A Study on Designing a Financial Supervisory Institution in Taiwan

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Abstract. This paper investigates world trends in financial supervision, including the separation of treasury and finance and the shift from departmental regulation to functional regulation. Based on the trend toward integration in financial supervision and examination, this paper proposes the adoption of a functional approach to financial supervision and the problems that may occur when we restructure the financial supervisory framework in Taiwan. This paper also discusses various financial supervisory institution models and weighs their advantages and disadvantages. Finally, it advances other issues concerned with the restructuring of the financial supervisory system, including the repositioning of the Central Deposit Insurance Corporation (CDIC), and adjustments in the powers conferred upon the Central Bank to conduct examinations.

Keywords: Functional Regulation, Financial Supervisory Institution, Financial Affairs Foundation.

1. Introduction

Vincent Hsiao, a former Premier of the Executive Yuan in Taiwan, announced while in office in May 1999 his government's decision to establish a financial supervisory institution, and in January 2000 pushed for the reform of financial supervision in Taiwan. Hopefully, the resulting reforms will serve to increase both the efficiency and the independence of financial supervision in Taiwan and thereby enhance the operation and development of local financial institutions. While Taiwan's Ministry of Finance (MOF) was working on these important issues which would have a long-term impact on the financial environment, the U.S. Congress passed the Gramm-Leach-Bliley Act of 1999 on November 5 of that year. At present, the U.S.A. is entering a new era of financial cross-function operations. As the barriers that have separated the securities, insurance, and banking sectors are removed, the financial supervisory system will consequently need to be radically overhauled. Furthermore, these developments are driving the U.S. President to call for regulatory efforts to protect consumer privacy.

Because of the global trend toward financial liberalization and modernization, there are no longer geographical boundaries in financial markets. The system of financial supervision and regulation has changed from its emphasis on local management to the promotion of international competition. Taiwan needs a stable and efficient regulatory environment to attract global investors and financial institutions into its financial markets. Because the financial supervisory and regulatory environment has a strong impact on both the financial system and financial competitiveness, all of the advanced nations have made considerable efforts to reform their financial regulatory systems in order to improve financial performance and enhance operating efficiency. For example, in the 1980s Canada established the Office of the Superintendent of Financial Institutions (OSFI) to integrate the regulation of its financial and insurance sectors. The reforms that took place in terms of financial supervision and regulation in the United Kingdom, Japan, and Australia in the 1990s are clear evidence of

what these countries are doing in response to the revolutionary changes taking place in financial supervision and regulation worldwide.

Therefore, regardless of whether it is from the perspective of the trend towards the separation of the sectors of treasury and finance , or whether the regulatory model has changed from being department-oriented to function-oriented[1], the administrative powers of the financial authorities in Taiwan remain ambiguous and overlap with one another. It is thus necessary to solve such problems to step forward into a whole new era of financial supervision. Because financial reform is concerned with the regulatory environment, organization, personnel, and other considerations, the changes are being implemented only very slowly. Although the U.K., Japan, the USA, Canada, and Korea have already engaged in financial restructuring, Taiwan, with its different government structure, is limited by budgetary and personnel constraints in its Constitution as it sets about establishing a financial supervisory institution. To complete the process of financial restructuring in the most efficient way, it is necessary to first of all examine the reform experiences of other countries. Then, based on the twin considerations of professional vision and political reality, we can propose a sound blueprint for a financial supervisory institution. For example, three supervisory institutions are currently responsible for the work of financial examination. We strongly believe that they should be consolidated to bring together the functions of financial examination and financial discipline. In addition, following the government's decision to make participation in deposit insurance compulsory and thus resolve the adverse selection problem, the problem of moral hazard has been becoming more serious. Therefore, how to increase the CDIC's power to engage in the work of financial examination and also give the CDIC the power to enforce financial discipline are two key issues in the financial revolution presently taking place in Taiwan.

In order to ascertain which of the various supervisory models is the most suitable, this paper gives careful attention to the principles of low cost, less change, high efficiency, as well as personnel and budgetary independence as a means to substantially increasing the efficiency of supervision.[2] Thus the advantages and disadvantages of various models proposed by different sectors in Taiwan are explained in detail. These models of potential supervisory institutions include a special non-governmental Financial Supervisory Commission, a Financial Services Authority under the Executive Yuan, a Financial Supervisory Commission under the Executive Yuan, and a Financial Services Authority together with a Financial Affairs Foundation. This paper will seek to rank these proposals in terms of priority, and also investigate other relevant issues in order to complete the financial reform.

The next section examines world trends in financial supervision, including the separation of treasury and finance and the shift from departmental regulation to functional regulation. Section III discusses trends in the regulatory integration of financial examination and supervision. Section IV proposes a functional approach to supervision and points out the problems that may occur when we reorganize the supervisory system in Taiwan. Section V describes various models of financial supervisory institutions and compares their advantages and disadvantages. Section VI examines the repositioning of the Central Deposit Insurance Corporation (CDIC), and the adjustments in the financial examination powers vested in the Central Bank in order to satisfy the requirements of a new financial supervisory structure. The last section presents the conclusion.

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[1] The Model for Financial Regulation along functional rather than departmental lines was proposed by John F. Sandner, Chairman of the Chicago Mercantile Exchange (Miller, 1994). In addition, a similar perspective was offered by Robert C. Merton (1995a, 1995b) to analyze the operations and regulation of financial intermediation.

[2] The term "low cost" here refers to the cost associated with the establishment of the Financial Supervisory Agency among four alternative organizations. For example, the cost to the National Treasury of the 4th alternative (i.e. the FSA plus the Financial Affairs Foundation) only covers the personnel budget and hence has the lowest cost among these four alternatives. The term "less change" here refers to the degree of change required to shift the current existing governmental organization and its personnel to the formal reformed structure.

2. World Trends in Financial Supervision

Recent world trends in financial supervision have two obvious features. The first is that the sectors of treasury and finance should be separated. The second is that financial regulation should be function-oriented instead of department-oriented. In Taiwan, the Ministry of Finance is responsible for both finance and the Treasury. Regardless of whether it is a matter of world trends or professional reality, there are definitely some blind spots in Taiwan and we have to change the current structure. Speaking of reality, it is not easy to find an administrative official with expertise in both treasury matters and finance. Therefore, it would seem very reasonable to separate the regulation of treasury and finance issues. Besides, new financial instruments and improvements in technology have changed the structure of financial markets and institutions, and so we should look at these changes from a functional perspective (Merton, 1995). Furthermore, because of functional diversification in financial institutions, we should regulate financial institutions along functional rather than departmental lines (Miller, 1994). In other words, we cannot regulate these financial institutions simply on the basis of departmental categories anymore. Hence, there is an urgent need to reorganize the structure of the Ministry of Finance in Taiwan. The time is right for proposing the establishment of a Financial Supervisory Commission or a Financial Services Authority. In addition, Vincent Hsiao, the former Premier of Taiwan, set January 2000 as the target date for promoting financial integration. This again shows the urgent need for financial reform.

In financially advanced countries, the trend toward separating treasury and finance is quite obvious. After the "Big Bang" took place in 1986, banks in the United Kingdom were able to engage in non-traditional businesses, such as securities, trust, insurance business, etc. Of course, securities and insurance companies were also able to engage in other financial activities. The issue of integrating financial regulation and supervision derives itself from these situations. Due to the trend toward financial globalization and banking universalization, the dividing lines between banks, securities houses and insurance companies have become increasingly unclear. We have witnessed the emergence of many complicated financial conglomerates, and one of their objectives has been to consolidate the management of their different functions. However, under a system whereby the regulation of these different activities was carried out by different supervisory institutions, it was found by the U.K. government that such regulation was not effective and that regulatory costs were increasing. Therefore, in order to lower the cost of supervision and increase public confidence, the U.K. government integrated nine supervisory and regulatory institutions responsible for the banking, securities and insurance industries into the Financial Services Authority (FSA). The financial resources of the FSA are obtained from financial institutions, and not from the national treasury. This can make the objective of budgetary independence a reality and serves to significantly promote the independence of the FSA's financial supervision.

