



2022

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

CONTENTS

02

Foreword

Law Enforcement Policies and Approaches of the Securities and Futures Markets Sectors in Taiwan

Law Enforcement Framework of the Securities and Futures Markets in Taiwan
Supervisory Focus of the Securities and Futures Sectors in Taiwan in 2022

16

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

- I. Administrative Sanctions Imposed by the SFB from 2018 to 2022
- II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice from 2018 to 2022
- III. Investigations of Civil Liability by the SFIPC from 2018 to 2022
- IV. Cross-border and Inter-ministerial Collaboration on Financial Supervision from 2018 to 2022

30

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

46

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

- I. Implementation of Digital Transformation and Related Improvement Measures in the Securities and Futures Sector in Taiwan
- II. Implementation of Cyber Security Management and Related Improvement Measures Among TWSE/TPEX-listed Companies and Service Enterprises in the Securities and Futures Markets in Taiwan
- III. Implementation of Enhanced Customer Protection and Related Improvement Measures in the Securities and Futures Sector in Taiwan to Address Risks Related to Investments Made by Senior Citizens

54

Appendix

- Appendix I. Key Amendments to Relevant Laws and Regulations in Taiwan's Securities and Futures Markets in 2022
- Appendix II. Information on the Law Enforcement Results of the TWSE, TPEX, and TAIFEX
- Appendix III. Statistics on Administrative Sanctions Imposed by the SFB from 2018 to 2022

FOREWORD

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

Law Enforcement Framework of the Securities and Futures Markets in Taiwan

Supervisory Focus of the Securities and Futures Markets in Taiwan in 2022



With a view to developing the economy of Taiwan while safeguarding the rights of securities investors and futures traders, maintaining order in Taiwan's securities and futures markets, and facilitating the sound development of Taiwan's securities and futures markets, the Financial Supervisory Commission (the FSC) has set up the Securities and Futures Bureau (the SFB), which is tasked with various duties and responsibilities, including supervising and regulating Taiwan's securities and futures markets and enterprises, as well as drawing up, formulating, and implementing related policies, laws, and regulations.

If public companies and their responsible persons, insiders, intermediaries and their responsible persons, sales representatives, investors, as well as other market participants and related parties, violate laws and regulations such as the "Securities and Exchange Act," the "Futures Trading Act," the "Securities Investment Trust and Consulting Act," and related laws and regulations, the SFB will take law enforcement actions to maintain order in the securities and futures markets and protect investors' rights.

In the face of international political and economic changes, the FSC opines that capital markets must respond and adapt to changes, consolidate, and improve to enhance their competitiveness on an ongoing basis. While the world has been persistently affected by a never-ending chain of events such as the COVID-19 pandemic, the Ukraine-Russia war, U.S. Fed interest rate hikes, and rising inflation in recent years, Taiwan's capital market has also been confronted by changes in the international political and economic landscape. Hence, there is a need to build on the existing "Capital Market Roadmap" through efforts to bolster innovation, resilience, and sustainability. The FSC, along with peripheral organizations, has proactively proposed a vision for future development with an innovative mindset, with the goal of forging a consensus, confronting challenges, and maximizing opportunities. With this vision in place, the FSC continues to promote measures to revitalize Taiwan's capital market, strengthen its resilience, and boost its international competitiveness while guiding enterprises and intermediaries to implement corporate governance and create a sound environmental, social, and governance (ESG) ecosystem with the aim of realizing sustainable development. The relevant strategies and policies implemented in 2022 are detailed as follows:

I. Continuing the "Capital Market Roadmap"

Following the implementation of the three-year "Capital Market Roadmap" since 2021, the FSC, along with peripheral organizations, has expanded the size of Taiwan's capital market and enhanced its competitiveness based on five major strategies and various key measures. The following lists the items that were completed in 2022: 1. Allowing shareholders' meetings to be convened via videoconferencing in line with amendments to the relevant laws and regulations; 2. Allowing specialized futures commission merchants to invest their own funds in setting up domestic trading companies to engage in warehouse receipt-related businesses; 3. Allowing the listing of index option strategy exchange-traded notes (ETNs) for trading on the Taiwan Stock Exchange and Taipei Exchange; 4. Setting up the Chinese and English versions of investment information website ezSearch; 5. Allowing securities firms to engage in short-term financing of deposits-in-transit for the settlement of marketable securities; 6. Allowing securities firms to trade mortgage-backed securities (MBS) or collateralized debt obligations (CDO) with professional institutional investors and high-net worth legal person investors on their own premises; 7. Formulating rules and regulations for sustainability-linked bonds and including them in the scope of sustainable bonds; 8. Adding the upper limit of contribution to clearing and settlement funds and adjusting the order of drawdown; 9. Introducing the launch of over-the-counter derivative clearing business by the Taiwan Futures Exchange; 10. Amending the eligibility criteria for qualified investors on the Taiwan Innovation Board with reference to the international securities market system; 11. Rolling out the lead advisory recommending securities firm system and the board switching mechanism; 12. Revising the "SITE Incentive Plan" with the aim of encouraging securities investment consulting enterprises to improve due diligence; 13. Implementing proactive actions such as including investment process and risk in ESG and engagement; 14. Promoting the enhancement of information disclosure during disposition; 15. Optimizing online account opening by allowing securities firms to conduct identity verification by means of mobile ID.

II. Continuing the “Corporate Governance 3.0 – Sustainable Development Roadmap” and Announcing the Launch of the “Green Finance Action Plan 3.0”

With an ongoing commitment to promoting the “Corporate Governance 3.0 – Sustainable Development Roadmap,” the FSC officially launched the “Sustainable Development Guidemap for TWSE/TPEx-listed Companies” on March 3, 2022, aimed at advancing the disclosure of information on greenhouse gas (GHG) inventory and assurance among TWSE/TPEx-listed companies in active response to Taiwan’s net-zero emission goal. Taking into account the feasibility of such disclosures among TWSE/TPEx-listed companies, this initiative will be rolled out in stages among TWSE/TPEx-listed companies based on capital amount and industry characteristics, with the expectation that all TWSE/TPEx-listed companies will complete the disclosure of GHG inventory by 2027 and the assurance of GHG inventory by 2029.

On September 26, 2022, the FSC announced the launch of the “Green Finance Action Plan 3.0” with a vision to “integrate resources to support net zero transition.” This initiative, which consists of three core strategies spanning five areas of implementation along with 26 measures in total, aims to build consensus in the financial industry, propose and develop guidelines and information the financial industry needs, lead the financial industry to establish an understanding of the GHG emission status of its own operations and its investment and financing positions, assist the financial industry in proactively responding to and keeping track of climate-related risks and opportunities, as well as continuously push the financial industry to support sustainable development and help companies reduce carbon emissions.

To facilitate the proactive implementation of sustainable development among TWSE/TPEx-listed companies on an ongoing basis, the FSC launched the “Sustainable Development Action Plan for TWSE/TPEx-listed Companies” on March 28, 2023 based on the “Sustainable Development Guidemap for TWSE/TPEx-listed Companies” and the “Corporate Governance 3.0 – Sustainable Development Roadmap,” with the intention of helping TWSE/TPEx-listed companies progress towards sustainable development and enhance their international competitiveness through concerted efforts from both the public and private sectors.

The law enforcement policies, approaches, law enforcement framework, and supervisory focus of Taiwan’s securities and futures markets in 2022 are detailed in the following sections.

Law Enforcement Policies and Approaches of 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 resulting therefrom and the benefits gained from such an act.
- (2) Persons and entities of interest include public companies and their responsible persons, managers, 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 time frame, in accordance with related laws and regulations.
- (6) Law enforcement information is disclosed in a transparent manner 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 terms of the issuance market and trading activities, as well as intermediaries in terms of supervision and law enforcement, which is detailed as follows:

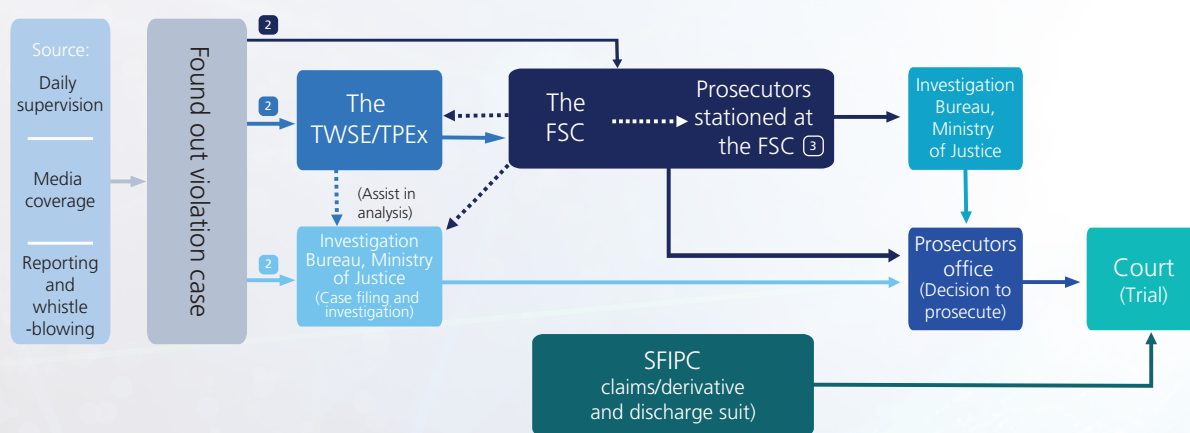
(1) Supervision and law enforcement of the issuance market and trading activities in the securities and futures markets

In accordance with the "Securities and Exchange Act," the "Futures Trading Act," and related laws and regulations, the SFB guides the Taiwan Stock Exchange Corporation (the TWSE), Taipei Exchange (the TPEx), and Taiwan Futures Exchange Corporation (the TAIEX) through the formulation of related regulations and the supervision of the issuance market and trading activities in the securities and futures markets accordingly, as well as 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: TAIEX 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, TAIEX 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 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 litigation, derivative suits, and discharge suits in accordance with the “Securities Investor and Futures Trader Protection Act.”

