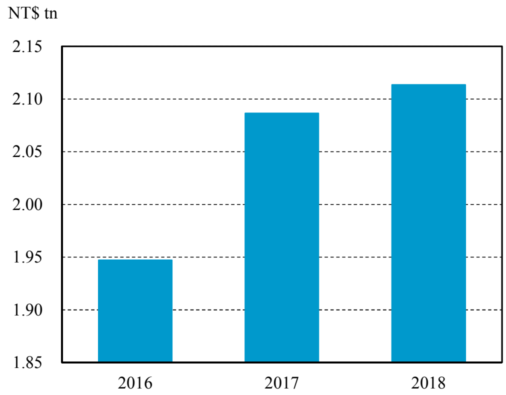
3.3 Financial infrastructure

3.3.1 Payment and settlement systems

Overview of the CIFS's operation

The CIFS serves as the hub of Taiwan's interbank funds transfer and settlement system. The CIFS deals with large-value interbank funds transfers, interbank funding, and funds settlements in financial markets. Moreover, it also provides interbank final settlement services to each clearing institution, such as domestic securities, bills, bonds and retail payments. In 2018, the daily average amount of funds transferred via the CIFS was about NT$2.11 trillion (Chart 3.53).

Chart 3.53 Daily average amount of funds transferred via the CIFS



Source: CBC.

Payment transactions related to daily life are mainly conducted through the retail payment systems of the FISC, the National Credit Card Center (NCCC), and the Taiwan Clearing House (TCH). The trading value of these major systems in 2018 registered NT$212.89 trillion in the FISC, NT$18.99 trillion in the TCH and NT$2.96 trillion in the NCCC. Among them, the amount of funds processed by the FISC's Interbank Financial Information System (FIS) was the largest.

The fast retail payment[56] system in Taiwan was developed very early. Since 1987, financial institutions have conducted real-time settlement through the Bank's Interbank Funds Transfer Guarantee Special Account (Guarantee Account[57]). By linking the FIS with the Guarantee Account, all financial institutions (including community financial institutions) constitute a connected framework to provide the general public 24-hour real-time interbank withdrawal and transfer services (Chart 3.54). Some advanced economies, such as Japan, Hong Kong and Canada, have just

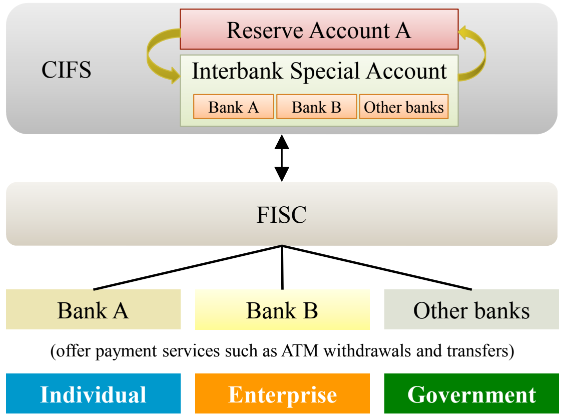
[56] According to the BIS, "fast payment" is defined as a payment in which the transmission of the payment message and the availability of "final" funds to the payee occur in real time or near-real time on as near to a 24-hour and seven-day basis as possible.

[57] The Guarantee Account is a pool account opened by financial institutions in the Central Bank. The account stores the settlement funds required for banks to conduct interbank transactions. When people make interbank withdrawals or transfers, the Interbank Financial Information System of FISC immediately uses the funds in the Guarantee Account to handle the account settlement of interbank fund transfers.

begun developing fast retail payment systems in recent years.

In terms of transaction security, the FISC, entrusted by the FSC, is responsible for the operation of the Financial Information Sharing and Analysis Center (F-ISAC), with the objective to maintain the security of financial transactions via the establishment of a joint financial defense system for InfoSec with financial institutions.

