Taiwanese entities greater flexibility in their use of RMB, the agreement also boosts the effort to build up Taiwan as an offshore RMB center.
- 2. The 3rd meeting of the Cross-Strait Banking Supervisory Cooperation Platform on 1 April 2013 yielded various points of consensus regarding market opening commitments which were subsequently incorporated into the Cross-Strait Trade in Services Agreement. These include the following:
 - (1) On the subject of market access in the mainland for Taiwanese banks, mainland authorities agreed that: (a) the definition of what constitutes a "Taiwan-invested enterprise" will be broadened; (b) a Taiwanese bank in Fujian province will be allowed to establish sub-branches elsewhere in that province; (c) the mainland authorities will support proposals for equity tie-ups between mainland and Taiwanese banks; and (d) Taiwanese banks will be allowed to establish village and township banks. In addition, the two sides signed an MoU on cooperation in the supervision of overseas wealth management services provided by mainland China commercial banks on behalf of clients. Under the terms of this MOU, the two sides agree that such banks will be allowed to invest in Taiwanese financial products that meet certain conditions.
 - (2) As for market access in Taiwan for mainland banks, our side agreed to: (a) repeal the former restriction whereby a mainland financial institution would not be allowed to take an equity stake in a Taiwanese bank or establish branches in Taiwan unless the mainland bank had already established a business location in an OECD member nation; (b) allow mainland banks to establish additional branches in Taiwan; (c) raise the cap on the maximum equity stake that a mainland bank may acquire in a Taiwanese bank; and (d) allow China UnionPay Co. to establish an affiliate in Taiwan.



➤3.The Cross-Strait Trade in Services Agreement includes a number of commitments for the insurance industry. The mainland authorities pledged to actively support the efforts of eligible Taiwanese insurers to engage in compulsory traffic accident liability insurance in the mainland. Applications submitted by Taiwanese insurers will be given positive consideration in accordance with applicable regulations, and favorable treatment will be granted. Taiwan, for its part, committed to actively review and amend legal provisions governing the establishment of Taiwan representative offices, and equity investment by mainland Chinese insurers. In order to expand cross-strait insurance business operations and services, the FSC completed an amendment to the "Regulations Governing Permission of Insurance Business Transactions and Investment between the Taiwan Area and the Mainland Area", and it was approved by the Executive Yuan on 1 August 2013. The amendment will be issued at an appropriate time after the Cross-Strait Trade in Services Agreement enters into force. Also, the 1st Cross-strait Insurance Supervisory Cooperation Meeting was held on 17 October 2013. The two sides exchanged views on market access coordination, the conduct of insurance business, and supervisory legislation, and reached various points of consensus on these matters, including the following: (a) Taiwan insurance institutions that apply to establish or make equity investment in insurance institutions in the mainland will be given positive consideration and favorable treatment; (b) when a life insurance joint venture needs to carry out a capital increase, the authorities on both sides will coordinate to facilitate the matter; (c) a Taiwanese insurance institution that meets certain eligibility requirements and has already established a business entity in the mainland will receive support if it intends to take part in Shanghai's tax-deferred pension pilot program; and (d) the two sides will establish an institutionalized mechanism for regular meetings so as to strengthen liaison regarding cross-strait insurance business, to enhance supervisory techniques, and to discuss related matters. These measures are intended to spur sound management of insurance enterprises on both sides of the Taiwan Strait, and to maintain stable insurance market development.

» The first Cross-strait Insurance Supervisory Cooperation Meeting on 17 October 2013 was jointly chaired by Chairman Ming-Chung Tseng of the FSC and Chairman XIANG Junbo of the mainland's China Insurance Regulatory Commission.



Establishment of cross-strait business locations

- 1.As of 31 July 2014, the FSC had granted approvals for 13 Taiwanese banks to establish branches (or sub-branches) or banking subsidiaries in the mainland. These include 2 banking subsidiaries, 11 branches, 5 sub-branches, and five representative offices that have already opened.
- 2.The mainland's Bank of China, Bank of Communications, and China Construction Bank already have branches doing business in Taipei. In addition, China Merchants bank has established a representative office in Taiwan.

- 3.4 securities investment trust enterprises have been approved to establish fund management companies in the Mainland Area and are now in business. In addition, 11 domestic securities firms have also set up 23 representative offices in the Mainland Area.
- 4. The FSC has granted approvals for nine Taiwanese insurers to invest in the mainland, and 6 are now doing business there. In addition, the FSC has given 2 insurance broker companies the go-ahead to apply with the mainland authorities for approval to invest there.

The ECFA early harvest list has already yielded a number of benefits. As of 31 July 2014, applications filed with the banking authority of the Mainland Area branches of 6 Taiwanese banks to Mainland Area operate full RMB services have all been approved, and the services have been launched. Furthermore, 4 Taiwanese banks' mainland China branches applying to provide RMB services to Taiwan-invested enterprises in the mainland also have been approved by the mainland banking authority. Of these 4 Taiwanese banks, 1 has provided the services. In addition, another 16 Taiwanese investment trust enterprises have applied successfully with the authority of the Mainland Area for QFII status. Among these, 15 of the firms have been granted investment caps totaling a combined US\$2.32 billion. Also, 10 Taiwanese insurers have applied successfully with the authority of the Mainland Area for QFII status, and they have been granted investment caps totaling a combined US\$ 1.9 billion.

Measures to strengthen financial supervision and ensure financial stability

Steps to improve the risk-bearing capacity of financial services firms

- 1. The FSC began implementing Basel III from 2013, and minimum capital adequacy requirements for banks are being raised annually. As of the end of Q1 2014, the average common equity ratio, Tier 1 capital ratio, and capital adequacy ratio of Taiwan's domestic banks stood at 9.14%, 9.21%, and 11.82%, respectively. All banks met the statutory minimums.
- 2. The FSC in January 2013 issued a set of "Measures to Enhance the Management of Credit Risk of Domestic Banks," and in January 2014 the FSC amended the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans." These measures and regulations provide for a phased implementation of differential incentives, regulatory action, minimum statutory requirements designed to spur domestic banks to raise their loan-loss provision for Class 1 credit assets to 1% or higher as quickly as possible. As of the end of June 2014, the average loan-loss provision for Class 1 credit assets of domestic banks stood at 1.12%, up by 0.25 percentage points from 2012.
- 3. The FSC amended the "Regulations Governing the Procedures for Credit Cooperatives to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" by raising the minimum provision against Class 1 credit assets from 0.5% to 1%. Credit cooperatives are required in principle to meet the higher minimum by the end of 2014. However, where there is legitimate



reason and the competent authority has granted approval, an extension may be granted, to no later than the end of 2018. As of 31 December 2013, the average bad debt allowances of credit cooperatives against guarantee liabilities for Class 1 credit assets stood at 1.58%, and 16 of Taiwan's credit cooperatives met the statutory minimum of 1%.

- ▶4. On 16 October 2013, the FSC amended the "Regulations for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises" in order to reasonably reflect the quality of insurers' loan assets in their premium rates, and to strengthen their capability to cope with the impact of adverse economic conditions. A newly added provision requires an insurance enterprise to set aside sufficient allowances for bad debts to cover a specific percentage of all outstanding claims conferred by Class 1 to Class 5 loan assets, so as to strengthen the ability of insurers to cope with the impact of adverse economic conditions.
- ▶5. In order to promote financial system stability via improvement in risk management, and to provide incentives for insurers to enhance their risk management practices, FSC issued "The Standards for the levy rates of Life and Non-life Insurance Guaranty Fund" on 2 April 2014 that differentiate members into different levy categories based on individual member risk profiles since 1 July 2014. That is, risk-based premium rates will start to apply to premiums of Life and Non-life Insurance Guaranty Fund to replace the flat-rate premium system in the future.

Control of banks' real estate lending risks

The FSC tightened supervision of banks with a relatively high concentration of real estate loans for construction. In line with the principles of differential regulatory treatment, the FSC has ordered such banks to increase loan loss provisions, barred them from pledging or transferring their beneficial interests in any real estate trust as a means of obtaining cash, and prohibited them from using any other form of loan to increase their total borrowings. In 2011 there were 17 banks targeted for close monitoring due to a relatively high concentration of real estate loans, but this number fell to 11 banks in 2012, 9 in 2013, and 7 in 2014. For the 17 banks targeted for close monitoring, the combined balance of loans for construction, home purchases, and property renovations decreased by NT\$129.2 billion from the end of December 2010 to 30 June 2014.

