

## Regulators: Taiwan

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This factsheet describes the key features of financial regulations in Taiwan

### Introduction

Financial institutions in Taiwan are required to report to the following organisations:

- Central Bank of China (CBC): In charge of monetary policy.
- Financial Supervisory Commission (FSC): In charge of financial supervision.

### Central Bank of China (CBC)

The Central Bank of China (CBC) is an independent regulator. Its objectives include promoting financial stability, ensuring sound banking operations, maintaining the stable internal and external value of the currency. Its operations include:

- Monetary management : Using various policy instruments (including open market operations, required reserve ratios and re-deposits of financial institutions) to regulate financial conditions and to achieve monetary policy objectives.
- Foreign exchange management: Regulating capital account transactions. Residents can freely hold and use foreign exchange export proceeds and make foreign exchange import payments. Only remittances related to capital account transactions are regulated, in order to ensure financial stability. The Bank will only step in when the foreign exchange market is disrupted by seasonal or irregular factors.
- Clearing and settlement services: Providing services for payments among banks.
- Currency issuance: Designing, planning and producing bank notes and coins, and destroying old notes that are no longer fit for use.
- Bank examination: Examining the operations of all financial institutions, to promote financial stability and guide sound banking operations.
- Treasury agency function: Handling receipts and disbursements of funds and properties for the Central

Government and its agencies. Also, handling the issuance, redemption and interest payments of central government securities.

- Statistics and research: Compiling data on financial statistics, flow of funds and balance of payments, and publishing these statistics in the Financial Statistics Monthly, Flow of Funds Annual, and Balance of Payments Quarterly. The Bank also conducts studies on economic and financial conditions of major countries, including any impacts arising from the global financial markets.

### Financial Supervisory Commission (FSC)

The Financial Supervisory Commission (FSC) began operations on 1<sup>st</sup> July 2004. The authority of financial supervision has shifted from the Ministry of Finance to the FSC since then.

The FSC comprises:

- Four bureaus: Monetary Affairs, Securities and Futures, Insurance, and Examination Bureau.
- Four departments: Planning, International Affairs, Legal Affairs, and Information Management Department.
- Four offices: Secretariat, Personnel, Accounting, and Anti-Corruption Office;

In addition, a Financial Supervisory Fund has been established to support FSC operations and ensure its independence in developing and supervising Taiwan's financial services industry.

The primary function of the FSC is to consolidate the supervision and examination of the banking, securities and futures, insurance, and the financial holding companies under one supervisory authority. The FSC also standardises the regulations and policies among different financial supervisory agencies.

### Banking Bureau

The Banking Bureau (formerly The Bureau of Monetary Affairs) regulates and supervises banks, including commercial banks, specialised banks, local branches of foreign banks and the trust and investment companies.

It also regulates credit card issuers, bills finance companies and community banking institutions, and performs various supervisory functions such as risk-based supervision, transparency and disclosure, and consumer protection. Its activities include:

- Licensing banks
- Reviewing applications for new branches, charters, and banking activities
- Establishing rules and regulations governing bank lending, investments, and other practices
- Taking disciplinary actions against banks that fail to comply with laws and regulations, or which engage in unsound banking practices

### Central Deposit Insurance Corporation (CDIC)

The CDIC was formally established in accordance with the Deposit Insurance Act. Each depository of a financial institution participating in deposit insurance is eligible for insurance coverage of up to NTD 1 million. With the implementation of mandatory deposit insurance since 1999, nearly all banks engaging in deposit-taking in Taiwan have been required to join Taiwan's deposit insurance scheme.

Financial institutions approved to accept deposits must take part in deposit insurance provided by the Central Deposit Insurance Corporation (CDIC) and to pay premiums. If an insured institution terminates its business or is unable to pay off its deposits, CDIC will compensate depositors up to NT1.5 million limited to principal. This system is designed to ensure the rights of depositors and maintain the stability of the financial system.

All depositors – residents and non-residents, and individuals and organisations – are covered by this insurance.

### Ministry of Finance (MOF)

As previously stated, the FSC took over the authority for financial supervision from the Ministry of Finance (MOF). Nevertheless, the MOF still requires a few regulatory reports from financial institutions.

The major functions of the MOF are:

- National Treasury: To regulate public treasury systems and supervise the treasury administration at all levels of government, to enforce national fiscal policies and maintain a balanced budget, etc.
- Customs: To devise customs policy and the tariff system, to enact customs laws and anti-smuggling regulations, etc.
- Taxation: To design tax policies and the taxation system, to establish an overall sound tax environment to meet the needs of economic development, etc.
- Management of National Property: To acquire and register national land, develop national real estate not for public use, etc.

### Reporting challenges

On January 1<sup>st</sup> 2005 the Taiwanese Government started a four-year development plan to promote twelve service sector industries in Taiwan, including the financial services industry. The Regional Financial Services Centre Promotion Plan aims to build the finance and banking environment and legal framework in line with international norms, with the goal of transforming Taiwan into a regional financial services centre.

In pursuing its goal of becoming the financial centre of East Asia, Taiwan has revised many of its financial policies to bring them in line with international standards. Examples of such policies include:

- Introducing monitoring and supervision systems that regulate financial markets and banking in Taiwan in line with international standards, for example, revision on capital adequacy ratios to meet the Basel II requirement
- Improving the regulatory framework and administrative efficiency of Taiwan's financial services industry
- Improving corporate governance by requiring financial institutions to strengthen their internal control systems

All these policies changes have increased the complexity and frequency of reporting requirements. For example, with the new accounting standard TWGAAP 34 (Accounting for Financial Instruments), which is also in line with the new IAS39, the financial instruments are classified in various portfolios. The Balance Sheet will be displayed according to the portfolio of various assets and liabilities and in the order of liquidity.

Certain derivatives may be designated as hedging instruments and accounted according to the "Hedge Accounting", as laid down in TWGAAP34/IAS39.

Taiwan witnesses frequent changes at policy level, which results in changes in the regulatory reporting requirements that banks have to meet.

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