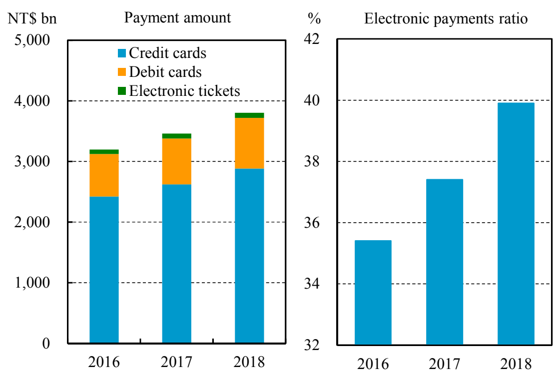
Chart 3.54 Operating framework of domestic fast retail payment system



Source: CBC.

Overview of electronic retail payment transactions

Chart 3.55 Growth of electronic payments



Note: Electronic payment ratio refers to the ratio of the trading value of card-based payment to private consumption expenditure.
Sources: CBC, FSC, FISC and DGBAS.

Over the years, domestic banks and non-bank payment companies have been dedicated to providing diverse and convenient electronic payment instruments for the public to carry out interbank remittances, transfers, bill/tax payments, retail payments and other payments. In terms of consumption expenditure, the public mostly use card-based payments. Among them, the payment amount by credit cards accounts for the largest share, followed by debit cards and electronic stored value cards. The total trading value registered NT$3.80 trillion in 2018, which accounted for 39.95% of total private consumption expenditure (Chart 3.55).

In view of the potential development in mobile payments, since 2017 the National Development Council (NDC) has initiated a cross-ministerial mobile payment mechanism with three themes for promotion, namely building a sound mobile payment environment, expanding the mobile payment coverage, and increasing consumer mobile payment experience, to boost growth of the mobile payment industry and achieve a 90% mobile payment penetration rate[58] by 2025. According to the data collected by the Bank

[58] The penetration rate of mobile payments refers to the ratio of mobile payment users to mobile device users.

from twenty domestic banks, the trading value of mobile payments has grown rapidly since 2017 Q4, registering 120% growth[59] year on year.

As for QR code payment, standardized QR codes, promoted by the FISC and state-owned banks, have allowed consumers to transfer or pay bills/taxes with debit cards or credit cards by scanning QR codes. Currently, the FISC is actively expanding the use of QR codes in versatile types/sites of applications, which integrate more than 4,000 kinds of bills/taxes that can be paid by scanning those codes. Furthermore, it cooperates with large chain stores to provide more convenient payment services, which is expected to bolster trading momentum in the future.

Continue to strengthen the infrastructure of retail payments

In order to help financial institutions keep sufficient interbank settlement funds, the Bank raised the ceiling on the amount of financial institutions' end-of-day balances in the Guarantee Account to be counted as part of the required reserves in January 2019, to promote the smooth operation of overall retail payment infrastructure. The Bank also continues to pay attention to international development trends and urges the FISC to improve its infrastructure, such as lowering processing fees for small-value ATM interbank funds transfers and establishing an inter-agency sharing platform for electronic payments and electronic stored value cards. Moreover, the tiered preferential measures for ATM interbank transfer processing fees were implemented in April 2019 so as to provide the public with a safe, efficient, convenient and low-cost service and to deepen financial inclusion (Box 3).

3.3.2 Providing incentives for financial institution mergers

To provide a friendly legal environment for M&As and strengthen the competitiveness of local financial institutions, in November 2018, the FSC amended regulations relating to the merger of financial holding companies and banks with the aim of encouraging mergers of financial institutions. This policy is applicable to all domestic financial holding companies or banks (applicants). Nevertheless, when it comes to hostile takeovers, only financial institutions without government shareholding management under the MOF can be the applicants or investees. The key points of this policy are as follows:

- The required shareholding ratio of initial investment was revised to be over 10%. However, the applicants have to ensure the merger will be completed within a specified

[59] The mobile payments in this survey included mobile credit cards, mobile debit cards and NFC/QR Code payments. The transaction value in 2018 Q4 was approximately NT$16.77 billion.

period of time (no longer than three years) and submit a follow-up plan for the sale of the purchased shares, which will be executed if the merger fails to be concluded on time.

- If the invested target financial institutions are public companies, the applicants should make enough initial investment through public tender offer within three months after being permitted by the FSC. If the applicants fail to complete the public tender offer as scheduled in the investment plan, they are not allowed to employ another public tender offer of the same invested financial institutions within one year.