Strengthening of banks' policies on the pricing of lending risk

Until 2012, the "Credit Standards for Members of the ROC Bankers Association" only required banks to consider cost of funds, operating costs, and expected losses when pricing loans, but the FSC, in order to strengthen banks' policies on the pricing of lending risk, asked the ROC Bankers Association to amend these standards. The Bankers Association responded by adding "reasonable profit" to the list of factors to be considered, and by requiring banks to carry out a break-even analysis before approving loan conditions. These changes were designed to improve banks' pricing of lending risks. In addition, the FSC also asked the Bankers Association to instruct each member institution: (a) to

submit loan pricing policies to its board of directors for discussion and approval; (b) to have the proper department conduct periodic reviews, draft amendments when necessary, and submit the amendments to the board of directors for approval; (c) to include loan pricing policies among the focal points of the bank's internal control and internal audit systems; and (d) to have the internal audit unit pay closer attention when auditing loan pricing policies.

In order to maintain an appropriate level of trust between borrowers and financial institutions, the FSC adopted rules requiring banks to collect NPLs by themselves in principle, and to sell them only as a last resort. When a bank does sell off NPLs, it is required to adopt disqualification criteria for potential buyers, and when entering into a contract with a buyer, a bank must include contractual stipulations that prohibit the buyer from engaging in illicit debt collection practices.

To push for credit card acquirers to exercise better risk control on participating merchants, the FSC approved a set of "Directions Concerning Audits of Participating Merchants by Credit Card Acquirers" adopted by the ROC Bankers Association. These directions require acquiring institutions to carry out regular monitoring and on-site audits to further improve their risk management on participating merchant, thereby ensuring that participating merchants actually handle credit card transactions in compliance with legal requirements.

In order to strengthen the anti-money laundering systems of financial institutions, and to prepare for the Asia/Pacific Group on Money Laundering's 2014 Follow-up Report to the Mutual Evaluation Report of Chinese Taipei, the FSC, after conducting a study of international standards and legislation adopted in different countries throughout the world, has issued several guidelines for anti-money laundering and countering terrorism financing (AML/CTF). These guidelines require financial services firms to confirm customer identity, keep transaction records, and take other appropriate measures.

Measures to ensure sound management and development of insurance enterprises

➤ 1. Amended "Insurance Act" to strengthen supervision of insurers

In order to exercise better supervision of insurers, an amendment to parts of the "Insurance Act" has been completed on 4 June 2014. The prominent changes include to strengthen the market exit mechanism for insurers, to increase the independence of their directors, to require insurers to exercise their shareholder voting rights at investee companies in a more appropriate manner, to establish penal provisions to deal with persons who spread rumors to harm the reputation of an insurer, and afford insurers greater flexibility when they intend to invest in foreign-currency-denominated products sold in Taiwan, or in overseas enterprises with a connection to the insurance business.

➤ 2. Changes to legal provisions governing insurers' capital allocations

(1) In order to enhance the efficiency of insurers' capital allocations and provide them



more capital allocation channels, the FSC amended the "Regulations Governing Foreign Investments by Insurance Companies" to ease requirements governing: (a) the minimum credit ratings of overseas corporate bonds in which insurers are allowed to invest, and the amount they are allowed to invest; (b) investments in overseas and mainland Chinese real estate; (c) investments in RMB-denominated products; and (d) an insurer is now allowed to apply with the competent authority for permission not to count the amount of its traditional foreign-denominated policies against the cap on its overseas investments.

- (2) In order to prevent insurers from using policyholder funds to influence or intervene in the management of listed companies, the FSC strengthened provisions requiring insurers to exercise their shareholder voting rights at investee companies in a more appropriate manner. Insurers are now prohibited from participating in the election of directors and supervisors at such companies.
 - (3) The FSC eased restrictions on the scope and amount of insurers' overseas investments, reviewed possible changes to the "Risk Management Best-Practice Principles for Insurers," and helped insurers to invest in public infrastructure projects and long-term care facilities. These steps were taken to improve insurers' capital efficiency.
 - (4) The FSC collected information on instances in which insurers at home and abroad have obtained a controlling interest in banks, securities firms, futures commission merchants, and other financial services firms, and we are now studying the possibility of allowing insurers to use their enterprise funds to take part in M&A deals overseas. This would afford them a greater range of choice in their capital allocations.
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- 3. In response to movements in market interest rates, and in order to maintain the stability of life insurers' provisioning of policy reserves, the FSC adopted reserve valuation rates for new life insurance policies denominated in different currencies (NT dollars, US dollars, Australian dollars, euros, RMB). The rates took effect on 1 January 2014.
 - 4. In order to ensure the stable operation of insurance enterprises, the FSC worked with life insurers to ensure that the premiums for their interest-sensitive annuities and universal insurance products are not underpriced. In addition, policy lapse rates are greatly affected by the policy years during which an annuity surrender charge applies, so in order to ensure that annuities are properly marketed, as of 1 January 2014 new rules apply to the collection of surrender charges for interest-sensitive annuities and universal insurance products.
 - 5. In order to ensure that investments by insurers in the shares of real estate investment trusts (REITs) offer better returns and safety, the FSC on 29 August 2013 issued a directive barring insurers from buying shares in REITs that are linked to pre-construction homes with construction performance guarantees. For REITs that link to other types of homes, the directive sets out investment caps and other rules.
 - 6. Supervision to ensure sound real estate investments by insurers

- (1) In order to properly supervise insurers' real estate investments and strengthen their internal control and risk management mechanisms, the FSC on 30 April 2013 approved self-regulatory rules on real estate investments filed by the national life and non-life insurance associations. Matters covered by these self-regulatory rules include: the method for review of rate of return; the mechanism for selection of a real estate appraisal organization; rent-free period standards and duration; rules governing collaborative real estate development; appraisal report mechanisms, and appraisal methods; information disclosure mechanisms; etc. In addition, the FSC continued studying possible changes to rules which require that an insurer's real estate investments "can be used immediately and with benefit" in order to strengthen the treatment of real estate investments within an insurer's internal control and risk management mechanisms.
- (2) Insurers are now allowed to opt for subsequent measurement of investment property at fair value, and the FSC adopted a set of coordinated measures, including the following:
- (a) a requirement that outside parties must be hired to carry out real estate appraisals;
 - (b) qualification requirements for appraisers;
 - (c) a requirement for secondary audits to review each transaction;
 - (d) a requirement that, at the time an insurer opts for subsequent measurement of investment property at fair value, liabilities must be measured at fair value and set aside a special reserve, and an insurer is not allowed to distribute earnings.
- 7. To strengthen insurers' solvency, the FSC on 19 July 2013 revised methods of calculation insurers' capital adequacy ratios for 1st half of 2013. The risk-based capital adjustment factor "K" has been changed from 0.48 to 0.5, and to coordinate with the adoption by insurers of the International Financial Reporting Standards (IFRSs), the method of calculating real estate investments at market value toward qualifying capital resources is revised. And on 16 January 2014 the FSC, in order to encourage insurers to invest more in public infrastructure projects and long-term care facilities, adjusted the related risk factors. Besides, the FSC also adjusted the asset classifications used for measurement of asset concentration risk in order to reasonably reflect insurers' risk.
- 8. To spur life insurers to gradually strengthen their reserves and solvency, the FSC on 30 November 2012 issued a directive that allows life insurers to use special reserves set aside against capital gains on real estate to first offset any shortfall versus in-force policy liabilities after measurement at fair value. If any surplus remains after that, an insurer may then reverse 80% of the surplus (either all in the first year or amortized over five years) and set it aside to a special reserve. In this situation, an earnings distribution is not allowed.
- 9. To consolidate the financial structure of Taiwan's life insurers, and also to strengthen their solvency, the FSC instructs life insurers by letter on 8 February 2013 to inform them that if one intends to distribute cash dividends, it must make a report to the FSC firstly, the FSC will examine it by the insurer's financial condition.
- 10. To strengthen rules governing the soliciting and underwriting operations of insurers, the FSC on 7 November 2013 amended the "Regulations Governing Business Solicitation, Policy Underwriting and Claim Adjusting of Insurance Enterprises" to require that an insurer's internal systems and procedures must set out the particulars of: (a) its obligation to fully understand the applicant and the insured; (b) its product suitability policies; and (c) the



obligation of solicitors to fill out solicitation reports honestly. This amendment was designed to strengthen the internal control mechanisms of insurers.

