



2021

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 2021



To safeguard the rights and interests of securities investors and futures traders, and to facilitate sound developments of the securities and futures markets, the Financial Supervisory Commission (the “FSC”) set up the Securities and Futures Bureau (the “SFB”) for the purposes of the supervision and regulation of the securities and futures markets, securities and futures enterprises, as well as the formulation and planning of related policies, laws, and regulations.

If issuing companies and their persons in charge, insiders, intermediaries and their persons in charge, sales representatives, investors, as well as other market participants and related parties, violate such laws and regulations as the “Securities and Exchange Act”, “Futures Trading Act”, “Securities Investment Trust and Consulting Act” and related laws and regulations, the SFB will take law enforcement actions to keep order in the securities and futures markets.

According to the “Capital Market Roadmap,” “Green Finance Action Plan 2.0,” and “Corporate Governance 3.0 - Sustainable Development Roadmap,” the FSC continued taking measures in 2021 to boost the domestic capital market and its competitiveness in the international arena. The aim is to draw companies’ and intermediaries’ attention to the environmental, social, and governance (“ESG”), with the goal of implementing corporate governance and enhancing a sound sustainable ecosystem. The relevant strategies and policies implemented in 2021 are described as follows:

I. Continuing the “Capital Market Roadmap”:

The FSC has implemented the three-year “Capital Market Roadmap” since 2021. The FSC cooperated with peripheral organizations to expand the scale of Taiwan's capital market and strengthen its competitiveness based on the five main strategies and various key measures. 34 items under the said roadmap have been completed, including: 1.) establishing the Taiwan Innovation Board and the Pioneer Stock Board to create a dynamic circle of innovative businesses developments; 2.) enhancing the information disclosure of TWSE/TPEX-listed companies; 3.) implementing the stock market making mechanism; 4.) boosting the trading volume of the market and the liquidity of quality illiquid stocks in the stock market; and 5.) allowing foreign investors to invest in exchange traded notes (“ETNs”), and creating a paperless environment for the registration of applications for foreign investment in domestic securities; 6.) allowing public companies to convene physical shareholders’ meetings with assistance of video conferencing; 7.) allowing securities firms to engage in trading of foreign securities on a fixed-term, fixed-amount basis; 8.) allowing securities firms to engage in other-interest-oriented stock trust business; 9.) allowing foreign investors to engage in trading of leverage contracts with domestic leverage transaction merchants; and 10.) strengthening measures of cyber security management in TWSE/TPEX-listed companies, etc.

II. Continuing the “Green Finance Action Plan 2.0” and “Corporate Governance 3.0 Sustainable Development Roadmap”:

In 2021, the FSC continued promoting the Green Finance Action Plan 2.0. Through various financial mechanisms, the FSC aimed to draw the attention of companies and investors to ESG issues to create a dynamic cycle through their continuing efforts to pursue sustainable development and to enhance the competitiveness of Taiwan’s financial services industry and financial markets:

- (1) Driving sustainable economic development through capital market fundraising: The FSC helps direct funds into the green industry to promote environmental sustainability. It also guides companies to operate based on ESG criteria by setting up the Sustainable Bond Market. As of the end of 2021, there were 75 green bonds, 12 sustainability bonds, and 7 social bonds on the market, with the issuing amount totaling NT\$201.1 billion, NT\$57 billion, and NT\$14.3 billion, respectively, and growing.
- (2) Developing more ESG products or services: As of the end of December 2021, domestic securities investment trust enterprises (“SITES”) issued 33 ESG and sustainability funds, with the assets under management (“AUM”) totaling NT\$160.1 billion; among them, there were four exchange traded funds (“ETFs”) and three stock funds with the AUM of NT\$68.3 billion investing in the local market.

To deepen a corporate culture of sustainable governance, the FSC continued implementing the “Corporate Governance 3.0 - Sustainable Development Roadmap” in 2021. The key roadmap points include: 1.) strengthening the diversity and functions of the board of directors and the independence of independent directors, and implementing the accountability of the board of directors to heighten the effectiveness of corporate governance; 2.) improving transparency, quality, and timeliness of financial and non-financial information of TWSE/TPEX-listed companies to facilitate investment decision-making; 3.) protecting shareholders' rights and access to relevant information, urging investors and shareholders to fulfill responsible investing and exert their influence in the market and strengthening communication with stakeholders; and 4.) introducing the role of proxy advisors to public companies, and promoted stewardship by establishing engagement mechanisms between proxy advisors and TWSE/TPEX-listed companies.

For the securities and futures markets in Taiwan, the law enforcement policies, approaches, law enforcement framework, and supervision focus in 2021 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 keeping 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) The FSC takes enforcement actions in accordance with related laws and regulations. Consideration shall be given to such factors as the specific facts of violations in terms of risk and materiality, culpability of the act in breach of duty under relevant laws and regulations, the impact resulted therefrom and the benefits gained from such an act.
- (2) Persons and entities of interest include public issuing companies and their persons in charge, managerial officers, insiders, intermediaries and their persons in charge, professionals, investors, as well as other market participants.
- (3) Intermediaries are under strict supervision. In addition to regular general inspections, special inspections are carried out for specific business activities or projects to identify problems early and take immediate corrective actions .
- (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 regulatory authorities and their cases will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutors' offices for criminal investigation or prosecution.

- (5) Prior to law enforcement actions, people of interest are given opportunities to make statements and improvements within a specified timeframe, in accordance with related laws and regulations.
- (6) Law enforcement information is transparently disclosed so that market participants can clearly understand its directive and it can thus act as a deterrent to any possible future violations.

Law Enforcement Framework of the Securities and Futures Markets in Taiwan

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

(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 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 may 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: The TWSE and TPEX carry out systematic, ongoing monitoring of securities trading activities in accordance with the "Rules Governing Implementation of the Stock Market Surveillance System." Related measures are taken in case 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 may 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, etc., 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 transferred 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 (the "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, TAIEX, and affiliated associations to formulate related regulations and supervise intermediaries and their responsible persons and associated persons accordingly and 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 to join the trade associations and comply with related self-regulating decrees and laws, and related measures will be taken in case of any violations.
- B. Supervision of futures commission merchants:** In accordance with the contracts signed between TAIEX and futures commission merchants, market regulations formulated by TAIEX, 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 (SITEs and SICEs) are urged to join the Securities Investment Trust and Consulting Association of the R.O.C. ("SITCA"). SITCA will check the compliance of SITEs and SICEs 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, TAIEX, or affiliated associations find intermediaries and their responsible persons and associated persons 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 transferred 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 2021

1. Strengthening corporate governance and disclosure of ESG information:

(1) Enhancing the disclosure of ESG information:

A. Enhancing the disclosure of ESG information by domestic companies: Enhancements included 1.) renaming corporate social responsibility (“CSR”) reports to sustainability reports; 2.) requiring that TWSE/TPEX-listed companies with paid-in capital of NT\$2 billion and above and less than NT\$5 billion should prepare sustainability reports from 2023 onwards, and that chemical companies, banks and insurance companies should obtain clearly defined third-party verification for their sustainability reports from 2022 onwards; and 3.) publishing the guidelines regarding the disclosure of ESG information (e.g., greenhouse gas emissions, water consumption, waste, work-related injuries, and the percentage of female employees and senior executives) in the addendum to annual reports to direct companies to disclose key environmental and social topics.

B. Enhancing the disclosure of ESG information by securities and futures businesses: The SFB urged the TWSE and TPEX to amend the “Corporate Governance Best-Practice Principles for Securities Firms” and “Corporate Governance Best-Practice Principles for Futures Commission Merchants,” stipulating that a securities firm whose capital stock stated on the financial report of the most recent fiscal year reaches NT\$5 billion or more, as well as a futures commission merchant whose capital stock reaches NT\$2 billion or more or that is a public company and a subsidiary of a financial holding company, shall each year prepare a CSR report for the preceding year by referring to the Global Reporting Initiative (the “GRI”) Standards; it is furthermore advisable that third-party verification or assurance be obtained to enhance the disclosure of ESG information by securities and futures businesses.

C. Enhancing the disclosure of ESG information on financial products: To strengthen the integrity and consistency of ESG information disclosure on financial products, the FSC issued the “Disclosure Rule for ESG Funds Issued by Securities Investment Trust Enterprises,” which requires that SITEs should disclose ESG details in the fund plan and prospectus of investment objectives, measurement standards, investment strategies and methods, allocation of investment proportion, reference performance benchmark, and exclusion policy. The FSC also requested the Taiwan Depository & Clearing Corporation (the “TDCC”) to set up an ESG Fund section on the Fundclear website to help investors distinguish ESG funds from other funds.

(2) Strengthening the diversity and functions of the board of directors:

A. To strengthen the board effectiveness and corporate governance of domestic companies, the FSC urged the TWSE and TPEX to amend the “Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE-Listed Companies and the Board's Exercise of Powers,” “Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX-Listed Companies,” and “Corporate Governance Best Practice Principles for TWSE/TPEX-Listed Companies,” requiring that TWSE/TPEX-listed companies should appoint corporate governance

officers before June 30, 2023 and encouraging TWSE/TPEX-listed companies to have female directors accounting for one-third or more of all board members and independent directors accounting for no less than one-third of all board members with no more than three consecutive serving terms. In addition, the TWSE included in the 2022 Corporate Governance Evaluation Indicators the annual evaluation of functional committees (at least including the audit committee and remuneration committee) and disclosure of evaluation results on the company websites or in TWSE/TPEX-listed companies' annual reports to strengthen functional committees and corporate governance.

- B. The FSC also amended the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” requiring that public companies shall specify the board diversity policy, qualifications and experience of individual directors/supervisors, and the independence of independent directors. The FSC urged the TWSE and TPEX to formulate sample templates for the regulations governing the exercise of powers by independent directors and audit committees.

(3) Strengthening the management of related party transactions:

To strengthen the management of related party transactions and protect the rights and interests of minority shareholders, the FSC amended the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies,” requiring that when a public company or a subsidiary thereof that is not a domestic public company intends to acquire or dispose of assets from or to a related party and the transaction amount reaches 10% or more of the public company's total assets, the public company shall submit the relevant materials to the shareholders meeting for approval before proceeding with the transaction (however, this restriction does not apply to transactions between the public company and its parent company or subsidiaries or between its subsidiaries). The FSC also urged the TWSE and TPEX to publish the “Related Party Transaction Guide” to provide companies with the key points and an overview of the regulations related to various types of related-party transactions; in addition, the FSC requested the TWSE to entrust experts to complete the research on the feasibility of topics, including reporting to or obtaining the approval from the shareholders' meeting on other types of related-party transactions (e.g., purchase and sale of goods or loans and endorsements/guarantees) and the strengthening of relevant information disclosure submitted to the shareholders' meeting, for subsequent amendments to the Corporate Governance Best Practice Principles for TWSE/TPEX-listed Companies and Corporate Governance Evaluation Indicators.

2. Enhancing the audit quality and transparency of accounting firms and rolling out accounting and auditing supervision measures in line with international standards:

(1) Promoting Taiwan's Audit Quality Indicators (AQI)

To enhance the audit quality of financial reporting, the FSC released the “AQIs Disclosure Framework,” which provides a comprehensive and comparable set of quantitative audit quality indicators on August 19, 2021. The framework includes 13 indicators covering five scopes: profession, independence, quality control, monitor, and creativity. It serves as a useful toolkit to assist companies and audit committees in appointing certified public accountants. Moreover, to improve the AQI consistency and comparability among firms, the FSC released “the AQI Disclosure Template,” which specifies the AQIs' content and form.

The FSC promotes the AQI initiative in two phases: TWSE/TPEX-listed companies will get AQI information from the big four CPA firms for reference starting from the time of appointing CPAs for the audit of 2023 financial reporting. From 2023, the FSC will, basing on the implementation result of the big four accounting firms and TWSE/TPEX-listed companies, consider the feasibility of further expanding application to non-big four accounting firms and non-listed public companies.

(2) Promoting the publication of transparency reports by accounting firms

To help the public gain a better understanding on the governance and the internal control of accounting firms, the FSC released the “Principles for the Preparation of Transparency Reports by Accounting Firms” on December 30, 2021, with the objective of enhancing accounting firms’ transparency so as to promote healthy competition, and raise overall audit quality. The transparency report content released by an accounting firm shall include the legal and governance structure, risk management, and audit quality indicators.

The FSC takes a two-stage approach to promote the publication of transparency reports by accounting firms. The big four accounting firms will make public their first copies of these reports in compliance with the above principles in 2023. From 2023, the FSC will, basing on the implementation results of the big four accounting firms, decide on the feasibility of extending application of the above principles to other accounting firms.

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

(1) Allowing domestic companies to conduct a shelf registration to issue new shares for a capital increase for the purpose of improving trading efficiency and transparency in the stock market:

To facilitate flexible and efficient fundraising of public companies and to comply with global systems and domestic practices, the FSC amended the “Regulations Governing the Offering and Issuance of Securities by Securities Issuers,” allowing domestic companies to conduct a shelf registration to issue new shares for a capital increase.

(2) Developing the market-making system for stocks listed on the TWSE/TPEX to boost the trading volume of the market and the liquidity of quality illiquid stocks in the stock market:

To accomplish this objective, the FSC urged the TWSE and TPEX to implement the market-making system on June 30, 2021, under which market makers will continue offering reasonable quotes to increase investors’ opportunities to make deals. After stock liquidity is augmented, it will further attract other market participants to invest, thereby boosting the overall trading volume in the stock market.

(3) Establishing price stabilizing measures for security futures and commodity futures to forward price stabilization and investor protection in the futures market:

To prevent wrong orders, fat-finger errors, and abrupt fluctuations in prices caused by unbalanced liquidity on intraday order books, the FSC supervised TAIFEX to continue taking price stabilizing measures for domestic and foreign stock index futures, ETF futures, FX futures, and TAIEX options, as well as single stock futures and commodity futures effective in 2021; the aim is to mitigate price fluctuations, improve price stabilization and trading efficiency, and protect investors.

(4) Extending the day trading tax cut to boost the trading volume and liquidity in the stock market:

To continue increasing the trading volume and liquidity in the stock market, the Legislative Yuan passed on December 21, 2021 and promulgated in the Presidential Order dated December 29, 2021 the amendment to Articles 2-2 of the “Securities Transaction Tax Act” to maintain the day trading tax rate at 0.15% until December 31, 2024.

4. Supervision of intermediaries:

(1) Strengthening universal supervision:

- A. The universal supervision of intermediaries covered practices such as anti-money laundering and counter terrorism financing, non-proliferation of weapons, compliance, corporate governance operations, information security management, financial consumer protection, and personal information protection.
- B. Strengthening the supervision of beneficiary owners: According to Article 7 of the “Money Laundering Control Act,” financial institutions and designated non-financial businesses or professions shall apply a risk-based approach to undertake customer due diligence measures for verifying the identity of the customer and beneficial owner, and keep all information obtained through the customer due diligence measures. In response to the needs for identifying beneficiary owners and keeping relevant records, the FSC urged the Chinese National Futures Association to formulate the “Sample Practices for Identifying Beneficial Owners” according to said regulation.

(2) Strengthening individual supervision:

- A. **Securities firms:** Securities firms were checked on practices such as the audit of internal conflicts of interest, wealth management for high net worth customers, ETN market-making and hedging, derivatives trading.
- B. **SITEs:** SITEs were checked on practices such as the analysis, decision-making, execution, and review of investment or trading in funds and discretionary accounts (including government funds), managers’ trading in the same stocks held in said funds and accounts in the name of others, sales agency management and channel remuneration, as well as client suitability assessment conducted by sales agencies.
- C. **Futures commission merchants:** Futures commission merchants were checked as to whether they conducted account opening review and KYC for securities brokers, prevented internal conflicts of interest, monitored the traders’ accounts closely, took concrete actions to prevent other

trading disputes or fraud, controlled the trading processes and risks, dealt with business disputes or customer complaints, managed advertising, solicitation, promotions, and put the fair treatment of customers principle into practice.

5. Strengthening investor rights protection:

(1) Strengthening investor rights protection and publicity:

The amendment to the “Securities Investor and Futures Trader Protection Act” proposed by the FSC took effect on August 1, 2020. The amendment introduces the disqualification system for directors or supervisors dismissed in the event of litigation; that is, directors or supervisors dismissed based on the court’s ruling may not, within three years from the date of the ruling, serve as directors or supervisors of TWSE/TPEX-listed companies and TPEX Emerging Stock Companies, which should effectively urge directors and supervisors to abide by laws and regulations, faithfully perform their duties, and perform their duty of care as a good manager. To maintain a sound market system, the FSC also urged the SFIPC to implement the “Securities Investor and Futures Trader Protection Act” and set up a section on its website to publicize said amendment.

(2) Developing the “day trading warning standards” to strengthen the early warning system:

The FSC urged the TWSE and TPEX to amend the “Taiwan Stock Exchange Corporation Directions for Announcement or Notice of Attention to Trading Information and Dispositions” and the “Taipei Exchange Operation Directions for Announcement or Notice of Attention to Trading Information and Dispositions,” putting in place the day trading warning standards, which took effect on August 27, 2021, to remind investors of the risk of stocks with abnormal prices, volumes and a significantly high day trading rate, and to increase their risk awareness.

(3) Strengthening controls and management measures against default risks and elevating the investors’ risk awareness and emphasis on their credit records:

In recent years, there has been an increase in small-value breaches and breaches by young people. The FSC asked securities firms to strengthen controls over default risks, including carrying out credit investigations for investors opening accounts online, assessing and strictly verifying the maximum quota of daily trading, adjusting the maximum quota of daily trading based on the investors’ profit and loss on day trading, and suspending day trading when the monthly accumulated loss reaches one-half of the trading quota. The FSC also requested securities firms to increase young investors’ risk awareness and understanding of the impact on personal credit records of default through publicity in various forms. On October 12, 2021, the FSC also urged the TWSE to take measures against defaulting investors, including requiring that securities firms that declare the investors’ first default should notify the investors in writing of their obligation regarding securities settlement and that if such investors default again within one year from the previous default, all securities firms shall collect the full amount of payment for settlement in advance within a certain period of time before proceeding to the investors’ orders.

Chapter I

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

- I. Administrative Sanctions Imposed by the SFB 2017~2021
- II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice 2017~2021
- III. Investigations of Civil Liability by the SFIPC 2017~2021
- IV. Cross-border and Inter-ministerial Collaboration in Financial Supervision 2017~2021



Table 1-1 shows the law enforcement results of the securities and futures Markets in Taiwan in the past five years (2017~2021), 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 five years while the number of investigations into both criminal and civil liability has slightly trended down. The details of the above enforcement actions, as well as the “Cross-border and Inter-ministerial Collaboration in Financial Supervision 2017~2021,” the FSC’s sharing of auditing supervision in the International Forum of Independent Audit Regulators (“IFIAR”), and law enforcement results in insider trading over the past five years will be described in the following sections of the chapter.