- The applicant should obtain one of the following documents in the case of friendly takeover: (1) the board resolution of the invested financial institution showing no objection to the merger; (2) a signed agreement or contract with the insiders or related parties of the invested financial institution to acquire more than 25% of the shares. Those who meet certain criteria[60] are allowed to conduct hostile takeovers without submitting the aforementioned documents. Furthermore, these applicants are allowed to adopt a more flexible approach for capital charge during the merger process.

3.3.3 Paving way for the establishment of internet-only banks

In response to digitized business opportunities and with the aim of encouraging financial innovation and deepening financial inclusion, the FSC proposed a new policy for internet-only banks in April 2018, and subsequently amended relevant regulations to formulate qualification standards of applicants. The main standards include minimum paid-in-capital, scope of business, qualification of founders and directors, fit and proper requirements for major shareholders, supervision standards and physical presence, etc. The FSC has started to accept applications for setting up internet-only banks from November 16, 2018, to February 15, 2019, with a plan of issuing two licenses. As of the time of writing, the FSC received three applications and set up a panel including independent experts and scholars to review applications in a manner of fairness and justice. It is expected that the approval list will be announced by the end of July 2019.

In the future, internet-only banks are expected to draw support from their major shareholders' massive customer bases and technological advantages in e-commerce, telecommunications, or communication software, and to rapidly expand their businesses and make profits. However, owing to overbanking and the highly competitive environment in Taiwan, internet-only banks still will face some challenges in the future. In addition, internet-only

[60] According to the relevant regulations, the applicant should have four prerequisites in place, including adequate capital level, strong operational expertise, robust global expansion capability and sound corporate social responsibility.

banks will be exposed to various risks which are similar, but of a different nature, to those of traditional banks. Therefore, the competent authorities should ensure they comply with financial regulations and strengthen risk management so as to fulfill both goals of financial innovation and financial stability (Box 4).

3.3.4 Financial Technology Development in Taiwan

For the purposes of providing a friendly environment for financial technology development and encouraging the use of technology to develop innovative financial products and services, in July 2018, the FSC promulgated supporting measures pursuant to the *Financial Technology Development and Innovative Experimentation Act* in order to provide financial technology enterprises with necessary assistance, guidance, and counseling services. Recent highlights of related activities promoted by the FSC and other competent authorities are as follows:

Approving an innovative experimentation application

The FSC approved the first application case for FinTech innovative experiment on September 18, 2018. This innovative experiment, involving cross-industry cooperation between a domestic bank and a local telecom company, plans to conduct online lending and credit card businesses for new customers. Moreover, the second batch of application, approved on January 31, 2019, aimed to provide cross-border wire transfers for migrant workers.

Establishing the FinTechSpace

The FinTechSpace, established by the FSC and the TFSR, was inaugurated on September 18, 2018. It aims to create a FinTech ecosystem, cultivate FinTech talents and new ventures, and foster innovation in the domestic financial industry.

Organizing FinTech Taipei 2018

The TFSR, together with the Taiwan Academy of Banking and Finance, organized FinTech Taipei 2018 in December 2018. The expo provided a FinTech exchange platform, deepened financial cross-field collaborations, and was aimed at building FinTech Taipei as a brand through holding this iconic international FinTech conference.

3.3.5 Taiwan prepared for mutual evaluations by the APG

Taiwan has been complying with the international requirements governing AML/CFT set out by the Financial Action Task Force (FATF). However, the FATF successively amended regulations such as the 40 Recommendations and assessment methodology in recent years, which makes it more difficult and challenging for those undergoing national AML/CFT compliance.

To prepare for the third-round of APG mutual evaluations, recently Taiwan has actively implemented corresponding measures aimed at getting higher ratings in the aforementioned evaluations. Those measures included: establishing the “Anti-Money Laundering Office” to be fully in charge of reinforcing national-wide coordination of AML/CFT; amending regulations governing AML/CFT; and organizing assessment and evaluation meetings (Box 5).

