



2020

# Law Enforcement Report on Securities and Futures Markets

Taiwan Stock Exchange Corporation

Taipei Exchange

Taiwan Futures Exchange Corporation

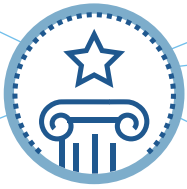
Securities and Futures Investors Protection Center

Supervised by:

Securities and Futures Bureau

Financial Supervisory Commission





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## Foreword

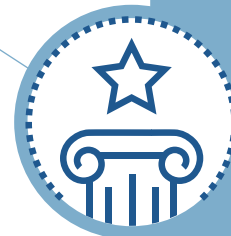
Law Enforcement Policies and Approaches for the Securities and Futures Markets in Taiwan

Law Enforcement Framework of the Securities and Futures Markets in Taiwan

Supervision Focus of the Securities and Futures Markets in Taiwan in 2020



# Foreword



The Financial Supervisory Commission ("FSC") established the Securities and Futures Bureau ("SFB") for purposes of the supervision and regulation of the securities and futures markets, securities and futures enterprises (intermediaries), and the formulation, planning, and implementation of related policies, laws, and regulations. The SFB is responsible for supervising the securities and futures markets as well as their participants in accordance with the "Securities and Exchange Act," "Futures Trading Act," "Securities Investment Trust and Consulting Act," and related laws and regulations.

If issuing companies and their persons in charge, insiders, intermediaries and their persons in charge, sales representative, and investors, as well as other market participants, violate the said laws and regulations, the SFB will undertake any and all relevant laws and regulations to maintain order in the securities and futures markets.

In recent years, the FSC has been committed to forging a forward-looking and globally competitive capital market and guiding companies and intermediaries to value and affect environmental, social, and governance ("ESG") criteria in order to implement good corporate governance and a sound ESG ecosystem. Related strategies and policies include the following:

### **(1)Comprehensively Drawing the Capital Market Roadmap:**

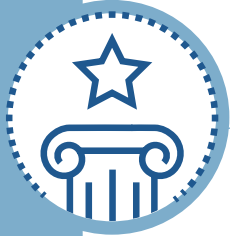
In response to the three main trends of ESG, digital technologies, and an aging society, the FSC officially launched the "Capital Market Roadmap" in 2020. The Capital Market Roadmap focuses on the five major strategies: "strengthen primary market functions to support real economic development," "activate the market and increase efficiency and liquidity," "attract domestic and foreign investment and improve international visibility," "boost functions and competitiveness of financial intermediaries," and "encourage financial innovation and diversity," with 25 key items and 82 specific measures. The Capital Market Roadmap will be reviewed with rolling updates and revisions deployed as necessary with the goal of enhancing a fair, efficient, diverse, and internationalized capital market with a focus on innovation and openness.

### **(2)Continuing the "Green Finance Action Plan 2.0" and "Corporate Governance 3.0 - Sustainable Development Roadmap":**

The FSC is committed to mapping out a financial system that meets the national conditions in accordance with the United Nations' 17 Sustainable Development Goals ("SDGs") and global trends. In 2020, the "Green Finance Action Plan 2.0" and "Corporate Governance 3.0 - Sustainable Development Roadmap" were launched successively.

The "Green Finance Action Plan 2.0" adopts three strategies (i.e., "facilitating effective information disclosure for effective business decision making," "pushing financial institutions to address climate change risks and capitalize on associated opportunities," and "using market mechanisms to steer the economy toward sustainable development") to strengthen the competitiveness of the financial services industry and market; it aims to raise the awareness of businesses and investors to ESG issues through the financial mechanisms in order to bring





about a healthy cycle of investment and sustainable development.

The "Corporate Governance 3.0 - Sustainable Development Roadmap" has five major action plans (i.e., strengthening board duties and functions and enhancing enterprise sustainability, enhancing information transparency and promoting sustainable operations, strengthening communication with stakeholders and creating open dialogue, advancing international norms and leading with stewardship, and deepening corporations' sustainable governance culture and providing diversified products), with 39 concrete measures taken to create strong corporate governance and a sound ESG ecosystem that can augment the domestic capital market competitive in the international arena.

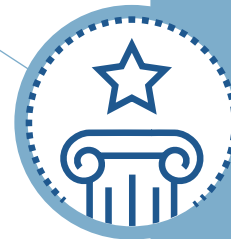
For the securities and futures markets in Taiwan, the law enforcement policies and approaches, law enforcement framework, and supervision focus in 2020 are described separately below.

## Law Enforcement Policies and Approaches for the Securities and Futures Markets in Taiwan

Effective law enforcement can ensure that participants in the securities and futures markets comply with the "Securities and Exchange Act" and related laws and regulations. It is a critical part in maintaining market order and protecting investors' rights.

To ensure the effectiveness of law enforcement and the protection of the rights and interests of people of interest, laws are enforced in accordance with the following policies and approaches:

- (1) Take enforcement actions in accordance with related laws and regulations and consider the specific facts of violations in terms of risk and materiality, accountability, impact, and gains arising therefrom.
- (2) People concerned include issuing companies and their persons in charge, managerial officers, and insiders, intermediaries and their persons in charge and professionals, and investors, as well as other market participants.
- (3) Intermediaries are under strict supervision. In addition to routine inspections, special inspections are carried out for specific business activities or projects to identify problems early and take corrective actions immediately for the sound operation of intermediaries.
- (4) Law enforcement actions include administrative investigations and sanctions such as rectification, fines, warnings, suspension of business, discharge of duties, revocation of business licenses, and more. If people of interest are involved in criminal wrongdoing, they will be reported to the Investigation Bureau, Ministry of Justice or district prosecutors' offices for criminal investigation or prosecution.
- (5) Prior to the enforcement of the law, the people interest are given the opportunities for fair representation and a deadline for making improvement, in accordance with related laws and regulations.
- (6) Related information on law enforcement is disclosed to promote market participants' understanding and to prevent future violations.



## Law Enforcement Framework of the Securities and Futures Markets in Taiwan

The SFB leads peripheral organizations to supervise and enforce the securities and futures markets in the aspects of the issuance market, trading activities, and intermediaries.

### (1) Supervision and law enforcement of the issuance market and trading activities in the securities and futures markets

In accordance with the "Securities and Exchange Act," "Futures Trading Act," and related laws and regulations, the SFB supervises the Taiwan Stock Exchange Corporation ("TWSE"), Taipei Exchange ("TPEX"), and Taiwan Futures Exchange Corporation ("TAIFEX") to formulate related regulations and supervise the issuance market and trading activities in the securities and futures markets accordingly and to take related measures in case of violations.

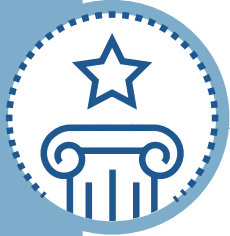
**A. Supervision of the issuance market:** The TWSE and TPEX supervise the finances and business of TWSE/TPEX listed companies and TPEX Emerging Stock Companies, including periodic document review or on-site inspection of financial statements and internal controls, event-driven examination for special cases, and periodic or non-periodic audits of information filling and material information.

**B. Supervision of trading activities:**

- a. Securities market surveillance: TWSE and TPEX carry out systematic, ongoing monitoring of securities trading activities in accordance with the "Regulations Governing Implementation of the Market Surveillance System for Securities Traded on the TPEX." Related measures are taken in cases of an abnormal trading volume or value, including announcement of attention securities, extension of transaction matching time, advance collection of buy-side payment or sell-side securities, and suspension or termination of margin purchases and short sales or transactions in a certain period.
- b. Futures market surveillance: TAIFEX conducts market surveillance in accordance with the "Regulations Governing Market Trading Surveillance." If futures trading is found to have reached certain defined protocols relating to abnormal trading, TAIFEX shall publish trading information and take relevant necessary measures, including adjusting margins, limiting the trading volumes or positions of futures traders, or suspending or terminating all or part of futures trading.

**C. Follow-up disposition:** If the TWSE, TPEX, or TAIFEX finds any market participants involved in false financial statements, insider trading, stock price manipulation, tunneling, speculation, or more in violation of the "Securities and Exchange Act" and related laws and regulations during the supervision, it will submit related information to the SFB for administrative





investigations and sanctions. Any substantiated criminal wrongdoings will be reported to the Investigation Bureau, Ministry of Justice or district prosecutors' offices for investigation or prosecution. In terms of civil liability, the Securities and Futures Investors Protection Center ("SFIPC") may institute class action litigations, derivative suits, and discharge suits in accordance with the "Securities Investor and Futures Trader Protection Act."

## (2) Supervision and law enforcement of intermediaries

In accordance with the "Securities and Exchange Act," "Securities Investment Trust and Consulting Act," "Futures Trading Act," and related laws and regulations, the SFB supervises the TWSE, TPEX, TAIFEX, and affiliated associations to formulate related regulations and supervise intermediaries, their persons in charge and sales representatives to take related measures in case of violations.

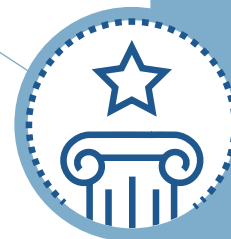
**A. Supervision of securities firms:** In accordance with the market regulations formulated by the TWSE and TPEX, contracts regarding the use of the securities market, and business bylaws or operational rules specifying trading orders of securities dealers or brokers, securities firms are urged join trade associations and comply with related self-regulating decrees and laws; related measures will be taken in case of any violations.

**B. Supervision of futures commission merchants:** In accordance with the contracts signed between TAIFEX and futures commission merchants, market regulations formulated by TAIFEX, and regulations governing the finance, business, and internal controls of futures commission merchants, as well as urging futures commission merchants to join trade associations and comply with related self-regulating decrees and laws; related measures will be taken in case of any violations.

**C. Supervision of securities investment trust enterprises and securities investment consulting enterprises:** Securities investment trust enterprises and securities investment consulting enterprises are urged to join the trade associations that will check the compliance of securities investment trust enterprises and securities investment consulting enterprises with self-regulating decrees and laws on a regular basis to strengthen the internal controls of these enterprises and discipline of their employees.

**D. Follow-up disposition:** If the TWSE, TPEX, TAIFEX or affiliated associations finds intermediaries and their persons in charge, sales representatives involved in any violations of the "Securities and Exchange Act" and related laws and regulations during the supervision, it will submit related information to the SFB for administrative investigations and sanctions. Any substantiated criminal wrongdoings will be reported to the Investigation Bureau, Ministry of Justice or district prosecutors' offices for investigation or prosecution. In terms of civil cases arising from the issuance and offering of securities, securities trading, futures trading, and other matters, the SFIPC may handle such cases in accordance with the "Securities Investor and Futures Trader Protection Act." In case of civil disputes between financial consumers and financial services providers over products or services, the Financial Ombudsman Institution will institute mediation proceedings or hear the cases in accordance with the "Financial Consumer Protection Act."



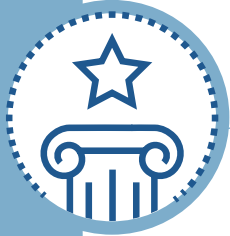


## Supervision Focus of the Securities and Futures Markets in Taiwan in 2020

### 1. Strengthening corporate governance of companies in Taiwan:

- (1) **Enhancing the disclosure of ESG information:** TWSE/TPEX listed companies and TPEX Emerging Stock Companies should prepare corporate social responsibility reports ("CSR reports") and disclose ESG information in their annual reports. In January 2020, the FSC amended related law and regulations in accordance with the Task Force on Climate-Related Financial Disclosures ("TCFD") and other trends in the disclosure of non-financial information, stipulating that TWSE/TPEX listed companies and TPEX Emerging Stock Companies shall disclose the risk assessment and management strategies for ESG issues in relation to operations, potential climate-related risks, countermeasures, and greenhouse gas inventory in the CSR reports as well as the annual reports in order to keep the business operations transparent and sustainable.
- (2) **Furthering the function of independent directors and disclosure of independence:** If a company's corporate director/supervisor, sister company is controlled by the same person or the chairman and president (or an equivalent position) are the same person, each other's spouse or first-degree relative, the reason, rationality, necessity, and countermeasures for such assignment, along with the compensation policy for independent directors and its link with their duties, should be disclosed in the annual report.
- (3) **Disclosing information in English:** Foreign investors play an important role in Taiwan's domestic securities market as their holding rate reached nearly 40% in the entire market. To increase the visibility and information transparency of TWSE/TPEX listed companies and TPEX Emerging Stock Companies among foreign investors, the FSC supervised the TWSE and TPEX to make amendments to related laws and regulations, requesting TWSE/TPEX listed companies and TPEX Emerging Stock Companies with paid-in capital over a certain amount or a high foreign investors' holding rate to provide the English versions of the "Handbook for Annual Shareholders' Meeting," "Annual Report," and "Annual Financial Statements," as well as material information.



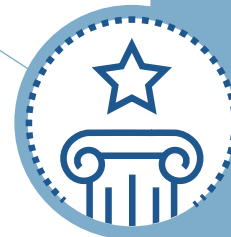


## **2. Strengthening the supervision of companies' finances and operations, enhancing the transparency of companies' financial information, and aligning our accounting, auditing, and related supervisory measures with international practice:**

- (1) The SFB has already assisted companies in adopting IFRSs, and revised related supervisory regulations to promote the transparency and comparability of financial information of companies. The SFB also watches international trends closely to enhance engagement in supervision in the international affairs.
- (2) The SFB continues to supervise the TWSE and TPEX to audit the financial statements of TWSE/TPEX listed companies and TPEX Emerging Stock Companies and on its own selected public companies for audit; in case of any deficiencies in the internal control systems, TWSE/TPEX listed companies and TPEX Emerging Stock Companies should engage certified public accountants ("CPAs") to review the internal control systems as per instructions until the completion of improvement.
- (3) The plans for filing business results and financial statements were announced in response to the COVID-19 pandemic.

## **3. Improving the trading efficiency and international competitiveness of the securities and futures markets:**

- (1) **Promoting effective trading and information transparency in the securities market:**  
In Taiwan, the securities market originally adopted intraday call auction trading. To promote effective trading, information transparency, alignment with international standards, and the integration of spot and derivative products in the securities market, continuous trading was launched in March 2020. Intraday odd lot trading was also introduced for young people and those with small capital in October 2020 to invest in securities easily and with prudence, so as to keep the domestic securities market competitive.
- (2) **Strengthening price stabilization and investor protection in the futures market:**  
To prevent false orders, fat-finger errors, and abrupt fluctuations in prices caused by unbalanced liquidity on intraday order books, the SFB supervises TAIFEX to establish price stabilizing measures for domestic and foreign stock index futures, TAIEX options, futures ETFs, and FX futures, to mitigate price fluctuations, protect investors, and increase global competitiveness of the futures market.



## 4. Supervision of intermediaries:

- (1) **Universal supervision:** The universal supervision of intermediaries covers practices such as anti-money laundering, counter terrorism financing, non-proliferation of weapons, compliance, information security and personal information protection, plus financial consumer protection.
- (2) **Individual supervision:**
  - A. Securities firms:** Securities firms were checked as to whether they audited the internal conflicts of interest according to regulations, classified investors requesting foreign securities trading, practiced know your customer ("KYC"), separated investment targets based on the attributes of investors and had contracts signed before making recommendations, plus supervised and managed overseas subsidiaries.
  - B. Securities investment trust enterprises:** Securities investment trust enterprises were checked on practices such as know your customer ("KYC") or know your product ("KYP") for fund sales, sales agency management and channel remuneration, as well as managers of fund and discretionary accounts (including government funds) buying and selling the same securities held by the said accounts in the name of others.
  - C. Futures commission merchants:** Futures commission merchants were checked as to whether they conducted account opening review and KYC for brokerage business, prevented internal conflicts of interest, controlled the trading processes and risks, dealt with out-trades and default, handled business disputes or customer complaints, managed advertising, solicitation, and promotions, plus put the fair treatment of customers principle into practice.

## 5. Strengthening investor rights protection:

To enhance a sound legal system for derivative suits and discharge suits, strengthen ethical corporate management, and better the regulations on the SFIPC's mediation proceedings and use of protection funds, the FSC amended the "Securities Investor and Futures Trader Protection Act." The amendment was passed by the Legislative Yuan in May 2020, promulgated by the President on June 10, 2020, and carried into effect by the Executive Yuan on August 1, 2020. (For the focus and effect of the amendment, refer to Appendix I Amendment to the "Securities Investor and Futures Trader Protection Act" in 2020.)



# Chapter I Overview of Law Enforcement Results of the Securities and Futures Markets in Taiwan

- I. Administrative Sanctions Imposed by the SFB 2018~2020
- II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice 2018~2020
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- IV. Cross-border and Inter-ministerial Collaboration in Financial Supervision 2018~2020



# Chapter 1



Table 1-1 shows the law enforcement results of the securities and futures Markets in Taiwan in the past three years (2018~2020), including administrative sanctions imposed by the SFB, investigations of criminal liability by the Investigation Bureau, Ministry of Justice, and investigations of civil liability by the SFIPC.

According to Table 1-1, the number of administrative sanctions imposed by the SFB and the amount of penalties have shown an increasing trend in the past three years while there is no significant difference in the number of investigations into both criminal and civil liability. The details of the above enforcement actions will be described in the section below (including Cross-border and Inter-ministerial Collaboration in Financial Supervision 2018~2020).

 **Table 1-1**

Law Enforcement Unit and Action		Year		
		2020	2019	2018
SFB, FSC	Administrative sanctions (public companies; intermediaries and their employees)	351 cases (234 cases; 117 cases)	357 cases (270 cases; 87 cases)	293 cases (207 cases; 86 cases)
	Penalties (NT\$) (public companies; intermediaries and their employees)	NT\$103.6 million (NT\$51.98 million; NT\$51.62 million)	NT\$82.16 million (NT\$69.14 million; NT\$13.02 million)	NT\$64.81 million (NT\$55.60 million; NT\$9.21 million)
Investigation Bureau, Ministry of Justice	Violations of the "Securities and Exchange Act"	57 cases	60 cases	61 cases
	Proceeds of crime (NT\$)	NT\$16,563,050,000	NT\$15,941,980,000	NT\$20,065,270,000
SFIPC	Class action litigations and compensation sought (NT\$)	10 cases NT\$725.51 million	12 cases NT\$1,699.41 million	10 cases NT\$1,006.26 million
	Derivative suits and compensation sought (NT\$)	6 cases NT\$1,361.73 million	2 cases NT\$115.77 million	5 cases NT\$3,438.56 million
	Discharge suits	7 cases	5 cases	9 cases

\* Source: For administrative sanctions imposed by the SFB, refer to the SFB Enforcement Action List (including administrative penalty statistics and details at <https://www.sfb.gov.tw/ch/home.jsp?id=102&parentpath=0,2>, refer to Table 1 and Table 2 in Appendix III) on the SFB's website; for investigations of criminal liability by the Investigation Bureau, Ministry of Justice, refer to the Prevention and Investigation of Economic Crime Annual Reports; for investigations of civil liability by the SFIPC, refer to the SFIPC's annual reports.