► Table 1-1

Law Enforcement Unit and Action		Year	2017	2018	2019	2020	2021
SFB, FSC	Administrative sanctions (public companies; intermediaries and their employees)		295 cases (192 cases; 103 cases)	293 cases (207 cases; 86 cases)	357 cases (270 cases; 87 cases)	351 cases (234 cases; 117 cases)	367 cases (219 cases; 148 cases)
	Penalties (NT\$) (public companies; intermediaries and their employees)		NT\$64.78 million (NT\$60.82 million; NT\$3.96 million)	NT\$64.81 million (NT\$55.60 million; NT\$9.21 million)	NT\$82.16 million (NT\$69.14 million; NT\$13.02 million)	NT\$103.6 million (NT\$51.98 million; NT\$51.62 million)	NT\$86.93 million (NT\$49.15 million; NT\$37.78 million)
Investigation Bureau, Ministry of Justice	Violations of the "Securities and Exchange Act"		65 cases	61 cases	60 cases	57 cases	49 cases
	Proceeds of crime (NT\$)		NT\$21,342,950,000	NT\$20,065,270,000	NT\$15,941,980,000	NT\$16,563,050,000	NT\$11,653,690,000
Securities and Futures Investors Protection Center (SFIPC)	Class action litigations and compensation sought (NT\$)		19 cases NT\$7,840.6 million	10 cases NT\$1,006.54 million	12 cases NT\$1,687.29 million	10 cases NT\$726.25 million	11 cases NT\$7,543.97 million
	Derivative suits and compensation sought (NT\$)		6 cases NT\$4,084.9 million	5 cases NT\$3,438.56 million	2 cases NT\$115.77 million	6 cases NT\$1,361.73 million	8 cases NT\$1,740.45 million
	Discharge suits		9 cases	9 cases	5 cases	7 cases	6 cases

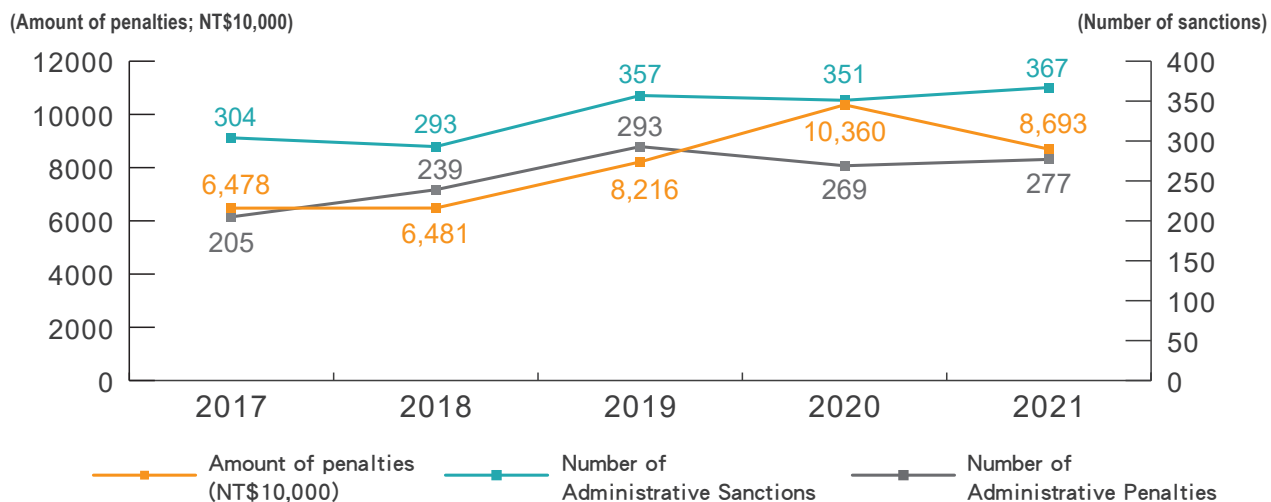
- Source: For administrative sanctions imposed by the SFB, refer to the SFB Enforcement Action List (including administrative penalty statistics and details at <https://www.sfb.gov.tw/ch/home.jsp?id=102&parentpath=0,2>, refer to Table 1 and Table 2 in Appendix III) on the SFB’s website; for investigations of criminal liability by the Investigation Bureau, Ministry of Justice and the SFIPC data are provided by the Investigation Bureau and the SFIPC, respectively.
- 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.
- The amount of SFIPC’s annual class action claims may be adjusted due to the increase or decrease in the number of authorizers or the change in the calculation method of damage. The data are counted up to March 15, 2022.

I. Administrative Sanctions Imposed by the SFB 2017~2021

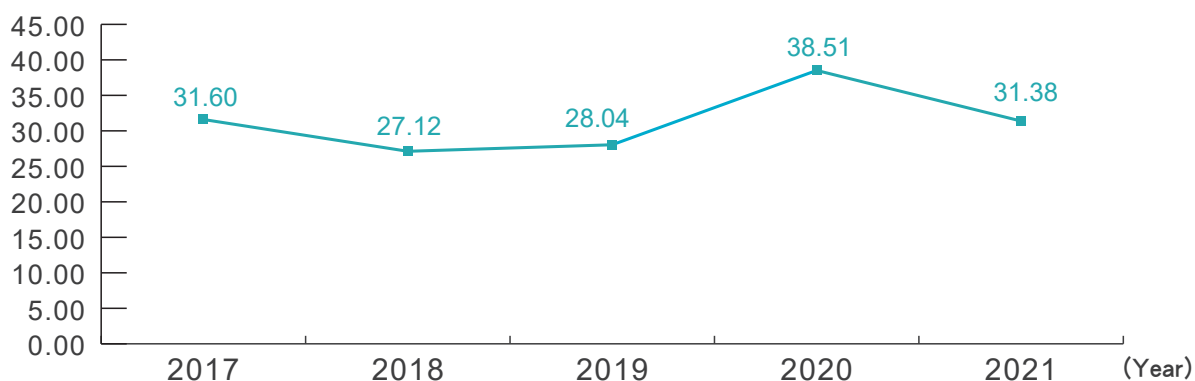
From 2017 to 2021, the number of administrative sanctions and penalties and the total and average amounts of penalties (refer to Figure 1-1, Figure 1-2, and Table 1 of Appendix III, respectively) all showed an upward trend.

Said upward trend was mainly due to an increase in the penalty ceiling for administrative sanctions (from NT\$2.4 million to NT\$4.8 million) and the imposition of penalties on securities firms failing to comply with the internal control system as a result of the amendment to Articles 178 and 178-1 (addition) of the “Securities and Exchange Act” on April 17, 2019 to strengthen compliance and internal control of securities firms, as well as a fine of NT\$25 million for violation of the “Act Governing Relations between the People of the Taiwan Area and the Mainland Area” (one case).

► Figure 1-1 Number of Administrative Sanctions, Amount of Penalties and the Total Amount of Penalties



► Figure 1-2 Average Amount of Penalties from 2017 to 2021



The following are the administrative sanctions imposed by the SFB in 2021 by type and subject of sanctions (refer to Table 1-2, Figure 1-3, and Figure 1-4):

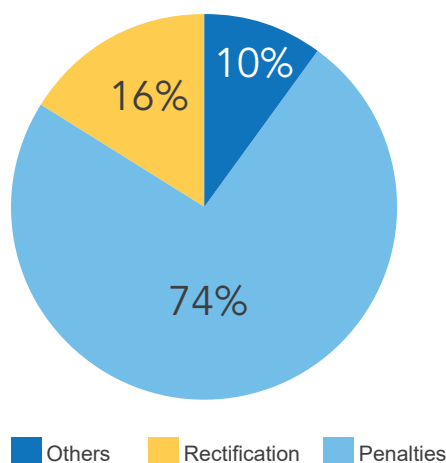
1. The number of penalties in 2021 totaled 277, accounting for 74% of total administrative sanctions, the same percentage (out of 269 penalties) in 2020.
2. The number of rectifications imposed on intermediaries totaled 59, accounting for 16% of total administrative sanctions. This was close to the number of penalties (54) and its percentage of total administrative sanctions (about 15%) in 2020.
3. Sanctions other than penalties and rectifications included the termination of business operations (27 cases on intermediaries' persons in charge and employees; 4 cases on CPAs), discharge of duties (4 cases), and issuance of warnings to intermediaries (3 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 23% (63 cases) of the administrative sanctions were imposed on intermediaries, showing a significant increase from 2020 (29 cases, or 11%), mainly due to the imposition of 28 penalties on securities firms failing to comply with the internal control system (including ten securities firms that failed to implement information security for co-location) as a result of the amendment to Article 178-1 (addition) of the "Securities and Exchange Act" and relevant regulations on April 17, 2019. (According to Article 178-1 of the "Securities and Exchange Act," the number of penalties imposed by the SFB on securities firms from 2019 to 2021 was one, five, and 28, respectively.)
 - (3) About 18% of the administrative sanctions were imposed on public companies, which trended down from 2020 (66 cases, or 25%). Most of these public companies failed to file (restate) their financial statements in accordance with regulations or their accounting officers did not meet the required qualifications.

► Table 1-2

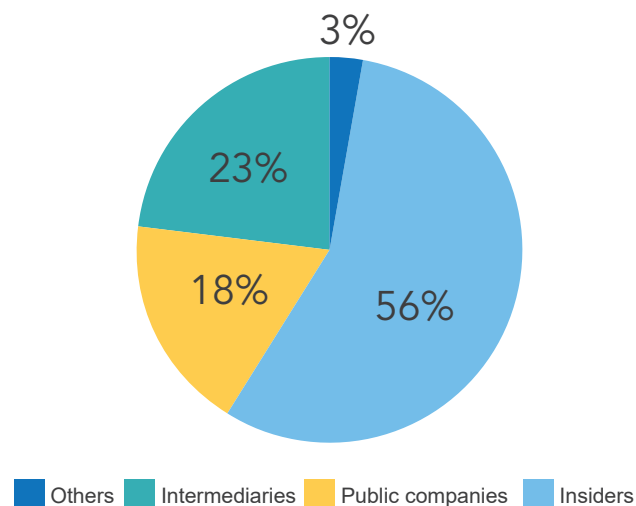
Type of Sanctions Parties in Breach	Penalties	Rectification	Termination of Business Operations	Discharge of Duties	Revocation of Business Licenses	Warnings	Total
Insiders	156	-	-	-	-	-	156
Public companies	50	-	-	-	-	-	50
Certified public accountants	1	-	4	-	-	-	5
Intermediaries	63	59	4	-	-	3	129
Intermediaries' persons in charge and employees	-	-	23	4	-	-	27
Others	7	-	-	-	-	-	7
Total	277	59	31	4	-	3	374

● Table 1-2 was prepared based on 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 1-3 Type of Administrative Sanctions in 2021 (%)



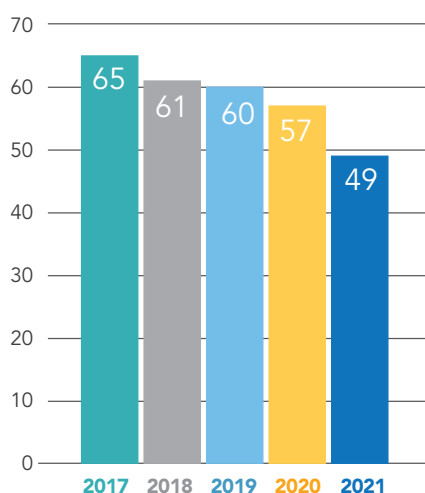
► Figure 1-4 Subject of Administrative Sanctions in 2021 (%)



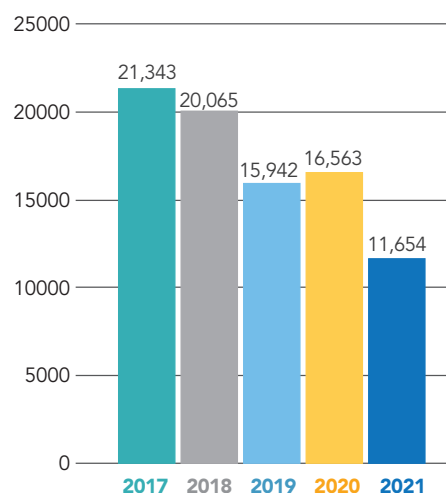
Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice 2017~2021

The number of criminal cases in violation of the “Securities and Exchange Act” investigated by the Investigation Bureau, Ministry of Justice and the proceeds of crime have shown a decreasing trend from 2017 to 2021.

► Figure 1-5 Number of Criminal Cases



► Figure 1-6 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 2017 to 2021 was that the number of counterfeit documents in collection or issuance, stock price manipulation through abnormal trading, and special breach of trust and embezzlement cases continued to shrink (45, 38, 25, 29, and 19 from 2017 to 2021, respectively). As shown Table 1-4, the main reason for a decrease in the proceeds of crime from 2017 to 2021 was that the number of counterfeit documents in collection or

issuance cases plummeted. The proceeds of crime in 2021 decreased from 2020 as a result of a reduction in the proceeds of crimes from special breach of trust and embezzlement.

Among the criminal cases investigated in the past five years, the number of insider trading, stock price manipulation through abnormal trading, special breach of trust, and embezzlement cases (44, 42, 38, 34, and 34, respectively) accounted for more than 60% of the total cases each year. The number of insider trading cases maximized in 2020 and 2021, additionally stock price manipulation through abnormal trading cases also peaked between 2017 and 2019; in terms of the amount of proceeds of crime, false financial statements cases accounted for the most in 2021, special breach of trust and embezzlement cases in 2020 and 2019, and then false financial statements and counterfeit documents in collection or issuance in 2018 and 2017.

The findings of various types of criminal cases from 2017 to 2021 are as follows:

- A. The number of insider trading cases in 2021 increased by nine from 2020, but the proceeds of crime in 2021 were NT\$92.47 million less than those in 2020 mainly because the proceeds of crime obtained by Chairman Wu of Formosa Oilseed Processing Co., Ltd. in violation of the “Securities and Exchange Act” in 2020 were higher;
- B. The proceeds of crime from counterfeit documents in collection or issuance (NT\$11,901.3 million) in 2017 were the highest in the past five years and significantly higher than those in other years mainly because Hsu from XPEC Entertainment Inc. gained considerable illegal profits. The proceeds of crime from counterfeit documents in collection or issuance (NT\$4,497 million) in 2019 were the highest in the past three years because Hsieh and others from Taitrans Technology Co., Ltd. were suspected of violating the “Securities and Exchange Act;”
- C. The proceeds of crime from false financial statements (NT\$10,798 million) in 2018 were the highest in the past five years and significantly higher than those in other years mainly because Topower Co., Ltd. and others were suspected of violating the “Securities and Exchange Act” and the “Tax Collection Act” by issuing false invoices in a recurring manner.
- D. There was one fraudulent lawyer or CPA attestation case (i.e., fraudulent CPA attestation of Solar Applied Materials Technology Co., Ltd.) in 2021 and the first in the past five years.

► Table 1-3

Type of Violation	Number of Violations					Number of Suspects				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Counterfeit documents in collection or issuance	13	9	9	8	7	95	45	64	49	35
Settlement default	0	0	0	0	0	0	0	0	0	0
Stock price manipulation through abnormal trading	17	16	14	9	5	61	61	40	48	15
Insider trading	12	13	12	13	22	33	35	40	55	81
Unconventional transactions	2	6	9	9	4	6	51	47	61	23
Special breach of trust and embezzlement	15	13	12	12	7	69	59	72	64	14
False financial statements	6	3	3	6	3	25	23	20	19	11
False lawyer or CPA attestation	0	0	0	0	1	0	0	0	0	3
Stock price manipulation with unreliable information	0	1	1	0	0	0	1	1	0	0
Stock price manipulation in other manners	0	0	0	0	0	0	0	0	0	0
Illegal private placement	0	0	0	0	0	0	0	0	0	0
Illegal mergers and acquisitions	0	0	0	0	0	0	0	0	0	0
Subtotal	65	61	60	57	49	289	275	284	296	182

► Table 1-4

Type of Violation	Proceeds of Crime (NT\$10,000)				
	2017	2018	2019	2020	2021
Counterfeit documents in collection or issuance	1,190,130	192,164	449,738	205,919	175,089
Settlement default	0	0	0	0	0
Stock price manipulation through abnormal trading	205,322	206,878	325,601	241,715	71,422
Insider trading	28,308	4,741	8,544	20,299	11,052
Unconventional transactions	22,024	101,819	199,731	141,676	52,799
Special breach of trust and embezzlement	534,359	419,043	495,968	620,296	208,658
False financial statements	154,151	1,079,843	114,614	426,398	326,350
False lawyer or CPA attestation	0	0	0	0	320,000
Stock price manipulation with unreliable information	0	2,036	0	0	0
Stock price manipulation in other manners	0	0	0	0	0
Illegal private placement	0	0	0	0	0
Illegal mergers and acquisitions	0	0	0	0	0
Subtotal	2,134,294	2,006,524	1,594,196	1,656,303	1,165,369

III. Investigations of Civil Liability by the SFIPC 2017~2021

1. Class action litigations (Table 1-5):

(1) Type of cases:

From 2017 to 2021, the SFIPC instituted 19, 10, 12, 10, and 11 class action litigations, respectively, mainly for three types of cases: false financial statements or financial information, insider trading, and stock price manipulation. In 2017, 2020, and 2021, false financial statements or financial information were (was) the main type of cases. In 2018 and 2019, most cases involved insider trading.

(2) Trend analysis:

A. Number of cases: There was little difference in the number of class action litigations filed between 2018 and 2021. There were more litigations filed in 2017 mainly because Yang Hwa Technology Corporation, which was criminally prosecuted in 2016, involved a number of TWSE/TPEX-listed companies and TPEX Emerging Stock Companies; eight class action litigations were derived therefrom, five of which were filed in 2017.

B. Number of authorizers: The large number of authorizers in 2021 and 2017 respectively was mainly due to the large number of authorizers in several prosecution cases in those years (e.g., Pharmally International Holding Co., Ltd in 2021 and XPEC Entertainment Inc. in 2017).

C. Amount of compensation sought: The higher amounts of compensation were sought in 2021 and 2017 because either there were a larger number of authorizers in some of the prosecution cases, or the companies involved had high stock prices (e.g., Pharmally International Holding Co., Ltd in 2021 and XPEC Entertainment Inc. in 2017).