- 11. To push for insurers to establish and implement integrated risk management systems, the FSC on 5 March 2013 amended the "Risk Management Best-Practice Principles for Insurers" to encourage Taiwan's insurance companies to make comprehensive use of quantitative and qualitative methods to calculate risk appetite and risk limits, so as to strengthen insurers' risk management. Furthermore, the FSC amended the Best-Practice mentioned above on 27 March 2014 to regulate the qualification and duties of Chief Risk Officer (CRO).
- 12. To reduce regulatory dependence on credit ratings, the FSC on 17 April 2013 amended the "Regulations Governing the Review and Management of Insurance Industry Engaging in Insurance Trust Business." Key aspects include the following: (a) provisions that formerly required financial institutions to have a certain minimum credit rating have been eliminated; (b) an insurer that violates the law in its conduct of insurance trust business can be ordered by the FSC to put the trust assets under the custody of a financial institution that meets certain requirements.
- 13. To ensure that the sale of non-performing loans are treated the same way regardless whether the seller is an insurer or another type of financial institution, the FSC on 31 July 2013 issued a set of "Directions for Disposing of Non-performing Loans by Insurance Enterprises". Key provisions include the following: (a) rather than selling non-performing loans, an insurer is expected in principle to attempt to recover on them itself; and (b) an insurer that sells non-performing loans must incorporate the content of the Directions into its internal controls and internal audits.
- 14. To ensure the financial soundness of the Taiwan Residential Earthquake Insurance Fund, the FSC on 14 October 2013 amended the "Regulations Governing the Taiwan Residential Earthquake Insurance Fund." Key provisions include the following: (a) when the Fund receives a loan from a domestic or foreign institution, or uses some other financing method to obtain funding, payments of principal and interest upon such debts may be deemed claim payments; and (b) in light of the fact that previously accumulated special reserves may not be sufficient to support claim payments when a major earthquake occurs, shortfalls may be paid out later from annual provisions set aside to special reserves.
- 15. To comply with actuarial principles so as to ensure the setting aside of reasonable reserves for compulsory auto liability insurance, and to accommodate the operational needs of insurers while paying due attention to their liquidity requirements, the FSC on 31 December 2013 amended the "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance." The Directions takes effect on January 1, 2014.
- 16. To ensure fairer compulsory auto liability insurance premium rates, and in response to a resolution adopted during a meeting on 25 January 2013 between Taiwan's president and groups opposed to drunk driving, the FSC on 27 December 2013 amended the "Compulsory Automobile Liability Insurance Tariff" by adding drunk driving offenses as a reason for charging higher premiums. The revised tariff was implemented from 1 March 2014.

Active promotion of corporate governance

- 1. The FSC launched the “2013 Corporate Governance Roadmap” aiming to expedite implementation of measures to improve corporate governance. The roadmap features the following five key aspects: (a) shaping the culture of corporate governance; (b) promoting shareholder activism; (c) strengthening the role of the board of directors; (d) disclosing material corporate governance information; and (e) consolidating regulations of corporate governance. In the future, a well-developed regulatory framework, corporate self-discipline, and market supervisory mechanisms will serve as the three main pillars of the five-year plan to actively shape the culture of corporate governance, help companies achieve sound development, and bolster market confidence.
- 2. The FSC worked with TWSE to establish the Taiwan Stock Exchange Corporate Governance Center which takes active roles to integrate public- and private-sector corporate governance resources. Its main objectives include ensuring comprehensively coordinated measures to raise public awareness and understanding of corporate governance, improving the overall standards of listed companies’ corporate governance.
- 3. To strengthen corporate governance in Taiwan, the FSC now requires all companies listed on either the Taiwan Stock Exchange or GreTai Securities Market to have independent directors on their board, and further requires each financial services firms and each listed company with paid-in capital of NT\$10 billion or more to establish an audit committee by 1 January 2015, while each listed company with paid-in capital of NT\$2 billion or more will have to do so by 1 January 2017.

- » On 16 September 2013, FSC Vice Chairperson Li-Ling Wang attended the first session of a seminar on corporate ethical management and social responsibility, which was jointly held by the Taiwan Stock Exchange and GreTai Securities Market under the joint oversight of the FSC and the Ministry of Justice. The FSC vice chairperson exchanged views with seminar participants.



- » On 23 September 2013, FSC Vice Chairperson Tien-Mu Huang attended the third session of a seminar on corporate ethical management and social responsibility, which was jointly held by the Taiwan Stock Exchange and GreTai Securities Market under the joint oversight of the FSC and the Ministry of Justice. During the proceedings, the FSC vice chairperson posed for a group photo with Vice Minister of Justice CHEN Ming-tang and representatives from other government agencies.





- ▶ 4. To help investors and corporate management better understand the effects on implementation of corporate governance and the resulting achievements, the FSC and the Taiwan Stock Exchange Corporate Governance Center are jointly evaluating the corporate governance performance of listed companies in 2014. By having companies compare each other's performance, the FSC seeks to encourage them to attach greater importance to corporate governance, thereby shaping the culture of corporate governance. The FSC also calls upon public companies to disclose information pertaining to their implementation of corporate social responsibility and ethical management, and asks the government-run investment funds as well as FSC-supervised financial institutions to include corporate governance indicators among their investment selection criteria, to disclose the criteria, to continue paying attention to the state of corporate governance at all companies in which they've invested, and to disclose the results of their ongoing monitoring of the corporate governance performance of listed companies.
- ▶ 5. To improve the corporate governance performance of insurers and to ensure that they fulfill their corporate social responsibilities, the FSC amended Article 136 of the "Insurance Act" to require the establishment of independent directors and an audit committee by public insurance enterprises that have not publicly issued stock, and to provide a legal basis for the replacement of supervisors by an audit committee. In addition, the FSC worked with the ROC Non-life Insurance Association and the ROC Life Insurance Association to amend the "Corporate Governance Best-Practice Principles for Insurers."

The FSC worked with the Taiwan Stock Exchange and the GreTai Securities Market to develop measures to improve supervision of backdoor listings. Each of these two entities adopted a rule which provides that when a listed company's outstanding shares fall below a certain minimum, its shares will be placed under an altered trading method, placed under a trading suspension, or delisted. In addition, if both managerial control and the business scope of a listed company undergo a change at the same time, the FSC will suspend trading in its shares, and will require the company to make a disclosure of material information and act within a prescribed period to improve its internal controls before it will be allowed to relist its shares.

The FSC worked with the Taiwan Stock Exchange (TWSE) and the GreTai Securities Market (GTSM) to draft a rule under which companies that obtain a new listing on the TWSE, the GTSM, or the GTSM's Emerging Stock Market after 2 January 2013 are required to outsource the handling of shareholder services. The FSC also amended the "Regulations Governing Handling of Stock Registrar and Transfer Services by Public Companies." Key provisions include the following: (a) new rules have been set out that must be observed when a company listed on the TWSE, the GTSM, or the Emerging Stock Market switches from in-house to outsourced handling of shareholder services, or when it switches service providers; and (b) when a shareholder that has maintained a continuous ownership stake of 3% for one year or longer, or the Securities and Futures Investors Protection Center, believes that shareholder interests may have been harmed by a company's handling of shareholder services, it may submit an application at the next shareholders meeting to require the company to outsource the handling of shareholder services.

Broader requirement for adoption of electronic voting by listed companies

Beginning from 1 January 2014, a listed company with capital of NT\$5 billion or more and at least 10,000 shareholders must provide the option of electronic voting at shareholders meetings. In addition, in order to encourage companies to promote electronic voting by adopting a candidate nomination system, when a company meeting the above description that has capital of between NT\$5 billion and NT\$10 billion is scheduled to elect its directors and/or supervisors at its first shareholders meeting in 2014 and is also going to amend its articles of incorporation to adopt a candidate nomination system at that meeting, it will be allowed to postpone electronic voting until the next shareholders meeting. The FSC worked with the Taiwan Depository & Clearing Corporation to promote electronic voting platform in cooperation with international voting platform to simplify data transfer processes, reduce manual work time, provide foreign shareholders more time to vote and improve the efficiency of voting.