\*\* For related measures taken by the TWSE, TPEX, and TAIEX for the violations of laws and regulations by public companies and intermediaries as well as their employees, refer to Appendix II.

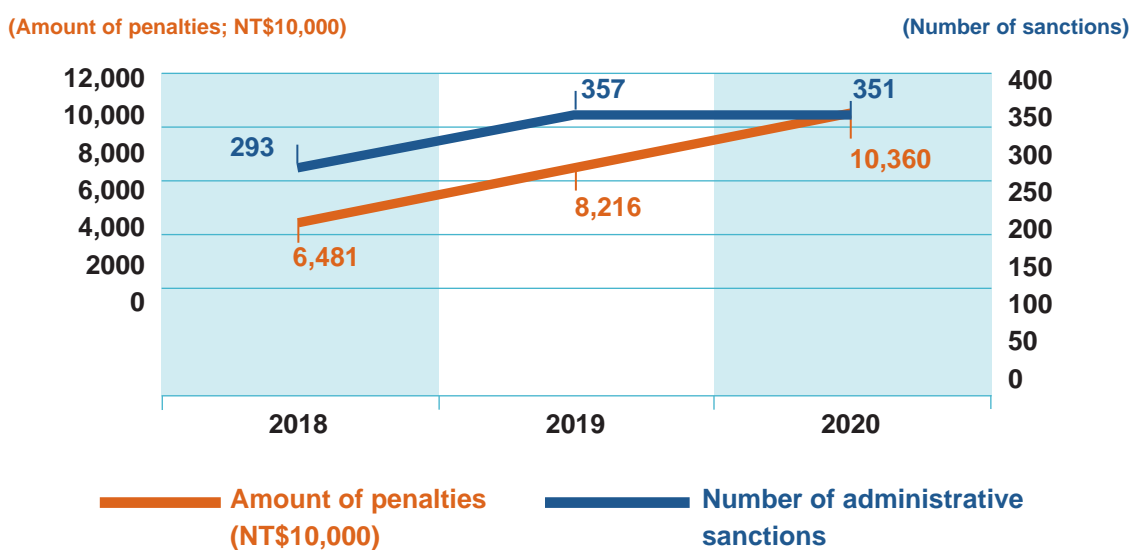




## I. Administrative Sanctions Imposed by the SFB 2018~2020

As shown in Figure 1-1 and Table 1 in Appendix III, the number of administrative sanctions imposed by the SFB and the amount of penalties have shown an increasing trend from 2018 to 2020. Penalties increased due to an increase in administrative sanctions imposed by the SFB, an increase in the penalty ceiling for administrative sanctions from NT\$2.4 million to NT\$4.8 million as a result of the amendment to the "Securities and Exchange Act" on April 17, 2020, and a fine of NT\$25 million for violations of the "Act Governing Relations between the People of the Taiwan Area and the Mainland Area."

 **Figure 1-1 Number of Administrative Sanctions and Amount of Penalties**



The following are the observations on the administrative sanctions imposed by the SFB in 2020 by type and subject of sanctions (refer to Table 1-2, Figure 1-2, and Figure 1-3):

1. The number of penalties totaled 269, accounting for 74% of total administrative sanctions.
2. The number of rectifications imposed on intermediaries totaled 54, accounting for 15% of total administrative sanctions.
3. Sanctions other than penalties and rectifications included the termination of business operations of intermediaries and their persons in charge and employees (24 cases), discharge of duties (six cases), and revocation of business licenses (one case), as well as issuance of warnings to CPAs (two cases) and termination of business operations (two cases).
4. By subject of administrative sanctions:
  - (1) More than 50% of the administrative sanctions were imposed on the insiders of public companies (including directors/supervisors, managerial officers, and major shareholders holding a 10% stake or more) who failed to file for the holding or transfer of securities in accordance with Article 22-2 and Article 25 of the "Securities and Exchange Act."



(2) About 25% of the administrative sanctions were impose on public companies that failed to file (restate) financial statements in accordance with regulations or their accounting officers did not meet the required qualifications. About 14% of the administrative sanctions were imposed on intermediaries and 5% on CPAs.

**Table 1-2**

Types of Sanction	Penalties	Rectification	Termination of Business Operations	Discharge of Duties	Revocation of Business Licenses	Warnings	Total
Parties in Breach							
Insiders	143	-	-	-	-	-	143
Public companies	66	-	-	-	-	-	66
Certified public accountants	14	-	2	-	-	2	18
Intermediaries	38	54	3	0	1	5	101
Intermediaries' persons in charge and employees	0	-	21	6	-	-	27
Others	8	-	-	-	-	-	8
Total	269	54	26	6	1	7	363

\* Source: The SFB Enforcement Action List (including administrative penalty statistics and details at <https://www.sfb.gov.tw/ch/home.jsp?id=102&parentpath=0,2>, refer to Table 1 and Table 2 in Appendix III)

**Figure 1-2 Type of Administrative Sanctions in 2020 (%)**

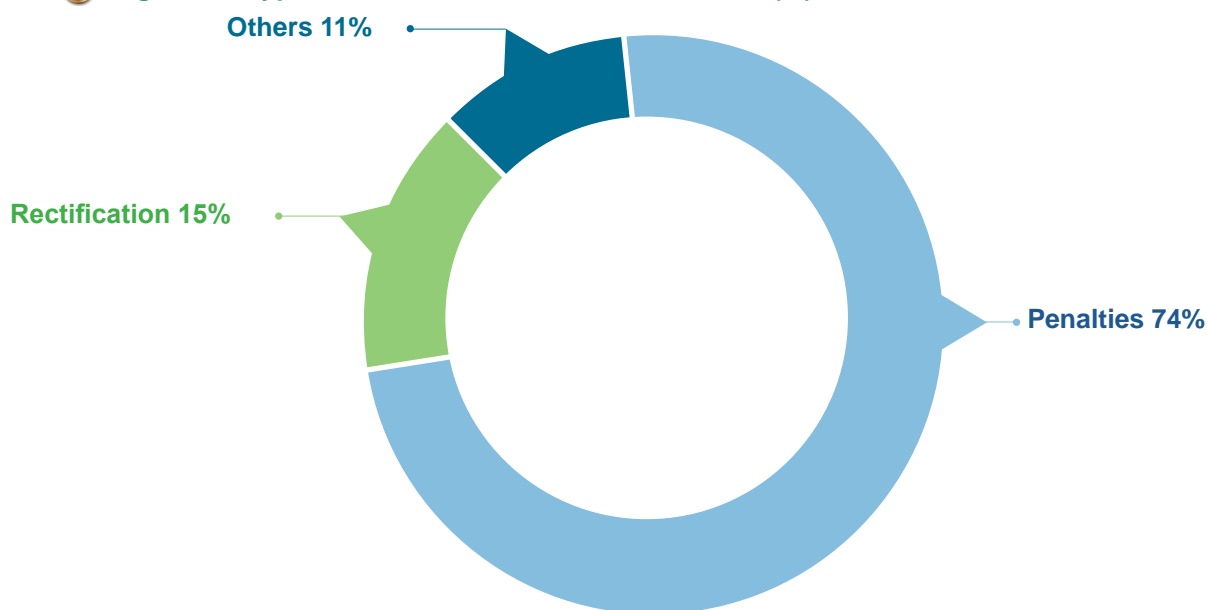
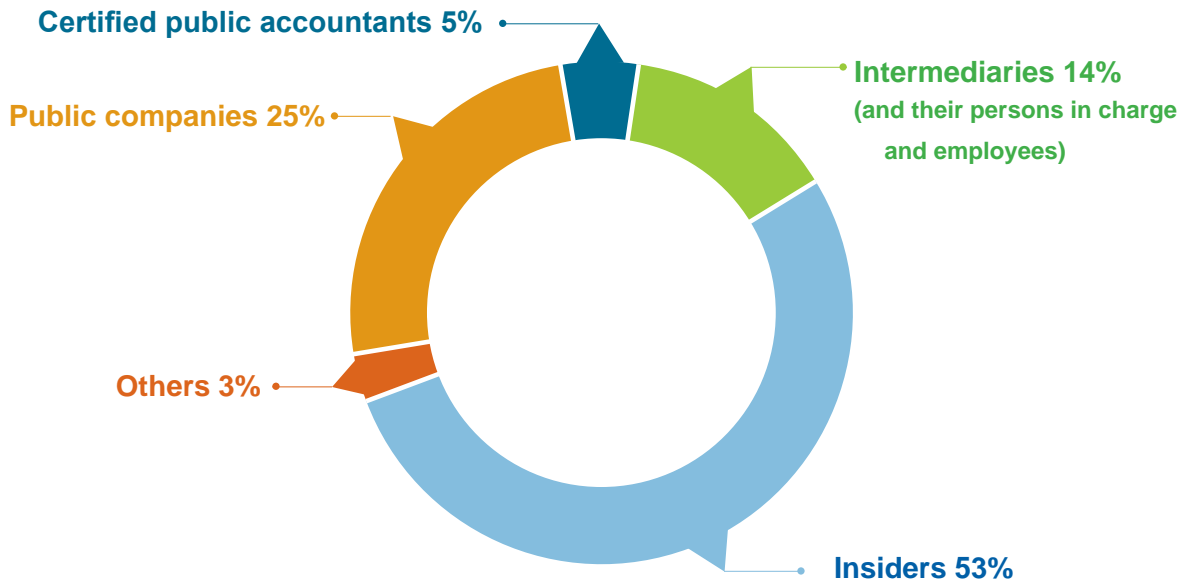




Figure 1-3 Subject of Administrative Sanctions in 2020 (%)



## II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice 2018~2020

The number of criminal cases in violation of the "Securities and Exchange Act" and the proceeds of crime investigated by the Investigation Bureau, Ministry of Justice have shown a decreasing trend from 2018 to 2020.

Figure 1-4 Number of Criminal Cases

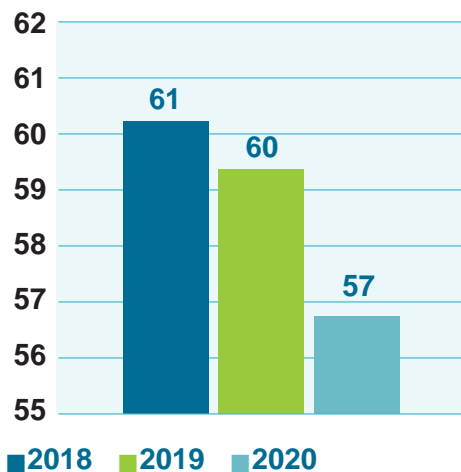
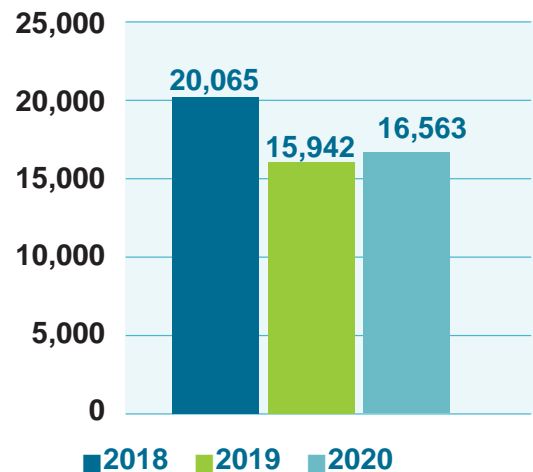


Figure 1-5 Proceeds of Crime (NT\$1 million)







As shown in Table 1-3, the main reason for a decrease in the number of criminal cases from 2018 to 2020 was that the number of stock price manipulation through abnormal trading cases continued to shrink (seven cases); the main reason for a decrease in the proceeds of crime from 2018 to 2020 was that the proceeds of crime in 2019 plummeted from 2018 due to a decrease in false financial statements; however, the proceeds of crime in 2020 increased from 2019 as a result of an increase in false financial statements, special breach of trust, and embezzlement.

Among the criminal cases investigated in the past three years, a total of insider trading, stock price manipulation through abnormal trading, special breach of trust, and embezzlement cases accounted for approximately more than 60% of the total cases each year, with the number of insider trading cases maximizing in 2020 and stock price manipulation cases peaking in 2019 and 2018; in terms of the proceeds of crime, special breach of trust and embezzlement cases accounted for the most in 2020 and 2019 and false financial statements in 2018.

 **Table 1-3**

Type of Violation	Number of Violations			Number of Suspects			Proceeds of Crime (NT\$10,000)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Document counterfeits in collection or issuance	8	9	9	49	64	45	205,919	449,738	192,164
Settlement default	0	0	0	0	0	0	0	0	0
Stock price manipulation through abnormal trading	9	14	16	48	40	61	241,715	325,601	206,878
Insider Trading	13	12	13	55	40	35	20,299	8,544	4,741
Unconventional transactions	9	9	6	61	47	51	141,676	199,731	101,819
Special breach of trust and embezzlement	12	12	13	64	72	59	620,296	495,968	419,043
False financial statements	6	3	3	19	20	23	426,398	114,614	1,079,843
False lawyer or CPA attestation	0	0	0	0	0	0	0	0	0
Stock price manipulation with unreliable information	0	1	1	0	1	1	0	0	2,036
Stock price manipulation in other manners	0	0	0	0	0	0	0	0	0
Illegal private placement	0	0	0	0	0	0	0	0	0
Illegal mergers and acquisitions	0	0	0	0	0	0	0	0	0
Subtotal	57	60	61	296	284	275	1,656,303	1,594,196	2,006,524





### III. Investigations of Civil Liability by the SFIPC 2018~2020

#### (1) Class action litigations (Table 1-4):

**1. Type of cases:** From 2018 to 2020, the SFIPC instituted 10, 12, and 10 class action litigations, respectively. In 2020, where false financial statements or prospectuses were the main type of cases, compensation sought amounted to NT\$652.35 million, by 3,468 authorizers. In 2019, where stock price manipulation was the main type of cases, compensation sought amounted to NT\$800.04 million, by 1,048 authorizers. In 2018, where insider trading was the main type of cases, compensation sought amounted to NT\$309.89 million, by 487 authorizers.

#### 2. Trend analysis:

- A. Number of cases: The number of prosecutions in 2020 was two less than that in 2019, for the number of insider trading and stock price manipulation cases decreased regardless of an increase in false financial statement cases in 2020. The number of prosecutions in 2019 was two more than that in 2018; the reason was that there were more insider trading and stock price manipulation cases in 2019, but the difference was insignificant.
- B. Number of authorizers: Among the prosecutions in 2020 and 2019, those against Unity Opto Technology Co., Ltd. (2020) and Howarm United Industries co., Ltd. and Wintek Corporation (2019) involved a longer period and a larger number of shareholders; therefore, the number of authorizers in 2020 and 2019 was more than that in the previous years (i.e., 2019 and 2018), respectively.
- C. Amount of compensation sought: In addition to the aforesaid prosecutions involving more investors requesting compensation in 2019, the amount of compensation sought from Phison Electronics Corporation was relatively high given its high stock price; therefore, the amount of compensation sought in 2019 was higher than that in 2018. The amount of compensation sought in 2020 was lower than that in 2019 as Unity Opto Technology Co., Ltd. was the only one from which a relatively high amount of compensation was sought.



 **Table 1-4**

Type of Class Action	2020			2019			2018		
	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Authorizers	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Authorizers	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Authorizers
False financial statements or prospectuses	5	65,235	3,468	2	70,807	144	2	36,919	935
Stock price manipulation	2	1,791	140	4	80,040	1,048	3	25,495	450
Insider trading	2	1,198	60	6	19,094	1,512	4	30,989	487
Combination (Note)	1	4,327	109	0	0	0	1	7,223	106
Total	10	72,551	3,777	12	169,941	2,704	10	100,626	1,978

Note: The combination of two or more types of violations, including false financial statements or prospectuses, stock price manipulation, insider trading, and others.

## (2) Derivative suits and discharge suits (Table 1-5):

- 1. Type of cases:** In 2018 and 2020, there was no significant difference between derivative suits and discharge suits (including intervention in litigation) in number. In 2019, there were fewer derivative suits and discharge suits because fewer false financial statement cases were found or companies concerned were no longer listed on the TWSE/TPEX. In 2018, compensation sought in the derivative suits amounted to NT\$3,438.56 million, the highest in the past three years.
- 2. Trend analysis:** When bringing derivative suits and discharge suits according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC should first evaluate whether the companies are TWSE/TPEX listed companies or TPEX Emerging Stock Companies and whether the criminal offenders serve or used to serve as the directors or supervisors of the companies. If the two prerequisites are met, the SFIPC may proceed to institute derivative suits or discharge suits on a case-by-case basis. The number of derivative suits and discharge suits in 2020 was higher than that in 2019. The main reason was that more cases met the statutory prerequisites in 2020. The number of derivative suits and discharge suits in 2019 was lower than that in 2018. The main reason was that fewer cases met the statutory prerequisites in 2019.



 Table 1-5

Type of Action	2020		2019		2018	
	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Actions	Amount of Compensation Sought (NT\$10,000)
Derivative suits	6	136,173	2	11,577	5	343,856
Discharge suits	7	-	5	-	9	-

### (3) Implementation Results

- 1. Assisting investors in receiving compensation through class action litigations:** In 2020, the SFIPC assisted investors in instituting class action litigations for securities and futures cases, and has secured compensation of NT\$470 million plus, including more than NT\$200 million from reconciliations and NT\$200 million from litigations. With the constant evolution of judicial decisions, the SFIPC had more wins in the class action litigations, which facilitated the reconciliations between the accused and the SFIPC. This system proved to be an effective way to protect investor rights and compensate them for their losses and increase confidence in the market.
- 2. Appealing to courts for discharging incompetent directors and supervisors of TWSE/TPEX listed companies:** In 2020, the SFIPC won two discharge suits. In another two cases, the directors and supervisors resigned or were not reappointed after the SFIPC brought the discharge suits. This legal system effectively prompted directors and supervisors to perform their duties in good faith and fulfill their duty of care as good administrators, so as to further corporate governance. In particular, the success of the discharge suit against Da X Company was the first discharge suit to apply the newly amended "Securities Investor and Futures Trader Protection Act." If a final ruling is given, the defendant shall not serve as a director or supervisor of any TWSE/TPE listed company and TPEX Emerging Stock Company within three years. This ruling will give a forceful warning to those violating corporate governance, business practices and infringing on shareholder rights in exchange for management rights and maintain market stability.