3.3.6 FX regulation amendments

Relaxing FX regulations for banks

In order to promote development of the financial services industry in the context of financial globalization and liberalization, the Bank successively relaxed FX regulations for banks as follows:

- In order to conform with the amendments to the *Company Act* that eliminate the recognition system for foreign companies, in November 2018, the Bank revised the *Directions Governing Banking Enterprises for Operating Foreign Exchange Business*, relaxing the qualification criteria for trustors for NTD non-discretionary money trusts.
- In order to conform with the policy that the FSC opened the door for establishing the internet-only banks in February 2019, the Bank revised the *Regulations Governing Foreign Exchange Business of Banking Enterprises*, adding provisions relevant to the qualification criteria for internet-only banks to apply for approval to become authorized FX banks.
- In line with the amendments to the aforementioned regulations, the Bank concurrently revised directions related to application procedures for banks engaging in FX business with customers through electronic and communications equipment.

Relaxing FX regulations for bills finance companies

In response to deregulating foreign currency-denominated interest rate derivative business for bills finance companies, in November 2018, the Bank stipulated application procedures and matters of compliance for the headquarters of bills finance companies conducting the business of FX derivatives involving interest rates as a business entity.

Box 3
Continuously improving the retail payment infrastructure to deepen financial inclusion

Financial inclusion[1] has far-reaching effects on financial development and economic growth. Moreover, it contributes to not only the transmission of the central banks' monetary policy but also financial stability.[2] For quite some time, many countries have regarded it as an important objective of public policy. In recent years, technological innovation has changed the face of retail payment services, which has become a new focus for countries to promote financial inclusion.

1. Countries across the world have successively established fast retail payment systems, which has helped achieving the goal of financial inclusion

Technological innovation expands the depth and breadth of retail payment services, which contributes to achieving financial inclusion. Recently, countries across the globe have successively established fast retail payment systems featuring low cost, easy-to-use interfaces, safe transaction and rapid access to funds. The systems are expected to provide better payment services so that more individuals can be involved in the financial system. (Table B3.1).

Table B3.1 Features of development in international fast retail payment

Features of development	Measures taken
Low cost	• Replacing ATM with online or mobile banking services to reduce setup and maintenance costs • Non-bank payment service providers to join the payment market, providing convenient and low-cost payment services through mobile applications
Easy-to-use interface; safe transaction	• Developing standardized QR Codes • Transferring with mobile phone numbers or email addresses in place of bank account numbers • Intergrating more trading information to provide additional value-added services (such as tracing cash flows)
Rapid access to funds	Adopting pre-funding to provide settlement funds, which is expected to help achieve 24-hour real time gross settlement and allow customers to instantly obtain and employ funds

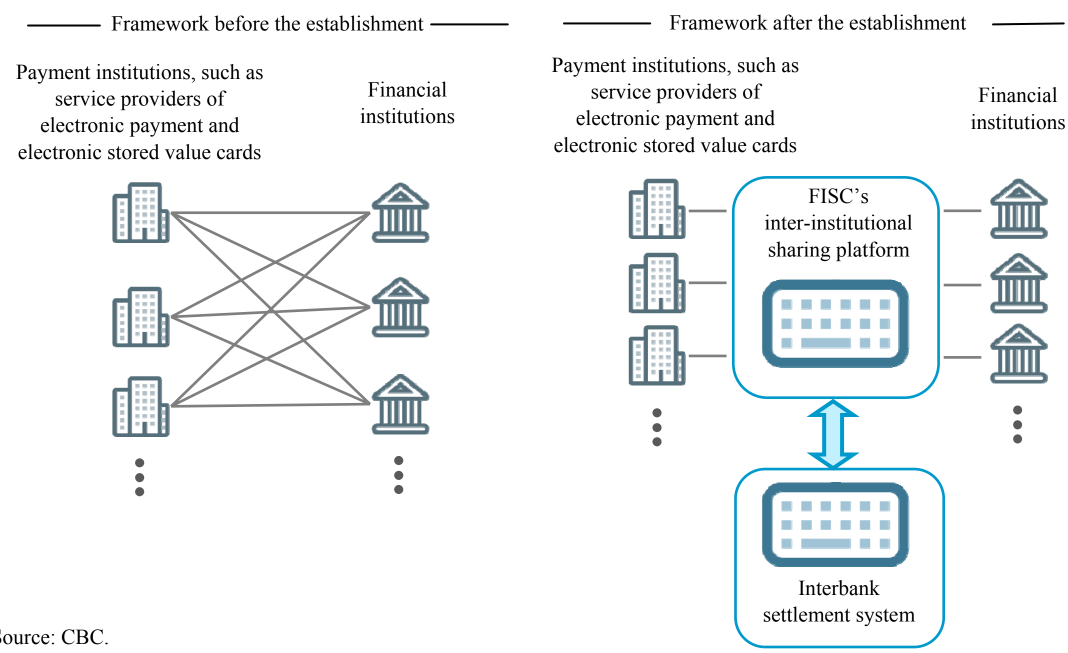
Source: CBC.

