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

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The Financial Supervisory Commission (FSC) is the competent authority responsible for supervising, regulating, and facilitating the development of financial market and financial services in Taiwan, and for conducting financial examinations. The FSC helps to create a business climate that is favorable to the needs of financial institutions here. My Commission carefully monitors the financial and business soundness of financial institutions, pays close attention to their corporate governance, and works continually to strengthen safeguards for financial consumers. Our key goal has always been to keep the financial market moving in a positive direction over the long term.

Thinking has changed in the field of financial supervision since the 2008 financial crisis. The number one concern of reform efforts has shifted to the need for stronger prudential supervision at both the micro and macro levels, and for beefed up protections of financial consumers. The financial service industry is covered under the Early Harvest list of the cross-strait Economic Cooperation Framework Agreement (ECFA) signed in June 2010. This marks a significant milestone and turning point in the development of our financial service industry. In response to changes in economic and financial conditions at home and abroad, and to keep in step with the latest international trends in financial supervision, the FSC needs to make adjustments to its financial sector development strategy, and to the focus of its supervisory work. With that goal in mind, and heedful of the principles of prudential supervision, we are encouraging financial institutions to innovate and expand their markets. At the same time, we are also improving safeguards for financial consumers, strengthening capital adequacy and risk management, pushing for greater internationalization, gradually building up cross-strait ties in the financial industry, expanding the size of capital markets, and taking steps to establish Taiwan as a capital-raising platform. These measures are intended to make our financial institutions more competitive, increase the soundness of their business operations, maintain financial stability, and promote the development of our financial markets.

Enhancing consumer safeguards: The FSC sent a draft version of the Financial Consumer Protection Act to the Legislative Yuan, which passed it into law on 3 June 2011. This act requires that the provisions in financial transaction contracts must be fair, advertising must be truthful, and risks must be properly disclosed. It also sets out the procedures for filing a complaint in the event of a dispute, and specifies how complaints are to be examined and handled. The act provides a legal basis for the establishment of a dispute resolution body, and provides for non-litigious means of resolving consumer disputes. These measures are designed to protect consumers, who are at a disadvantage in terms of financial resources and professional expertise. In addition, the FSC will continue working to promote financial literacy, exercise more rigorous reviews of applications for the issuance of structured notes, classify investors
according to their expertise while carrying out channel regulation, and strengthen regulation of the advertising, soliciting, and promotional activities of financial institutions. We will also be paying very close attention to their disclosure of the rights, obligations and risks connected with financial products.

Strengthening capital adequacy and risk management: The recent trend in international financial supervision is to pay close attention to the quality and quantity of regulatory capital, to ensure it is sufficient to absorb future losses. The Basel Committee on Banking Supervision (BCBS) on 16 December 2010 raised minimum capital requirements and issued new rules governing buffer capital. The FSC, in order to strengthen the capital adequacy and risk management of our financial institutions, has required banks to draw up proper plans for long-term capital allocations and dividend policies. In addition, in order to facilitate the business management needs of financial institutions, we also raised the maximum bank deposit guarantee to NT$3 million, and at the end of 2010 discontinued the blanket deposit guarantee.

Expansion of capital markets and establishment of funding platform: In order to enhance the depth and breadth of Taiwan’s capital markets, and encourage high-quality firms of strategic significance to list in Taiwan, the FSC is working to upgrade the skills of financial industry professionals and reassess the underwriting system, and has also amended legal provisions pertaining to insider trading and the business activities of foreign firms in Taiwan. These measures are intended to build up Taiwan as a capital-raising platform for high-tech and innovative industries. In order to strengthen corporate governance, we intend to require a broader range of listed companies to establish independent directors and executive compensation committees, and encourage companies to work harder to ensure ethical business practices and fulfill their corporate social responsibility.

Promotion of internationalization: The FSC encourages financial institutions to actively develop a global presence. We are also taking active part in international financial bodies, and are entering into MOUs with other authorities in order to expand Taiwan’s international participation and cooperation in the financial world, and to help our financial institutions develop their overseas businesses. In March 2011, the FSC officially became a full signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMOU).

Building up cross-strait ties in the financial field: The financial service is covered under the Early Harvest list of the cross-strait Economic Cooperation Framework Agreement (ECFA) signed in June 2010, which is very helpful to Taiwan’s financial service firms in their efforts to establish a presence in mainland China. In line with our government’s overall policy with mainland China, the FSC will actively seek advantageous market access for our financial service firms to expand the scope of their business activities. In addition, we will also adjust restrictions on the access of financial firms from mainland China into our market, in accordance with the principles of parity and prudential supervision so as to ensure that these changes do not have any significant impact upon the domestic market.

The FSC has always encouraged financial institutions to keep in step with changing societal and economic conditions, and the evolving needs of their customers, by developing new products and innovative new business models. With regard to the plans of financial institutions to meet their business development needs by engaging in M&A activities, the FSC will be concentrating its efforts on establishing a fair, reasonable, and transparent legal environment. While abiding by the principles of prudential supervision and respecting market mechanisms, we will take a close look at the financial soundness of firms engaging in M&A activities to make sure that such activities do not erode their capital base. At the same time, we will also be carefully tracking post-M&A situations to watch for any deterioration in firms’ financial and operational soundness, or any decline of market fairness and discipline. We must be vigilant on all these fronts in order to safeguard the interests of shareholders, employees, and customers.

The FSC stands ready to review conditions in Taiwan’s financial industry as well as trends and practices in international financial supervision. Where the resulting findings indicate changes are necessary, we will adjust our supervisory policies and measures, and amend legislation. Placing equal emphasis on financial stability and respect for market mechanisms, and maintaining a positive focus on what can be done to improve the industry, we will be taking steps to create a favorable business climate for financial institutions. Our vision is to facilitate the growth of financial markets and the development of financial service industries.

Yuh-Chang Chen, Chairman
Financial Supervisory Commission (FSC), Executive Yuan
June 2011
Since our establishment, the Financial Supervisory Commission (FSC) has worked vigorously to create a fair, sound, and competitive environment for the financial industry under an impartial and reasonable system. Armed with professional and practical experience, the FSC aims to promote sound business management at financial institutions, safeguard financial stability, and promote the development of financial markets. Ultimately, the objective of the FSC is to increase the competitiveness of Taiwan's financial industry.
Organization

Background
The FSC was officially established on 1 July 2004, in part to stay in line with the rest of the developed world (where one nation after another in recent years has established a single financial supervisory authority to consolidate the oversight of banking, securities, and insurance), and to meet the needs of Taiwan's financial institutions operating in cross-sector businesses. As a result, Taiwan's former system of sectoral regulation, with different regulatory authorities in charge of supervision and examination for the separate arms of the financial sector, was replaced by a single unified system under the FSC. The establishment of the FSC signifies more than just the transfer or consolidation of financial regulation. It represents the birth of a new service-driven culture of financial supervision in Taiwan.

Structure
As required under the Organic Act Governing the Establishment of the Financial Supervisory Commission, Executive Yuan (the "FSC Organic Act"), the FSC is headed by nine commissioners, one of whom serves as the chairperson and two others as vice chairpersons. All commissioners are nominated by the Premier to the President for appointment, and possess academic expertise or professional experience in a relevant field such as law, economics, banking, public finance, accounting, or management. Each commissioner serves a fixed term of office, ensuring that policies are well thought out and that their public authority is exercised in an impartial manner.

In order to ensure professionalism, fairness, and independence in the setting and implementation of policy, the FSC Organic Act mandates that commissioners belonging to a single political party shall not exceed one-third of the total number of commissioners. Further, the Act bars commissioners from taking part in the activities of any political party during their term in office. Financial systems and supervisory policies must be submitted to the commissioners for deliberation and resolution. A board resolution is adopted only if it is approved by a majority vote at a meeting attended by at least two thirds of the commissioners. The commissioners are required to hold regular meetings once a week, and additional sessions may be convened when necessary.
Commissioners and officers

Chairman
Yuh-Chang Chen

Vice Chairperson
Jih-Chu Lee

Vice Chairperson
Tang-Chieh Wu

Commissioner
Ya-Hwei Yang

Commissioner
Tzong-Rong Tsai

Commissioner
Yi-Hong Hsieh

Commissioner
Chi-Chun Liu

Commissioner
Jan-Juy Lin

Commissioner
Yin-Hua Yeh

Commissioner
Chi-Chun Liu

Director General of Securities and Futures Bureau
Chi-Hsien Lee

Director General of Banking Bureau
Hsien-Nung Kuei

Director General of Financial Examination Bureau
Huey-Jen Jong

Director General of Insurance Bureau
Tien-Mu Huang

Chief Secretary
Tung-Liang Lin
The FSC comprises four departments, four offices, and four bureaus, as follows:

- **Departments**: Planning; International Affairs; Legal Affairs; Information Management.
- **Offices**: Secretariat; Personnel; Accounting; Civil Service Ethics.
- **Bureaus**: Banking; Securities and Futures; Insurance; Financial Examination.

Separate organic acts governing the establishment of each of the FSC’s four bureaus were promulgated on 9 January 2008, and the Executive Yuan soon thereafter approved regulations governing the operations of each bureau. As a result of reorganization of the four bureaus, the Banking Bureau now has six divisions and six offices, the Securities and Futures Bureau has six divisions and five offices, the Insurance Bureau has four divisions and four offices, and the Financial Examination Bureau has seven divisions and five offices.

