

# **COUNTRY REPORT TAIWAN 2008**

## **1. Economic and financial background**

Table 1: Key Economic Indicators			
	2006	2007	Jun-2008
Total Population	22,876,527	22,958,360	22,994,292
GDP (USD Million)	364,422	383,343	201,056
Average GDP per capita (USD)	16,030	16792	8786
Rate of real GDP growth (%)	4.68%	5.72%	4.78% (2008 estimation)
CPI rate (%)	0.60%	1.8%	4.97%
Unemployment rate (%)	3.91%	3.91%	3.95%
Stock market capitalization (USD Million)	654,035	663,542	630,651
Bond market capitalization (USD Million)	168,467	173,468	189,632
Foreign exchange rate	32.596	32.443	30.354

## **2. Data on funds under management and portfolios**

Please find the second column of the below table.

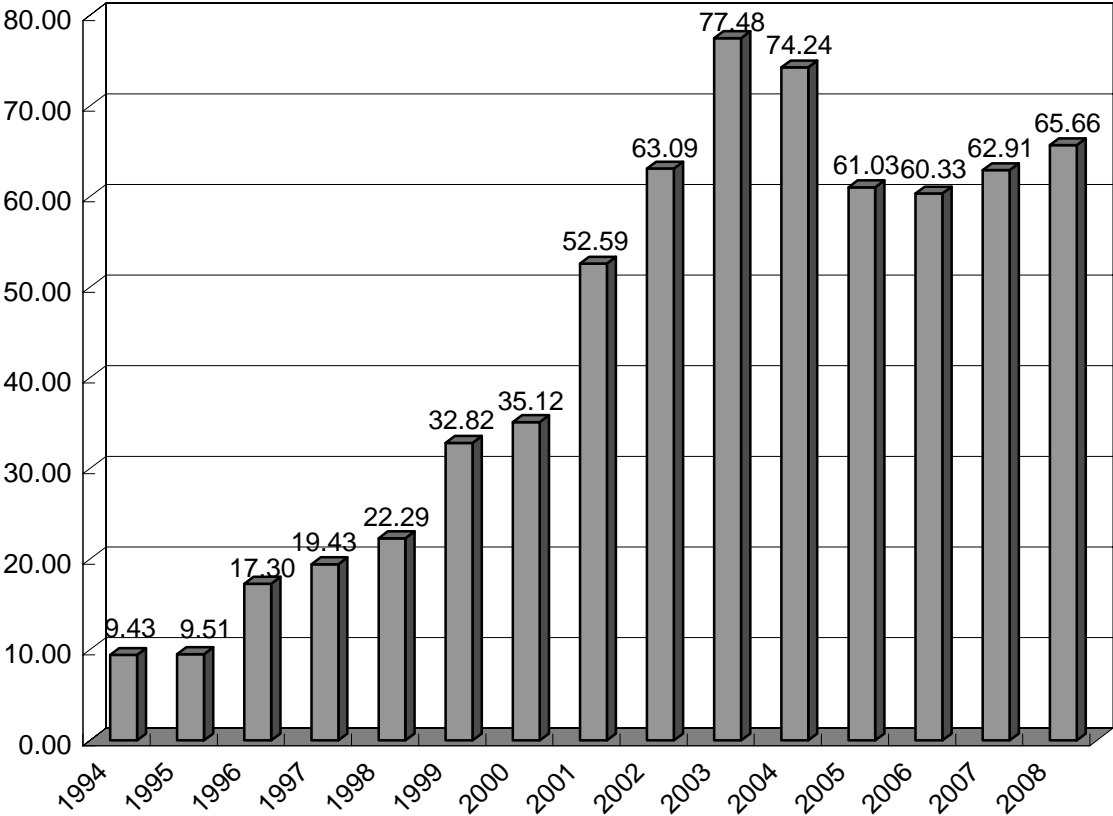
### 3. Key Trends in Flows and Assets under Management

USD: TWD=1:30.354 (June 2008)

