

FISC Interbank Remittance and ATM System PFMI Disclosure Report

Financial Information Service Company

June 2016

Responding institution: Financial Information Service Company

Jurisdiction(s) in which the FMI operates: Taiwan Shilin District Court

Authority(ies) regulating, supervising or overseeing the FMI: Central Bank of the ROC, Financial Supervisory Commission

The date of this disclosure: June 30, 2016

This disclosure can also be found at www.fisc.com.tw

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I. Executive summary

This report has been prepared by the Financial Information Service Company (FISC) in accordance with 18 payment system (PS) related principles out of the 24 principles in the principles for financial market infrastructures (PFMI): disclosure framework and assessment methodology for the principles for financial market infrastructures released by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions (CPSS-IOSCO). The self assessment for the Interbank Remittance and ATM System (the "System") has been disclosed herein accordingly.

FISC conducts interbank clearing/settlement services within the scope approved by the competent authority and performs interbank information transmission and exchange between financial institutions by following the "Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement" established with the authority granted under Article 47-3 of the "Banking Act of The Republic of China". Upon participation, participants must sign the "FISC Interbank Financial Business Participation Protocol"(the "Participation Protocol"). Both participation and exit procedures follow the "Participation Protocol". Participants and FISC shall proceed in compliance

with the "FISC Regulations Governing Interbank Financial Business"(the "Governing Regulations") and the Participant Manual.

The System implements "collateral based settlement for CBC Interbank Settlement Guarantee Accounts" and real time gross settlement (RTGS). When payment instructions have been accepted by the System, the principle of debit/credit settlement will apply, and payments that have been settled cannot be withdrawn. Therefore, there is no credit risk. When a participant has an insufficient interbank balance in the Interbank Settlement Account, the System will reject the payment instruction and promptly alert the participant to the insufficient balance. Thus the liquidity risk is extremely low.

Furthermore, to ensure uninterrupted operation of the interbank payment system, FISC has implemented risk management mechanisms and established the Risk Management Policy and Procedures, Risk Management Guidelines, and Risk Management Manual to enforce the risk management policy. Operational control procedures have been implemented for routine operations in order to identify, measure, monitor, and manage potential operational risks. Regarding control of general business risks and operational risks, FISC has established computer information security policies and operational procedures, including the Information Security Management System, the Information Security Policy, the Procedure for Protecting IT Equipment Authorization, and the Network and Communication Security Management Procedure, in compliance with ISO 27001 international standards. FISC also follows the Risk Evaluation and Management Procedures and conduct regular information security risk evaluation for individual IT asset classes in order to identify vulnerabilities and threats in the interbank system and take necessary risk response measures. The management systems will undergo reviews by third party certification institutions on a regular basis (twice a year) to verify the validity of FISC policies, procedures and response measures.

II. Summary of major changes since the last update of the disclosure

This is the first disclosure by the FISC in accordance with Principle 23: Disclosure of rules, key procedures, and market data since CPSS-IOSCO released the Disclosure Framework and Assessment Methodology in December 2012.

III. General background on the FMI

General description of the FMI and the markets it serves

FISC is a processing hub for financial information and interbank transactions in Taiwan. The company has been charged with the responsibilities of providing fast and friendly payment service, a stable operational system, and a secure transaction environment for financial institutions and consumers. Hence, the interbank information system operated by FISC connects the Central Bank of the Republic of China ("Central Bank"), financial institutions and related operations and maintenance units. It implements collateral based real time gross settlement (RTGS) for CBC Interbank Settlement Guarantee Accounts. This platform connects different systems and offers a variety of interbank money services in order to maintain uninterrupted payment processes and to reduce settlement risks for financial institutions as a whole.

The System is equipped with a set of fair and open participation standards and tiered participation protocols. Any financial institution or information center that meets the requirements of the "Participation Protocol" and the "Directions for the Central Bank of China to Govern Electronic Interbank Fund Transfers and Settlements" ("CBC IFTS Directions") will be able to participate in the System. While financial institutions are permitted to apply to become participants connected directly to FISC, community financial institutions, such as credit cooperative associations and credit departments of farmers' and fishermen's associations,

may also apply to become indirect participants of the System by joining information centers. As of the end of 2015, the System has 87 direct participants (including 6 information centers) and 316 indirect participants.