In addition, the FSC has established a Financial Supervisory Fund to bolster the funding of financial supervisory activities, ensure our development as a regulator of financial markets and financial service enterprises, and guarantee our independence in the performance of supervision and financial examination.
Functions and authority

Services

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

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

2. Financial service enterprises include financial holding companies, the Financial Restructuring Fund, the Central Deposit Insurance Corporation, banking enterprises, securities enterprises, futures enterprises, insurance enterprises, electronic financial transaction enterprises, and other financial service enterprises. However, the Central Bank is the competent authority in charge of the payment system.

Authority and responsibility

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

1. Managing financial systems and supervisory policy issues;
2. Drafting, amending, and repealing financial laws and regulations;
3. Supervising and regulating the following matters in connection with financial institutions: establishment, termination, revocation, changes of registered information, mergers, business suspensions, dissolutions, and approvals of business scope;
4. Development, supervision, and regulation of financial markets;
5. Examination of financial institutions;
6. Examination of matters relating to public companies and securities markets;
7. Handling of international financial matters;
8. Protection of financial consumers;
9. Enforcement of financial laws and regulations, punishment of violators, and handling of matters related thereto;
10. Collection, processing, and analysis of statistical information relating to financial supervision, regulation, and examination;
11. Inspection of other matters relating to financial supervision, regulation, and examination.

**Board of Commissioners**

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

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

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

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

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

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

2. Securities & Futures Bureau: Supervises and regulates the securities and futures markets as well as securities and futures enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.

3. Insurance Bureau: Supervises and regulates the insurance market and insurance enterprises, and formulates, plans, and implements policies, laws, and regulations connected therewith.

4. Financial Examination Bureau: Supervises and examines financial institutions, and formulates, plans, and implements policies, laws, and regulations connected therewith.

5. Department of Planning: Drafts and proposes financial systems and supervisory policies; performs research and development work related to the improvement of the financial industry; performs research and analysis of domestic financial dynamics; performs research and analysis of international financial dynamics, including mainland China; and prepares and disseminates FSC publications and periodicals.

6. Department of International Affairs: Acts as liaison to international financial organizations and foreign supervisory bodies; supervises FSC overseas offices; researches and promotes major international financial projects; and carries out international promotional activities.

7. Department of Legal Affairs: In charge of the integration, drafting, research, revision, and interpretation of financial supervisory laws and regulations, consulting regarding the same, as well as the collection, processing, editing, and translation of financial supervisory laws and regulations.

8. Department of Information Management: Develops, plans, and administers information systems, and processes and performs analysis of data related to financial supervision, regulation, and examination.

9. Secretariat: Responsible for confidential matters, research and evaluation, meeting logistics, manuscript review, documents and files, official seals, cashier operations, general affairs, public relations, and other matters that do not fall under the authority of other departments or offices.

10. Accounting Office: Responsible for budgeting, accounting, and statistical matters.


According to the FSC Organic Act, the authorized size of the FSC workforce totals 1,091 persons, which includes 146 persons for the FSC head office and 945 persons for all bureaus under the FSC. As of the end of 2010, the FSC head office had 90 employees while the bureaus employed 757 persons, totaling 847 persons.

**Age distribution**
- 29 and younger: 6.61%
- 30 to 39: 31.17%
- 40 to 49: 47.11%
- 50 and older: 15.11%

**Education**
- Master's or higher: 52.06%
- Bachelor's: 42.74%
- Jr. College: 4.37%
- High school (vocational): 0.83%
- Master's or higher: 52.06%
In 2010, the FSC continued to push forward with financial reforms, promote the development of a healthy financial market, and help strengthen the competitiveness of financial institutions. The FSC also endeavored to maintain financial stability, to push for globalization of our financial markets, and to improve consumer and investor protection and public education. All these efforts were designed to provide an environment conducive to the sound development of the financial industry and markets, as well as to build up momentum for economic growth.
Development of financial markets

Facilitating the securities markets

Shortened the matching cycle of competitive auction for trading orders: To increase trading efficiency, the Taiwan Stock Exchange (TWSE), working under FSC oversight, shortened the matching cycle of competitive auctions for trading orders from 25 seconds to 23 seconds on April 8, and further shortened it to 20 seconds on May 10.

TAIEX movements in 2010

Invigorating the bond market

The GreTai Securities Market completed its bond-ETF market infrastructure during 2010 and listed its first bond ETF—the "Polaris/P-shares Taiwan Government Bond ETF" in January 2011. This first bond ETF in Taiwan tracks the GreTai Taiwan Treasury Benchmark Index, which is calculated by the GreTai Securities Market and composed of the most liquid government bonds in Taiwan. This bond ETF facilitates access to the bond market for retail investors.
Promoting development of the futures market

The total trading volume of products launched by the Taiwan Futures Exchange (TAIFEX) reached 139,792,891 contracts in 2010, with an average daily volume of 556,994 contracts. The trading volume in TAIEX Futures and TAIEX Options grew 2.87% and 32.72% respectively, in comparison to the high trading volume in 2009 after the financial crisis.

Improving underwriting rules in IPO markets

To make the underwriting rules in IPO markets more reasonable and fair, the FSC published various improvement measures, including the following: (1) an appropriate linkage was established between the IPO price and the emerging market price of the same stock; (2) the ceiling on the public subscription portion of stock IPOs was raised; and (3) the ceiling on the number of shares that may be distributed to any one bidder in the book building process was lowered. The TWSE, the GTSM, and the Taiwan Securities Association have amended relevant regulations, and the amendments are scheduled to enter into force in 2011.

Promoting sound development of the insurance market

Establishing a domestic market for foreign currency denominated bills

The FSC approved the establishment of a foreign currency denominated bills market and amended the relevant regulations and directions as well. The market was successfully established on 6 December 2010.

Increasing loans to small and medium enterprises (SMEs)

To help SMEs obtain working capital, the FSC continued promoting the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises." By the end of December 2010, the amount of outstanding loans extended to SMEs was NT$3.68 trillion, or 45.39% of the outstanding balance of total enterprise loans. This ratio clearly indicates that SMEs are getting much more attention in the lending market.

Outstanding SME loans by domestic banks

Establishing new branch units for domestic banks and cooperatives

In accordance with the conclusions reached at the Conference on Sustaining Taiwan’s Economic Development (COSTED), the FSC amended the "Regulations Governing the Establishment, Relocation, or Closure of Domestic Branches by Financial Institutions" and renamed them the "Regulations Governing Domestic Branches of Financial Institutions" on 16 January 2007. The amended Regulations set out conditions under which financial institutions will be allowed to apply to set up new branches or merge two mini-branches to form one regular bank branch. On 26 July 2008, the FSC approved applications by eight domestic banks and three cooperatives to establish an additional
ten branches and three branch cooperatives respectively. On 9 July 2009, the FSC approved applications by three domestic banks and two cooperatives to establish an additional four branches and three branch cooperatives respectively. In response to changes in the financial environment, and in line with the principle of differential supervision, on 14 April 2010 the FSC amended provisions in the above-mentioned regulations pertaining to the requirements that financial institutions must satisfy in order to open additional domestic branches. As of 9 July 2010, the FSC has granted approval for eight domestic banks to open ten additional branches and three cooperatives to open three additional branches.

Promoting electronic stored value card business

Under the "Act Governing Issuance of Electronic Stored Value Cards," promulgated on 23 January 2009, which empowers the FSC to adopt relevant regulations, the FSC approved an application by the EasyCard Corporation (submitted in accordance with the above-mentioned Act) to operate an electronic stored value card business on 2 February 2010. The FSC intends to facilitate the use of electronic stored value cards, reduce the usage of cash, and strengthen protection of the public interest.

Promoting sound development of the credit card market

The FSC amended the "Regulations Governing Institutions Engaging In Credit Card Business" on 2 February 2010 to ensure that credit cards are used simply as a payment instrument, improve the disclosure of important information to cardholders, and strengthen supervision of the credit card business.

Promoting the international competitiveness of financial institutions in Taiwan

The FSC amended the "Offshore Banking Act" on 9 June 2010 to require that interest paid by offshore banking branches to financial institutions, natural persons, juristic persons, and government agencies outside our territory, and income derived from structured product transactions, shall be exempt from income tax withholding.
Competitiveness of financial institutions

Encouraging financial industry consolidation

Financial reform is a long-term task
The main purpose of financial reform is to enhance the competitiveness of financial institutions and to respond to rapid changes in the current financial environment. Therefore, the government will continue pushing forward with financial reform and review plans regularly.

Market-driven consolidation
The threat caused by the 2008 financial tsunami is fading away, and its impact on Taiwan’s financial institutions has been relatively limited. However, ongoing financial consolidation is still necessary for local financial institutions to become more competitive. While fully respecting market mechanisms, the FSC will watch M&A deals closely to ensure that consolidation procedures are fair, transparent, and in line with standard business practices. In addition, the FSC will also safeguard the interests of shareholders, employees, and customers.