Violation Case Handling Process Flow Chart 1



1. In the law enforcement framework in Taiwan, the SFB leads peripheral organizations to supervise the securities and futures markets in the aspects of the issuance market and trading activities and enforce the law. Should any violation of the “Securities and Exchange Act” and related laws and regulations be found in the aforesaid supervision process, the TWSE or TPEX will report the case to the SFB for administrative investigations and sanctions. Any substantiated criminal wrongdoing will be transferred to the Investigation Bureau, Ministry of Justice or the district prosecutors’ office for investigation or prosecution, and then to the court for final hearing. In terms of civil liability, the SFIPC will institute a class action lawsuit, derivative suit or discharge suit in accordance with the law, and then transfer the case to the court for trial (the same applies to the law enforcement process for intermediaries).
2. The SFB, peripheral organizations or the Investigation Bureau, Ministry of Justice receive violation cases via various channels such as daily supervision, media coverage or reporting and whistle-blowing. All these units are required to maintain communication with each other and provide assistance to each other when handling violation cases.
3. With a view to strengthening liaison and coordination between the Ministry of Justice and prosecutors’ offices and the FSC, as well as enhancing the efficiency of detecting and handling major financial crimes, the Ministry of Justice has established the “Directions for the Appointment and Assignment of Prosecutors to Handle Specific Matters on a Concurrent Basis at the Financial Supervisory Commission, Executive Yuan.” According to Points 2 and 3 of the aforesaid Directions, the Ministry of Justice may appoint and assign prosecutors to handle specific matters on a concurrent basis at the FSC (i.e., prosecutors stationed at the FSC), who shall serve as the contact point for prosecutors’ offices when investigating and handling criminal cases such as financial crimes. Should any suspected crime be spotted when performing their duties, the FSC and its affiliated agencies may submit related information to the prosecutors for deliberation, offer legal advice or provide other assistance in collecting evidence.

(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:

- 1. 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-regulatory rules and laws, and related measures will be taken in case of any violations.
- 2. 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-regulatory rules and laws; related measures will be taken in case of any violations.
- 3. Supervision of securities investment trust enterprises and securities investment consulting enterprises:** Securities investment trust enterprises (SITEs) and securities investment consulting enterprises (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-regulatory rules and laws on a regular basis to strengthen the internal controls of these enterprises and the discipline of their employees.
- 4. 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."

Supervisory Focus of the Securities and Futures Markets in Taiwan in 2022

1. Enhancing corporate governance and the disclosure of ESG information, as well as promoting the sustainable transformation of the securities and futures Sector:

(1) Relevant measures to enhance corporate governance:

- A. Amending Articles 3, 7, and 19 of the “Regulations Governing Procedure for Board of Directors’ Meetings of Public Companies”: To clearly set out the procedures for the appointment and discharge of chairman of the board and bolster the spirit of corporate governance, the FSC made a number of amendments to the “Regulations Governing Procedure for Board of Directors’ Meetings of Public Companies,” including the provisions that a public company shall submit the appointment or discharge of the chairman of the board for discussion in board meetings or managing directors’ meetings, and that a public company shall specify significant matters related to company operations in the reasons for convening the board meeting, and may not raise such matters by an extraordinary motion for emergency or legitimate reasons.
- B. Studying and deliberating on the draft amendments to some provisions of the “Securities and Exchange Act”: In light of international trends, alongside the fact that the audit committee, which adopts the collegiate system, should gather views via meetings in order to implement its supervisory functions, the FSC studied and deliberated on a number of amendments to the “Securities and Exchange Act” with the intention of setting out the adoption of a collegiate approach with the audit committee in case of lawsuits against directors, the right to convene shareholders’ meetings, and directors acting on their own behalf in dealings with the company, and the operating rules and related penalties when an audit committee’s meeting cannot be convened for legitimate reasons in line with existing practices. The amendments were approved by the Legislative Yuan on June 2, 2023, and promulgated by the President on June 28, 2023.

(2) Relevant measures to enhance the disclosure of ESG information:

- A. Enhancing information disclosure in annual reports: In an effort to help companies achieve the government’s goal of net-zero emission by 2050 while addressing the growing attention to climate change in the international community, the FSC announced the amendment of the “Regulations Governing Information to be Published in Annual Reports of Public Companies” on November 25, 2022, requiring companies that meet certain conditions to disclose climate-related information. Specifically, the disclosure of climate information will apply to all TWSE/TPEX-listed companies starting in 2024. On the disclosure of GHG-related climate information, the mandatory disclosure of information on Scope 1 and 2 GHG inventory and assurance will be rolled out in stages among TWSE/TPEX-listed companies according to capital amount and industry category starting in 2024.

B. Enhancing information disclosure in sustainability reports

- a. On September 22 and 26, 2022, the TWSE and TPEX completed the amendment of the "Rules Governing the Preparation and Filing of Sustainability Reports by TWSE Listed Companies" and the "Rules Governing the Preparation and Filing of Sustainability Reports by TPEX Listed Companies," respectively, requiring TWSE/TPEX-listed companies to disclose information on the climate change risks and opportunities they encounter and their corresponding response measures (including GHG inventory and assurance) in a dedicated chapter within their sustainability reports starting in 2023. The disclosure items stipulated in the said amendments were formulated based on the 11 disclosure recommendations spanning four thematic areas proposed by the Task Force on Climate-related Financial Disclosures (the TCFD). These amendments aim to not only guide TWSE/TPEX-listed companies to place an emphasis on climate-related issues and strengthen their ability to respond to climate-related risks, but also build a comprehensive climate-related information structure so that investors can learn about the impact of climate change on TWSE/TPEX-listed companies and use such information as a reference when making investment decisions.
- b. Aside from adding the TCFD's 11 disclosure recommendations to the said regulations, the amendments above also include the cement, plastic, steel, oil, electricity, and gas, semiconductor, computer and peripheral equipment, optoelectronic, communications and internet, electronic parts and components, electronic products distribution, and other electronics industries with reference to the Sustainability Accounting Standard Board (the SASB) Standards, and stipulate the enhanced implementation of disclosure of related sustainability indicators in stages among TWSE/TPEX-listed companies according to industry category.

(3) Strategies to promote sustainability transition of the securities and futures Sector

To bolster the sound and sustainable development of the securities and futures sector in Taiwan, the FSC published the "Transition Strategies of Sustainable Development for Securities and Futures Sector" on March 8, 2022. This initiative encompasses five goals, i.e., perfecting the sustainability ecosystem, maintaining trading order and stability in capital markets, strengthening the self-discipline mechanisms and resource integration in the securities and futures sector, ensuring sound operations and business transformation in the securities and futures sector, safeguarding the rights of investors or traders, and instituting fair and friendly services, which are to be attained via the formulation of three implementation structures, namely the "Structure for sustainability governance" "Structure for exerting intermediary to facilitate corporate sustainability" and "Structure for sustainability information disclosure," along with 10 strategies and 27 concrete measures. The FSC's objective is to achieve the goals of sustainable development transition in the securities and futures sector over a three-year period in collaboration with the TWSE, TPEX, TAIEX, and Taiwan Depository and Clearing Corporation (the TDCC), as well as the three major associations in the securities and futures industries.

2. Improving the timeliness and transparency of financial information among TWSE/TPEX-listed companies and in the securities and futures Sector, as well as promoting certified public accountant-related rules and regulations in line with international standards

- (1) Promoting the publication of self-assessed financial information among TWSE/TPEX-listed companies, shortening the filing period for the publication of annual financial statements, and facilitating the disclosure of the date of the board meeting before submitting financial statements to the board of directors: In order to boost the timeliness of financial information disclosure among TWSE/TPEX-listed companies, the FSC has supervised and guided the TWSE and TPEX through the amendment of their regulations governing information reporting, requiring TWSE/TPEX-listed companies to publish their self-assessed annual financial information in stages according to paid-in capital amounts. Specifically, TWSE/TPEX-listed companies with a paid-in capital of NT\$10 billion have been publishing their self-assessed financial information since 2022, and these companies have also been required to publish and file their financial statements for the previous year within 75 days after the end of the fiscal year starting in 2023. With a view to enhancing information transparency, the FSC has also supervised and guided the TWSE and TPEX through the amendment of their procedures for the verification and disclosure of material information with listed securities, which includes the provision that TWSE/TPEX-listed companies shall publicly disclose the date of the board meeting simultaneously when issuing the notice for convening a board meeting for the submission of quarterly financial statements or self-assessed annual financial information to the board of directors starting from the first quarter financial statements in 2024.
- (2) Improving the transparency of financial statements, strengthening moderate supervision, and promoting the timeliness of financial disclosure among securities firms and futures commission merchants:
 - A. Following the recent additions and amendments to the International Financial Reporting Standards (the IFRSs), along with amendments to the "Company Act" and the current implementation of IFRSs in Taiwan over the past few years, the FSC announced a series of amendments to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," "Regulations Governing the Preparation of Financial Reports by Securities Firms," and "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants" on November 24, 2022 after reviewing the current laws and regulations, so as to enhance the transparency of financial statements and strengthen moderate supervision. The said amendments not only set out the definition of "materiality," "accounting estimate," and "accounting policy," but also consisted of other provisions, including stepping up the supervision of accounting changes and revising provisions related to earnings distribution in line with the "Company Act" while simplifying the process of information disclosure for public futures commission merchants.
 - B. With a view to promoting the timeliness of financial information disclosure among securities firms and futures commission merchants, the FSC made amendments to the "Regulations Governing Securities Firms" and "Regulations Governing Futures Commission Merchants" on September 1 and December 22, 2022, respectively. As stipulated in the said amendments, public securities firms and futures commission merchants, as well as securities subsidiaries and futures subsidiaries of financial holding companies shall publicly announce and register with the FSC their annual financial statements within 75 days after the end of the fiscal year.