With respect to shared automated teller machines (ATMs), the services were launched in January 1987 and offer 24-hour ATM services, including interbank withdrawals, transfers, tax/fee payments, and balance inquiries. As of the end of 2015, a total of 374 financial institutions have become participants with 27,351 ATMs and 68.80 million cards issued. A total of 440.31 million transactions, for a total amount of NT\$7,458.0 billion, were made in the year.

The interbank remittance services were launched in August 1987 and offer NTD interbank fund transfer services, including wire deposits, treasury remittances, interbank remittances, securities settlement payments, and bill settlement payments between financial institutions. The services can be accessed during business hours for financial institutions between 9:00 am and 4:50 pm. As of the end of 2015, there are 398 financial institutions with a total of 6,325 branches on the list of participants. A total of 99.74 million transactions, for a total amount of NT\$119,359.2 billion, were made in the year.

General organization of the FMI

The history of FISC started with the Ministry of Finance applying for and obtaining the Executive Yuan's approval and created a task force, Financial Information System Group (FISG), in October 1984 for the purpose of encouraging financial institutions to share resources and exchange information and facilitating full automation of the financial sector. FISG was tasked with planning, designing and implementing an interbank network. Upon completion of its tasks in August 1988, FISG was succeeded by the Financial Information Service Center ("FIS Center"). The FIS Center

was subsequently restructured and incorporated by the Ministry of Finance with the Executive Yuan' approval in November 1998 in response to deregulation of financial markets and adoption of international practices. The Financial Information Service Company was established with funds from the Ministry of Finance and public/private financial institutions, and assumed all operations of the FIS Center. FISC has been responsible for planning, implementing and operating the Interbank Financial Telecommunication System and providing an interbank switch and clearing/settlement services ever since.

FISC was established with the approval of the Ministry of Finance and the Central Bank in accordance with Article 3 of the Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement. Shareholders, according to these regulations, must be financial institutions or state departments. The current shareholders consist of the Central Bank, domestic and foreign banks, and community financial institutions.

The FISC shareholders' meeting has passed the Articles of Incorporation, and the board of directors has passed the Organizational Rules, the Guidelines for Levels of Authority, the Table of Expenditure Authorization, and the Manager Management Guidelines. The company rules and regulations establish clearly the organization and responsibilities and authorities of individual departments. Internal controls form the first line of defense; risk and compliance units that conduct self assessments in accordance with the Risk Management Policy and Procedures, the Risk Management Guidelines, and the Compliance Guidelines approved by the board of directors form the second line of defense; and the independent audit unit that conducts audits in accordance with the Internal Audit Guidelines approved by the board of directors and related policies form the third line of defense. The process is well defined in the corporate governance regulations.

Legal and regulatory framework

FISC, in accordance with the Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement, the CBC IFTS Directions, the "Directions on the Opening and Use of Interbank Fund Transfer Guarantee Special Accounts at the Department of Banking of Central Bank of China by Financial Institutions", and the "Regulations Governing the Audit and Adjustment of Deposit and Other Liability Reserves of Financial Institutions", has established the Participation Protocol and the Governing Regulations and related appendices, which establish definite rights and obligations and must be observed by all participants. With respect to the agreements, the documents will be drafted in accordance with the procedures above. The parties to an agreement will be able to review the documents before entering into the agreement. An agreement must be entered into in the form of official letters affixed with the signatures and seals of both parties to the agreement to be legally binding to FISC as the system operator and the participant.

Maintenance of the system will be performed as specified in Article 40 of the CBC IFTS Directions. An immediate fund transfer will be executed by the Central Bank as soon as the available balance is sufficient to make the debit. Such transactions, once executed, cannot be withdrawn. Moreover, when opening an Interbank Fund Transfer Guarantee Special Account for participation in the CBC Interbank Funds Transfer System, a participant will be required to sign the Application for Participation in CBC Interbank Funds Transfer System or the Application for Opening and Use of Interbank Fund Transfer Guarantee Special Accounts at the Department of Banking of Central Bank of China by Financial Institutions. Participants that have been approved by the Central Bank will be considered to be obliged to comply with the CBC IFTS Directions and related rules.