## IV. Cross-border and Inter-ministerial Collaboration in Financial Supervision 2018~2020

### 1. Inter-ministerial collaboration in financial supervision

#### (1) Interdepartmental Collaboration in Supervision on the Issuance Market

If TWSE/TPEX listed companies and TPEX Emerging Stock Companies are involved in the violation of the "Securities and Exchange Act" and other relevant laws and regulations, the TWSE and TPEX will refer the cases to the SFB for relevant administrative sanctions. If the violations involve criminal liability, they will be reported to the Investigation Bureau, Ministry of Justice or district prosecutors' offices for criminal investigation or action after being reviewed by the prosecutors stationed at the FSC. From 2018 to 2020, 16, 12, and 4 cases with respect to the persons in charge of public companies who were involved in the violation of the "Securities and Exchange Act," including Subparagraph 1 (misrepresentation or non-disclosure of financial statements), Subparagraph 2 (unconventional transactions), and Subparagraph 3 (special breach of trust), Paragraph 1, Article 171, Subparagraphs 4 and 5 (the making of false statements on the account books, forms/statements, documents, other reference or report materials or other business documents), Subparagraph 6 (the making of false statements in the content of financial statements by managerial officers or accounting officers), and Subparagraph 8 (the loaning of funds or making of guarantees/endorsements with business assets by directors and managerial officers in violation of laws, regulations, or articles of incorporation or beyond the scope of board authorization), Paragraph 1, Article 174, and Subparagraph 2, Paragraph 2, Article 174 (the making of false financial statements or opinions by CPAs), respectively, were reported to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or action after being reviewed by the prosecutors stationed at the FSC. The TWSE and TPEX also coordinated with law enforcement agencies for prosecution and investigation as needed. From 2018 to 2020, the TWSE assisted judicial institutions in providing relevant information on 23, 27, and 17 cases, respectively, with the TPEX assisting in 38, 48, and 41 cases.

In addition, the SFB, TWSE, and TPEX hold "corporate supervisory meetings" together to strengthen liaison between supervisory agencies, so as to identify abnormal trading activities early and take relevant supervisory measures in time. The Banking Bureau, Insurance Bureau, Financial Examination Bureau, the SFIPC, and Taiwan Depository & Clearing Corporation are invited to attend when necessary. The corporate supervisory meeting was held once in 2018, twice in 2019, and thrice in 2020.

#### (2) Interdepartmental collaboration in supervision on the trading activities

From 2018 to 2020, five, four, and seven cases with respect to the investors who were involved in violation of Article 155 (stock price manipulation) and Article 157-1 (insider trading) of the "Securities and Exchange Act" were reviewed in consultation with the prosecutors stationed at the FSC. The TWSE and TPEX also worked with law enforcement agencies for prosecution





and investigation in securities-related violations, including stock price manipulation and insider trading. From 2018 to 2020, this happened a total of 67, 45 and 54 times for the TWSE and 89, 103, and 100 times for the TPEX.

The violations in the previous years in which the TWSE and TPEX cooperated with law enforcement agencies have been prosecuted by district prosecutors' offices or convicted by a court of law. For example, Cheng and other three defendants involved in the manipulation of Da X Company's stock price between 2016 and 2017 were sentenced to imprisonment for 13 years and six months and three years and eight months by the Taiwan Taipei District Court in August 2020 for the violation of the "Securities and Exchange Act"; the president of Guo X Group, Chu, and other three defendants involved in the manipulation of Song X Company's stock price in 2018, with the proceeds of crime exceeding NT\$100 million, were prosecuted by the Taiwan Taipei District Prosecutors Office in December, 2020 for the violation of the "Securities and Exchange Act."

### **(3) Inter-ministerial collaboration between the FSC and Ministry of Justice**

The FSC and the Ministry of Justice hold liaison meetings on a regular basis. In 2020, one liaison meeting was held. On November 25, 2020, the Investigation Bureau, Ministry of Justice held the "Inter-agency Meeting on Execution of Economic Crime Prevention," where the FSC, Fair Trade Commission, Bureau of Consular Affairs, Ministry of Foreign Affairs, Department of Commerce, Ministry of Economic Affairs, Intellectual Property Office, Ministry of Economic Affairs, Department of Prosecutorial Affairs, and Ministry of Justice, Taiwan High Prosecutors Office, Police Affairs Agency, Ministry of Internal Affairs, and National Immigration Agency, Ministry of the Interior were invited to deliberate on measures to prevent economic crimes.

## **2. Cross-border collaboration in financial supervision**

For law enforcement purposes, the FSC may cooperate with foreign securities regulators for information exchange and investigation, through a multilateral memorandum of understanding ("MMOU") established by the International Organization of Securities Commissions ("IOSCO").

From 2018 to 2020, there was no significant difference in the number of cases requiring assistance from other competent authorities; however, the number of cases requiring assistance from the SFB has shown an increasing trend (refer to Table 1-6). In 2020, the SFB sought assistance in seven cases from the Securities and Futures Commission of Hong Kong. Authorities in other countries requested assistance in 15 cases from the SFB, including the Financial Services Agency of Japan (5), Monetary Authority of Singapore (3), Securities and Futures Commission of Hong Kong (2), Financial Supervisory Authority, Sweden (2), U.S. Securities and Exchange Commission (1), Danish Financial Supervisory Authority (1), and Financial Markets Authority, New Zealand (1). This manifested close communication and collaboration between the SFB and financial supervisory agencies in other countries.



Table 1-6

Type of Collaboration \ Year	2020	2019	2018
Number of cases requiring assistance from other competent authorities	7	11	9
Number of cases requiring assistance from the SFB	15	9	5



# Chapter II Major Law Enforcement Cases of the Securities and Futures Markets in Taiwan

- I. Administrative Sanctions
- II. Investigations of Criminal Liability
- III. Investigations of Civil Liability



# Chapter 2





For the securities and futures markets in Taiwan, the policies and approaches, framework, and results of law enforcement in the past three years (2018~2020) have been specified in the foreword and the first chapter. This chapter proceeds with the major law enforcement cases with respect to administrative sanctions, investigations of criminal and civil liability in 2020.

## I. Administrative Sanctions

In 2020, the SFB investigated the violations of regulations for the convening of shareholders' meetings by Tatung Company and other TWSE/TPEX listed companies that had huge impacts on shareholder equity, and imposed sanctions on Pharmally International Holding Co., Ltd. for false financial statements and drew up improvement measures for the supervision of Cayman Island-registered companies listed in Taiwan; on the part of intermediaries, the SFB imposed sanctions on Hua Nan Securities Co., Ltd. (Hua Nan Securities) for not following its hedging strategy, JKO Asset Management Co., Ltd. (JKO AMC) for seriously violating their internal control regulations, Capital Investment Trust Corporation (Capital ITC) and Uni-President Asset Management Corporation (Uni-President AMC) for copy trading, and futures commission merchants for trading in negative light sweet crude oil futures and neglecting internal controls over the crude oil 2x leveraged futures ETF. The aforesaid cases are described separately below.

### Summary of Administrative Sanctions and Progress of Criminal and Civil Liability

No.	Case	Administrative Sanctions	Progress of Criminal Liability	Progress of Civil Liability
1	The FSC reported the person in charge of Tatung Company for special breach of trust and, based on the case, proposed the reform of shareholders' meetings and corporate governance systems.	<ol style="list-style-type: none"><li>1. Imposed rectification on July 14, 2020.</li><li>2. Requested another transfer agent to take charge of stock affairs of Tatung Company and stripped its right to handle stock affairs on its own on July 14, 2020.</li></ol>	The SFC reported to the law enforcement agencies on July 8, 2020, the then person in charge of Tatung Company (Lin, Kuo, Wen-Yen) on suspicion of special breach of trust under Subparagraph 3, Paragraph 1, Article 171 of the "Securities and Exchange Act."	<ol style="list-style-type: none"><li>1. On July 6, 2020, the SFIPC brought a dismissal suit against the then person in charge of Tatung Company to the Taiwan Taipei District Court in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act."</li><li>2. The Taiwan Taipei District Court ruled (in the first instance) on December 17, 2020 to discharge the then person in charge of Tatung Company (Lin, Kuo, Wen-Yen) from directorship.</li></ol>
2	The FSC inflicted severe punishment upon the CPA of Pharmally International Holding Co., Ltd. according to the "Securities and Exchange Act" and proposed key institutional reforms of the supervision of Cayman Islands-registered companies listed in Taiwan.	<ol style="list-style-type: none"><li>1. Imposed a total penalty of NT\$5.28 million from August 2020 to April 2021.</li><li>2. Suspended the CPA from rendering assurance service under the "Securities and Exchange Act" for two years on September 29, 2020.</li></ol>	The SFC reported to the law enforcement agencies on August 14, 2020, the then person in charge of Pharmally International Holding Co., Ltd. (Huang, Wen-Lieh) on suspicion of unconventional transactions and special breach of trust under Subparagraphs 1-3,	The SFIPC instituted a class action litigation on March 25, 2021.





No.	Case	Administrative Sanctions	Progress of Criminal Liability	Progress of Civil Liability
			Paragraph 1, Article 171 of the "Securities and Exchange Act."	
3	The FSC improved regulatory technology to prevent the recurrence of similar defects in put warrants issued by Hua Nan Securities.	<ol style="list-style-type: none"> <li>1. Imposed a penalty of NT\$1.44 million on Hua Nan Securities on April 30, 2020.</li> <li>2. Suspended the president and the hedging department head and employees of Hua Nan Securities from work for one year and the risk management department head for two months on April 30, 2020.</li> </ol>	None	None
4	The FSC imposed a penalty of NT\$3 million on JKO AMC and discharged its director for numerous serious defects in accordance with the "Securities Investment Trust and Consulting Act."	<ol style="list-style-type: none"> <li>1. Issued a letter of warning to and imposed a penalty of NT\$3 million on JKO AMC on September 29, 2020.</li> <li>2. Ordered the directors to be discharged and the former president to be suspended from work for one month on September 29, 2020.</li> <li>3. Requested a review report on the internal control system issued by a CPA that does not provide attestation services to the company on September 29, 2020.</li> <li>4. Restricted JKO AMC from handling the redemption of the "JKO Multi-Asset Fund" by investors via electronic payment on September 29, 2020.</li> </ol>	None	None
5	The FSC issued a warning to and imposed a penalty of NT\$1.2 million on Capital ITC for illegal securities trading by the former fund manager, Huang, X-X, and ordered Huang, X-X to be discharged in accordance with the "Securities Investment Trust and Consulting Act."	<ol style="list-style-type: none"> <li>1. Issued a letter of warning and imposed a penalty of NT\$1.2 million on Capital ITC on April 21, 2020.</li> <li>2. Ordered the fund manager to be discharged on April 21, 2020.</li> </ol>	Any criminal liability is to be determined by the prosecutor or the Judiciary.	None
6	The FSC inflicted severe punishment upon the fund managers of Uni-President AMC in accordance with the "Securities Investment Trust and Consulting Act" and proposed key	<ol style="list-style-type: none"> <li>1. Issued a warning and imposed a penalty of NT\$1.8 million on Uni-President AMC on June 23, 2020.</li> <li>2. Ordered the two fund managers to be</li> </ol>	Any criminal liability is to be determined by the prosecutor or the Judiciary.	None



No.	Case	Administrative Sanctions	Progress of Criminal Liability	Progress of Civil Liability
	institutional reforms of the management reforms of information and communication equipment, counterparts, and trading rooms of securities investment and trust enterprises.	discharged and the president and the chief audit officer to be suspended from work for three months on June 23, 2020. 3. Requested a review report on the internal control system issued by a CPA that does not provide attestation services to the company on June 23, 2020.		
7	The FSC supervised futures commission merchants to improve the futures trading system and protected investors' rights given the trading of negative crude oil futures.	Imposed a total penalty of NT\$5.16 million on 12 brokers for futures trading, including Yuanta, on September 1, 2020.	None	None

## 1. The FSC reported the person in charge of Tatung Company for special breach of trust and, based on the case, proposed the reform of shareholders' meetings and corporate governance systems

Tatung Company held the shareholders' meeting on June 30, 2020. During the meeting, the chair instructed the staff to remove 28 shareholders' rights to vote and elect (representing 53.32% of shares issued by the company) and issue no ballots to the 28 shareholders without consulting anyone, which deviated from the company's internal control system concerning the procedures for convening shareholders' meetings and seriously affected the shareholders' right to vote and elect under the "Company Act." The FSC carried out an investigation and collected the evidence with delay and then reported the person in charge of Tatung Company to the law enforcement agencies for breach of trust.

Without the competent authority's approval or the court's ruling, Tatung Company held that 28 shareholders (representing 53.32% of shares issued by the company) had no right to vote and elect and thus issued no ballots to them, causing the results of the re-election of directors, related resolution methods and the effect of resolutions in the shareholders' meeting to be called into question. In the press conference held on the date of the shareholders' meeting per the TWSE's request, Tatung Company failed to specify its legal ground for such conduct and related evidence, resulting in unequal treatment and a huge impact on shareholders' rights and contradicting corporate governance and shareholder activism. On the same day, the TWSE placed Tatung Company's securities under altered trading. The SFC reported to the law enforcement agencies on July 8, 2020 the then person in charge of Tatung Company (Lin, Kuo, Wen-Yen) on suspicion of special breach of trust under Subparagraph 3, Paragraph 1, Article 171 of the "Securities and Exchange Act." It also requested rectification and ordered Tatung





Company's stock affairs to be handled by a third-party transfer agent. As the company's removal of shares in the shareholders' meeting was against the law, the Ministry of Economic Affairs rejected the company's application for the registration of changes in directors/supervisors.

For the aforesaid violation, the SFIPC also brought a discharge suit against the then person in charge of Tatung Company to the Taiwan Taipei District Court in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act." The said court ruled (in the first instance) the then person in charge of Tatung Company (Lin, Kuo, Wen-Yen) to be discharged.

The FSC also requested the TWSE to enhance supervisory measures for the finances and business operations of Tatung Company (e.g., including in the Key Financials section on the Market Observation Post System and monthly disclosing the amount of highly liquid assets, short-term loans, and long-term liabilities due within one year). The TWSE was also required to, whenever necessary, supervise Tatung Company to fully and timely disclose material information, review/control mechanisms for loans, guarantees/endorsements, and major asset transactions, and internal controls for stock affairs and shareholders' meetings. The TWSE may assign employees to conduct the audit in due course. In addition, enhanced and ongoing monitoring of Tatung Company's securities trading and the foreign investment in the company's securities was in place. In case of foreign investors' abnormal trading behavior, the TWSE investigated the ultimate beneficiaries of relevant accounts immediately and acted according to related laws and regulations. If such behavior was against the law, the TWSE would submit related information to law enforcement agencies for investigation.

Before the incident totally fell out, the FSC paid much attention to it and took action in response. After the incident, the FSC led peripheral organizations to handle it properly while maintaining close contact with other ministries. In addition to handling the individual case, the FSC deliberated on institutional reforms and proposed related measures for improvement (see the table below) in aspects of corporate governance, qualifications as share transfer agents, and transparency of e-votes, all with the object of protecting investor rights.

Three Aspects	Concrete Measures
Strengthening corporate governance	Restrain the person in charge who violates the principles of corporate governance and causes damage to shareholders' rights from acting as the person in charge of the company that applies for initial public offering
Increasing the neutrality of stock affairs	<p>Restrict TWSE/TPEX listed companies and TPEs Emerging Stock Companies from resuming stock affairs from third-party stock transfer agents</p> <p>Conduct periodic evaluations of companies handling stock affairs and third-party transfer agents and upon failing the evaluation, it shall be transferred to third-party transfer agents within the prescribed time limit</p>
Improving the transparency of e-votes	Have companies or third-party transfer agents tabulate and disclose the number of shares presented by shareholders electronically one day prior to the shareholders' meeting



In 2020, Tatung Company repeatedly reported to the FSC that investors from Mainland China continued to illegally invest in the company's stocks through foreign investors. After carrying out the investigation and collecting the evidence, the FSC verified that people of the Mainland China invested in Tatung Company's stocks through foreign investors without permission, which violated Paragraph 1, Article 73 of the "Act Governing Relations between the People of the Taiwan Area and the Mainland Area." On October 13, 2020, the FSC imposed a penalty of NT\$25 million on the said people, terminated the people's shareholder rights, and ordered their shares to be liquidated within six months. The following enhanced measures will be taken in the future to strengthen the management of investors of the Mainland area:

- (1) For people in Mainland China investing in Taiwan through foreign investors, the FSC has relevant mechanisms in place. For example, custodian banks and securities firms conduct know your client (KYC) and identify substantial investors of foreign institutional investors ("FINIs") when FINIs apply for registration or account opening; the TWSE conducts the daily supervision of foreign investors' trading behavior and, in case of violations, imposes sanctions, liquidates shares, and restricts shareholder rights according to law.
- (2) To effectively deter people in Mainland China from investing in Taiwan through foreign investors, the FSC has also developed enhanced measures, including raising penalties, amending the foreign investor registration form (i.e., foreign investors or their clients shall not be people, legal persons, organizations, or other institutions in the Mainland China or companies they invest in the third regions), and promoting propaganda and cross-border collaboration.

## **2. The FSC inflicted severe punishment upon the CPA of Pharmally International Holding Co., Ltd. according to the "Securities and Exchange Act" and proposed key institutional reforms of the supervision of Cayman Islands-registered companies listed in Taiwan**

In August 2020, Pharmally International Holding Co., Ltd. ("Pharmally"), a foreign company listed in Taiwan, was reported for false financial statements. The FSC immediately carried out an investigation and collected the evidence and then reported to the law enforcement agencies. The FSC also inflicted severe punishment upon the CPAs of Pharmally by suspending them from rendering assurance service under the "Securities and Exchange Act" for two years.