M & A deals
a. M&A deals in the banking industry:

<table>
<thead>
<tr>
<th>Surviving entity</th>
<th>Acquired (invested) entity</th>
<th>Merger date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Yuanta Commercial Bank</td>
<td>ChinFon Bank (18 branches)</td>
<td>2010.04.03</td>
</tr>
<tr>
<td>2 Far Eastern International Bank</td>
<td>ChinFon Bank (19 branches)</td>
<td>2010.04.03</td>
</tr>
<tr>
<td>3 Union Bank of Taiwan</td>
<td>Union Bills Finance Corporation</td>
<td>2010.08.16</td>
</tr>
</tbody>
</table>

b. M&A deals in the insurance industry:

In March 2010, the FSC approved one spin-off application. On 1 May 2010, ACE American Insurance Company transferred the operations of its Taiwan branch (including all assets and liabilities) to the Insurance Company of North America Taipei branch, which thereafter was renamed Insurance Company of North America, Taiwan Branch.
Practical approach to financial dealings across the Taiwan Strait

Following the signing of three financial memorandums of understanding (MOUs on banking supervision, securities and futures supervision, and insurance supervision) with mainland China in late 2009, which enable the FSC to perform effective supervision on the mainland operations of domestic financial institutions, the FSC has continued to adopt practical approaches to the supervision of cross-strait financial dealings.

The banking industry

On 16 March 2010, the FSC amended the "Regulations Governing Approvals of Financial Institutions to Engage in Business and Investment Activities Between the Taiwan Area and the Mainland Area" to allow banks on either side of the Strait to establish branches or subsidiaries on the other side and make cross-strait equity investments. Other major amendments include provisions governing pre and post-review, daily risk management, etc. With regard to the launch of cross-strait banking activities, the FSC will act in an orderly and progressive manner to ensure the stability of the domestic financial system.

Under the Economic Cooperation Framework Agreement (ECFA), the FSC concluded Early Harvest negotiations on financial services with mainland China in June 2010 and obtained more favorable market access for our domestic banks.

As of 31 December 2010, our financial services firms are allowed to set up a commercial presence in mainland China, and vice versa. To date, our banks have set up five branches and seven representative offices in mainland China, and mainland China’s banks have set up two representative offices in Taiwan.

The securities and futures industry

In 2010, the FSC amended the "Regulations Governing Approval and Management of Securities and Futures Transactions and Investment Between the Taiwan Area and the Mainland Area" to allow securities and futures institutions in the mainland area which meet certain criteria to establish representative offices or invest in the above-mentioned institutions in Taiwan.

The FSC set a limit of US$500 million on the total amount of funds that can be remitted for investment in Taiwan area securities by parties from the mainland area that have been approved by the competent securities authority of the mainland area as Qualified Domestic Institutional Investors (QDIIIs). In addition, the maximum investment amount of individual QDIIIs has been increased to US$100 million from US$80 million, subject to limits on investments by QDIIIs in particular industries in Taiwan.

The FSC will continue to evaluate the limits on investments in Taiwan by QDIIIs and the scope of investors from the mainland area who will be allowed to invest in Taiwan. The FSC will also initiate talks with mainland China regarding the development of the securities and futures industries in mainland China.
The insurance industry

In line with overall policy regarding mainland China, and to meet the needs of insurers, the FSC allows insurers to set up representative offices and invest in mainland China, and to offer reinsurance there. In addition, the FSC on 16 March 2010 amended and issued the “Regulations Governing Permission of Insurance Business Transactions and Investment Between the Taiwan and Mainland China Areas.” It allows mainland-area insurance enterprises and mainland-funded insurance enterprises to establish representative offices or take equity positions in insurance enterprises in Taiwan. As of the end of 2010, the FSC had granted approval for insurers to set up 42 representative offices and eight joint ventures in mainland China.

To help insurers achieve better investment returns, and to enhance the stability of insurers conducting business in mainland China, the FSC amended articles 12 and 12-1 of the "Regulations Governing Foreign Investments by Insurance Companies" in 2010. The amendments allow insurers to invest in specific types of securities issued by governments and corporate entities in mainland China, as well as in real estate used by their branches or joint venture insurance companies in which they hold at least 50% interest.

Improving the asset quality of banks

In order to reduce NPL ratios and improve the asset quality of banks, the FSC amended the Measures to Accelerate the Reduction of Non-performing Loans of Domestic Banks on 5 February 2005. The amended Measures allow for supervisory indicators to be adjusted to reflect improvements in a bank's NPL ratio. The average NPL ratio for domestic banks was reduced from 4.9% in June 2004 to 0.61% by the end of 2010. Over the same period, the coverage ratio was raised from 24.43% to 158.07%.

NPL ratio and Coverage ratio of Domestic banks

![Graph showing NPL ratio and Coverage ratio of Domestic banks](image_url)
Broadening business scope and easing capital allocation restrictions

Bank Business

To promote electronic stored value card business, the FSC promulgated the “Act Governing Issuance of Electronic Stored Values Cards” in 2009, allowing specialized non-banking institutions to issue the multiple payments purposes electronic stored value cards. The FSC approved first specialized electronic stored value card institution, the EasyCard Corporation, on 2 February 2010.

The FSC adopted differential regulatory treatment for credit cooperatives with its prescription of the “Standards Governing Ceilings on Credit Extensions by Credit Cooperative to a Single Party or Single Group of Related Parties” on 21 May 2010. The new Standards relax the lending ceiling for financial institutions that are in sound financial condition and have a good legal compliance record.

To coordinate with the policy of allowing mainland tourists to visit Taiwan, the FSC allowed the use of Union Pay Card in July 2009. In June 2010, the FSC further allowed Union Pay Card holders to make account withdrawals, cash advances and account balance checking with the ATM machines in Taiwan.

To further encourage financial institutions expand new business lines and innovate business models, the FSC allowed financial holdings, banks and their related enterprise to invest in lease finance company in Mainland area; affirmed mobile banking in 2010 to further facilitate bank business.

Securities service business

The FSC now allows issuers to link domestically-issued call (put) warrants to foreign market securities and foreign indices as underlying subjects (including red-chip indexes, red-chip stocks, and ETFs that track mainland area stocks). Securities firms are permitted to engage in proprietary trading of securities and accept orders related to Hong Kong-listed red-chip stocks, and securities dealers not engaged in securities lending business are allowed to borrow securities from securities firms handling securities lending.

To protect the interests of investors and to clearly regulate trading on securities exchanges and over-the-counter markets, the FSC partially amended the “Regulations Governing Securities Firms Accepting Orders to Trade Foreign Securities” on 3 September 2010. The amendment divides investors into professional investors (including qualified institutional investors and juristic and natural persons with high net worth or capital) and non-professional investors. Securities firms are required to sell products suited to the characteristics of investors, and to pay attention to the appropriateness of sales and the full
disclosure of information. Additionally, foreign securities markets on which securities firms engage in brokered trading are divided into "foreign securities exchanges" and "foreign over-the-counter (OTC) markets." If a product traded in brokerage trading by securities firms is a product on a foreign securities exchange, it must meet the sovereign rating requirements set by the FSC, and the competent regulatory authority must have signed a memorandum of understanding (MOU) with the FSC. Additionally, a first-case approval system is adopted for foreign exchanges on which brokerage trading is allowed. If a product is traded on a foreign OTC market, the product is required to meet the credit rating standards set by the FSC. Also, brokerage trading of foreign OTC products no longer needs to be conducted through a securities firm that is a qualified member of a foreign exchange. It may now be done by placing orders directly or indirectly with a securities firm that is a member of an exchange designated by the FSC or a financial institution that is qualified to trade on such an exchange.

To ease restrictions on fund investments and to coordinate with the decision to have all quasi-money market funds transformed into regular money market funds by December 31, 2010, the FSC amended the "Regulations Governing Securities Investment Trust Funds," issued related directives, and simplified written decision report requirements for investment analysis. The FSC also amended the "Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds" on 29 December 2010 to help investors more easily understand simplified prospectuses when they subscribe for fund shares.
The FSC is appraising the feasibility of easing restrictions on investments by onshore funds in securities listed on mainland area securities markets. It also intends to ensure equitable regulatory treatment of onshore funds and offshore funds, and to promote the mutual recognition of mutual funds with other jurisdictions. The FSC will carry out a comprehensive review of the provisions of laws, regulations, and self-regulatory rules to help SIITEs and SIICEs to obtain discretionary investment business from domestic and foreign investment institutions.

The FSC now allows banks to apply to underwrite and broker beneficial securities and asset-backed securities pursuant to the "Financial Asset Securitization Act" and the "Real Estate Securitization Act." This move is intended to ensure that consumers benefit from more efficient investment services.

**Futures business**

To spur the development of futures enterprises, the FSC on 21 September 2010 amended the "Directions for Futures Trading by Overseas Chinese and Foreign Nationals" to permit foreign investors to engage in foreign futures trading and to appoint managed futures enterprises to conduct discretionary futures trading using foreign currency. In addition, with respect to a managed futures firm's investments of assets under discretionary management, under the pre-amendment directions the percentage of the net value of assets under management in any individual discretionary investment account that could be invested in overseas futures trading and overseas securities investments, combined, was capped at 30%. This cap was eliminated on 5 November 2010.

