

The Trends of Financial Regulation in Taiwan and The World

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Outline

- n Enhancement of Consumer Protection**
- n The Integration of Regional Financial Market and Taiwan Market**
- n The Integration of Financial Regulation in Taiwan**
- n Tax Harmonization in Taiwan**

Enhancement of Consumer Protection

The world :

- | **The financial reformed bill has been officially signed by President of USA.**
- | **The new independent Consumer Financial Protection Bureau with its own budget, also several new supervisors to monitor market condition and credit rating firms.**
- | **Regulating derivatives and hedge fund more strictly.**

Taiwan :

- | **Master Agent mechanism for offshore structured product**
- | **Strengthen the KYC process, and suitability review process**
- | **Sale of derivatives only for prudent customers**
- | **Existing Organization --- Securities and Futures Investor Protection Center (SFIPC)**

Master Agent for Offshore Structured Product

New regulation in Taiwan:

Offshore SP issuing institution shall have a branch company set up in Taiwan. In the absence of such branch company, a subsidiary or branch company or product's guarantor located in Taiwan shall act as the Master Agent.

An issuer or Master Agent shall post an operating bond.

Consumer Protection

- | Greatly enhance KYC and risk disclosure process. (such as client's background check, client's suitability check, recording, and oral risk disclosure requirement.)
- | Advertisement, to avoid unlawful market strategy.
- | Bonus, Salary Control. Such as establishing salary review committee

The Function of SFIPC

- | The SFIPC was established in 2003. Besides consultation and mediation, the Center also handles investor complaints, files class-action lawsuits on behalf of investors, and manages an investor compensation fund.

The idea of Central Clearing House (the global trend)

- | Nearly all derivatives deals will have to be conducted through Central Clearinghouses, investors can be confident about settling their bets and firms will have to raise money to cover any unexpected losses
- | However, the downside is that it will raise the cost for Securities Firm to issue or conduct derivatives deals and possibly to shrink the market.
- | The idea of CCH is a global trend, however, it's still just a concept at the present stage in Taiwan.

The Integration of Regional Financial Market and Taiwan Market

Economic Cooperation Framework Agreement (ECFA)

- | The signing of ECFA between Taiwan and Mainland China has set up the trend and expedited the integration of Taiwan market and other markets, despite the fact that ECFA itself doesn't make the fundamental regulation breakthrough for Securities Firm in Taiwan.
- | ECFA is not the end of integration between Taiwan and China, but the start.

Regional Market Integration (Taiwan Market and other Markets)

- | The Cross-Listing of ETFs between Taiwan and HK market
- | Regulation relief to trade Red Chip Stocks for Taiwan securities firms
- | The derivatives (including warrants) allowed to use foreign underlying (including Red Chip Stocks)

Regional Market Integration (Taiwan Market and other Markets)

- | To allow China QDII invest directly in stocks market in Taiwan.
- | To shorten underwriting process of issuance of TDR and attract foreign company to participate Taiwan Market.
- | Contemplating the possibility of mutual financial professional recognition between Taiwan and mainland China.

The Integration of Financial Regulation in Taiwan

Taiwan Big Bang

- | An Idea of Financial Investment Services and Capital Market Act is still at concept stage and in debate whether or not enforcing such Act is necessary in practice.
- | To harmonize the rules among all financial institutions in Taiwan is an ongoing process.

Broaden the Asset Management Ability of Securities Firm in Taiwan

- I Open and allow Securities Firm in Taiwan to conduct concurrently trust of money and trust of securities businesses and operate Trust-type wealth management business. (in the past, only banks are allowed to conduct such business in Taiwan)

Market Efficiency Improvement in Taiwan

- | Electronic Order-Driven Market to Price-Driven Market → better price discovery
- | Dematerialization (book-entry). TSA now is promoting the full-scale dematerialization of stocks in Taiwan market.
- | Lowering the cost for electronic certificate and allowing institutional investor to use DMA (Direct Market Access).

Tax Harmonization in Taiwan

- | In Taiwan, the Tax, the governing regulation, and even the name for two essentially identical derivatives could be different, provided that whether the issuers are different, whether it's listing product or OTC product, or where it's listing.

- | Tax harmonization in Taiwan is an ongoing process, we hope and expect that, in the nearly future, there would be only one kind of Tax existing for one kind of derivative, as long as the derivatives are essentially identical.

END

Thank you