To strengthen the function of recommending securities firms in the Emerging Stock Market, the FSC adopted new trading systems for this market. Key aspects include the following: (a) the principle for order allocation has been changed such that an order is now allocated first to the best quote; (b) the use of designated orders has been discontinued; (c) trades by appointment in amounts of NT\$5 million or more may now be negotiated off-system; (d) the minimum volume for a price quote submitted by a recommending securities firm now varies on the basis of price brackets; (e) a system of demerit points and sanctions has been established to handle recommending securities firm that are found to have problems; (f) regulation of off-system trades by appointment has been strengthened. The FSC also worked with the GreTai Securities Market to amend the "GreTai Securities Market Rules Governing Trading of Emerging Stocks on Over-the-Counter Markets" and other applicable rules. These changes are designed to improve the ability of recommending securities firms to maintain price continuity and stability.

Stronger financial examination mechanisms and more transparency of examination information

➤ 1. Financial examinations

To effectively implement financial supervision and ensure that financial services firms are run in a safe and sound manner, the FSC in 2013 carried out full-scope financial examinations at 120 financial institutions, and also carried out 261 targeted examinations in response to specific supervisory needs. In addition, the FSC carried out financial examinations at 155 agricultural finance institutions on behalf of the Executive Yuan's Council of Agriculture.

➤ 2. Disclosure of information pertaining to financial examinations

(1) Various information pertaining to financial examinations (e.g. financial examination manuals, the key focal points of examinations carried out in the current year, statistics on completed financial examinations in the two preceding years as well as the current year, and the main problems discovered in the course of financial examinations) is posted to the Financial Examination Bureau's website, and is regularly reviewed and updated.



(2)The "financial examination classroom" is the e-learning platform, which has been set up on the Chinese-language version of the Financial Examination Bureau's website. It presents learning materials that contain information on the key focal points of financial examinations, the main problems discovered in the course of financial examinations, and examination case sharing. Financial services professionals and members of the general public can study these materials to better understand financial supervision and financial examinations. The learning materials are periodically revised and updated in response to regulation changes and financial examination practices.

Bringing Taiwan's financial markets in line with international practices

Encouraged financial institutions to build up stronger Asian presence

Asian economies in recent years have experienced rapid growth and become the principal engine of global economic development. According to the Asian Development Bank, the Asian region accounted for about 36% of global GDP in 2012, and this share is expected to exceed 50% by 2050, so the growth potential of Asian markets is readily apparent.

Taiwan's financial institutions urgently need to expand their presence in Asia. They cannot just concentrate in mainland China; there are also a lot of business opportunities in other Asian markets, as well. We urge Taiwan's financial services firms to act within the next three to five years to set up more business locations throughout Asia in order to branch out into new markets and serve the needs of Taiwan-invested firms located overseas. And more importantly, we hope that the next generation of financial services providers will be our own.

Taiwanese banks need to take advantage of Asian economic growth to achieve higher profits, become more competitive internationally, and serve the needs of Taiwan-invested enterprises located overseas. To help them achieve these purposes, the FSC adopted the following measures in 2013 to facilitate their efforts to build up a stronger presence throughout Asia: (a) eased rules governing applications by banks to set up overseas branch units, and simplified administrative procedures; (b) strengthened supervisory cooperation with other Asian supervisory authorities in order to help Taiwanese banks apply overseas for permission to set up business locations in other Asian countries; (c) the ROC Bankers Association established a database to support the efforts of banks to set up overseas business locations; and (d) the ROC Bankers Association used banks' contributions to the Financial Research, Training, and Development Fund (as required by the "Banking Act") to provide banking professionals with training that will develop the skills needed for international banking.

Also, in order to encourage insurers to expand their markets, a proposed draft amendment to the "Insurance Act" provides that when an insurer invests in an insurance-related business overseas,

an FSC-approved amount need not be counted against the cap (45% of net worth) on an insurer's overseas investments. In addition, a financial services firm that cooperates with the government's policy of encouraging expansion throughout Asia and is in sound operating and financial condition will be given priority consideration for approval of its applications to set up business locations overseas. Measures to implement this policy in 2013 focused principally on banks, but in 2014 the focus will be broadened to include securities and insurance enterprises.

Active cultivation of personnel with expertise in international financial services

To boost efforts by Taiwan's financial services firms to build up an Asian presence, the FSC has prepared an educational program, and is using the Financial Research, Training, and Development Fund to provide banking professionals with training that will develop the skills needed for international financial services. Also, the Taiwan Academy of Banking and Finance has launched a "Financial Product Development Training Program for Bank Employees" to encourage banks to cultivate the skills of home-grown talent and boost investment in financial product development. Moreover, the ROC Securities and Futures Institute and the Taiwan Insurance Institute are collaborating on a systematic program that distinguishes between participants based on the level of their expertise and employs methods much like those used overseas to provide courses in a variety of specialties. A comprehensive training system has thus been built up that will raise the level of professionalism in Taiwan's financial services firms and further hone the world view of their employees.

Actively pushed adoption of IFRSs in Taiwan

- 1. The FSC promoted phase one adoption of the International Financial Reporting Standards (IFRSs) from 2013, which went very smoothly. The FSC also: (a) held seminars to familiarize interested parties with the status of IFRSs adoption in Taiwan; (b) held education and outreach activities to discuss key focal points of financial reports following IFRS adoption, and also to discuss how to read an IFRS-compliant financial report; and (c) provided advisory assistance to the phase two adopters to help them develop their conversion plans.
- 2. The FSC has been developing conversion plans for upgrading to 2013 version of the IFRSs in order to enhance the quality and transparency of corporate financial reports and achieve better comparability between the financial statements of local and foreign companies, and has held education and outreach activities in 2014 focusing on how to improve the procedure for preparation of IFRS-compliant consolidated financial reports. These and other activities are designed to improve the ability of companies to collect and prepare consolidated financial information. In addition, the FSC will continue to provide public companies that are phase two adopters with advisory assistance to help them choose their accounting principles, prepare the opening balance sheet, and complete other important IFRS conversion tasks.



To conform to IAS 40 Investment Property, which permits entities to choose either a fair value model or a cost model for measurement of investment property, the FSC now permits companies, subsequent to initial recognition, to measure investment property at fair value. Also, a number of other coordinated measures have been adopted. In coordination therewith, we have adopted rules governing: (a) the fair value method and related parameters; (b) thresholds and procedures for outsourced appraisals or internal appraisals reviewed by CPAs; and (c) qualification requirements for appraisers and CPAs. On the other hand, in light of the fact that, in comparison with other types of companies, insurers have a more urgent need to keep their assets and liabilities closely matched, the FSC has amended the "Regulations Governing Preparation of Financial Reports by Insurance Enterprises" , to require that when an insurer opts to measure investment property at fair value, it must also measure its insurance liabilities at fair value, and the FSC has also adopted other measures to coordinate with this requirement. The FSC has adopted a rule regarding the setting aside of a special reserve against appreciation of property measured at fair value; this rule will restrict earnings distributions in order to ensure that the insurer will be able to withstand the impact if it later turns out that reserves are insufficient.

To maintain the comparability of financial statements and make them more transparent, the FSC will require that credit cooperatives adopt the IFRSs from 2015, and companies are required in 2014 to make accounting system adjustments to facilitate adoption of the new system in the following year.

The FSC held a meeting of international supervisory college in September 2013 to discuss the operating condition of the overseas affiliates of Mega International Commercial Bank and share supervisory views. Supervisory officials from 6 nations took part in the conference. Through this activity, the FSC established a liaison channel to discuss matters of specific interest with its overseas counterparts, and spurred increased cross-border financial supervisory cooperation.

The 2013 International Association of Insurance Supervisors (IAIS) Committee Meetings and Annual Conference, hosted by the Financial Supervisory Commission (FSC), were held in Taipei from 14 to 19 October, marking a first for Taiwan. The event attracted a total attendance of 625 participants from 118 different countries, including insurance supervisors as well as insurance professionals, scholars, and experts. The event did much to bring Taiwan's insurance industry more closely in line with international practices, improve our insurance industry's professional image, and raise its international profile. During the Annual Conference



» FSC Chairman Ming-Chung Tseng is shown here on 17 October 2013 delivering the opening address of the 2013 International Association of Insurance Supervisors (IAIS) Annual Conference.

proceedings, FSC officials held bilateral discussions with representatives of important overseas supervisory authorities and international bodies, which helped to further our understanding of important supervisory measures that have been adopted by other insurance authorities.