From the very beginning, Japan followed the pattern adopted by the U.S. whereby it separated the regulation of the securities industry from that of the banking industry. After the amendment of its Banking Act and Securities Trading Act in June 1992, banks and securities and trust companies were allowed to establish subsidiaries to engage in other kinds of financial activity. When the above two Acts were promulgated in April 1993, the need to integrate regulation and supervision became more important. Besides, under the initial system of financial supervision and regulation in Japan, it was the Ministry of Finance that was responsible for regulating each of the securities, insurance and banking industries. The Minister of Finance in turn delegated such powers to the Central Bank of Japan and supervised the operations of the Central Bank. The Minister of Finance also had the power to examine and regulate bank operations, and to dismiss the presidents, vice-presidents, directors, and supervisors of banks.

During times of severe financial instability, many financial problems surfaced which revealed that the powers of Japan's Ministry of Finance were too centralized to enable financial institutions to be regulated efficiently. Therefore, many financial reforms were introduced and implemented. The key issues involved in the revision of the financial regulatory structure included: (1) revoking the Ministry of Finance's power to conduct bank supervision; (2) increasing the ability of the Central Bank to execute monetary policy

independently and regulating its power to examine financial institutions; (3) establishing a Financial Supervisory Agency under the Prime Minister's Office to supervise and regulate the banking, securities, and insurance sectors; and (4) separating the functions of treasury and finance. However, the R&D department related to financial system and policy still remains under the Ministry of Finance. The Ministry of Finance decides the rates of deposit insurance and works together with the Financial Supervisory Agency to draw up specific programs to provide financial institutions with funding assistance.

Recently, to go along with the consolidation of financial administration to create an integrated regulator, the Japanese government on July 1, 2000 established a Financial Services Agency through the merger of the Financial Supervisory Agency and the Ministry of Finance's Financial System Planning Bureau. The newly-established FSA has broad regulatory authority over the financial sector including the banking, insurance, and securities industries, and has integrated responsibility for financial system planning, the inspection and supervision of financial institutions, and the surveillance of securities transactions. Following its founding, the FSA has developed six policy principles for undertaking the work of financial administration, which are as follows: (1) building a stable and vital financial system; (2) developing an advanced financial infrastructure; (3) developing and properly applying financial rules to protect users; (4) instituting fair and transparent financial administration based on clear rules, and ensuring full adherence to market disciplines of self-responsibility; (5) enhancing the expertise and foresight of financial administration and strengthening the FSA's administrative structure; and (6) strengthening cooperation with foreign supervisory authorities and actively contributing to the development of international rules and practices.

The changes taking place in the financial regulatory systems in many countries are all closely connected with world trends, each country's historical background, and the changes being felt in financial markets. Functional regulation is based on the regulation and supervision of the operations of financial institutions in accordance with their functions. It was the U.S.A. that first proposed the concept of functional regulation in its Financial Services Competition Act of 1995. This Act maintains that the standard for regulating financial institutions should be based on their functions. Such a regulatory approach, however, blurs the regulatory distinction between the banking sector and the insurance sector. The Gramm-Leach-Bliley Act of 1999 was also legislated from the viewpoint of functional regulation.

In Taiwan, the financial system faces a similar situation and challenges. Because of the close relationship between its capital market and financial markets, the government, in response to the rapid growth of the capital market, in 1991 lifted the moratorium on the establishment of new banks and new insurance companies. The Ministry of Finance (MOF) also established the Bureau of Finance and the Department of Insurance to regulate the banking and insurance industries, respectively. Originally, the securities industry was under the supervision of the Ministry of Economic Affairs. In 1981, the MOF became responsible for its supervision and regulation, and subsequently established the Securities and Exchange Commission (more recently renamed the Securities and Futures Commission, or the SFC). With these developments, the MOF has become the authority responsible for the banking, securities, and insurance industries.

In the financial regulatory system in Taiwan, administrative powers are centralized in the MOF, but the power of examination is decentralized. The Central Bank, the CDIC, and the MOF's Bureau of Monetary Affairs are the institutions that examine banks. The supervision of the securities market is delegated by the SFC to the Taiwan Stock Exchange. The Department of Insurance is responsible for supervising insurance business. With the trend toward financial globalization and universalization, the financial groups are continuously growing and engaging in banking, insurance, and securities operations simultaneously.

The financial supervisory system in Taiwan has not yet considered the impact of cross-industry operations and cross-market financial instruments. We still regulate financial institutions based on the traditional concept: different regulations and different authorities regulate different markets and different financial institutions. However, in this rapidly changing environment, the current system cannot fulfill its purpose anymore. The work of supervising banks, insurance companies, and securities institutions overlaps because the

operations of these institutions are cross-functional, and conflicts of interest among the different financial functions will consequently be generated. We should regulate financial institutions based on their functions as soon as possible. That is, regardless of the kinds of names financial institutions have, as long as they perform specific financial functions, they should be under the supervision of the same authority. Taiwan should follow in the steps of Japan or the U.K. and integrate its supervisory institutions into a single organization. Then we will be able to avoid the overlapping of responsibilities and powers and conflicts of interest arising due to regulation by different departments.

In accordance with the trends mentioned above, the Basle Committee has also called for the integration of the supervision of financial institution groups. Besides, some of the new financial instruments are cross-functional products, for example, the securitization of bank assets. Institutional regulation cannot regulate these real-life products nor solve the problems that may arise, nor can it keep pace with financial innovation. This results in regulatory unfairness, and impedes the development of financial business. To sum up, substituting functional regulation for departmental regulation is the latest trend in financial supervision.

3. The Functional Position of Financial Supervision and Problems in the Reform of Financial Supervision

Financial supervision includes formulating financial supervisory and regulatory policies, approving and revoking commercial licenses, drafting and revising financial regulations, and disciplining financial institutions that do not comply with regulations. These supervisory functions can be only performed through the work of financial examination that monitors the operations of financial institutions. The results of such examinations can promote the sound operation of the financial supervisory system only when the regulatory functions are performed satisfactorily. Therefore, integrating the functions of financial examination and regulation can decrease the costs of financial regulation and supervision and enhance their effectiveness. It is for this reason that Canada, Japan, and other countries have consolidated the functions of regulation and supervision. For example, Canada has established its Office of the Superintendent of Financial Institutions and Japan has established a Financial Services Agency to integrate both functions.

After the MOF and the Central Bank investigated Taiwan's system of financial supervision and a consensus was reached as to how to integrate the work of financial examination, a total of seven proposals were submitted to the Executive Yuan. However, when the Executive Yuan had taken into consideration the supervisory reform processes of other countries as well as the changes that had taken place in the financial environment in Taiwan, the course of action proposed was to integrate the functions of both financial supervision and financial regulation. The reconstruction would go beyond the merging of the three institutions engaged in the work of financial examination. The functions of this new supervisory system would also include the regulation of the securities and insurance industries, the approval and revocation of business licenses, and the drafting and revision of financial regulations. Put simply, the administrative management, functional regulation, and work of supervision would be centralized into a single institution.

By establishing a Financial Supervisory Commission or a Financial Services Authority, the duties assigned to examination personnel in relation to banks, insurance companies and securities houses may be integrated and financial institution activities may be examined simultaneously. Thus the blind spots that may be left unnoticed when examinations are conducted by separate entities can be exposed and eliminated. Besides, if the Commission or Authority plays a leading decision-making role with regard to the supervision and regulation of banks, insurance companies and securities houses, the problems associated with poor coordination and a lack of clarity regarding the respective roles of the current supervisory systems can be greatly reduced.

In Germany, the three supervisory institutions responsible for supervising banks, insurance companies and securities companies are independent organizations under the Prime Minister or Chancellor, as is the OSFI in Canada. The financial supervisory and regulatory

systems in Japan and Korea are also independent of their Ministries of Finance. In 1993, the U.S. Treasury proposed the establishment of an independent Federal Banking Commission (FBC) to supervise and regulate U.S. banks, a proposal that was not implemented. In the U.K., however, the Financial Services Authority is responsible for supervising and regulating the banking, insurance, and securities industries. In view of these recurring trends, Taiwan is planning to set up a Financial Supervisory Commission or the Financial Services Authority that will be directly under the jurisdiction of the Executive Yuan, in order to handle its financial regulatory affairs.