To facilitate the offering of futures trust funds, the FSC on 29 April 2010 amended the "Directions for Futures Trust Enterprises Providing Full Discretionary Authority to Another Professional Institution for Utilization of
a Futures Trust Fund." The amended provisions raise the percentage of a futures trust fund for which a futures trust enterprise is allowed to grants full discretionary authority to another professional institution to 50% of the fund's daily net asset value.

The TAIFEX launched 34 single stock futures contracts on 25 January 2010, and another six on 24 May, increasing the depth and breadth of the futures market and providing traders with more diverse trading and hedging opportunities.

**Insurance business**

In order to provide policyholders with a more diversified selection of foreign-currency assets, to reduce currency mismatch risks between assets and liabilities, and to promote the efficiency of asset liability management (ALM), besides the US dollar, the FSC further began allowing life insurers to sell non-investment-linked life insurance denominated in Australian dollars and Euros. In addition, the FSC has also encouraged insurers to launch microinsurance products in 2009, which helps to enhance the basic insurance coverage of economically disadvantaged persons and facilitate the establishment of a sound social safety net. As of the end of May 2011, the FSC had approved 16 microinsurance products and more than 26,000 persons were under the protection of microinsurance, while the accumulated insured amount was up to NT$7.66 billion.

In order to provide investors with a more diversified selection of foreign-currency assets, to reduce currency mismatch risks between assets and liabilities, and to promote more efficient asset liability management (ALM), life insurers must apply for permission if they wish to sell non-investment-linked life insurance denominated in a foreign currency. In addition, as of the end of May 2011 the FSC had approved six preferred life insurance products and 19 non-investment-linked life insurance products denominated in a foreign currency. Preferred life insurance products, reward non-smokers and other customers with low-risk lifestyles by offering them reduced insurance premiums or increased coverage. These products are expected to significantly spur the innovation of insurance products, satisfy diverse consumer needs, and spur insurers to upgrade their underwriting techniques.

The FSC continues to study the possibility of further expanding the scope of business activities that insurers are allowed to conduct. Fifteen non-life insurers received permission to conduct health insurance business in 2010.
Financial stability

Promoting corporate governance

To strengthen corporate governance and remuneration systems at financial institutions, the FSC required the Bankers Association and Bills Finance Association to amend the "Corporate Governance Best-Practice Principles for Banks," "Corporate Governance Best-Practice Principles for Financial Holding Companies," and "Corporate Governance Best-Practice Principles for Bills Finance Companies." Key amendments include the following: (1) principles of performance evaluation standards; (2) remuneration standards for managers and sales staff; and (3) provisions governing the structure and system of remuneration for directors and supervisors. In addition, the revised best-practice principles require that performance evaluations be based on future risks and long-term profits, and provisions governing the role and mission of the board of directors in risk management have been amended.

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

The Taiwan Stock Exchange (TWSE) and GreTai Securities Market (GTSM), under the guidance of the FSC, issued the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and the "Corporate Social Responsibility Best-Practice Principles for TWSE/ GTSM Listed Companies" in 2010 to encourage listed companies to fulfill their social responsibilities and observe principles of integrity in their operations.

The FSC on 11 October 2010 issued amendments to seven regulations, including the "Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants" and the "Regulations Governing Responsible Persons and Associated Persons of Securities Firms," to expressly provide that the position of chairperson and general manager may not be held concurrently by the same person in any of various specified enterprises.
Information disclosure

In an effort to further implement corporate governance and enforce greater transparency regarding the remuneration of directors, supervisors, presidents, and vice presidents, the FSC amended the "Regulations Governing Information to be Published in the Annual Reports of Banks," the "Regulations Governing Information to be Published in Annual Reports of Financial Holding Companies," and the "Regulations Governing Information to be Published in Annual Reports of Bills Finance Companies" on 2 April 2010.

Based on International Financial Reporting Standard 8 (IFRS 8) "Operating Segments," the Accounting Research and Development Foundation in Taiwan adopted and issued "Statement of Financial Accounting Standards No. 41: Operating Segments (SFAS No.41)" to replace SFAS No. 20 "Segment Reporting" on 4 April 2009. SFAS No. 41 will take effect on 1 January 2011. SFAS No. 41 requires an entity to identify its operating segments by corporate division and disclose operating segment information to enable users of financial statements to evaluate the nature and financial effects of an entity's business activities.

In order to bring about more transparent disclosure of information regarding corporate governance and compensation of directors and supervisors, the FSC amended the "Regulations Governing Information to be Published in Annual Reports of Public Companies" and the "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses" on 12 January 2011.

The FSC established an ad hoc team to assist insurance enterprises with the transition to SFAS No.40, to revise relevant accounting and actuarial standards, and to organize education and training programs to familiarize professionals with the relevant accounting and actuarial standards, and to study implementation problems and the resolution thereof. The FSC amended the "Regulations Governing the Preparation of Financial and Business Reports by Insurance Enterprises" and the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" in December 2009. In response to the implementation of the Statement of Financial Accounting Standards No.40 in 2011, the Actuarial Institute of the Republic of China has published, under the supervision of the FSC, the "Actuarial Guideline on Classification of Insurance Contracts and Liability Adequacy Testing Under Statement of Financial Accounting Standards No.40," which will be effective from 1 January 2011.
Improving the regulatory environment for financial markets

Amendments to capital market legislation

To create a favorable operating environment and promote the sound development of financial services firms, the FSC has completed several important legal amendments, including the "Securities and Exchange Act," "Securities Investment Trust and Consulting Act," and "Futures Trading Act."

### Summary sheet: Important laws amended or passed in 2010

<table>
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<tr>
<th>Law</th>
<th>Key points</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Securities and Exchange Act</td>
<td>The amended provisions specify that &quot;a person who has been placed under guardianship&quot; or &quot;a person who has been placed under assistance&quot; is not eligible to be an associated person of a securities firm.</td>
<td>Published by the President and entered into force on 13 January 2010</td>
</tr>
<tr>
<td>Securities and Exchange Act</td>
<td>The amended provisions: flesh out regulations on insider trading to safeguard investor interests; promote international cooperation; push for timely disclosure; move up the timetable for public announcement of annual financial reports; enhance procedural rules for shareholders meetings; and expressly affirm the validity of non-regular shareholders meetings.</td>
<td>Except for Article 36 (to be implemented on 1 January 2012), other articles were published by the President and entered into force on 2 June 2010</td>
</tr>
<tr>
<td>Securities and Exchange Act</td>
<td>The amended provisions push for companies to set reasonable remuneration for directors and executive officers, and require all listed companies to set up a remuneration committee.</td>
<td>Published by the President and entered into force on 24 November 2010</td>
</tr>
<tr>
<td>Securities Investment Trust and Consulting Act</td>
<td>The FSC amended regulations governing required qualifications for SITE and SICE employees in order to coordinate with the addition of new provisions in the Civil Code regarding the placement of a person under assistance.</td>
<td>Published by the President and entered into force on 13 January 2010</td>
</tr>
<tr>
<td>Futures Trading Act</td>
<td>The FSC amended the name of the competent authority to &quot;Financial Supervisory Commission, Executive Yuan&quot; from &quot;Securities and Futures Commission, Ministry of Finance.&quot;</td>
<td>Published by the President and entered into force on 9 June 2010</td>
</tr>
</tbody>
</table>
Establishment of exit mechanism for problem banking institutions

In accordance with paragraph 5 of Article 44-2, paragraph 3 of Article 62, and paragraph 2 of Article 62-3 of the "Banking Act," the FSC issued the "Regulations Governing Conservatorship of Banking Institutions" and "Regulations Governing Receivership of Banking Institutions" on 23 December 2010, to explicitly provide for prompt corrective actions and an exit mechanism for problem banking institutions. With reference to the "Regulations Governing Conservatorship and Receivership of Financial Institutions," the goals of the said Regulations are to protect depositors' interests and to maintain financial stability.

FSC amends Article 107 of the "Insurance Act"

An amendment to Article 107 of the "Insurance Act" was promulgated on 1 February 2010. The amendment is designed to address concerns regarding moral hazard, and was drafted with reference to legal provisions overseas that restrict the ability of minors to take out insurance policies. As of 3 February 2010, a life insurance contract that insures a minor under the age of 15 will not take effect until the day the insured reaches the age of 15, and if the insured dies prior to age 15, the insurer may return all paid insurance premiums with interests, or refund the account value if the contract is for an investment-linked insurance policy. In addition, Article 135 of the "Insurance Act" now specifies that Article 107 applies mutatis mutandis to personal injury insurance.
Differential supervision

1. The FSC is working to encourage further improvements in asset quality, streamline application procedures, and spur more innovation by banks. In order to do so, there shall be fewer restrictions on the business of certain financial institutions in compliance with the criteria set forth in the "Measures to Accelerate the Reduction of Non-Performing Loans of Domestic Banks" (revised on 8 October 2010) and "Directions Concerning the Negative List for Banks Conducting Finance-Related Business" (issued on 23 March 2005).

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

3. As to the insurance industry, some restrictions (such as the “Regulations Governing Foreign Investments by Insurance Companies”) have been imposed with regard to the usage of an insurer’s enterprise funds, to ensure that differential supervision mechanisms have been adequately carried out.
   
