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Policy and Law

Financial industry works with the technology industry on Fintech upgrade

On September 9, 2016, the FSC held the roundtable discussion on Fintech development for consultation. A total of 30 people, including legislators, delegates from technology and financial industries, experts, scholars and government representatives, were invited to this event and exchanged their opinions about issues related to Fintech development. In the discussion, the FSC said it would launch the "Fintech Development Promotion Program". During the conclusion session, the FSC Chairman Ding Kung-wha emphasized the concept of "Responsible innovation" for Fintech development. The FSC has actively encouraged financial innovations under efficiency, security, fairness and customer protection and will promote the "Fintech Pilot Program" to meet the needs of Fintech development. Meanwhile, the FSC will facilitate the dialogue between financial and technology industries, and ask financial associations as well as related institutions to establish common infrastructure or specifications for financial institutions.

The development and application of Fintech will become important trends in the future financial industry. When the financial industry wants to offer new services through new technology applications or the technology industry wants to launch financial services, mutual learning and communication is necessary for the two industries. In light of this, financial associations and related institutions held several roundtable discussions in August and gathered representatives from financial and technology industries, scholars and experts in these fields together to exchange opinions.

During the roundtable discussion held by the FSC, the FSC first gave a presentation of the "Fintech development promotion program" and introduced ten relevant measures. The FSC emphasized that the content of the program will have rolling reviews in the future based on the trends and progress of Fintech developments as well as suggestions of different concerned parties. The ten measures are as follows:

1. To expand the applications and innovations of mobile payment.
2. To encourage banks to cooperate with P2P lending platforms.
3. To facilitate healthy development of crowdfunding platforms.
4. To encourage insurance industry to develop innovative products by using Fintech Big Data.
5. To set up online mutual fund distribution center for development of smart financial services.
6. To promote financial industry to actively cultivate Fintech talents.
7. To create digital environment for book-entry.
8. To develop the applications of distributed Ledger.
9. To establish the Financial-Information Sharing and Analysis Center.
10. To establish an Authentication and Identification Service Center.

During the discussion, participants gave many valuable opinions such as establishment of F-ISAC, development of Distributed Ledger applications, cultivating interdisciplinary talents of technology and financial industries by industry-university cooperation and encouragement of R&D and innovation in the financial industry. The development of Fintech is an ongoing progress, and requires efficiency, security, fairness and customer protection. The FSC will implement four measures as follows.



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1. With regard to those Fintech issues that draw the public's attention, including regulatory sandbox, Distributed Ledger, information security, talent cultivation, customer protection etc., the FSC will keep a close eye on related developments overseas, and also take appropriate measures according to domestic financial needs to facilitate the further development of Fintech.
2. To promote the "Fintech pilot program": in order to encourage banks to provide innovative financial services by Fintech, the FSC has implemented the pilot program which operates almost in the same way as the regulatory sandbox. Now banks are allowed to launch the e-banking business of low-risk transactions and apply for approval to provide innovative financial services. The FSC has set trial periods for such services, for example, mobile X card trial operation in September of 2011, OTA mobile credit card in May of 2013, and ATM withdrawal based on finger vein recognition in July, 2015, etc. Based on security, risk management and consumer protection, the FSC will review and make adjustments to the pilot program to meet domestic needs and also consider the international trends and foreign experience of implementing the regulatory sandbox.
3. To continually facilitate the dialogue between financial and technology industries: in order to close the gap between supply side and demand side of Fintech, the FSC will invite innovative entrepreneurs to participate in future discussions on related issues including customer rights, fair market competition and information security, etc.
4. The domestic financial market in Taiwan is relatively small. In order to reduce overlapping investments and bring together R&D resources, financial associations and related organizations can consider the possibility of establishing common infrastructure or specifications for financial institutions to enhance efficiency through resources sharing.