The FSC hosted a meeting of the International Organization of Securities Commissions (IOSCO) Standing Committee 6 on Credit Rating Agencies. The event raised Taiwan's international profile, promoted cooperation between the FSC and other securities authorities, and afforded the opportunity to get FSC Vice Chairperson Tien-Mu Huang selected as the deputy chairperson of Standing Committee 6.

The FSC held the 9th Taipei Corporate Governance Forum (TAICGOF) on 28 and 29 November 2013. There were nearly 800 attendees at the forum, of whom most are directors, supervisors, presidents, and other members of senior management of listed firms, as well as representatives of member authorities of the International Organization of Securities Commissions (IOSCO) and representatives of various Taiwanese and foreign entities working to promote corporate governance.



- » The FSC Chairman Ming-Chung Tseng (front row, 3rd from left) posed for a group photo with IOSCO Secretary General David Wright (front row, 2nd from right), Chairman LEE Sush-der of the Taiwan Stock Exchange (front row, 4th from left), Chairman WU Soushan of the GreTai Securities Market (middle row, 5th from left), Deputy Director-General Rosemary Wang of the FSC Securities and Futures Bureau (middle row, 1st from left) and officials representing 12 organizations from 10 different countries during the welcome banquet of the 9th Taipei Corporate Governance Forum.

The FSC continued to encourage and work with self-regulatory organizations from the securities and futures industries to help them conclude MOUs with important international securities and futures bodies, so as to strengthen information exchange and international cooperation. Five MOUs were signed in 2013.

In November 2013, Taiwan and Japan signed the "Memorandum of Understanding on Financial Supervisory Cooperation between Taiwan and Japan," which provides for cooperation in supervision of the banking, securities & futures, and insurance industries. The FSC has now entered into supervisory cooperation MOUs with 48 supervisory authorities in 39 different countries and



territories throughout the Americas, Europe, and Asia.

» A ceremony was held on 28 November 2013 in Tokyo to mark the signing of an MOU on Financial Supervisory Cooperation between Taiwan and Japan. FSC Vice Chairperson Li-Ling Wang attended the proceedings.



Fully met the need for diversified financial services

Financial support of creative enterprises

To help creative enterprises obtain timely access to the funding they need for development, the FSC adopted a "Program for Financial Support of Creative Enterprises," which seeks to support such firms by providing "education and training," "special financing," an "advisory services platform," and "coordinated measures." These four approaches are further described as follows:

- 1. Education and training—The FSC called on self-regulatory organizations to develop related courses, and also asked the ROC Bankers Association to encourage its member institutions to direct more resources toward research on creative enterprises.
- 2. Special financing projects—The FSC actively studied and drafted rules to allow investments by life insurers in creative enterprises, and further tapped into the guarantee mechanism of the Small and Medium Enterprise Credit Guarantee Fund by raising the cap on its guarantees from 80% to 90% of total loan value, so that creative enterprises can apply for larger loans.
- 3. Advisory services platform—The ROC Bankers Association, the ROC Life Insurance Association, the Taiwan Securities Association, and the Taiwan Venture Capital Association set up a joint services platform that can provide advice and information to creative enterprises with a need for financing.
- 4. Coordinated measures—On 1 January 2014 the FSC launched the "Program to Incentivize Lending by Domestic Banks to Creative Enterprises." The target set for the



» The FSC, the Ministry of Culture, and four big self-regulatory organizations jointly held a forum on 7 January 2014 for senior management focusing on what the financial industry can do to support development of Taiwan's creative enterprises. FSC Chairman Ming-Chung Tseng delivered remarks at the event.

outstanding balance of such loans is to reach NT\$360 billion within three years. In addition, to create a mechanism for appraising the value of intangible assets, the FSC on 3 January 2014 granted approval for the Taiwan Financial Asset Service Corporation to provide intangible asset appraisal services for creative enterprises.

Support for development of micro-businesses and creative enterprises

Many micro-businesses that are highly creative or have significant development potential find it difficult to raise capital via conventional channels. In order to support the development of such enterprises, enhance their visibility, and strengthen the accountability of capital raising platforms, the GreTai Securities Market, acting at the request of the FSC, established a Go Funding Zone (GFZ) on 19 August 2013 specifically to provide a market designed to meet the capital raising needs of creative enterprises.

The FSC also worked with the GreTai Securities Market to establish the Go Incubation Board for Startup and Acceleration Firms (GISA), which was launched on 3 January 2014. For non-public micro-businesses with creative ideas, this board provides a platform for raising needed capital. The GreTai Securities Market also continues to provide related advisory services to help more creative micro-businesses list shares on the GISA board. In addition to spurring close cooperation in support of direct and indirect financing of small- and micro-businesses, the GISA board can also help innovative micro-businesses to gradually grow and internationalize, while generating increased capital market activity. The GreTai Securities Market's initial target is to attract 70 listings in its first year.

- » On 3 January 2014, Premier JIANG Yi-huah, Legislative Yuan Finance Committee Chairperson LU Shiow-yen (4th from left), legislator LIN Tai-hua (3rd from left), legislator LEE Guei-min (2nd from left), and FSC Chairman Ming-Chung Tseng attended the ceremony marking the launch of the GreTai Securities Market's GISA board.



Support for the launch of e-commerce payment services

- 1. The FSC supported the launch of stored-value payment accounts by establishing a system in which banks' or third-party payment service operators' customers can open online stored-value payment accounts and deposit money in such accounts. These funds can then be used subsequently to pay for transactions. This system meets the need of third-party payments services for a stored-value function.



- 2. There has been a need to change the "online transaction collection and payment services" delivery mode to make it easier for small merchants or individual sellers to accept payment by credit card for online transactions. With this in mind, the FSC in March 2013 accepted for recordation a set of self-disciplinary rules (filed by the ROC Bankers Association) that allow for a credit card acquirer to enter into contracts that define an "online transaction collection and payment services platform operator" as a credit card merchant. In addition, the FSC on 7 January 2014 amended the "Regulations Governing Institutions Engaging In Credit Card Business" to allow credit card acquirers that conduct online transaction collection and payment services to simultaneously act as credit card merchants.
- 3. The FSC worked on the draft version of an "Act Governing Electronic Payment Institutions" and related regulations in order to flesh out the legislative framework to govern the operation of electronic payment institutions and support the development of e-commerce.
- 4. E-commerce will eventually become a mainstay of our economy. In order to support the development of e-commerce in Taiwan, the FSC already allows domestic banks to cooperate with their mainland Chinese payment institutions in the operation of two-way payment services, and is now studying the adoption of related measures designed to ensure financial stability while simultaneously supporting the sound development of e-commerce. With these aims in mind, the FSC seeks to encourage domestic banks to provide more financial support for e-commerce, either through increased lending (intermediated financing) or via capital markets (direct financing).

Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises

- 1. In order to build a favorable financing environment for SMEs and help them obtain operating capital, the FSC in 2013 continued to implement the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." As of the end of December 2013, the total balance of outstanding loans extended by domestic banks to small and medium enterprises stood at NT\$4,761.0 billion, up by NT\$313.4 billion from the end of 2012, meaning that 130.6% of the annual target (NT\$240 billion) was achieved. The FSC will continue to implement this Program in 2014. In addition, 39 Taiwanese banks have supported the Program by setting up special SME financing consultation counters at their head offices, and they have also set up such consultation counters at 1,374 of their branch locations.
- 2. In 2014, the FSC will continue to implement the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises" (9th year). The Program includes a preliminary 2014 growth target (NT\$240 billion) for the amount of outstanding bank loans to SMEs, and the FSC is assisting by providing related incentives to encourage domestic banks to support SME development and help to gather greater momentum for economic growth under the prerequisite of striking a proper balance between the needs for industrial development and control of risks.

The FSC has taken various measures to encourage financial institutions to open new branch units in areas where there is a shortage of financial services. The restrictions on both the number of new branch units and the deadline of allowing to submit applications do not apply in cases where a bank intends to set up a branch unit that will help narrow the development gap between urban and rural areas, with the proviso that such a branch unit cannot be transferred to another location within the first seven years after its establishment.