► Table 1-5

Type of Class Action (Note 1)	2017			2018			2019			2020			2021		
	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	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 financial information	7	94,666	2,976	3	44,143	1,041	2	69,625	143	5	65,309	3,478	5	740,300	7,763
Stock price manipulation	4	35,503	926	3	25,522	451	4	80,010	1,048	2	1,791	140	3	9,157	93
Insider trading	5	116,737	1,498	4	30,989	487	6	19,094	1,512	2	1,198	60	2	2,809	49
Others (Note 2)	1	499	126	0	0	0	0	0	0	0	0	0	0	0	0
Combination (Note 3)	2	536,655	20,728	0	0	0	0	0	0	1	4,327	109	1	2,131	77
Total	19	784,060	26,254	10	100,654	1,979	12	168,729	2,703	10	72,625	3,787	11	754,397	7,982

Note 1: This year, class action litigations were divided into five types: false financial statements or financial information, stock price manipulation, insider trading, others, and combination. After the reclassification of cases in each year, the number of “false financial statements or financial information” cases in 2017 increased by one while the number of “others” cases decreased by one; in 2018, the number of “false financial statements or financial information” cases increased by one while the number of “combination” cases decreased by one.

Note 2: Others refer to types of violations other than false financial statements or financial information, stock price manipulation, and insider trading.

Note 3: The combination of two or more types of violations, including false financial statements or financial information, stock price manipulation, insider trading, and others.

Note 4: The amount of compensation sought and the number of authorizers each year may be adjusted due to the increase or decrease in the number of authorizers or the change in the calculation method of damage. The data are counted up to March 15, 2022.

2. Derivative suits and discharge suits (Table 1-6):

(1) Type of cases:

From 2017 to 2021, the number of derivative suits were 6, 5, 2, 6, and 8, respectively; the number of discharge suits were 9, 9, 5, 7, and 6, respectively.

(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 first evaluates whether the company is a TWSE/TPEX-listed companies or 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. In 2017, 2018, 2020, and 2021, there was no significant difference between derivative suits and discharge suits (including intervention in litigation) in number. The number of derivative suits and discharge suits in 2019 was lower. The main reason was that fewer cases met the statutory prerequisites in 2019.

► Table 1-6

Type of Action	2017		2018		2019		2020		2021	
	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)	Number of Actions	Amount of Compensation Sought (NT\$10,000)	Number of Actions	Amount of Compensation Sought (NT\$10,000)
Derivative suits	6	408,490	5	343,856	2	11,577	6	136,173	8	174,045
Discharge suits	9	-	9	-	5	-	7	-	6	-

3. Implementation results:

(1) Assisting investors in receiving compensation through class action litigations:

In 2021, the SFIPC assisted investors in instituting class action litigations for the securities and futures cases, and has secured compensation of NT\$183 million plus, including more than NT\$112 million from reconciliations and NT\$71 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 proves to be an effective way to protect investor rights and compensate them for their losses and increase market confidence.

(2) Appealing to courts for discharging incompetent directors and supervisors of TWSE/TPEX-listed companies:

In 2021, the SFIPC won 4 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

urges 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.

The amendment to the “Securities Investor and Futures Trader Protection Act” in 2020 reinforced the scope and effect of derivative suits and discharge suits, including the disqualification system for directors or supervisors dismissed in the event of litigation; that is, directors or supervisors dismissed based on the court’s ruling may not, within three years from the date of the ruling, serve as directors or supervisors of TWSE/TPEX-listed companies, and TPEX Emerging Stock Companies. The SFIPC has already won 2 discharge suits (Oceanic Beverage Co., Inc and Trinity Precision Technology Co., Ltd.) and through this disqualification system, the defendants may no longer serve as directors or supervisors of TWSE/TPEX-listed companies or TPEX Emerging Stock Companies within three years from the date the judgment or ruling becomes final and unappealable. Such ruling will raise further the cost of violating the law for directors and supervisors with conduct materially injurious to the company or in violation of laws and regulations in course of performing their duties. As a result, this system can effectively urge directors and supervisors to adhere strictly to the law, perform faithfully their duties, exercise due diligence, and should enhance orderly market operations.

IV. Cross-border and Inter-ministerial Collaboration in Financial Supervision 2017~2021

1. Inter-ministerial collaboration in financial supervision

(1) Interdepartmental collaboration in supervision on the issuance market

If TWSE/TPEX-listed companies and the TPEX Emerging Stock Companies are involved in a 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 transferred 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 2017 to 2021, 4, 16, 8, 4, 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 or non-arm’s length 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. They were transferred 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 (among the cases transferred by the SFB for violation of the previous regulations in 2021, three of them involved related party transactions). The TWSE and TPEX also coordinated with law enforcement agencies for prosecution and investigation as needed. From 2017 to 2021, the TWSE assisted judicial institutions in providing relevant information on 26, 23, 27, 17, and 40 cases, respectively, with the TPEX assisting in 33, 38, 48, 41, and 52 cases.

In addition, the SFB, TWSE, and TPEx held 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 TDCC are invited to attend when necessary. From 2017 to 2021, the corporate supervisory meeting was held four times, once, twice, and thrice, and twice, respectively.

(2) Interdepartmental collaboration in supervision on the trading activities

From 2017 to 2021, 2, 5, 4, 7, and 4 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 work with law enforcement agencies on the prosecution and investigation in securities-related violations, including stock price manipulation and insider trading. From 2017 to 2021, the TWSE assisted law enforcement agencies in providing relevant information 68, 67, 45, 54, and 47 times, and this happened a total of 99, 89, 103, 100, and 116 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, Yu and other 11 defendants involved in the manipulation of Far Eastern Department Stores Ltd.’s stock price between 2019 and 2020 were prosecuted by the Taiwan Taipei District Court in February 2021 for violation of the “Securities and Exchange Act;” Chairman Wang of Trinity Precision Technology Co., Ltd. and other six defendants implicated in the manipulation of Trinity Precision Technology Co., Ltd.’s stock price, insider trading, and false financial statements between 2016 and 2017 were sentenced to imprisonment for two months to two years by the Taiwan Miaoli District Court in December 2021 for violation of the “Securities and Exchange Act.”

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

The FSC and the Ministry of Justice hold liaison meetings on a regular basis. In 2021, one liaison meeting was held. On November 30, 2021, the Investigation Bureau, Ministry of Justice held the "Inter-agency Meeting on Execution of Economic Crime Prevention," where each bureau of 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, the 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. On March 4, 2021, the Economic Crime Investigation Center of the Taiwan High Prosecutors Office held the first advisory and coordination committee meeting, where relevant ministries convened to review measures to prevent economic crimes derived from financial technology, information security, and cryptocurrency, with the goal of resolving issues relating to market order and ensure social and economic stability.

2. Cross-border collaboration in financial supervision

For law enforcement purposes, the FSC may collaborate with foreign securities and futures regulators in financial supervision, such as information exchange and investigation, through the multilateral memorandum of understanding ("MMOU") established by the International Organization of Securities Commissions ("IOSCO").

From 2017 to 2021, the number of cases requiring assistance from foreign competent authorities totaled 38, and most of the cases (11) were requested in 2019; the number of cases requiring assistance from the SFB was 51, most of which (15) were requested in 2020 (refer to Table 1-7). In 2021, the SFB sought assistance in four cases from the Securities and Futures Commission of Hong Kong and Monetary Authority of Singapore. Authorities in other countries requested assistance in eight cases from the SFB, including the Securities and Futures Commission of Hong Kong (4), Securities and Exchange Commission, Thailand (2), Securities and Exchange Board of India (1), and Netherlands Authority for the Financial Markets (1). This manifested close communication and collaboration between the SFB and global financial supervisory agencies.

► Table 1-7

Type of Collaboration \ Year	2017	2018	2019	2020	2021
Number of cases requiring assistance from other competent authorities	7	9	11	7	4
Number of cases requiring assistance from the SFB	14	5	9	15	8

3. The FSC's sharing of auditing supervision in the International Forum of Independent Audit Regulators

The International Forum of Independent Audit Regulators (the “IFIAR”) is the world's largest body that brings together the world's audit regulator. The FSC is active in IFIAR participation. Since being elected as an IFIAR director in 2019, the FSC has appointed officers to attend the IFIAR board meetings and the Audit and Finance Committee meetings under the IFIAR every year. In addition to contributing to the meetings, the FSC has partaken in the process of making various key management and maintenance decisions. In 2022, the FSC served as a panelist at the annual meeting to share Taiwan's experience and practices in promoting the disclosure and verification of ESG information. The FSC also shared Taiwan's auditing supervision practices in the forums of the IFIAR Enforcement Working Group, including Taiwan's accountant disciplinary system in 2019 and Taiwan's law enforcement results in 2021 and methods of disclosure.

4. Law enforcement results on insider trading over the past five years

From 2017 to 2021, there were 48 indicted insider trading cases, of which 35 were convicted. At present, 69 people have been sentenced to imprisonment for one year to three years and six months, coupled with accompanying civil liability. According to the class action litigations instituted by the SFIPC on behalf of the investors who suffered damage from insider trading, these investors have received compensation for 12 of the 48 litigations.

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



For the securities and futures markets in Taiwan, the law enforcement policies, approaches, enforcement framework, and law enforcement results in the past five years (2017~2021) have been specified in the Foreword and Chapter One. This chapter proceeds with the major law enforcement cases with respect to administrative sanctions, investigations of criminal liability, and investigations of civil liability in 2021.

I. Administrative Sanctions

Regarding the supervision of TWSE/TPEX-listed companies in 2021, the SFB investigated and penalized TECO Corporation, Solar Applied Materials Technology Co., Ltd., Federal Corporation, and other companies for major violations of corporate governance and shareholders' equity. To strengthen the transparency and corporate governance in Taiwan's securities market, the SFB actively worked with the Investigation Bureau, Ministry of Justice to investigate people holding securities in the name of others. For the first time, it fined the CPA for failing to perform KYC checks in compliance with regulations on money laundering prevention and control. On the part of the supervision of intermediaries, Fuh Hwa Securities Investment Trust Co., Ltd., Capital Investment Trust Corp., and Uni-President Assets Management Corporation and their personnel were severely disciplined for causing material damage to the rights and interests of customers when providing discretionary investment management for the Bureau of Labor Funds; in ad hoc inspections, the SFB amerced securities firms that failed to implement information security for the host co-location service, as well as Concord Futures Corp., which was found deficient in its anti-money laundering and internal control system. The aforesaid cases are described separately below.

1. The FSC urged TECO Group to implement corporate governance in compliance with relevant regulations and to improve its board's operations

According to the media reports, there was friction between Chairman Huang of TECO Group and his son Huang X-X. Huang X-X resigned as executive director and related positions at TECO and stated that he would not accept the nomination by the board; instead, he would win his board seat by nominating a full number of directors as a shareholder holding more than 1% of TECO's shares. With cross shareholding between TECO, Creative Sensor, Inc., and TECO Image Systems Co., Ltd., Huang X-X acted as the chairman of Creative Sensor, Inc. and TECO Image Systems Co., Ltd. By holding the board meetings of these two companies to resolve on investing in TECO and soliciting for proxies, he strove to win his board seat at TECO and consolidate his ownership in Creative Sensor, Inc. and TECO Image Systems Co., Ltd. Chairman Huang of TECO Group countered through the public tender offer of shares of Creative Sensor, Inc. and TECO Image Systems Co., Ltd. In the process of competing for ownership, there were major flaws in the boards of directors of Creative Sensor, Inc. and TECO Image Systems Co., Ltd. In addition to fining these two companies, the FSC requested their independent directors to supervise their improvements and carry out audits more effectively, so as to implement corporate governance.

Creative Sensor, Inc. held a board meeting to resolve on investing in TECO and soliciting for proxies, which was reported to be a material violation of the laws. The TWSE found that the board of Creative Sensor, Inc., without waiting for the directors' explanations, deemed the directors to be interested parties and thus excluded them from the discussion and resolution of the video conference; in the middle of the proceeding, the board adjourned without the consent of more than half of the directors

present; moreover, the directors' opinions on investment in TECO and solicitation of proxy were absent in the minutes of the board meeting.

When holding a board meeting to discuss the re-election of directors at the shareholders' meeting, TECO Image Systems Co., Ltd. neither specified the cause of convening the board meeting nor attached the meeting materials to the notice of the board meeting; instead, it was reported to provide the meeting materials several hours before the board meeting commenced, resulting in the directors being unable to discuss the proposals with sufficient preparation. As a result, there was a flaw in the process of convening the board meeting.

The flaws in the board operations of these two companies made the directors unable to exercise their due diligence effectively, which deviated from the spirit of corporate governance. In view of this, the FSC imposed a fine of NT\$240,000 respectively on the persons in charge of these two companies and issued letters requesting improvement. It also sought the independent directors of these two companies to supervise the board operations more carefully; in addition, the TWSE and TPEx bolstered the audits of the board operations of these two companies with the goal of enhancing the board effectiveness and exercise of directors' powers.

2. The FSC urged Solar Applied Materials Technology Co., Ltd. to strengthen corporate governance and to maintain shareholders' equity by improving the audit committee's and the board's operations

In November 2021, there was a dispute of ownership in Solar Applied Materials Technology Co., Ltd. ("SOLAR"), coupled with several violations of corporate governance such as rules of procedure for board of directors meetings, court rulings, and regulations on information disclosure. The FSC, SFIPC, and TPEx urged SOLAR and its independent directors to take corrective measures, so as to strengthen corporate governance and maintain shareholders' equity.

On November 5, 2021, SOLAR held a board meeting to dismiss Ma, the former chairman of the board, through an extraordinary motion and elect Wang, the newly appointed representative of Jade Colorful CO., as the new chairman. SOLAR announced that the previous board's resolution was void; its independent directors, Wu and Wu X-X, also announced that they would convene an extraordinary meeting of shareholders on December 24 and 27, 2021, respectively, to re-elect directors. Both parties applied to the court for an injunction maintaining a temporary status quo, in an attempt to prohibit the other party from convening an extraordinary meeting of shareholders.

Regarding the dismissal and election of SOLAR's chairman through an extraordinary motion, the FSC found no solid evidence to confirm that the extraordinary motion was raised in the case of an emergency or legitimate reason. Based on the FSC's opinion, the Ministry of Economic Affairs refused the change in registration on December 20, 2021. The FSC also found that the minutes of the board meeting contained no summary of directors' opinions on extraordinary motions "to dismiss Chairman Ma" and "to elect a new chairman," which was in violation of Paragraph 8, Article 26-3 of the "Securities and Exchange Act" and Paragraph 1, Article 17 of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies." On March 16, 2022, the FSC imposed a fine of NT\$240,000 on the person in charge of SOLAR in accordance with Subparagraph 9, Paragraph 1, Article 178 and Article 179 of the "Securities and Exchange Act" and sent a letter requiring that SOLAR should proceed with board meetings according to the regulations and corporate governance guidelines. The FSC also found that SOLAR failed to disclose in the shareholding the balance of its directors and supervisors in November and December 2021 the appointment of new representative Wang of Jade Colorful CO. and the shareholding of Independent Director Wu, which violated Paragraph 2, Article 25 of the "Securities and Exchange Act" regarding the filing of changes in the number of shares held by insiders. On March

30, 2022, the FSC fined the person in charge of SOLAR NT\$240,000, along with a letter requesting improvement.

Regarding the reelection of directors in the extraordinary meetings of shareholders held by the independent directors, the Intellectual Property and Commercial Court ruled on December 8 and 9, 2021 that both parties should be prohibited from convening an extraordinary meeting of shareholders. Despite the court's ruling, Wu X-X insisted on convening an extraordinary meeting of shareholders on December 27, 2021. On the same day, the court attended the shareholders' meeting to serve and read out the order, and the SFIPC also filled in a speaker's slip indicating that the meeting had violated the court's order and demanded to stop the meeting according to law; however, Wu X-X decided to postpone the extraordinary meeting of shareholders to January 3, 2022 without consulting anyone. On December 28, 2021, the Taiwan Tainan District Court imposed a fine of NT\$300,000 on Wu X-X for convening the extraordinary meeting of shareholders in violation of the law. On the following day (December 29, 2021), the FSC issued a letter to SOLAR, explaining that Wu X-X's convention of the meeting was void and requiring that SOLAR should comply with the regulations and should not bear any expenses in relation to stock affairs in order to maintain its shareholders' equity. On December 28, 2021, the SFIPC issued a press release denouncing Wu X-X's convening of the extraordinary meeting of shareholders as void and the resolution as illegal. In addition to requesting Wu X-X to stop convening on January 3, 2022, the SFIPC filed a discharge suit against Wu X-X in the Intellectual Property and Commercial Court in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act" for violating the court's ruling. In the end, Wu X-X did not hold such a meeting.

Additionally, the TPEX deemed SOLAR to be negligent in disclosing material information such as reporting inconsistent information on the representative of Jade Colorful CO. several times, falsely releasing material information on the discharge of independent director Wu X-X due to ineligibility, and assisting in the announcement of material information on the illegal convention of the extraordinary meeting of shareholders. On January 20, 2022, the TPEX imposed a fine of NT\$500,000 on SOLAR and sent a letter requesting improvement and strengthening personnel training.

According to Paragraph 4, Article 14-4 of the "Securities and Exchange Act," the powers of supervisors under the "Company Act" shall apply mutatis mutandis to independent directors who are members of the audit committee. In practice, however, this provision has been faced with many challenges in recent years. Since the independent directors of the audit committee are subject to Article 220 of the "Company Act," which stipulates that supervisors may convene an extraordinary meeting of shareholders, they have the right to independently convene an extraordinary meeting of shareholders, which leads to their conflicting involvement in the dispute over ownership. This has triggered discussions about whether the way independent directors exercise their powers is appropriate. The FSC has invited the Taiwan Corporate Governance Association and the SFIPC to hold consultations respectively to listen to the feedback of scholars, representatives of TWSE/TPEX-listed companies, and peripheral organizations on the functions of the audit committee, the independence of independent directors, and the procedural rules for board of directors' meetings. The FSC is also discussing the suitability of the board of directors to dismiss or elect the chairman of the board by means of an extraordinary motion. The TWSE and TPEX have also been required to entrust a research project to a third party to review each article prescribed in Paragraph 4, Article 14-4 of the "Securities and Exchange Act" regarding the application of supervisors' powers under the "Company Act," and to propose supporting measures for future amendments. Based on the "Corporate Governance Roadmap 3.0 - Sustainable Development Roadmap," the FSC requested the TWSE and TPEX to draw up sample templates for the regulations governing the exercise of powers by independent directors and audit committees according to the relevant regulations and practices. Such sample templates are to be formulated in 2022 to increase the independent directors' and audit committee members' awareness of their roles and functions and to ensure that directors fulfill their supervisory duties.