System design and operations

The System follows the TCP/IP Network Standard established by the International Organization for Standardization (ISO) and implements communication protocols that are defined by FISC and compatible with international standards. The System establishes a computer network and account administration options that connect financial institutions in Taiwan and facilitate remittance and ATM services. Payments and settlement of transactions are processed by the CBC Interbank Funds Transfer System. Available balances in interbank funds are updated instantly through network connections. Intraday interbank transactions are processed with the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. When the system receives an incoming/outgoing remittance message from a participant, it will authenticate the format, serial number, and decryption key, and proceed to credit/debit the participant's designated account, after which the transaction will be considered completed. The transaction will be declined if the participant's interbank fund does not have a sufficient balance to complete the transaction.

The system will prompt a warning for any insufficient intraday balance and alert the participant to promptly increase the balance in the settlement account. The participant will be able to transfer funds through the CBC Interbank Funds Transfer System immediately from its reserve account at the Central Bank or any other account at a financial institution to the Interbank Settlement Guarantee Account designated by FISC in accordance with the Central Bank's requirements. Upon receiving the Central Bank's instructions, FISC will immediately add the increase to the fund accordingly, and notify the participant by electronic messaging in order to support the participant's need for liquidity for settlement purposes. The System allows participants to customize the balance alert for their settlement accounts as

needed. Since each transaction is secured by a pre-allocated amount of collaterals, which serve as preventive measures, the process will not be affected by default or bankruptcy of a participant or by credit losses to be distributed afterwards.

IV. Principle-by-principle summary narrative disclosure

Principle-by-principle summary narrative disclosure	
<p>Principle 1: Legal basis</p> <p>An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.</p>	
Disclosure	<p>FISC, in accordance with Articles 2, 3, and 25 of the Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement, Articles 3, 4, 5, 6, 13 and 15 of the CBC IFTS Directions and Articles 24 to 37 and Articles 40 and 50 of Chapter II Application and Management therein, the Directions on the Opening and Use of Interbank Fund Transfer Guarantee Special Accounts at the Department of Banking of Central Bank of China by Financial Institutions, and Articles 2, 3, 5, and 6 of the Regulations Governing the Audit and Adjustment of Deposit and Other Liability Reserves of Financial Institutions, has established the Participation Protocol and the Governing Regulations and related appendices, which establish definite rights and obligations that must be observed by all participants.</p> <p style="text-align: right;">In particular, Article 40 of the CBC IFTS Directions</p>

	<p>specifies that immediate fund transfer will be executed by the Central Bank as soon as the available balance is sufficient to make the debit. Such transactions, once executed, cannot be withdrawn. When opening an Interbank Fund Transfer Guarantee Special Account or applying for participation in the CBC Interbank Funds Transfer System, a participant will be required to sign the Application for Participation in CBC Interbank Funds Transfer System or the Application for Opening and Use of Interbank Fund Transfer Guarantee Special Accounts at the Department of Banking of Central Bank of China by Financial Institutions. Participants that have been approved by the Central Bank will be considered to be obliged to comply with the CBC IFTS Directions and related rules. Moreover, to ensure the irrevocability of interbank payment transactions, the Governing Regulations establish clear rules and regulations to make settlement/clearing finality rules more definite and comply with PFMI.</p>
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<p>Principle 2: Governance</p> <p>An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.</p>	
<p>Disclosure</p>	<p>FISC understands the importance of financial market infrastructures, and so operational safety and efficiency are listed as top priorities to be monitored and reviewed on a regular basis. The decision making process is made public</p>

and transparent, and stakeholders will be invited to participate in the making of key decisions to meet public interest in safety and efficiency. Furthermore, to establish clear and transparent governance arrangements and meet regulatory requirements, the FISC shareholders meeting and the board of directors have passed rules and regulations, and the management conducts related business activities accordingly within the scope of authority granted by the shareholders meeting and the board of directors. The management implements an internal control system and constructs three lines of defense of internal control by the use of risk management and compliance self assessments and an independent audit office to conduct internal audits. The levels of authority and responsibility are clearly defined.