According to the FSC, the financial industry is the key component of a stable economy and also related to the issues of anti-money laundering and countering terrorist financing that are of international concern. Therefore, financial service providers should take risk management as the priority task and promote Fintech development in compliance with international regulations. The FSC also looks forward to ongoing interaction and communication between financial and technology industries will drive rapid development of related industries, cultivating professional talents and will gain new momentum of Taiwan's financial and economic development.

Promoting green finance, supporting the development of the green energy industry

In coordination with the government's policy responding to climate change, pursuing of environmental sustainability and promoting green energy technology industry (green energy industry for short), the FSC has positioned green finance as one of the most important policies and is encouraging domestic funds to invest in the green energy industry. The implemented measures of green finance include:

1. Assisting the green energy industry obtain finance:
 - (1) Green finance has been included in the FSC's "Financial Sector Supporting the Real Economy--Four Supports with Three Powers Project." The Bankers Association has drafted the "Program to encourage domestic banks to provide loans to new key innovative industries." Under the precondition of risk control, banks are encouraged to provide finance to new key innovative industries (including green energy technology) and increase the SME credit guarantee Loan to Value from 80% to 90%.
 - (2) The Bankers Association has included Equator Principles in "Guidelines for Members of the ROC Bankers Association to Extend Credits" which will spur financial institutions to consider social or environmental impact when carrying out loan evaluation.
 - (3) Encouraging financial institutions to actively provide policy-based loans to companies/persons for implementing energy saving and carbon reduction techniques and the green energy industry, for example, related loans programs of the Executive Yuan National Development Fund and the Environmental Protection Agency and Council of Agriculture.
2. Guiding investment of insurance industry capital into public construction, including green energy industry:
 - (1) In accordance with the regulations under the current Insurance Act, Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises, insurer's capital can be invested in public utility facilities including power on a special project basis.
 - (2) To encourage insurers to invest in public construction including power facility construction, the Legislative Yuan has passed amendment of Article 146-5 of the Insurance Act on first reading. When the amendment becomes law, insurers will be able to fill up to one third of director and supervisor positions in an invested company, which will help channel

insurance industry capital into the green energy industry.

3. Providing diverse channels for fund raising and obtaining capital:
 - (1) A multi-tier capital market has been established, providing diverse fundraising channels, namely, Taiwan Stock Exchange, Taipei Exchange, emerging stock market, and GISA Board listing, and equity-type crowd funding for businesses of different scales; the GISA Board provides finance and free guidance to micro-startups.
 - (2) If a technology enterprise (including green industry) obtains an opinion from the competent authority stating that its product or successfully-developed technology has marketability, the requirements for length of time of establishment and profit capability will be waived when application for listing is made.
 - (3) Green finance products will be facilitated, such as green bonds, securities investment trust funds that invest mainly in green industry, and a green stock/bond index compiled so that the public can take part in the development of the green energy industry.
4. Enhancing green finance talent nurturing: continuing to hold related courses through the Taiwan Academy of Banking and Finance and other peripheral financial institutions to nurture green finance talent, to help the financial industry obtain information and understand the characteristics of the green energy industry to serve as the basis for assessing risk control and review mechanism to increase the industry's willingness to provide finance, also assisting with the development of green financial products.

The FSC establishes the review procedure for complex, high-risk financial derivatives

In order to effectively implement "product suitability" mechanism in the banking industry, the FSC introduced amendments to Article 7 and Article 8 of the Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business on September 9, 2016. It also republished the Directions for Offshore Banking Branches Conducting Financial Derivatives Business on September 12, 2016. The new regulation additionally regulates the review procedures for a bank introducing complex, high-risk financial derivatives to customers that are not professional institutional investors or high-net-worth corporate investors. The regulation for product review procedure has the following main points:

1. When a bank (DBU and OBU) offers a complex, high-risk new product to customers that are not professional institutional investors or high-net-worth corporate investors, it shall submit application to the regulatory authority (the Central Bank or the FSC) for approval or report the product by letter for recording.
2. A DBU shall submit the application to the FSC for products which are not forex-related and submit the application to the Central Bank for forex-related products, with a copy sent to the FSC. An OBU shall submit the application to the FSC for products, with a copy sent to the Central Bank.
3. A bank (DBU and OBU) shall submit the application for approval before it plans to introduce a complex, high-risk new product that has not been deregulated or has been deregulated for less than half a year. As for a complex, high-risk new product that has been deregulated for over 6 months, a bank shall report the product by letter for recording.