3. The FSC urged Federal Corporation to strengthen corporate governance and to maintain shareholders' equity by complying with regulations, and enhancing its independent directors to duly exercise their powers

On June 15, 2021, the board of directors of Federal Corporation resolved to dispose of the entire equity interest in its subsidiaries, Taixin Construction Co., Ltd. and Taicheng Development Co., Ltd., or the land of Zhongli Plant by way of public auction; however, Nankang Rubber Tire Corp., Ltd. (Nankang Rubber), the major shareholder of Federal Corporation, claimed that such land and equity transactions were significant in terms of the amount of money and thus should be deemed a transfer of the whole or any essential part of its assets under Subparagraph 2, Paragraph 1, Article 185 of the "Company Act," and should only proceed upon the approval of the shareholders' meeting through a special resolution. In view of this, Nankang Rubber applied to the Intellectual Property and Commercial Court for an injunction maintaining a temporary status quo. On August 4, 2021, the court ruled a provisional injunction.

The dispute in this case is whether the land of Zhongli Plant is an essential part of Federal Corporation's assets as stipulated in Subparagraph 2, Paragraph 1, Article 185 of the "Company Act." According to the Ministry of Economic Affairs Letter Jing-Shang-Zi No. 11002405310 dated March 2, 2021, it is difficult to generalize an "essential part" of assets as the business of each company and its nature of operation may vary. In view of this, the FSC invited the SFIPC to hold a consultation on July 29, 2021, where scholars, experts, and representatives of the Ministry of Economic Affairs and the TWSE attended to discuss measures for regulating the disputes over the ownership of TWSE-listed companies and maintaining shareholders' equity, as well as the legality of the aforesaid dispute.

As different parties had different opinions on this case, it was challenging to determine the application of Article 185 of the "Company Act." Considering that the sale of the land could affect the future operations of Federal Corporation, the TWSE required that Federal Corporation should follow the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and its internal control system and evaluate whether to explain in the shareholders' meeting the impact of the case on the company, the operating procedures and decision-making process, and countermeasures; Federal Corporation should also request its independent directors to exercise their supervisory powers; moreover, the TWSE reinforced its supervision of Federal Corporation's subsequent handling of assets. The SFIPC also attended Federal Corporation's shareholders' meeting to raise its concerns, the goal being to improve corporate governance and shareholders' equity of Federal Corporation. To date, Federal Corporation has not disposed of the land of Zhongli Plant and its equity.

4. The FSC launched ad hoc inspections of securities firms providing the host co-location service and imposed a total fine of NT\$5.52 million on ten securities firms for their failure to implement information security for co-location tailored to specific customers, as well as other necessary administrative sanctions, in accordance with the "Securities and Exchange Act"

The FSC launched ad hoc inspections of securities firms providing co-location from 2020 to 2021. During the inspections, ten securities firms were found to not have implemented information security for co-location tailored to specific customers, coupled with other deficiencies in information security. The FSC imposed a total fine of NT\$5.52 million on these ten securities firms.

The TWSE First Information Center provides co-location cabinet rental service for securities firms. The users' hosts will be co-located with the TWSE's host, and they are directly connected to the high-

speed local area network without going through the wide area network, which reduces transmission delay and improves transmission efficiency. All users' hosts are at the same distance from the TWSE's host in line with the principle of fairness.

In June 2020, Concord Securities Co., Ltd. was reported to allow investors' trading programs to connect directly to the trading system and conduct no risk control checks before placing orders. The TPEX found in the investigation that Concord Securities Co., Ltd. failed to treat investors fairly and perform consistent risk controls when providing the host co-location service. Accordingly, the TPEX fined Concord Securities Co., Ltd. NT\$600,000 and suspended its host co-location service.

To tighten the securities firms' management of the host co-location service, the FSC requested the TWSE and TPEX to conduct ad hoc inspections of 21 securities firms providing the host co-location service. The scope of the inspections covered the equipment placed by the securities firms in the co-located computer rooms, the fair treatment of customers using the host co-location service, and system controls.

In the ad hoc inspections, ten securities firms were found to implement no information security for co-location tailored to specific customers, coupled with other deficiencies in information security, which violated Paragraph 2, Article 2 of the "Regulations Governing Securities Firms," which stipulates that the operation of securities firm shall be in accordance with the internal control system. On March 4, 2021, the FSC imposed administrative sanctions on these ten securities firms (e.g., warnings, rectification, and penalties), depending on the severity of the deficiencies, and required that these securities firms should improve their operating procedures based on the instructions of the TWSE and TPEX, adopt the internal control system, and fortify internal audit. (For the deficiencies and sanctions of the ten securities firms, refer to the table below.)

Securities Firm	Deficiency	Administrative Sanction and Penalty
Concord Securities Co., Ltd.	When providing the host co-location service for specific customers, Concord Securities Co., Ltd. failed to keep a complete record of order placing time, had no control over the programs included in the trading host, and allowed information service providers to connect to the trading host remotely.	Warning and a fine of NT\$1,440,000
SinoPac Securities Corporation	When providing the host co-location service for specific customers, SinoPac Securities Corporation failed to keep a complete record of order placing time and allowed information service providers to login the system for development and maintenance remotely.	Warning and a fine of NT\$1,440,000
Cathay Securities Corporation	When providing the host co-location service for specific customers, Cathay Securities Corporation installed the trading software developed by the customers on the co-located system and failed to keep a complete record of order placing time.	Warning and a fine of NT\$1,440,000
Masterlink Securities Corp.	When providing the host co-location service for specific customers, Masterlink Securities Corp. failed to establish a firewall for connecting to the TWSE and enabled third-party maintenance service providers to have access to the account with the highest authority of the host.	Rectification and a fine of NT\$720,000
Fubon Securities Co. Ltd. and Ji-hSun Securities Co., Ltd.	When providing the host co-location service, Fubon Securities Co. Ltd. and Ji-hSun Securities Co., Ltd. failed to establish a firewall for connecting to the TWSE.	Rectification and a fine of NT\$240,000
Hua Nan Securities Inc., Capital Securities Corp., KGI Securities Co. Ltd., and Yuanta Securities Co., Ltd.	Hua Nan Securities Inc., Capital Securities Corp., KGI Securities Co. Ltd., and Yuanta Securities Co., Ltd. failed to retain the record of firewall access and its backup for three years.	Rectification

Securities firms are important intermediaries in the securities market. When providing the host co-location service for customers, securities firms should pay special attention to information security management and compliance with laws and regulations, so as to smooth the operations of the securities market and protect investors' rights and interests. In addition to imposing fines on non-conforming securities firms, the FSC urged these securities firms to comply with the "Taiwan Stock Exchange Corporation Co-Location Service Management Regulations," "Taipei Exchange Foundation Administrative Rules Governing the Host Co-Location Service," and standards for internal control systems to conduct internal audit; the FSC also requested the TWSE to amend the standards for internal control systems of securities firms, including making an application for the entry and exit of equipment and other assets in the co-located computer room, regularly checking the host and network equipment in the co-located computer room, and developing and implementing complete information security protection for the software and hardware placed in the co-located computer room. In addition, the TWSE and TPEx conduct at least one audit every year for securities firms using co-located hosts and follow up on the deficiencies found in the audit until they are improved.

5. The FSC worked with the Investigation Bureau, Ministry of Justice to investigate the insiders of TWSE/TPEx-listed companies failing to declare shares held in the name of others in accordance with regulations, and imposed sanctions on them in order to enhance the transparency and corporate governance of the securities market

Disclosing information on the shareholding of insiders of public companies can bring changes in the shares held by the important personnel of the companies to investors' knowledge. Keeping such information in mind, investors are able to supervise and understand the future operations of public companies make investment decisions and prevent illegality. To maintain a sound securities market, keep market order, and improve market transparency, the FSC continued working with the Investigation Bureau, Ministry of Justice to investigate the insiders of TWSE/TPEx-listed companies failing to declare shares held in the name of others in accordance with regulations. In 2021, the FSC seized 15 cases and imposed a collective fine of NT\$5.22 million. Some of the major cases are described as follows:

- (1) Insider Yang of Harmony Electronics Corp. and Zilltek Technology Corp. was fined for failing to declare shares held in the name of others in accordance with the regulations: In 2021, the FSC learned from the Investigation Bureau's letter that Yang, a director of Harmony Electronics Corp. and Zilltek Technology Corp., and his daughter remitted funds to the employees of Harmony Electronics Corp. (Tsai and Yang) to trade in the stocks of Harmony Electronics Corp. and Zilltek Technology Corp. However, Yang did not declare the shares held in the name of others. After working closely with the Investigation Bureau to track the flow of funds, and also retrieving from the TDCC data on the changes in stock transactions of the relevant accounts, the FSC imposed a total fine of NT\$1.5 million, including NT\$300,000 and NT\$420,000 respectively in accordance with Article 22-2 of the "Securities and Exchange Act" and NT\$360,000 and NT\$420,000 under Article 25 of the same act, for Yang's failure to declare shares of Harmony Electronics Corp. and Zilltek Technology Corp. traded and held in the name of others.

(2) Insider Tsai of Kayee International Group Co., Ltd. was fined for failing to declare shares held in the name of others in accordance with the regulations: In 2020, the FSC found in the Investigation Bureau's letter that Tsai, a major shareholder of Kayee International Group Co., Ltd., remitted funds through a third-party account to Yu and other two people, as well as Key Cheng Holding Ltd., to trade in the stocks of Kayee International Group Co., Ltd.; then, said parties remitted the funds after the sale of stocks back to Tsai. However, Tsai did not declare the shares held in the name of others. After tracking the flow of funds together with the Investigation Bureau and the TDCC's data on the stock transactions of relevant accounts, the FSC imposed a total fine of NT\$840,000, including NT\$420,000 and NT\$420,000 respectively in accordance with Article 22-2 and Article 25 of the "Securities and Exchange Act," for Tsai's failure to declare shares of Kayee International Group Co., Ltd. traded and held in the name of others.

6. The FSC imposed a fine of NT\$4.5 million each on Fuh Hwa Securities Investment Trust Co., Ltd., Capital Investment Trust Corp., and Uni-President Assets Management Corporation, coupled with suspension from entering into discretionary investment management contracts for three months, for the companies' serious violations of relevant regulations in managing discretionary investment assets for the Bureau of Labor Funds, and dismissed or suspended ten employees of these three securities investment trust enterprises

In 2020, Fuh Hwa Securities Investment Trust Co., Ltd., Capital Investment Trust Corp., and Uni-President Assets Management Corporation, as well as ten of their employees, used the assets of the Bureau of Labor Funds under discretionary investment management to purchase the stocks of Far Eastern Department Stores Ltd. based on the instructions of the unauthorized personnel, which violated the duty of care as a good manager, fiduciary duty, and the principle of good faith. The FSC imposed a fine of NT\$4.5 million on each of said three companies, suspended said three companies from signing discretionary investment management contracts for three months, and dismissed or suspended the personnel concerned for causing material damage to the rights and interests of customers.

In 2020, the aforesaid securities investment trust enterprises and their personnel concerned purchased the stocks of Far Eastern Department Stores Ltd. using the assets of the Bureau of Labor Funds under discretionary investment management. Knowing that, according to the discretionary investment management contract, they should not make investments by telephone or other means based on the personnel of the Bureau of Labor Funds, they purchased the stocks of Far Eastern Department Stores Ltd. first based on the instructions of the unauthorized personnel and then instructed the equity research analysts to issue research analysis reports; that is, they made investment decisions before citing the analysis reports, which constituted a violation of the regulations on the investment process. Also, the analysis reports cited by the equity research analysts were not based on reasonable analysis. Such transactions caused damage to the rights and interests of customers and the loss of discretionary assets, which obviously compromised the normal operation of discretionary investment management. On April 22, 2021, the FSC, in accordance with Article 104 of the "Securities Investment Trust and Consulting Act," ordered that the personnel associated with the three securities

investment trust enterprises be dismissed and suspended for a period of time. In addition, the FSC suspended these three enterprises from entering into discretionary investment management contracts for three months for the aforesaid violations and their failure to implement the internal control systems according to Subparagraph 3, Article 103 of the same Act. The fines of NT\$3 million and NT\$1.5 million (totaling NT\$4.5 million) were also imposed pursuant to Subparagraph 4, Article 111 of the same Act. Moreover, according to Article 33 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets," the FSC ordered that each enterprise submits a review report on its internal control system issued by a CPA not providing attestation services to the company (For more information on said sanctions, please refer to the table below).

Subject of Sanctions	Securities Investment Trust Enterprise	Fuh Hwa Securities Investment Trust Co., Ltd.	Capital Investment Trust Corp.	Uni-President Assets Management Corporation
Securities investment trust enterprise		1. Suspension from entering into new discretionary investment management contracts with customers for three months; 2. A total fine of NT\$4.5 million (including NT\$3 million and NT\$1.5 million); and 3. Each securities investment trust enterprise was required to review the deficiencies found in this case, establish an internal control system to prevent conflicts of interest effectively, and submit a review report on its internal control system issued by a CPA not providing attestation services to the company to the FSC upon the approval of the directors and supervisors.		
			4. For Capital Investment Trust Corp. and Uni-President Assets Management Corporation, the respective boards of directors were required to review the competence of their chairmen and presidents or their duty of supervision within three months and, after notifying supervisors, report to the FSC.	
Department head		Dismissal of Chiu	Dismissal of Hsieh	Dismissal of Chueh
Investment manager		Suspension of Liu for one year		Suspension of Sun for one year
			Suspension of Lin for three months	Suspension of Kuo for three months
Equity research analyst		Suspension of Chen for two months	Suspension of Tang for one month	Suspension of Yu for one month
* Effect of sanctions: In accordance with Subparagraph 3, Article 103 of the "Securities Investment Trust and Consulting Act," the aforesaid three securities investment trust enterprises were suspended from accepting new discretionary investment business and subject to the following: <ol style="list-style-type: none"> 1. Shall not apply to raise securities investment trust funds that invest in foreign securities in the most recent year (unless the violations have been specifically improved and approved); 2. Shall not apply to be the master agent of an offshore fund or concurrently operate a futures trust enterprise in the most recent two years; 3. Shall not apply to invest in domestic and foreign businesses or set up branches or invest in securities investment fund management companies in mainland China in the most recent six months; and 4. Others: May not apply for discretionary investment services of government funds (may not participate in tenders for five years), or may be refused or may not be allowed by the FSC to apply to raise or additionally raise securities investment trust funds before the improvement is approved by the FSC in the special audit report. 				

This case violated the amendment to Article 105-1 of the “Securities Investment Trust and Consulting Act” made on January 31, 2018 regarding the penalty for special breach of trust (imprisonment for not less than three years and not more than ten years and an additional fine of not less than NT\$10 million and not more than NT\$200 million). After the end of the investigation, the Taiwan Taipei District Prosecutors Office presented an indictment on February 3, 2021. The case is now being tried by the Taiwan Taipei District Court. To protect the rights and interests of investors, the SFIPC announced on May 6, 2021 that investors could register claims and filed a civil action incident to a criminal proceeding with the Taiwan Taipei District Court for compensation on August 3, 2021.

To improve the compliance of enterprises that operate discretionary investment business with the regulations and contractual requirements, the FSC requested the Securities Investment Trust and Consulting Association of the R.O.C. on December 18, 2020 to notify its members that they should invest or trade in assets under management in accordance with the regulations and may not make investment decisions based on others’ instructions. To strengthen supervision of discretionary investment, the FSC also cross-checked the transactions between funds, discretionary fund managers, and associated accounts. On December 30, 2021, the FSC reviewed and amended the “Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises” to reinforce the management of personal transactions.

In 2021, the FSC planned to draft Article 111 of the “Securities Investment Trust and Consulting Act,” which increases the maximum amount of fines to be imposed on securities investment trust enterprises from NT\$3 million to NT\$15 million, to prevent serious wrongdoing, strengthen the supervision of and people’s faith in securities investment trust and consulting enterprises, and protect the rights and interests of investors. (Refer to Appendix I - Amendment to the “Securities Investment Trust and Consulting Act” (Draft).)

7. For the first time, the FSC imposed sanctions on the CPA for the CPA's failure to perform KYC checks and identify beneficiary owners of accounts in order to comply with the regulations preventing money laundering

For the first time, the FSC sanctioned a CPA in May 2021 for the CPA’s failure to perform KYC checks and identify beneficiary owners in compliance with regulations on money laundering prevention and control.

Certified public accountants (“CPAs”) have expertise in fund management, commercial transactions, provide professional services such as business incorporation, operation or management, corporate mergers and acquisitions, as well as financial and tax consulting. Therefore, they are more likely to detect money laundering and financing of terrorism. In June 2017, CPAs were officially incorporated into the scope of the “Money Laundering Control Act.” Since 2018, the FSC has implemented a risk-based supervision process encompassing questionnaires and on-site and off-site inspections. It has also directed the CPA Associations R.O.C. (Taiwan) to draw up guidelines for anti-money laundering and countering the financing of terrorism (“AML/CFT”) according to Article 7 of the “Money Laundering Control Act,” which stipulates that CPAs shall apply a risk-based approach to undertake customer due diligence measures for verifying the identities of customers and beneficial owners.

According to the investigation materials provided by other agencies, in 2020, CPA Lee was authorized by his client to apply for the registration of capital change, which fell into the scope of the “Money Laundering Control Act.” The client changed its person in charge and address several times

between November 2019 and April 2020. The risk of the case was high, and whether the controlling shareholders were beneficiary owners remained to be clarified; however, CPA Lee did not take reasonable steps to further confirm whether there were beneficiary owners who exercised control over the client, which was in violation of the “Money Laundering Control Act” and the “Regulations Governing Anti-Money Laundering and Countering the Financing of Terrorism for Certified Public Accountants.” Accordingly, the FSC imposed a fine of NT\$50,000 on the CPA in May 2021. In addition, the FSC continued checking in the on-site and off-site inspections whether CPAs performed KYC checks in accordance with regulations.

8. According to the "Money Laundering Control Act" and the "Futures Trading Act," the FSC imposed a fine and suspended the personnel employed by Concord Futures Corp. for their failure to comply with anti-money laundering regulations and to set up policies governing internal control

Concord Futures Corp. did not implement anti-money laundering and countering the financing of terrorism and was found deficient in its internal control system. Accordingly, the FSC imposed a fine of NT\$500,000 in accordance with the “Money Laundering Control Act” and a fine of NT\$240,000, coupled with suspension of the personnel concerned from performing futures business for three months, according to the “Futures Trading Act,” respectively.