2. Continuing to improve the retail payment infrastructure and deepen financial inclusion

With the advent of the mobile payment era, banks are actively promoting various mobile banking services. Meanwhile, non-bank electronic payment institutions (EPIs) are also actively providing consumers with multiple payment options through mobile applications. The Bank continues to urge the Financial Information Service Co., Ltd. (FISC) to improve the retail payment infrastructure to deepen financial inclusion. For example, tiered preferential measures for ATM interbank transfer fees were introduced in April 2019.

In addition, under the current direct network connection model, EPIs connect directly with one or more banks, while their customers are connected to different banks' accounts to settle online payments through the electronic payment platforms. With an increase in EPIs, the above-mentioned operation could become more sophisticated and fuel concern over security of data and transaction processing. In response, the FISC has developed standardized QR Codes and integrated the front-end trading interface. Furthermore, the exchange of post-transaction messages can be conducted immediately through the inter-institutional sharing platform established by the FISC (Chart B3.1). Those procedures, coupled with the transactions through the existing CBC Interbank Funds Transfer System (CFIS) at the back end, demonstrate the benefits of exchanging

Chart B3.1 The inter-institutional sharing platform



Source: CBC.

real-time transaction data at the front end and rapid fund settlement at the back end. Moreover, the inter-institutional sharing platform can solve the current problem of incompatibility between different EPIs. As a result, vendors could receive various types of payment from consumers by signing contracts with even just one acquiring institution.

3. The Bank raised the ceiling on the amount of financial institutions' end-of-day balances in the Interbank Funds Transfer Guarantee Special Account (Guarantee Account) to be counted as part of the required reserves so as to facilitate smooth operation of the payment infrastructure

As the volume of e-commerce and online transactions continues to expand, the average end-of-day balances in the Guarantee Account of the Bank have increased from approximately NT$20 billion in the early period to NT$50 billion or so in 2018, meeting the needs of interbank transactions during non-business hours such as night time and holidays. In order to allow financial institutions to deposit sufficient settlement funds and facilitate smooth operation of the overall retail payment infrastructure, the Bank has raised the ceiling on the amount of financial institutions' end-of-day balances in the Guarantee Account to be counted as part of the required reserves from 4% to 8 %, which became effective from January 4, 2019 onwards. Financial institutions are permitted to retain more funds in the Guarantee Account so as to provide a wider range of payment services.

Notes: 1. According to the definition of the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

2. Mehrotra, Aaron and James Yetman (2015), "Financial Inclusion – Issues for Central Banks," *BIS Quarterly Review*, March; Irving Fisher Committee (2016), "Measures of Financial Inclusion – A Central Bank Perspective," *IFC Report*, June.

Box 4
The development of internet-only banks in Taiwan

Responding to digitized business opportunities, as well as aiming to encourage financial innovation and deepening financial inclusion, the FSC announced the policy to open the door for the establishment of internet-only banks in April 2018 and subsequently amended relevant regulations. As internet-only banks have different business models from traditional banks, they may give rise to distinct risks and supervision issues, and their impacts on the domestic financial system and financial consumer rights merit further attention.

1. International trends of internet-only banks

Internet-only banks usually refer to banks without physical branches which provide all financial services through internet or mobile channels, but the definitions are slightly different in various countries. In recent years, the significantly rising penetration rates of online banking provided a good opportunity for the development of internet-only banks. After the Security First Network Bank, the world's first internet-only bank, was established in the United States in 1995, a number of internet-only banks were set up around the world.

In general, there are two business models adopted by internet-only banks. One is providing financial services at preferential prices and enhancing customer experience by using new technology so as to attract customers. Many internet-only banks in European countries and America adopted this model. The other is taking the advantages of solid business networks and massive customer bases from major shareholders of e-commerce, telecommunications, communication software, retail corporations or financial holding companies, to establish a complete ecosystem by integrating product, financial, and information flows from various industries. This model can be represented by internet-only banks in Asian countries.