- (3) Promoting the “Auditing Standards Committee’s Engagement Standards” and the “Norm of Professional Ethics for Certified Public Accountant” in line with international standards: To build a forward-looking and internationally competitive capital market, the FSC not only supervised and guided the Accounting Research and Development Foundation (ARDF) to issue the “Preface to the Pronouncements Issued by Auditing Standards Committee” with reference to the standards established by the International Auditing and Assurance Standards Board (IAASB), but also studied and deliberated on the amendment of various Standards on Auditing, Review, Assurance, and related service as well as the formulation of the “Standards on Quality Management,” so that the framework, classification, and coding of related standards in Taiwan are consistent with international standards. In addition, the FSC supervised and guided the National Federation of CPA Associations through the publication of nine bulletins of professional ethics norms with reference to the “International Code of Ethics for Professional Accountants” and in consideration of domestic practices, upgraded the “Norm of Professional Ethics for Certified Public Accountant” to the level of general principles, and developed a conceptual framework, with a view to elevating the professional and social image of certified public accountants.

3. Enhancing the fundraising and trading efficiency of the securities and futures sectors, as well as their international competitiveness

- (1) Bolstering fundraising management and options among foreign issuers: In order to strengthen the examination and control of fundraising cases among TWSE/TPEx primary listed companies, as well as maintain a balance in fundraising regulations for both domestic and foreign issuers, the FSC made a number of amendments to the “Regulations Governing the Offering and Issuance of Securities by Foreign Issuers” on September 5, 2022, such as adding an effective registration period of 20 business days and the provision that the FSC may reject registrations, enhance control measures after fundraising, and relax the rules for the issuance of foreign currency-denominated straight corporate bonds by foreign emerging stock companies, so that Taiwan’s capital market can progress towards a more sound and internationally competitive direction while maintaining market order and safeguarding investors’ rights.
- (2) Boosting the flexibility of corporate bonus and remuneration so that companies are better able to raise funds, recruit talents, and thus enhance their competitiveness: The easing of the issuance period after the issuer’s filing of employee stock options and newly restricted employee shares with the FSC takes effect from one year to two years enabled companies to plan their needs based on their human resources and distribute employee bonus and remuneration in a timely manner within a specific time frame, so as to attract or retain talents, and thus enhance their competitiveness.
- (3) Including electronics sector index options, finance sector index options, and ETF options in the dynamic price banding mechanism to enhance price stability and trader protection in the futures market: In an effort to prevent wrong orders, fat-finger errors, and abrupt fluctuations in prices caused by unbalanced liquidity on intraday order books, the FSC supervised and guided TAIFEX to not only continue enhancing the dynamic price banding mechanism for domestic and foreign stock index futures, ETF futures, FX futures, commodity futures, and TAIEX options, but also extend this mechanism to include electronic sector index options, finance sector index options, and ETF options in 2022, so as to mitigate price fluctuations, enhance price stability and trading efficiency, and bolster trader protection.

- (4) Establishing a central clearing mechanism for over-the-counter derivatives to enhance the management of related transaction risks and attract international funds to participate in Taiwan's capital market: On July 25, 2022, TAIEX introduced a central clearing mechanism for over-the-counter derivatives with the rollout of central clearing services for interest rate swap (IRS) by clearing members. TAIEX is expected to launch the New Taiwan dollar IRS for clearing members' customers and a central clearing service for New Taiwan dollar non-deliverable forward (NDF) in July 2023. The establishment of the said central clearing mechanism by TAIEX helps to not only strengthen risk management among Taiwan's financial institutions engaging in over-the-counter derivatives trading, but also attract international financial players to participate in Taiwan's capital markets and boosts the international visibility of Taiwan's financial markets.

4. Supervision of intermediaries:

- (1) **Strengthening universal supervision:** The universal supervision of intermediaries encompassed "financial consumer protection, financial friendly service measures, or principles of treating customers fairly" (refer to Subchapter III, Chapter III of this report "Implementation of Enhanced Customer Protection and Related Improvement Measures in the Securities and Futures Sector in Taiwan to Address Risks Related to Investments Made by Senior Citizens", "Cyber Security Management and Personal Data Protection" (refer to Subchapter II, Chapter III of this report for the current implementation of cyber security management and related improvement measures among TWSE/TPEX-listed companies and service enterprises in the securities and futures markets in Taiwan), "Anti-money Laundering, Combating the Financing of Terrorism, and Counterproliferation," "legal compliance system," "Corporate Governance Operation" and "Overall and Various Risk Management Mechanisms."
- (2) **Strengthening individual supervision:**
- A. Securities firms: Securities firms were checked on practices related to internal personnel management (including the audit of conflicts of interest, the appropriateness of compensation and performance appraisal systems, etc.), wealth management (including wealth management for high-net worth customers, as well as money and securities trusts concurrently operated by securities firms), securities borrowing and selling by securities dealers, market-making and hedging for ETNs, default risk management, as well as derivatives trading by securities dealers.
 - B. SITES: SITES were checked on practices related to the disclosure of information on onshore and offshore funds; the implementation of Know Your Customer (KYC) and Know Your Product (KYP) procedures; the implementation of measures to prevent conflicts of interest and internal control systems in business investments using self-owned funds; the prevention of conflicts of interest and control of investment process in funds and discretionary accounts (including government funds); the offering and sale of ETFs (including futures ETFs); discount and premium management; index tracking; and the enhancement of ETF information disclosure. Additionally, the disclosure of information in the issuance of ESG-themed funds, the enhancement of disclosure quality in stewardship reports on securities investment trusts, and the strengthening of institutional investor stewardship and governance rating mechanisms.

5. Enhancing protection of investor rights

(1) Amending provisions related to shareholders' meetings with video conferencing in the "Regulations Governing the Administration of Shareholder Services of Public Companies"

- A. Amending laws and regulations and the rules of peripheral organizations: With the intention of allowing public companies to convene shareholders' meetings with video conferencing in line with the "Company Act," the FSC amended and promulgated the "Regulations Governing the Administration of Shareholder Services of Public Companies" and the "Regulations Governing Content and Compliance Requirements for Shareholders' Meeting Agenda Handbooks of Public Companies" on March 4, 2022 after referencing the relevant systems abroad, the experience of hybrid shareholders' meetings during the COVID-19 pandemic, and the practical operations of shareholders' meetings. According to the said amendments, public companies are now allowed to convene either hybrid shareholders' meetings (i.e., the company convenes physical shareholders' meetings with the assistance of video conferencing) and virtual-only shareholders' meetings (i.e., the company convenes shareholders' meetings via video conferencing only). These amendments also set out the requirements for convening shareholders' meetings with video conferencing (including virtual-only and hybrid shareholders' meetings), the eligibility criteria for video conferencing platform providers, the relevant operating procedures for shareholders' participation in shareholders' meetings with video conferencing, as well as matters to be noted in the shareholders' meeting notice, handbook, and minutes. At the same time, the FSC also supervised and guided the TWSE, TPEx, and TDCC through the amendment of the relevant rules.
- B. Establishing a video conferencing platform for shareholders' meetings and assisting companies in convening shareholders' meetings with video conferencing
 - a. The FSC supervised and guided the TDCC to formulate various rules and regulations, including the "Operational Directions on Video Conferencing Platform for Shareholders' Meetings" and the "Shareholders' Meeting Video Conferencing Fee Schedule," developed a video conferencing platform for shareholders' meetings, which officially went online on April 1, 2022, and set up a Q&A collection section for public reference.
 - b. The FSC also supervised and guided the TDCC to build a test environment and a video conferencing simulation platform aimed at enabling public companies and shareholder service units to familiarize themselves with the relevant operating procedures, and establish a promotion team to provide companies with the latest information in real time and a Q&A collection. Furthermore, the FSC required the TDCC to fully monitor the connection status of video conferencing during shareholders' meetings, send personnel to provide companies with on-site assistance, and report in real time the on-site status of video conferencing on the day of shareholders' meeting.
- C. Status of implementation: In 2022, a total of 72 companies, including 51 TWSE-listed companies, 16 TPEx-listed companies, four TPEx Emerging Stock companies and one public company, convened hybrid shareholders' meetings and successfully completed the convening of such meetings. According to statistics, a total of 2,306 shareholders signed up and used the video conferencing platform, with an average of 32 people signing up per video conferencing session, while a total of 805 people registered their attendance via video conferencing, with an average of 11 people registering their attendance per video conferencing session.