Multiple traders who authorized others to place orders provided the same password for logging in the AML/CFT questionnaire and placing online orders. With no control measures put in place, Concord Futures Corp. was unable to ensure whether the orders were placed by traders themselves. It failed to consider the operating effectiveness of the internal control system when designing it, which was inconsistent with Paragraph 1, Article 4 and Paragraph 2, Article 6 of the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in the Securities and Futures Markets” and thus in violation of Paragraph 1, Article 2 of the “Regulations Governing Futures Commission Merchants.” Also, Concord Futures Corp. did not use different passwords or separate systems in compliance with its internal control system regulations when accepting online trading orders and applications for withdrawals, which breached Paragraph 2, Article 2 of the “Regulations Governing Futures Commission Merchants.” In addition, when carrying out anti-money laundering and countering the financing of terrorism, the personnel concerned did not identify the customers and verify their identities using reliable, independent source documents, data, or information and retain copies of the customers’ identity documents or record the relevant information thereon. The managers of Concord Futures Corp. also failed to review and supervise the personnel concerned, which violated Subparagraph 4, Article 3 of the “Regulations Governing Anti-Money Laundering of Financial Institutions.”

For the aforesaid deficiencies, on January 25, 2021, the FSC fined Concord Futures Corp. NT\$500,000 pursuant to Paragraph 5, Article 7 of the “Money Laundering Control Act.” A fine of NT\$240,000 was also imposed, coupled with suspension of the personnel concerned from performing futures business for three months, according to Subparagraph 2, Paragraph 1, Article 119 of the “Futures Trading Act” for the company’s breach of the regulations on the internal control system; in addition, the FSC sent a letter requesting Concord Futures Corp. to strengthen training on AML/CFT for the personnel of the headquarters and branches and to report improvements to TAIFEX, which was required to follow up on the improvements and give guidance.

II. Investigations of Criminal Liability

1. Fraudulent financial reports: Chen X He, former Chairman, et al. of Guang X Tech Company were suspected of being involved in violation of the “Securities and Exchange Act”

Chen X He was the Chairman of Guang X Applied Materials Technology Co., Ltd. (“Guang X Tech Company”), also an issuer of financial reports and financial business documents to be declared or announced as regulated by the “Securities and Exchange Act.” Chen X Ling, the younger sister of Chen X He, was employed at the Finance Department of Guang X Tech Company, and after her retirement, became a consultant and supervisor of Guang X Tech Company. Chen X Ming was appointed as a financial manager of Guang X Tech Company at the time. As per the interpretation and description via an official letter by the Accounting Research and Development Foundation (the “AR&DF”) and Taipei Exchange (“TPEX”), the royalties received through “put options” shall be classified as financial liabilities, and the gains or losses arising from the put options shall be classified as non-operating revenues and expenses, which shall be regularly evaluated, and unrealized gains and losses shall also be recognized. Therefore, the royalty revenues received from sale of put options by Guang X Tech Company during the period from August 2009 to December 2011 shall be classified as liabilities on the financial report. The fact was that although the sale of put options generated royalties paid by the buyer, the company that sold the options shall also bear the buyer's future performance obligations and such sale of options shall be recognized as liabilities for the company. In the future, when the buyer requested the company for performance of the option contract, the buyer could then buy or sell the subject matters at the contractual performance price, or simply settled the option contract in cash; therefore, upon the seller's selling the put option and receiving the royalty, such option contract shall be recognized as a financial liability. The fact was also that upon the maturity of the option contract, when the buyer requested for contractual performance, the gains or losses arising from the options shall be classified as non-operating revenues and expenses, which shall be regularly evaluated, and unrealized gains and losses shall also be recognized. Fully aware of the aforementioned facts; however, with a mens rea to conceal the investment losses of the Guang X Tech Company, Chen X He, Chen X Ling and Chen X Ming then prepared a fraudulent financial report to prevent the share price of the Guang X Tech Company from dropping which might happen if a genuine financial report were to be disclosed. Accordingly, with regards to the put options traded during the abovementioned period by Guang X Tech Company, the three people concealed the losses to Guang X Tech Company due to the contractual performance by the buyer in the inventory amount by listing the royalties received as a deduction of inventory amount, as well as concealed the amount receivables and payables as a result of the trade of the option in the accounts of suspense credits and suspense debits. Furthermore, the three people cooked the books by crediting “costs of goods sold” and debiting various “suspense debits” accounts, to create the illusion of a reduction in the cost of goods sold and an increase in profit of the Company; and by charging off the falsely listed “suspense debits” account with accounts such as “inventory,” “other payable fees,” “suspense payables,” etc., at the end of each quarter. However, such bookcooking was to result in an inflated amount of the inventory of Guang X Tech Company, which might cause a huge inventory loss to the Company. The three then listed the quantity of goods deposited by the customers as the inventory of Guang X Tech Company and adjusted the quantity of inventory listed in the book upward, to complete the comprehensive fraudulent account adjustment. On a regular basis, the three people falsely fabricated various accounts of reduction in the cost of goods sold, for the illegal purpose of concealing the fact of huge investment losses that were supposed

to be set aside by Guang X Tech Company. To this end, the individual and consolidated financial reports of Guang X Tech Company from 2009 to 2015 were all untruthful, and after the recompilation of such reports, a total loss of Guang X Tech Company amounted to NT\$3.2+ billion. As verified, the conduct of Chen X He, Chen X Ling and Chen X Ming was involved in violation of the provisions of Paragraph 2 of Article 20 of the “Securities and Exchange Act,” while being suspected of being involved in the offense stated in Subparagraph 1 of Paragraph 1 of Article 171 of the “Securities and Exchange Act.” The case was investigated by the Tainan City Investigation Division (the “TCID”) of the Investigation Bureau, Ministry of Justice (the “MJIB”), referred to and prosecuted by the Prosecutor of the Taiwan Tainan District Prosecutors Office.

2. Insider trading: Tai X Company was suspected of being involved in insider trading of stocks

At 14:02 p.m. on March 3, 2015, Tai X Co., Ltd. (“Tai X Company”, a TWSE- listed company) published its consolidated financial statements for the years 2013 and 2014, where it was announced that profits of NT\$4,547,590,000 of the Company were thereby adjusted due to the fair value model the Company recently adopted, and that the business profits of the Company for 2014 were NT\$957,100,000. Therefore, the after-tax net profit of the Company reached NT\$5,312,010,000. Accordingly, the situation, “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,” shall apply as described in Subparagraph 11 of Paragraph 1 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.” Such situation could also be regarded as related to “The phrase “information that will have a material impact on the price of the securities” in paragraph 1 shall mean information relating to the finances or businesses of the company, or the supply and demand of such securities on the market, or tender offer of such securities, the specific content of which will have a material impact on the price of the securities, or will have a material impact on the investment decision of a reasonably prudent investor.” as described in Paragraph 5 of Article 157-1 of the “Securities and Exchange Act.” After the news was made public on March 3, 2015, in the next three business days (i.e., March 4 to March 6, 2015), the stock price of Tai X Company shut strong trading limit to close at NT\$12.65, NT\$13.50 and NT\$14.40, respectively, where the stock price opened at a strong price and remained strong all the way to the time of closing. This was significant bullish news to the Company. Dating back to January 19, 2015 when the Company finalized its 2014 financial report which was submitted for internal approval and signature, such significant bullish news was already shaped. Moreover, within 18 hours after the significant news-shaping point of time, those people under regulations shall not buy or sell the subject stocks. As per the timeline, the final point of time set for trading restriction was at 08:02 a.m. on March 4, 2015. Lin X Bin was the Manager of the Construction Department of Tai X Company, who was the head of the Construction Department and had been present at numerous meetings of Board of Directors, holding the position(s) of “a director, supervisor, and/or managerial officer of the company” as described in Subparagraph 1 of Paragraph 1 of Article 157-1 of “Securities and Exchange Act.” Prior to the 8th Board Meeting, of the 17th Board of Directors, to be held on January 26, 2015, Lin X Bin had already received the reference materials for the Board Meeting, and was clearly aware of the aforementioned significant news. Accordingly, taking advantage of his insider status who enjoyed insider information advantage over the general investors, during January 21 to 26, 2015, Lin X Bin bought 102,000 shares and sold 28,000 shares of the stock of Tai X Company through

his brother-in-law Dong X Wei's (i.e., wife Dong X Rong's brother) securities account set up at Yu X Securities Corporation. ("Yu X Securities"). Furthermore, one day prior to the Company announcing the significant news, Lin X Bin bought back 16,000 shares of the stocks of Tai X Company at the price NT\$11.55 to NT\$11.75 per share; then he sold all of his 90,000 shares of stocks at a varied price between NT\$12.65 and NT\$17.4; thus, in total profited NT\$292,503. The case was investigated by the Taipei City Field Office (the "TCFO") of the MJIB, referred to and prosecuted by the Prosecutor of the Taiwan Shilin District Prosecutors Office.

3. Insider trading: Da X Textile Co., Ltd. was suspected of being involved in insider trading of stocks

At 16:06 p.m. on March 1, 2018, Da X Textile Co., Ltd. ("Da X Company", a TWSE- listed company) published its disposal of a real estate property by the Company and its subsidiary to X Yi International Development Co., Ltd. (X Yi Company), a subsidiary of, with its stock shares 100% owned by, Yi X Industrial Co., Ltd. (Yi X Company). The before-tax disposal profit was expected to be approximately NT\$1,240 million. After the news was made public on March 1, 2018, in the next three business days, the stock price of Da X Company accumulatively arose by 29.88%. Accordingly, the situation, "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," shall apply as described in Subparagraph 11 of Paragraph 1 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." Dated back January 12, 2018, the Seller, Tai X Company, and the Buyer, X Yi Company, had already had a high degree of consensus on the cooperative deal, where the prior supporting operations was also completed; hence, at the point of time such significant cooperative news was already shaped. Moreover, within 18 hours after the significant news-shaping point of time, those people under the regulations shall not buy or sell the subject stocks. As per the timeline, the final point of time set for trading restriction was at 10:06 a.m. on March 2, 2018. Lai X Hui was a real estate appraiser of Guo X Real Estate Appraisal Firm and Zhan X Gan was the younger brother of Zhan X Tian, who were all involved in this real estate transaction. Zheng X Yang was the founder of Yi X Company; Zheng X Yuan was the first son of Zheng X Yang; Li X Fei was an ex-girlfriend of Lai X Hui; Liu X Lian was the mother of Li X Fei; Chen X Qin was the spouse of Zhan X Gan; Zhan X Ting was the second daughter of Zhan X Gan; Ye X Nian was the brother-in-law of Zhan X Gan; Lu X Ding was a former employee of Yi X Company; Lu X Hao was the second son of Lu X Ding; Wu X Zhi was a friend of Zheng X Yan; and Wang X Su Yan was a friend of Wu X Zhi. All the people aforementioned held the position(s) as described in Subparagraphs 3 to 5 of Paragraph 1 of Article 157-1 of the "Securities and Exchange Act." Therefore, after learning the specific significant cooperative news about Da X Company, until such news was affirmed, and within 18 hours after the significant news-shaping point of time, regardless of whether such news was disclosed or not disclosed to the public, those who held those positions under regulations shall not buy or sell the stock shares, or other securities of an equity nature, of Da X Company in the open market, either in their own names or in the name of another person. Fully aware of the related provisions; nevertheless, with a joint mens rea to profit from the soar of the stock shares after the news was broken to the public, the abovementioned Lai X Hui, et. al. still bought a significant amount of stock shares of Da X Company, violating the provisions on restrictions of insider trading; thus, resulting in illegal gains of NT\$3,062,360 in total. The case was investigated by the Taipei City Field Office (the "TCFO") of the MJIB, referred to and prosecuted by the Prosecutor of the Taiwan New Taipei District Prosecutors Office.

4. Insider trading: Song X Company was suspected of being involved in insider trading of stocks

Song X Digital Cultural and Creative Co., Ltd. (“Song X Company”, a TPEX-listed company) was suspected of being involved in the manipulation of stock prices. With respective search warrants, the New Taipei City Field Division (the “NTCFD”) of the MJB conducted the following two search raids, respectively. 1) At 8:36 a.m. on May 10, 2019, NTCFD entered the residence of Lin X Xin (a Director of Song X Company and the manipulating hyper of the stocks of Song X Company), located at No. X, Section X, Zhongxiao East Road, Xinyi District, Taipei City; and 2) At 9:55 a.m. on May 10, 2019, NTCFD entered Song X Company. Without a search warrant, yet with the consent of Lin X Xin, at 10:40 a.m. on May 10, 2019, NTCFD entered the residence of Lin X Xin, located at No. X, Alley X, Lane X, Wuxing Street, Xinyi District, Taipei City. During the search, it was necessary to make photocopies of certain information related to the subject matter. Therefore, the personnel of NTCFD, accompanied Lin X Xin, made use of the photocopying machine at the sales center of the building complex. Unnoticed by the NTCFD personnel, Lin X Xin asked Qiu X Ling (without knowing the true intent in the underlying offense), a salesperson at the scene of the sales center of the building complex, to inform Chen X Bang of the information about the search of Lin X Xin’s residence. After learning of the search, Chen X Bang inquired into more details from internal personnel (name(s) unknown) of Song X Company, and learnt that Song X Company was also searched. Chen X Bang then immediately contacted Deng X Ming, via LINE communications App, who had bought shares of Song X Company based on the recommendation of Chen X Bang. Deng X Ming was informed of the major raid of search of Song X Company. Fully aware that the stock price of Song X Company was to drop as a result of the search by the juristic entity, and that Deng X Ming bought the shares of Song X Company through a means of financing; however, with a joint mens rea to avoid investment losses through insider trading, Deng X Ming and Chen X Bang proceeded to conduct insider trading. After the conversation with Chen X Bang on the LINE App, Deng X Ming immediately placed successive orders to sell stock transaction through an App on his mobile phone at his residence located at No. X, Alley X, Lane X, Fuxing South Road, Da’an District, Taipei City. Such transactions were to sell the shares of Song X Company, that were registered in the name of Qiu X Jie, the ex-wife of Deng X Ming, under an account set up at Yu X Securities Corporation (“Yu X Securities”). Accordingly, at 14:06 p.m. on the same day (May 10, 2019), Pan X Jia, a salesperson of Yu X Securities, contacted Deng X Ming to report the share transaction status. On May 10, 2019, when the juristic searches were conducted, the stock of Song X Company opened at NT\$25.4 per share, and rose to NT\$26.25 per share by 10 a.m., where only 1,000 shares in total completed the transaction and the trading volume was obviously low. Suddenly, during the period from 11:09 a.m. to 11:25 a.m., Deng X Ming started to register sale of the shares of Song X Company all along the way in a large volume, which totally contradicted his past transaction pattern, trying to disown the shares of Song X Company in the name of Qiu X Jie through an account set up at Yu X Securities. In total, Deng X Ming managed to avoid losses of NT\$576,375. The case was investigated by the New Taipei City Field Division (the “NTCFD”) of the MJIB, referred to and prosecuted by the Prosecutor of the Taiwan New Taipei District Prosecutors Office.

5. Insider trading: Dun X Company was suspected of being involved in insider trading of stocks

At 13:01 p.m. on Friday August 9, 2019, Dun X Technology Co., Ltd. (“Dun X Company”, a TWSE-listed company) published a significant news about the “Share conversion as per resolutions of the Board of Directors of the Company” by uploading such news to Market Observation Post System (“MOPS”). Accordingly, the situation, “The company carries out any material transaction of public

offering and issuance or private placement of equity-type securities, capital reduction, corporate merger, acquisition, or split, share exchange, conversion, or transfer of shares from others, direct or indirect investment project, or there is any material change in any of the above matters,” shall apply as described in Subparagraph 2 of Paragraph 1 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.” Such situation could also be regarded as related to “The phrase “information that will have a material impact on the price of the securities” in paragraph 1 shall mean information relating to the finances or businesses of the company, or the supply and demand of such securities on the market, or tender offer of such securities, the specific content of which will have a material impact on the price of the securities, or will have a material impact on the investment decision of a reasonably prudent investor.” as described in Paragraph 5 of Article 157-1 of the “Securities and Exchange Act.” In this case, the point of time when the material news was made public was at 13:01 p.m. on Friday August 9, 2019. Also, on May 7, 2019, General Manager of Dun X Company, undertook an affidavit in keep confidential of the matter of share conversation. In such affidavit, it was clearly stated that “The Project Liberty entails the plan of X an American listed company, (“Party C”) to acquire Dun X Company (“Party A”), to make Party A become a subsidiary of Party C and 100% owned by Party C.” Therefore, it was evident that the acquisition plan to acquire Dun X Company by Da X Company was already undertaken at the time. Before other specific evidence became available, May 27, 2019 was tentatively determined to be the point of time when the significant event commenced to take shape. Moreover, within 18 hours after the significant news-shaping point of time at 13:01 p.m. on Friday August 9, 2019 when the insiders learned the significant news, those people under regulations shall not buy or sell the stocks of Dun X Company. As per the timeline, the final point of time set for trading restriction was at 07:01 a.m. on August 10, 2019. Song X Yuan and Shan X Wen were an insider and prospective insider as defined in Subparagraphs 1 and 5, respectively, of Paragraph 1 of Article 157-1 of the “Securities and Exchange Act.” Therefore, after learning the specific significant cooperative news about Dun X Company, until such news was affirmed, and within 18 hours after the significant news-shaping point of time, regardless of whether such news was disclosed or not disclosed to the public, those who held those positions under regulations shall not buy or sell the stock shares, or other securities of an equity nature, of Dun X Company in the open market, either in their own names or in the name of another person. Fully aware of the related provisions; nevertheless, with a joint mens rea to profit from insider trading, Song X Yuan and Shan X. We still bought a significant amount of stock shares of Dun X Company under the disguise of extraterritorial investment by juristic person (i.e., the so-called “false foreign investment”), trying to avoid the supervision of the domestic competent authority investigation of the domestic prosecution authority; thus, resulting in illegal gains in price difference of NT\$54,486,790 in total. In addition, after learning the significant news about the subject matter, Shan X Wen further related such significant information to his relatives and friends, namely Shan X Wen, Ruan X Fang and Hu X Ling, separately. Therefore, Shan X Wen, Ruan X Fang and Hu X Ling were also regarded as prospective insiders as provided in Subparagraph 5 of Paragraph 1 of Article 157-1 of the “Securities and Exchange Act.” With a mens rea to engage in insider trading, Shan X Wen, Ruan X Fang and Hu X Ling also bought and sold shares of Dun X Company, respectively; thus, result in illegal gains in price difference of NT\$3,392,440, 1,075,020 and 600,000+, respectively. Meanwhile, as of April 2019, Song X Yuan also further related such significant information to You X Chang and Wang X Xia couple, successively. With a mens rea to engage in insider trading, You X Chang and Wang X Xia couple also bought and sold shares of Dun X Company, respectively; thus, resulting in illegal gains in price difference of NT\$3,081,030, etc. In summary, Song X Yuan, Shan X Wen, Shan X Wen, Ruan X Fang, Hu X Ling, You X Chang, Wang X Xia and You X Xi were all suspected of being involved in the offense as provided in Paragraph 1 of Article 157-1 and Paragraph 1 of Article 171 of the “Securities and Exchange Act.” The case was investigated by the Taoyuan City Investigation Division (the “TCID”) of the MJIB, referred to and prosecuted by the Prosecutor of the Taiwan Taipei District Prosecutors Office.