Because financial institutions absorb public deposits for investment purposes and create credit through the extending of loans, a country's financial supervisory system should protect the rights and interests of investors, insurers, and depositors. All of the financial policies in each country regard the public interest as the highest priority. However, various organizations stand to benefit from financial policies. If the authorities cannot exercise their powers independently, the work of financial regulation will not be conducted impartially. It is for this reason that the various systems of financial supervision and regulation around the world strive to maintain functional and budgetary independence. In terms of operational independence, the heads of financial supervisory institutions in many countries are appointed to serve for a fixed term. For example, the Superintendent of the OSFI in Canada has a term of 7 years. The chairman of the Securities Exchange Supervisory Commission within Japan's FSA has a term of 3 years, and the chiefs of the leading deposit insurance organizations in the U.S.A, U.K., Canada, and Japan have terms of 5 years. The term is designed in such a way to ensure that the work of financial supervision and regulation can continue without interruption. In order to maintain budgetary independence, the U.K.'s FSA and Australia's APRA raise their funding not from the National Treasury, but from the administrative fees paid by the supervised institutions or the foreign exchange foundation. With such an independent source of funding, the independence of the supervisory organization can be further secured. Some of the major financial supervisory systems are compared in Table 1.

Table 1. Comparisons of Different Financial Supervisory Systems

Country	**United Kingdom**	**Canada**
Supervisory Institution	Financial Services Authority (FSA)	Office of the Superintendent of Financial Institutions (OSFI)
Feature	A private company limited by guarantee; An independent non-governmental body	Bureau
Integration of Functions	Complete integration will be implemented no later than the end of November 2001[3].	Partial integration since 1987
Institutions Supervised	Banks, Insurance Companies, SFA firms, PIA firms, IMRO firms, Building Societies, and Friendly Societies	Federally chartered financial institutions and federally administered pension plans, including all banks, and all federally incorporated or registered trust and loan companies, insurance companies, cooperative credit associations, fraternal benefit societies and pension plans.
Agencies Merged	The FSA, formerly known as the Securities Investments Board (SIB), has absorbed some or all of the regulatory functions of the following bodies: the Bank of England,[4] the Treasury,[5] Building Societies' Commission	The Department of Insurance and the Office of the Inspector General of Banks[6]

[3] The Financial Services and Markets Act received Royal Assent in June 2000. When implemented, the Act will establish the FSA as the single statutory body for financial business in the UK. The Government announced on March 15 in 2001 its intention to implement the new regime no later than the end of November 2001.

[4] The FSA took over the responsibility for banking supervision from the Bank of England in June 1998.

[5] The Treasury has contracted out to the FSA the exercise of the majority of its functions under insurance legislation.

	(BSC), Friendly Societies' Commission (FSC), Investment Management Regulatory Organization (IMRO), Personal Investment Authority (PIA), Registry of Friendly Societies (RFS), Securities and Futures Authority (SFA).	
Functions	Regulate and authorize all financial businesses, unit trusts and OEICs. Recognize and supervise investment exchanges and clearing houses.	Regulation: providing input into developing and interpreting legislation and regulation, issuing guidelines, and approving requests from federally regulated institutions as required under financial institution legislation. Supervision: assessing the safety and soundness of federally regulated financial institutions, providing feedback to institutions, and using supervisory powers to intervene in a timely manner to achieve the OSFI mandate.[7]
Budget or Personnel	Funded by fees levied on those it regulates.	Funded mainly by the industry through asset-based assessments and a modified user-pay program for selected services. A small portion of revenue is derived from the Government of Canada for actuarial services relating to the Canada Pension Plan.

[6] The Office of the Superintendent of Financial Institutions, following the promulgation of the Office of the Superintendent of Financial Institutions Act in July 1987, joined the Department of Insurance and the Office of the Inspector General of Banks to form the OSFI, which was given the powers to supervise and regulate all federally-regulated financial institutions.

[7] In late 1999, the OSFI introduced a new supervisory framework, which was developed over a two-year period and is consistent with evolving supervisory practices globally. Under the new framework, the OFSI is focusing its efforts on evaluating an institution's material risks and the quality of its risk management practices, rather than applying a functional approach when conducting on-site reviews.

Table 1. Comparisons of Different Financial Supervisory Systems (continued)

Country	United Kingdom	Canada
Decision-Making Mechanism	1. The Authority is governed by a Board of Directors. The FSA Board is appointed by the Chancellor of the Exchequer and consists of an Executive Chairman, three Managing Directors, and eleven non-executive directors. 2. The Board sets overall FSA policy; day-to-day operational decisions and management of the staff are the responsibility of the Executive. 3. Under the new legislation, the responsibilities of the non-executive directors, acting as a committee, include keeping under review the efficient and economic operation of the Authority, overseeing its mechanisms of financial control and setting the remuneration of the executive members of the Board. 4. The Authority is accountable to Treasury Ministers and, through them, to Parliament.	1. Four sectors: Supervision, Regulation, Specialist Support and Corporate Services. 2. OSFI Advisory Board: established in 2000 to advise the Superintendent on a wide range of issues related to OSFI internal operations and general accountabilities.[8]
Country	**Japan**	**USA**
Supervisory Institution	Financial Services Agency (FSA)[9]	Federal Financial Institutions Examination Council (FFIEC)
Feature	Bureaucracy	Council
Integration of Functions	Complete integration, except for the farming financial institutions.	Partial integration
Institutions Supervised	All kinds of financial services, such as banks, securities business, and insurance.	Banks, savings associations, mutual savings banks, etc.
Agencies Merged	Financial Supervisory Agency and the Financial System Planning Bureau of the Ministry of Finance.	None.
Functions	All aspects of financial regulation, from the designing of financial systems to inspection, supervision, and surveillance of financial activities.	Assessing by reports and establishing the rating system (for example, it uses the CAMELS approach to appraise American banks).
Budget or Personnel	National Treasury	The federal supervisory institutions and the Bank Bureau of State run the cross-examinations or joint-examinations
Decision-Making Mechanism	The deposit insurance company must apply to the Central Bank for special loans through the FSA. The Central Bank should inform the MOF and report to the FSA if it approves the application.	The Council consists of the Board of Governors of the Federal Reserve System, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

In Taiwan, the financial supervisory system has always been subject to the restrictions

[8] The OSFI Advisory Board will advise the Superintendent in a variety of areas. These include human resources, financial and administrative policies, OSFI's performance measures and quality assurance framework, communications strategies, selected supervisory policy or strategy directions, OSFI's international participation, trends and emerging risks in the financial sector, and the implications for OSFI's research initiatives.

[9] The Financial Services Agency (FSA) was established on July 1, 2000.

imposed by budgetary and personnel constraints. Such a constrained supervisory system can longer handle the complicated affairs of financial regulation. There is therefore a limited amount of time in which to draw up plans to establish a financial supervisory institution. By contrast, the advanced countries spent a long period of time prudentially discussing their respective supervisory systems and drawing up timetables for them to be set up.(Sauders, 2000; Seidman, 1998) In this way, they avoided having insufficient time in which to bring their plans to completion. In Taiwan, besides facing the problem of a lack of time, the authorities have not yet reached a decision on the ideal structure for a financial supervisory system. As a result, plans to formulate new regulations and allocate personnel cannot proceed any further.

From the time that former Premier Vincent Hsiao pointed out that the new financial supervisory institution should be independent of the MOF and under the jurisdiction of the Executive Yuan, there have been two major issues that we have to work with. One is the reorganization of the MOF. The other is how to set up a financial supervisory institution under the Executive Yuan. Let us just consider this second issue. Because the financial supervisory institution is planned to be under the Executive Yuan, if we are to pursue personnel and budgetary independence, this would be seen as an infringement of the Constitution. In other words, if we wish to give the new supervisory organization independent powers in relation to personnel, budget, and the work of examination so that it can perform its functions, its position as a governmental organization will be the initial constraint that we will face.

In the future, the financial environment will become even more sophisticated. How to establish a sound and effective supervisory system is thus an urgent mission with which the authorities have been entrusted. To avoid an insufficiency of supervision during this adjustment stage, we must construct a Financial Supervisory Commission that will take charge of supervisory affairs as soon as possible.