- (2) **Amending certain provisions of the “Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies”** In an effort to strengthen the management of companies mandated by solicitors to handle solicitation matters and the reasonableness of solicitation-related contracts, as well as enhance legal compliance among solicitors and companies mandated by solicitors to handle solicitation matters, the FSC announced a number of amendments to certain provisions of the “Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies” on August 17, 2022. The said amendments primarily revolved around the following provision: Solicitors or companies mandated by solicitors to handle solicitation matters on which the FSC has imposed a sanction for major violations of the said regulations may not serve as a solicitor or handle solicitation matters within one year, with the votes they represent not counted as well. At the same time, these amendments not only set out the eligibility criteria for solicitation-handling personnel and require solicitation-handling personnel to participate in education and training courses, but also reinforce solicitation-related contracts by requiring solicitation-handling personnel to specify remuneration in such contracts, examine the reasonableness of the content of such contracts, and sign new contracts each year. Taking into account the amount of time required for companies mandated by solicitors to meet the said eligibility criteria and perform solicitation-related contracts, the amendments above were scheduled to take effect on January 1, 2023, coupled with a grace period that was set to end on December 31, 2022.
- (3) **Strengthening regulations governing the management of responsible persons and associated persons at securities firms, SITEs, and futures commission merchants to foster accountability among managers in the financial industry and establish related systems:** With a view to enhancing the management of securities firms and futures commission merchants and implementing corporate governance, the FSC announced the amendment of the “Regulations Governing Responsible Persons and Associated Persons of Securities Firms” and the “Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants” on October 28, 2022. The said amendments included the professional qualifications for the chairman of securities firms and futures commission merchants, required the board of directors to supervise and guide such companies through the establishment and implementation of a managerial accountability system, and extended the scope of a non-compete clause to not only include responsible persons but also related persons at securities firms and futures commission merchants. On December 22, 2022, the FSC also announced the amendment of the “Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises” and the “Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises.” As stipulated in the said amendments, the board of directors of SITEs and SICEs shall supervise and guide the companies through the establishment and implementation of a managerial accountability system, while the scope of a non-compete clause was also extended to include not only responsible persons but also related persons at SITEs and SICEs.

(4) Strengthening the supervision of beneficiary owners at public companies

- A. Existing control mechanisms:
- a. According to the “Regulations Governing Information to be Published in Annual Reports of Public Companies” established under the authorization of Paragraph 4, Article 36 of the “Securities and Exchange Act,” a public company shall disclose information on shareholders with a shareholding percentage of 5% or more or the top 10 shareholders by shareholding percentage and their shareholdings. If the directors or supervisors of the public company are representatives of its corporate shareholders, the public company shall also disclose the names of the top 10 shareholders by shareholding percentage and their shareholdings in the next two levels according to the said provision.
 - b. According to Subparagraph 4, Paragraph 1, Article 17 of the “Regulations Governing the Preparation of Financial Reports by Securities Issuers,” Subparagraph 5, Paragraph 1, Article 22 of the “Regulations Governing the Preparation of Financial Reports by Securities Firms,” and Subparagraph 5, Paragraph 1, Article 24 of the “Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants,” TWSE/TPEX-listed companies (including TWSE/TPEX-listed securities firms and futures commission merchants) shall disclose, in their quarterly financial statements, information on major shareholders, including the names of shareholders with a shareholding percentage of 5% or more and their shareholdings and shareholding percentages.
 - c. According to Paragraph 1, Article 43-1 of the “Securities and Exchange Act,” any person who acquires, either individually or jointly with other persons, more than 10% of the total issued shares of a public company shall report such acquisition to the competent authority and make a public announcement; the same applies when there is any change in the specifics reported. If the acquirer is a company, the acquirer is also required to report information on shareholders with a shareholding percentage of 5% or more, or those who have direct or indirect control over shareholders with a shareholding percentage of 5% or more.
- B. Strengthening the supervision mechanism: In order to increase the level of corporate governance in Taiwan and align with international standards, the FSC has studied and drawn up an amendment to Paragraph 1, Article 43-1 of the “Securities and Exchange Act” to lower the reporting and public announcement threshold from 10% at present to 5%. This amendment which was approved by the Legislative Yuan on the third reading on April 4, 2023 and promulgated by the President on May 10, 2023, will be enforced from May 10, 2024.

CHAPTER 1

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

- I. Administrative Sanctions Imposed by the SFB from 2018 to 2022
- II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice from 2018 to 2022
- III. Investigations of Civil Liability by the SFIPC from 2018 to 2022
- IV. Cross-border and Inter-ministerial Collaboration on Financial Supervision from 2018 to 2022



Table 1-1 shows the law enforcement results of the securities and futures market in Taiwan over the past five years from 2018 to 2022, 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.

As can be observed from Table 1-1, the number of administrative sanctions imposed by the SFB and the amount of penalties have risen first but declined thereafter over the past five years; however, the number of criminal cases investigated by the Investigation Bureau, Ministry of Justice have declined first but risen thereafter over the same period. Meanwhile, the SFIPC has recorded a decreasing number of class action lawsuits and an increasing number of derivative and discharge suits throughout the past five years. The above enforcement actions, along with the “Cross-border and Inter-ministerial Collaboration in Financial Supervision from 2018 to 2022”, “the FSC’s proactive effort to help TAIEX acquire recognition as a third-country qualifying central counterparty from major international financial market authorities”, and “law enforcement results in insider trading over the past five years” are detailed in the following sections of this chapter.

□ Table 1-1

Law enforcement unit and action		Year	2018	2019	2020	2021	2022
SFB and FSC	Administrative sanctions (public companies; intermediaries, including their employees)		293 cases (207 cases; 86 cases)	357 cases (270 cases; 87 cases)	351 cases (234 cases; 117 cases)	367 cases (219 cases; 148 cases)	287 cases (199 cases; 88 cases)
	Amount of penalties (public companies; intermediaries, including their employees)		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\$103.60 million (NT\$51.98 million; NT\$51.62 million)	NT\$86.93 million (NT\$49.15 million; NT\$37.78 million)	NT\$67.80 million (NT\$43.70 million; NT\$24.10 million)
Investigation Bureau, Ministry of Justice	Violations of the “Securities and Exchange Act”		61 cases	60 cases	57 cases	49 cases	63 cases
	Proceeds of crime		NT\$20,065.27 million	NT\$15,941.98 million	NT\$16,563.05 million	NT\$11,653.69 million	NT\$5,232.54 million
SFIPC	Class action lawsuits and compensation sought		10 cases NT\$1,006.54 million	12 cases NT\$1,687.29 million	10 cases NT\$726.25 million	11 cases NT\$7,246.26 million	7 cases NT\$7,335.45 million
	Derivative suits and compensation sought		5 cases NT\$3,438.56 million	2 cases NT\$115.77 million	6 cases NT\$1,304.73 million	8 cases NT\$1,740.45 million	9 cases NT\$1,213.53 million
	Discharge suits		9 cases	5 cases	7 cases	6 cases	14 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 Tables 1 and 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 is 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.

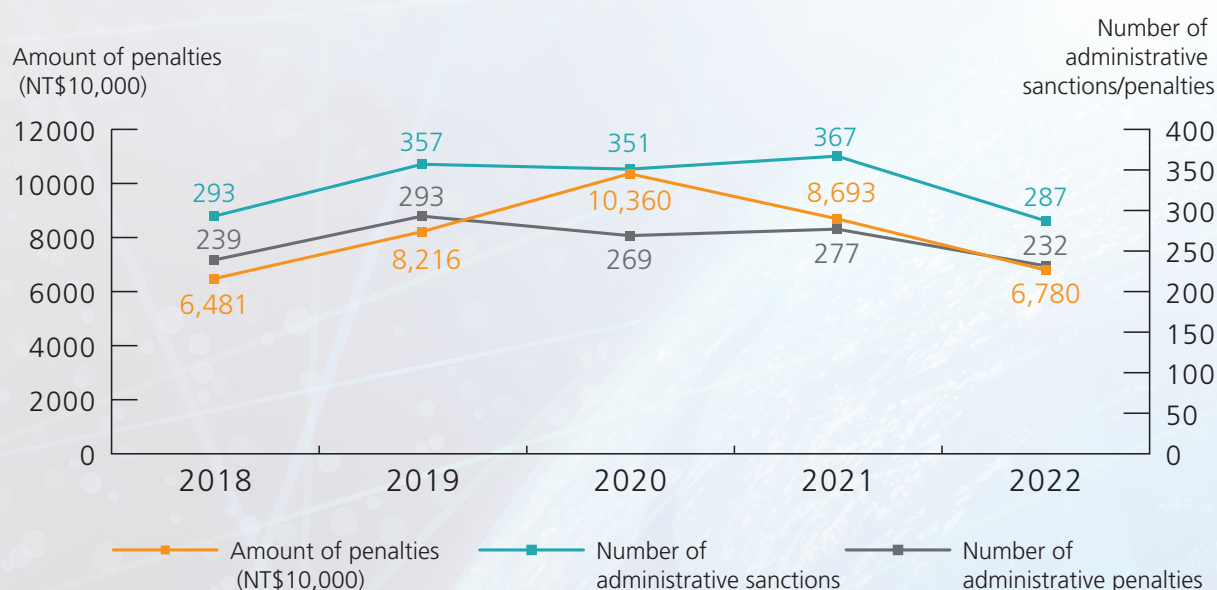
*** The amount of the SFIPC’s annual class action claims may be adjusted due to the increase or decrease in the number of authorizers or the change in the calculation method of damage. The data is compiled up to February 18, 2023.