The same as traditional banks, internet-only banks also face strategic, credit, market, operational, liquidity, and reputational risks. However, since internet-only banks purely rely on internet or mobile channels to provide financial services, the features of the risks they face are somewhat different from those faced by traditional banks.[1] In particular, they should enhance the management of liquidity risk, operational risk (including customer data protection), and reputational risk. Moreover, potential risks of internet-only banks related to money laundering, consumer protection, and using non-traditional data (such as social networking data) for credit review should also be closely monitored.

In the countries with internet-only banks among other kinds of banks, there is no significant difference in supervion standards between internet-only banks and traditional commercial banks. Usually, supervisors in these countries do not formulate special supervisory regulations for internet-only banks but mainly follow the *Core Principles for Effective Banking Supervision*[2] and apply the same supervisory rules as for traditional commercial banks.

2. The development of internet-only banks in Taiwan

2.1 The FSC planned to accept the establishment of two internet-only banks

In April 2018, the FSC proposed a new policy for internet-only bank establishment and accordingly amended relevant regulations governing commercial bank establishment to stipulate the application requirements of internet-only bank establishment. The key requirements include minimum paid-in-capital, scope of business, qualification requirements of founders and directors, fit and proper requirement for major shareholders, supervision standards, and physical presence, etc. (Table B4.1). The FSC planned to issue only two licenses for internet-only banks to properly mitigate competitive pressures in the banking sector.[3]

The FSC also set up four categories of evaluation criteria for the applications, including financial capabilities (10%), fit and proper qualities of founders with shareholdings over 10% and of major senior managers (20%), business model feasibility (40%), and management mechanism appropriateness (30%). Among them, business model feasibility has the highest weighting.

Table B4.1 Main requirements for internet-only bank establishment in Taiwan

Items	Main requirements
Minimum paid-in-capital	• NT$10 billion (the same as required for setting up a commercial bank).
Scope of business	• Same business scope as a commercial bank. • Allowed to apply for money trust, credit card and electronic payment businesses upon application.
Qualification requirements of founders	• More than 40% of paid-in-capital should be subscribed for by the founders of financial institutions (financial holding companies, banks, insurance companies or securities firms), and at least one of the founders should be a bank or a financial holding company whose shareholding should exceed 25%. • A foreign financial institution can be the founder. • Non-financial founders who have the financial technology, e-commerce or telecommunication capabilities and are capable of offering a successful business model may subscribe for more than 10% of the

	paid-in capital.
Qualification requirements of board directors	• More than half of the directors should meet professional requirements in banking, financial technology, e-commerce or telecommunication businesses. • At least one of the board directors should meet professional requirements in financial technology, e-commerce or telecommunication businesses.
Fit and proper requirements for major shareholders	• Major shareholders should meet the requirements of integrity, honesty, and no regulation violation, and can reasonably explain the interested relationships with the banks. • Major shareholders should not have disqualifying conditions for persons in charge of banks.
Supervisory standards	• Subject to the same regulations and supervisory requirements governing incumbent commercial banks; required to join the government deposit insurance scheme.
Branch locations	• The absence of physical branches, except for the head office and the customer service center.

Source: FSC.

2.2 Three groups applied for the licenses of internet-only banks

Currently, three groups with different competitive advantages applied for the licenses of internet-only banks, including Line Commercial Bank, Next Commercial Bank, and Rakuten International Commercial Bank. A look at the background of the founders showed that all applicants employ similar business models to that of Japan, South Korea and Mainland China, seek to expand their customer bases and businesses as fast as possible with the help of their major shareholders that possess massive customer bases in the fields of e-commerce, telecommunications, and communication software.

In order to evaluate applications in a manner of fairness and justice, the FSC stipulated a piece of regulation in February 2019 to set up an evaluation panel comprising external experts and scholars and representatives from the FSC. It was expected that the approval list would be announced by the end of July 2019.

