I. Introduction

The Taiwan Financial Supervisory Commission (the FSC) was established on 1 July 2004 as the competent authority with overall responsibility for supervising, regulating, examining, and facilitating the development of financial markets and financial services in Taiwan. The FSC seeks to ensure the sound operation of financial institutions, maintain financial stability, and promote the development of our financial markets.

The FSC supports standards issued by BCBS for sound prudential regulations and supervision of banks and banking systems and appreciates the effort to revise the Core Principles given the developments of supervisory and banking systems that have occurred in recent years. The FSC welcomes the opportunity to comment on this consultation. Below, the FSC is pleased to present some general comments regarding the proposed changes to the Core Principles.

II. Comments on specific principles

1. **The essential criterion 2 of Principle 3**: The FSC noted that the essential criteria 1 and 3 of CP3 also requires establishing cooperation arrangements with all domestic supervisory authorities and relevant foreign supervisory authorities responsible for banking supervision respectively. It is recommended further clarifying the content of the “appropriate mechanisms” mentioned in the newly added essential criteria 2, the difference between the “formal or informal cooperation arrangements” mentioned in essential criteria 1 and 3, and whether the scope of essential criteria 2 includes relevant domestic and foreign agencies.
2. **The essential criterion 4 of Principle 6:** From the FSC’s supervisory experience, banks have very limited (or no) information of beneficial owners hence facing the problem of complying with this principle and CP20.
3. **Beneficial owners related issues (Principle 5, 6, 11, 12)**

   (1) The Core Principle has established regulations regarding the eligibility and suitability of controlling shareholders when issuance of licenses or significant ownership transfers. The CP5 addresses the review of suitability of the bank’s major shareholders (including the ultimate beneficial owners (UBO), and others that may exert significant influence) when licensing, while CP6 sets the approval and notification requirements for potential significant ownership transfer (including beneficial ownership). Besides, CP12 also set the fit and proper requirements for owners and senior management of parent companies.

(2) The essential criteria 4 of CP5, essential criteria 1 to 4 of CP6, essential criteria 4 of CP11, and essential criteria 8 of CP12 involve similar concepts related to ultimate beneficial owners, beneficial owners, controlling interests, controlling owners, and owners (please refer to Appendix for details.) Concerning the similarities of these terms, it is recommended that BCBS further clarify the definitions and scope of these terms and whether they align with the FATF's definition of beneficial ownership.

(3) In practice, there have been instances where shareholders with controlling interests in banks have become involved in the operations or decision-making of the bank (such as attending meetings or the bank providing financial or personnel information to such shareholders) without holding positions as directors or in management, which can hinder the bank's corporate governance and result in a misalignment of responsibilities. If the term of controlling owners in CP11 does not encompass UBOs, the supervisor's sanctioning power would not reach UBOs obliged to such misalignment of responsibilities. In addition, it is also recommended to integrate such UBO's impedance on governance into the assessment scope of suitability under the essential criteria 11 of CP5 (e.g., the criteria of integrity.)

4. **Fitness and propriety related issues (Principle 5, 12)**: It is recommended to clarify whether the term of suitability is aligned with the term of fit and proper. From our view, the core qualification criteria for board members and senior management are competence and integrity, whereas those for controlling/major shareholders, including UBOs, are financial soundness and integrity. If the terms of suitability and fit and proper are not equivalent, it is also recommended to clarify the qualification criteria for board members specified in CP5 and owners of the supervised bank's parent companies specified in CP12.

5. **Macroprudential supervision related issues (Principle 1, 12, 13)**: The amendments emphasize the importance of close cooperation, both domestically and internationally, between the relevant authorities with responsibility for banking supervision and macroprudential policy and financial stability. It is recommended that BCBS can elaborate more clearly about the division of supervisory powers between the home and host supervisor to facilitate the effectiveness of consolidated supervision.

(1) **The essential criteria 3 of Principle 12**:

a. The essential criteria 3 of CP12 requires parent banks have unimpeded access to all material information from their foreign branches and subsidiaries. The term ”unimpeded” has been revised from “no hindrance” in this criterion. What are the considerations behind this terminology modification?

b. In the consolidated supervision practice, there have been cases where the regulatory authority of subsidiaries in host countries limited the extent of oversight and participation in the subsidiary’s operation by the management of the parent bank. For example, the whole subsidiary’s board members should not be appointed by the parent bank, the remuneration system or the resources allocated to the dealing room should not be decided by the parent bank, etc. However, if the parent bank only has limited access to its subsidiary’s operation, it might reduce the effectiveness of its oversight and restrict access to relevant information by the home country’s regulatory authorities and their supervisory powers. Furthermore, the misalignment of the parent bank’s rights and responsibilities is unfair, i.e., the parent bank has the final responsibility and plays the final funder for the sub-bank’s failure of operations while having insufficient rights to involve the sub-bank’s operations. The home supervisor would also face blame for failed supervision when such situations occur. Therefore, further clarification is recommended regarding the scope and extent of such consolidated cross-border supervision and supervisory actions that the home country’s regulators could take against the parent bank in such situations.