I. Administrative Sanctions Imposed by the SFB from 2018 to 2022

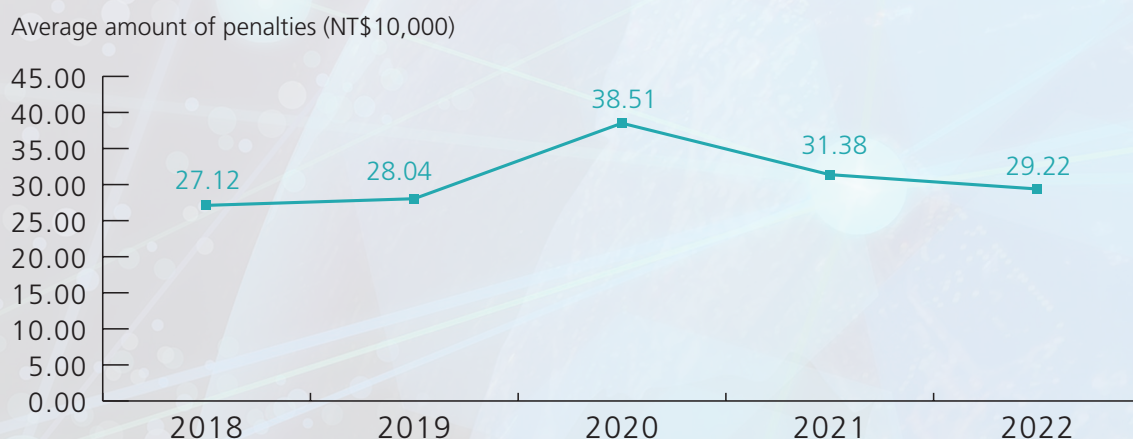
During the five-year period from 2018 to 2022, the number of administrative sanctions and penalties, as well as the total and average amounts of penalties (refer to Figure 1-1, Figure 1-2, and Table 1 in Appendix III, respectively) rose between 2018 and 2021 but declined in 2022. Specifically, 2020 saw the highest total and average amounts of penalties while the highest number of administrative sanctions was observed in 2021. At the same time, the lowest number of administrative sanctions and penalties and the second lowest total amount of penalties were recorded in 2022.

The 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), the imposition of penalties on securities firms failing to comply with the internal control system as a result of the amendment of Article 178 of the "Securities and Exchange Act" and the addition of Article 178-1 to 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) in 2020, and a decline in the number of penalties imposed due to violations of regulations related to insider securities reporting and intermediaries in 2022.

□ **Figure 1-1 Number of administrative sanctions, amount of penalties and total amount of penalties**



□ **Figure 1-2 Average amount of penalties from 2018 to 2022 (NT\$ 10,000)**



The following are the administrative sanctions imposed by the SFB in 2022 by type and subject of sanctions (refer to Table 1-2, Figure 1-3, and Figure 1-4):

1. The number of penalties in 2022 totaled 232, accounting for 81% of the total administrative sanctions. This figure was markedly lower than the number of penalties recorded in 2021 (277) mainly due to a decrease in the number of regulation violations related to insider securities reporting and intermediaries in 2022. Meanwhile, the amount of penalties totaled NT\$67.80 million, a decrease from 2021 (NT\$86.93 million), mainly due to a higher amount of penalties imposed on a number of intermediaries in 2021 (i.e., NT\$22.62 million in penalties imposed on these intermediaries, including six securities firms that failed to implement information security for co-location, three SITES that failed to exercise due care of a good administrator in handling discretionary management of labor funds, and three futures commission merchants with deficiencies in financial inspection).
2. The number of rectifications imposed on intermediaries totaled 37, accounting for 13% of the total administrative sanctions. Despite a drop in the number of rectifications in 2022, the aforesaid figures did not differ significantly from the number of rectifications (59) and its proportion to the total administrative sanctions (16%) in 2021.
3. Sanctions other than penalties and rectifications included the termination of business operations (13 cases on intermediaries' persons in charge and employees and five cases on CPAs) and discharge of duties (one case).
4. By subject of administrative sanctions:
 - (1) More than 50% of the administrative sanctions were imposed on the insiders of public companies (including directors or supervisors, managers, and major shareholders with a shareholding percentage of 10% or more) who failed to file for the holding or transfer of securities in accordance with Article 22-2 and Article 25 of the "Securities and Exchange Act."
 - (2) About 25% (58 cases) of the administrative sanctions were imposed on public companies, an increase in the number of administrative sanctions (50 cases) but a decline in its proportion to the total administrative sanctions (18%) from 2021. Most of these public companies failed to file (restate) their financial statements in accordance with regulations.
 - (3) About 18% of the administrative sanctions were imposed on intermediaries, a decline from 2021 (63 cases or 23%). Following the FSC's amendment of Article 178 of the "Securities and Exchange Act" and addition of Article 178-1 to the "Securities and Exchange Act" on April 17, 2019 to strengthen compliance by raising the penalty ceiling for administrative sanctions and implementing internal control among securities firms, there has been a gradual increase in the number of penalties imposed on securities firms under Article 178-1 of the "Securities and Exchange Act" from 2019 to 2022, including one case in 2019, five cases in 2020, 28 cases in 2021, and 26 cases in 2022. In 2022, high penalties were imposed on two intermediaries, namely Eastspring Securities Investment Trust Co., Ltd. (NT\$4 million) and Daniel Securities Investment Consulting Co., Ltd. (NT\$3 million) (for more details on these two cases, refer to the fourth and fifth cases of administrative sanctions in Chapter II).
 - (4) In 2022, the SFB imposed a total of six penalties on CPAs, mainly due to their failure to perform the audit procedures when engaging in the auditing of public companies' financial statements in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and the "Statement of Auditing Standard."

Table 1-2

Party in breach \ Type of sanctions	Penalties	Rectification	Termination of business operations	Discharge of duties	Revocation of business licenses	Warnings	Total
Insiders	122	–	–	–	–	–	122
Public companies	58	–	–	–	–	–	58
CPAs	6	–	5	–	–	–	11
Intermediaries	41	37	3	–	–	–	81
Responsible persons and employees of intermediaries	–	–	10	1	–	–	11
Others	5	–	–	–	–	–	5
Total	232	37	18	1	–	–	288

* Table 1-2 was prepared based on the SFB Enforcement Action List (including statistics and details on administrative penalties at <https://www.sfb.gov.tw/ch/home.jsp?id=102&parentpath=0,2>, refer to Table 2 in Appendix III).

Figure 1-3
Type of administrative sanctions in 2022

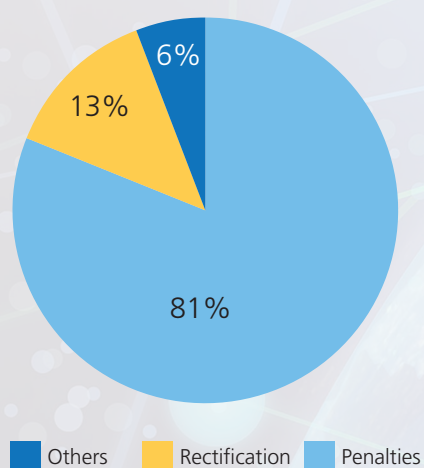
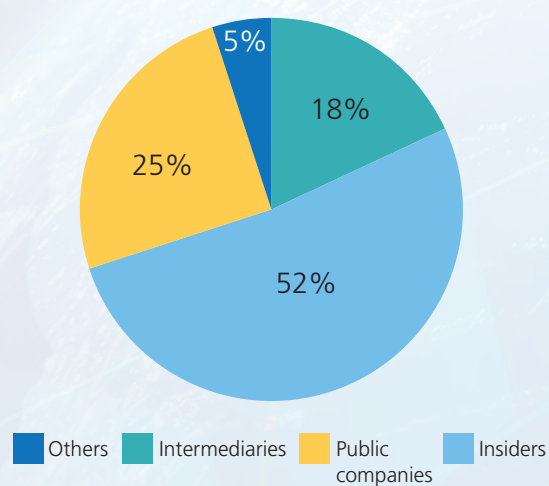


Figure 1-4
Subject of administrative sanctions in 2022



II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice from 2018 to 2022

Over the past five years, the number of criminal cases in violation of the “Securities and Exchange Act” investigated by the Investigation Bureau, Ministry of Justice has declined between 2018 and 2021 but peaked in 2022, whereas proceeds of crime have exhibited a downward trend, with the lowest point observed in 2022.