FSC expands the scope of foreign bonds that can be traded over the counter by securities firms with professional institutional investors and high-net-worth corporate investors

To increase the trading volume of registered bonds market and expand securities firms' foreign bonds trading business, the FSC allowed securities firms to engage in over-the-counter trading of foreign-currency denominated structured notes with professional institutional investors and high-net-worth corporate investors defined by Paragraph 3, Article 3 of the Regulations Governing Offshore Structured Products on September 7, 2016. The aforementioned foreign-currency denominated structured notes have to meet the criteria set out in Article 17 of the above Regulations.

Amendments of Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises

In order to facilitate the implementation of the Limited Partnership Act, taking effect on November 30, 2015, and to encourage and provide more incentive to insurers for injecting their funds into new domestic enterprises and key innovative industries through investing in the venture capital industry, the FSC amended the Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities and Social Welfare Enterprises on August 31, 2016. According to the amendment, insurers are allowed to invest in limited partnership enterprises engaged in cultural and creative industries and the venture capital

industry. In addition, the threshold for an insurer's investment in a venture capital corporation subject to subsequent review is raised to NT\$ 200 million and 5% of the owner's equity of the insurer.

Amendments to Article 3, 4 and 6 of the Regulations Governing the Standards for Information System and Security Management of Electronic Payment Institutions, amendments to Article 2 and 12 of the Rules Governing the Administration of Electronic Payment Business and amendments to some articles of the Regulations Governing Identity Verification Mechanism and Transaction Limits for Users of Electronic Payment Institutions

In order to simplify the user ID verification process of the electronic payment institutions, to adequately reduce the operating cost of electronic payment institutions, and to bring more convenience to users, the FSC amended the above three Regulations on September 10, 2016. Key points of the amendments are as follows:

1. Simplifying the ID verification process of user registration and electronic payment account opening: removing the requirement of verifying the email address and social media account from the ID verification process originally carried out by an electronic payment institution for Type 1 - Type 3 e-payment accounts, in order to make the user registration procedure more convenient.
2. Extending the adjustment period for verification of all user identities through real names by electronic payment institutions: currently some users of electronic payment institutions do not use their real names for identity verification. Now the deadline for electronic payment institutions to make adjustment for verifying all user IDs with real names is extended to September 30, 2017, giving these institutions more time to make such an adjustment and helping them launch and expand their business smoothly. At the same time, the limit of transaction amount for users not using real names will be lowered gradually during the adjustment period. This complementary measure is designed to encourage these users to use their real names. After the adjustment period, all users of electronic payment institutions will have to use their real names for ID verification.
3. Expanding the scope of payment services for an agreed linked deposit account: In order to adequately reduce the operating cost of electronic payment institutions and increase the scope of their payment services, the FSC has allowed these institutions to accept deposits of funds as stored value funds and transfer funds between e-payment accounts through payment via agreed linked deposit account.

Amendments to Article 5 and 11 of the Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperatives

In order to encourage credit cooperatives to set aside sufficient loan loss provisions for enhancement of risk bearing capacity, the FSC amended Article 5 and 11 of the Regulations Governing the Capital Adequacy Ratio and Capital Grade of Credit Cooperative on August 23, 2016. According to the amendments, the limit of the sum of operating reserve and loan loss provision to be included in Tier 2 capital is raised from 1.25% to 1.5% of total risk assets.