(2) **The essential criteria 5 of Principle 13:**

a. Recently, the FSC was informed by the Taipei branch of an European bank that in accordance with Article 55 of the BRRD , it could include a contractual term by which the creditor or party to the agreement or instrument creating banks liability recognizes that such liability may be subject to the write-down and conversion powers and agrees to be bound by any reduction, conversion or cancellation that is effected by the exercise of those powers by a resolution authority (bail-in terms).

b. Given that public law is generally based on the territory, when the financial condition of European bank's head office or foreign branches significantly deteriorates to the extent that it poses a risk to depositors' interests, the bank's foreign branch is required to comply with the relevant regulations of the country where they located to dealing with. Hence, the above bail-in terms may potentially impede the regulatory and resolution powers of the host country during crisis.

c. The essential criteria 5 of CP13 primary focus on information sharing and collaboration during a crisis. However, such cooperation does not include the situation where a crisis has not yet occurred but with possible impact on country's resolution authority to undertake actions in the event of a crisis. It is recommended to further clarify the timing and scope of cross-border crisis cooperation.

6. **Corporate governance related issues (Principle 14)**:

(1) **The essential criteria 3 of Principle 14:**

a. This criterion requires that boards regularly review their performance, and that membership is regularly renewed to refresh skills and independence. The FSC gets feedback from the delegation of BCBS in the outreach host by BCBS & SEACEN that such review is conducted by the bank itself rather than by the supervisor.

b. There's an implementation issue related to this requirement. The board members are mainly selected by shareholders, but are tasked with making a variety of major decisions that impact the interests of all stakeholders ranging from supervisors, other regulators, shareholders, bank's senior management and staff, customers, trade counterparties, and even the public. Under such circumstance, whether the board members being able to assess their own performance with fairness and objectiveness is doubtful. It's recommended to remain such review but have flexibility over how such review is conducted. This review could be done internally or externally depending on the nature of the performance item.

(2) **The essential criteria 10 of Principle 14:** Considering this criterion has been upgraded from additional criteria (ACs) to essential criteria (ECs), it is recommended to further clarify the feasibility of this requirement as stipulated by regulations, and the methods for banks to implement it in practice. (Such as the criteria for determining significant information, methods for obtaining information, and the entities responsible for reporting to regulatory authorities)

7. **The essential criteria 7 of Principle 16**: The leverage ratio is a measure to supplement the risk-based capital requirements. It might apply different lower limits for banks depending on their sizes to reach this requirement. It's recommended that BCBS provides guidance or instructions on how to

achieve this criterion. Also, apart from the leverage ratio, it is recommended that BCBS further clarify the content of non-risk-based measures and provide related practical cases.

8. **Principle 24:** The term of "including funding" is added to the liquidity requirement for internationally active banks. Whether this implies the operational process and the time that takes to gather funding (no matter from peers or central banks) for banks that face liquidity crisis? If so, a footnote or elaboration is recommended.

Appendix

2012 Core Principles	2023 Draft Core Principles
Principle 5 Licensing:	**Principle 5 Licensing:**
(5) The licensing authority identifies and determines the suitability of the bank's major shareholders, **including the ultimate beneficial owners**, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.	(4) The licensing authority identifies and determines the suitability of the bank's major shareholders, **including the ultimate beneficial owners,** and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.
Principle 6 Transfer of significant ownership: The supervisor has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or **controlling interests** held directly or indirectly in existing banks to other parties.	**Principle 6 Transfer of significant ownership:** The supervisor has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or **controlling interests** held directly or indirectly in existing banks to other parties.
(2) There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, **including beneficial ownership**, or the exercise of voting rights over a particular threshold or change in controlling interest.	(2) There are requirements to obtain supervisory approval or provide immediate notification ~~of~~ with respect to proposed changes that would result in a change in ownership~~,~~(**including beneficial ownership**)~~,~~ ~~or~~ to the exercise of voting rights over a particular threshold or to a change in controlling interest.
(3) The supervisor has the power to reject any proposal for a change in significant ownership, **including beneficial ownership**, or controlling interest, or prevent the exercise of	(3) The supervisor has the power to reject any proposal for a change in significant ownership~~,~~(**including beneficial ownership**)~~,~~ or controlling interest, or prevent the exercise of

voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.	voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable ~~to~~ with those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.
(4) The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, **including the identities of beneficial owners** of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.	(4) The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, **including the identities of beneficial owners** of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership.
(6) Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or **a party that has a controlling interest.**	(6) Laws, ~~or~~ regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or **a party that has a controlling interest.**
Principle 11 Corrective and sanctioning powers of supervisors:	**Principle 11 Corrective and sanctioning powers of supervisors:**
(4) The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in [BCP01.87](2) above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In	(4) The supervisor uses ~~has available~~ a broad range of possible measures to address, at an early stage, such scenarios as described in [BCP40.26(2)] ~~above~~. These measures include the ability to impose sanctions expeditiously or require a bank to take timely corrective action

practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.	~~or to impose sanctions expeditiously~~. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.
Principle 12 Consolidated supervision	**Principle 12 Consolidated supervision**
Additional criterion: (1) For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for **owners** and senior management of parent companies	Essential criteria (8) For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for **owners** and senior management of parent companies.
Principle 20 Transactions with related parties:	**Principle 20 Transactions with related parties:**
	[54] Related parties comprise can include, among others ~~things~~, the bank's subsidiaries, affiliates, and any

	party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank; the bank's major shareholders up to the **ultimate beneficial owner**; and board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies. It should also include parties that can exert significant influence on the board or senior management. Banks' exposure to banking entities within the banking group or wider group arising from transactions such as liquidity facilities, sale/purchase of foreign currencies or securities, letters of credit and guarantees may warrant a separate approach, particularly if the supervisor considers this to be appropriate to ensure sound group-wide risk management.