Figure 1-5 Number of Criminal Cases

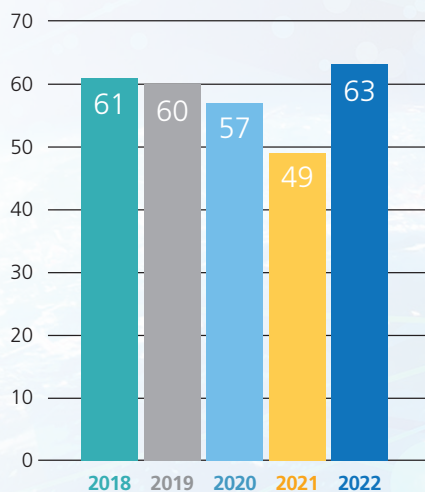
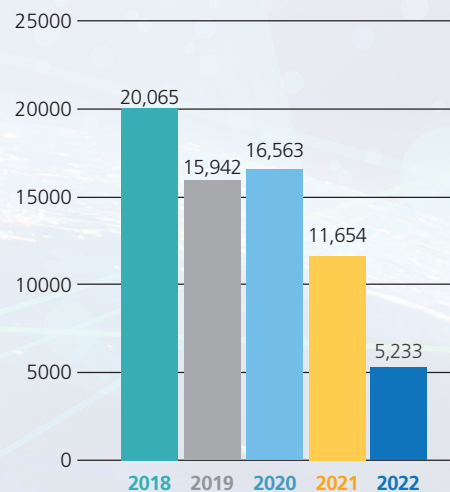


Figure 1-6 Proceeds of Crime (NT\$1 million)



In 2022, the number of cases related to insider trading (24 cases) was the highest among all types of violations, while the proceeds of crime from counterfeit documents in collection or issuance (NT\$2,560.31 million) was the highest among all types of violations. The number of criminal cases rose from 2021 mainly because of an increase in the number of cases related to counterfeit documents in collection or issuance, stock price manipulation through abnormal trading, insider trading, unconventional transactions, and special breach of trust and embezzlement, with the highest increase observed in the number of cases related to stock price manipulation through abnormal trading in 2022. However, there was a substantial decline in proceeds of crime in 2022 from 2021 mainly due to a decrease in the proceeds of crime from cases related to false lawyer or CPA attestation, false financial statements, and special breach of trust and embezzlement (refer to Tables 1-3 and 1-4).

Among the criminal cases investigated over the past five years, the combined number of cases related to insider trading, stock price manipulation through abnormal trading, and special breach of trust and embezzlement (42, 38, 34, 34, and 44, respectively) accounted for more than 60% of the total cases each year. In 2022, the numbers of cases related to counterfeit documents in collection or issuance (10 cases) and insider trading (24 cases) were the highest over the past five years, while the proceeds of crime from cases related to stock price manipulation through abnormal trading, special breach of trust and embezzlement, and false financial statements were the lowest over the past five years (refer to Tables 1-3 and 1-4).

The following findings have been observed with regards to various types of criminal cases over the past five years. While the number of cases related to stock price manipulation through abnormal trading in 2022 increased by six cases from 2021, the proceeds of crime from these cases decreased by NT\$553.40 million from 2021 mainly because in many of the stock price manipulation cases investigated by the Investigation Bureau in 2022, manipulation efforts from the parties involved actually ended in failure with negative profits. In the Investigation Bureau, the number of cases related to special breach of trust and embezzlement in 2022 increased by two cases from 2021 but the proceeds of crime from these cases dropped by NT\$1,228.18 million primarily because small cases constituted a large proportion of these cases in 2022. For more details on the analysis of the number of other types of criminal cases and their proceeds of crime from 2018 to 2021, refer to II. Investigations of Criminal Liability by the Investigation Bureau, Ministry of Justice from 2017 to 2021 in Chapter I of the 2021 Law Enforcement Report on Securities and Futures Markets.

Table 1-3

Type of violation	Number of violations					Number of suspects				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Counterfeit documents in collection or issuance	9	9	8	7	10	45	64	49	35	59
Settlement default	0	0	0	0	0	0	0	0	0	0
Stock price manipulation through abnormal trading	16	14	9	5	11	61	40	48	15	39
Insider trading	13	12	13	22	24	35	40	55	81	112
Unconventional transactions	6	9	9	4	6	51	47	61	23	25
Special breach of trust and embezzlement	13	12	12	7	9	59	72	64	14	54
False financial statements	3	3	6	3	3	23	20	19	11	21
False lawyer or CPA attestation	0	0	0	1	0	0	0	0	3	0
Stock price manipulation with unreliable information	1	1	0	0	0	1	1	0	0	0
Stock price manipulation by other means	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	61	60	57	49	63	275	284	296	182	310

Table 1-4

Type of violation	Proceeds of crime (NT\$10,000)				
	2018	2019	2020	2021	2022
Counterfeit documents in collection or issuance	192,164	449,738	205,919	175,089	256,031
Settlement default	0	0	0	0	0
Stock price manipulation through abnormal trading	206,878	325,601	241,715	71,422	16,082
Insider trading	4,741	8,544	20,299	11,052	24,684
Unconventional transactions	101,819	199,731	141,676	52,799	102,696
Special breach of trust and embezzlement	419,043	495,968	620,296	208,658	85,840
False financial statements	1,079,843	114,614	426,398	326,350	37,921
False lawyer or CPA attestation	0	0	0	320,000	0
Stock price manipulation with unreliable information	2,036	0	0	0	0
Stock price manipulation by other means	0	0	0	0	0
Illegal private placement	0	0	0	0	0
Illegal mergers and acquisitions	0	0	0	0	0
Subtotal	2,006,524	1,594,196	1,656,303	1,165,370	523,254

III. Investigations of Civil Liability by the SFIPC from 2018 to 2022

1. Class action litigation (refer to Table 1-4):

- (1) **Type of cases:** From 2018 to 2022, the SFIPC instituted 10, 12, 10, 11, and 7 class action litigation cases. Specifically, the majority of class action litigation cases in 2018 and 2019 were cases related to insider trading, whereas cases related to false financial statements, financial and business information or prospectuses made up most of the class action litigation cases in 2021 and 2022.
- (2) **Trend analysis:**
- Number of cases: While there was little difference in the number of class action litigation cases filed between 2018 and 2021, there were less class action litigation cases in 2022 because there were challenges in setting up a class action case for insider trading and stock price manipulation but the difference is not significant.
 - Number of authorizers: The higher number of authorizers in 2021 mainly resulted from a higher number of authorizers in several litigation cases in the year (e.g., Pharmally International Holding Co., Ltd. and Dukang Distillers Holdings Ltd.).
 - Amount of compensation sought: Higher amounts of compensation were sought in 2021 and 2022 primarily because of either a number of authorizers in some of these litigation cases and high stock prices in the companies involved or the high number of shares subscribed by authorizers in cash capital increase by the companies involved (e.g., Pharmally International Holding Co., Ltd. and Roo Hsing Co., Ltd.).

□ Table 1-5

Type of class action	2018			2019			2020			2021			2022		
	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, financial and business information or prospectuses	3	44,143	1,041	2	69,625	143	5	65,309	3,478	5	710,529	7,795	5	666,712	1,122
Stock price manipulation	3	25,522	451	4	80,010	1,048	2	1,791	140	3	9,157	93	1	66,663	124
Insider trading	4	30,989	487	6	19,094	1,512	2	1,198	60	2	2,809	49	1	170	28
Others (Note 1)	0	0	0	0	0	0	1	4,327	109	1	2,131	77	0	0	0
Total	10	100,654	1,979	12	168,729	2,703	10	72,625	3,787	11	724,626	8,014	7	733,545	1,274

Note 1: Others refer to the combination of two or more types of violations, including false financial statements, financial and business information or prospectuses, stock price manipulation, insider trading, and other types of violations..

Note 2: 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 changes in the calculation method of damage. The data is compiled up to February 18, 2023.

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

- (1) **Type of cases:** From 2018 to 2022, the SFIPC instituted 5, 2, 6, 8, and 9 derivative suits, respectively, as well as 9, 5, 7, 6, and 14 discharge suits, 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 company or an Emerging Stock company 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. Specifically, there was no significant difference in the number of derivative suits (including intervention in litigation) between 2018, 2020, and 2022, whereas the number of derivative suits fell in 2019 primarily because fewer cases met the statutory prerequisites in 2019. On the other hand, there was no significant difference in the number of discharge suits from 2018 to 2021. Following the introduction of the three-year disqualification effect on directors or supervisors dismissed by a final and unappealable court judgment or ruling under the amended "Securities Investor and Futures Trader Protection Act" in 2022, the SFIPC, in an effort to carry out the legislative intent of this provision and prevent incompetent directors or supervisors from undermining corporate governance and jeopardizing company operations, have filed lawsuits against incompetent directors or supervisors who have engaged in unlawful conduct, be it currently in office or not, which in turn led to an increase in the number of discharge suits in 2022.

□ Table 1-6

Type of Action	2018		2019		2020		2021		2022	
	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	5	343,856	2	11,577	6	130,473	8	174,045	9	121,353
Discharge suits	9	–	5	–	7	–	6	–	14	–

Note: The amount of compensation sought in derivative suits each year may be adjusted due to figures related to the status of these actions. The data is compiled up to February 18, 2023.

3. Implementation results:

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

In 2022, the SFIPC assisted investors in instituting class action litigation for securities and futures cases, and has secured compensation of around NT\$441 million, including around NT\$351 million from reconciliations and NT\$90 million from litigation cases. With the constant evolution of judicial decisions, the SFIPC had more wins in the class action litigation cases, 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) With the implementation of the “Commercial Case Adjudication Act” starting on July 1, 2021, the Judicial Yuan designated on May 17, 2022 under the “Commercial Case Adjudication Act” that civil cases filed by the SFIPC under the “Securities Investor and Futures Trader Protection Act” shall be included in the scope of commercial litigation cases and heard by the Intellectual Property Court and the Commercial Court (the “Commercial Court”). In 2022, the SFIPC recorded a partial victory in the ASE & SPIL, Inc. insider trading case, i.e., the first class action lawsuit it filed with the Commercial Court, which also marked the first substantive judgment in the Commercial Court. As the Commercial Court is not bound by judgments of acquittal in criminal cases and thus is able to hand down judgments of compensation with a year or so, the SFIPC, through its proactive effort to file lawsuits based on the commercial case adjudication system, has been successfully seeking compensation from criminal offenders who disrupt the fair order of the securities market, and thus serving its function of promptly and effectively safeguarding investors’ rights.

