The Financial Supervisory Commission (FSC) said on Thursday that it has drafted amendments to the Regulations Governing Foreign Bank Branches and Representative Offices (□□□□□□□□□□□□□□□□□□□□) and the Rules Governing Offshore Banking Branches (□□□□□□□□□□□□).

The amendments will take effect after the financial regulator considers industry feedback. Foreign banks will be given a grace period of one year to comply with the requirements.

Under the amendments, the regulator requires foreign banks to increase minimum operating capital held by local units to ensure that they are solvent on their own and do not require assistance from parent companies in the event of a crisis.

The FSC also wants to cap the lending ceiling for foreign bank branches and requires these units to report to it if they plan to repatriate earnings to their parent companies. The purpose is to mitigate liquidity risk, according to the financial regulator.

Moreover, the FSC is demanding that foreign bank units hold a minimum amount of local deposits in the form of NT dollar-denominated assets and lend a minimum proportion of these deposits to local firms as a contribution to Taiwan’s economy.

While the FSC has publicly said that the draft amendments are a response to an increase in cross-border disputes and regulatory inquiries in the context of the global financial crisis, the perception in financial circles is that the latest revisions are paving the way for the entry of much bigger Chinese banks into the Taiwanese market.

This perception was strengthened by comments from Premier Wu Den-yih (□□□), who said in an interview with the Chinese-language United Daily News on Tuesday that the government must amend banking regulations before signing a memorandum of understanding (MOU) on cross-strait financial supervision and cooperation — in view of the much larger capitalization Chinese banks can boast compared with their Taiwanese counterparts.

The draft amendments show that, before the signing of an MOU, the government is aware of the potential threat from Chinese banks if they are allowed to operate here, including the potential to overwhelm Taiwan’s market with a parent-level capital base.

But even if both sides sign an MOU this week or sometime soon with this issue out of the way, the government has many other problems to consider. The MOU is not really about the extent to which Taiwan and China will open their financial markets to each other as much as about founding a mutual agreement for reciprocal supervision in the banking, insurance and securities sectors — activities that involve matters of sovereignty and mutual recognition, as well as information exchange.

The cross-strait MOU is merely a catalyst for future cooperation between governments and financial institutions. It will not allow businesses to start competing on each other’s turf right away.

Caution is therefore the watchword. Scrutiny must greet both governments as they discuss market access at the upcoming talks on an economic cooperation framework agreement (ECFA).

Taiwan and China hold very different positions on foreign banks because of their very different economic histories and market structures. Taiwan presents itself as a much more liberal market than China, which has many more restrictions on foreign institutions. Therefore, a reminder is necessary that negotiations on market access as part of an ECFA pose a real challenge for both sides. It is the details of these talks that require careful analysis, not the pomp and politics of an MOU.

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