2.3 Taiwan is in a good position to accommodate internet-only banking businesses, but still faces some challenges

High internet and smartphone penetration rates put Taiwan in a good position to develop online banking services. The implementation of a financial regulatory sandbox also provides internet-only banks good opportunities to employ new technology to provide financial services. In addition, massive customer bases of all applicants also are conductive to rapidly expanding business after the internet-only banks are established.

However, owing to high financial inclusion, overbanking and the highly competitive environment in Taiwan, internet-only banks are still confronted with some challenges regarding attracting customers and making profits. Furthermore, difficulty in recruiting suitable senior managers and collecting the necessary big data, as well as making enough profits to cover the high costs of information system development and database maintenance in the short term, also pose challenges to their future operations.

3. Conclusion

Drawing from the business models of internationally renowned internet-only banks, the authorities found that security, efficiency, innovation, and optimized customer experience were important factors to attract customers and earn their trust. In the future, in order to effectively improve profitability, Taiwan's internet-only banks can take advantage of internet and financial technology innovation and cooperate with their major shareholders or strategic partners to produce synergies. Meanwhile, they should strengthen risk management, especially risk controls over liquidity, information security and regulatory compliance, to facilitate sound operation.

In order to fulfill both goals of financial innovation and financial stability, the competent authorities should ensure regulatory compliance of internet-only banks and strengthen risk monitoring of their operations. The authorities should also formulate relevant rules for internet-only banks based on supervisory standards and international experience. In addition, the Bank will prudently assess the impacts of internet-only banks on monetary, credit and foreign exchange policies, as well as financial stability, and take appropriate actions to address potential liquidity risks.

Notes: 1. BCBS (2018), "Sound Practices: Implications of Fintech Developments for Banks and Bank Supervisors," February.
2. BCBS (2012), "Core Principles for Effective Banking Supervision," September. Core principle 4 stipulates that a bank which is licensed and subjected to supervision can accept deposits.
3. The FSC had initially planned to issue two new licenses for the three applicants. However, considering that they all had different business models and target customers, the FSC eventually announced in July 2019 that all three companies were granted approval to set up internet-only banks.

Box 5
Taiwan's preparations for mutual evaluations by the Asia/Pacific Group on Money Laundering (APG)

APG mutual evaluations mainly involve two interrelated components for technical compliance (framework of laws) and effectiveness (outcomes achieved). The evaluations require not only the implementation of comprehensive regulations governing anti-money laundering and combating the financing of terrorism (AML/CFT), but also the delivery of the achievements of the program. If the assessment outcomes fail to meet the standard, national reputation and international financial business could be affected. Therefore, so as to prepare for the third-round APG mutual evaluations in 2018, ministries and departments under Taiwan's cabinet actively implemented the following measures.

1. Establishing an institution fully in charge of reinforcing the national coordination of AML/CFT

In March 2017, the Executive Yuan (Taiwan's cabinet) established the "Anti-Money Laundering Office." Its main missions are to coordinate and execute duties relevant to AML/CFT policies and guidelines within Taiwan, and to promote the preparatory tasks for national AML/CFT risk assessment and the aforementioned mutual evaluations.

2. Amending related regulations

To achieve compliance with the requirements set out in the 40 Recommendations of the Financial Action Task Force (FATF), Taiwan has continued to amend relevant regulations governing AML/CFT. Accordingly, financial supervisory authorities have also conducted several amendments to meet the requirements. The main amendments are shown as follows.

2.1 Laws

(1) Amending the Money Laundering Control Act

For the purpose of complying with international standards, bolstering anti-money laundering systems, increasing transparency in money flows and constructing a suspicious transactions reporting mechanism, the *Money Laundering Control Act* was substantially revised in December 2016 and enacted in June 2017. The *Act* was revised again in November 2018 to avoid disputes and to be more in line with international regulations.

(2) Enacting the *Counter-Terrorism Financing Act*

Following the United Nation's international convention in connection with the prevention of terrorist financing (TF) and FATF's 40 Recommendations, the *Counter-Terrorism Financing Act* was enacted in July 2016. The *Act* was amended in November 2018 to ensure that targeted financial sanctions are fully implemented.