To strengthen information security, FISC has implemented the Information Security Policy as approved by the board of directors. The objectives of the policy are to maintain the confidentiality, integrity, and availability of the FISC information systems, business data and personal data and to ensure information security for interbank transactions. The risk management team is responsible for compiling a risk management overview, presenting reports to the board of directors, and conducting reviews and making improvements as needed, effectively maintaining stability in the financial sector while balancing public interest and stakeholder interest.

Principle 3: Framework for the comprehensive management of risks

An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Disclosure

The FISC Risk Management Policy and Procedures, Risk Management Guidelines, and Risk Management Manual have been implemented to establish the risk management system. Also, operational control procedures have been implemented for routine operations in order to identify, measure, monitor, and manage risks that have occurred or been undertaken. To ensure that risk management measures are enforced and the risk management system is inspected regularly, FISC has created the Risk Management Committee to oversee and review risk management policies and the Audit Office to conduct internal audits in order to ensure continued effectiveness of the risk management system.

FISC has implemented management mechanisms including the Information Security Management System, the Personal Information Management System, and the Business Continuity System to conduct regular risk assessments for interbank remittance and ATM services and to handle risks identified in the process. Management systems have been created and certified according to international standards, including ISO 27001, BS 10012, ISO 22301, and ISO 9001. The systems are regularly reviewed by third-party certification institutions. Furthermore, FISC has implemented the Emergency Response Procedure 3.2 Business Continuity Operations. When it is deemed that disruption can exceed the

range of tolerance, the offsite backup center will be activated to maintain business continuity for the System.

The System is based on the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts, and is therefore not subject to any credit risk. When a participant's interbank balance is insufficient to complete an interbank payment transaction, the System will decline the transactions, and so the liquidity risk is very small.

To facilitate management and control of procedures to be completed by participants, FISC has implemented the Participation Protocol, the Governing Regulations, the Participant Manual, and the Financial Information System Specifications for participants to follow.

Principle 4: Credit risk

An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a central counterparty (CCP) that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.

Note: Credit risk refers to the risk of a participant or any other institution being unable to fulfill all financial obligations at maturity or any point in the future.

Disclosure	The System implements the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. When payment instructions have been accepted by the System, the participants' interbank balances will be debited/credited immediately. Therefore, there is no credit risk. Management and control procedures for participants' interbank balances in their Interbank Settlement Accounts are described in the Participation
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	Protocol, the Governing Regulations, and the Participant Manual.
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<p>Principle 5: Collateral</p> <p>An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.</p>	
<p>Disclosure</p>	<p>The System implements the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. Participants must open Interbank Fund Transfer Guarantee Special Accounts with the Department of Banking of the Central Bank at the same time, and make interbank transfers from their reserve accounts to provide full collaterals as approved by the Central Bank. The collaterals are meant to provide an interbank balance against which the System will make each debit/credit in response to an interbank payment transaction. There is virtually no time difference in the System between receiving a payment instruction and settlement. Participants' assets to be liquidated are debt claims against the Central Bank, and so collaterals and other financial resources will not be needed.</p> <p>When a participant has an insufficient interbank balance in the Interbank Settlement Account, the System will reject the payment instruction. The liquidity risk is extremely low, and so it is not necessary for FISC to accept collaterals from participants.</p>

Principle 6: Margin

Not applicable. This principle is not in the scope of PS assessment.

Principle 7: Liquidity risk

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multi-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Disclosure

The System conducts settlement based on the "collateral based settlement for CBC Interbank Settlement Guarantee Accounts". Participants use the available interbank balances in the Interbank Settlement Accounts to fill the liquidity gaps arising from payment instructions. When a participant has an insufficient interbank balance in the Interbank Settlement Account, the System will reject the payment instruction and promptly alert the participant to the insufficient balance. The management mechanisms are defined in the Governing Regulations and the Participant Manual for participants to follow.

As the source of liquidity for participants is the CBC Interbank Settlement Guarantee Accounts, a transaction will be declined if the participant does not have a sufficient balance to complete the payment. As a result, a participant

will not be unable to pay an amount owed due to default. A payment instruction entered into the System will proceed immediately to settlement if the participant's settlement account has a sufficient balance. Transactions will be irrevocable after settlement. Settlement completed on the day will not be subject to any unwinding, withdrawal or delay.