The FSC granted approval for iCash Company and iPass Corp. to set up electronic stored value card issuers to issue iCash and iPass cards. In addition to paying for transportation services or rides on certain public transportation services and paying for purchases at convenience stores operated by the President Chain Store Corporation, the cards can also be used to pay for small purchases at other participating brick-and-mortar merchants that enter into an agreement with iCash Company or iPass Card Co. These cards would make it more convenient for consumers to make purchases.

The FSC granted approval for credit card institutions VISA and JCB to establish subsidiaries in Taiwan to provide credit card consulting services.

The FSC granted approval last year for the Financial Information Service Company (FISC) to launch its Foreign Currency Settlement Platform to provide domestic interbank clearing and settlement of US dollars, and on 30 September FISC and cooperating partners adopted a set of domestic and cross-border (not limited to cross-strait) RMB clearing and settlement services to be handled via the Foreign Currency Settlement Platform. The platform can be used to make US dollar and RMB remittances in Taiwan without having to route the funds via a foreign country, and the full amount of such remittances is received on the same day. Such a platform would make it more convenient for consumers and enterprises to allocate their funds.

In support of the Executive Yuan's "Economic Stimulus Program," the FSC coordinated with the ROC Bankers Association to extend several debtor relief measures through to the end of June 2014. The measures in question include the "ROC Bankers Association Self-regulatory Rules for Corporate Debt Workouts and Workout Enforcement in Cases Transferred from the Ministry of Economic Affairs," the "Temporary Supplemental Principles for Handling by Banking Institutions of Stock-secured Loans in Coordination with the Government's Economic Stimulus Program," and the "Guidelines for the Handling by Members of the ROC Bankers Association of Mortgage Principal Deferment or Rescheduling for Involuntarily Unemployed Residents of Owner-occupied Homes."

In order to meet the need of credit cooperatives for a more diverse range of asset allocation options, the FSC amended regulations to allow credit cooperatives to invest in unrated short-term bills, unsubordinated bank debentures, or corporate bonds issued by a company whose shares are among the component shares of various stock indices.

To ensure the continued ability of Taiwanese firms to engage legally in trade with counterparts in Iran, the FSC and the Ministry of Economic Affairs continued to implement a set of "Financial Regulatory Measures for Trade between Taiwan and Iran." The measures are designed to facilitate efforts by Taiwanese and Iranian firms to settle their transactions.



To strengthen the sound development of investment-linked insurance products, the FSC on 12 September 2013 issued a directive setting out a set of eligibility requirements for such assets, information disclosure requirements, and marketing control measures to safeguard the interests of policyholders.

The FSC asked the Taiwan Insurance Institute (TII) to establish a "product innovation division" to develop ideas and a few general areas for product innovation undertakings. The four main areas put forward by the TII for insurers' reference are: weather insurance; the use of data from Taiwan's new mileage-based tollway charge system as a basis for the setting of auto insurance premium rates; international cargo liability insurance; and title insurance.

Strengthened financial consumer safeguards

In order to safeguard the interests of the economically disadvantaged and facilitate the establishment of a sound social safety net, the FSC has now approved 17 micorinsurance products that provide NT\$15.8 billion worth of coverage to 53,000 people.

As of the end of December 2013, the Financial Ombudsman Institution (FOI) had accepted a total of 4,194 complaints, which it forwarded to the relevant financial services enterprises for handling. Of these, 3,878 cases were successfully brought to a conclusion, which in about 40% of the cases meant either a settlement or a resolution in line with the complainant's wishes. In addition, the FOI handled 2,264 ombudsman cases, of which 1,951 were brought to a conclusion, including 1,839 (94.26%) that were concluded within three months. It is thus clear that cases were generally handled quite quickly. Of the concluded ombudsman cases, 1,099 were concluded as the result of withdrawal by the complainant, successful mediation, or resolution via ombudsman proceeding. The dispute resolution rate was 56.33%.

In order to ensure the provision of convenient financial services to persons with physical disabilities, the FSC oversaw work by financial institutions to create barrier-free environments at their business locations. At present, 3,604 business locations throughout Taiwan have wheelchair-accessible ATMs, including 97 with voice-enabled ATMS for the visually impaired. In addition, financial institutions have made it a priority to install wheelchair-accessible ATMs in public places. The FSC urged all banks to establish specific web pages on their websites to disclose public information related to barrier-free services at the end of June 2013.

The FSC continued to carry out its School and Community Financial Literacy Campaign. Since the campaign was first launched in 2006, the FSC has held a total of 3,267 activities around Taiwan and attracted a total attendance of over 650,000. These activities have done much to help students and members of the general public to develop a proper understanding of financial matters.

The FSC continued working with the Ministry of Education to carry out the "Cooperative Project for the Promotion of Basic Financial Education" in 2013. By holding workshops for seed instructors,

providing financial knowledge and consulting, and preparing teaching materials for basic financial education, the FSC incorporated financial knowledge into school curricula. In 2013, the FSC issued a "Call for Basic Financial Education Lesson Plans at the Junior High and Elementary School Levels" to encourage more educators to join the effort to promote financial literacy and expand the scope of basic financial education.

In order to increase the transparency of supervisory information, the FSC on 15 May 2013 revised the levels for risk-based capital ratio graded disclosure requirements by increasing the number of levels from three to five (300% or higher; 250%-300%; 200%-250%; 150%-200%; or under 150%). The new revisions took effect beginning with the filing of risk-based capital ratios for the first half of 2013.

To strengthen regulation of the sale of investment-linked insurance products, the FSC on 15 January 2013 amended the "Directions for Sale of Investment-linked Insurance Products." Key points include the following: (a) insurers are now required to evaluate the risk tolerance of non-professional investors; and (b) insurers are now required before launching an investment-linked insurance product to do a pre-launch review of the instruments to which the product will be linked.

To strengthen information disclosure, the FSC worked with the Taiwan Stock Exchange and the GreTai Securities Market to draft rules which provide as follows: (a) listed companies must make real-time audiovisual disclosure of entire investor conference; (b) a company is not allowed to publish information on its website or in news media that runs counter to the principles of corporate governance; and (c) when a media report reveals material information concerning a listed company, the company must promptly post an explanation to the designated information reporting website.

To coordinate with the rules of "International Financial Reporting Standards" (IFRSs) and "Principle of Insurer's Financial Report Compiling" and also to accommodate with insurer's pragmatic operation, in the meantime to simplify the scope of insurers' information disclosures, the FSC on 24 January 2014 amended the "Regulations Governing Public Disclosure of Information by Non-life Insurance Enterprises" and the "Regulations Governing Public Disclosure of Information by Life Insurance Enterprises."



Outlook for the future

Rapid changes in technology, the economy, and society are having a big impact on the national economy, industrial development, and family life. Financial services firms are not insulated from changes in the larger environment; to the contrary, they are deeply affected by such changes. Some of the more notable trends in recent years include the following two: (a) the arrival of the age of mobile communications is going to change how financial institutions do business, and the rise of new business models presents opportunities and challenges to financial institutions; and (b) the rise of the emerging economies of Asia heralds a shift in the global economic center of gravity from West to East, so our financial services firms need to seize on the attendant business opportunities by solidifying their roots in Taiwan while further building up their presence throughout Asia and expanding the range of their markets.

To encourage financial services firms to take advantage of new development trends, the FSC will continue to pursue liberalization. Development strategies include the following:



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Continued market opening measures connected with promotion of the free economic pilot zones (FEPZs): The FSC has completed phase one of the "Plan to Include Financial Institutions in the Free Economic Pilot Zone Project." The permissible business scope of financial institutions has been expanded, and the range of products that they are allowed to provide has been greatly increased. In order to further deregulate, the FSC analyzed and compared the situations in Hong Kong and Singapore and adopted 26 market opening measures on the basis of its findings. In the future, we will collect information on the market opening situations in the United States and the United Kingdom and actively study further possible actions.

Strong steps to build up Asian presence: With the "era of the Asian economy" approaching, the FSC intends to implement differential regulatory treatment to reward well-run companies and actively encourage domestic financial services firms to build up their Asian presence. The idea is to increase the markets in which our financial services firms are able to provide services. Firms that comply with the law and properly implement risk management will be given more room for business development. In addition, we will also encourage further consolidation of financial institutions to facilitate the emergence of one or more regionally significant financial institutions in Asia.