   In addition, the Framework of Differentiation Supervision Mechanism (DSM) for insurance companies was approved by FSC to enhance insurance companies’ conduct of Compulsory Automobile Liability Insurance (CALI) business, and to achieve the goal of the legislation, as well as to accelerate sound development of the CALI system. It is also expected that, through the implementation of DSM, corporate governance and insurers’ disciplinary agreements will be strengthened.

Dealing with problem financial institutions

The assets, liabilities, and business operations of Chinfon Bank's local branches were transferred to Yuanta Commercial Bank and Far Eastern International Bank on 3 April 2010. In the meantime, the assets, liabilities, and business operations of Chinfon Bank's Vietnam branches and credit cards operations were transferred to Taipei Fubon Bank and Taishin International Bank on 6 March 2010. Since December 2006, the
Financial Restructuring Fund (FRF) has forced seven troubled financial institutions (Taitung Business Bank, Hualien Business Bank, Chinese Bank, China United Trust and Investment Corp., Bowa International Commercial Bank, Asia Trust and Investment Corp., and Chinfon Bank) to exit the market. The FRF's work to establish an exit mechanism is almost completed.

Concerned about Kuo Hua Life's recurring operating and investment losses, the lack of active steps to inject capital to replenish its negative equity position within the period of time set by the FSC, deficient corporate governance due to the frequent replacement of the firm's directors and supervisors, and adverse changes in shareholder structure, which suggested there might be future damage to policyholder interests if those situations continued to worsen, the FSC (acting under the authority of the "Insurance Act") placed Kuo Hua Life Insurance Co. under conservatorship and appointed the Taiwan Insurance Guaranty Fund as the conservator of the company.

The FSC subsequently extended the conservatorship by another nine months from 4 May 2010 to 3 February 2011. The Taiwan Insurance Institute (TII), the rehabilitator for Kuo Hua Insurance, disposed of the majority of assets of Kuo Hua Insurance in 2010 and distributed the first payments to creditors by the end of 2010. The TII was also assigned as the rehabilitator of Walsun Insurance and continues to handle rehabilitation affairs.

A smooth exit from blanket deposit insurance

In preparation for the return to the regular deposit insurance scheme from 1 January 2011, several measures were undertaken to pave the way for a smooth exit from the blanket deposit guarantee.

1. The upper limit on deposit insurance coverage was raised to NT$3 million beginning from 1 January 2011. As a result, the deposits of 98.6% depositors in Taiwan are now totally covered.

2. Articles 12 and 13 of the "Deposit Insurance Act" were amended to expand the scope of items covered under the deposit insurance scheme, by including foreign currency deposits and the interest accrued from insured deposits.

3. An interagency task force was formed to enhance banking supervisory activities and cooperation between different agencies.

4. The deposit insurance premium rate was raised to speed up accumulation of the Deposit Insurance Fund.

5. Measures to cope with the exit from the blanket deposit guarantee were fully disclosed through a wide range of publicity channels to strengthen public confidence.
Enhancement of the credit asset quality of banks

In order to prevent procyclicality and to maintain financial stability, the FSC amended the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans." Drafted with reference to relevant statutory requirements in Singapore, Hong Kong, and South Korea, the amendment requires additional provisions for normally performing claims except those against R.O.C. government agencies. Provisions are required to be set aside at the rate of 0.5% of the outstanding value of claims.

Statement of Financial Accounting Standards No.34 (SFAS 34) was amended, with the changes to take effect in 2011. Under SFAS 34, banks have to assess the impairment of credit assets according to their historical losses. The FSC has taken the following measures to help banks implement SFAS 34: (a) held conferences to familiarize banking professionals with SFAS 34 implementation issues; (b) amended the "Regulations Governing the Preparation of Financial Reports by Publicly Held Banks"; and (c) revised the related reporting forms.

Tighter regulation of fund distributors

The FSC strengthened the disclosure of intermediary fees charged by fund distributors, tightened its regulation of fund distribution channels, and strengthened rules governing offshore private equity funds. In addition, the FSC simplified the procedure for applying to provide consulting services for foreign securities, and strengthened the code of conduct for securities investment consulting enterprises and their employees.

Increasing the independence of securities firms

To increase the independence of securities firms, the FSC amended the "Regulations Governing Securities Firms" to prevent them from holding excessively large equity stakes in interested parties, thus resulting in too much concentration of risk. Also, the amended provisions require securities firms to clearly differentiate their equity holdings according to the purposes of the holdings.

Implementation of financial supervisory measures

In 2010, the Financial Examination Bureau carried out 391 on-site examinations, including 231 full-scope financial examinations on financial institutions and 160 examinations on agricultural finance institutions on behalf of the Council of Agriculture, Executive Yuan. In addition, with an eye to public concerns and changes in the global financial situation, the FSC also
conducted 118 targeted examinations (focusing on real estate loans, home improvement loans, and working capital loans of the banking industry; the outsourcing process of insurance companies; privately placed funds and discretionary investment services offered by investment trust companies; and regulatory compliance of domestic banks and financial holding companies).

The FSC established a financial examination rating system for domestic banks, modeling it in part after similar rating systems implemented by financial regulators in the USA and Japan while modifying it in light of Taiwan's financial supervisory concerns and examination focuses. For efficient implementation of the rating system, the FSC adjusted the framework of examination reports, set up related operating procedures, and revised examination manuals (including an examination checklist). In addition, the FSC specially held two seminars to familiarize auditor generals of domestic banks with this new rating system in December 2010.

To help financial institutions make improvements in areas where examinations reveal problems, the FSC not only communicated with institutions during examinations, in meetings after on-site examinations, and in seminars on internal audit functions, but also, as necessary, invited auditor generals of institutions to specify what sort of improvements needed to be made.

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### On-site examinations in 2010

<table>
<thead>
<tr>
<th>Financial holding companies</th>
<th>Head Office Of domestic banks (including Chunghwa post co.)</th>
<th>Branches of domestic banks</th>
<th>Taiwan branches of foreign banks</th>
<th>Credit cooperative association (including south information center)</th>
<th>Bills finance companies</th>
<th>Securities firms, securities finance co. and securities investment trust enterprises</th>
<th>Insurance companies</th>
<th>others</th>
<th>subtotal</th>
<th>Commissioned examinations</th>
<th>Targeted examinations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>20</td>
<td>90</td>
<td>20</td>
<td>19</td>
<td>7</td>
<td>42</td>
<td>25</td>
<td>1</td>
<td>231</td>
<td>160</td>
<td>118</td>
<td>509</td>
</tr>
</tbody>
</table>

Note: The examined units listed above include 14 foreign subsidiaries.
Enhancing the risk-management of insurance companies

The "Risk Management Best-Practice Principles for Insurance Enterprises" were adopted by both the Life Insurance Association and the Non-life Insurance Association as part of the effort to implement the Enterprise Risk Management (ERM) policy, and were put into practice on 1 January 2010. Also, to help senior management and related departments of insurers understand how well their companies are implementing the best-practice principles, the FSC directed the TII to design an assessment form for the best-practice principles and required insurers to fill out the form quarterly from 2010. In addition, the FSC held two seminars on risk management in 2010 for the directors and top executives of insurers for the purpose of enhancing their knowledge of the guidelines, philosophy, and culture of risk management, as well the practical issues involved.

The FSC amended the Risk-Based Capital System to enhance capital adequacy requirements and bolster the solvency of insurance companies. The amendments include adjusting the assessment of interest rate risk and raising the K factor in calculating risk capital.

To ensure that insurers do a better job of evaluating assets, and to make adjustments for the new accounts receivable titles that were added to the accounting system in 2011, the FSC amended Articles 2, 5, 19 to 21, and 20-1 of the "Regulations Governing the Procedures Used by Insurance Enterprise in Evaluating Assets and Dealing With Non-performing Loans, Non-accrual Loans, and Bad Debts."

Strengthening capital requirements for bills finance companies

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

Reducing business risk of bills finance companies

The FSC amended the "Directions for the Total Outstanding Amounts of Guaranteed or Endorsed Short-term Bills by a Bills Finance Company" and the "Directions for Ceilings on the Total Amounts of the Major Liabilities and Reverse Repo Transactions Conducted by Bills Houses," setting different caps depending on a firm's levels of capital adequacy, so as to reduce the business risk of bills finance companies.
Financial globalization

International cooperation in financial supervision

In 2010, the FSC was visited by officials from the financial supervisory authorities of different jurisdictions, including the United States, Germany, and Thailand. In addition, the FSC maintained friendly ties with the representatives from numerous countries. Senior FSC officials also made frequent trips overseas to establish and maintain direct communication channels with the financial authorities of other countries. In 2010, FSC officials visited Austria, Canada, mainland China, Croatia, France, Japan Jordan, Malaysia, the Philippines, Singapore, Spain, Sweden, Switzerland, Turkey, UAE, UK, the US, and Vietnam.