III. Investigations of Civil Liability

Among the civil claims compiled by the SFIPC in 2021, false financial statements or financial information and insider trading cases came out on top. The related civil cases of great significance are described below.

1. False financial statements of Pharmally International Holding Co., Ltd. (“Pharmally”)

In September 2019, the criminal offenders were suspected of pledging 504 items of machinery and equipment owned by Lu'an Huayuan Pharmaceutical Co., Ltd., a wholly-owned sub-subsidiary of Pharmally in China, as security for debts of the company under the personal control of the defendants. Such information was not disclosed in the Pharmally financial statements, resulting in its false financial statements for the third and fourth quarters of 2019 and the first quarter of 2020. In March 2022, the Taiwan Taipei District Prosecutors Office initiated prosecution against the criminal offenders who were suspected of being involving in false financial statements.

The SFIPC made an announcement in November 2020 to accept investors' request for compensation. In accordance with Article 28 of the “Securities Investor and Futures Trader Protection Act,” the SFIPC instituted a class action suit in March 2021 with the Taiwan Taipei District Court against offenders, directors and supervisors, and CPAs and their accounting firms for damages.

2. False financial statements of Tatung Co. (Tatung) and Chunghwa Picture Tubes, Ltd. (Chunghwa Picture Tubes)

Knowing that there were 19 commitments between Tatung, Chunghwa Picture Tubes, and CPT Technology (Group) Co., Ltd. (a company listed on the Shenzhen Stock Exchange, formerly known as Mindong Electric (Group) Co., Ltd.), the accused were suspected of hiding these commitments and their performances from notes to the financial statements for the first quarter of 2010 to the third quarter of 2018 because they worried that such a disclosure might cause reasonable investors in the securities stock market to change their decisions to invest in Tatung and Chunghwa Picture Tubes. In August 2020, the Taiwan Taipei District Prosecutors Office initiated prosecution against the offenders for false financial reporting.

Based on the violations specified in the criminal indictments, the SFIPC announced in September 2020 that it would accept investors' request for compensation for Tatung and Chunghwa Picture Tubes. In February 2021, pursuant to Article 28 of the “Securities Investor and Futures Trader Protection Act,” the SFIPC instituted class action suits with the Taiwan Taipei District Court against criminal offenders, directors and supervisors, and CPAs and their accounting firms for damages of those 2 companies.

3. Stock price manipulation of AC&C International Co., Ltd. (“AC&C”) and Shenghua Entertainment Communication Co., Ltd. (“Shenghua”)

In order to repay the debt, the accused actively sought investment targets which they could speculate in successfully for profit. Coincidentally, AC&C was hollowed out and was experiencing ownership disputes at that time. As AC&C owned office assets worth more than NT\$1 billion and had no other liabilities, its shares had room to rise. In this regard, the accused manipulated the stock prices of AC&C from July 2016 to May 2018. After obtaining the ownership of AC&C, the accused caused the company and its subsidiaries to conduct transactions to their disadvantage, falsely subscribe for funds, and buy back shares without actual demand; they also misappropriated the funds of

AC&C and its subsidiaries. From August 2017 to June 2018, the accused continued such stock price manipulation and made AC&C invest in Shenghua. With the funds from AC&C, Shenghua engaged in unconventional transactions, fictitious capital, and other wrongdoings. In November 2020, the Taiwan Taipei District Prosecutors Office prosecuted the accused for stock price manipulation, special breach of trust, and non-arm's length transaction.

In March 2021, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. According to Article 28 of the "Securities Investor and Futures Trader Protection Act," the SFIPC instituted a class action with the Taiwan Taipei District Court against the criminal offenders for damages in June 2021.

In May and June 2021, AC&C and Shenghua (as legal entities) brought a suit to the Taiwan Taipei District Court against the offenders for compensation. The SFIPC participated in the suit in May and July 2021 respectively in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act."

The aforesaid behavior of the person in charge of Shenghua already constituted a violation of the laws and regulation. According to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC appealed to the Taiwan Shilin District Court in May 2021 for discharging the person from the directorship of Shenghua.

4. Insider trading of Chilisin Electronics Corp. ("Chilisin") and MAG. LAYERS Scientific-Technics Co., Ltd. (MAG. LAYERS)

Due to the rise of Chinese electronic manufacturers, the accused, i.e., the chairman of Chilisin and the chairman of MAG. LAYERS, met on the evening of December 1, 2017 and agreed to merge by way of a stock swap. This was the date when the material information on the merger was established. After learning of the news that had a significant impact on the stock prices of the two companies, the aforesaid two persons bought the stocks of Chilisin and MAG. LAYERS using others' accounts from December 7 to 13, 2017 before the news was released. In November 2020, the Taiwan Taipei District Prosecutors Office initiated prosecution against the offenders who were suspected of being involving in insider trading.

In February 2021, the SFIPC announced, based on the violations specified in the criminal indictment, that it would accept investors' request for compensation. The accused filed for settlement, and a reconciliation between both parties was established in October 2021.

5. Insider trading of Formosa Oilseed Processing Co., Ltd. ("Formosa Oilseed") and Shin Tai Industry Co., Ltd. ("Shin Tai")

The de facto director of Shin Tai knew of a great financial loss in 2019. To prevent the disclosure of such information from affecting its stock price, the de facto director of Shin Tai consulted with the accused, i.e., the then chairman of Formosa Oilseed, requesting the accused to purchase the shares held by the de facto director of Shin Tai using Formosa Oilseed's funds, which involved insider trading. In October 2020, the Taiwan Taichung District Prosecutors Office charged the offenders on suspicion of insider trading, false financial statements, and non-arm's length transaction.

In July 2021, Formosa Oilseed filed a suit to the Taiwan Taichung District Court against the criminal offenders for compensation. According to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC participated in the suit in August 2021.

For the aforesaid behavior, the person in charge of Formosa Oilseed was in violation of the laws. In June 2021, the SFIPC requested the Taiwan Taichung District Court to discharge the person from the directorship of Formosa Oilseed in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act."

Chapter III

Challenges and Improvements in Law Enforcement of the Securities and Futures Markets in Taiwan

- I. SupTech Application by the SFB and Improvements
- II. Implementation of Investor Protection Measures against Financial Fraud and Improvements
- III. Response to the COVID-19 Pandemic and Forbearance Measures



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. In the process of law enforcement, competent authorities are faced with challenges brought about by changes in the external environment such as technological advancements, new fraud patterns, and the COVID-19 pandemic. It is important that they take preventive and corrective measures appropriately to keep market order and protect investors’ rights.

A reporting (whistle-blowing) system is an early warning system that helps supervisory agencies detect violations and fraud as soon as possible, get hold of the situation immediately and preserve evidence. Its is very helpful for supervisory agencies to clarify 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), for whistle-blowers to come forward to report fraud courageously and for laws to be enforced effectively is also a challenge to be dealt with by the supervisory agencies.

Overall, financial technology (“Fintech”) development can improve the efficiency of financial services, fuel competition in the financial industry, and enhance financial inclusion, allowing people to enjoy the convenience brought by Fintech. While promoting Fintech, however, there might be potential risks and issues brought to the financial system and its customers along with its development. Such risks are inherent vulnerabilities of Fintech products to cyber attacks and online fraud, incomplete information obtained by customers, a majority of technology companies that are outside the jurisdiction of financial regulators, etc. Key issues of concern to the regulators include consumer and investor protection, integration and consistency of supervision and regulatory framework, regulatory arbitrage, the adequacy of the existing financial safety net, and 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 or adjust laws and regulations when considering matters relating to compliance cost. In response to the changing 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, so as to ensure the market order and investors’ rights.

To meet the challenges posed by financial technology in 2021, the SFB continued directing the TWSE, TPEX, TAIFEX, and trade associations to improve the efficiency of supervision and law enforcement by making good use of supervisory technology. While the securities market in Taiwan produced a stellar performance in 2021, investment scams increased simultaneously, posing considerable challenges to the supervision of the domestic securities and futures markets. To protect the investors’ rights, the FSC teamed up with associate agencies to disclose a list of legal operators and issue red flag warnings for illegal operators. It also organized trainings to increase investors’ risk awareness, and set up a point of contact with the Criminal Investigation Bureau. In May 2021, the Central Epidemic Command Center issued a nationwide Level 3 epidemic alert. In response, the FSC took forbearance measures to maintain the normal operation and momentum of the domestic capital markets.

More information on the FSC’s practices in 2021 will be described in the following three sections: application of SupTech by the SFB and improvements, implementation of investor protection measures against financial fraud and improvements, and response to the COVID-19 pandemic and forbearance measures.

I. SupTech Application by the SFB and Improvements

1. SupTech application by the SFB

At the SFB, supervisory technology (“SupTech”) was used to supervise peripheral organizations (including the TWSE, TPEx, TAIEX, and the TDCC) or trade associations to build data systems and databases for risk-based supervision and production of related reports on a regular basis. The SFB then based its supervision and decision-making on such reports.

(1) Supervision of the issuance market

The TWSE and TPEx adopt data analytics to synthesize a number of risk indicators. They subject a certain percentage of TWSE/TPEx-listed companies to a substantial review of financial statements to identify any risks. The TPEx also put the “risk prediction model” in place to analyze TPEx-listed companies risk levels, so as to select the review subject.

(2) Supervision of trading activities

- A. The TWSE and TPEx use programs to regularly supervise cases such as advance collection of buy-side payment or sell-side securities, numbers of order cancellations before opening and closing, etc. TAIEX examines the review standards for futures prices and volumes formulated through historical simulation to analyze and monitor the changes and concentration of the opening interest; it also generates early warning reports that were automatically sent to futures commission merchants to regulate the futures positions effectively.
- B. The TWSE, TPEx, and TAIEX review the trading status of the securities and futures markets through the surveillance system, and conduct analysis of any detected abnormal changes in price and volume. Obvious abnormalities, if any, will be transferred to law enforcement agencies for investigation.

(3) Supervision of intermediaries

The TWSE or TPEx introduced 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. TAIEX also has an early warning system set up based on the financial and operational data and related statistics are uploaded by futures commission merchants every month to manage the overall operational risk of futures commission merchants.

2. Improvements

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 (the “RPA”) was also introduced to reduce repetitive tasks and make subject-based searches, which could enable the SFB to identify the key points of supervision quickly and take related actions more effectively. The priorities of SupTech are described as follows:

(1) The securities and futures markets

- A. The SFB requested the TWSE and TPEX to continuously check management reports and supervisory procedures for the RPA adoption. In 2021, the RPA was introduced to three supervisory procedures: notice of change in internal audit officer/accounting officer, claim for related party transaction filing, and filing of daily ETF and ETN net worth and issued units.
- B. New technologies such as “news retrieval system” and push notifications of material information were used to instantly get hold of information on TWSE/TPEX-listed companies.
- C. The risk management system was adopted, coupled with big data analytics, to assist in the selection of listed companies' financial statements for reviewing.
- D. The TWSE gleaned and compiled the foreign developments of SupTech, as well as cases on illegal or abnormal transactions of domestic TWSE-listed companies, to learn about the patterns and symptoms of abnormal transactions, so as to integrate and optimize supervision of TWSE-listed companies.
- E. Companies whose changes in insider shareholdings met the abnormality detected indicators were automatically screened by supervision programs.
- F. In view of a significant increase in the influence of media information on stock prices, the TPEX set up a “Social Media Observation Platform” based on related research or cases discussing the impact of media information on illegal transactions. Said platform completed the test at the end of December 2021 and went live in March 2022.
- G. The TWSE and TPEX continuously used SupTech to collect and analyze media reports and social media posts as evidence of potential illegal transactions. Such information was provided to law enforcement agencies for reference.

(2) Intermediaries

- A. Securities firms were allowed to apply for new types of business, and applicants of Fintech and innovative experimentation could apply for restructuring as a securities firms. To help Fintech businesses adapt to the laws and new types of investments and transactions for the better development of the Fintech industry, the FSC amended the “Standards Governing the Establishment of Securities Firms,” “Regulations Governing Securities Firms,” and “Regulations Governing Responsible Persons and Associated Persons of Securities Firms.” These amendments would allow securities firms to engage in the business of fund proprietary trading and be licensed for operating only this line of business; applicants of Fintech and innovative experimentation approved by the FSC could also apply for restructuring as a securities firms.
- B. To facilitate the rational use of customer information among financial institutions and cross-industry cooperation, the FSC issued an order on January 20, 2022 to direct the securities and futures businesses to apply for information sharing between financial institutions. If a securities or futures business plans to share information with any financial institution outside its group, it must apply to the FSC first to protect the rights and personal information of customers.

II. Implementation of Investor Protection Measures against Financial Fraud and Improvements

In 2021, Taiwan's securities market performed remarkably well and attracted many investors; at the same time, the number of investment scams mounted. According to the National Police Agency Statistics List on July 14, 2021, 2,168 investment fraud were reported in the first half of 2021, a year-on-year increase of 94.61%.

The SFB encourages the public to report financial or investment fraud. If such fraud involves the illegal operation of securities firms and futures commission merchants, as well as illegal securities investment consulting enterprises or discretionary investment businesses, there will be criminal liability under Article 174 of the "Securities and Exchange Act," Article 112 of the "Futures Trading Act," and Article 107 of the "Securities Investment Trust and Consulting Act." The SFB will refer such fraud to the Investigation Bureau, Ministry of Justice when substantiating evidence exists. As to investment scams using SMS or LINE to engage in foreign exchange and derivatives trading on foreign trading platforms, the FSC does not investigate this type of fraud as it only regulates the conduct of legal operators. Instead, the FSC will transfer such cases to the Criminal Investigation Bureau for investigation. In 2021, the SFB received 336 reports on financial fraud, 96 of which were received in the first half of the year; the number multiplied to 240 between July and December. From January to March 2022, 189 cases were reported, showing an upward trend.

To protect the rights and interests of investors, the FSC took various measures (e.g., red flag warnings, propaganda, and cooperated with the Criminal Investigation Bureau) as follows:

(1) Issuing press releases, a list of legal operators, and red flag warnings for illegal operators:

The FSC issued press releases several times in 2021, calling on investors to be vigilant and gauge information prudently before making investment decisions. The SFB also disclosed on its homepage a list of legal securities firms, futures commission merchants, and securities investment trust and consulting enterprises, as well as various types of illegal operators. Trade associations were also required to set up anti-fraud, investor protection, and red flag warnings sections on their respective websites for investors to search for information on illegal operators, directions for overseas investment, clarifications of financial consultants whose identities were assumed by others, media reports, clarifications of the securities and futures businesses, and more.

(2) Increasing investors' risk awareness through training:

The FSC urged peripheral organizations and the securities and futures businesses to call on investors to be aware of investment risks and to cooperate only with legal operators. In 2021, the Securities and Futures Institute (the "SFI") also organized a number of educational and promotional activities on the prevention of financial fraud. Trade associations supported the SFI by holding seminars, placing print and media advertisements, producing posters and anti-fraud videos to familiarize investors with types, methods, and characteristics of investment frauds to increase their risk awareness.

(3) Setting up a point of contact with the Criminal Investigation Bureau to prevent financial fraud and foster deeper cooperation:

A point of contact between the SFB and the Criminal Investigation Bureau has been put in place for instant communication and cooperation. After receiving a directory of legal securities and futures businesses and financial products (e.g., websites of domestic and overseas funds and legal sales agencies) provided by the FSC regularly, the Criminal Investigation Bureau will request telecom

operators to block and remove the websites of illegal operators and scams. Periodically, the SFB also transferred reports on investment frauds and relevant information to the Criminal Investigation Bureau for investigation. When holding anti-fraud activities in the future, the Criminal Investigation Bureau may be asked by the FSC to help promote the “Directions for Encouraging the Public to Report Illegal Financial Activities by the Financial Supervisory Commission” and whistleblowing channels.

(4) Encouraging whistleblowing by giving out whistleblower rewards and raising awareness:

The FSC continued to give out whistleblower rewards in accordance with the “Directions for Encouraging the Public to Report Illegal Financial Activities by the Financial Supervisory Commission” (raising whistleblower rewards up to NT\$4 million on January 11, 2021). From 2017 to 2021, a total of NT\$965,000 (17 cases) was distributed to whistleblowers. The feedback mailbox, hotline, and said directions were also made available on the website for people to report illegal financial activities. Moreover, peripheral organizations and trade associations were required to promote the whistleblowing systems in a timely manner.

III. Response to the COVID-19 Pandemic and Forbearance Measures

1. The Securities and Futures Markets

(1) Relaxing the profitability criteria for companies applying for IPO in 2021 to facilitate fundraising

To facilitate initial public offering (“IPO”) and fundraising of companies, the TWSE and TPEX extended the IPO deadline for companies that had signed the listing contracts before the end of 2020 and 2021 (from six months to nine months). They also relaxed the profitability criteria for companies applying for IPO in 2021 (changing the profitability timeline of TWSE-listed companies from the past two years to any two of the past three years; the profit criteria for TWSE primary listed companies has changed from NT\$250 million to NT\$150 million in the past three years, and the profit in the most recent year from NT\$120 million to profit-making; additionally TPEX-listed companies [including TPEX primary listed companies] do not have to make the same profit as the previous year to apply for IPO).

(2) Supervising the TDCC to amend and promulgate guidelines and regulations for postponing shareholders' meetings and holding video conferencing assisted shareholders' meeting during the pandemic

As a necessary pandemic prevention measure, the FSC announced on May 20, 2021 that all public companies should suspend the convention of shareholders' meetings from May 24 to June 30, 2021 and hold the meetings between July and August. The “Measures for Public Companies to Postpone Shareholders' Meetings for Pandemic Prevention” was promulgated as well. Moreover, on June 29, 2021, the FSC announced that during the period from August 16 to August 31, 2021, in addition to holding physical shareholders' meetings, public companies meeting certain conditions would be permitted to hold shareholders' meetings with assistance of video conferencing. A total of 17 companies applied to use the video conferencing platform and held hybrid shareholders' meetings successfully.