Promote financial import substitution: Domestic financial institutions invest huge amounts in overseas financial products, and currently they mainly do it directly by trading via overseas financial institutions, and currently they mainly do it by trading directly via overseas financial institutions, but if we can arrange it so that such overseas investments are handled by domestic financial institutions, it would increase the size of Taiwan's financial markets, create more business opportunities, attract more financial institutions to increase their capital allocations in Taiwan, help cultivate the product development capability of Taiwanese financial institutions, and spur development of the business of domestic OBUs and OSUs (offshore banking units and offshore securities units), thereby creating more jobs opportunities in Taiwan and supporting the development of financial professionals. In order to promote financial import substitution, the FSC is now working on a comprehensive plan, and intends to implement it in phases. In phase one, we intend to re-route the investments and trades that are currently executed directly via overseas financial institutions, so that they will be executed in the future via banks and securities firms with business locations in Taiwan. In phase two, we will rely on deregulation and product diversification to develop assistance measures, such as strengthening the product development capabilities of financial institutions, and encouraging consolidation as a means of obtaining key capabilities, so that the overseas investment demand of domestic financial institutions can gradually be taken care of here in Taiwan by domestic financial institutions. This would make a positive contribution to national economic growth.

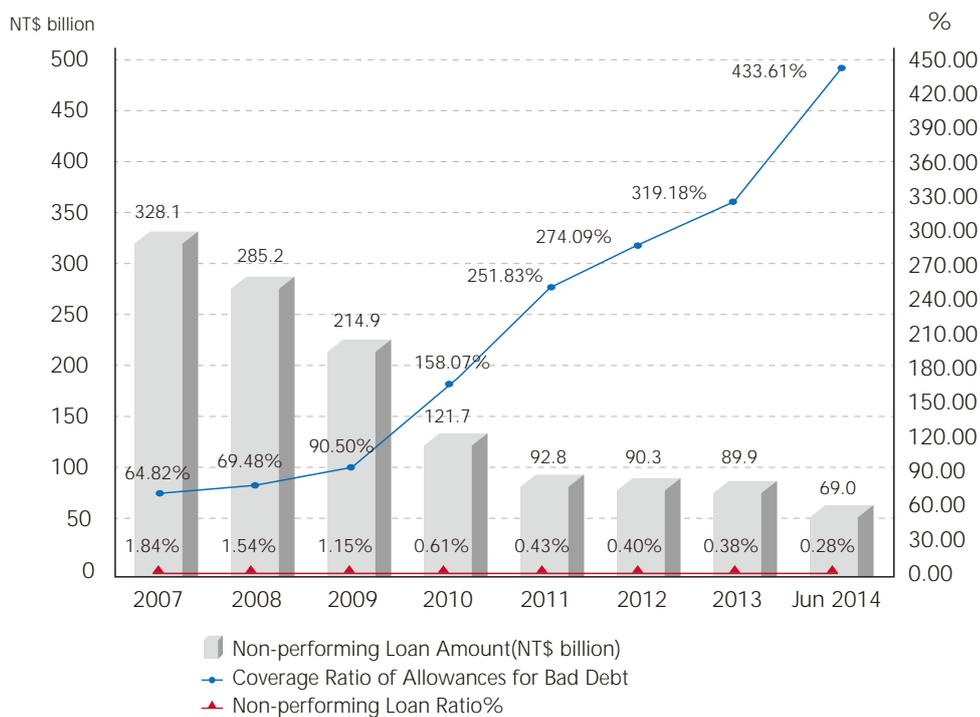


Mobile computing and the Internet: The rapid development of technology is having a big impact on the national economy, and financial institutions are among the economic sectors that rely most heavily on computer data. Financial institutions can use new technologies to provide services, which is going to affect how these institutions do business. Financial institutions must beef up their digital capabilities, listen carefully to what ordinary consumers are asking for, and assign responsibility for Internet-related matters to a higher level within their organizations. Also, individual financial institutions need to take timely action to respond to these trends. The FSC will be taking a number of measures to respond to the arrival of the age of e-commerce, the Internet, and mobile computing. Besides continuing to encourage financial services firms to support the development of e-commerce, we also intend to actively study further possible deregulatory actions so that banks, securities firms, and insurers can get involved in the development of e-commerce.

To promote sustainable development of the financial services industry, the FSC has held many business liaison meetings with financial services firms to discuss how to help financial institutions develop innovative, high-quality products, and how to further deregulate, with an eye to spurring innovation by financial institutions and expanding the scope of their business. These efforts have already yielded a measure of initial success. Mindful of the need for a proper balance between good regulation and financial industry development, the FSC will continue to pursue financial liberalization and encourage the financial sector to respond to changing economic and social conditions by supporting other industries. Working together, we can achieve well-rounded development of the national economy.

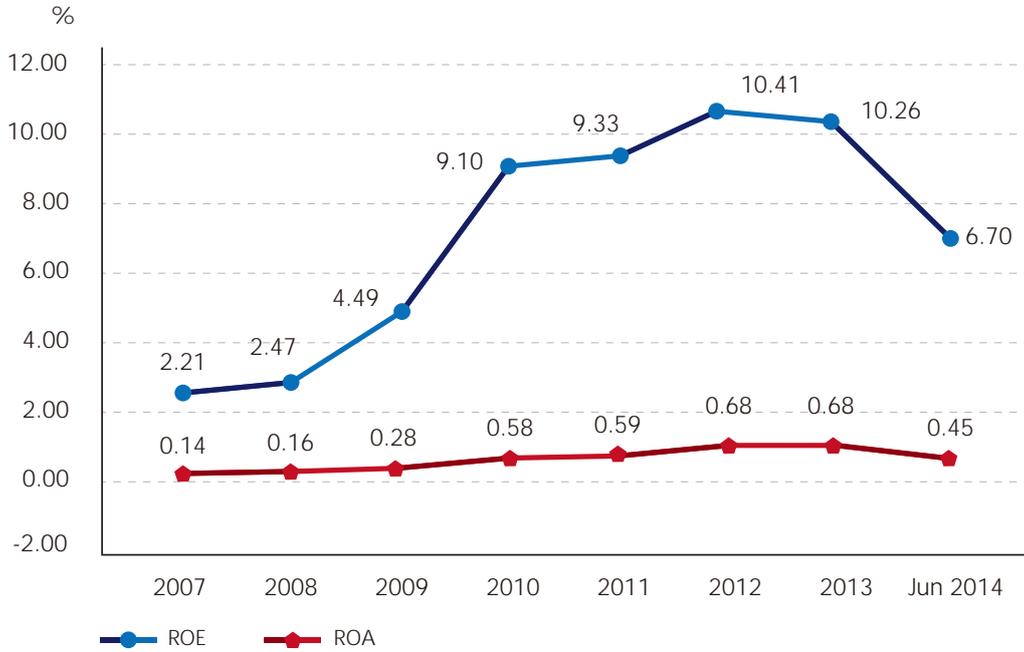
Appendices:

Domestic Bank Non-performing Loan Amount and Ratio vs Coverage Ratio of Allowances for Bad Debt