In light of the increasing prevalence of cross-border financial activities, prevention of cross-border financial crimes has become a high priority concern of financial regulators. The FSC has been actively seeking to sign memorandums of understanding (MOUs) addressing cooperation in the field of financial supervision. In August 2010, the FSC signed an MOU on supervisory cooperation with Luxembourg’s Commission de Surveillance du Secteur Financier (CSSF). Funds based in Luxembourg account for NT$1.6 trillion of the offshore fund sales made in Taiwan, which constitutes 77% of the offshore fund market here. Signing of the MOU will facilitate efforts by the two authorities to cooperate in cross-border supervisory matters, and will help safeguard the interests of Taiwan investors. In September 2010, the FSC signed an MOU with the National Association of Insurance Commissioners (NAIC), which means that the FSC has signed a total of 43 financial supervisory MOUs.

FSC Vice Chairperson Jih-Chu Lee visited Sultan Bin Nasser Al Suwaidi, Governor of the Central Bank of the United Arab Emirates, at the Dubai Branch of Central Bank of the UAE on 28 October 2010.
Over the past few years, the FSC has continuously eased restrictions on foreign investment in our domestic securities markets. For instance, as of 4 October 2010 offshore overseas Chinese and foreign nationals are now permitted to invest in: (1) stocks or Taiwan depositary receipts offered in Taiwan by a foreign enterprise before it has obtained a primary or secondary listing on either the Taiwan Stock Exchange or the GreTai Securities Market; and (2) stocks offered (or Taiwan depositary receipts reissued) in Taiwan by such companies in connection with a cash capital increase.

In addition, in response to changes in the economic environment and as recommended by the Central Bank, on 11 November 2010 the FSC amended and issued orders so that, beginning from that date, the total amount invested by an offshore overseas Chinese or foreign national in government bonds, money market instruments, and money market funds, plus all NT Dollar premiums paid for trades of OTC equity derivatives, OTC NT Dollar interest rate derivatives, OTC structured notes, and the options leg of convertible bond asset swaps, plus the net settlement amount on price differences of swaps, must not exceed 30 percent of the net inflow remittance. If, after adding government bonds with maturities over one year that were held prior to the issuance of this Order, the amount exceeds the limit stated above, the bonds may be held to maturity, but no new positions in such bonds are permitted to be added.

Attracting foreign investors

FSC Vice Chairperson Jih-Chu Lee took a picture with Dr. Therese Vaughan, CEO of the National Association of Insurance Commissioners (NAIC), after attending the International Association of Insurance Supervisors (IAIS) annual meeting on 26 October 2010.
As of the end of December 2010, net inward remittances of foreign investors on the year in connection with stock purchases on the TWSE was US$14.4 billion, a decrease of US$12.2 billion from 2009 (when net inward remittances amounted to US$26.6 billion), while net accumulated remittances since 1992 were over US$165.8 billion. In 2010, foreign investors were net buyers of NT$92.35 billion worth of securities in Taiwan. Furthermore, at the end of December 2010, foreign investors held 31.19% of the total market capitalization.

Net inward remittances on foreign investments

Market cap held by foreign investors
Participating in international organizations and activities

To bring our financial market systems more in line with international practice, the FSC actively participates in the activities of international organizations to keep abreast of the latest international trends in the area of financial regulations. The FSC has also been negotiating with a number of countries on market liberalization in order to create more business opportunities for our financial industry. The interactions with major international organizations in 2010 were as follows:

**International Organization of Securities Commissions (IOSCO)**

The FSC attended the IOSCO annual conference in Montreal and the IOSCO Emerging Markets Committee Meeting in Istanbul.

FSC Vice Chairperson Tang-Chieh Wu attended the 2010 International Organization of Securities Commission (IOSCO) 35th Annual Conference in Montreal, Canada on 6-10 June 2010.
International Association of Insurance Supervisors (IAIS)

International Conference of Banking Supervisors (ICBS)
An FSC delegation led by Chairman Yuh-Chang Chen traveled to Singapore in September 2010 to attend the 16th International Conference of Banking Supervisors.

The European Bank for Reconstruction and Development (EBRD)
The EBRD continued to provide secondment opportunities for the FSC. Currently the FSC has one staff member working for the EBRD. The FSC participated in the 19th Annual Meeting of the Board of Governors of the EBRD in May 2010 in Croatia.

Holding international conferences
The IOSCO MSTP and APRC Conference
The FSC hosted the IOSCO Mobile Seminar Training Program (MSTP) from 29 June to 2 July 2010, marking the first time this event has ever been held in the Asia-Pacific region. The program focused on the examination, investigation, and litigation of insider trading and market manipulation. 70 participants from eight countries attended.
Moreover, the IOSCO-APRC conference was also held in Taiwan on 28-29 October 2010. 35 senior regulators from 15 Asia Pacific countries attended the meeting. In addition to discussing ongoing developments regarding the IOSCO Multilateral Memorandum of Understanding (MMOU), as well as the implementation of the IOSCO Principles (the "38 Principles"), participants also shared views and experience regarding the responses of different countries to the financial crisis, and the future prospects of capital markets around the world. Hosting this event afforded the FSC an excellent opportunity to better understand the latest supervisory trends and systems in international securities and futures markets. The conference also furthered efforts to ensure sound development of capital markets and promises to raise the international visibility of Taiwan’s securities and futures markets while strengthening supervisory cooperation between the FSC and counterpart competent authorities.
FSC Vice Chairperson Tang-Chieh Wu attended the International Compulsory Automobile Liability Insurance Conference, and took a picture with George Yen, Chief of Rate Specialist Bureau for the Department of Insurance, State of California, on 8 December 2010.

The International Compulsory Automobile Liability Insurance Conference

Compulsory Automobile Liability Insurance (CALI) has been implemented for 12 years in Taiwan, and a recent poll showed that 99.7% of automobile owners have the CALI. Most countries have a similar compulsory automobile liability insurance program, and the best system needs to develop in step with international trends. With that end in mind, the "International Compulsory Automobile Liability Insurance Conference 2010" was held at Chang Yung-Fa International Convention Center on 8-9 December 2010. The conference was sponsored by the FSC and co-hosted by the Taiwan Insurance Institute, the Non-Life Insurance Association of R.O.C, and the Motor Vehicle Accident Compensation Fund. The speakers and panelists, nine in total, were experienced experts and scholars from the government and industry bodies in the U.S.A., U.K., Japan, Thailand, Malaysia, mainland China, and Taiwan. There were more than 250 participants, including insurers, specialists, and scholars. This marks the first time that the conference was held in Taiwan since the implementation of the CALI Act on 1 January 1998.

The conference mainly focused on "An Introduction to CALI Operations" in each country, "A Discussion on the Indemnification System", "CALI Moral Hazard Prevention" and "CALI Cross-border Operations," and afforded participants an opportunity to familiarize themselves with the latest developments in the field of compulsory automobile liability insurance and the compensation system.
Consumer and investor protection

Proactive steps to address the structured note issue

Following the bankruptcy protection filed by Lehman Brothers in September 2008, the FSC undertook several measures to protect the interests of those who had invested in structured notes issued by Lehman Brothers and other financial institutions. The FSC strengthened the function of the ROC Bankers Association's Committee on Banking Consumer Disputes Resolution, and took steps to ensure the committee's impartiality and objectiveness. Three contact windows were set up for handling requests for structured note dispute settlement (one each at the FSC, the Securities and Futures Investors Protection Center, and the Bankers Association).

As of 5 January 2010, the arbitration board of the Bankers Association had completed the evaluation of all review cases, (10,432 in all). The FSC has encouraged banks to reach settlements, and this was achieved in 21,946, cases, or 92.63% by the end of December 2010.

Financial literacy program

The FSC set up the MoneyWise website (URL: http://moneywise.fsc.gov.tw) as part of its Financial Literacy Campaign. The website provides the public an opportunity to acquire financial knowledge online. As of the end of February 2011, the website had attracted more than 980,000 visits. And in order to enrich the content of the website, the FSC expanded it with new sections. With vivid digital material, animation, and eBook content, MoneyWise is a unique financial literacy portal.
In addition, the FSC continued to carry out its "School and Community Financial Literacy Campaign," "Elementary and Junior High Teacher Financial Literacy Workshop," and "Investing in the Future Seminar." The FSC also edited the "Basic Financial Literacy Teaching Materials" as well as teacher handbooks for use at the elementary through high school levels. The FSC also sponsored financial literacy activities organized by campus clubs and academic departments at colleges and universities.

Enhancing financial consumer protection and investor education

In order to strike a balance between the prevention of crime and the safeguarding of customer interests, the FSC amended the "Regulations Governing Bank Handling of Accounts with Suspicious or Unusual Transactions." The main amendments include: (a) the owner of a watch-listed account is now allowed during the watch-list period to open a new account to receive salary payments; and (b) restrictions on watch-listed accounts have been shortened from five years to three.

Enhancing investor protection

The FSC asked the Securities and Futures Investors Protection Center to represent 93,684 investors in 134 class action suits against underwriters, board directors, public companies, accountants, and civil defendants that engaged in illegal activities. The center has reached settlement agreements with the above-mentioned parties and won some NT$411.8 million from accountants and underwriters, NT$324.3 million from directors and supervisors, NT$488.3 million from public companies, and NT$205.5 million from civil defendants, resulting in a total compensation of some NT$1,429.9 million.