In early August 2020, Luan Huayuan Pharmacy Limited Company, a subsidiary of Pharmally, was reported because the set up on machinery and equipment was abnormal; the person in charge of Pharmally also lost contact and its management and CPA resigned one after another. The FSC immediately carried out an investigation and also worked with the TWSE to retrieve the working papers prepared by the CPA. The financial statements and endorsements/guarantees disclosed and filed by Pharmally for relevant periods involved the concealment of the subsidiary's set up of machinery and equipment as collateral; when auditing the financial statements of Pharmally for relevant periods, the CPA was also found negligent in executing



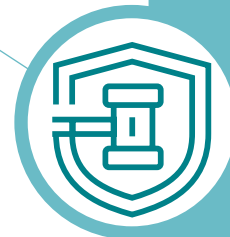


bank confirmations effectively, auditing the registration regarding the subsidiary's set up of machinery and equipment as collateral, and taking appropriate action for subsequent events. In August 2020, the FSC reported the CPA to the law enforcement agencies and, in September 2020, suspended the CPA from rendering assurance service under the "Securities and Exchange Act" for two years. As Pharmally failed to disclose and file the financial statements for the second quarter of 2020 on schedule, the FSC consecutively imposed a total penalty of NT\$5.28 million on Pharmally and terminated its securities trading on August 18, 2020. The aforesaid incident had a huge impact on nearly 12,000 investors' rights and interests and the order of the securities market. The SFIPC has instituted a class-action litigation on behalf of 4,424 investors, seeking compensation of NT\$4,753 million.

Following aforesaid incident, the finances and business operations of other Cayman Islands-registered companies listed in Taiwan such as Kayee International Group Co., Ltd., TOPBI International Holdings Limited, and Enterex International Limited were also called into question. Upon investigation, the FSC and the TWSE found that Kayee International Group Co., Ltd. and other such companies were defective in their internal controls over some transactions. The FSC has imposed related administrative sanctions on these companies and requested improvement.

At the same time, the FSC supervised the TWSE to monitor and audit any illegal trading activities that the aforesaid companies were likely to be involved in. For fluctuations in stock prices of such companies that reached certain defined protocols relating to abnormal trading, the TWSE disclosed them for investors' special attention or subjected the companies to sanctions such as periodic trading or advance collection of buy-side payment or sell-side securities in order to raise the investors' awareness of abnormal stocks. For companies involved in stock price manipulation, the FSC and the TWSE also cooperated with law enforcement agencies in related investigations.

Cayman Island-registered companies listed in Taiwan have their place of registration and operations located in foreign countries, so verification becomes a challenge. In view of this, it is even more important to perform real-time supervision of their finances and business operations. The FSC proposed related measures for improvement (see the table below) in aspects of corporate governance, expert supervision, and enhanced supervision with the goal of protecting investor rights.



Three Aspects	Concrete Measures	
Strengthening corporate governance	<ol style="list-style-type: none"> <li>1. Enforce the establishment of an audit committee</li> <li>2. Request the majority of directors to be Taiwanese and at least two independent directors of Taiwanese nationality</li> <li>3. Urge the company to increase the frequency of investor conferences and encourage the chairman or independent directors to attend in person</li> </ol>	
Strengthening expert supervision	Certified public accountants	<ol style="list-style-type: none"> <li>1. Change the frequency of financial statements audits from once a year to once every six months</li> <li>2. Strengthen the procedures for key audit items of financial statements and issue guidelines for the audit of bank confirmations for CPAs to follow</li> </ol>
	Underwriters	<ol style="list-style-type: none"> <li>1. Extend the period during which the IPO lead underwriter assists Cayman Island-registered companies listed in Taiwan with compliance (from two years to three years)</li> <li>2. Strengthen the procedures for lead underwriters to assist companies with compliance, including attending the board of directors to understand business operations</li> </ol>
Strengthening supervision	<ol style="list-style-type: none"> <li>1. Facilitate the TWSE and TPEX communication with experts and add channels for collecting company information in a timely manner</li> <li>2. Increase the percentage of spot checks on the CPA audit of Cayman Island-registered companies listed in Taiwan</li> <li>3. Adjust key financial indicators for real-time warning</li> </ol>	





### **3. The FSC improved regulatory technology to prevent the recurrence of similar defects in put warrants issued by Hua Nan Securities**

In March 2020, Hua Nan Securities did not follow its hedging strategy when issuing put warrants, resulting in a huge loss. Accordingly, the TWSE imposed a penalty of NT\$300,000 on Hua Nan Securities; in accordance with the "Securities and Exchange Act," the FSC issued a warning to and imposed a penalty of NT\$1.44 million on Hua Nan Securities and also suspended the responsible employees and department heads from work for two months or one year.

The financial market fluctuated sharply as the COVID-19 pandemic continued to rage. At the end of March 2020, Hua Nan Securities made an announcement that there's not enough time for the company to hedge in TAIEX-linked put warrants as the stock market started to plummet on March 12, 2020. As of March 23, 2020, the company suffered a huge loss of NT\$3.41 billion, exceeding its profit in the past seven years (NT\$3.31 billion). The FSC immediately ordered an investigation to be carried out by the TWSE. The findings showed that Hua Nan Securities did not exactly follow its hedging strategy based on the risk controls over the issuance of warrants, causing the overall risk to exceed the set market risk limit; in addition, Hua Nan Securities did not immediately report to the board of directors and take necessary action. Accordingly, the TWSE imposed a penalty of NT\$300,000 on Hua Nan Securities. In accordance with the "Securities and Exchange Act," the FSC issued a warning to and imposed a penalty of NT\$1.44 million on Hua Nan Securities and also requested the improvement plan proposed by the company and the review report prepared by the CPA (on the design and effectiveness of the company's internal controls over the issuance of call (put) warrants); in addition, Hua Nan Securities was not allowed to issue new call (put) warrants without the FSC's permission, and department heads or employees not complying with the internal controls (including the president, internal control supervisor and employees, etc.) were suspended from work for two months or one year.

To understand and ensure the risk tolerance and capital adequacy ratio of securities firm issuing warrants in case of drastic changes in the financial market, the FSC has requested the TWSE and TPEX to improve the existing regulatory technology-based measures for real-time monitoring of securities firms' financial products and risks, including stress tests and warnings.

### **4. The FSC imposed a penalty of NT\$3 million on JKO AMC and discharged the director, Hu, X-X for numerous serious defects in accordance with the "Securities Investment Trust and Consulting Act"**

In September 2020, JKO AMC and its partners rolled out the "JKO Investment Trust App". Numerous material deficiencies in its advertising materials were identified such as guaranteeing profits and claiming quick redemption, which seriously mislead investors and caused damage to investor rights and the company's sound operations. Accordingly, the FSC imposed a penalty





of NT\$3 million on JKO AMC, the highest penalty imposed in the securities investment trust industry, and ordered the director, Hu, X-X, to be discharged.

The FSC found in the investigation that JKO AMC partnered with Jkopy Co. Ltd. and Jkos Network Co., Ltd. to launch the "JKO Investment Trust App" from July 20 to July 22, 2020. On the App, the advertising materials claimed "1.2%~2.5% expected growth rate" and "free withdrawal at any time" and also specified the following: "After clicking the Deposit button, you will be connected to the website of JKO AMC. Enter an amount to subscribe for the JKO Multi-Asset Fund." About 30% of the JKO Multi-Asset Fund was invested in non-investment grade bonds. As of the end of August 2020, the cumulative return of the said fund was -15.06%, far from the claimed "1.2%~2.5% expected growth rate." Such advertising materials seriously misled consumers. In addition, JKO AMC was involved in numbers of serious violations, including false statements and concealments in the documents provided for the FSC, provision of advances on quick redemption without internal approval or the board's resolution, failure to assign a proxy with equivalent qualifications as the principal, Hu, X-X acting as the chairman and the president at the same time, and failure to treat investors fairly during the follow-on offering of the JKO Brent Crude Oil 2x Leveraged Futures ETF, which caused damage to the company's sound operations and investor rights.

In accordance with the "Securities Investment Trust and Consulting Act," "Futures Trading Act," and "Financial Consumer Protection Act," the FSC issued a letter of warning to and imposed a penalty of NT\$3 million on JKO AMC and also requested a review report on the internal control system issued by a CPA that does not provide attestation services to the company; before approving the improvements in the internal control system, the FSC would reject or disallow JKO AMC's application to offer, make a follow-on offering of funds and restricted JKO AMC from handling the redemption of the "JKO Multi-Asset Fund" by investors via electronic payment. The director of JKO AMC, Hu, X-X, who was barely aware of compliance, had substantial control over Jkos Network Co., Ltd., Jkopy Co. Ltd., and JKO AMC, turning the board of directors and supervisors into a mere figurehead, the chairman and the president nominal, and the internal control system of JKO AMC ineffective. According to law, the FSC ordered the director to be discharged and the former president, Chuang, X-X, to be suspended for one month.

Securities investment trust enterprises are chartered financial institutions under strict supervision as they manage the clients' assets. To protect the rights and interests of the general public and to save investors from potential disputes, it is incumbent on the FSC to carefully evaluate any fund-linked financial products.

The FSC also reiterated that asset management companies should prioritize ethical corporate management and that they should not intentionally use the multi-party structure, splits, or other methods intentionally inserted to circumvent laws and regulations and mislead investors, which could cause damage to investor rights. The FSC also emphasized that asset management companies should put corporate governance into practice and maintain professionalism by clearly defining the objectives and responsibilities of the companies and their affiliates, increasing the compliance awareness of employees at every level, establishing a sound talent selection process, implementing the hierarchy of authority in the organization, and improving the independence of supervisors.





## **5. The FSC issued a warning to and imposed a penalty of NT\$1.2 million on Capital ITC for illegal securities trading by the former fund manager, Huang, X-X, and ordered Huang, X-X to be discharged in accordance with the "Securities Investment Trust and Consulting Act"**

Capital ITC did not properly control the securities trading website and IP addresses, enabling its employees to trade in securities using the company's network. In managing the securities investment trust fund to trade in individual stocks, the fund manager of Capital ITC, Huang, X-X, traded in the same stocks with others' accounts using personal information and communication equipment. Accordingly, the FSC imposed sanctions on Capital ITC and associated persons on April 21, 2020.

During the special inspection of Capital ITC's discretionary investment from August 8 to August 20, 2019, the FSC found that the former fund manager of Capital ITC, Huang, X-X, used others' accounts to trade in the same stocks constituting the fund under management in his or others' interests based on the information known by his position; the trading volume was huge and was not filed in accordance with the regulations.

The FSC handled the case according to administrative procedures and worked with the TWSE and TPEX to check the accounts involved in the case. Based on the statements, the facts and evidence found in the investigation, the FSC verified that Capital ITC did not manage the use of the company network effectively, enabling Huang, X-X to trade in stocks via the company's WiFi during work in his or others' interests, and that Capital ITC did not fulfill its duty of supervision with respect to the said violation.

In accordance with the "Securities Investment Trust and Consulting Act," the FSC issued a warning to and imposed a penalty of NT\$1.2 million on Capital ITC for its failure to fulfill its duty of supervision with respect to the fund manager's personal trading behavior and comply with the internal control system; before approving the improvements in internal control system, the FSC would reject or disallow Capital ITC's application to offer, or make a follow-on offering of funds. The FSC also ordered the former fund manager, Huang, X-X, to be discharged, for he traded in the same stocks constituting the fund under management in his or others' interests based on the information known by his position and did not file in accordance with the regulations.

Securities investment trust enterprises are chartered financial institutions under strict supervision as they manage the clients' assets. To put corporate governance into practice and maintain professionalism, securities investment trust enterprises should build a culture of integrity and hold themselves to the highest standards of business conduct and also fulfill their duty of care of good administrators.



## 6. The FSC inflicted severe punishment upon the fund managers of Uni-President AMC in accordance with the "Securities Investment Trust and Consulting Act" and proposed key institutional reforms of information and communication equipment, counterparts, and trading rooms management of securities investment and trust enterprises

In June 2020, the FSC inflicted severe punishment upon Uni-President AMC and its management and associated persons, for Uni-President AMC did not set up controls over the fund managers' personal communication equipment in the internal control system, enabling the fund managers to trade the same stocks with others' accounts using personal information and communication equipment when managing the securities investment trust fund.

During the general inspection of Uni-President AMC's business in August 2019, the FSC found that the former fund managers, Liu, X-X and Chang, X-X, leaked the information known by their position to others or used such information to trade in securities or, when managing the securities investment trust fund, used others' accounts to trade in the same stocks without reporting to the company.

The FSC handled the case according to administrative procedures and worked with the TWSE and TPEX to check the accounts involved in the case. Based on the statements and the facts and evidence found in the investigation, the FSC verified that Uni-President AMC failed to set up controls over the fund managers' personal communication equipment in the internal control system; after the FSC imposed sanctions on the former chief audit officer, Yang, X-X, for illegal personal trading behavior in May 2019, Uni-President AMC did not take any action to enhance its internal control system, enabling the former fund managers, Liu, X-X and Chang, X-X, to leak the information known by their position to others or use such information to trade in domestic stocks in their or others' interests. The company's internal control system was neither designed and implemented effectively nor sufficient to prevent conflicts of interest; the president, as well as the chief audit officer at the time of commission, also failed to perform their duty of care of good administrators.

For the aforesaid violations, the FSC issued a warning to and imposed a penalty of NT\$1.8 million on Uni-President AMC, requested a review report on the internal control system issued by a CPA that does not provide attestation services to the company, and ordered the former fund managers, Liu, X-X and Chang, X-X, to be discharged and the president, Li, X-X, and the chief audit officer at the time of commission, Yang, X-X, to be suspended from work for three months each.





The FSC supervises the Securities Investment Trust & Consulting Association of the R.O.C. to strengthen self-discipline. The FSC also amended the "Management Guidelines for Securities Investment Trust Enterprises," adding regulations on the use of information and communication equipment provided by the company or third parties by fund and discretionary investment managers, to keep investors' trust in the domestic asset management companies from behavior of a few employees. The FSC also reiterated that severe punishment would be inflicted upon companies and individuals violating the laws in order to maintain investors' confidence in the financial market and a sound development of securities investment trust enterprises.

## **7. The FSC supervised the futures commission merchants to improve the futures trading system and protected investors' rights given the trading of negative crude oil futures**

COVID-19 ravaged countries around the world at the beginning of 2020, causing large fluctuations in the crude oil market and even negative oil prices in history. Due to the negative value of the international crude oil futures trading and final settlement prices on April 20, 2020, resulting in negative equity balances in domestic futures traders' margin accounts handled through sub-brokerage and disputes arising therefrom. On September 1, 2020, the FSC imposed a total penalty of NT\$5.16 million on 12 futures commission merchants for their violations in accordance with the "Futures Trading Act" after investigating the case.

After the oil price collapsed in early 2020, the prices of WTI Light Sweet Crude Oil Futures ("CL") and E-mini Crude Oil Futures ("QM") contracts for May on the Chicago Mercantile Exchange ("CME") became negative on April 20, 2020, time in USA (April 21, 2020, time in Taiwan). The lowest price CL reached on that day was minus US\$ 40.32, and April 20, 2020, was also the last trading day of QM for May, with the final settlement of minus US\$ 37.63. Due to the said negative value futures trading and final settlement prices, domestic futures traders suffered losses from negative equity balances in margin accounts and disputed against the futures commission merchants. Upon investigation, the FSC found the main deficiencies of Futures commission merchants were as follows: (1) Futures commission merchants did not timely announce that CME crude oil futures commodities could be traded at a negative value; (2) Futures commission merchants' trading hosts were unable to accept negative value orders; (3) Futures commission merchants' trading hosts could not correctly calculate the profit and loss and number of lots of the customer's foreign futures account under negative value; (4) Futures commission merchants did not issue a notice to high-risk accounts and did not carry out offset operations. The FSC imposed related administrative sanctions on the futures commission merchants for violation of related laws and regulations and deficiencies in the internal control system and requested them to take corrective action.

The FSC has requested the SFIPC and the Financial Ombudsman Institution to institute mediation proceedings and hear the cases; the futures commission merchants were required to cooperate in the proceedings and hearings. In addition, the FSC moved to make institutional adjustments as follows:



- (1) **Guiding futures commission merchants to adjust the trading systems, making them operate smoothly under negative values:** To protect futures traders' rights and interests, the FSC guided the Chinese National Futures Association to assist Futures commission merchants in adding negative value trading and settlement functions to their trading systems. The adjustment was completed by Futures commission merchants before the end of August 2020.
- (2) **Strengthening market supervision and the early warning system through regulatory technology:** Given that the collection of real-time information at home and abroad requires regulatory technology, the FSC has planned in the Capital Market Roadmap to set up a futures market supervision and information platform using regulatory technology. The purpose of the said platform is to provide real-time information on the domestic and foreign futures markets.

## 8. The FSC enhanced measures for managing investment in futures ETFs given the delisting of Yuanta Crude Oil 2x Leveraged Futures ETF

COVID-19 ravaged countries around the world at the beginning of 2020, causing large fluctuations in the international crude oil markets and even some of the most negative oil prices in history. The net value of the "Yuanta Crude Oil 2x Leveraged Futures ETF" issued by Yuanta Securities Investment Trust Co., Ltd. ("Yuanta Securities") fell sharply, reaching the protocols in relation to the termination of futures ETF contracts. According to the regulations, on October 5, Yuanta Securities applied for the termination of the said futures ETF, which was officially delisted on November 13, 2020.

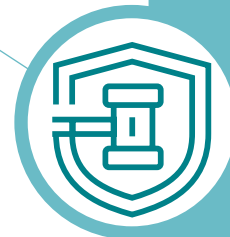
After oil prices collapsed in early 2020, individual investors bought the "Yuanta Crude Oil 2x Leveraged Futures ETF" from the secondary market at a high premium and expected to hold it for a long period of time in the hopes of making a profit from the jump; however, they were not aware that the assets of the said futures ETF involved crude oil futures trading rather than investment in crude oil spots; that is, fund managers bought and switched crude oil futures for the next and recent months by means of pressing close to indexes futures for tracking purposes. The daily dynamic adjustment of futures positions and regular rollover incurred transaction fees and rollover rates. Even if the indexes tracked by the futures ETF did not fluctuate much, the net value of the futures ETF would naturally decline due to the high rollover rate. In the long run, it was not suitable for investors to hold the futures ETF for a long period of time.





To prevent individual investors from losses due to rash investment decisions made without fully understanding the risks and characteristics of futures ETFs, the FSC supervised the TWSE to propose related measures for improvement (see the table below) in aspects of investor training, suitability of futures ETF investors, identification of futures ETFs, and disclosure of futures ETF risks. The purpose of these measures is to prime investors with the nature and risk tolerance of these financial products.