Amendments of Directions for Futures Commission Merchants Accepting Brokerage Orders from Futures Traders for Day Trades in Foreign Futures

Considering the discrepancies between the regulations governing futures commission merchants accepting brokerage orders for day trades in foreign futures and the self-regulation rules and market practices of day trades in domestic futures, the FSC introduced the amendments of the Directions on August 24, 2016. The main amendments include: (1) the procedure of futures commission merchants reviewing the applications of traders for day trades in foreign futures shall adopt the trading practices of domestic futures and streamline the internal operation of the company; (2) in order to prevent dispute with traders when a futures commission merchant offsets the position of day trades in foreign futures compulsorily, the futures commission merchant is required to have control mechanism and operating guidelines in its internal control system to protect rights of the traders.

Amendments of Regulations Governing the Organization and Mediation Procedures of Securities Investor and Futures Trader Protection Institution Mediation Committees

In order to facilitate implementation of the Public Functionaries Discipline Act, which took effect on May 2, 2016, a civil servant receiving punishment of "dismissal" and "loss of pension, separation pay or discharge pay" shall

be prohibited from serving as a mediation committee member. Moreover, the FSC also amended Article 8 of Regulations Governing the Organization and Mediation Procedures of Securities Investor and Futures Trader Protection Institution Mediation Committees on September 27, 2016 to align with the change to the order of provisions regarding categories of disciplinary actions against CPA in the Certified Public Accountant Act.

International Activities

US Congressmen pay a visit to the FSC

US congressmen Robert Pittenger, R-NC and Randy Hultgren, R-I visited the FSC on August 25, 2016. They were received by Vice Chairman Kuei Hsien-Nung, the two sides exchanging opinions of a wide range of financial issues. Vice Chairman Kuei also called on the US to support Taiwan's accession into the TPP.

Delegation from the Committee for Taiwan Affairs, Vietnam visits the FSC

Vu Tien Loc, Chairman of the Committee for Taiwan Affairs, Vietnam, led a delegation on a visit to the FSC on September 7, 2016. The group was received by FSC Vice Chairman Huang Tien-Mu and engaged in exchange on issues relating to financial cooperation.

Industry Updates

FSC announces list of insurers rewarded for excellent performance in promotion of the Program for Increasing Insurance Protection in Taiwan

The FSC has implemented the Program for Increasing Insurance Protection in Taiwan to allow insurance to fully bring into play a protection function and provide citizens with sufficient personal insurance protection. Insurance companies whose performance in terms of promoting this program meets requirements are rewarded by being granted an increase in the number of new products that can be submitted for approval. The list of companies to be rewarded is announced every six months. 12 life insurance companies have been rewarded for excellent promotion of this program January-June 2016; they were Bank Taiwan Life Insurance, Cathay Life, China Life, Nanshan Life, Fubon Life, Allianz, First-Aviva, BNP Paribas Cardif TCB Life, Prudential of Taiwan, AIA, Cardif Assurance Vie and ACE.

NPL ratio for domestic banks at 0.29% as of the end of August 2016

The total outstanding loans of domestic banks stood at NT\$25,636.8 billion as of the end of August 2016, up by NT\$192.9 billion from the previous month, while their total NPLs were NT\$73.3 billion, up by NT\$0.7 billion from the previous month's figure of NT\$72.6 billion, generating an average NPL ratio of 0.29%, the same as the figure of the end of previous month. Each and all 39 Taiwan's domestic banks had an NPL ratio under 2.0%. Also, their NPL coverage ratio stood at 466.52% at the end of August 2016, down by 1.60 percentage points from the figure of 468.12% at the end of the previous month.

NPL ratio for credit cooperatives at 0.11% as of the end of August 2016

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$457 million as of the end of August 2016, generating an NPL ratio of 0.11%, up by 0.01 percentage points from the figure for the end of July 2016. The NPL coverage ratio, in the meantime, was 1,737.33%, down by 7.07 percentage points from 1,744.40%, at the end of July.

