

Continuing to open the market for new foreign currency derivatives and expand foreign currency call loan and swap markets

In order to expand the services provided by financial institutions and satisfy customer demand for portfolio management and risk hedging, the CBC has continually granted licenses to investment trusts, investment consulting firms, securities firms and bills houses to provide onshore and offshore financial services and products. To date, 24 foreign currency derivative products and 5 NTD-linked derivative products have been approved. The total transaction volume of these products totaled US\$3.76 trillion in 2012.

Furthermore, the CBC continued to finance banks through foreign currency call-loans and currency swaps in order to meet the funding needs of industry and maintain sufficient foreign currency liquidity in the domestic banking system. In 2012, the turnover amounts of the Taipei call-loan and interbank USD/NTD currency swaps markets were US\$1.81 trillion and US\$1.13 trillion, respectively, and the outstanding of both markets at the end of the year stood at US\$22.3 billion and US\$145 billion, respectively.

4.2 Measures undertaken by the FSC to maintain financial stability

From 2012 onwards, the FSC continually amended financial laws and regulations, and undertook several supervisory reforms in order to ensure financial stability.

Strengthening risk management of financial institutions

- Amending the Regulations Governing the Capital Adequacy and Capital Category of Banks and related regulations to raise the quality and level of capital in accordance with the international capital standards stated in Basel III (Box 5).
- Setting the minimum loan coverage ratio⁷⁵ of 1% as an important criterion when reviewing the applications submitted by banks, and gradually raising the ratio of loan loss provisions to performing credit assets to above 1%.
- Revising bank soundness criteria to require a bank intending to distribute cash dividends that exceed 15% of its total capital to meet the following conditions: (1) the post-distribution legal reserves of the bank must be higher than 75% of paid-in capital; and

⁷⁵ When calculating the loan coverage ratio (allowance for bad debts to total loans), loans to the government have been deducted from the denominator.

(2) the post-distribution capital adequacy ratio and Tier 1 capital ratio must be at least 12.5% and 10.5%, respectively.

- Establishing a mechanism for regulating the aggregate credit risk exposures of domestic banks to Mainland China for the purpose of strengthening banks' management of concentration risk.

Urging financial institutions to reinforce risk management of real estate-related loans and investments

- Urging financial institutions to strengthen risk management of real estate loans, such as introducing new supervisory measures and conducting target examinations on banks with highly concentrated real estate lending.
- Requiring insurance companies to comply with the instructed criteria of immediate use and reasonable benefit when acquiring usable real estate, and to strengthen internal controls regarding real estate investments.

Enhancing corporate governance

- Issuing regulations requiring listed companies to adopt electronic voting systems for shareholder meetings in order to encourage shareholders to actively participate in company operations. According to the statistics, of the 113 listed companies that are subject to the requirements, 83 had already adopted electronic voting systems for shareholder meetings in 2012.
- Revising related regulations to strengthen the internal governance and transparency of publicly offered companies, such as (1) establishing asset acquisition and disposal procedures, managing and publicly disclosing interested party transactions, and setting up remuneration committees, etc.; and (2) strengthening board of directors meetings procedures for public companies, such as disclosing the exercise of recusal of directors.
- Promulgating a set of rules to define the range of companies that are required to establish an auditing committee for the purposes of strengthening internal control mechanisms, protecting shareholders' interests and ensuring the sound operation of companies.

Promoting risk-oriented supervision and differential examinations to strengthen financial examination effectiveness

- Periodically disclosing the key focal points of examinations and main examination findings so as to remind financial institutions to take heed; and editing financial inspection educational materials for public and financial industry use.
- Adopting risk-focused supervision and implementing differentiation in the frequency and scope of on-site examinations for seven categories of financial institutions including banks; and conducting target examinations with a supervisory focus and drawing public attention to important issues.

Strengthening the financial soundness and solvency of the insurance industry

- Adopting measures to improve the effective usage of funds and financial soundness of the insurance industry, including (1) requiring that the special reserves set aside by non-life insurance companies on or before 31 December 2012 will continue to be listed as liabilities and will be transferred to special reserves against natural disasters; (2) allowing life insurance companies to establish foreign exchange valuation reserve mechanisms to more flexibly manage exchange rate risk and lower hedging costs; and (3) raising the maximum amount that an insurance company can invest in a company for the purpose of participating in a public infrastructure project from 25% of the investee's paid-in capital to 35%, in order to raise the investment willingness and capabilities of insurance companies.
- Urging life insurance companies to plan out a schedule for enhancing policy reserves for in-force contracts, and requiring those who wish to distribute earnings to submit a policy reserves consolidation proposal first; and modifying the RBC rules to allow life insurance companies to use the arithmetic mean of stock prices for each day during the half year preceding the valuation day, instead of year-end closing prices, when factoring in unrealized gains and losses on stocks, in order to alleviate the impacts of short term stock market fluctuations on the stability of capital adequacy ratios.

Reinforcing the disclosure of market information

- Supervising the TWSE and related institutions to set up warrant information disclosure platforms from July 2012 onwards in order to increase transparency and mitigate information asymmetry in the warrant market.

- Entrusting Taiwan's GTSM to set up an OTC derivatives trade repository (TR) aimed at strengthening supervision and raising market transparency. The database will be completed at the end of June 2013.
- Amending requirements governing public tender offerings to protect shareholder interests and reinforce the disclosure and price reasonability of the offerings; and amending relevant regulations to reinforce the management of capital raising activities and public disclosures of foreign issuers.

Actively promoting companies to adopt the IFRSs

The FSC required Taiwan's companies to fully adopt the IFRSs via a two-phase process. In the first phase, adopters, including listed companies and primary financial institutions, have started to compile financial reports in accordance with IFRSs from 2013 onwards. Moreover, the FSC has completed the revision of related laws and regulations and has provided reference materials to the public and training for employees from applicable companies.