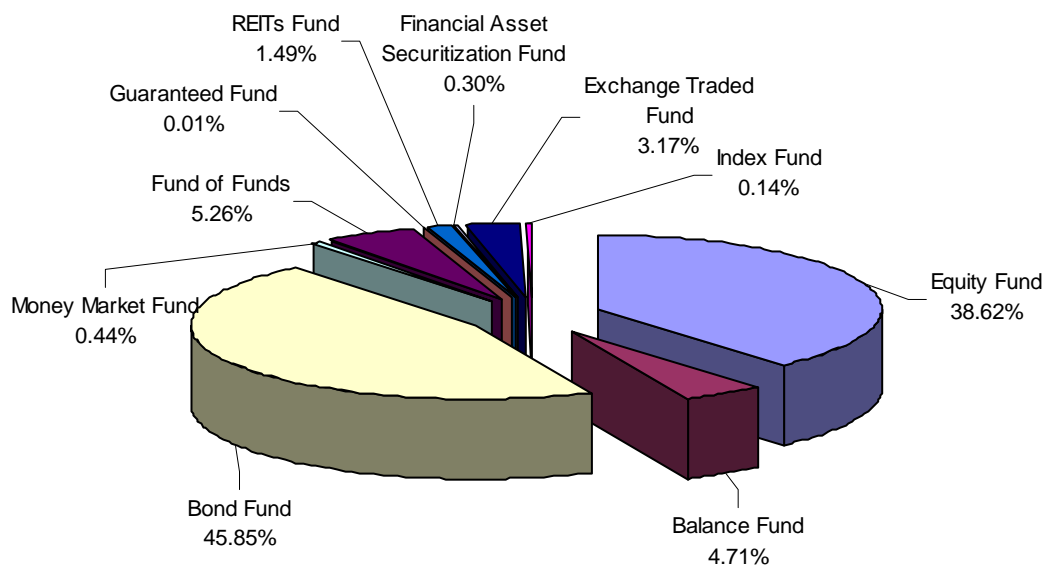
Table 2: Statistics of Assets under Management and Net Flow (USD)				
Types of Fund	Mutual Fund Assets		Net Flows	
	Jun. 2008	Market Share	Jul. 2007 ~ Jun. 2008	Growth Rate
Equity Fund	25,357,685,641	38.62%	-1,581,169,205	-6.24%
Balance Fund	3,089,493,406	4.71%	-1,082,301,910	-35.03%
Bond Fund	30,107,691,007	45.85%	1,203,887,116	4.00%
Money Market Fund	290,401,519	0.44%	-148,392,790	-51.10%
Fund of Funds	3,453,168,675	5.26%	-2,711,644,887	-78.53%
Guaranteed Fund	7,639,925	0.01%	-1,463,497	-19.16%
REITs Fund	980,692,651	1.49%	-1,523,755,395	-155.38%
Financial Asset Securitization Fund	199,782,174	0.30%	-521,180,170	-260.87%
Exchange Traded Fund	2,082,239,161	3.17%	404,660,188	19.43%
Index Fund	94,306,731	0.14%	75,691,747	80.26%
Total	65,663,100,891	100%	-1,581,169,205	-6.24%

**Chart of Total Mutual Fund AUM**

Fund Size ( US\$ Billion )



### 3.2 Shares of Mutual Fund Market by Category



### 3.3 Trends Concerning International Investment Funds

During the period from July 2007 to June 2008, due to the sub-prime crisis and weakening global economy, the AUM of local international funds declined from USD 21 billion to 19 billion taking the market share from 35% in June 2007 to 28% in June 2008. On the other hand, although offshore funds were more preferable to Taiwan investors, and the fund size even surpassed the total local fund size in the end of 2007, which reached USD 65 billion, the AUM of the offshore fund had fallen to USD 56 billion in June 2008.

## 4. Regulatory and self regulatory developments (including tax)

SITEs and SICEs providing discretionary investment services are required to establish Legal Compliance Units

The FSC has set a criteria to determine which securities investment trust or consulting enterprises will be required from 1 July 2007 to establish a legal compliance unit which belongs to either the board of directors or the general manager and is in charge of the planning, management, and execution of legal compliance systems. Such compliance departments will be required for all SITEs, and also for SICEs engaging in discretionary investment services that handle discretionary contracts with an aggregate value of NT\$600 million or more.