In order to help the general public learn to avoid scams, the FSC Securities and Futures Bureau (SFB) has added a special section to its website designed to prevent unregistered futures trading. In addition, the FSC commissioned the Securities and Futures Institute to hold a series of 30 seminars on "Investing in the Future" at 30 community colleges. The events attracted a total attendance of 2,583.

The "Mandatory Provisions to be Included in and Prohibitory Provisions of Standard Form Contract for Credit Card" were announced on 27 July 2010. Key points of the Provisions include a requirement that interest may only be charged on remaining unpaid balances, and other provisions designed to safeguard consumers.

Amendment of the Compulsory Automobile Liability Insurance Act and related regulations

In order to protect consumers and meet the business needs of insurers, the FSC amended the "Compulsory Automobile Liability Insurance Act" on 19 May 2010. Key points of the amendments include shortening the period for transmitting insurance information and paying insurance benefits, permitting uninsured drivers to pay administrative fines in installments,
and strengthening the principle that insurers should post neither profit nor loss in their operation of compulsory auto liability insurance. These amendments serve to safeguard the interests of the public.

The FSC amended the "Compulsory Automobile Liability Insurance Payment Standards" on 26 February 2010. After 12 years since the launch of compulsory auto liability insurance, the Standards increase benefits for death and disability to help injured parties in automobile accidents.

The FSC and the Ministry of Transportation and Communications on 8 November 2010 jointly issued an amendment to the compulsory automobile liability insurance premium rate, with the revised premium rate scheduled for implementation from 1 March 2011. Overall gross premiums for motorcycles will fall by 2.3%, while those for automobiles will decline by 8.3%. For motorcycles and automobiles together, gross premiums will fall by an average of 5.7%.

Regulations Governing the Administration of Credit Rating Enterprises

The FSC amended the "Regulations Governing the Administration of Credit Rating Enterprises" to enhance the quality of domestic credit ratings and ensure the sound development of credit rating enterprises. The amendments strengthen information disclosures by credit rating enterprises, improve their internal control systems, make credit rating results more reliable, protect against conflicts of interest, and require credit rating information to be retained on file for a specified period of time.

Improved supervision on private placements

In order to safeguard shareholder interests and strengthen supervision of private placements by public companies, the FSC amended the "Directions for Public Companies Conducting Private Placements of Securities" and the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers." Under the amended Regulations, if the issuer has committed a serious violation of the aforementioned directions, the FSC is empowered to reject future applications by the violator to carry out a public offering of securities, or to convert privately placed shares into publicly issued shares. In addition, the FSC required the TWSE, the GTSM, and the Securities and Futures Investors Protection Center (SFIPC) to take relevant supervisory measures, and proposed to amend the "Securities and Exchange Act" to authorize the issuance of related regulations.
Integrating insider trading provisions

On 2 June 2010, an amendment to Article 157-1 of the Securities and Exchange Act was published by the President and put into effect. The main points of the amendment include: (1) securities traded in the name of another party, and non-equity corporate bonds, are now included among the types of securities subject to insider trading restrictions; (2) the blackout period on material information has been extended from 12 hours to 18 hours; (3) to clarify provisions against insider trading, the amendment also makes some changes in its wording; the expression "learning of" is replaced by the expression "actually knowing of," and the expression "after the information is precise" has been added.

In compliance with the aforesaid amendment and considering current practices, on 22 December 2010 the FSC amended and published the "Regulations Governing the Scope of Material Information and the Means of its Public Disclosure under Article 157-1, Paragraph 5 and 6 of the Securities and Exchange Act."

Combating financial fraud

As a proactive move to curb financial fraud and the use of dummy accounts, the FSC adopted the following measures: (1) Asked financial institutions to regularly observe "Know Your Customer" rules when opening accounts for potential customers. (2) Asked the Bankers Association to issue model examination procedures for processing deposit account opening applications, which financial institutions will be required to comply with. (3) Required financial institutions to establish information systems to help inspect for unusual deposit account transactions and to assign a specific individual to inspect deposit accounts with unusual transactions, make necessary follow-ups, and prepare an inspection record for on-going monitoring and control. (4) Required financial institutions, when dealing with over-the-counter remittance transactions, to actively inquire about the purpose of remittances and ask whether the remitter is acquainted with the recipient. (5) Called on financial institutions to cooperate with the police to promptly freeze funds that have been swindled from their rightful owner.

In order to prevent moral hazard and adverse selection, the Insurance Bureau has urged insurers to establish a mechanism for the sharing of information on insurance coverage decisions. In addition, the Insurance Bureau has held periodic seminars on insurance crime and related subjects to help law enforcement agencies develop a better understanding of insurance matters. Additionally, the Insurance Bureau participates actively in presentations made by the Consultation and Coordination Committee of the Economic Crimes Investigation Center, Taiwan High Prosecutors Office, and the Economic Crime Prevention Task Force Committee (ECPTFC) of the Ministry of Justice Investigation Bureau to maintain close cooperation with prosecutors, police, and investigation units.
Guided by a service-driven supervisory culture and the principles of differential regulatory treatment, the FSC will continue to push forward with financial reform in order to facilitate Taiwan’s economic development and keep in step with the trend toward financial internationalization and liberalization. The FSC will work to keep financial regulations and systems up-to-date with international trends, bolster financial supervision, and promote the liberalization and internationalization of our financial markets. Our vision is to create a fair, sound, and competitive financial environment in Taiwan while strengthening the overall competitiveness of our financial industry in international markets.
Updathing of financial regulations

Financial Consumer Protection Act
For the proposes of protecting the interests of financial consumers and resolving financial disputes fairly, reasonably and efficiently, the FSC drafted a “Financial Consumer Protection Act,” and the Executive Yuan sent the draft to the Legislative Yuan in January 2011 for deliberations. According to the Act, an institution will be set up to ensure swift settlement of financial consumer disputes.

Securities and Exchange Act
The FSC has proposed to amend the "Securities and Exchange Act," and in order to accommodate the adoption of IFRSs is studying the possibility of excluding application of part of the "Business Accounting Act." It also intends to: adopt regulations regarding CPA-audited and -certified opinions in interim financial reports and the reporting period thereof; allow minority shareholders the right to ask that the company be inspected; specify the constituent elements of market manipulation; flesh out regulations on insider trading and add exemption clauses; amend regulations in the Act so that provisions regarding the offering issuance, trading and private placement will also apply to foreign issuers; and amend provisions regarding actions taken by directors, supervisors, or executive officers that constitute dereliction of duty or embezzlement of company assets.

Insurance Act
In order to enhance consumer protection through tighter supervision of insurance agents, brokers, and surveyors, and to prepare for future implementation of the “Personal Information Protection Act,” the FSC has drafted an amendment of the "Insurance Act."
Regulations governing interested-party ownership of insurance companies

In order to implement Article 139-1 of the Insurance Act, which sets out eligibility and suitability requirements for prospective insurance enterprise investors who wield some degree of control over the enterprise in question, and to ensure greater transparency regarding the ownership of equity issued by insurance companies, the FSC recently issued the "Regulations Governing the Holding by a Single Party or Single Group of Related Parties of More Than a Specified Percentage of the Issued Voting Shares of a Single Insurance Company."

Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms

In order to ensure sound supervision of reinsurance business, and to enable life insurers to diversify risk and bolster capital by ceding long-term life insurance risks through reinsurance arrangements and recognizing reinsurance assets, the FSC recently amended the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" and the "Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises." These amendments provide that when an insurer cedes insurance business with a term exceeding one year and certain conditions are met, the insurer is allowed to recognize the ceded business as a reinsurance asset on its balance sheet.

Regulations Governing company which stock is listed on the stock exchange or traded over-the-counter shall establish a remuneration committee

In view of the fact that remuneration systems constitute an important aspect of corporate governance and risk management, the FSC amended Article 14-6 of the "Securities and Exchange Act" on 24 November, 2010. The amendment requires that a "company that is listed on the stock exchange or traded over-the-counter shall establish a remuneration committee." The FSC is in the process of drafting related rules and regulations. In addition, in order to strengthen corporate governance, the FSC is in the process of revising and drafting the "Scope of the Public Companies Required to Appoint Independent Directors." The new requirement applies to TWSE-listed or GTSM-listed companies outside the financial sector that have paid-in capital of NT$10 billion or more, and also to most public financial institutions.
Efforts to create a secure and efficient financial environment

Stronger credit risk control
The FSC has directed the Joint Credit Information Center to set up a "Real Estate Evaluation Platform" in order to increase transparency and reduce the risks assumed by financial institutions when they extend loans on real estate transactions.

Implementation of the Basel Capital II Accord
In order to implement the New Basel Capital Accord, strengthen risk management of domestic banks, and harmonize our bank capital adequacy requirements with international standards, the FSC has followed the BIS schedule by implementing Basel II beginning in 2007. The average capital adequacy ratio of domestic banks at the end of the fourth quarter of 2010 was 11.97%.