Four Aspects	Concrete Measures
Enhancing investor training	<ol style="list-style-type: none"><li>1. Organize a series of trainings on futures ETFs to explain to investors the difference between futures ETFs and securities ETFs; that futures ETFs track futures rather than spots; that futures ETFs are ideal for short-term trading; the reasons for futures ETF discounts and premiums, and the risks of buying futures ETFs at a premium.</li><li>2. Hold training courses to enlarge securities firms' and their associated persons' knowledge of futures ETFs and leveraged ETFs.</li><li>3. Prepare a short version of the ETF delisting system and operating procedures to explain to investors that futures ETFs are not delisted upon reaching the protocols for termination and that the net value of a futures ETF after liquidation is refundable.</li></ol>
Strengthening the suitability of futures ETF investors	For general investors to trade in for the first time or to apply to redeem leveraged inverse futures ETFs, request them to meet the existing qualifications set by the TWSE and sign a risk disclosure statement before securities firms accept their orders, complete the "Checklist for Trading in Leveraged Inverse Futures ETFs."
Increasing the identification of futures ETFs	Add "Futures" to the first English abbreviation of futures ETFs to identify futures ETFs and give issuers notice to use "Futures ETF" in all subsequent public announcements and materials
Improving the disclosure of futures ETF risks	Revise the content of the risk disclosure statement to respectively specify the transaction risks of all types of ETFs, with the titles enlarged, bold, and underlined.



## 9. The FSC urged D-Link Corporation not to change the date of the shareholders' meeting at will due to the dispute over management rights, so as to ensure shareholders' rights and corporate governance

In May 2020, D-Link Corporation ("D-Link") held the board of directors meeting, with the objective of changing the date of the annual shareholders' meeting to secure management rights, which violated the disclosure requirements of TWSE regulations under the "Securities and Exchange Act" and caused serious damage to shareholder equity. The FSC and the TWSE urged that D-Link keep the original date of the annual shareholders' meeting in order to ensure corporate governance and shareholders' rights; D-Link did so accordingly.

The election of directors was on the meeting agenda. D-Link announced the date of the annual shareholders' meeting to be held on June 15, 2020 and already solicited from its shareholders proposals and nomination and power of attorney for director candidates. On May 25, 2020, however, D-Link unexpectedly held the board of directors meeting, resolving to change the date of the annual shareholders' meeting to June 29, 2020 and making an announcement accordingly to secure management rights. The effect of the board's resolution was called into question as it had a direct impact on the legality of the procedures for convening the shareholders' meeting. The FSC and the TSWE both held that the convening of the board meeting was in violation of the "Company Act" and affected shareholder equity. The company also did not fully explain how to protect the shareholders' right to attend the shareholders' meeting, and the information published by the company did not conform with the principles for corporate governance. After D-Link's board passed the resolution, the TWSE immediately imposed a penalty of NT\$300,000 on D-Link and requested improvement within the prescribed time limit or, the TWSE would impose a penalty every time D-Link failed to improve within the prescribed time limit or place the company's securities under altered trading according to the regulations. D-Link then reconvened the board meeting, resolving to maintain the original date of the shareholders' meeting.





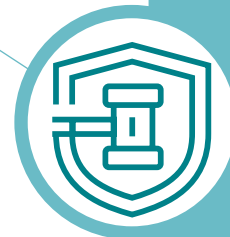
## II. Investigations of Criminal Liability

Among the criminal cases compiled by the Investigation Bureau, Ministry of Justice in 2020, the number of insider trading cases came out top (23%), followed by special breach of trust and embezzlement (21%), unconventional transactions (16%), stock price manipulation through abnormal trading (16%), document counterfeits in collection or issuance (14%), and false financial statements (10%). The following are the criminal cases in 2020 that drew much attention or had a huge impact on society.

### 1. False financial reports: Hua X Headquarters was suspected of being involved in false financial reports

As learnt, since 2001, in order to acquire a fund raising platform in mainland China, Hua X Headquarters had prepared to have its child (grandson) company set up in mainland China to apply to Shengzheng Stock Exchange (“SZSX”) listing by way of initial public offering (“IPO”). However, such a plan did not go well. Subsequently, in 2006 and 2007, a new plan was made in acquiring Min X Electrical Company (hereinafter referred to as “Min X Company”) and had Min X Company listed. A Task Force was formed within Hua X Headquarters to handle the matter of acquisition. Finally, in September and October, 2007, a consensus was reached on the proposal where 75% of stock equities of the four subsidiary companies under Hua X Headquarters would be used to purchase the shares issued according to the capital increase of Min X Company. Besides, in order for this acquisition case to be approved by the mainland China official, the considerations of that “the operational profit of Min X must be maintained” and that “the original shareholders’ rights and interests must be safeguarded” were upheld by Hua X Headquarters according to the requirements of the mainland China official. Also, it was necessary to sign on the written “Performance Guarantee Commitment” covering Items 1 to 17 in response to the requirements of the mainland China official. Moreover, Da X Company and Hua X Headquarters must sign the “Joint Guarantee Commitment” covering Items 18 and 19 with respect to the child companies involved. All the aforementioned negotiation process, meeting progress, acquisition structure, transaction price, and signing of commitments related to the acquisition were submitted to the Hua X Headquarters in Taiwan for verification, and all documents, including important matters of the acquisition for each commitment signed, were signed only after approved by the Lin X Shan couple. Note that Lin X Shan couple, Lin X Chang, Jian X Zhong, and Wang X Cheng were Chairman, Manager, or Accounting Supervisor under the Securities and Exchange Act, respectively, who were required to sign on the financial report without false or hidden statements. While signing their signatures or affixing their seals on the financial reports, subjectively they shall be aware of that Da X Company and Hua X Headquarters had signed the commitments covering 19 items; and shall understand the provisions of Article 13 of the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Preparation Regulations”) appropriate for the time the commitments were signed (in year 2009 ~ 2012). Article 13 states that “To meet the objective of presenting full and complete information about the financial position, financial performance, and cash flows





of an issuer, financial reports shall contain explanatory notes disclosing important promissory matters, contingent liabilities, and other matters that must be explained in order to avoid misunderstandings by users or help the fair presentation of the financial reports". (Article 13 in the 2009 ~ 2012 versions was moved to Article 15 in the 2013 ~ 2017 version.) Commitment Items 1, 3, 4, 5, 18, and 19 commit that the missing of information indeed may affect the users and the omission of the Commitment Information No. 1, 3, 4, 5, 18, and 19 commit that the omission of information may indeed affect the economic decisions made by users based on the financial statements. Such information is critical; hence these items are major commitments. However, the abovementioned people concerned that the above unfavorable information, if disclosed, would affect ordinary rational investors on the securities trading market in changing their investment decisions on Da X company and Hua X Headquarters; hence, successively during the preparation of the financial report, with a joint mens rea to violate their contractual commitments in disclosing significant information by even hiding such significant information, they let their personnel (who were not aware of the true situation) of Da X company and Hua X Headquarters, and purposely hid away from the major contractual commitments covering Items 1, 3, 4, 5, 18 and 19, and contained no explanatory notes to disclose the committed contents. Moreover, in order to prevent the certified accountant from finding out the hidden matters in the financial report, they did not include the commitment matters in the "Declaration of Contingencies and Commitments" forwarded to the certified accountant, nor did they first assess, during the normal procedure, whether the commitments should be disclosed, or stated in the "Declaration of Contingencies", or such information along with the complete commitments, evaluation reasons, and evaluation results, to the certified accountant for evaluation. As a result, numerous certified accountants over the year working for Da X company and Hua X Headquarters had no way to get insight into the complete commitment contents to review their assessment; furthermore, it was not possible to find out those significant contractual commitments that were supposed to disclose in the financial report of Hua X Headquarters while the certified accountant reviewed the financial reports prepared by Hua X Headquarters. The Lin X Shan couple, Lin X Chang, Jian X Zhong, and Wang X Cheng jointly concealed significant contractual commitments in each successive financial reports, and their conducts were sufficient enough to influence the investment decisions of ordinary rational investors in the securities exchange market. This case was investigated and referred by Taipei City Investigation Division, and prosecuted by the prosecutor of Taiwan Taipei District Prosecutors' Office.

## 2. False financial reports: Qing X Company was suspected of being involved in false financial reports

In Qing X Company, Wang X Bin was the Chairman, Wang X Wei was the President, and Wei X Lin was the Chief Financial Officer (CFO). In early 2016, Wang X Bin led the "assembly and sales of battery modules for electric vehicles (EVs)", in cooperation with China Pu X Information Group (hereinafter referred to as Pu X Company). Accordingly, Kun Shan Qing X Xin Company (hereinafter referred to as Qing X Company, a great-grand child company of KS X Company) and He X Company (a subsidiary of Pu X Company) entered into an "Annual





Procurement Framework Program” in Shanghai on February 24, 2016, where it was stipulated that during the period from May to December, 2016, He X Company shall procure EV battery modules from KS Company on a monthly basis, and the procurement quantity was estimated to be 286,800 sets of battery modules, amounting to RMB 662,508,000. The two parties agreed that the sales mode shall be that He X Company shall first place orders to KS Company for the procurement of EV battery modules, and KS Company shall then place orders to vendors designated by He X Company for the procurement of battery cores and plastic terminals. KS Company processed the abovementioned raw materials, assembled them into battery modules, then sold to He X Company. After signing the abovementioned “Annual Procurement Framework Program”, Qing X Company announced its revenue reports for May of 2016 on June 2, 2016. Since the report showed that the revenue in May, 2016 was doubled and grew substantially in comparison with the revenue in the same period of 2015, Taipei Exchange (“TPEX”) immediately contacted Qing X Company to inquire about the reason behind and requested Qing X to provide relevant supporting documents. In the end of 2016, KS Company had accumulatively sold RMB 84,144 sets of battery modules to He X Company, and recognized sales income of RMB 168,454,000 in the accounting books, so that the revenue income of Qing X Company in 2016 increased to RMB 815,020,000. However, due to the inferior quality of the battery cores supplied by the upstream vendors, KS Company was hence unable to receive subsidies on those assembled products sold to He X Company. Accordingly, He X Company returned a large amount of the battery modules, refused to pay for the goods, with the excuse of the inferior quality of the battery modules. Unable to clearly explain the situations to TPEX about Qing’s failing to collect the amount receivables from He X Company, Wang X Bin, Wang X Wei, and Wei X Ling even intended to hide the trading of the related parties. In April and May, 2017, a request was made to Qiu X Xun, the Chairman of Zhi X Company, requesting to make use of the accounting books of Zhi X Company. Wang X Bin first deposited his own funds to the bank account of Zhi X Company, the money then was subsequently remitted to the bank account of Qing X Company. The funds remitted in was to write off the receivables that shall be paid by He X Company to KS Company. Finally, the relevant bank memos and transfer slips were provided to TPEX, pretending that the receivables from He X Company has been collected. On May 26, 2017, TPEX asked Qing X Company, via E-mail, to explain the relations between Zhi X Company and He X Company. Wei X Ling even lied to TPEX with false information, indicating that He X Company was about to change its business owner soon, so it informed Qing X Company that the paying company was changed to Zhi X Company, and Qing X Company would not dig into the relations between Zhi X Company and He X Company, as long as the payments were collected by Qing X Company. This was the false information provided to the TPEX in response to the inquiry from TPEX regarding the doubt about changing the paying company from The Company to Zhi Company for the receivables to KS Company, as of May, 2017. Moreover, in the financial report of 20XX, it was not disclosed that Wang X Bin was a related party having trading funds in and out of the bank account KS Company. Hence, the source of the payments was intentionally hidden, and the fact that such funds were from a related party was also hidden. This case was investigated and referred by Taipei City Investigation Division, and prosecuted by the prosecutor of Taiwan Miaoli District Prosecutors’ Office.



### 3. Irregular transactions: Li X Ming and Li X Zhi, of Tong X Electronics Company, were suspected of being involved in breach of trust

As the CEO and President of Tong X Company, Li X Zhi was in charge of the operation and decision-making of the company. As the Executive Assistant of Tong X Company, Li X Ming was in charge of the product transformations and operational strategies, and assisted in cultivating professional talent for the company, also constituting an “employee” of Tong X Company as referred to in Article 171 of the Securities and Exchange Act. Li X Zhi was also the actual responsible person of Pei X Company. Zhang X Wu and Zhou X Xin were the registered and actual responsible persons of Yi X Company, respectively. Fully aware that as a manager and an employee of the company, they should have done their duty of care and duty of loyalty to seek the best interests of Tong X Company and all shareholders; however, in April, 2017, while employed by Tong X Company, Li X Zhi and Li X Ming even intended to profit from illegal gains for themselves and third parties. Tong X Company could have placed its orders directly to De X Company for processing of the punching of printed circuit boards. However, in a way of false trading, such orders were first placed to Yi X Company and Pei X Company which were actually controlled by Li X Zhi and Li X Ming, before being indirectly placed to De X Company. Through this irregular way of placing orders, the processing costs were increased, so that Li X Zhi and Li X Ming could benefit from the price differences in between during the process. His conduct severely impaired the interests of Tong X Company and all shareholders, their behaviors were listed as follows: (I) In 2017, Tong X Company intended to develop its printed circuit board business. Due to lack of relevant production technology, Li X Zhi learnt that Li X Ming had business cooperative relations with De X Company which was equipped with circuit-board mold processing and mold manufacturing technologies. However, without the resolutions from the Board of Directors, Li X Zhi arbitrarily authorized Li X Ming to lead the establishment of business relations with the supply chain of circuit-board mold processing. Meanwhile, Li X Ming set up Pei X Company under the name of his spouse Li X Ru, and placed orders from Tong X Company to Pei X Company. Meanwhile, in order to avoid the direct contact between Pei X Company and Tong X Company, since Li X Ming had relative relationships connecting to Pei X Company, and also to facilitate the profit distributions, Li X Zhi requested his girlfriend Zhou X Xin to set up Yi X Company in February, 2017, and hired his friend Zhang X Wu to act as the registered responsible person of Yi X Company as a fire wall to safeguard the arm's length rule. Zhang X Wu then accepted the orders from Tong X Company on behalf of Yi X, then referred the orders to Pei X Company, then Pei X Company placed the orders to De X Company for the actual processing work. (II) The processing cost charged by De X Company was between NTD 250 and NTD 280 per circuit board mold. However, the interim costs for Yi X Company and Pei X Company were decided by Li X Ming, where Yi X Company charged between NTD 385 and NTD 415 per circuit board mold, and Pei X Company charged between NTD 485 and NTD 510 per circuit board mold. According to the mutual negotiation between Li X Zhi and Li X Ming, the profits from the price mark-ups and differences should be divided as follows: 20% of all profits belonged to Yi X Company, whereas 80% of all profits belonged to Pei X Company. Later,





due to the cost-cut-down measures taken by Tong X Company, the profit sharing ratio was successively changed to 30% for Yi X Company vs. 70% for Pei X Company, and then 50% vs. 50%. According to statistics, during the period from April, 2017 to June, 2019, Pei X Company had totally paid De X Company NTD 14,665,309 accumulatively. Yi X Company had paid Pei X Company NTD 21,144,945 accumulatively. Tong X Company had paid Yi X Company NTD 26,989,688. In the abovementioned false trading manner to mark up the costs, Li X Zhi and Li X Ming had invited extra expenses for Tong X Company in the amount of NTD 12,324,379, causing significant losses to Tong X Company, while benefiting themselves NTD 5,844,743 and NTD 6,479,636, respectively through the “order flipping” trick. Such illegal gains were kept at the bank accounts of Yi X Company and Pei X Company, respectively, which were controlled by Li X Zhi and Li X Ming, respectively. This case was investigated and referred by Central Mobile Team, and prosecuted by the prosecutor of Taiwan Taichung District Prosecutors’ Office.

#### **4. Manipulation of stock prices: Chen X Ming, et. al. defaulted in settlement of the shares of Sheng X Company**

The Chen X Ming couple were well-known lenders and investors in the stock market. In July, 2017, after acquiring through negotiation the rights to operate You X Company, the Chen X Ming couple started to proactively look for ideas on how they could manipulate stocks. Based on the Chen X Ming couple’s evaluation, Sheng X Company was an ideal candidate suitable for stock price manipulation due to the stable price of the company’s stocks, the low transaction volumes of the company’s stocks, and the friendliness of the company in business cooperation. Accordingly, pretending to arrange for You X Company to invest in Sheng X Company, the Chen X Ming couple were inspired to reap high profits by manipulating the stock price of Sheng X Company through pseudo securities accounts. Since the Chen X Ming couple bought in the stocks of Sheng X Company with funds from private lenders or from “5-day loans” lent by securities brokers, through pseudo securities accounts, they needed to sell the same stocks one day or two days after the day of purchase of the stocks as per the loan agreement, so as to pay back the loan amount and settle the profits and losses. In order to hold onto the stocks of Sheng X Company for a long term, the Chen X Ming couple then further used pseudo securities accounts to take over the stocks due for sale, re-borrowing loans from private lenders or securities brokers. Through the relative price difference between the “handing-over” and “taking-over” accounts under the “buy high, sell low” tactics, on the one hand, the couple were able to hold onto the stocks for a “long term” with the loans arranged, reducing the percentage of self-funded portion of the stocks; while on the other hand, they intended to create a lively transaction phenomenon to attract investors to enter the market, so as to facilitate subsequent manipulation of the stock prices. However, in November, 2017, since the appropriated bad debt expenses announced by Sheng X Company accounted for an overly high percentage, the stock prices of Sheng X Company dramatically dropped all the way from NTD 60+ per share. Moreover, in January, 2018 since You X Company overly held the stock shares of Sheng X Company and other companies, the competent authority warned You X Company of its concerns of “back door clauses” about You X Company’s transforming from the electronics business to investment



business. Besides, on March 31, 2018, Sheng X company announced that the amount of annually accumulated losses in 2017 reached one-half of the paid-in capital. On April 20, 2018, You X company was suspected of being involved in false transactions and searched by the prosecution and investigation agencies. On May 15, 2018, due to the abovementioned negative news, the certified accountant of the company even issued an audit financial report with reserved comments with regards to the company's financial reports for Quarter 1 of 2018. Accordingly, the competent authority made a disposition on the margin-purchase and short-sale transactions, disabling the Chen X Ming couple from continuing to trade and hold onto their stock shares of Sheng X Company in the way of "5-day loans". In order to maintain the stock price of Sheng X Company and the interests of the lenders or specific securities brokers, the Chen X Ming couple even carried a mens rea to default the stock share transactions despite the circumstance of lacking funds to proceed with the stock share transactions of Sheng X Company and such transaction may not be settled and paid for. Accordingly, the Chen X Ming couple sold their stock shares of Sheng X Company under the names of pseudo securities accounts, in a huge volume, at a relatively low price on May 17, 2018. Meanwhile, the Chen X Ming couple made use of the securities accounts set up at Yuanta Securities and President Securities Corporation under the names of his friend Zhong X Yue, Xu X Hui (Zhong X Yue's ex-wife), Zhong X Da and Zhong X Cheng (first and second sons of Zhong X Yue and Xu X Hui, respectively) to purchase the stock shares of Sheng X Company, in a huge volume, at a relatively high price. A total of 1,370 shares of the stocks were associated with these transactions, making the personnel at the securities companies falsely believe that there was a genuine intention to settle the transactions, thus falsely facilitating such transactions. Subsequently, such transactions were naturally defaulted and unsettled since no funds were available to pay for such transactions. To this end, the securities companies had to settle such transactions on their own, declaring to Taipei Exchange ("TPEX") the huge default settlement fees NTD 84,580,500 and NTD 46,980,050, respectively (this incurring a price difference of NTD 43,642,817). Furthermore, after such default settlements on such transactions, the Chen X Ming couple even continued to cash out, i.e. sell, the stock shares of Sheng X Company, in a huge volume, at a relatively low price, under the names of other pseudo securities accounts, causing the stock price of Sheng X Company to drop as of May 21, 2018, which was sufficient enough to jeopardize the order of the stock market. This case was investigated and referred by Taipei City Investigation Division, and prosecuted by the prosecutor of Taiwan Taipei District Prosecutors' Office.