(3) Issuing the directions for the remote audit of public companies' financial statements by CPAs and measures for the disclosure of financial statements for Q2 of 2021

In response to the pandemic, the FSC issued the directions for the remote audit of public companies' financial statements by CPAs in September 2020 to remind CPAs to consider relevant risks and exercise their due professional care in evaluating the feasibility of remote audit. Considering the impact of the pandemic on TWSE/TPEX-listed companies, TPEX Emerging Stock Companies, and public companies, the FSC also issued measures for the disclosure of financial statements for Q2 of 2021 in July 2021, including extension of the deadline for filing and disclosure.

2. Intermediaries

(1) Securities firms

To maintain the business continuity of securities firms, the SFB agreed that they could engage in business electronically or through other feasible alternatives without prejudice to their internal control systems; specifically, securities firms were allowed to adjust account opening and management, transactions, account settlement, payments/bank transactions, audit, and other business operations as needed.

On May 24, 2021, the SFB approved the TWSE's amendment to the "Guidelines for the Work-From-Home Application by Securities Firms in Response to COVID-19," stipulating that securities firms may apply for working from home in a streamlined manner in case of an emergency. On July 12, 2021, the SFB also relaxed the requirements for recording dealer trading and transactions, allowed the post-ratification of board meeting minutes in case of emergencies, and integrated information security controls.

(2) Futures commission merchants

To alleviate the potential impact of the COVID-19 pandemic on the operations of futures commission merchants, TAIEX drew up the "Guidelines for the Work-From-Home Application by Futures Commission Merchants in Response to COVID-19." However, said guidelines were found too rigid and difficult to implement in practice. In view of this, the SFB agreed to TAIEX's amendment to said guidelines on July 9, 2021. The amendment would allow futures commission merchants to manage their trading by alternatives other than recording and to report through post-ratification to the boards in case of emergencies; TAIEX also amended the provision that people working from home should provide their addresses and report any personnel changes in advance for future reference. It also added supporting measures such as internal control, risk control, and information security to the provision.

(3) Securities investment trust and consulting enterprises

On May 14, 2020, the SFB approved the "Guidelines for the Remote Work or Work-From-Home Application by Securities Investment Trust and Consulting Enterprises in Response to COVID-19" formulated by the Securities Investment Trust and Consulting Association of the R.O.C. In addition to the measures that securities investment trust and consulting enterprises should take when making remote work and work from home arrangements, said guidelines clearly stipulate that enterprises applying for remote work should assign senior executives to manage work from home arrangements and take enhanced information security measures for equipment, channels, and platforms used at work.



Appendix

- I. Key Amendments in Taiwan's Securities and Futures Markets in 2021
- II. Information on Law Enforcement Results of the TWSE, TPEx, and TAIEX
- III. Statistics on Administrative Sanctions Imposed by the SFB 2017~2021



Appendix I. Key Amendments to relevant regulations in Taiwan's Securities and Futures Markets in 2021

I. Draft amendments to the “Securities Investment Trust and Consulting Act” (reported to the Executive Yuan for review on July 23, 2021 and January 10, 2022, respectively)

To provide investors with multiple investment channels, enhance the competitiveness of the asset management industry, activate Taiwan's real estate securitization market and strengthen the supervision of securities investment trust and consulting enterprises, the FSC drafted the amendments to the “Securities Investment Trust and Consulting Act” in 2021 to allow REITs to be issued under a fund structure and to raise the fines up to NT\$15 million in order to enhance the supervision of SITES and SICEs. The key points and benefits of the draft amendments are described below.

(I) Issuance of real estate investment trusts (“REITs”) under the fund structure

1. Key points of the amendment (addition of Articles 3-1 and 82-1 and amendment to Article 66)

- (1) Define the fund-based REIT as a contractual fund and allow securities investment and trust enterprises to concurrently operate as real estate investment trust enterprises.
- (2) Define the qualifications for setting up a real estate investment trust enterprise, including authorizing the FSC to determine the minimum paid-in capital of a real estate investment trust enterprise, requesting real estate investment trust enterprises (including exclusive and concurrent businesses) to set up independent directors and an audit committee in place of supervisors, and appointing an institution with real estate investment management experience to act as a professional shareholder, with the total number of subscription shares by the institution not less than 50% of the shares issued for the first time.
- (3) Formulate the regulations on the REIT management, including defining the investment targets of fund structure REITs, providing that REITs should invest at least a certain proportion in real estate or real estate related rights with stable income and the annual income distributed shall reach a certain proportion of the distributable income, and allowing REITs to conduct transactions with related parties, and authorize the FSC to set an upper limit on the REIT borrowing ratio, as well as the announcement method and other related matters.

2. Benefits of the amendment

- (1) Provide multiple investment channels: Fund structure REITs will ensure the continuous growth of the REIT market and obtain a stable yield by simplifying the supplementary fund raising procedure, ensuring to obtain right of first refusal and income support, and allowing a flexible investment structure to encourage investment in overseas real estate.

- (2) Enhance the competitiveness of the asset management industry: Fund structure REITs will introduce real estate investment trust enterprises with real estate investment management experiences to actively manage REITs and effectively strengthen their management. REIT assets will be in the custody of and supervised by the trust enterprises with professional management and concrete division of rights and responsibilities. The competitiveness of the asset management industry will be enhanced accordingly.
- (3) Activate Taiwan's real estate securitization market and assist in the overall economic development: Fund structure REITs will draw on the successful experience of REIT markets such as Japan and Singapore and introduce foreign funds to activate Taiwan's real estate securitization market; the goal is to turn Taiwan into an Asia-Pacific REIT listing center that can drive the overall economic development and benefit all.

(II) Strengthening the supervision of the securities investment trust and consulting enterprises and raising the fines for violating the regulations:

According to the “Securities Investment Trust and Consulting Act” promulgated in June 30, 2004, if a securities investment trust and consulting enterprises provide services that have not been approved by the competent authority or seriously violate the regulations of the competent authority regarding the scope, methods, or restrictions of investment or trading, which constitutes a material breach of rights and interests of beneficiaries or investors, fines will be imposed in accordance with Article 111 of the “Securities Investment Trust and Consulting Act”. The upper limit of such fines has not been adjusted since the promulgation of the “Securities Investment Trust and Consulting Act”. As the scale of assets managed by the securities investment trust and consulting enterprises has increased significantly in recent years, the FSC amended the “Securities Investment Trust and Consulting Act”, raising the fines from NT\$3 million up to NT\$15 million to strengthen the supervision of securities investment trust and consulting enterprises, prevent the occurrence of illegal acts, and increase the public's confidence in the securities investment trust and consulting enterprises.

II. Strengthening corporate governance and enhancing the transparency of TWSE/TPEX-listed companies

(I) Augmenting corporate governance

In order to comply with the practical operation and advance the management of related party transactions, the FSC amended the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” on January 28, 2022 after taking into account the norms of major international securities markets and suggestions from external parties. The key points and benefits of the amendment are described below.

1. Key points of the amendment

- (1) For the acquisition or disposal of assets with a related party by a public company or its subsidiary that is not a domestic public company, if the transaction amount reaches 10% of the total assets of the public company, the public company shall submit relevant materials to the shareholders' meeting for approval before proceeding (however, for the dealing of a public

company with its parent company or subsidiary, or the dealing between its subsidiaries, the transaction is exempted from the resolution of the shareholders' meeting).

- (2) When professional appraisers and their appraising officers, certified public accountants, attorneys or securities underwriters (external experts) issue appraisal reports or opinions, in addition to handling relevant operations required when undertaking and executing cases, they shall follow the self-regulatory rules of the respective associations (The TWSE and TPEX were required to publish the “Guidelines for the Issuance of Expert Opinions” on December 2, 2021 and requested trade associations to incorporate said guidelines into their respective rules). To ensure the quality of opinions issued by external experts, the time period for a construction enterprise to obtain the CPA’s opinion shall be relaxed to two weeks from the date of obtaining the appraisal report.
- (3) In addition to public companies buying and selling foreign government bonds with a credit rating not lower than the sovereign rating of Taiwan, professional investors are exempt from making an announcement for their subscription to foreign government bonds and their subscription to or redemption of exchange traded notes (“ETNs”) in the primary market.

2. Benefits of the amendment

- (1) For a transaction (acquisition or disposal of assets) with a related party by a public company or its subsidiary that is not a domestic public company, if the transaction amount is considerable, it shall be submitted to the shareholders' meeting for approval to protect the rights of minority shareholders to express their opinions on related-party transactions and to strengthen the management of related party transactions.
- (2) Requiring the issuance of external experts' reports or opinions in accordance with the trade associations' rules may further improve the quality of opinions issued by external experts and also define the external experts' responsibilities clearly in order to protect the rights and interests of shareholders and serve as a reference for companies' decision-making.
- (3) The relaxation in the regulations for the disclosure of some transactions according to the investment professionalism and portfolio risk of public companies will strike a balance between the companies' business practices and investment decision-making by investors.

III. Enhancing the transparency of TWSE/TPEX-listed companies

To strengthen the timeliness, correctness, and completeness of material information disclosed by TWSE/TPEX-listed companies, the FSC has urged the TWSE and TPEX to review the regulations for the disclosure of material information and investor conferences and supervisory mechanisms. The TWSE and TPEX plan to amend relevant regulations to require that TWSE/TPEX-listed companies should put in place the procedures for handling material information and that TWSE/TPEX-listed companies invited to attend investor conferences should upload at least one video of such investor conferences every year in 2023 onward and TPEX-listed companies with a share capital of more than NT\$600 million should hold at least one investor conference every year.

Appendix II. Information on Law Enforcement Results of the TWSE, TPEX, and TAIEX

I. Dispositions of TWSE/TPEX-Listed Companies

If TWSE/TPEX-listed 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 financial disclosures, impose penalties, adopt altered trading, or suspend securities trading to safeguard the soundness of the capital market and to protect the rights and interests of shareholders. Sanctions imposed by the TWSE and TPEX over the past five years and trends are described as follows:

Disposition Market \ Year		2017	2018	2019	2020	2021
Issuance of Letter Requesting Improvement	TWSE Listed	107	102	88	95	72
	TPEX Listed (Mainboard)	102	100	102	115	96 (Note 1)
	TPEX Registered (Emerging Stock Board)	32	32	30	29	22 (Note 2)
	Total	241	234	220	239	190
Inclusion in the Key Financials and Trading section	TWSE Listed	92	95	96	114	114
	TPEX Listed (Mainboard)	130	140	142	162	151
	TPEX Registered (Emerging Stock Board)	73	65	65	74	72
	Total	295	300	303	350	337
Periodic financial disclosure of financial ratios	TWSE Listed	72	82	80	105	90
	TPEX Listed (Mainboard)	79	96	106	105	93
	TPEX Registered (Emerging Stock Board)	32	34	51	54	58
	Total	183	212	237	264	241
Imposition of default fines	TWSE Listed	41	44	66	69	48
	TPEX Listed (Mainboard)	16	17	30	42	18
	TPEX Registered (Emerging Stock Board)	9	10	14	22	18
	Total	66	71	110	133	84
Altered trading, periodic trading, or suspended trading	TWSE Listed	31	27	26	30	29
	TPEX Listed (Mainboard)	70	71	77	83	78
	Total	101	98	103	113	107

Note 1: For TPEX Listed (Mainboard) companies, deficiencies found in the audits of financial statements were as of September 30, 2021.

Note 2: For TPEX Registered (Emerging Stock Board) companies, deficiencies found in the audits of financial statements were as of June 30, 2021.

(I) Issuing to TWSE/TPEX-listed companies and TPEX Emerging Stock Companies a letter requesting improvement in deficiencies:

The TWSE issued 107, 102, 88, 95, and 72 letters requesting improvement in the deficiencies found in financial reports and internal control systems audits of TWSE-listed companies from 2017 to 2021, respectively. Among these letters, the majority of deficiencies were found in internal control systems audits. In 2021, however, the number of letters requesting improvement in the deficiencies found in internal control systems audits (46) decreased from the past years; the number of letters requesting improvement in the deficiencies found in financial reports was reduced to 26 in 2021, a record low. This shows that the TWSE's supervision of TWSE-listed companies has increasing value.

In the letters issued by the TPEX requesting improvement in the deficiencies found in financial reports and internal control systems audits of TPEX listed and registered companies, deficiencies in internal control systems audits accounted for the majority. Over the past five years, the number of such deficiencies found in TPEX-listed companies topped in 2020 at 115 while TPEX registered companies reported roughly the same number of such deficiencies.

(II) Including TWSE/TPEX-listed companies and TPEX Emerging Stock Companies in the periodic disclosure of financial information and the Key Financials and Trading section:

Over the past five years, the number of TWSE-listed companies included in the Key Financials section increased year by year from 2017 to 2020, with a relatively significant increase in 2020 mainly due to the impact of the COVID-19 pandemic on profitability; the number of TWSE-listed companies included in the Key Financials section remained unchanged in 2021. TWSE-listed companies were included in the Key Financials section mainly due to poor operations and finances. The TWSE also required that these companies should disclose financial information on a regular basis, and the change in the number of TWSE-listed companies included in the periodic disclosure of financial information showed a consistent trend with the number of those listed in the Key Financials section. In 2021, the number of TWSE-listed companies included in the periodic disclosure of financial information decreased as many TWSE-listed companies had gradually recovered from the pandemic in terms of operations and finances.

Over the past five years, the number of TPEX-listed companies included in the Key Financials section increased year by year from 2017 to 2020, with a relatively significant increase in 2020 mainly due to the impact of the COVID-19 pandemic on revenue and profitability; the number of TPEX-listed companies included in the Key Financials section decreased slightly in 2021. TPEX-listed companies were included in the Key Financials section mainly due to poor operations and finances.

The TPEX also required that these companies should disclose financial information on a regular basis, and the change in the number of TPEX-listed companies included in the periodic disclosure of financial information showed a consistent trend with the number of those listed in the Key Financials section. To urge TPEX-listed companies to improve their finances and operations, the TPEX amended the relevant regulations in 2019 (which took effect in 2020), stipulating that if the CPA of a TPEX listed company issues an audit report indicating substantial uncertainty concerning the company's ability to continue as a going concern or the company's net worth less than three-tenths of share

capital and the company has failed to improve for more than three years after being subject to altered trading or periodic trading, the reason for suspending trading may be specified and that if the company still fails to improve after six months of suspension of trading, it may be delisted from the TPEX. As a result, the number of TPEX-listed companies included in the periodic disclosure of financial information and in the Key Financials section decreased in 2021.

In 2020, there was a relatively significant increase in the number of TPEX emerging stock board registered companies included in the Key Financials section, for six TPEX new drug companies were registered with net worth per share less than NT\$10 and the negative net cash flow from operating activities, and some were impacted by the COVID-19 pandemic in terms of revenue and profitability. As the pandemic continued to rage at home and abroad in 2021, some TPEX emerging stock board registered companies were included in the Key Financials section due to poor performances in revenue and profitability.

From 2017 to 2021, the number of letters issued by the TPEX requesting the periodic disclosure of financial information by TPEX emerging stock board registered companies increased year after year. Some TPEX emerging stock board registered companies were included in the Key Financials section due to poor financial ratios or a shortage of funds; accordingly, the TPEX issued letters requesting such companies to disclose related financial information to investors on a monthly basis. Therefore, the change in the number of TPEX emerging stock board registered companies required to disclose financial information periodically was consistent with that in the number of TPEX emerging stock board registered companies included in the Key Financials section for the above reason.

For users to search for information on TPEX/TPEX-listed companies on the Market Observation Post System (“MOPS”) more easily, the TWSE and TPEX optimized the Key Financials section in 2021 by defining seven financial information indicators and five trading information indicators and renaming the section the Financials and Trading section. The purpose of such optimization was to draw investors’ attention and give early warnings.

(III) Fining TWSE/TPEX-listed companies for violating the regulations governing information reporting and material information:

From 2017 to 2021, the number of fines imposed on TWSE-listed companies for violating the regulations governing information reporting and material information was 41, 44, 66, 69, and 48, respectively; the amount paid by TWSE-listed companies totaled NT\$2.19 million, NT\$1.91 million, NT\$2.56 million, NT\$2.57 million, and NT\$1.54 million and averaged NT\$53,000, NT\$43,000, NT\$38,000, NT\$37,000, and NT\$32,000 per case. The number of fines imposed on TWSE-listed companies in 2021 decreased from 2020. Most of the cases were violations of the regulations regarding the declaration of material information.

Regarding the fines imposed on TPEX listed and emerging stock board registered companies for violating the regulations governing information reporting and material information over the past five years, the majority of TPEX-listed companies violating the regulations governing the declaration of material information. There were more violations in 2019 and 2020 as some TPEX-listed companies violated the regulations multiple times due to abnormal finances and operations. Violations of the regulations governing information reporting and material information by TPEX emerging stock board registered companies continued to increase because some companies were not familiar with the regulations.

The number of fines imposed on TWSE/TPEX-listed companies and TPEX emerging stock board registered companies in 2021 decreased from 2020. 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. To ensure that TPEX emerging stock board registered companies follow the relevant regulations, the TPEX continues to hold seminars to explain how to report information, including material information, as well as common deficiencies. It also requests intermediaries to urge TPEX emerging stock board registered companies to fulfill their obligation to disclose information. In response to the COVID-19 pandemic or information security incidents, which impacted the business operations of some TWSE/TPEX-listed companies, the TWSE and TPEX amended the Q&A for the regulations governing the disclosure of material information, requesting TWSE/TPEX-listed companies to disclose material information in a timelier manner based on the recommended timing, so as to ensure the fair receipt of information by investors. For TWSE/TPEX-listed companies and emerging stock board registered companies violating the relevant regulations, the TWSE and TPEX disclosed their violations on MOPS; for repeated or material violations, the TWSE and TPEX issued 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.

(IV) Imposing altered trading, periodic trading, and suspended trading on TWSE/TPEX-listed companies:

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.

From 2017 to 2021, 31, 27, 26, 30, and 29 TWSE-listed companies were respectively subject to altered trading, periodic call auction, or suspended trading, for their net worth fell below one-half of share capital specified in the financial statements. In 2021, the number of TWSE-listed companies suspended from trading only increased by three from 2020 mainly due to an increase in the number of TWSE-listed companies that did not announce their financial statements within the statutory deadline. The number of TPEX-listed companies subject to altered trading over the past five years changed with the number of TPEX-listed companies whose net worth fell below one-half of share capital specified in the financial statements. In 2021, the number of TPEX-listed companies subject to altered trading decreased by five from 2020 while the number of TPEX-listed companies subject to periodic trading and suspended trading remained roughly the same.

Among the TWSE/TPEX-listed companies that were subject to altered trading, periodic call auction, or suspended trading in the past five years, the certified public accountants of some companies 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 5-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 the investors' rights and interests.