2.2 Regulations applied to the financial sector

(1) Promulgation of the Regulations Governing Anti-Money Laundering of Financial Institutions

Authorized by Articles 7 to 10 of the *Money Laundering Control Act*, the FSC enacted and amended the *Regulations Governing Anti-Money Laundering of Financial Institutions* in June 2017 and November 2018, respectively. The *Act* primarily required that financial institutions comply with the related provisions in undertaking customer (including beneficial owners) due diligence, record keeping, and reporting of large amount cash transactions, as well as suspicious money laundering or TF transactions

(2) Introducing regulations governing financial institutions' AML/CFT internal control and auditing systems

According to Article 6 of the *Money Laundering Control Act*, the FSC changed the directions governing internal control systems into regulations on the banking sector's internal audit and internal control system of AML/CFT in November 2018. Moreover, the FSC enacted regulations governing AML/CFT of the securities, futures, and insurance industries. Additionally, with the aim of urging financial institutions to comply with AML/CFT regulations, the FSC has been promoting public awareness and conducted risk-based targeted examinations.[1]

2.3 Others

The Bureau of Agricultural Finance, Council of Agriculture, also promulgated regulations governing AML/CFT of agricultural financial institutions. The Bank enabled further improvements of the AML/CFT rules by amending regulations governing foreign exchange business handled by foreign currency exchange counters and banks. Furthermore, the Bank conducted risk-based on-site reviews targeting foreign currency exchange counters, along with information integrity reviews of foreign currency remitters and beneficiaries.

3. Organizing a series of assessment or evaluation meetings

Taiwan's AML Office fully cooperated with the public and private sectors to complete a *Technical Compliance Report* and an *Effectiveness Compliance Report* in May and July 2018, respectively. The reports were submitted to the APG for mutual evaluations. In addition, the AML Office has actively organized the following assessment or evaluation meetings.

3.1 National Money Laundering/Terrorist Financing (ML/TF) Risk Assessment Procedure Meetings

From June 2017 onwards, the AML Office successively held four large-scale National ML/TF Risk Assessment Procedure Meetings and published the first *National Money Laundering and Terrorist Financing Risk Assessment Report* in May 2018. The report not only met the requirements specified in the FATF's 40 Recommendations but also helped the development of more effective AML/CFT policies in Taiwan.

3.2 Mock mutual evaluation meetings

The AML Office conducted mock mutual evaluation meetings in December 2017 and April 2018, in which foreign consultants were appointed as mock assessors to simulate possible situations faced when answering questions. These meetings were aimed not only at promoting the related participants of assessed sectors to become familiar with on-site evaluations but also helping the Office identify potential deficiencies or weaknesses of the relevant regulations and measures.

3.3 APG on-site evaluation meetings

Three APG on-site evaluation meetings have been held and are summarized in Table B5.1.

Table B5.1 Summary of the APG on-site evaluation meetings

Date	Title	Summary
August 28-31, 2018	Preparatory meeting	The meeting included two-way communication discussions about three reports (such as *Technical Compliance Report*) proposed by the AML Office, as well as the procedure and administrative details of the on-site evaluation meeting to be held in November 2018.
November 5-16, 2018	On-site evaluation meeting	Thanks to great support and investment by the government, the preliminary results of a mutual evaluation highly attested to the significant progress in Taiwan's AML/CFT.
March 18-21, 2019	Face-to-face meeting	All the participants from different authorities were able to actively explain and reply to the deficiencies proposed by the assessment team so as to mitigate the deficiencies.

Source: CBC.

4. Taiwan actively strives to achieve a higher evaluation rating in the 2019 APG annual meeting

In accordance with the APG mutual evaluation description, Taiwan's mutual evaluation report, revised after the face-to-face meeting, will be submitted to the APG annual meeting in 2019. After further discussion and confirmation, the aforementioned report will be concluded. Against this backdrop, the foremost task of Taiwan's delegation is to plan and formulate measures to achieve higher ratings of some evaluation items so as to receive better evaluation results. Nevertheless, since countries such as the US, Canada, Australia and New Zealand are known for carrying out rigorous assessments in the annual meeting of the international FSRB (FATF-style regional body), Taiwan is likely to face demanding challenges, which warrants preemptive measures.

Note: 1. The content includes evaluating financial institutions' risk profiles, conducting more frequent and detailed examinations according to risk ratings, and carrying out diverse targeted examinations, etc.