- (3) Appealing to courts for discharging incompetent directors and supervisors of TWSE/TPEX-listed companies or Emerging Stock Companies in order to promote corporate governance

In 2022, the SFIPC won a total of eight discharge suits, four of which have been confirmed to be in its favor. These discharge suits not only effectively enhance corporate governance among TWSE/TPEX-listed companies or Emerging Stock Companies, but also serve as a reminder to the directors and supervisors of TWSE/TPEX-listed companies or Emerging Stock Companies that they should better exercise the duty of loyalty. With the disqualification system for directors and supervisors in discharge suits in place, dismissed directors and supervisors are prohibited from serving as directors and supervisors at all TWSE/TPEX-listed companies or Emerging Stock companies, and also as natural persons designated to exercise their duties in accordance with Paragraph 1, Article 27 of the “Company Act,” so as to increase the cost of violating the law in the event that directors and supervisors cause material losses to their companies or commit major violations of laws and regulations and/or articles of incorporation when performing their duties. This can not only effectively urge directors and supervisors to comply with laws and regulations, perform their duties in a faithful manner, and exercise due care of a good administrator, but also help to advance corporate governance.

IV. Cross-border and Inter-ministerial Collaboration in Financial Supervision from 2018 to 2022

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 2018 to 2022, 16, 8, 4, 4, and 9 cases with regards 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 2022, three of them involved related party transactions). The TWSE and TPEX also coordinated with law enforcement agencies for prosecution and investigation as needed. From 2018 to 2022, the TWSE assisted judicial institutions in providing relevant information on 23, 27, 17, 40, and 19 cases, respectively, while the TPEX assisted in 38, 48, 41, 52, and 24 cases, respectively.

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 were also invited to attend these meetings when necessary. A total of 1, 2, 3, and 2 corporate supervisory meetings were convened between 2018 and 2022, with none held in 2022.

(2) Interdepartmental collaboration in supervision on the trading activities

From 2018 to 2022, 5, 4, 7, 4, and 6 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 2018 to 2022, the TWSE assisted law enforcement agencies in providing relevant information 67, 45, 54, 47, and 50 times, respectively, while the TPEx did the same for a total of 89, 103, 100, 116, and 84 times, respectively.

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, Shan and another defendant, who were involved in the Lite-On Semiconductor Corp. insider trading case in 2019, were sentenced by the Taiwan Taipei District Court for two years’ imprisonment (three years’ probation) and one year and seven months’ imprisonment (two years’ probation), respectively in June 2022 due to violations of the “Securities and Exchange Act.” Meanwhile, tippee and defendant Teng, who was involved in the Sung Gang Digital Technology Co., Ltd. insider trading case in 2017, was sentenced by the Taiwan Taipei District Court for one year and eight months’ imprisonment and three years’ probation in March 2022 due to violations 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. A total of two liaison meetings were held in 2022. On November 30, 2022, 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 November 4, 2022, the Economic Crime Investigation Center of the Taiwan High Prosecutors Office held the first advisory and coordination committee meeting in 2022, where relevant ministries convened to review measures to enhance the prevention and detection of scam syndicates and the flow of foreign funds into Taiwan through illegal cryptocurrency transactions and third-party payment operators, with the goal of resolving issues relating to market order and ensuring 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 2018 to 2022, the number of cases requiring assistance from foreign competent authorities totaled 43, with most of the cases (12 cases) requested in 2022; whereas the number of cases requiring assistance from the SFB was 40, most of which (15 cases) were requested in 2020 (refer to Table 1-7). In 2022, the SFB sought assistance in 12 cases from the Securities and Futures Commission of Hong Kong, the Securities Regulatory Commission of Thailand, the Financial Services Commission of Mauritius, the Financial Services Agency of Japan, the U.S. Securities and Exchange Commission, and the Monetary Authority of Singapore. Authorities in other countries requested assistance in three cases from the SFB, including the Autorité des Marchés Financiers of France (one case), the Securities and Futures Commission of Hong Kong (one case), and the Securities Commission Malaysia (one case), which manifested close communication and collaboration between the SFB and global financial supervisory agencies.

Table 1-7

Type of collaboration \ Year	2018	2019	2020	2021	2022
Number of cases requiring assistance from other competent authorities	9	11	7	4	12
Number of cases requiring assistance from the SFB	5	9	15	8	3

3. The FSC's proactive effort to help TAIFEX acquire recognition as a third-country qualifying central counterparty (QCCP) from major international financial market authorities

In an effort to attract overseas financial institutions to participate in Taiwan's central clearing system, the FSC is making proactive efforts to help the TAIFEX apply for recognition as a QCCP from overseas competent authorities. On the TAIFEX's application for QCCP recognition from the EU, the European Commission announced in September 2022 that Taiwan's futures regulatory framework and supervisory mechanism have been confirmed to be in compliance with the EU's regulations on equivalence upon the EU's assessment. The signing of a Memorandum of Understanding (MoU) between the FSC and the European Securities and Markets Authority (ESMA) in October 2022 would not only facilitate mutual collaboration and enhanced commitment to bilateral cooperation between financial regulators in Taiwan and the EU, but also deepened cross-border regulatory cooperation between the FSC and ESMA. In December 2022, the ESMA's board of directors approved the recognition decision on the TAIFEX as a QCCP, which will enable financial institutions in the EU to enjoy preferential capital charges for clearing through the TAIFEX and effectively enhance their capital efficiency. Having this recognition will not only increase foreign investors' willingness to participate in Taiwan's financial markets and their confidence in Taiwan's financial markets, which is conducive to attracting international financial institutions in the EU to participate in Taiwan's financial markets, but also enhances Taiwan's visibility in the international arena.

The TAIFEX has received provisional recognition as a QCCP from the U.S. Commodity Futures Trading Commission (CFTC), while Australian financial institutions may also recognize the TAIFEX as a QCCP in accordance with Australian laws and regulations. At present, the FSC is also in active communication with competent authorities in other countries to establish collaboration on financial supervisory agencies with the U.S. CFTC and the Ontario Securities Commission in Canada, and also proactively helping the TAIFEX acquire recognition as a QCCP from Japan and the U.K.

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

During the five-year period from January 1, 2018 to December 31, 2022, there were 49 indicted insider trading cases, of which 36 were convicted. At present, seventy-three people who have been sentenced to imprisonment for one year to three years and six months, coupled with accompanying civil liability. According to the class action litigation cases instituted by the SFIPC on behalf of the investors who suffered damages from insider trading, these investors have received compensation for 9 out of the 49 litigation cases.

On December 8, 2021, the TWSE announced the amendment of Article 10 of the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" after referencing the rules and regulations promulgated by Hong Kong Exchanges and Clearing Limited, which stipulated that a director is prohibited from trading its shares during the closed period of 30 days prior to the publication of the annual financial reports and 15 days prior to the publication of the quarterly financial reports. At the same time, the TWSE has also included related matters in the Q&A section regarding the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies," which is provided to TWSE/TPEx-listed companies for compliance.

CHAPTER 2

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 over the past five years from 2018 to 2022 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 2022.

I. Administrative Sanctions

Among the major cases identified in the supervision of TWSE/TPEx-listed companies throughout 2022, the FSC investigated and penalized Roo Hsing Co., Ltd. (Roo Hsing) for the replacement of legal-person director's representative and violations of corporate governance, as well as investigated and fined Hotron Precision Electronic Industrial Co., Ltd. (Hotron Precision) for the failure of its insiders to report their shareholdings in the name of others in accordance with regulations through cross-unit collaboration, in an effort to enhance transparency and corporate governance in Taiwan's securities market. As for the major cases identified in the supervision of intermediaries, the FSC not only fined KGI Securities Co., Ltd. (KGI Securities) for serious violations of corporate governance principles and failing to implement internal controls, but also imposed heavy penalties on Eastspring Securities Investment Trust Co., Ltd. (Eastspring Investments) and its personnel for failing to effectively check and supervise the personal transactions of its former chief investment officer and serious internal control failures, as well as Daniel Securities Investment Consulting Co., Ltd. (Daniel Securities Investment Consulting) and its personnel for a number of deficiencies in its financial operations, poor corporate governance, and ineffective internal controls. The aforesaid cases are detailed separately below.

1. The FSC guided and supervised the TWSE and TPEx to strengthen the relevant supervisory measures in response to controversies such as the replacement of legal-person director's representative at Roo Hsing Co., Ltd., so as to protect investors' rights

Following Roo Hsing's dispute over the delayed announcement of the replacement of the legal-person director's representative in July 2022 and violations of corporate governance, the FSC guided and supervised the TWSE and TPEx to adopt 13 supervisory measures spanning five areas to enhance the supervisory mechanism for high-risk TWSE/TPEx-listed companies, with a view to bolstering the protection of investors' rights.

Prior to the public announcement made on July 18, 2022, Roo Hsing has already replaced Chang (who concurrently served as the Chairman of Roo Hsing) with Weng as the representative of its legal-person director Wei Hao Investment Co., Ltd. on February 24, 2022 but failed to register the change of legal-person director's representative with the Ministry of Economic Affairs. However, Roo Hsing did not call an extraordinary board meeting until July 15, 2022 to appoint Weng as chairman, which in turned cast doubts over the validity of the resolutions passed by the shareholders' meeting held on June 29, 2022. These actions were clearly in violation of the enhanced information disclosure principle and presented a serious corporate governance failure, thus seriously undermining the rights and interests of investors or shareholders.