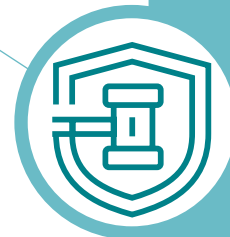
## 5. Insider trading: Wu X Quan, Chairman of Fu X Oil Company, was suspected of being involved in insider trading

As learnt, Wu X Quan, the actual responsible person of Xing X Company, and Qin X Ru, the financial head of Xing X Company, both were aware of the poor operation of the company after the completion of the company's financial reports on July 18, 2019. In the first half year of 2019, the company lost in total NTD 53,000,000, translated into after-tax-loss of NTD 0.56 per share. Compared to the earnings per share (EPS) NTD 0.30 per share (i.e. before-tax net





profit of NTD 27,704,000) during the same period in the previous year 2018, the performance in 2019 had turned from profit to loss. As verified, such information shall be considered as a piece of information significantly affecting the stock prices (hereinafter referred to as “the subject significant information”), since it falls into the provisions of Subparagraph 11 of Article 2 of the Regulations Governing the Scope of Material Information and the Means of its Public Disclosure Under Article 157-1, Paragraphs 5 and 6 of the Securities and Exchange Act, which stipulates that disclosure is required when “the company’s operating income or income before tax shows a significant change from the same period of the previous year, or shows a significant change compared with the previous period and the change is not caused by seasonal factors”. In order to avoid the possible losses from the stock prices once the subject significant information was disclosed, Wu X Quan, et. al., intended to quickly sell the stock shares of Xing X Company so as to raise funds to pay back external debts, etc. However, the stocks of Xing X Company had not been circulated in the open market for a long time, therefore it did not seem possible to dispose of a huge amount of the stocks Xing X Company held by the family of Wu X Quan through the open market. With a mens rea to benefit from insider trading, Wu X Quan and Qin X Ru negotiated with Wu X Hong to jointly conduct insider trading. In June, 2019, hired as the Chairman of Fu X Oil Company, Wu X Hong arbitrarily used the funds of Fu X Oil Company without authorization, to purchase the stocks of Xing X Company held by Wu X Quan and Qin X Ru who anxiously wanted to make a quick sale. Under the joint conspiracy of the three people, Wu X Hong opened a securities account, under the name of Fu X Oil Company, at Hong X Securities Company on August 7, 2019. Subsequently, under the instructions of Wu X Quan, both Qin X Ru and Wu X Hong processed the transaction. First, Qin X Ru entrusted a securities salesperson by phone to sell the stocks held by Wu family at a price of NTD 28.45 per share, during a period prohibiting the insider trading (i.e. before 7:39am on August 15, 2019), or to be specific at 14:08 on August 12, 2019 and at 13:47 on August 14, 2019, respectively. The instructions to the salesperson was to sell the stocks in a way of multiple transactions of huge amount of stocks per transaction, after business hours, the stocks to be sold included 1,523 shares (i.e. 683,000 and 840,000 shares, respectively) of Xing X Company in a securities account under the name of Wu X Yuan (who was not aware of the true situation) and held by Wu X Quan. Fully aware that buying the stocks of Xing X Company not only made no substantial benefits to, but also constituted a worthless investment by, Fu X Oil Company, Wu X Hong even violated the provisions of Articles 5 of the “Procedures for Acquiring or Disposing of Assets- Fu X Oil Company”, answering calls from Wu X Quan through phone or communications software LINE, entertaining the instructions from Wu X Quan regarding the price and quantity of the intended stock transactions on August 12 and 14, 2019, without the prior approval by the President of Fu X Oil Company or abiding by the investment procedure implemented by the Finance Department of Fu X Oil Company. At 14:15 on August 12, 2019 and 13:50 on August 14, 2019, on behalf of the abovementioned securities account under the name of Fu X Oil Company, Wu X Hong arbitrarily instructed the securities salesperson by phone to buy the 1,523 shares of stocks of Xing X Company, sold by Qin X Ru, in the abovementioned securities account under the name of Wu X Yuan, in a way of multiple transactions of huge amount of stocks per transaction, after business hours. Such transaction involved the amount of NTD 43,329,350, causing Fu X Oil Company significant financial losses. This case was investigated



and referred by Maritime Affairs Field Division (“MAFS”), and prosecuted by the prosecutor of Taiwan Taichung District Prosecutors’ Office.

## 6. Insider trading: The merger and acquisition of the stocks of Mei X company by Qi X Company was suspected of being involved in insider trading

As learnt, in 2013, Chem X Ming, the Chairman of Qi X Company, was contemplating a merger and acquisition (M&A) between Qi X Company and Mei X Company. A contact was set up for the negotiation of the matter, through Huang X Hua, the ex-Chairman of Fu X Company, and Cai X Zhen, the Chairman of Mei X Company; however, such meeting failed to reach consent on the terms of the M&A. In 2017, seeing the rising of the electronic industry in mainland China, in order to maintain the company’s competitiveness edge, Chen X Ming again tried to inquire Cai X Zhen of the possibility of such M&A through Huang X Hua. A meeting was held in the office of Huang X Hua, although the meeting was brief, the two parties negotiated and confirmed the mutual willingness to such M&A in the way of stock share exchanges. On December 1, 2017, Cai X Zhen and Chem X Ming discussed the details of the M&A, accompanied by Liu X Xing, the Executive Assistant of Lian X Company. It was evident that Cai X Zhen had a clear will that Mei X Company would be sold to Qi X Company through share exchanges, and learning the “significant information” of the impact in the future to Mei X Company and Qi X Company, who should comply to Subparagraph 1 of Paragraph 1 of Article 157-1 of the Securities and Exchange Act provided that those persons acting as “a director, supervisor, and/or managerial officer of the company, and/or a natural person designated to exercise powers as representative pursuant to Article 27, paragraph 1 of the Company Act” are those restricted for insider trading as stipulated by the Securities and Exchange Act. Fully aware of such provisions, Huang X Hua even intended to benefit from the illegal insider trading. As the responsible person of Song X Company, Cai X Zhen, placed stock transaction orders online, through the securities account of Cai X Yi (i.e. Cai X Zhen’s nephew) during the period from December 7 to 13, 2017, where Cai X Zhen had the stock matter entrusted and had the stocks of Mei X Company bought in at the price between NTD 57.70 and NTD 59.40. As a result, a total of 165,000 shares of stocks were bought in. Subsequently, once the M&A information was disclosed to the public, Cai X Zhen then sold the stocks starting in batches on January 8, 2018, pocketing a profit of NTD 2,001,000 in total. Besides, Cai X Zhen also placed stock transaction orders through the securities account of Cai X Yi on December 7 and 8, 2017, where Cai X Zhen had the stock matter entrusted and had the stocks of Qi X Company bought in at the price between NTD 87.80 and NTD 89.70. As a result, a total of 55,000 shares (i.e. 25,000 + 30,000, respectively) of Qi X Company were bought in. Subsequently, before the M&A information was disclosed to the public, Cai X Zhen then sold all of the 55,000 stock shares of Qi X Company during the period of December 14 and 20, 2017, at the price between NTD 93.40 and 95.20, pocketing a profit of NTD 291,800. Altogether, Cai X Zhen profited a total of NTD 2,292,800 (before administrative fees and trading taxes) from buying and selling of the stocks of Mei X Company and Qi X Company. This case was investigated and referred by Taipei City





Investigation Division, and prosecuted by the prosecutor of Taiwan Taipei District Prosecutors' Office.

### III. Investigations of Civil Liability

Among the civil claims compiled by the SFIPC in 2020, the number of false financial statements or prospectus cases came out top, followed by insider trading and stock price manipulation. The related civil cases of great significance are described below.

#### 1. Stock price manipulation, insider trading, and false financial statements of Qing X Company

In 2016, Qing X Company signed a letter of intent with a large Chinese affiliate. Such a cooperation case would contribute positively to Qing X Company's revenue. Before revenue started to roll in, the defendants took the opportunity to raise and issue convertible bonds of Qing X Company and control the counterparts in order to seek personal gains. During the period where the conversion price was set, the defendants manipulated the company's stock price downward to drive down the conversion price, so that the convertible bonds could be subsequently converted into more stocks. In addition, Qing X Company's revenue increased significantly in May due to such cooperation. The defendants then bought the company's stocks through insider trading before revenue was announced, raking in a whopping profit of about NT\$40 million. Due to such cooperation, Qing X Company sold a large number of products, but the client returned a large number of them on the grounds of poor quality and refused to pay for the products, resulting in a large amount of outstanding accounts receivable. The defendants were unable to explain the outstanding accounts receivable to the competent authorities, so they hid the related party transactions and created false vouchers to offset the accounts receivable. The false financial statements of Qing X Company for 2017 were reported.

In October 2019, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In April 2020, according to Article 28 of the "Securities Investor and Futures Trader Protection Act," the SFIPC instituted, with Taiwan Miaoli District Court, a class action litigation against the criminal offenders for damages totaling NT\$81,255 thousand.

The aforesaid behavior of the person in charge of Qing X Company already constituted a violation of laws and regulations. In December 2019, according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC appealed to the Taiwan Taichung District Court to discharge the person from the directorship of Qing X Company.





## 2. False financial statements of Dong X Company:

From 2014 to October 2019, the defendants were suspected of conducting false (circular) transactions, causing the financial statements of Dong X Company for the aforesaid period to state inflated revenue and earnings; in addition, the defendants was suspected of misappropriating the proceeds from the sale of leftover bits and pieces of Dong X Company in 2011. In July 2020, Taiwan New Taipei District Prosecutors Office brought a prosecution against the criminal offenders who were suspected of being involved in false financial statements.

In September 2020, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In November 2020, according to Article 28 of the "Securities Investor and Futures Trader Protection Act," the SFIPC instituted, with New Taipei District Court, a class action litigation against the criminal offenders, directors and supervisors, CPAs and their accounting firm for damages totaling NT\$569,202 thousand.

The aforesaid behavior of the person in charge of Dong X Company already constituted a violation of laws and regulations. In November 2020, according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC appealed to Taiwan New Taipei District Court to discharge the person from the directorship of Dong X Company. In November 2020, Dong X Company brought a suit to Taiwan Taipei District Court against the criminal offenders for compensation. The SFIPC participated in the suit in December 2020 in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act."

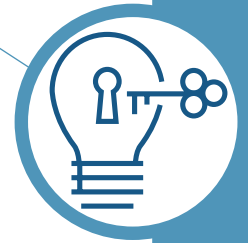


# Chapter III Challenges and Improvements in Law Enforcement of Securities and Futures Markets in Taiwan

- I. Financial Technology Challenges
- II. Improvement in the Reporting (Whistle-blowing) Mechanism



# Chapter 3



Effective law enforcement can ensure that participants in the securities and futures markets comply with the "Securities and Exchange Act" and related laws and regulations. It is a critical part in keeping market order and protecting investors' rights. How to improve the effect of supervision and law enforcement through financial supervision and regulatory technology is a challenge shared by supervisory agencies across the globe.

A reporting (whistle-blowing) system is an early warning system that helps supervisory agencies detect violations and fraud as soon as possible and respond to the situation and preserve the evidence immediately. It is very helpful for supervisory agencies to clarify the cases or take related actions; however, various internal and external stresses and threats may deter whistle-blowers from reporting the cases. Therefore, how to establish an appropriate reporting (whistle-blowing) mechanism, designed with legal protection (including keeping a whistle-blower's identity confidential and protecting his/her job and personal safety, etc.), for whistle-blowers to come forward and report illegal activities without fear and for laws to be enforced effectively is also a challenge to be dealt with by the supervisory agencies.

The Fintech challenges in law enforcement of the securities and futures markets in Taiwan and improvements made in the reporting (whistle-blowing) mechanism are respectively described below.

## I. Financial Technology Challenges in Law Enforcement:

Overall, financial technology ("Fintech") development can improve the efficiency of financial services, fuel competition and cooperation in the financial industry, and enhance financial inclusion, allowing people to enjoy the convenience it brings. While promoting Fintech, however, there might be potential risks and issues brought to the financial system and its customers along with its development such as inherent vulnerability of Fintech products to cyber attacks and online fraud, incomplete information obtained by customers, and most technology companies not under the jurisdiction of financial regulators. Key issues of concern to the regulators include consumer and investor protection, integration and consistency of supervision and regulatory framework, avoidance of regulatory arbitrage, the adequacy of the existing financial safety net, and its effects on financial stability. It is also incumbent on the regulators to weigh related measures for Fintech products in order to protect people's access to financial services.

Thus, the regulators should be mindful and take factors such as economic benefits, inclusiveness, and effects of law enforcement into consideration when formulating relevant policies. They may loosen and adjust laws and regulations whenever appropriate to reduce the cost of compliance. In response to the fractal patterns in the evolution of financial services and the financial environment, new technologies or techniques and big data analytics may be used to increase regulatory efficiency or reduce repeated tasks and also ensure the market order and investors' rights.





## 1. Application of RegTech by the SFB:

At the SFB, regulatory technology ("RegTech") is used to supervise peripheral organizations (including the TWSE, TPEX, TAIFEX, and TDCC) or trade associations to build data systems and databases for daily supervision and production of related reports. The SFB then bases its supervision and decision-making on such reports.

- (1) **Supervision of the issuance market:** The TWSE and TPEX analyze data on a quarterly basis to synthesize a number of risk indicators and subject a certain percentage of TWSE/TPEX listed companies to a substantial review of financial statements to identify any risks. The TPEX also has the "Risk Management System" in place to analyze the risk levels of TPEX listed companies and select the subject of review accordingly.
- (2) **Supervision of trading activities:** The TWSE and TPEX use related programs to supervise cases such as advance collection of buy-side payment or sell-side securities, numbers of order cancellations before opening and closing, etc. on a regular basis. TAIFEX lays down a criterion for reviewing futures prices and volumes formulated by historical simulation to analyze and monitor the changes and concentration of the opening positions of futures traders, and also generates early warning reports and automatically sends notifications to futures commission merchants to effectively regulate the futures positions.
- (3) **Supervision of intermediaries:** The TWSE or TPEX introduces the trading database and the securities firm filing portal to calculate each securities firm's overall risk scores based on risk indicators for classification, so as to detect the overall operational risk of securities firms early. TAIFEX also has an early warning system set up based on the financial and operational data plus related statistics uploaded by futures commission merchants every month to manage the overall operational risk of futures commission merchants.

## 2. Improvements:

- (1) **Regulatory adjustment:** In response to the diversified development of the securities and futures markets and the international trends in digital finance, the SFB amended the qualifications for persons in charge of securities firms and futures commission merchants and specific associated persons on October 26, 2020, stipulating that people specializing in information, technology, law, e-commerce, or digital economy and having certain work experience and achievements are qualified as persons in charge of securities firms and futures commission merchants or specific associated persons. This amendment could help securities firms and futures commission merchants recruit talent in Fintech and other domains and thus fuel business transformation or improve competitiveness.
- (2) **Advancement of RegTech:** With the popularization of digital financial services, financial supervision requires a large amount of real-time data to keep the provision of financial services stable and low-risk. Therefore, introducing an effective data collection and analysis mechanism that can automate, digitize, and intelligentize financial supervision has become



an imperative for financial supervisory agencies to effect behavioral management and formulation of policies or measures for supervision.

In addition to urging peripheral organizations to create a big data platform based on the existing databases with enhanced visualization, the SFB expanded the collection of information further from structured data such as regulatory reporting information to unstructured data such as online text or even audio; in addition, robotic process automation ("RPA") was also introduced to reduce repetitive tasks and make subject-based searches, which could help the SFB identify the key points of supervision quickly and take related actions more effectively. Other applications and future plans of RegTech are described as follows:

#### A. Securities firms

- a. Current applications of RegTech - real-time monitoring mechanisms for financial products and risks of securities firms:
  - 1) To increase the risk tolerance of securities firms in the issuance of financial products (e.g., warrants) and other services in the event of drastic changes in the financial market, the FSC has supervised the TPEX to amend the weights of indicators under the "Guidelines for the Risk Management Evaluation of Securities Firms" for improvements to be made in the risk management department of securities firms, including the organizational structure, risk limit controls, profit and loss limit controls, and stress tests. The amendment, with the objective of controlling risk limit plus profit and loss limit of securities firms through an IT system, took effect on February 9, 2021.
  - 2) To strengthen control over the trading volume of index warrants and warning mechanisms for warrant issuers, the FSC has requested the TWSE to propose the following controls for index warrants and futures warrants and issue warnings to warrant issuers in a timely manner. Based on the total amount (market price) of index warrants and futures warrants issued, the IT system determines whether it excessive a certain percentage (30%) of the issuer's quota (net authorized capital multiplied by the prescribed ratio) every day. Based on a certain percentage (10%) of the "number of warrants issued" in the "issuable quota," the IT system determines whether the number of warrants issued by each warrant issuer is excess every day. The said controls were carried into effect on January 4, 2021.
- b. Future plans of RegTech: To strengthen the supervision and information control of offshore structured products, the SFB has requested the TDCC to set up a data dashboard that visually displays reports on offshore structured products. To be launched in the third quarter of 2021, the dashboard is expected to free financial supervisory agencies from analysis for more effective supervision.

#### B. Futures commission merchants

- a. To strengthen the supervision and information control of the futures market, the SFB has requested TAIFEX to set up a futures market supervision and information platform using RegTech. The purpose of the said platform is to provide real-time





- information on the domestic and foreign futures markets.
- b. In the future, TAIFEX expects to establish mechanisms for sharing information on the domestic and foreign futures markets between competent authorities and futures commission merchants.

## II. Improvement in the Reporting (Whistle-blowing) Mechanism:

### 1. Current challenges:

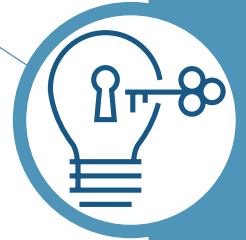
Given more complex business operations today, it is difficult for outsiders to access internal information of businesses. A sound whistle-blowing system encourages people to come forward and report any violations. This can facilitate the investigations of administrative and judicial authorities and help create an ethical corporate culture and sound corporate governance in the private sector.