4. Alternative Proposals of Reforming Financial Supervisory Institution

In view of the political environment in Taiwan, with the intervention of politicians and current regulatory restrictions, we must not only have professional ideas, but we must also face political and regulatory realities if we are to establish a financial supervisory institution. To perform its functions well, such a supervisory institution must have the power to determine its personnel, budget, and work of examination independently. The possible proposals that have been put forward so far include: (1) a special non-governmental Financial Supervisory Commission, (2) a Financial Services Authority or Financial Supervisory Commission under the Executive Yuan, and (3) a Mixed system comprising a Financial Services Authority and a Financial Affairs Foundation.

4.1. Special Non-governmental Financial Supervisory Commission

The Financial Supervisory Commission (FSC) is a non-governmental corporate entity. Since its members do not necessarily have to have qualified as civil servants, it is possible to appoint experienced financials professionals that are not civil servants. This Commission is not under the supervision of the Legislative Yuan, and so it is independent in terms of its powers to appoint personnel and determine its budget. Its funding is obtained from the National Treasury for the first year, after which the Commission may collect fees from the institutions supervised so as to achieve the goal of self-sufficiency. Its members, who make the decisions, serve terms of 6 years each and the chairman is appointed to serve for a term of 4 years, without any of them being re-appointed to serve for a further term. Under the Commission, there is a Secretariat Department, a Department of Financial Management, a Department of Securities and Futures, a Department of Insurance, a Department of Financial Research and Development, and a Department of Examination. This is the structure for the first stage. While the goal is to integrate the functions of financial supervision and examination, at this stage, regulation is still administered on a departmental basis. At this point, only current financial regulatory institutions are merged and a Department of

Examination newly established (see Figure 1).

During the second stage, departmental regulation needs to be rearranged to become functional regulation. Therefore, the departments in stage 1 have to be reorganized based on the functions of banking, securities, futures, insurance and trust (see Figure 2). Under the functional regulatory structure, those five departments are responsible for the functions of banking, securities, futures, insurance and trust, respectively. In addition to the transformation of the regulatory structure, it is also necessary to emphasize the issue of consumer protection and the regulations relating to investment consultants and CPAs. The Department of Consumer Protection has consequently been established. Figure 3 depicts the whole of the financial reconstruction during stage 3.

The outstanding feature of the special non-governmental FSC is that it is independent of the governmental system. Without the constraints of budget, audit, and personnel, it can perform its function of financial supervision without any interference. However, this system has too many academic ideas. It will be very difficult to establish such a commission, because the legislators will not be willing to give up their powers to oversee the financial supervisory administration.

4.2. Financial Services Authority under the Executive Yuan

In establishing a Financial Services Authority (FSA) under the Executive Yuan, it is necessary to consider the problems associated with the budget, personnel, and intervention by politicians. This proposal also has short-term and long-term aspects. In the short term, the FSA is at first independent of the MOF. It shall then merge with the Bureau of Finance, the Securities and Futures Commission and the Department of Insurance in order to establish a Department of Examination and a Department of Financial Research and Development (see Figure 4). At this stage, the FSA is operated on a departmental basis. The aim of the Department of Examination is to integrate the work of financial examination. It is responsible for all of the examinations of institutions engaged in securities, futures, banking, and insurance. The Department of Financial R&D is responsible for drawing up the financial regulatory policies, reorganizing the system of financial supervision, and training financial specialists.

During the initial stage of financial reconstruction, the overriding principle is little change and the addition of a Department of Examination and a Department of Financial R&D. During the second stage, the regulatory structure is changed from a department-oriented system to a function-oriented system. New departments are established based on the functions of banking, securities, futures, insurance, trust, and consumer protection. This structure is similar to that of the non-governmental FSC during the second stage (see Figure 2).

To promote the supervisory independence of the FSA, we will copy the way in which the Board of Directors of Taiwan's Central Bank or the Board of Governors of the U.S.A.'s Federal Reserve Bank are appointed in order to establish the Financial Policy Commission (see Figure 4). This Commission has 7 to 9 members who each serve 6-year terms without being re-appointed when their respective terms end. The chairman is also the Governor of the Authority with a term of 4 or 5 years. The major purpose in having such terms is to ensure the independence of financial supervision. The committees drawn from the Board of Directors make the decisions, and the Governor is responsible for carrying out these resolutions. By means of such an arrangement, intervention by politicians can be avoided.

The advantage of the FSA is that it has a greater administrative efficiency because of its having a Governor. If the Governor can serve just one term and there is a Financial Policy Commission to make decisions, the FSA appears to be a good choice. However, because the Authority is responsible for all financial supervision and examination and is also under the Executive Yuan, such an organization will face the same problems related to its budget and personnel as does the current system. In other words, it will only be able to hire examiners who are qualified public servants. At present, there is a very strong demand for securities, futures, and insurance specialists. Once the high-ranking government officials leave their jobs and go to work for commercial institutions, it will be very hard to find sufficiently qualified people since most of those who pass the civil service examination have only just graduated.

On the other hand, if we wish to find experienced professionals, they are usually not qualified as government employees. So, the new Financial Services Authority will be faced with these personnel problems. In order to resolve this difficulty, the government has been considering delegating the power of examination to CPAs. In this way, at least the problem of insufficient personnel can be resolved. Besides, if we intend to transfer some of the examination specialists in Taiwan's Central Bank to the FSA, the problems associated with the term, appointment, and working conditions of these government employees will still need to be dealt with.

In terms of budgetary independence, the FSA is still under the supervision of the Legislative Yuan and the Ministry of Audit. The nightmare of dependence upon the Legislative Yuan in budgetary matters still remains. Therefore, the biggest challenge faced by the FSA is budgetary independence, and the second biggest challenge is the independence of personnel. To sum up, the framework of the FSA resolves the problems of the upper supervisory structure, but the personnel and budgetary problems remain.

4.3. Financial Supervisory Commission under the Executive Yuan

The proposed Financial Supervisory Commission (FSC) under the Executive Yuan is similar to the Council for Economic Planning and Development and the Fair Trade Commission. Its budget and personnel are still supervised by the Ministry of Audit, the Department of Personnel, and the Legislative Yuan. Its structure is the same as that of the special non-governmental FSC. During the first stage, both systems operate on a departmental basis, there being a Department of Examination and a Department of Financial R&D (see Figure 1). During the second stage, the systems cease operating on a departmental basis and become based on a pattern of functional regulation (see Figure 2).

The major difference between the FSC under the Executive Yuan and the special non-governmental FSC is that the FSC under the Executive Yuan will encounter the same problems related to its budget and personnel as the FSA. Because the Commission makes decisions, the efficiency of the FSC is lower than that of the FSA. In the end, the chairman of the Commission may have as much power as the Governor of the FSA, and the other members may merely become rubber stamps. Because of the structure of the Commission, the members are not necessarily qualified as public servants. Therefore, the Commission can slot experienced professionals from the non-governmental sector into this supervisory framework.

Basically, in terms of powers and functions, there is no difference between the FSA and the FSC. What people should be concerned with is the efficiency and flexibility of the organization. From both a practical and theoretical point of view, each of these two organizations has its advantages and disadvantages.

Theoretically speaking, the FSC seems to be more ideal because of the flexibility of its organization. Under its structure of government, the FSA from a practical point of view is more efficient and can perform its supervisory functions more effectively. A comparison of these two structures is given in Table 2.

Table 2. Comparing the FSC with the FSA

	Financial Supervisory Commission	Financial Services Authority
Features	Commission system under the Executive Yuan	Governor system under the Executive Yuan
Advantages	Decision-making system is more complete.	High efficiency. Powers and obligations are well-defined.
Disadvantages	The chairman may dominate the Commission. The members may become rubber stamps.	Politicians will easily interfere in the operation of the Authority.

For these reasons, we should strike a compromise between the FSA and the FSC. Within the bureaucratic system, the FSA is more ideal and more administratively efficient. It can be positioned as a Ministry. However, because of its rigid structure, the FSA needs a commission to perform its functions. If the Governor of the Authority can serve concurrently as the

Chairman of the Commission, the FSA can achieve the goals of budgetary independence, independence of personnel, and term protection. Under the FSA system, the Commission is at the core of the decision-making structure. The bureaucracy is responsible for carrying out these decisions.

Generally speaking, making the FSA run efficiently is based on three premises(FSA). First of all, the term protection helps avoid intervention from politicians. Secondly, by levying charges on regulated institutions, the FSA can achieve its goal of budgetary independence, and thereby avoid excessive intervention from the Legislative Yuan. The third premise is that of power, and therefore that of juridical investigation. With this power, the Agency of Investigation no longer has to organize special teams to support criminal investigations in financial markets. The government's human resources will become more flexible and the bureaucratic system will be more complete.