Support mechanisms, such as intraday overdrafts for financial institutions, provided by the Central Bank can also be used to maintain sufficient liquid resources in the System. Financial institutions may pledge eligible collaterals, such as central government bonds, treasury bills and CBC certificates of deposit, to apply to the Central Bank for liquidity for settlement purposes. Participants can, during business hours, transfer funds from their own reserve accounts through the CBC Interbank Funds Transfer System to their Interbank Fund Transfer Guarantee Special Accounts in order to increase their balances immediately for more liquidity resources. The liquidity risk is extremely low.

In addition, participants can customize the balance alert for their interbank funds by using the online inquiry service or the summary report in the System as needed. An early warning feature is also available for making it easier to manage liquidity risks and to adjust the level of interbank funds for more effective measurement, monitoring, and management of liquidity risks.

Principle 8: Settlement finality

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Disclosure

According to Chapter III Settlement of the Governing Regulations, any intraday interbank transactions will be completed once the system has authenticated the payment instruction transmitted by the participant and made the debit/credit to the participant's interbank balance. Furthermore, the transaction will be declined if the participant's interbank fund does not have a sufficient balance to complete the transaction. The procedure serves as a preventive measure to keep the System from effects of default or bankruptcy of any participant. Net differences between accounts receivable and accounts payable will be cleared for individual financial institutions at the end of the day in accordance with the CBC IFTS Directions, and the information be transmitted to Settlement Banks for settlement. The time of settlement in the CBC Interbank Funds Transfer System will be the final time of settlement.

In summary, the System implements the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. Settlement is completed when the system has received the payment message and made the debit/credit to the account designated by the participant. Settlement, once completed, cannot be withdrawn, and so there will not be any chance of a participant withdrawing a payment transaction, which has not

	be settled, after the withdrawal deadline. Regarding the time of clearing and final settlement in the System is defined in the Governing Regulations and the CBC IFTS Directions.
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<p>Principle 9: Money settlements</p> <p>An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risks arising from the use of commercial bank money.</p>	
<p>Disclosure</p>	<p>The System implements the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. Money settlement is conducted by central bank money and subject to liquidity risk controls by the use of participants' available interbank balances in their Interbank Settlement Guarantee Accounts. Transactions are debited/credited individually, and settlement will be completed in the CBC Interbank Funds Transfer System at the end of the business hours on the same day. No part of the settlement process is performed by commercial banks.</p>

<p>Principle 10: Physical deliveries</p> <p>Not applicable. This principle is not in the scope of PS assessment.</p>

<p>Principle 11: Central securities depositories</p> <p>Not applicable. This principle is not in the scope of PS assessment.</p>

Principle 12: Exchange-of-value settlement systems

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Disclosure	All amounts in the System are dominated in NT Dollars. Settlement is completed when a payment instruction from a participant has been authenticated and the debit/credit has been made to the account designated by the participant. The process does not involve linking settlement obligations of two associated transactions.
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Principle 13: Participant-default rules and procedures

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Disclosure	<p>The procedures in response to participant default are established for the System in the Participation Protocol. The Protocol Compliance Committee has been created to review defaults. When a participant's default causes damage to any other participant or FISC, the participant will be held liable for compensation as stated in the Participation Protocol.</p> <p>Defaults will be investigated and related matters coordinated by the Protocol Compliance Committee. To handle such incidents, the Protocol Compliance Committee may request the units involved provide all relevant</p>
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information, and the units must not refuse such requests. The Protocol Compliance Committee, when necessary, may ban an involved unit from accessing the interbank information system.

Furthermore, the System implements the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts. Participants' assets to be liquidated are debt claims against the Central Bank, and the System updates immediately the available interbank balances for participants as each transaction occurs. A transaction will be declined if the participant's interbank fund does not have a sufficient balance to complete the transaction. Therefore, the System will not have the problem of having to continue to fulfill a participant's debt and allocate resources after the participant has defaulted.

The above Participation Protocol and its appendices have been disclosed on the FISC Membership Website to give participants a clear understanding of the default regulations and procedures.