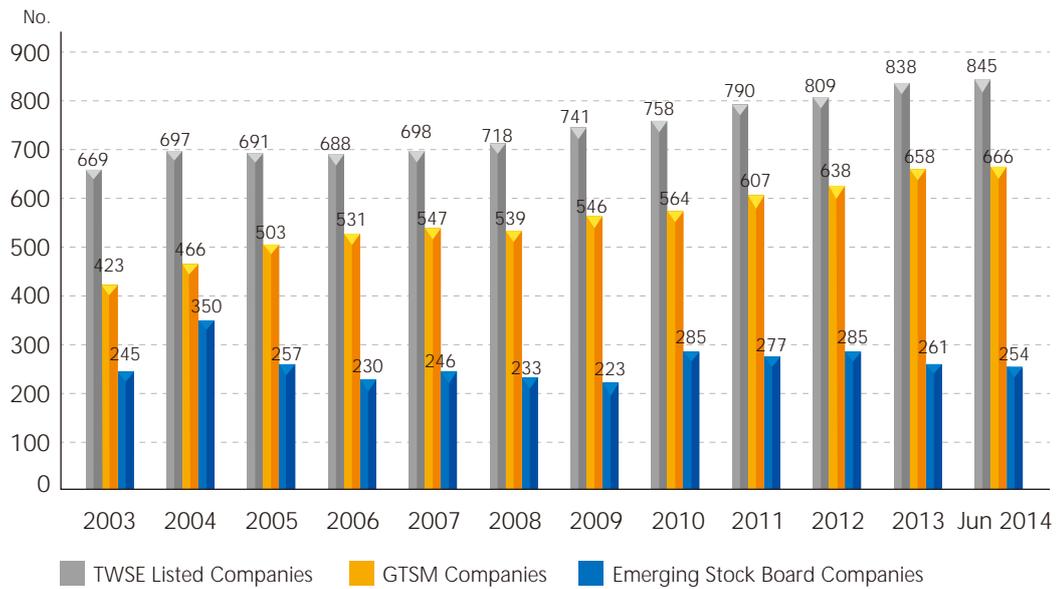




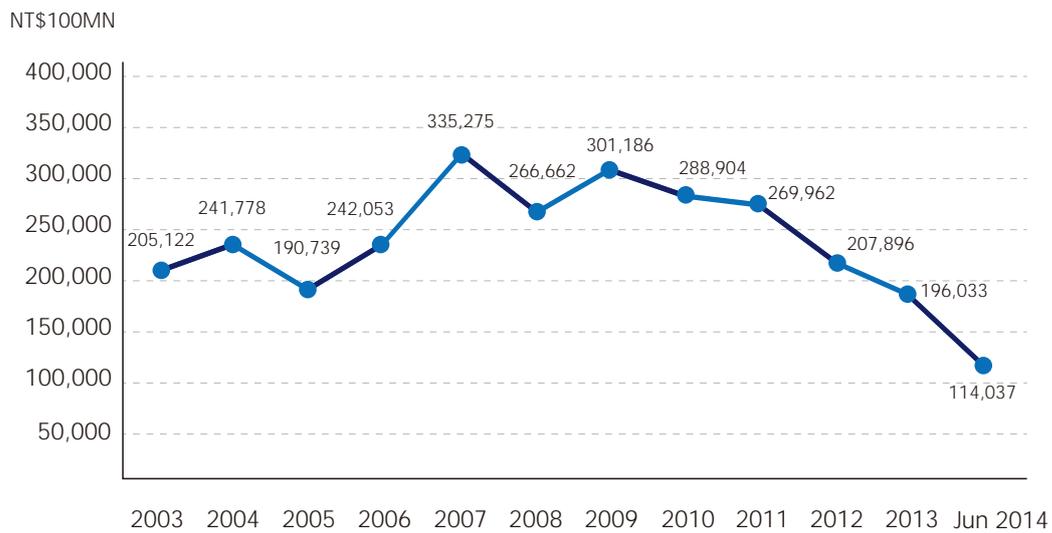
The Trend in Domestic Bank ROE and ROA



Highlights of TWSE Listed, GTSM and Emerging Stock Board Companies



Current Trading Value Stats for the TWSE Market



Insurance Industry Total Assets

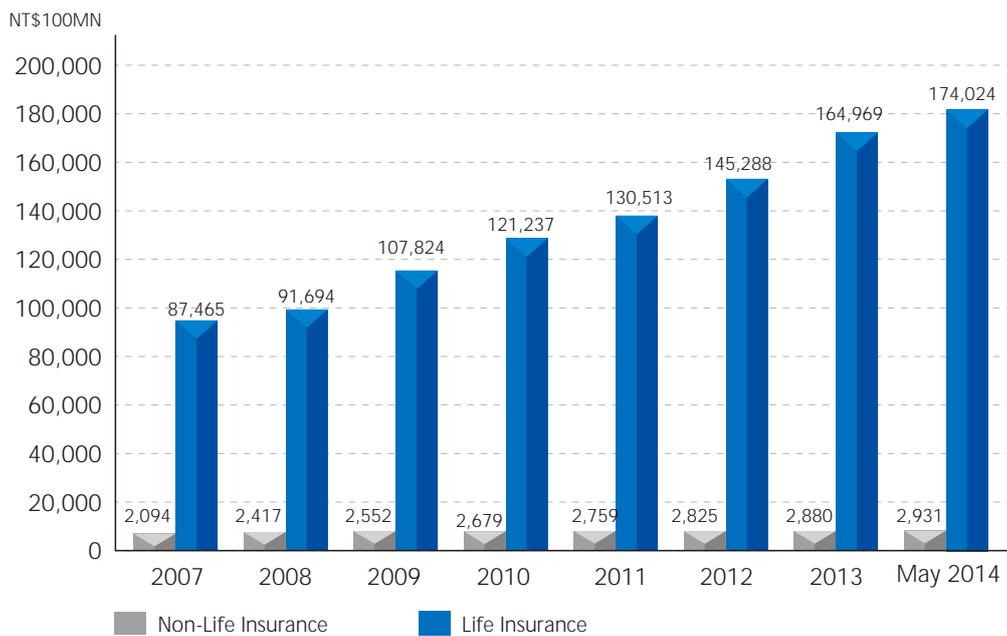




Table 1 Number and Deposit/Loan Outstanding Balance of Financial Institutions

Unit : firm ; NT\$ billion

Year/month	Item	2007	2008	2009	2010	2011	2012	2013	2014/06
Number of Financial Institutions	Domestic Banks	39(3313)	37(3264)	37(3279)	37(3334)	37(3359)	38(3416)	39(3442)	39(3438)
	Local Branches of Foreign and Mainland Chinese Banks	32(83)	32(141)	32(133)	28(92)	28(92)	30(51)	31(39)	30(39)
	Credit Cooperatives	27(267)	27(271)	26(258)	26(261)	25(255)	24(255)	24(257)	24(261)
	Trust & Investment Companies	1(6)	-	-	-	-	-	-	-
	Bills Finance Companies	12(35)	10(33)	10(32)	9(30)	8(30)	8(30)	8(30)	8(30)
Deposits	Domestic Banks	18,492	20,008	21,660	23,203	24,301	25,265	26,810	27,426
	Local Branches of Foreign and Mainland Chinese Banks	666	873	573	395	483	322	291	342
	Credit Cooperatives	535	537	538	554	547	563	594	613
	Trust & Investment Companies	14	-	-	-	-	-	-	-
Loans	Domestic Banks	16,391	16,739	17,070	18,312	19,232	19,945	20,561	20,927
	Local Branches of Foreign and Mainland Chinese Banks	591	680	507	477	631	539	558	619
	Credit Cooperatives	344	344	329	336	340	363	392	407
	Trust & Investment Companies	6	-	-	-	-	-	-	-

- » Source: "Financial Statistics Monthly, Republic of China (Taiwan)." compiled by Economic Research Department, Central Bank of the Republic of China (Taiwan).
- » Numbers in brackets indicate the number of branch offices.
- » For more information, please visit FSC website www.fsc.gov.tw.
- » Figures for loans by domestic banks do not include those made by OBUs or overseas branches.

Table 2 Highlights of Equity Issuance and Turnover on Taiwan Stock Exchange

Unit : firm ; NT\$ billion

Year/Month \ Item	2009	2010	2011	2012	2013	2014/06
Listed companies	741	758	790	809	838	845
Capital Issued	5,869	5,927	6,152	6,384	6,610	6,665
Taiwan TAIEX	8,188	8,972	7,072	7,699	8,611	9,393
Market Capitalization	21,033	23,811	19,216	21,352	24,519	26,853
Total Trading Value*	30,118	28,890	26,996	20,789	19,603	11,403

» Refers to total trading value for all securities listed on TWSE market

Table 3 Number of Insurance Companies and Insurance Premium Income

Unit : firm ; NT\$ million

		2009	2010	2011	2012	2013	2014/05	
Number of Insurance Companies (including the insurance cooperative)	Reinsurance	4	3	3	3	3	3	
	Non-Life Insurance	Domestic	17	17	17	17	17	17
		Foreign	8	6	6	6	6	6
	Life Insurance	Domestic	23	23	24	24	24	24
		Foreign	9	8	7	7	6	5
Insurance Premium Income (not including the insurance cooperative)	Non-Life Insurance	101,859	105,138	112,405	119,832	124,904	N/A	
	Life Insurance	2,006,558	2,306,342	2,092,084	2,390,757	2,583,532	N/A	



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