Although laws and regulations such as the "Anti-Corruption Act," "Narcotics Hazard Prevention Act," "Organized Crime Prevention Act," and "Fair Trade Act" have been enacted to protect whistle-blowers, no complete measures for protection have ever been set up, making whistle-blowing and law enforcement ineffective. To perfect the measures for protection of whistle-blowers, the Ministry of Justice reported the "Draft of Whistle-Blower Protection Act" to the Executive Yuan in February and September 2020 (review is currently ongoing) as a declaration of the government's determination to encourage whistle-blowing. After the said act is passed, whistle-blowers will enjoy full protection in terms of their identity, personal safety, employment, and exemption from legal liability.

### 2. Current measures for protection of whistle-blowers:

#### (1) Incorporating the measures for protection of whistle-blowers into the internal control and audit regulations for financial service providers:

- A. The FSC amended the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" on May 30, 2018, requesting the service enterprises to establish an internal reporting (whistle-blowing) system, designate an independent department to handle and investigate the reported cases, and have relevant protection (e.g., keeping the whistle-blower's identity confidential, preventing retaliation in terms of personnel, pay, etc. and conflicts of interest) in place, along with periodic advocacy and training on the reporting system.
- B. At present, securities firms and futures commission merchants have respective whistle-blowing systems established according to law and handle reported cases according to the internal reporting procedures. Disciplinary actions are taken against any substantiated cases according to the internal regulations, and material contingencies are



reported to the FSC. Some securities firms and futures commission merchants have also established whistle-blowing rewards, performance reward systems or other measures for improvement. For example, group-wide independent hotlines are in place to handle reported cases across the globe; threats, intimidation, or other vindictive acts against whistle-blowers are reported to judicial or police agencies for handling according to law; the said agencies and persons handling, investigating, or cooperating to investigate the reported cases are also protected against any retaliation.

- C. If whistle-blowing systems are not established in whole or in part, are not implemented, or are not in compliance with the statutory requirements, penalties in proportion to the violations of the aforesaid regulations will be imposed on securities firms and futures commission merchants in order to protect whistle-blowers.

**(2) Promoting the establishment of whistle-blowing systems step by step, enhancing the disclosure of information, and introducing the corporate governance evaluation to TWSE/TPEX listed companies:**

- A. The FSC encourages TWSE/TPEX listed companies to establish respective whistle-blowing systems and measures for protection of whistle-blowers to enhance internal supervision. Since 2014, the FSC has guided the TWSE and TPEX to amend the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" in accordance with international trends, requesting TWSE/TPEX listed companies to establish and implement concrete whistle-blowing systems; TWSE/TPEX listed companies are also advised that they should set up anonymous whistle-blowing channels and measures for protection of whistle-blowers; departments in charge of the reported cases should be independent, encrypt the files provided by whistle-blowers with limited access as appropriate, and subject the files to the internal operating procedures and internal control systems. According to ISO 37001 Anti-bribery Management Systems, the TWSE and TPEX amended the aforesaid principles on May 23, 2019, requesting TWSE/TPEX listed companies to establish concrete whistle-blowing systems that should include measures to be taken after the investigation of reported cases, depending on the severity of the cases; whenever necessary, the cases should be reported to competent authorities or transferred to judicial agencies for investigation; anonymous reporting is allowed, and related internal systems should be approved by the board of directors.
- B. On January 19, 2015, the FSC promulgated the amendment to the "Regulations Governing Information to be Published in Annual Reports of Public Companies," requesting that TWSE/TPEX listed companies should disclose the operation of their whistle-blowing systems in annual reports. The purpose of the amendment is to draw the attention of TWSE/TPEX listed companies to the whistle-blowing system through disclosure. Since 2014, the TWSE and TPEX have conducted corporate governance evaluations, and have included in the evaluation whether the company has established and disclosed on their website a system for insiders and outsiders to report illegal and unethical conduct, in order to encourage TWSE/TPEX listed companies to establish a system for reporting fraud.

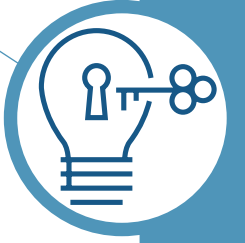




**(3) Adding whistle-blowing rewards and organizing seminars to promote whistle-blowing:**

- A. To encourage people to come forward and report violations, the FSC has formulated the "Directions for Encouraging the Public to Report Illegal Financial Activities by the Financial Supervisory Commission," stipulating that a whistle-blower's identity should remain confidential and that the authority in charge may request police authorities to take necessary actions in accordance with laws to protect the safety of the whistle-blower. On January 11, 2021, the aforesaid directions were amended to increase the whistle-blowing reward to a maximum of NT\$4 million.
- B. On August 21, 2020, the FSC teamed up with the Ministry of Justice, Taiwan Financial Services Roundtable, and six financial services associations to hold the seminar on "2020 Ethical Corporate Management and Compliance of Financial Services Providers - Building Whistle-blowing Soundness in the Financial Ecosystem." More than 300 compliance, corporate governance, or audit department heads from 210 banks, insurance companies, securities firms and other financial institutions attended to have face-to-face communication with the government agencies with respect to the protection of whistle-blowers with the goal of promoting the sound development of the financial services industry as a whole.





# Appendix

- I. Amendment to the "Securities Investor and Futures Trader Protection Act" in 2020
- II. Information on Law Enforcement Results of the TWSE, TPEX, and TAIFEX
- III. Statistics on Administrative Sanctions Imposed by the SFB 2018~2020



# Appendix





## I Amendment to the "Securities Investor and Futures Trader Protection Act" in 2020

To create a sound legal system for derivative suits and discharge suits filed by the SFIPC and strengthen ethical corporate governance, the FSC proposed amending the "Securities Investor and Futures Trader Protection Act." The amendment was passed by the Legislative Yuan on May 22, 2020, promulgated by the President on June 10, 2020, and carried into effect by the Executive Yuan on August 1, 2020.

The objectives of the amendment to the "Securities Investor and Futures Trader Protection Act" include clarifying the causes of actions, expanding the scope of application, enabling discharge across term of office, and introducing the disqualification system. The focus and effect of the amendment are described as follows:

### (1) Focus of the amendment:

- A. The SFIPC may also file derivative suits and discharge suits against the directors or supervisors of TPEX Emerging Stock Companies."
- B. The causes for which the SFIPC may file derivative suits and discharge suits also include insider trading, stock price manipulation, and other acts that disrupt the market.
- C. In addition to filing derivative suits and discharge suits against the directors or supervisors on behalf of the companies, the SFIPC may request the companies to institute actions against the former directors or supervisors.
- D. The causes for dismissal of directors or supervisors shall not be limited to causes occurring during the term of office coinciding with the time the suits are filed. When directors or supervisors are dismissed by a court judgment, they shall not, within three years from the date that the judgment becomes final, serve as directors or supervisors of any TWSE/TPEX listed companies or TPEX Emerging Stock Companies.

### (2) Effect of the amendment:

- A. To protect every investor consistently and maintain shareholders' rights, the SFIPC may also file derivative suits and discharge suits against the directors or supervisors of TPEX Emerging Stock Companies.
- B. To strengthen ethical corporate governance and protect the rights and interests of investors, insider trading, stock price manipulation, fraud, and other acts that disrupt the market are included in the causes for which the SFIPC may file derivative suits and discharge suits.
- C. The amendment specifies that the SFIPC may request the supervisors of the company to institute action against the directors on behalf of the company, or request the board of directors of the company to institute action against the supervisor on behalf of the company, or request the company to institute action against a former director or supervisor, in order to deter directors or supervisors from wrongdoing, thus improving corporate governance.
- D. The causes for dismissal of directors or supervisors shall not be limited to causes occurring





during the term of office coinciding with the time the suits are filed. When directors or supervisors are dismissed by a court judgment, they shall not, within three years from the date that the judgment becomes final, serve as directors or supervisors of any TWSE/TPEX listed companies or TPEX Emerging Stock companies or as designated natural persons representing such directors or supervisors in the exercise of duties under Paragraph 1, Article 27 of the Company Act. This is to prevent incompetents directors or supervisors from serving as directors or supervisors of TWSE/TPEX listed companies or TPEX Emerging Stock Companies and thus compromises the corporate governance and business operations of the companies.

## II Information on Law Enforcement Results of the TWSE, TPEX, and TAIFEX

### 1 Sanctions imposed on TWSE/TPEX listed companies and TPEX Emerging Stock Companies

If TWSE/TPEX listed companies and TPEX Emerging Stock Companies are found to have violated relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting improvement within the given time limit, include such companies in the periodic disclosure of financial ratios and the Key Financials Section, impose penalties, adopt altered trading, or suspend securities trading to improve the soundness of the capital market and to protect the rights and interests of shareholders. Sanctions imposed by the TWSE and TPEX in 2020 are described as follows:



**(1) Issuing a letter requesting improvement in deficiencies in the audits of financial statements and internal control systems of TWSE/TPEX listed companies and TPEX Emerging Stock Companies:**

	2020			2019		
Deficiencies in the audits of financial statements	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)
	67	30	8 (Note)	74	24	11
Deficiencies in the audits of internal control systems	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)
	72	85	20	54	78	19

Note: The audits for the TPEX Emerging Stock Companies' financial statements for 2020 are pending the approval of the competent authority and the Accounting Research and Development Foundation.



**Brief analysis:**

For the issuance of letters requesting improvement in the deficiencies found in financial statements and internal control system audits of listed companies, the TWSE reported 128 and 139 cases on listed companies, and the TPEX reported 102 and 115 cases on listed companies and 30 and 28 (Note) cases on TPEX Emerging Stock companies in 2019 and 2020, respectively.

**(2) Including TWSE/TPEX listed companies and TPEX Emerging Stock Companies in the periodic disclosure of financial ratios and the Key Financials Section:**

	As of 2020			As of 2019		
Number of companies included in the Key Financials Section	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)
	114	162	74	96	142	65
Number of companies included in the periodic disclosure of financial ratios	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)	TWSE listed	TPEX listed	TPEX registered (Emerging Stock Board)
	105	105	54	80	106	51





### Brief analysis:

Information on the high ratio of loans to others or endorsements/guarantees to net value, poor financial ratios (debt ratio, current ratio, and net cash flow from operating activities) presented in quarterly financial statements or losses for three consecutive years, the insufficient share ownership ratio of directors or supervisors for three consecutive months, or the high ratio of pledged shares of major shareholders announced and registered by TWSE/TPEX listed companies and TPEX Emerging Stock Companies on a monthly basis will be included in the section titled "Key Financial Section" and marked in red. The TWSE and TPEX may also issue a letter requesting such companies to report relevant financial information on a monthly basis to draw investors' attention.

As of 2019 and 2020, the number of TWSE listed companies included in the Key Financials Section was 96 and 114, respectively; the number of TPEX listed companies included was 142 and 162; and the number of TPEX Emerging Stock Companies included was 65 and 74. As of 2019 and 2020, the number of TWSE listed companies included in the periodic disclosure of financial ratios was 80 and 105, respectively; the number of TPEX listed companies included was 106 and 105; and the number of TPEX Emerging Stock Companies included was 51 and 54.



### Cases:

- a. The former chairman (major shareholder) of Xing X Company was in custody on suspicion of violating relevant laws and regulations such as the "Securities and Exchange Act." The CPA issued a qualified audit report on the review of Xing X Company's internal controls, indicating a potential impact on shareholder equity. Therefore, Xing X Company was included in the Key Financials Section and required to continue disclosing financial information on a regular basis.
- b. Long X Company made a loss in the last three consecutive years with a relatively low ratio of highly liquid assets. Given the operating losses and the turnover capacity yet to be observed, Long X Company was included in the Key Financials Section (Indicator 9) and required to continue disclosing financial information on a regular basis.
- c. As Sheng X Company continuously operated at a loss with poor financial ratios, the CPA issued an audit or review report stating the uncertainty of its ability to continue as a going concern; in addition, shares held by all directors were insufficient and with a high percentage of share pledging in 2020. Therefore, Sheng X Company was still included in the Key Financials Section (Indicator 9) and required to continue disclosing financial information on a regular basis.



**(3) Fining TWSE/TPEX listed companies and TPEX Emerging Stock Companies for violating the regulations governing information reporting and material information:**

	2020			2019		
	TWSE listed	TPEX listed	TPEX Emerging Stock Companies	TWSE listed	TPEX listed	TPEX Emerging Stock Companies
Number of violations of the regulations governing information reporting and material information	69	54	24	66	32	14
Number of companies paying penalties for violating the regulations governing material information, press conferences, and information reporting	48	42	22	62	30	14
Amount of penalties for violating the regulations governing material information, press conferences, and information reporting (in NT\$10,000)	257	281	53	256	205	38



**Brief analysis:**

In 2019 and 2020, penalties for violating the regulations governing information reporting and material information were respectively reported as follows: 62 and 48 cases on TWSE listed companies; 30 and 42 cases on TPEX listed companies; and 14 and 22 cases on TPEX Emerging Stock Companies; the amount paid by TWSE listed companies totaled NT\$2.56 million and NT\$2.57 million and averaged NT\$41,300 and NT\$53,500 per case; the amount paid by TPEX listed companies totaled NT\$2.05 million and NT\$2.81 million and averaged NT\$68,300 and NT\$66,900 per case; and the amount paid by TPEX Emerging Stock Companies totaled NT\$0.38 million and NT\$0.53 million and averaged NT\$27,100 and NT\$24,100 per case. As the financial and business operations abnormalities of some listed companies repeatedly violated the relevant laws and regulations in 2020, the number of violations and the number of non-conforming companies increased from the previous year.



**Cases:**

- a. On May 25, 2020, You X Technology Co., Ltd. announced that the board of directors resolved to change the date of the annual shareholders' meeting to June 29, 2020, 21 days after the original meeting date. After the change, the procedure for convening the meeting was no longer in compliance with the relevant provisions of the "Company Act," and the company did not fully explain how to protect the shareholders' right to attend the meeting, which violated Subparagraph 4 Paragraph 1, Article 15 of the "TWSE Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities" (The information published does not conform with the principles for corporate governance in Article 2 of the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies", and it affects shareholder equity). Accordingly, the TWSE imposed a penalty of NT\$300,000.
- b. On December 10, 2020, Tao X International Holding Co., Ltd. announced the purchase of financial products from Huafu Securities Co., Ltd. (Linked Financial Product - Xingyin Short Debt Bond Securities Investment Fund C), which diverged from the material information previously disclosed and the notes to the consolidated financial statements from the third quarter of 2019 to the third quarter of 2020. This caused a violation of Subparagraph 3 Paragraph 1, Article 15 of the "TWSE Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities" (The company arbitrarily publishes unconfirmed news or discloses information that diverges from facts). Accordingly, the TWSE imposed a penalty of NT\$300,000.
- c. Subsidiaries of Heng X Company loaned funds to other companies and signed house purchase and sale contracts with other companies and made advance payments without authorization. Heng X Company repeatedly failed to report loans to others, disposal of real estate, and other material information on behalf of its subsidiaries within the prescribed time limit and made no improvement whatever after receiving letters of warning. Accordingly, the TPEX imposed a penalty of NT\$350,000.
- d. Bo X Company signed licensing contracts with customers and failed to recognize revenue in accordance with the International Financial Reporting Standards, resulting in repeated reductions in revenue upon disclosure in a substantial amount. This was deemed material errors and omissions in the disclosures; in addition, Bo X Company did not disclose the change in the chief operating officer on May 21, 2020 and the P3 shutdown due to serious breaches of GMP within the prescribed time limit. Accordingly, the TPEX imposed a penalty of NT\$110,000 in total in accordance with the "Rules Governing the Review of Emerging Stocks for Trading on the TPEX."

**(4) Imposing altered trading, periodic trading, and suspended trading on TWSE/TPEX listed companies: Information:**



**Brief analysis:**

If TWSE/TPEX listed companies have financial or business operations specified in the TWSE and TPEX regulations, then the TWSE and TPEX have the right to adopt altered trading or periodic call auction for listed securities, and may further suspend the trading of listed securities. The TPEX also imposes the same sanctions for convertible (exchangeable) bonds issued by TWSE/TPEX listed companies. Compared with 2019, the number of TWSE listed companies under altered trading in 2020 increased and the number of TWSE listed companies under periodic trading in 2020 was slightly reduced. The number of TPEX listed companies under altered trading was about the same as that in 2019 and the number of TPEX listed companies under periodic trading and suspended trading in 2020 increased slightly from 2019.

	2020		2019	
	TWSE listed	TPEX listed	TWSE listed	TPEX listed
Number of companies under altered trading	19	51	15	52
Number of companies under periodic trading	9	25	8	21
Number of companies under suspended trading	2	7	3	4

**Cases:**

- Unity Opto Technology Co., Ltd. failed to announce and file the financial statements for the first quarter of 2020 and 2019 within the prescribed time limit. According to Subparagraph 1, Paragraph 1, Article 50 of the "Operating Rules of the TWSE," its securities trading was suspended on the TWSE accordingly. The company had checks bounced from financial institutions, for it had insufficient deposits. According to Subparagraph 9, Paragraph 1, Article 49 and Subparagraph 3, Paragraph 1, Article 49-2 of the "Operating Rules of the TWSE," the TWSE placed the company's securities under altered trading and periodic call auction, effective June 3, 2020.
- The financial statements of Xin X Company for the most recent period as publicly announced and filed showed that its net worth became less than half of its share capital as stated on the financial statements. According to Subparagraph 1, Paragraph 1, Article 49 of the "Operating Rules of the TWSE," the TWSE placed the company's securities under altered trading, effective on August 19, 2020.





- c. The financial statements of San X Company for the most recent period as publicly announced and filed showed that its net worth became less than half of its share capital stated on the financial statements. As a result, the TPEX placed San X Company's convertible bonds under altered trading, effective November 19, 2020.
- d. The financial statements of Yen X Company for the most recent period as publicly announced and filed showed that its net worth became less than half of its share capital stated on the financial statements. According to Article 12, Subparagraph 1, of the "Taipei Exchange Rules Governing Securities Trading on the TPEX," the TPEX placed Yen X Company's securities under altered trading, effective August 19, 2020.