Net foreign investments in listed shares

As of the end of August 2016, foreign and mainland Chinese investors had bought around NT\$ 4,163.2 billion and sold around NT\$3,749.3 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$413.8 billion. Meanwhile, for the Taipei Exchange (GreTai Securities Market), foreign and mainland Chinese investors bought around NT\$411 billion and sold around NT\$ 374.3 billion, making for a net inward investment of around NT\$36.7 billion. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese, and offshore foreign nationals as of the end of August 2016 stood at approximately US\$ 206.5 billion, up by around US\$500 million from the US\$ 206 billion as of the end of July 2016.

Investor and Consumer Protection

FSC reminds consumers to take out compulsory automobile liability insurance and to regularly check its validity

With regards to maintaining the validity of compulsory automobile liability insurance ("this insurance") the FSC reminds consumers to pay attention to the following points: (1) If a policy holder changes address of residence or place of business, the insurance company should be immediately notified of the change; (2) The highway supervisory authority cannot carry out highway supervisory procedure for owners who have not taken out this insurance or when the period of validity of this insurance is less than 30 days; (3) If an automobile owner does not take out this insurance or does not renew it when it expires, in the event of an accident the owner must bear full liability with respect to victims of the accident and this will cause economic losses; (4) If an automobile owner has not taken out this insurance or does not renew it when it expires, an administrative fine will be imposed; when an uninsured automobile causes an accident, a highway supervisory authority will impose an administrative fine, and will impound the automobile license plate and return it after the automobile is insured as required. Compulsory execution procedures will be initiated in accordance with the law for failure to pay the administrative fine within the prescribed period.

FSC reminds consumers to buy long-term care insurance products at a suitable time in line with own requirements

To meet the long-term care needs of an aged society and facilitate the design of long-term care insurance products by insurers, the FSC implemented the Model Provisions of Long-term Care Insurance Policy on July 1, 2015. According to the Provisions, when the insured's situation matches one of the "long term care state" situations stipulated in the insurance contract (physiological impairment or cognitive impairment,) regardless of the cause of that state (disease or injury,) the insurer must pay long-term care benefit either by a lump sum or by installments. In addition to the aforementioned lump-sum or installment long-term care insurance benefit, insurers have also designed long-term care insurance products that have both death and full disability insurance benefit payment items. Consumers can, taking into account their own needs and economic capability, use long-term care insurance products to transfer the aforementioned risk, effectively lowering the financial burden of caring for the insured and reducing the family economic pressure.

FSC produces anti-illegal futures advocacy material to help people protect their rights and interests

The FSC calls on people to check whether the company they are applying to work for is a legal company approved by the FSC when try to find employment in a futures related company. Futures trading has to be conducted by a legal futures business to protect their own rights and interests. The FSC says that the methods used by illegal futures businesses to solicit business are offering low service charge, waiving margin, and claiming the certainty of profit, or soliciting business from people by falsely using the name of a legal futures business.

To prevent people being cheated by illegal futures businesses, the Securities & Futures Bureau of the FSC has set up the Anti-illegal Underground Futures Advocacy Special Zone on the website (homepage/ Investors' corner/ futures business/ Anti-Underground Futures Advocacy Special Zone) to provide an easy guide to "Understanding and guarding against illegal futures". The contents include commonly-seen types of underground futures, solicitation methods and the "three nos and three musts" principle for guarding against illegal futures, channels for enquiring about legal futures firms, and how to report illegal futures. People are asked to make good use of the website. For more information, please visit the website.

FSC holds 2016 online financial literacy quiz contest

In order to enhance financial literacy, the FSC is holding an online financial literacy quiz contest, targeted at junior and senior high school students, from 22 August to 14 October 2016, with separate divisions for students at the junior and senior high levels. The FSC encourages junior and senior high school students throughout the country to take part. For more information, see: <http://financeknowledge.tabf.org.tw>.