To sum up, the FSA has the following features. It is a bureaucratic organization. The Governor serves concurrently as the Chairman of the Commission. The members have terms. The Commission plays a central role in decision making, and its position is like that of a Board of Directors. Because of the above features, the Governor and the Chairman can carry out the resolutions thoroughly. Furthermore, with the power of investigation, the FSA can act independently without intervention from politicians and political parties. Thus, the FSA can engage in long-term planning, including training financial specialists and cultivating the ability to handle financial crises.

4.4. Mixed system with a Financial Services Authority and a Financial Affairs Foundation

In the non-governmental Financial Supervisory Commission referred to above, because its budget and personnel are independent and its powers are conferred upon it by the government, the independence of financial supervision can be ensured. However, such a system will still face the restrictions imposed by related regulations and the opposition of the Legislative Yuan. It can only be regarded as an ideal but not a practical system. Besides, even if the above problems can be resolved, the current body of examination personnel will resist this system because the transference of the work of examination to a non-governmental institution might endanger their own benefits.

A Financial Supervisory Commission under the Executive Yuan or a Financial Services Authority under the Executive Yuan will each face less pressure from the Legislative Yuan and the government, but both will share the problems associated with a lack of budgetary and personnel independence. Therefore, an ideal system needs to incorporate both professional considerations and political realities. In terms of financial considerations, the system should be free from the intervention of the Legislative Yuan and the financial authority should be allowed to function independently in respect of both its budget and personnel, with the respective terms of the governor and the other directors being safeguarded. In terms of political realities, the Authority should be a governmental agency. The Authority would still be under the supervision of the Legislative Yuan and would be able to satisfy the regulations associated with the budget, audit, and personnel. Thus will eliminate the barriers of financial reconstruction.

This system of having a Financial Services Authority and a Financial Affairs Foundation is designed to mix the advantages of the non-governmental FSC with those of the FSA under the Executive Yuan. During the process of restructuring, we will first merge the Bureau of Monetary Affairs, the Securities and Futures Commission and the Department of Insurance into the FSA under the Executive Yuan. This can accomplish the mission of the first stage with the lowest cost (see Figure 5). The FSA is a governmental agency that wields financial administrative powers. Even without an extra task force, the current government employees would bear a responsibility for financial supervision.

With its powers delegated by the FSA, the Financial Affairs Foundation (FAF) is to be established with responsibility for financial supervision and examination. The relationship between the FSA and the FAF is similar to that between the Mainland Affairs Council and the Straits Exchange Foundation. The FAF shall have a Board of Directors and a Board of Supervisors, and may establish the following departments: a Department of Financial

Supervision (responsible for financial early-warning, examination, follow-up checking, supervision, etc.), a Department of Research and Development (responsible for training, setting qualifying examinations, R&D, etc.), and a Department of Administrative Management (see Figure 6). The Board of Directors shall consist of seven to nine directors appointed on a full-time basis for a term of six years, and who will not be eligible for reappointment upon the expiration of such term. The Chairman, and the Directors of the Bureau of Monetary Affairs, the Securities and Futures Commission, the Department of Insurance, the Bank Examination Department of the Central Bank, and the CDIC shall be the ex officio directors. The chairman of the Board of Directors shall be nominated and appointed by the Authority or by the Executive Yuan or the President. The Board of Supervisors shall be composed of three to five supervisors who shall serve on a full-time basis. In addition, the FAF shall, if it considers it necessary, set up a Secretariat Department to supervise routine business. To enhance the efficiency of functional regulation, the FAF shall also, as and when required, establish committees focusing on banking, securities investment, futures investment, insurance, and the work of financial examination in accordance with each Director's specialty, thus bringing about the integration of financial supervision, and achieving the goal of personnel and budgetary independence.

During the initial stage, the FAF's funding shall come from the National Treasury. After that, the FAF will be able to levy fees for examination, certification and administration from individuals and financial institutions. Because the Foundation is a non-governmental organization, matters related to its budget and personnel are not restricted to the governmental system, and thus intervention by politicians may be avoided. Furthermore, as the FSA delegates financial supervisory powers to the FAF, the FAF can perform its supervisory functions independently. A comparison of these four structures is given in Table 3 as shown below.

After comparing these four structures from both practical and theoretical viewpoints, we think that the structure of the FSA plus the FAF is the second best choice because it would be impossible to set up an FSC as a special juridical person due to the political environment in Taiwan. Therefore, we can reposition the structure comprising the FSA and the FAF as the best choice.

Table 3. A Comparison of Four Financial Supervisory Organizations

	(1) Financial Supervisory Commission (FSC)	(2) Financial Services Authority (FSA)	(3) Financial Supervisory Commission (FSC)	(4) FSA plus Financial Affairs Foundation (FAF)
Feature	Corporate entity	Under the Executive Yuan	Under the Executive Yuan	Under the Executive Yuan plus corporate entity
Budget	From the National Treasury at the beginning. Then from regulated institutions.	From the National Treasury	From the National Treasury	Only the personnel budget is from the National Treasury
Interpellation of the Legislative Yuan	Interpellated at the beginning of its establishment. After that, it is for reference.	Yes	Yes	Policies are under the interpellation of the Legislative Yuan. The examination and enforcement matters are for reference.
Independence of Personnel	Yes. Employees need no public service qualification.	No	No	The examination personnel Yes, the others No.
Decision Maker	Committee, less efficiency	Governor, high efficiency	Committee, less efficiency	Governor and Committee
Independence of Decisions	Best	Not Good	Good	Better

Acceptability	Lowest	High	High	Below high
Priority	1	3	4	2

5. Other Financial Reform Issues

5.1. Function and Position of the Central Deposit Insurance Corporation

Based on the financial reforms taking place in other nations, it can be observed that financial supervision and deposit insurance are very closely related to each other. In those countries that have integrated their financial supervisory functions, such as Canada, the U.K., Japan, etc., these two systems of financial supervision and deposit insurance are still almost inseparable. Even in those countries that have not yet integrated their financial supervisory functions, for example the U.S., the deposit insurance system is playing an important role in the system of financial supervision. Instead of implementing a pure system of integrated financial supervision, the U.S. consolidates the functions of supervision and deposit insurance. Therefore, the integration of financial supervision is only part of the effort to enhance the efficiency of financial supervision, for not even all kinds of financial reforms and financial supervision can substitute for deposit insurance to stabilize the financial situation and protect the rights of depositors. By investigating the experiences of Japan, Canada, the U.K. and the U.S., it will be easier for Taiwan to determine the position and function of deposit insurance when we reform the financial supervisory system.

In Japan, the functions of financial supervision and deposit insurance are separated in the system of deposit insurance. The deposit insurance company (the Deposit Insurance Corporation of Japan, also known as the DIC) is only responsible for deposit insurance and clearing up the mess caused by failed insured institutions. It is not responsible for financial supervision. In the U.K., the Deposit Protection Board is not responsible for supervising financial institutions. It only works when financial institutions are in danger of default. It only has limited functions and compensates passively. In the U.S., the deposit insurance system and the work of financial supervision are closely connected. The Federal Deposit Insurance Corporation (FDIC) consolidates the functions of deposit insurance and financial supervision, and this makes the FDIC play an important role in financial supervision. By performing both functions of examination and discipline, the FDIC plays an active role in preventing financial risks and crises. The integration of the deposit insurance system and financial supervision has successfully changed the role of the insurance system from one of passively dealing with failed insured institutions to one of actively preventing financial crises. This kind of design has made the financial system in the U.S. the most advanced in the world. In Canada, the integration of financial supervision only applies to the federally-regulated financial institutions. The provinces are only responsible for the provincial institutions. Thus, Canada constantly has problems with its financial institutions. Besides, the OSFI is only responsible for examinations and discipline, and the Canadian Deposit Insurance Company (CDIC) is only responsible for dealing with failed insured institutions. The two bodies have their own powers and obligations, but they have no close connections. This kind of design will lower the efficiency of the financial supervisory function and the deposit insurance system. A comparison of the different deposit insurance systems is given in Table 4.