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

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

Improving banks' competitiveness
Wealth management business
Due to population aging and low fertility in recent years, households with more disposable income now demand more new financial products to earn reasonable returns. It gave banks in Taiwan an opportunity to expand their wealth management business, and spurred them to design new financial products to satisfy customers’ needs. By the end of December 2010, the total assets of the wealth management market in Taiwan amounted to NT$10,579 billion from NT$9,769 billion by the end of December 2009. The FSC will continue to review related regulations and to promote sound development of the wealth management business.
Overseas branches and offshore banking units (OBUs)

Domestic banks in Taiwan have continued to increase the number of their overseas branches, raising revenue generated from cross-border business and developing OBU business. Under the Financial Market Package Project proposed by the FSC in 2006, the Banking Bureau has been working to strengthen the function of OBUs, broaden the scope of cross-strait financial activities conducted by OBUs, and promote OBUs as an East-Asian capital management center for mainland China-based businesses, ethnic Chinese, and foreigners.

As of the end of December 2010, the sales revenue of all overseas branches of domestic banks and OBUs was NT$156 billion. The before-tax earnings of all overseas branches of domestic banks and OBUs increased to NT$40 billion. To promote OBUs as a regional capital center, the FSC will continue to strengthen the functions of OBUs.

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

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

To facilitate conversion to the IFRSs on schedule, the FSC has required public companies to pre-disclose various information, including IFRS adoption plans and the impacts of IFRS adoption on their financial reports during the two years prior to adoption. Meanwhile, the FSC has overseen work by the TWSE and the GTSM to establish rules on the announcements of material information related to the IFRSs prior to adoption for TWSE-listed and GTSM-listed companies and emerging stock companies, and to conduct IFRS-related training activities. The FSC will continue to enhance the promotions and training activities to facilitate the companies’ understanding of IFRSs in preparing financial statements.

In order to enhance the comparability and usability of financial information, the FSC has made it mandatory for listed companies to use XBRL format beginning with their semi-annual financial reports for 2010. In addition, to ensure that financial information is compatible with international practice, the FSC has already signed an agreement with the IFRS Foundation to translate the IFRS Taxonomy.
Improving the transparency and safety of OTC derivatives transactions
The FSC has proposed to enhance disclosure of information on OTC derivatives trading and to evaluate the feasibility of adopting a central counterparty (CCP) system.

Allowing securities firms to issue callable bull bear contracts
To satisfy the increasingly varied demands of investors, and to enhance securities firms’ competitiveness, the FSC will allow securities firms to issue callable bull bear contracts.

Continued development of the Taiwan ETF market
To further develop the Taiwan ETF market, the FSC will pursue cross-listing and distribution of ETFs between Taiwan and other countries under the principle of mutual recognition and cross-border distribution. The FSC has accomplished the cross-listing and distribution of Taiwan and Hong Kong ETFs. At the end of 2010, there were four Hong Kong ETFs cross-listed on the Taiwan stock exchange and one Taiwan ETF cross-listed on the Hong Kong Stock Exchange.

Implementing the trading halt mechanism for all securities and futures contracts
To ensure capital market fairness, and in light of the fact that the TDR trading halt mechanism has been implemented, the FSC is reviewing the possibility of implementing a trading halt mechanism for all securities and futures contracts.

Developing Taiwan into a regional capital-raising platform for hi-techs and innovative firms
Based on the competitive advantages of Taiwan’s capital markets, such as excellent liquidity, low listing cost, high transparency, and cluster effect of high-techs, the FSC continues working to develop Taiwan into a regional capital-raising platform for hi-techs and innovative firms. Major measures taken by the FSC include: revamping securities regulation to enhance supervision of foreign issuers; diversifying financial markets and improving transaction efficiency; selecting strategic industries; and enhancing the expertise of professionals in the financial sector. It is expected that more and more hi-techs and innovative firms will be listed in Taiwan, making Taiwan’s capital market more competitive and more internationalized.

Introducing the establishment of leverage transaction merchants
In order to expand futures enterprise’s scope of business to include OTC derivatives, and to provide traders in Taiwan with a greater diversity of investment vehicles, the FSC is currently drawing up regulations to govern the establishment of leverage transaction merchants.
Strengthening the solvency of insurance companies

The FSC will continue to strengthen the Risk-Based Capital System for insurance companies and plan to revise its solvency supervisory system in order to converge with international solvency supervision systems and enhance the solvency of insurance companies.

Amending the insurance product review system

To coordinate with an amendment to Article 107 of the "Insurance Act," the FSC issued the "Rule Governing the Calculation of Interest as Provided for in Article 107, paragraph 2 of the Insurance Act" and the "Rule Governing the Maximum Amount of Death Benefits as Set Forth in Article 7, paragraph 2 of the Simple Life Insurance Act" in March 2010, revised the "Directions for the Review of Life Insurance Products" in February 2010, and repealed related regulations.

To enhance prudential supervision of insurance products, the FSC revised the "Directions for the Review of Life Insurance Products" in September 2010.

In order to enhance the fundamental insurance protection of the poor and encourage insurers to fulfill their social responsibilities, the FSC revised the "Filing Quotas for Life Insurance Products Subject to the Approval System" in February 2010. Insurers who achieve outstanding performance in promoting microinsurance business will be allowed to file additional life insurance products under the approval system.

The FSC and the Consumer Protection Commission jointly adopted a "Standard Contract for Traditional Individual Life Insurance" (with separate versions for participating and non-participating policies). The Standard Contract requires a minimum contract review period of three days for traditional individual life insurance policies.

Promotion of microinsurance and insurance products for the needs of the aged society

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

Strengthening consumer safeguards

The FSC will strengthen regulation of insurance agencies and insurance brokers, and critically review and amend laws and regulations governing bancassurance channels to ensure proper accountability in bancassurance channels.
With respect to solicitors using improper solicitation methods, the FSC will administer sanctions in accordance with regulations, and as necessary will also restrict their solicitor registration status, order them to suspend product sales, or otherwise restrict the offenders’ business activities. The FSC will also urge insurers to take customer complaints very seriously.

**continued review of the taiwan residential earthquake insurance system**

Taiwan's Residential Earthquake Insurance scheme has been running smoothly since 1 April 2002. As of 31 December 2010, the take-up rate has reached 28%. As part of our efforts to continuously improve the system, to coordinate with the introduction of "Statement of Financial Accounting Standards No.40," and to facilitate the operation of residential earthquake insurance as well as the related requirements in the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises," the FSC in 2010 amended the "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance."

**implementing the financial examination rating system for domestic banks**

The FSC will implement the financial examination rating system in 2011. Through the rating system, the FSC will evaluate the conditions of domestic banks based on their financial soundness, regulatory compliance, consumer protection, and risk management. Further, the FSC has adjusted the framework of examination reports to objectively reflect findings regarding deficiencies in the business operations of examined institutions, and the state of their legal compliance on matters about which the authorities have especially strong supervisory concerns. This will help banks understand where improvements are needed and how to achieve better business performance.

**Enhancing internal controls and internal audit functions of financial institutions**

To get financial institutions to exercise self-oversight, the FSC will assess their internal control and internal audit functions based on on-site examination results. Financial institutions that are evaluated as having weak internal controls or unsound internal audits will be required by the FSC to make needed improvements. By bringing about better self-oversight by financial institutions, we hope to achieve our goal of ensuring that banks are better run.

**Establishing standardized computer auditing procedures**

The FSC will establish standardized computer auditing procedures to efficiently conduct examinations, and to help financial institutions promote information & communication security and personal information protection.
Consolidation of financial institutions

The FSC’s plan for consolidation of the financial industry is summarized as follows:

1. Provide more incentives for consolidation while honoring the market mechanism to build a fair and transparent environment for consolidation.

2. Tap into the power of market competition by adopting differential regulatory treatment and promoting greater financial transparency, as well as increasing the availability of financial services and holding financial institutions to a higher standard of social responsibility.

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

4. Rely on market mechanisms to put pressure on existing financial holding companies that have performed poorly yet have no intention to merge.
Internationalization of the financial industry

Pushing for internationalization of Taiwan’s capital markets

The FSC continues to promote and internationalize Taiwan’s capital markets through the development of Formosa Bonds and by bringing Taiwan’s financial environment and systems in line with international standards. We hope to attract reputable foreign companies to list in Taiwan and encourage foreign portfolio investors to participate in our markets, which will enhance the competitiveness of Taiwan’s capital markets. These efforts will help Taiwan to become a regional capital-raising and assets management center, and will also increase employment opportunities and tax revenues.

International cooperation

The FSC aims to establish more communication channels with the financial regulators of other countries and bring about the signing of bilateral cooperation agreements, such as MOUs or exchanges of letters, to ensure fast access to relevant information when a cross-border financial incident occurs, thereby protecting the interests of consumers.

In addition, on 15 March 2011 the FSC became a signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MMoU), marking a milestone in international cooperation. With the signing of the IOSCO MMoU, the FSC is able to implement the matters authorized by law for cross-border supervisory cooperation including, among other things, information exchange and investigation assistance.

The FSC will also actively participate in World Trade Organization (WTO) activities including negotiating with Members on financial services liberalization under the current Doha Development Agenda (DDA) negotiations. This will essentially create a more liberal, transparent, and predictable global financial trading system. In addition, as the securities markets of several major developing countries are still at the developmental stages, Taiwan is moving steadily toward joining the ranks of developed markets. The FSC is willing and ready to share its experience with developing countries in their development of securities markets.

The FSC signed a Memorandum of Understanding with the National Association of Insurance Commissioners (NAIC) on 28 September 2010.