The contest starts out with an initial online round, followed up by onsite second-round contests. There are separate divisions for students at the junior and senior high levels, and participants can take part either individually or in teams of three. Individuals and teams that finish the online first round in the top 20 can go on to the second round. Individuals and teams that finish in the top five in round two go on to a championship round, where the top individual contestant receives a prize of NT\$10,000 and the top team receives NT\$30,000. In addition, one school is chosen as the school that has done the best job of promoting participation in the contest, and receives a prize of NT\$30,000. Also, a special participation prize has been added for students this year, and

a "top team leader" prize has been added for the teacher selected as the best team leader, to encourage participation and give teachers extra incentive. The FSC has launched Money Wise, a financial literacy website (<http://moneywise.fsc.gov.tw>) designed to improve general understanding of financial matters. The website provides financial consumers with access to educational materials and a learning platform. The Money Wise website serves as the foundation for year's financial literacy quiz contest. Quiz questions are taken from on Money Wise website course materials, as well as the related courses in junior and senior high school, such as the concepts of probability and compound interest. Questions address everyday financial matters, financial legislation, and personal financial planning, and on a higher plane they also broach such topics as the contribution of the financial sector to development of the national economy, and protections for the interests of financial consumers. All the questions in the online portion of the contest are true/false or multiple choice, and are designed to help raise the level of financial literacy among students. In addition, to adjust for the education gap between urban and rural areas, a certain number of contestant spots have been set aside separately for students from different areas to encourage participation by students from remote districts and the offshore islands. Junior and senior high school students interested in taking part can register teams by visiting the quiz website (<http://financeknowledge.tabf.org.tw>), or by calling the organizer (Taiwan Academy of Banking and Finance) at (02) 3365-3555.

2016 School and Community Financial Literacy Campaign

In September 2016, the the FSC held 41 financial literacy promotion sessions at schools and groups around Taiwan (including at National Lo-Tung Commercial Vocational High School in Yilan County) as part of its 2016 School and Community Financial Literacy Campaign. A total of 6,474 participants attended the events. These sessions are free of charge and have been very well received since their inception. As of the end of 2015, 4,312 sessions have been held and attended by over 780,000 people. Target participants include elementary, junior high, and high school (including vocational high school) students, university students, community and women's groups, indigenous people, immigrants, and military service personnel.

The FSC's Banking Bureau will continue its financial literacy campaign in 2016. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call Mr. Jian on (02) 89689709.

Major Enforcement Actions

Jih Sun International Bank fined NT\$6 million

An employee of the Hsinying branch of Jih Sun International Bank misappropriated the funds in the customers' accounts in breach of Paragraph 1 of Article 45-1 of the Banking Act and the bank was thus fined NT\$6 million. Furthermore, the involved branch was banned from accepting new customers' trusts of money and joint promotion of insurance products (not including housing loan-related insurance products) for six months, and to discharge the involved employee from their position in accordance with Subparagraph 2 and 3, Paragraph 1 of Article 61-1 of the same Act.

Union Insurance Co. Ltd fined NT\$4.8 million and given three reprimands

When conducting insurance business, Union Insurance failed to calculate premiums in accordance with the approved product premium rate table, failed to collect car insurance payment, conduct inspection and carry out anti-money laundering operations in line with the company's internal regulations, and failed to set up an effective management procedure in violation of the regulations of the Insurance Act and was thus fined NT\$4.8 million and given three reprimands under the same Act.

Personnel Changes

Personnel changes at the FSC

Austin Chan, the Director General of the FSC's Banking Bureau, retired honorably on August 31, 2016. The vacant position has been filled by Wang Li-chuan, who was transferred from her former post as Director General of the Financial Examination Bureau; the post of Director General of the Financial Examination Bureau has been filled by Wu Kuei-mao, who was promoted from his former post as the FSC's Chief Secretary; the position of Chief Secretary has been filled by Su Yu-ching, who was transferred from her former post as Director General of the Department of Planning; the post of Director of the Department of Planning has been filled by Chiu Hsu-jean, who was transferred from her former post as the Deputy Director General of the Banking Bureau. All the personnel changes became effective on August 31.