4.2 Foreign investors permitted to mandate domestic discretionary investment management institutions to conduct discretionary securities investment:

Overseas Chinese and foreign nationals may mandate a SITEs, SICEs, trust enterprise, or securities firm who are approved by the FSC to conduct discretionary investment services to conduct discretionary investment in securities as permitted under Article 2 of the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals. Such discretionary investment must be conducted in compliance with the provisions of the Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals and the Regulations Governing the Conduct of Discretionary Investment Business by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises.

4.3 SITEs allowed to use multi-manager structure for fund management; rules issued regarding concurrent management of funds by a fund manager

Pursuant to Article 5, paragraph 2 of the Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises, the FSC on 13 June 2007 issued an order allowing SITEs to adopt a "Manager of Managers" structure, consisting of core managers and assistant managers for management of their securities investment trust funds.

4.4 Removed the previous percentage restrictions on investment made by domestic investment trust funds, discretionary investment assets, and offshore funds in Hong Kong and Macao H-shares and red-chip shares

On 14 July 2008, the FSC amended the percentage of domestic securities investment trust funds, discretionary investment assets, and offshore funds that may be invested in mainland area securities. The amendments remove the previous percentage restrictions on investment in Hong Kong and Macao H-shares and red-chip shares, and raise the ceiling percentage for investment in mainland area listed securities to 10 percent of a fund's net worth or 10 percent of the discretionary investment assets. These measures are designed to allow the financial industry to enter and develop the mainland, Hong Kong, and Macao markets under more advantageous terms, boost the investment efficiency of funds and discretionary assets, and enhance operating flexibility.

4.5 Subsequent to the promulgation and enforcement of the modified Trust Enterprise Act on Jan. 16, 2008, SITEs and SITCs with certain qualification requirements shall concurrently operate some specific trust businesses, the specified money or security trusts. SITEs and SITCs shall operate discretionary investment business on a trust basis..

## **5. Corporate governance – Major Developments**

Pursuant to Taiwan Securities and Exchange Act, the OECD Principle for Corporate Governance (2004), and other related local and overseas laws or regulations, SITCA has finished amendments to "Corporate Governance Best-Practice Principles for the enterprise of Securities Investment Trust & Consulting", which has been enforced since April 2008.

To protect the interests of fund beneficiaries, SITCA proposed "Best-Practice Principles for the Rights or Interests of Securities Investment Trust Enterprise and Securities Investment Consulting Enterprise, or such

above enterprises concurrently operates another enterprise, or is concurrently operated by another enterprise”, which has been enforced since November 2007.

## **6. Fund Governance**

In order to enhance fund governance, SITCA was appointed by SFB to do research on the structure of Canadian Independent Review Committee (IRC) to evaluate the feasibility of adopting the scheme in Taiwan.

## **7. Product development**

New raised onshore funds continue to diversify. More and more sector funds, environmental-themed funds, and funds investing in emerging markets have been introduced to market.

Amid the market turmoil, offshore funds saw their first monthly outflow in history in November 2007, bringing an end to years of steadily growing.

On the other hand, onshore funds maintained a relatively stable AUM. Taiwan ETFs and international umbrella funds were even coming out ahead. Captured USD666 million and USD30 million of net inflows respectively over the past 12 months from August 2007 to July 2008.

## **8. Other major issues and developments**

In an active bid to develop Taiwan into a regional asset management center of Asia-Pacific, the FSC has allowed offering futures trust funds since Aug.2007. Moreover, the FSC has drawn up the related regulations and measures, in order to shoot for overseas financial institutions to establish their operating centers and affiliated departments to Taiwan and expand other financial business further.

Securities investment consulting enterprises (SICEs) and domestic futures commission merchants (FCMs) have gotten green light from the FSC to use their proprietary funds to invest in offshore funds that have been approved for domestic offering and sales since Jan. and Feb.2008 respectively.

According to the survey by Council Of Labor Affairs Executive Yuan Taiwan, the labors in Taiwan manage finances by investing in mutual funds has the highest growth in last year. It has grown by 9.4% a year and hit 41.4%. However, the positive investors' appetite toward stocks and bonds investment in the past has only occupied 31.2%. It means that the investor in Taiwan has transferred the orientation of investment gradually from stock market to fund market.

The SITCA has continued cooperated with Pension Fund Association (PFA) to promote Self-Management Mechanism. The PFA will submit the innovation white paper of the “New Scheme” to government by the end of 2008.