● **Major cases in 2021:**

- (1) The Board of Directors of Chung Fu International Corporation resolved to dispose of 51% of its interest in its subsidiary, Fuxing Investment Co., Ltd. Such material information was not uploaded to MOPS until February 1, 2021, and Chung Fu International Corporation announced such material information in the press conference late at 4 p.m. on February 18, 2021, which violated Subparagraph 20, Paragraph 1, Article 4 and Subparagraph 8, Paragraph 1, Article 11 of the "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities (the TWSE Procedures)." Chung Fu International Corporation was fined NT\$50,000 by the TWSE accordingly. When announcing such material information on February 18, 2021, Chung Fu International Corporation had obtained the stock owned by the person in charge as collateral; however, the collateral was found to have been redeemed before the announcement of such material information, which was obviously inconsistent with the announcement and in violation of Subparagraph 3, Paragraph 1, Article 15 of the TWSE Procedures. Chung Fu International Corporation was fined NT\$50,000 additionally by the TWSE.
- (2) Billionton Systems Inc. failed to announce and file the financial statements for the third quarter of 2021 within the specified time period, which violated Subparagraph 1, Paragraph 1, Article 50 of the "Operating Rules of the Taiwan Stock Exchange Corporation." The trading of Billionton Systems Inc.'s securities was suspended by the TWSE accordingly.
- (3) The TPEX included VHQ Media Holdings Ltd. in the Key Financials section for its poor operations, illiquidity, inability to pay off debts, and overdue receivables and required that VHQ Media Holdings Ltd. should disclose its financial information to investors on a regular basis. There was a doubt about the subsidiary's ability to pay off its corporate bonds due, which had a significant impact on the investors' rights and interests. On August 18, 2021, the TPEX subjected VHQ Media Holdings Ltd. to altered trading. Later, the net worth of VHQ Media Holdings Ltd. became less than NT\$3, as stated in the financial statements for the second quarter of 2021, resulting in periodic trading of VHQ Media Holdings Ltd. on September 3, 2021. Given the negative net worth stated in the financial statements for the third quarter of 2021, VHQ Media Holdings Ltd. was suspended from trading on the TPEX on December 27, 2021 onward. The CPA of VHQ Media Holdings Ltd. gave a qualified opinion and issued a review report indicating substantial uncertainty concerning the company's ability to continue as a going concern, but VHQ Media Holdings Ltd. failed to make corrections and disclose its financial statements within the deadline designated by the competent authority. As a result, the TPEX suspended its securities trading on December 16, 2021 and ultimately delisted it on December 27, 2021 due to its failure to reverse the negative net worth.



II. Sanctions on Trading Activities

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 the order and safety of securities trading. The sanctions on trading activities and trends in the past five years are explained as follows:

Sanction Imposed by \ Year		2017	2018	2019	2020	2021
Announcement of attention securities	TWSE	354 securities 1,747 times	431 securities 2,335 times	365 securities 1,506 times	568 securities 4,262 times	833 securities 5,041 times
	TPEX	356 securities 1,810 times	392 securities 1,872 times	340 securities 1,491 times	465 securities 3,277 times	543 securities 3,828 times
Information of disposition securities	TWSE	51 securities 126 times	83 securities 189 times	33 securities 49 times	157 securities 383 times	336 securities 239 times
	TPEX	102 securities 176 times	112 securities 188 times	69 securities 105 times	205 securities 404 times	195 securities 379 times

► Brief analysis:

Over the past five years, the TPEX points and annual turnover stood at 148.52 points and NT\$7.68 trillion in 2017, 123.54 points and NT\$8.14 trillion in 2018, 149.36 points and NT\$7.60 trillion in 2019, 184.10 points and NT\$12.08 trillion in 2020, and 237.55 points and NT\$20.27 trillion in 2021. This indicated that the stock market was booming with a rise in both the price and the volume, resulting in an increase in the number and frequency of announcement of attention securities and disposition securities.

III. Sanctions on Intermediaries

(I) 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, or suspend their securities dealing or brokerage business or part or whole of trading in their business places for not more than three months, and may issue a warning to their associated persons or have them suspended to maintain order in the securities market and to protect the rights and interests of investors.

1. The sanctions on securities firms and trends over the past five years are described as follows:

Type of Violation	Sanction	Imposed by	2017	2018	2019	2020	2021
Regulations governing reporting and handling	Issuance of a letter requesting improvement	TWSE	3 cases	13 cases	4 cases	5 cases	12 cases
		TPEX	35 cases	23 cases	18 cases	41 cases	42 cases
	Imposition of delinquency fines	TWSE	3 cases (totaling NT\$90,000)	2 cases (totaling NT\$60,000)	1 case (totaling NT\$30,000)	2 cases (totaling NT\$60,000)	2 cases (totaling NT\$60,000)
		TPEX	NT\$0	1 case (totaling NT\$30,000)	NT\$0	NT\$0	1 case (totaling NT\$30,000)
Regulations governing business control	Issuance of a letter requesting improvement	TWSE	3 cases	11 cases	9 cases	9 cases	4 cases
		TPEX	1 case	1 case	2 cases	3 cases	3 cases
Regulations governing the settlement of accounts	Imposition of delinquency fines	TWSE	NT\$0	NT\$0	NT\$0	NT\$0	NT\$0
		TPEX	NT\$0	NT\$0	NT\$0	NT\$0	NT\$0
	Suspension of trading	TWSE	0 cases	0 cases	0 cases	0 cases	0 cases
		TPEX	0 cases	0 cases	0 cases	0 cases	0 cases
Regulations governing the emerging stock market	Issuance of a letter requesting improvement	TPEX	15	7	1	8	14
	Imposition of penalties		0	1 (totaling NT\$10,000)	0	2 (totaling NT\$130,000)	3 (totaling NT\$260,000)

From 2017 to 2021, the violations of regulations governing reporting and handling accounted for the highest percentage of the sanctions imposed by the TWSE on securities firms in terms of trading, totaling 37, followed by 36 violations of regulations governing business control. The main reason was that the securities firms did not handle changes in trading categories within the given time limit.

Among the sanctions imposed on securities firms from 2017 to 2021, there was a significant increase in the violations of regulations governing reporting and handling in 2021. As the trading value of securities on the TWSE in 2021 soared from the previous year, securities firms made more mistakes in filing the customers' changes in trading categories. The TWSE will continue to remind securities firms of related prescribed deadlines for filing. The violations of regulations governing business control showed a downward trend. It is possible that the issuance of letters requesting improvement did effect a warning for securities firms to make corrections.

In 2021, 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 42. 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. In 2021, there was no significant increase in the number of sanctions from 2020. The TPEX will continue remind securities firms of related prescribed deadlines for filing.

For the 14 sanctions imposed on securities firms for violating the regulations governing the emerging stock market in 2021, most of the violations were the securities firms' failure to offer continuous quotes, follow internal trading policies, or offer reasonable prices. Compared with those in 2020, the violations of regulations governing the emerging stock market increased in 2021. The TPEX will continue remind securities firms of their obligation to abide by the relevant regulations governing the emerging stock market.

● Major cases in 2021:

- (1) On December 13, 2021, four branches of President Securities Corporation did not handle changes in trading categories within the deadline, which violated Article 2 of the "Taiwan Stock Exchange Corporation Directions for Securities Firms Handling Changes to Trading Category." President Securities Corporation violated this regulation twice in 2021, and the TWSE issued letters requesting improvement.
- (2) On October 26, 2021, President Securities Corporation lent 54,000 shares of HwaCom Systems Inc. (stock code: 6163), 33,000 shares in excess of the cap, which violated Paragraph 2, Article 39 of the "Regulations Governing Securities Borrowing and Lending by Securities Firms." Accordingly, the TPEX issued a letter requesting improvement.
- (3) On December 28, 2021, the Taipei Branch of Fubon Securities Co. Ltd. reported default by customers (at 12:34 p.m.) later than the statutory time limit (11 a.m.), 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 letter requesting improvement.

2. The sanctions on securities firms in terms of deficiencies in financial and business operations and trends over the past five years are described as follows:

Unit: Number of cases

Type of Violation	Sanction	Imposed by	2017	2018	2019	2020	2021
Regulations governing brokerage trading orders	Issuance of warning and request for correction	TWSE	43	24	7	25	40
		TPEX	13	15	8	8	8
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	5	4	4	6
		TPEX	0	5	2	3	2
Regulations governing recommendation of trade in securities and securities borrowing and lending	Issuance of warning and request for correction	TWSE	20	12	13	8	8
		TPEX	0	0	3	2	2
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	1	1	0	0
		TPEX	0	0	0	0	0
Regulations governing out-trades or settlement	Issuance of warning and request for correction	TWSE	9	8	4	9	8
		TPEX	1	3	0	0	2
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	1	1	0	1
		TPEX	0	0	0	0	0
Regulations governing account opening	Issuance of warning and request for correction	TWSE	6	7	2	3	6
		TPEX	3	1	1	2	0
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	0	0	1	0
Regulations governing margin purchases and short sales	Issuance of warning and request for correction	TWSE	2	4	1	2	1
		TPEX	0	1	5	0	2
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	1	0	0	0
Regulations governing anti-money laundering and combating the financing of terrorism	Issuance of warning and request for correction	TWSE	1	1	7	4	1
		TPEX	0	0	6	4	1
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	0	0	0	0
Regulations governing information security (Note 1)	Issuance of warning and request for correction	TWSE	0	0	0	7	30
		TPEX	0	0	12	13	8
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	0	0	7	5
		TPEX	0	0	0	1	0
Regulations governing financial derivatives or other business operations (Note 2)	Issuance of warning and request for correction	TWSE	0	0	0	2	0
		TPEX	5	5	2	9	3
	Issuance of warning and request for correction and imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	0	2	1	1

Note 1: Includes deficiencies in co-location.

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

The brokerage business remained the main source of revenue for domestic securities firms. With a change in trading methods (electronic trading on the rise) and the competent authority's division of labor in audit work since 2019, as well as a number of material information security incidents taking place in 2020, the TWSE and TPEx have invested more resources in their audit work to assist securities firms in reviewing the adequacy of their controls over network system security and information security maintenance.

● Major cases in 2021:

- (1) SinoPac Securities Corporation did not adopt multi-factor authentication for the online trading system of its sub-brokerage business and also failed to monitor and analyze the login failure records of the core system on a daily basis; in addition, SinoPac Securities Corporation did not establish the certificate delivery procedures, making it impossible to control online trading in a systematic manner. As a result, the online trading system was hacked with orders falsely placed by hackers. The internal reviewers did not report such security breaches when checking the login failure records, which violated the "Operating Rules of the Taiwan Stock Exchange Corporation." The TWSE issued a letter requesting improvement, fined SinoPac Securities Corporation NT\$220,000, and ordered its personnel to be cautioned.
- (2) President Securities Corporation acted as a lead advisory recommending a securities firm for the emerging stock A. On the first day that A was listed on the emerging stock board, President Securities Corporation deliberately adjusted the quotes significantly upwards and adjusted the quotes completely based on the relatively high buy orders in the market. Compared with other recommending securities firms, President Securities Corporation deliberately sold the stocks at high prices for the purpose of reducing the stock's inventory without paying attention to a large number of sell orders in the market. It is obvious that President Securities Corporation confused a market maker with a securities dealer, which deviated from its obligation as a lead advisory recommending securities firm to execute quotes based on professional judgment. Such conduct was deemed in violation of the "Taipei Exchange Rules Governing the Trading of Emerging Stocks on the TPEx." The TPEx issued a letter requesting improvement and fined President Securities Corporation NT\$200,000; in addition, the TPEx requested President Securities Corporation to warn the personnel concerned and take disciplinary actions depending on the severity of the violations.

(II) Sanctions on futures commission merchants

To maintain the order of the futures market and to protect futures traders, if futures commission merchants violate relevant regulations, TAIFEX may issue them letters requesting improvement within a time limit depending on the severity of the violations and warn or order their personnel concerned to be suspended from work for one to six months.

1. Issuance of letter requesting improvement:

Type of Violation	2017	2018	2019	2020	2021
Information system control	9 cases	3 cases	3 cases	0 cases	3 cases
Anti-money laundering audits	0 cases	3 cases	0 cases	1 case	5 cases
Account opening, credit investigation, and qualification review	3 cases	2 cases	3 cases	1 case	1 case
Others	11 cases	2 cases	16 cases	16 cases	7 cases

- Brief analysis: If a futures commission merchant violates Article 125 or 126 of the “Operating Rules of the Taiwan Futures Exchange Corporation,” TAIFEX may issue a letter requesting improvement within the given time limit.

2. Imposition of default fines:

Type of Violation	2017	2018	2019	2020	2021
Calls and substituted off-set operations	0 cases	35 cases	1 case	10 cases	3 cases
Account opening, credit investigation, and qualification review	4 cases	10 cases	4 cases	5 cases	0 cases
Internal audits and financial operations	1 case	8 cases	5 cases	4 cases	2 cases
Others	11 cases	10 cases	7 cases	10 cases	7 cases

- Brief analysis: If a futures commission merchant violates Article 126 or 127 of the “Operating Rules of the Taiwan Futures Exchange Corporation,” TAIFEX may impose a default fine on it.

● Trends and major cases over the past five years:

- (1) Trends over the past five years: From 2017 to 2021, TAIFEX respectively issued 23, 10, 22, 18, and 16 letters requesting improvement; the number of violations incurring default fines was 16, 63, 17, 29, and 12. More default fines were imposed on futures commission merchants in 2018 mainly because stocks in Taiwan plunged on February 6, 2018, causing option prices to fluctuate drastically, and futures commission merchants performed substituted offset in violation of internal controls. In terms of trends, the number of letters requesting improvement averaged 18 between 2017 and 2019 and 17 between 2020 and 2021; the number of violations incurring default fines averaged 32 between 2017 and 2019 and 20 between 2020 and 2021. On the whole, the number of cases has shown a downward trend, indicating that the internal controls and sanctions promoted by TAIFEX should have effected improvement.

(2) Major cases in 2021:

Capital Futures Corporation held the “Global Trade Winner,” where customers collected points with their trading volume in exchange for the trading software of its suppliers, Mister Information Technology Co., Ltd. and Master Information Co., Ltd. However, such trading software did not belong to Capital Futures Corporation, which was inconsistent with its internal controls. Accordingly, Capital Futures Corporation was deemed in violation of the “Operating Rules of the Taiwan Futures Exchange Corporation.” TAIFEX fined Capital Futures Corporation NT\$10,000 accordingly.

Appendix III. Statistics on Administrative Sanctions Imposed by the SFB 2017~2021

► Table 1 Administrative Sanctions Imposed by the SFB 2017~2021

Unit: Number of cases

Type of Violation		Legal Basis	2017	2018	2019	2020	2021	Total
A1	Acquisition or disposition of assets	Article 36-1 of the "Securities and Exchange Act"	17	19	9	2	2	49
A2	Material information	Subparagraph 2, Paragraph 3, Article 36 of the "Securities and Exchange Act"	2	3	3	1	3	12
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"	12	10	7	1	8	38
B1	Internal controls of securities firms	Articles 65, 66, and 178-1 of the "Securities and Exchange Act"	27	29	17	26	63	162
B2	Securities brokerage	Article 23 of the "Computer-processed Personal Data Protection Act"	0	0	0	0	0	0
B3	Employees of securities firms	Articles 56, 178-1, and 179 of the "Securities and Exchange Act"	35	9	14	13	9	80
B4	"Money Laundering Control Act"	Paragraph 5, Article 7 of the "Money Laundering Control Act"	0	7	4	3	2	16
C1	Registration of insiders' equity	Article 22-2 or 25 of the "Securities and Exchange Act"	71	107	149	143	156	626
C2	Acquisition of large equity	Paragraph 1, Article 43-1 of the "Securities and Exchange Act"	6	4	5	7	3	25
C3	Tender offer	Paragraph 4, Article 43-1 and Article 43-3 of the "Securities and Exchange Act"	1	0	1	2	0	4
C4	Treasury stock repurchase	Article 28-2 of the "Securities and Exchange Act"	5	8	16	14	3	46
C5	Proxy for the attendance of a shareholders' meeting	Article 25-1 of the "Securities and Exchange Act"	4	3	1	0	5	13
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"	12	21	16	27	15	91
D2	Securities investment trust business	Article 17 of the "Securities Investment Trust and Consulting Act"	3	1	0	0	4	8

Type of Violation		Legal Basis	2017	2018	2019	2020	2021	Total
D3	Securities investment consulting business	Articles 4 and 70 of the "Securities Investment Trust and Consulting Act"	5	0	0	4	1	10
D4	Employees of securities investment trust enterprises and securities investment consulting enterprises	Article 69 of the "Securities Investment Trust and Consulting Act"	2	0	5	7	11	18
D5	Offshore funds	Article 16 of the "Securities Investment Trust and Consulting Act"	0	0	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"	0	0	0	1	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	1	1
E1	Extension of loans or endorsements/guarantees	Article 36-1 of the "Securities and Exchange Act"	7	8	14	9	2	40
E2	Financial statements	Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"	44	34	32	26	24	160
E3	Accounting officers	Paragraph 3, Article 14 of the "Securities and Exchange Act"	2	1	6	6	2	17
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"	13	5	15	18	4	55
E5	Registration of the operating status	Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act"	7	0	4	3	4	18
E6	Internal control systems	Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"	1	5	4	0	2	12
F1	Futures commission merchants and leverage transaction merchants	Articles 56 and 80 of the "Futures Trading Act"	13	11	16	20	24	84
F2	Futures services	Articles 82 and 85 of the "Futures Trading Act"	2	4	6	4	7	23
F3	Employees of futures commission merchants	Articles 61, 80 and 82 of the "Futures Trading Act"	10	4	4	8	8	34
-	Others		3	0	9	6	4	22
Total			304	293	357	351	367	1672

► Table 2 Subject and Type of Administrative Sanctions Imposed by the SFB in 2021

Unit: Number of cases

Subject of Sanctions \ Type of Sanctions	Penalties	Rectification	Termination of Business Operations	Discharge of Duties	Rectification & Penalties	Penalties & Termination of Business Operations	Warnings & Penalties	Total
Insiders	156	-	-	-	-	-	-	156
Public companies	50	-	-	-	-	-	-	50
Certified public accountants	1	-	4	-	-	-	-	5
Intermediaries	54	57	-	-	2	4	3	120
Intermediaries' persons in charge and employees	-	-	23	4	-	-	-	27
Others	7	-	-	-	-	-	-	7
Total	268	57	27	4	2	4	3	365

公司治理中心



臺灣證券交易所



9F., No. 7, Sec. 5, Xinyi Rd., Xinyi Dist.,
Taipei City
TEL 886-2-8101-3101
FAX 886-2-8101-3066
<http://cgc.twse.com.tw>
TWSE Publication No. 02-110-3-06