Principle 14: Segregation and portability

Not applicable. This principle is not in the scope of PS assessment.

Principle 15: General business risk

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Disclosure

FISC has been established with the competent authority's approval and focuses on operating the Interbank Financial Telecommunication System in accordance with Article 47-3 of the Banking Act of The Republic of China and the Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement.

To facilitate planning and implementation of overall business objectives, FISC has established the Budget Management Procedure, the Table of Expenditure Authorization, and the Accounting System. All business plans will be incorporated into the annual plans and budgets and implemented accordingly. The annual FISC budget, once approved by the board of directors, will be monitored regularly, and its status will be reported to the management and the board of directors to facilitate the decision making process. In case of any material impact on FISC operations as a result of material changes in the business environment and other extraordinary circumstances and the amount exceeding the chairman's authority, which makes it necessary to modify the annual budget plan, a proposal to amend the budget plan

	<p>should be submitted to the board of directors for amendment.</p> <p>FISC, in addition to an internal control system and related operating guidelines in compliance with the Directions Governing the Internal Audit and Internal Control System of Credit Card Business Institutions, has implemented risk management measures to reinforce its risk management practice. FISC has an independent internal audit unit to perform audits, and is equipped with well established management and control systems to identify, monitor, and manage general operational risks.</p> <p>FISC holds sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern. FISC has also implemented the Business Continuity Plan and related operating guidelines so that it can quickly resume normal business activities and maintain liquid net assets needed to execute the plan.</p>
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<p>Principle 16: Custody and investment risks</p> <p>An FMI should safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.</p>	
<p>Disclosure</p>	<p>FISC does not accept custody of any participants' assets, and so is not subject to custody risks. Utilization of FISC funds will comply with the Fund Utilization Guidelines approved by the board of directors. The scopes, limits, and criteria for custodian selection will be defined according to</p>

	<p>the attributes and risks of individual investment instruments, and the limits and risks in investment instruments will be regularly identified and assessed. When an investment loss reaches the preset threshold, an assessment report and response measures will have to be submitted to facilitate effective management of investment risks.</p> <p>Most counterparties in fund utilization above are financial institutions, which will have implemented sound accounting systems, custody procedures, and internal systems in accordance with the applicable financial laws and regulations and be subject to regulation, management, and inspection of the FSC. FISC has fully disclosed its investment instruments and financial risk management policy in its annual reports, which have been provided to shareholders.</p>
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<p>Principle 17: Operational risk</p> <p>An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.</p>	
<p>Disclosure</p>	<p>FISC has implemented operational risk management measures and organizational structure. Management systems for quality, information security, business continuity, and personal data have been built in compliance with international standards, including ISO 9001, ISO 27001, ISO</p>

22301, and BS 10012. Risk management structures, policies, operational procedures, and control measures have been installed and submitted to the board of directors for approval. Performance of the risk management system as a whole is reviewed regularly. In addition to self-assessments and self-audits performed by the FISC units and internal audits by the Audit Office, FISC also submits to audits and inspections by accounting firms, third party certification institutions, and competent authorities, and conducts regular risk assessments for the interbank system in order to identify, monitor, and manage operational risks.

FISC sets the operational objectives for the interbank system every year, track and review the progress on a regular basis. Capacity planning for the interbank information system always takes into account its scalability. Usage is constantly monitored and analyzed to enable timely response. FISC has also established the computer and information security policy in accordance with ISO 27001 standards. FISC conducts regular risk assessments in order to identify and respond to vulnerabilities and threats in the interbank system.