## 2 Sanctions on trading activities

- (1) **Announcement of attention securities:** After the daily close of the centralized securities exchange market, the TWSE and TPEX analyze the trading activities of TWSE/TPEX listed companies. If abnormal trading is found to have reached a certain standard, the TWSE and TPEX will announce the name of the securities firm and its trading information (e.g., price increase/decrease, trade volume, turnover, and concentration risk) in the market to allow for sufficient information for investors to make informed decisions in matters of risk.
- (2) **Announcement of disposition securities:** If there has been significant abnormality in the trading price and volume of TWSE/TPEX listed companies repeatedly reaching the criterion for information of attention securities for a certain period of time, the TWSE and TPEX will impose advance collection of buy-side payment or sell-side securities on such securities to avoid its serious impact on the market while maintaining order and safety of securities trading.

In 2020, the TWSE announced 568 attention securities 4,262 times and 157 disposition securities 383 times. In 2019, the TWSE announced 365 attention securities 1,506 times and 33 disposition securities 49 times.

In 2020, the TPEX announced 465 attention securities 3,277 times and 205 disposition securities 404 times. In 2019, the TPEX announced 340 attention securities 1,491 times and 69 disposition securities 105 times.

## 3 Sanctions on intermediaries

### (1) Sanctions on securities firms:

When securities firms violate relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting securities firms to improve, impose penalties/delinquency fines, suspend part or whole of their securities dealing, brokerage business, or business in other operating locations for not more than three months, or issue a warning to persons who violated the regulation or have their business halted to maintain order in the securities market and to protect the rights and interests of investors. Sanctions on securities firms in 2020 and 2019 are described below:



**A. Sanctions on securities firms in terms of deficiencies in trading:**

Type of Violation	Sanction	2020		2019	
		TWSE	TPEX	TWSE	TPEX
Regulations governing reporting and handling	Issuance of a letter requesting improvement	5 cases	41 cases	4 cases	18 cases
	Imposition of delinquency fines	2 cases (totaling NT\$60,000)	NT\$0	1 case (totaling NT\$30,000)	NT\$0
Regulations governing business control	Issuance of a letter requesting improvement	9 cases	3 cases	9 cases	2 cases
Regulations governing the settlement of accounts	Imposition of delinquency fines	NT\$0	NT\$0	NT\$0	NT\$0
	Suspended trading	0 case	0 case	0 case	0 case
Regulations governing the emerging stock market	Issuance of a letter requesting improvement	-	8 cases	-	1 case
	Imposition of breach penalties	-	2 cases (NT\$130,000)	-	NT\$0



**Brief analysis**

In 2020, the violations of the regulations governing business control accounted for the highest percentage of the sanctions imposed by the TWSE on securities firms in terms of trading, totaling nine. Most of the securities firms having such a violation loaned securities in excess and had employees taking part in securities trading. The violations of the regulations governing reporting and handling accounted for the second highest percentage of the sanctions imposed by the TWSE on securities firms in terms of trading, totaling five. The main reason was that the securities firms did not make changes to a trading category within the time limit.

Compared with the sanctions imposed in 2019, the number of securities firms having the excess loan of securities relatively increased in 2020. As the trading value of short sales in 2020 increased by more than 50% from 2019, securities firms made more mistakes in handling a large number of orders in a short period of time. More instructions will follow in the future.

In 2020, the violations of the regulations governing reporting and handling accounted for the highest percentage of the sanctions imposed by the TPEX on securities firms in terms of trading, totaling 41. Most of the violations were failures to report default by customers within the time limit. The violations of the regulations governing business control accounted for the second-highest percentage of the sanctions imposed by the TPEX on securities firms in terms of trading,





totaling three. The main reason was that insiders of TPEX listed company took part in the loan of securities due to the negligence of securities firms.

Compared with 2019, the significant change in sanctions imposed in 2020 was that securities firms had more customer default data filed after the prescribed time limit. As the trading volume of securities on the TPEX in 2020 soared from the previous year, securities firms made more mistakes in filing a large number of customer default data. The TPEX will continue to remind securities firms of related prescribed deadlines.



**Cases:**

- a. On September 17, 2020, Fu X Securities Company lent securities to First Financial Holding Co., Ltd. (stock code: 2892), which violated Paragraph 2, Article 39 of the "Regulations Governing Securities Borrowing and Lending by Securities Firms." Accordingly, the TWSE issued a letter of warning requesting improvement.
- b. On December 28, 2020, Zongli Branch of Quanyijin X Securities Company did not report default by customers within the time limit, which violated Item 1, Subparagraph 1, Article 2 of the "Taipei Exchange Directions for Securities Brokers Reporting Delayed Settlement and Default by Customers." Therefore, the TPEX issued a warning letter requesting improvement.

**B. Sanctions on securities firms in terms of deficiencies in financial and business operations:**

Type of Violation	Sanction	2020		2019	
		TWSE	TPEX	TWSE	TPEX
Regulations governing brokerage trading orders	Issuance of warning and request for correction	25 cases	5 cases	7 cases	8 cases
	Issuance of warning and request for correction and imposition of penalties	4 cases	2 cases	4 cases	1 case
Regulations governing recommendation of trade in securities and securities borrowing and lending	Issuance of warning and request for correction	8 cases	1 case	13 cases	1 case
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	1 case	1 case
Regulations governing out-trades	Issuance of warning and request for correction	9 cases	1 case	4 cases	1 case
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	1 case	0 case



Type of Violation	Sanction	2020		2019	
		TWSE	TPEX	TWSE	TPEX
Regulations governing account opening	Issuance of warning and request for correction	3 cases	2 cases	2 cases	1 case
	Issuance of warning and request for correction and imposition of penalties	0 case	1 case	0 case	0 case
Regulations governing margin purchases and short sales	Issuance of warning and request for correction	2 cases	0 case	1 case	7 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	0 case	0 case
Regulations governing anti-money laundering and combating the financing of terrorism	Issuance of warning and request for correction	4 cases	4 cases	7 cases	6 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	0 case	0 case
Regulations governing information security	Issuance of warning and request for correction	7 cases (Note 1)	13 cases	0 case	4 cases
	Issuance of warning and request for correction and imposition of penalties	6 cases (Note 1)	1 case (Note 1)	0 case	0 case
Regulations governing financial derivatives or other business operations	Issuance of warning and request for correction	2 cases	13 cases (Note 2)	0 case	8 cases (Note 2)
	Issuance of warning and request for correction and imposition of penalties	0 case	2 cases	0 case	2 cases

Note 1: Including deficiencies in co-location.

Note 2: Including deficiencies in securities dealing and bond business.



### Brief analysis:

Today, the brokerage business remains the main source of income for securities firms in Taiwan. As the trading volume in the capital market increased in 2020, the number of deficiencies in handling securities trading by the employees of securities firms increased from 2019. In 2020, co-location was one of the priorities in the audit on the securities and futures markets, so more penalty cases were found.



**Cases:**

- a. The securities brokerage trader of Zhongxiao Branch, Chao X Securities Company, Li X-X, told the clients that he could offer stock subscription privately and requested them to transfer money to his personal bank accounts that he falsely claimed to be used by the securities company; however, he did not deliver the clients' stocks or refund the money, which was considered a cover-up, fraud or otherwise sufficient misbelief and violated the Operating Rules of the TWSE. The TWSE issued a letter warning and requesting improvement and imposed a default fine of NT\$60,000 on Chao X Securities Company; in addition, the TWSE requested Chao X Securities Company to have the said securities brokerage trader suspended for six months.
- b. At C Securities Company, the trade manager of the emerging stock board section instructed traders to increase their holdings of Stock A on the emerging stock board without waiting for the responsible manager's limit authorization and approval, resulting in excessive investment; in addition, the company's latest approved decision was to "buy" Stock A; however, the company sold 323 thousand shares and 399 thousand shares of Stock A on January 9 and January 10, 2020, respectively, which obviously deviated from its decision. Under the circumstances that there were no major changes in the fundamental information of Stock A and the securities market, but such an abrupt change on the trade manager's own initiative was unreasonable and violate the "Taipei Exchange Rules Governing the Trading of Emerging Stocks on the TPEX." The TPEX issued a letter of warning requesting improvement in internal controls and compliance and imposed a default fine of NT\$300,000; in addition, the TPEX requested C Securities Company to issue a warning or have related persons suspended for two months, depending on the severity of the violations.

**(2) Sanctions on futures commission merchants:****A Issuance of official letters requesting FCM's improvement:**

Type of Violation	2020	2019
Information system control	0 case	3 cases
Anti-money laundering audits	1 case	0 case
Account opening, credit investigation, and qualification review	1 case	3 cases
Others	16 cases	16 cases

**Brief analysis:**

In 2019 and 2020, the TAIEX issued 22 and 18 letters requesting improvement, respectively, to futures commission merchants for violation of Article 125 or 126 of the "Operating Rules of the Taiwan Futures Exchange Corporation."

**Case:**

The associated person of Chun X Futures Company did not report the advertisements posted on Facebook to the Chinese National Futures Association, which violated the "Operating Rules of TAIEX." In 2020, the TAIEX issued Chun X Futures Company a letter requesting improvement.

**(2) Imposition of default fines:**

Type of Violation	2020	2019
Calls and substituted off-set operations	10 cases	1 case
Account opening, credit investigation, and qualification review	5 cases	4 cases
Internal audits and financial operations	4 cases	5 cases
Others	10 cases	7 cases

**Brief analysis:**

In 2019 and 2020, 17 and 29 cases with respect to the penalties imposed by the TAIEX on futures commission merchants for violating Article 126 or 127 of the "Operating Rules of the TAIEX" were reported.

**Case**

The associated person of Hung X Securities Company commissioned the first order at market price for liquidation, which violated the "Operating Rules of the Taiwan Futures Exchange Corporation." Accordingly, TAIEX imposed a penalty of NT\$10,000 in 2020.





## 4 Law enforcement results in the past three years

Law Enforcement Unit and Action		Year	2020	2019	2018
TWSE and TPEX*	Issuance of letter requesting improvement		282 cases	260 cases	272 cases
	Inclusion in the Key Financial Section		350 cases	303 cases	300 cases
	Periodic financial disclosure of financial ratios		264 cases	237 cases	212 cases
	Imposition of default fines		113 cases	106 cases	68 cases
	Altered trading, periodic call auction, or suspended trading		107 cases	103 cases	98 cases
	Announcement of attention securities		1,033 stocks 7,539 times	705 stocks 2,997 times	823 securities 4,207 times
	Information of disposition securities		362 securities 787 times	102 stocks 154 times	195 stocks 377 times

In 2020, an additional 47 TWSE/TPEX listed companies and TPEX Emerging Stock Companies were included in the Key Financials Section from 2019, including 18 TWSE listed companies whose revenue was greatly impacted by the COVID-19 pandemic, 20 TPEX listed companies that performed poorly in their business operations and finances, and nine emerging stock board registered companies (six of which were new drug companies registered in 2020 and conforming to Indicator 4 (the net worth per share stated in the most recent financial statements is less than NT\$10, while the net cash flow from operating activities in the most recent two years and the most recent period are both negative), and the remainder were impacted by the COVID-19 pandemic in terms of revenue and profit). In the past three years, about 100 TWSE/TPEX listed companies were subject to altered trading, periodic call auction or suspended trading. For some of these companies, their certified public accountants issued audit or review reports that indicated substantial uncertainty concerning their ability to sustain business or their net worth became less than three-tenths of share capital stated in the financial





statements. As failure to improve the aforesaid issues within a short period of time could adversely affect the overall quality of TWSE/TPEX listed companies and the investors' rights and interests, the TWSE and TPEX amended the relevant regulations in March 2019 to prescribe a 3-year period for improvement. Companies failing to improve within the prescribed time limit will be suspended from trading on the TWSE/TPEX. The purpose of this amendment was to advocate TWSE/TPEX listed companies to improve their finances and business operations, so as to protect investors' rights and interests.

The number of default fines imposed on TWSE/TPEX listed companies and TPEX Emerging Stock Companies in 2020 increased from 2019. Most of the cases were violations of the regulations regarding the declaration of material information. Every year, the TWSE and TPEX hold compliance seminars to explain the regulations governing information reporting, material information, and common deficiencies. In response to the COVID-19 pandemic, which impacted the business operations of TWSE/TPEX listed companies and TPEX Emerging Stock Companies, the TWSE and TPEX amended the Q&A for the regulations governing the disclosure of material information, requesting TWSE/TPEX listed companies and TPEX Emerging Stock Companies to disclose material information in a more timely manner based on the recommended timing, so as to ensure the fair receipt of information by investors. For TWSE/TPEX listed companies and TPEX Emerging Stock Companies violating the relevant regulations, the TWSE and TPEX disclose their violations on the Market Observation Post System; for repeated or material violations, the TWSE and TPEX issues a letter requesting the independent directors or supervisors to compel and supervise improvement of the companies, so as to maintain compliance with the relevant laws and regulations.

In 2019, the supervisory department found that few companies had the employees of their sister companies serve as their independent directors, leading to the ineffective board functions. To this end, the amendment to the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" was made to strengthen the autonomy of independent directors; the amendment also requires that companies should conduct the evaluation of the board's performance and individual board members' performance, and specifies the supporting measures for the chairman being the same person as the president or a person having an equivalent position.

The FSC, Ministry of Justice, TWSE, and TPEX teamed up to hold the seminar on "2020 Corporate Governance and Corporate Integrity Seminar for Directors and Supervisors," where the legal benefits infringed upon, patterns, and regulations of commercial bribery were introduced to promote the ethical corporate management and anti-corruption practices. The seminar also explained the focus of the amendment to the "Securities Investor and Futures Trader Protection Act" and the directors' and supervisors' responsibility with the target of strengthening the board of directors' functionality through the SFIPC; the FSC followed by introducing concrete measures and a timeline for implementing the "Corporate Governance 3.0 - Sustainable Development Roadmap," with an aim to implement good corporate governance and a sound ESG ecosystem, enhance business sustainability, and forge a globally competitive capital market.





### III Statistics on Administrative Sanctions Imposed by the SFB 2018~2020

**Table 1 Administrative Sanctions Imposed by the SFB 2018~2020**

Unit: Number of cases

Type of Violation	Legal Basis	2020 (Number of Violations)	2019 (Number of Violations)	2018 (Number of Violations)	Total (Number of Violations)
A1 Acquisition or disposition of assets	Article 36-1 of the "Securities and Exchange Act"	2	9	19	30
A2 Material information	Subparagraph 2, Paragraph 3, Article 36 of the "Securities and Exchange Act"	1	3	3	7
A3 Regulations governing appointment of independent directors and regulations governing procedure for board of directors meetings	Paragraphs 1 and 5, Article 14-2, Article 14-3, and Paragraphs 7 and 8, Article 26-3 of the "Securities and Exchange Act"	1	7	10	18
B1 Internal controls of securities firms	Articles 65, 66, and 178-1 of the "Securities and Exchange Act"	26	17	29	72
B2 Securities brokerage	Article 23 of the "Computer-processed Personal Data Protection Act"	0	0	0	0
B3 Employees of securities firms	Articles 56, 178-1, and 179 of the "Securities and Exchange Act"	13	14	9	36
B4 "Money Laundering Control Act"	Paragraph 5, Article 7 of the "Money Laundering Control Act"	3	4	7	14
C1 Registration of insiders' equity	Article 22-2 or 25 of the "Securities and Exchange Act"	143	149	107	399
C2 Acquisition of large equity	Paragraph 1, Article 43-1 of the "Securities and Exchange Act"	7	5	4	16
C3 Tender offer	Paragraph 4, Article 43-1 and Article 43-3 of the "Securities and Exchange Act"	2	1	0	3
C4 Treasury stock repurchase	Article 28-2 of the "Securities and Exchange Act"	14	16	8	38
C5 Proxy for the attendance of a shareholders' meeting	Article 25-1 of the "Securities and Exchange Act"	0	1	3	4



Type of Violation		Legal Basis	2020 (Number of Violations)	2019 (Number of Violations)	2018 (Number of Violations)	Total (Number of Violations)
D1	Internal controls of securities investment trust enterprises and securities investment consulting enterprises	Articles 7 and 93 of the "Securities Investment Trust and Consulting Act"	27	16	21	64
D2	Securities investment trust business	Article 17 of the "Securities Investment Trust and Consulting Act"	0	0	1	1
D3	Securities investment consulting business	Articles 4 and 70 of the "Securities Investment Trust and Consulting Act"	4	0	0	4
D4	Employees of securities investment trust enterprises and securities investment consulting enterprises	Article 69 of the "Securities Investment Trust and Consulting Act"	7	5	0	12
D5	Offshore funds	Article 16 of the "Securities Investment Trust and Consulting Act"	0	0	0	0
D6	Disclosure of financial information of securities investment trust enterprises and securities investment consulting enterprises	Article 99 of the "Securities Investment Trust and Consulting Act"	1	0	0	1
D7	Financial and business inspections of securities investment trust enterprises and securities investment consulting enterprises	Article 101 of the "Securities Investment Trust and Consulting Act"	0	0	0	0
E1	Extension of loans or endorsements/guarantees	Article 36-1 of the "Securities and Exchange Act"	9	14	8	31
E2	Financial statements	Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"	26	32	34	92
E3	Accounting officers	Paragraph 3, Article 14 of the "Securities and Exchange Act"	6	6	1	13
E4	Certified public accountants	Articles 11, 41, 61, 62, 68, 70, and 71 of the "Certified Public Accountant Act" and Article 37 of the "Securities and Exchange Act"	18	15	5	38





Type of Violation		Legal Basis	2020 (Number of Violations)	2019 (Number of Violations)	2018 (Number of Violations)	Total (Number of Violations)
E5	Registration of the operating status	Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act"	3	4	0	7
E6	Internal control systems	Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"	0	4	5	9
F1	Futures commission merchants and leverage transaction merchants	Articles 56 and 80 of the "Futures Trading Act"	20	16	11	47
F2	Futures services	Articles 82 and 85 of the "Futures Trading Act"	4	6	4	14
F3	Employees of futures commission merchants	Articles 61, 80, and 82 of the "Futures Trading Act"	8	4	4	16
-	Others		6	9	0	15
Total			351	357	293	1001



**Table 2 Subject and Type of Administrative Sanctions Imposed by the SFB in 2020**

Type of Sanctions \ Subject of Sanctions	Penalties	Rectification	Rectification & Penalties	Rectification & Penalties & Termination of Business Operations	Termination of Business Operations	Discharge of Duties	Revocation of Business Licenses	Warnings	Warnings & Penalties	Warnings & Penalties & Termination of Business Operations	Warnings & Penalties	Total
Insiders	143											143
Public companies	66											66
Certified public accountants	14				2			2				18
Intermediaries	29	50	3	1			1		1	2	2	89
Intermediaries' persons in charge and employees	0				21	6						27
Others	8											8
Total	260	50	3	1	23	6	1	2	1	2	2	351





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