

The Effects of MOU for Banks Between Taiwan and China

Deloitte & Touche
S.C. Huang
January 21, 2010





	Current	After MOU	After ECFA
Taiwanese banks in China	Eight Taiwanese banks have representative offices in China but underlying business operations are not allowed.	<ol style="list-style-type: none"> 1. Taiwanese should set up representative's offices first and will be allowed to be upgraded two years later. 2. Taiwanese banks which have representative's offices in China will be allowed to upgrade to branches or subsidiaries with certain limitations. 3. Taiwanese banks will be allowed to invest in Chinese banks directly. 	Subsidiaries of Taiwanese banks upgraded from representative's offices will be allowed to undertake RMB-denominated businesses directly regardless of the following criteria : <ol style="list-style-type: none"> 1. Business opening for three years. 2. Making profits in two consecutive years.
Chinese banks in Taiwan	Landing in Taiwan is not allowed.	<ol style="list-style-type: none"> 1. Chinese banks will be allowed to set up representative's offices in Taiwan, and the offices can be upgraded to branches for having business after two years of representative office establishment. 2. Initially, only top five leading Chinese banks may be permitted to set up representative's offices in Taiwan according to the FSC plan. 3. Chinese banks will be allowed to invest in Taiwanese Banks. 	

Source : BUSINESS WEEKLY · UDN news

- "The Financial Supervisory Commission," (FSC) hurried to draft regulations for MOUs some days ago which paves the way for Taiwan and China to negotiate terms for the mutual opening of financial markets in the future.
- FSC pointed out that the signing of the MOU signals a green light for Taiwanese banks to apply with the Chinese regulator for upgrading their existing representative's offices in China to branches. In return, Chinese banks will also be allowed to set up offices in Taiwan.



Alternatives		Criteria
Taiwanese financial holdings or banks invest in Chinese banks	Branches	<ul style="list-style-type: none"> • NPL ratio should be below 2% • Coverage ratio should be above 60%
	Subsidiaries	<ul style="list-style-type: none"> • NPL ratio should be below 1.5% • Coverage ratio should be above 100% • Tier 1 capital adequacy ratio should be equal or higher than 8%
	Share participation	<ul style="list-style-type: none"> ● Financial strength <ul style="list-style-type: none"> ➢ Financial Holdings : capital adequacy ratio (CAR) should be between 100%-120% 、 Double Leverage ratio should be between 100%-125% ➢ Bank : NPL ratio should be below 2% 、 Coverage ratio should be above 60% ● Investment limitation <ul style="list-style-type: none"> ➢ Financial Holdings : 10%-15% of net assets ➢ Bank : 15% of net worth (share participation, set up branches and subsidiaries should be calculated together as the total investment) ● Other <ul style="list-style-type: none"> ➢ Taiwanese financial holdings or banks is limited to invest in only one Chinese bank . ➢ Either the subsidiary of financial holdings or financial holdings itself is limited to invest in only one Chinese bank.

- To avoid the sudden outflows of “Taiwanese Hot Money” into China, FSC set up relevant criteria as depicted on the left.
- Among the 15 Taiwanese financial holdings, only First Financial Holding Company and Chinatrust Financial Holding Company are qualified to invest in Chinese banks currently.



Alternatives		Criteria
Chinese banks invest in Taiwanese financial holdings or banks	Share participation	<ul style="list-style-type: none"> ● Either Chinese bank itself or its overseas subsidiary can invest in Taiwanese bank. ● Selection between investing Taiwanese banks or setting up branches. ● International experience and being ranked in top hundreds globally are requirements for Chinese banks, but public trading is not necessary. ● Chinese bank is limited to invest in only one entity either financial holdings or banks. ● Shareholding limit <ul style="list-style-type: none"> ➢ Listed company: 5% for single Chinese bank, 10% for total Chinese banks ➢ Unlisted company: 10% for single Chinese bank, 15% for total Chinese banks

■ FSC points out that MOU must be signed on equal principle.



Item	Banks
Chinese banks: Intend to set up branches in Taiwan	Bank of China 、 ICBC 、 China Merchants Bank 、 Industrial Bank Co., Ltd. 、 Bank of Beijing 、 SPD Bank 、 China Construction Bank 、 Agricultural Bank of China 、 Bank of Communications, etc.
Taiwanese banks: Have set up representative 's offices in China	<ul style="list-style-type: none"> ● Banks with representative's offices in China : Land Bank 、 Mega International Commercial Bank 、 Taiwan Cooperative Bank 、 First Bank 、 Chang Hwa Bank 、 Hua Nan Bank 、 Cathay United Bank 、 CTCB ● No representative's office in China, but have been authorized to set up : Bank of Taiwan ● Applied but not authorized : E. Sun Bank

Source : Economic Daily News

Six principles for Chinese banks investing in Taiwanese banks.

Item	Principles
Asset scale	Medium/large-size financial institution
Financial structure	High quality asset
Management team	Excellent management
Branch distribution	Most branches are in the north of Taiwan
Business reputation	excellent reputation
Shareholder structure	No political stand

Source : Economic Daily News

- Under above six principles, CFHC, Cathay Holdings, Fubon Financial , Sinopac Holdings are qualified. However, Chinese banks can only have financial investing due to the fact that they can only hold up to 5% or 10% stake in Taiwanese financial holdings and are unable to control the company.

Deloitte.
勤業眾信