FISC has implemented the Business Continuity System and the Business Continuity Plan in compliance with the ISO 22301 requirements to handle incidents or disasters that may lead to material operational risks. FISC has established an exclusive designated offsite backup center, which is equipped with resources necessary for business operations. Regular drills and tests are performed to ensure normal operation of the Interbank Remittance and ATM System can be restored within two hours after a disaster and settlement can be

	<p>completed by the end of business hours of the day. Key participants and service providers for the System will be identified, and related operational risks will be monitored and managed. The operational procedures will be included in the scope of the Business Continuity Plan, and tests and drills will be performed regularly.</p>
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<p>Principle 18: Access and participation requirements An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.</p>	
<p>Disclosure</p>	<p>The standards for participating in the System are impartial, fair, and open as well as risk based. Any party that meets the criteria in the Participation Protocol and the CBC IFTS Directions may apply to become a participant of the interbank system. FISC does not discriminate against any particular party.</p> <p>The participation procedure for participants has been stated under V. Participation Procedure of the Participation Protocol. Applications will be reviewed by FISC, and, if approved, receive assistance from FISC in completing the necessary preparations. Participants must pass the System's connection test and have their interbank transaction security measures reviewed and approved by the Financial Information System Security Review Committee before proceeding with normal operations. The Participation Protocol also states that a participant, in case of default, will be barred from the interbank operations if such default has</p>

	<p>been investigated by FISC and found to be true and the case has been passed by the Protocol Compliance Committee. In addition, FISC will report such cases to the FSC.</p> <p>To monitor participants' participation eligibility in terms of operations on an ongoing basis and to ensure security and stability of the System, new participants in interbank services, change of any cryptographic equipment or mainframe, and regular follow-ups on participants will be subject to interbank transaction security inspections by the Financial Information System Security Review Committee. The Participation Protocol, which establishes the above participation criteria, and other manuals have been disclosed on the FISC Membership Website.</p>
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<p>Principle 19: Tiered participation arrangements</p> <p>An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.</p>	
<p>Disclosure</p>	<p>The System is equipped with tiered participation protocols. The participation procedure is stated in the Participation Protocol. The objective is to identify the dependence between indirect participants and direct participants (information centers) and track updates on changes. Moreover, as sources of transaction messages can be identified, the fact can be used to identify the percentage of transactions processed by indirect participants and to conduct regular reviews of participants' interbank security facilities to examine the security in the interbank operations conducted by community information centers. Meanwhile,</p>

	<p>interbank remittance and ATM transactions by indirect participants are also processed by the collateral based real time gross settlement (RTGS) mechanism for CBC Interbank Settlement Guarantee Accounts, and will therefore not be subject to any credit risk. The interbank fund for community financial institutions is available to meet the liquidity needs of interbank transactions. The liquidity risk is extremely low.</p>
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<p>Principle 20: FMI links Not applicable. This principle is not in the scope of PS assessment.</p>
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<p>Principle 21: Efficiency and effectiveness An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.</p>
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<p>Disclosure</p>	<p>FISC organizes frequent meetings and other channels through the Bankers Association or by itself where FISC will engage participants in negotiation or discussion. Before an operation is to be launched, information sessions will be organized to further identify participants' needs. A customer service hotline and designated unit are in place, and regular satisfaction surveys are conducted to ensure that the services meet market expectations.</p> <p>FISC sets management system targets every year. The targets establish the benchmarks in accuracy, availability, and validity, and serve to track the progress. Management certification systems, including ISO 9001, ISO 27001, BS 10012, and ISO 22301, have been implemented, and management review meetings are held regularly to review the</p>
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	<p>progress. FISC also undergoes audits and certifications by external parties. Certificates will be issued for certification programs that FISC passes. Mechanisms are also in place to effectively check efficiency and effectiveness.</p> <p>The FISC Interbank Remittance and ATM System has adopted and passed management system certification, including ISO 9001, ISO 27001, BS 10012, and ISO 22301. In addition to setting measurable and attainable goals and targets, FISC is equipped with mechanisms that regularly inspect efficiency and effectiveness. Related FMIs can achieve efficiency and effectiveness. FISC has installed a customer service hotline and designated unit in order to provide a variety of communication channels that meet the needs of participants and the markets.</p>
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<p>Principle 22: Communication procedures and standards</p> <p>An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.</p>	
<p>Disclosure</p>	<p>FISC has adopted the TCP/IP Network Standard established by the International Organization for Standardization (ISO) and implements communication protocols that are defined by FISC and compatible with international standards. The System establishes a computer network and account administration options that connect financial institutions in Taiwan and facilitate ATM and remittance services.</p> <p>With respect to efficiency of payment, clearing,</p>