In Taiwan, the CDIC is a public financial institution. It lacks the independence and transcendence to perform its supervisory functions. It is under the Ministry of Finance, and its budget and expenses are under the supervision of the Legislative Yuan and other governmental agencies. In addition, it is still regulated by related regulations and laws. When compared with the U.S.'s FDIC, the CDIC has far less independence than the FDIC. In Taiwan at present, the financial authorities have the power to deal with and punish problem financial institutions. The CDIC cannot directly terminate or deal with troubled financial institutions in order to control its own insurance risks. The insurance premiums are not based on risk assessments and the CDIC cannot intervene in the operations of troubled institutions in advance. Such restrictions force the CDIC to take excessive risks.

According to the Article 21 of the *Deposit Insurance Act*, the CDIC cannot actively examine insured institutions without the approval of the Central Bank. Even if an insured institution is in a crisis, the CDIC still cannot conduct a commissioned examination to assess the financial situation in such situation. This would endanger the CDIC system. Therefore, the CDIC's current power to conduct financial examinations is insufficient to deal with the potential risks.

Table 4. A Comparison of Different Deposit Insurance Systems

Country	United Kingdom	Japan	Canada	USA
Year Established	1982	1971	1967	1933
Public or Private	Public	Public and Private	Public	Public
Compulsory or Voluntary	Compulsory	Compulsory for some banks	Compulsory	Voluntary
The way to collect funds	Regular and special donations from members	Insurance fee	Insurance fee	Insurance fee
Standard of collection	10,000 pounds (if the fund is below three million or banks are about to go bankrupt, the donation will be higher)	Annual fee is 0.12% of insured deposits	Annual fee is 0.1% of insured deposits	Annual fee is 0.195% of total deposits (including interbank deposits)
Range of Protection				
Basic protection	75% of the amount under £20,000 (USD33,000)	¥10 millions (USD74,000)	$60,000 (USD50,000)	USD100,000
Foreign currency deposits	No	No	No	Yes
Deposits of other banks	No	No	Yes	Yes
Branches of foreign banks	Yes	No	Not applicable	Yes
Foreign branches	No	No	No	No

*The foreign exchange rates for the US$ are the average rates in 1989

5.2. Adjustments to the Examination Power of the Central Bank

After the reforms in relation to the structure of the financial supervisory institution have been implemented, we shall achieve the goal of integrating the work of financial examination and supervision. According to the Central Bank of China Act, the primary objectives of the Central Bank are to promote financial stability, to guide sound banking operations, to maintain the stability of the internal and external value of the currency, and to foster economic development within the scope of the above objectives. If the Central Bank no longer engages in the work of financial examination, we should consider the specific issues concerned with money, credit, and foreign exchange policies so that the Central Bank can conveniently regulate the economic environment and implement monetary policy.

Most of the central banks of other countries are involved in the work of financial examination. For example, two-third of the central banks of the member countries of the Organization for Economic Cooperation and Development (OECD) are either fully or partly responsible for financial examination. For instance, although Japan has established an independent Financial Reconstruction Commission that is responsible for financial supervision, the Central Bank of Japan still retains the right to examine financial institutions. An amendment to the Central Bank Act on April 1, 1998 resulted in the Central Bank of Japan retaining its power to examine financial institutions. It is through Japan's financial institutions, financial markets, and the payment system that the Central Bank implements its policies of money, credit, and foreign exchange. The stability and the sound operation of these elements influence the effects of policies and economic development. Therefore, if necessary, the central bank must examine financial institutions to understand the operations of financial institutions, financial markets, and the payment system. This is helpful to the central bank

when formulating policies. Besides, the central bank is responsible for the money market and the foreign exchange market. It can more effectively supervise and stabilize the operations of these markets by conducting examinations.

If a central bank has no examination power and only reads the examination reports prepared by other supervisory institutions, it will have no chance of experiencing further related details first hand and its research and evaluation work will be unpractical. Newly-established financial supervisory institutions are responsible for supervising the banking, securities, and insurance industries. Their objectives are to guide the sound operations of individual institutions, protect the rights of depositors, and ensure the safety of transactions. The examinations that need to be conducted include assessing a financial institution's financial situation, performance, operations, internal controls, and risk management strategy. However, these reports are usually prepared at fixed and specific time intervals and the information thus supplied may not satisfy the needs of the Central Bank in making decisions. Therefore, the Central Bank needs to be given the power to examine and inspect certain specific items related to financial institutions in order to obtain the latest financial information.

Besides, the kinds of business in which financial institutions may engage are regulated by the Central Bank Act. However, the examination of supervisory institutions is based on the Banking Law and related regulations. It is not possible for examinations of supervisory institutions to be covered by the Central Bank Act. Therefore, in order to enable the Central Bank to understand the operations of financial institutions from the perspective of the Central Bank Act, the Central Bank should be allowed to carry out commissioned examinations at any time.

To sum up, the scope and objectives of examinations conducted by financial supervisory institutions and the Central Bank are quite separate, and their functions do not overlap. Besides, if it is vested with appropriate powers to conduct inspections and commissioned examinations, the Central Bank can fulfill a rechecking function. Furthermore, when financial institutions ask the Central Bank to meet their liquidity needs, the Central Bank can immediately verify whether their demands are justified. The Central Bank can then take precise and effective actions to deal with the problem of liquidity. Therefore, based on the previous discussion, the Central Bank should, in order to implement its monetary policy effectively, retain an appropriate degree of power to conduct commissioned examinations in relation to specific items, such as money, credit, and foreign exchange.

5.3. Reconstruction of financial research and training institutions

After the integration of the supervisory systems encompassing banking, securities, and insurance, it is necessary to consider the issue of training financial personnel. In Taiwan, the objectives of the Banking Institute of the Republic of China (BIROC) and the Community Banking Institute (CBI) are to nurture and train the personnel of banks and community financial institutions, respectively. These two bodies are currently in the process of being merged, a process that will soon be completed, and which will accelerate the development of banking personnel training. Besides, the Insurance Institution (Institute?) of the Republic of China (IIROC) and the Securities and Futures Institute (SFI) are both sufficiently large in size to merge together with BIROC and the CBI along the lines of the Financial Supervisory Authority model. In this way, we will be in a better position to develop our training programs and systems so that they reach the levels of such programs and systems in financially-advanced countries.

6. Conclusions

The world trends in financial supervision consist of the separation of treasury and finance as well as the shift from departmental regulation to functional regulation in terms of

the regulatory model. Because of these trends and the rapidly changing financial environment, the financial supervisory system in Taiwan is not sufficiently efficient and effective to deal with increasingly complex financial activities. Furthermore, since the current financial supervisory organization of Taiwan is not independent in terms of its budget and personnel, and because of the intervention of politicians, it is hard to increase the efficiency of supervision. Following the announcement by Vincent Hsiao, the former Premier, of the decision to establish a financial supervisory institution in January 2000, the financial authorities have been doing their best to implement this financial reconstruction project. However, due to various issues and problems, especially budgetary and personnel independence, these reforms are being severely challenged.

To effectively resolve these financial reform bottlenecks, we have to design new institutions while taking into consideration the perspectives of the Executive Yuan, the Legislative Yuan, the Examination Yuan and the financial professional community. Once the Executive Yuan has decided to position the supervisory institution as a governmental juridical person, certain of the proposals should no longer have relevance.

The planning models currently being considered include the special non-governmental Financial Supervisory Commission and the Financial Supervisory Commission or Financial Services Authority under the Executive Yuan. The first is independent of the Executive Yuan, the Legislative Yuan and the Constitution. The last two are still restricted in terms of their budget and personnel and are thus unable to realize the ideal of reconstructing the financial supervisory system.

To meet the policies set forth by the Executive Yuan and achieve budgetary and personnel independence, after separating the treasury and finance functions, we can merge the Bureau of Monetary Affairs, the Securities and Futures Commission and the Department of Insurance to form the Financial Services Authority. Such a design can satisfy the former Executive Yuan Premier's request, meet the standards of related regulations, accomplish the goal of promoting financial efficiency, and fulfill the supervisory requirements of the Legislators.

Besides, we should also establish the Financial Affairs Foundation (FAF) to perform the functions of financial supervision and examination. The relationship between the FSA and the FAF is similar to that between the Mainland Affairs Council and the Straits Exchange Foundation. The FAF shall have a Department of Financial Supervision, a Department of Research and Development, a Department of Administrative Management, and a Secretariat Department, etc. The Board of Directors shall at least consist of the members of the Financial Policy Commission of the Financial Services Authority, as well as the chairmen, governors or directors of the Bureau of Monetary Affairs, the Securities and Futures Commission, the Department of Insurance, the Bank Examination Department of the Central Bank, and the CDIC. Besides, to enhance the efficiency of functional regulation, the FAF shall also establish committees covering banking, securities investment, futures investment, insurance, and financial examination in accordance with each director's expertise.

After comparing the above four structures from both practical and theoretical viewpoints, we think that the structure of the FSA plus the FAF shall for practical reasons be the second best choice because it is impossible for a special non-governmental FSC to be established in the current political environment in Taiwan. Therefore, we can reposition the structure of the FSA plus the FAF as the best choice.

Once the reconstruction of the financial supervisory system has taken place, there are a few remaining issues that we have to deal with. The issues are concerned with (1) the function and position of the Central Deposit Insurance Corporation, (2) the adjustment of the examination power of the Central Bank, and (3) the reconstruction of the financial research and training institutions. In relation to these issues, we have pointed out the critical steps that the government should take next. These should be helpful to the financial reform in Taiwan.

The above discussions comprise reasonable suggestions from both practical and theoretical viewpoints. We should continue to be concerned with these financial reform developments and, hopefully, financial supervision in Taiwan can take on a whole new look in the twenty-first century.

Figure 1 Structure of Financial Superviosry Commission (Stage 1)
(Non-government coporate entity)

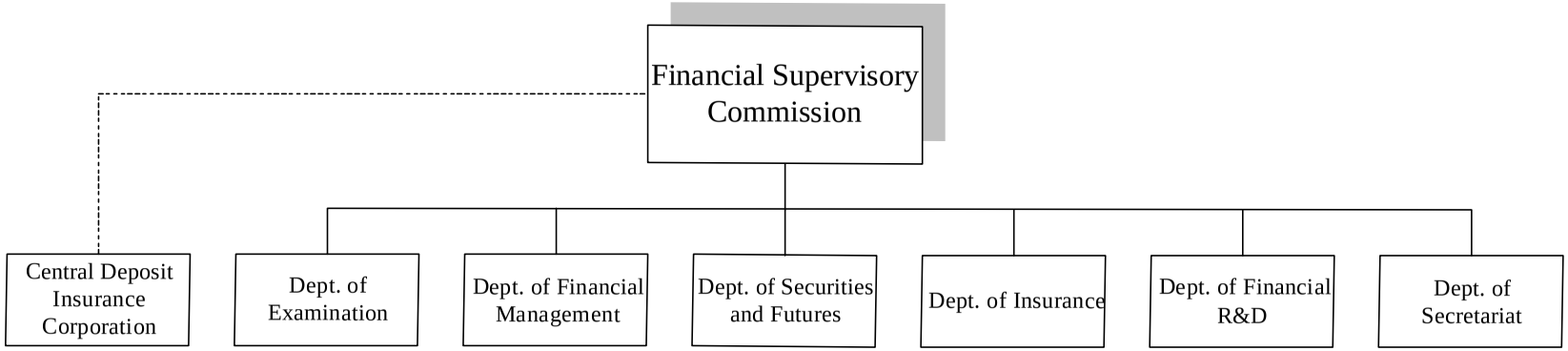


Figure 2 Structure of Financial Supervisory Commission (Stage 2)
(Non-government coporate entity)

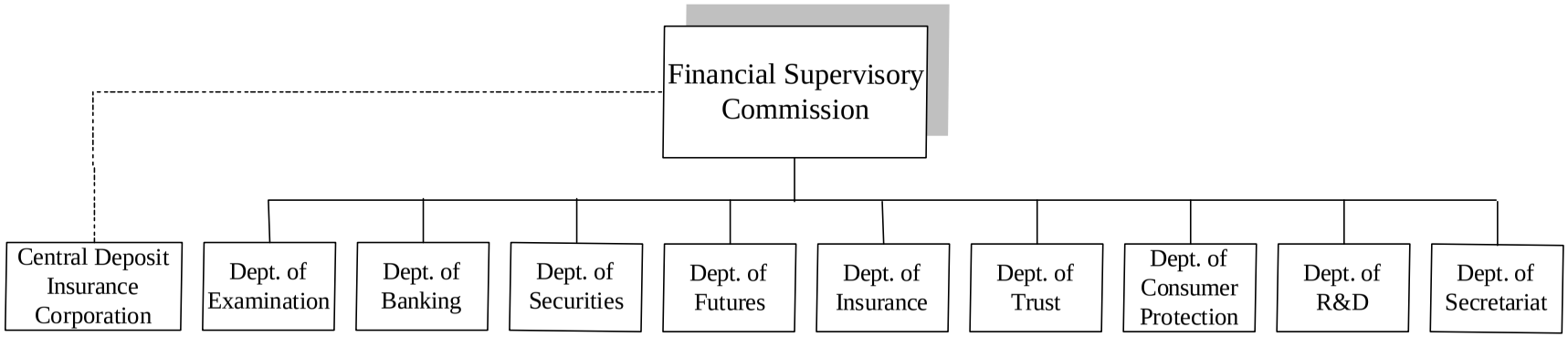


Figure 3 Whole Reconstruction of Financial Supervisory Commission
(Non-governmental corporate entity)

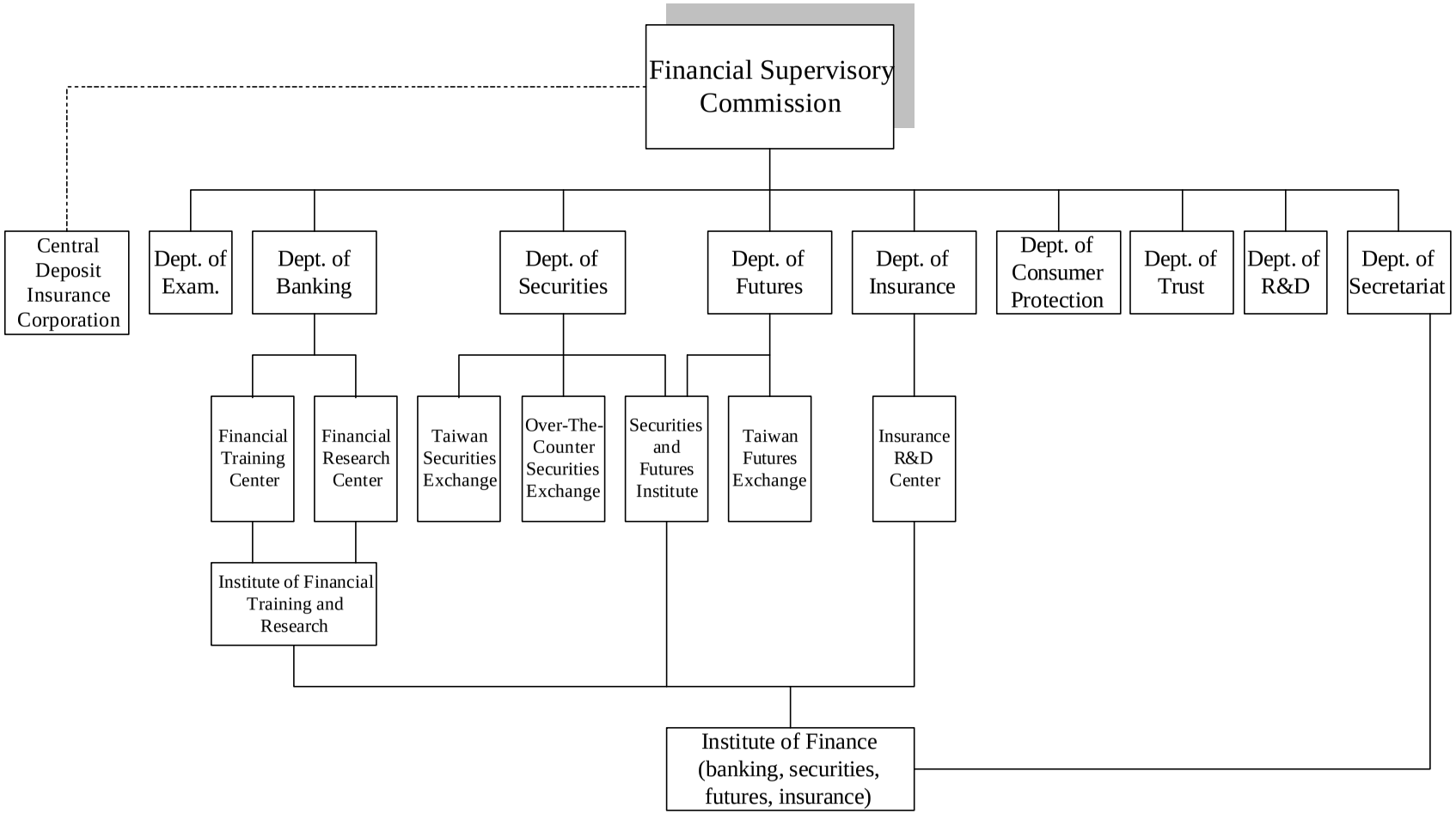


Figure 4 Structure of Financial Services Authority under the Executive Yuan (Stage 1)