	<p>settlement, and recording services, FISC has adopted internationally recognized (and compatible) communication procedures and standards, and engaged participants in negotiation or discussion through the Bankers Association or by itself to make payment, clearing, settlement, and recording services more efficient.</p> <p>The FISC Interbank Remittance and ATM System have adopted the internationally recognized TCP/IP Network Standard and implements communication protocols that are compatible with international standards. The System establishes a computer network and account administration options that connect financial institutions in Taiwan and offers efficient payment, clearing, settlement, and recording services.</p>
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<p>Principle 23: Disclosure of rules, key procedures, and market data</p> <p>An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.</p>	
<p>Disclosure</p>	<p>FISC will update the PFMI disclosure framework as needed in response to material changes in the systems or the environment. Details of ownership structure are also filed regularly with the competent authority. The list of members of the board of directors is filed according to the law with the Department of Commerce of the Minister of Economic Affairs (MOEA), which will disclose the information on the</p>

MOEA website. FISC is also required to submit an annual report and financial statements to the board of directors and the competent authority at the end of a fiscal year.

The "Public Information" section has been made available to the general public on the Chinese version of the FISC website. The section contains big data disclosure including the amount of interbank remittances and ATM transactions, the distribution of time slots, the distribution of regions (northern/central/southern/eastern Taiwan), and the category of debit card - financial institution (domestic banks/foreign banks/credit cooperative associations/credit departments of farmers' associations). The data is updated once a month. On the premise of not revealing trade secrets and information security, the FISC has created the "Rules and Regulations" section under the "Public Information" section on the aforesaid website in 2008 to disclose the rules and regulations relevant to the general public in compliance with the CPSS-IOSCO FMI disclosure framework.

The FISC discloses business and other general information in Chinese, which is the common language in the Republic of China, under the "About Us", "News", and "Consumer Services" sections. Related procedures will be updated as needed to reflect actual practices.

A set of clear and detailed protocols and procedures have been established for the System to provide complete, transparent and necessary information for participants. In addition, FISC conducts meetings and trainings and issues letters and online announcements to help participants understand the risks and fee schedules and their rights and

	compliance and regulatory obligations. Furthermore, FISC also discloses to the public business and other general information in the common language used in the financial markets.
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Principle 24: Disclosure of market data by trade repositories

Not applicable. This principle is not in the scope of PS assessment.

V. List of publicly available resources

Laws and regulations

1. Regulations Governing Approval and Administration of Financial Information Service Enterprises Engaging in Interbank Funds Transfer and Settlement
2. Directions for the Central Bank of China to Govern Electronic Interbank Fund Transfers and Settlements
3. Banking Act of The Republic of China
4. Enforcement Rules of the Banking Act
5. Regulations Governing the Audit and Adjustment of Deposit and Other Liability Reserves of Financial Institutions
6. Directions on the Opening and Use of Interbank Fund Transfer Guarantee Special Accounts at the Department of Banking of Central Bank of China by Financial Institutions
7. Directions for the Conduct of Intraday Overdrafts of the Central Bank of China
8. Interbank Treasury Remittance Guidelines for Department of the Treasury of Central Bank of the Republic of China
9. Directions Governing Treasury Centralized Payments by Interbank Remittance System
10. Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries
11. Directions Governing the Internal Audit and Internal Control System of Credit Card Business Institutions
12. Information Security Management Guidelines for Executive Yuan and related departments
13. Information Security Management Guidelines for the Ministry of Finance and related departments/agencies
14. Personal Information Protection Act
15. Fair Trade Act
16. Directions for CBC Appointed Responsible Persons for Private Enterprises with State Shareholders
17. Company Act
18. Civil Code

Publicly disclosed (to participants) internal regulations

1. FISC Interbank Financial Business Participation Protocol and Addendums
2. FISC Regulations Governing Interbank Financial Business
3. Financial Information System Security Review Manual
4. Operating Manual for Interbank Remittance Participants in Interbank Financial Telecommunication System
5. Operating Manual for Interbank Remittance Participants in Shared Automated Teller Machines
6. Financial Information System Specifications (6.1/6.2/6.5/6.6/Appendix I)
7. Participant's Operating Manual for Disaster Recovery and Business Continuity of Interbank Financial Telecommunication System