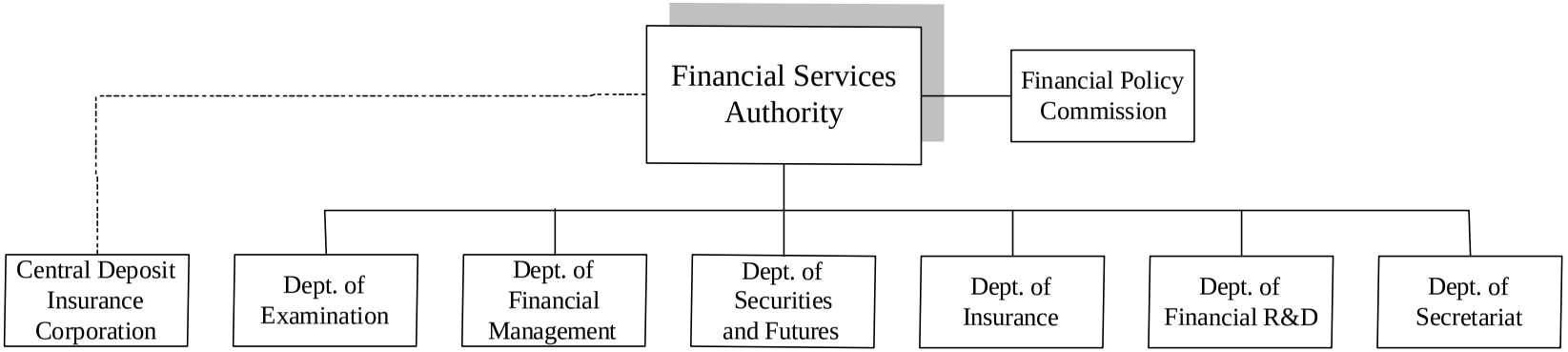


Figure 5 Structure of Financial Services Authority
(Governmental agency to exercise the power of financial administration)

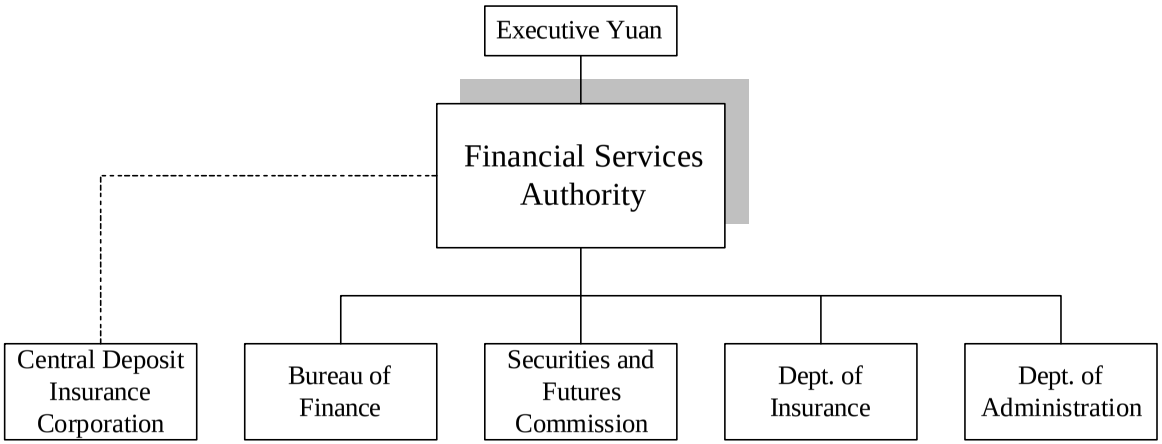
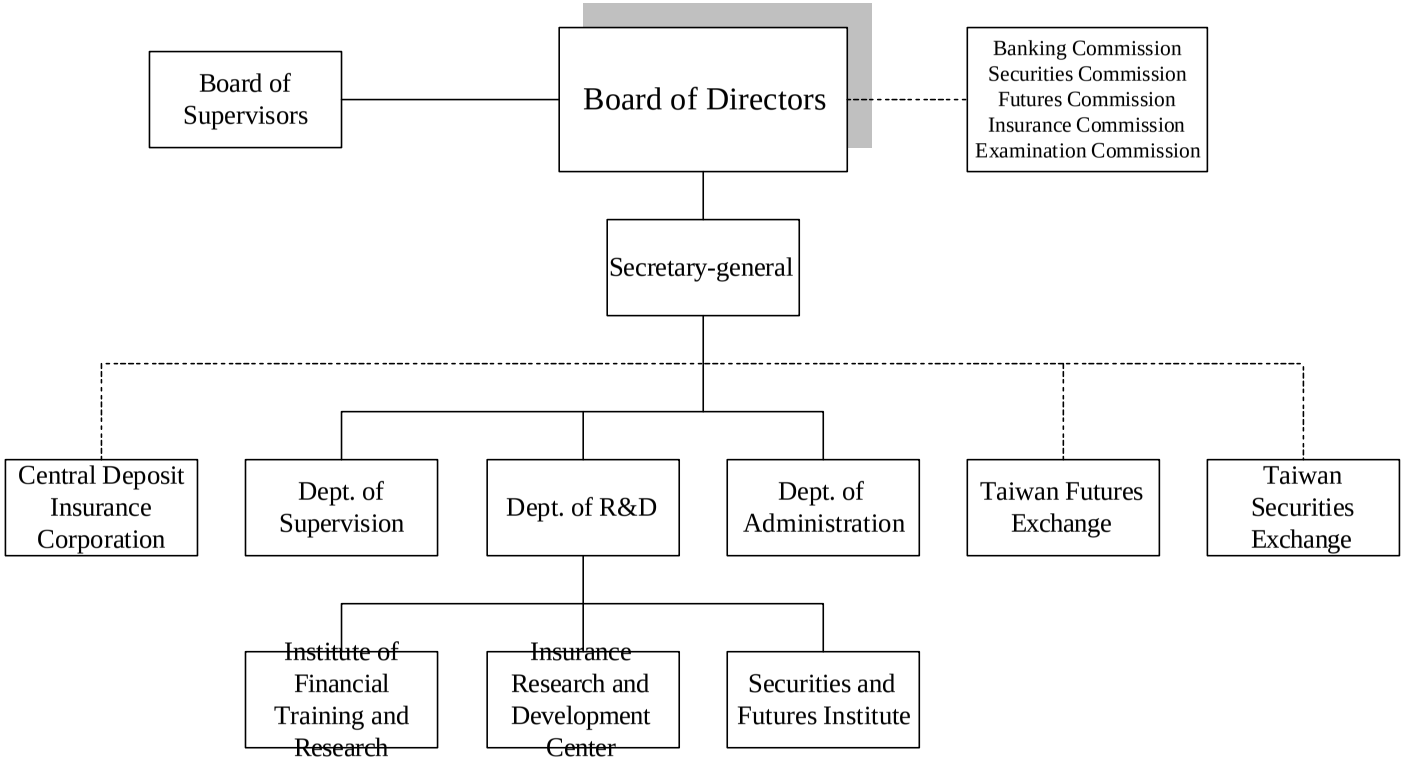


Figure 6 Structure of Financial Affairs Foundation
(Non-government institution delegated to exercise financial affairs)



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