On July 19, 2022, the TWSE imposed a fine of NT\$1.5 million on Roo Hsing for the delayed announcement of the replacement of legal-person director's representative on July 18, 2022 and its failure to clarify the relevant doubts in the press conference. Thereafter, the TWSE also required Roo Hsing to clarify the aforesaid matters again in a press conference to be held on July 25, 2022. Yet, Roo Hsing once again failed to clarify doubts about the replacement of the legal-person director's representative and its financial status. As a result, the TWSE announced on July 25, 2022 that Roo Hsing shares were subjected to altered trading starting on July 27, 2022. Later, the TWSE also announced the suspension of trading of Roo Hsing shares on the centralized securities exchange market starting on August 18, 2022 due to the company's failure to disclose its financial statements within the prescribed time limit in accordance with the law.

Specifically, Chang, who should no longer be a director and the chairman of Roo Hsing after being replaced on February 24, 2022, continued to convene board meetings and represent Roo Hsing as chairman. At the same time, Weng, who was elected director at Roo Hsing on February 24, 2022, did nothing for five months and failed to fulfill his duties as a director, which was in violation of the due care of a good administrator. Therefore, the SFIPC filed a discharge suit against both of them with the Commercial Court on September 27, 2022. On July 27, 2022, the SFIPC filed another lawsuit with the Commercial Court to revoke the resolutions of the shareholders' meeting held on June 29, 2022 for violations of the law arising from the convening of general shareholders' meeting without legally valid board resolutions caused by the aforesaid dispute over the replacement of the legal-person director. However, Roo Hsing convened an extraordinary shareholders' meeting on September 29, 2022 to ratify and approve all the resolutions of the aforesaid general shareholders' meetings. Considering that the lawsuit to revoke the resolution of the shareholders' meeting may be dismissed because there was no longer a need to protect its rights, the SFIPC withdrew the lawsuit it previously filed with the Commercial Court on November 2, 2022.

With a view to preventing controversies similar to the dispute surrounding Roo Hsing as mentioned above while considering that the company was also involved in other controversies such as failing to make a major announcement of its president as wanted by the authorities, the amount of loans and endorsements/guarantees it provided exceeding the limit, its main revenue coming from J.D. United Holding Ltd. in Mainland China, relatively high operating risks due to excessively high ratios of shares pledged by its chairman and president, and failing to correct major internal control deficiencies, the FSC has guided and supervised the TWSE and TPEx to take 13 supervisory measures spanning five areas, including information disclosure, board functions, corporate governance, CPA's responsibilities, and assistance from external units, aimed at protecting investors' rights and strengthening CPAs' responsibilities (The details of these measures are provided in the following table. Except for two measures, namely strengthening the functions of the chief corporate governance officer and adding supervisory indicators, the other 11 measures were adopted according to the circumstance of each case).

Five areas	13 measures
Information disclosure	• Adding supervisory indicators: Requiring the TWSE/TPEX-listed company to make major announcements of its chairman and president as wanted by the authorities. • Significant shareholders' meeting proposals: Inviting the SFIPC to attend and speak at the shareholders' meeting and requiring the TWSE/TPEX-listed company to make a major announcement on the content of the questions raised by the SFIPC and the company's responses to these questions at the shareholders' meeting. • Increasing the frequency of providing and disclosing information on material transactions: Requiring the TWSE/TPEX-listed company to provide additional information on business and capital transactions with significant counterparties, or make major announcements on new investments, loans or endorsements/ guarantees regardless of amount.
Board functions	• Strengthening the functions of the chief corporate governance officer: Revising the functions of the chief corporate governance officer by adding the function that the chief corporate governance officer, in addition to the company, shall be notified of the dismissal of directors, the replacement of legal-person director's representative, and the replacement of legal-person shareholder's representative director. • Implementing the functions of directors: Requesting in writing that independent directors pay attention to the company's publication of major announcements and public announcements plus the reporting of information in accordance with regulations, and also requesting in writing that ordinary directors pay attention to the company's related transactions and information disclosure. • Setting the requirements for the number and percentage of Taiwanese directors and independent directors: Requiring the company to have no less than two independent directors with household registration in the R.O.C. (Taiwan), and that the number of Taiwanese directors at the company exceeds half its board of directors.
Corporate governance	• Adding supervisory indicators: Adding the ratios of shares pledged by the chairman and president as indicators for selecting review subjects. • Requiring ad hoc reporting of internal audit: Requiring ad hoc audits of major investment companies in the internal audit of the TWSE/TPEX-listed company, and reporting of the audit results to the company's audit committee and board of directors. • Conducting interviews with chief corporate governance officer, head of internal audit or independent directors: Understanding the company's actual operations and processes or the possible difficulties it encounters through interviews with chief corporate governance officer, head of internal audit or independent directors.

Five areas	13 measures
CPA's responsibilities	• Strengthening control over the change of representative by legal-person directors: Requiring CPAs to contact legal-person directors in writing to confirm their representatives when auditing or reviewing financial statements. • Restricting CPAs from issuing opinions on the apportionment of responsibilities: It is common for a TWSE/TPEX-listed company with poor operating performance to replace CPAs from large accounting firms with those from small accounting firms due to cost or other factors. Should any irregularities be found, the CPAs may be restricted from issuing opinions on the apportionment of responsibilities when necessary. • Requiring CPAs to sit in on boarding meetings convened by the TWSE/TPEX-listed company: Requiring the TWSE/TPEX-listed company to send the notice of board meeting and the content of proposals, as well as invite CPAs to sit in on the board meeting when there are significant transaction proposals. If CPAs express an opinion on such proposals, the company should record such opinions in the minutes of the board meeting. • Requiring significant transactions to be reviewed by CPAs: Requiring the TWSE/TPEX-listed company to submit significant transactions that meet the criteria for public announcement to the board of directors for review and approval, and also contact CPAs to review these transactions.
Assistance from external units	• Obtaining information from external institutions: Acquiring the financial and business information of the TWSE/TPEX-listed company from intermediaries, peripheral organizations, and relevant government departments and reviewing such information (e.g., obtaining information such as major shareholders' shareholdings, tax contributions, and real estate transactions at the TWSE/TPEX-listed company from the relevant units, such as the TDCC, the Taxation Administration, Ministry of Finance, and the Department of Land Administration, Ministry of the Interior).

2. The FSC imposed a heavy fine of NT\$2.4 million on KGI Securities for the Company's serious violations of corporate governance principles and failure to implement internal controls

During an audit conducted on China Development Financial Holding Corporation (CDF) in 2022, the FSC found that KGI Securities (a subsidiary of CDF) reported information on its business and operations to Ku, a major shareholder of CDF, paid for Ku's personal expenses, and had its employees assist Ku in handling his private matters. Therefore, the FSC imposed a fine of NT\$2.4 million on KGI Securities and ordered the company to suspend its president from his duties for six months.

During a general business inspection conducted on CDF in early 2022, the FSC found that Ku, a major shareholder of CDF, did not hold a position at KGI Securities but the company's employees reported its information, such as business and operational performance and the list of promoted employees, to Ku's secretary and then Ku himself. In addition, the inspection also revealed that KGI Securities employees assisted Ku in handling his private matters, and the company also paid for Ku's travel, accommodation, and overtime expenses. All the findings above clearly indicated that KGI Securities committed serious violations of corporate governance principles and failed to implement its internal control system, thereby affecting its securities business. Owing to the company's violations of securities management regulations, the FSC imposed a fine of NT\$2.4 million on the company for violating Subparagraph 4, Paragraph 1, Article 178-1 of the "Securities and Exchange Act" and required the company to take corrective actions in accordance with Article 65 of the "Securities and Exchange Act." On top of that, the FSC ordered the company's audit committee to take necessary measures in response to the deficiencies found in the inspection and report the implementation of these measures to its board of directors in accordance with Subparagraph 5, Article 66 of the "Securities and Exchange Act," as well as instructed the company to cut its chairman's monthly salary by 20% for a three-month period from the day after the delivery of the sanction letter. At the same time, the FSC also ordered the company to suspend its president from his duties for six months in accordance with Article 56 of the "Securities and Exchange Act."

The FSC reiterates that good corporate governance is the foundation for the sound operation of financial institutions. A corporate governance system involves establishing a good corporate organization and culture, and implementing an internal control system in the company. The responsible persons and managers of a company should prioritize the company's interests when performing their duties and responsibilities, but not put shareholders' interests before the company's interests. Securities firms should take heed of the deficiencies found in this case and create a corporate culture comprising good corporate governance and internal control to ensure sound operation.

3. The FSC conducted a joint investigation via cross-unit collaboration into a case in which an insider failed to report the shares he held in another person's name, with a view to enhancing transparency and corporate governance in Taiwan's securities market

Since information on insiders' shareholdings at public companies is an important reference for investors to understand the future operation of a company and make investment decisions, the FSC continues to collaborate with the Investigation Bureau, Ministry of Justice on investigations into cases in which insiders at TWSE/TPEx-listed companies hold shares in other people's name but fail to report them, with the goal of monitoring and preventing illegal conduct.

In 2021, the FSC received a letter from the New Taipei City Field Division under the Investigation Bureau, Ministry of Justice, stating that Chang, the chairman of Hotron Precision, was suspected of using the account of his friend Wu to trade Hotron Precision shares but failing to report the shares he held in Wu's name. After obtaining information on the flow of funds in the relevant account from the New Taipei City Investigation Branch and investigating the information on stock transactions in the relevant account provided by the TDCC, the FSC found that Chang failed to report his trading and holding of Hotron Precision shares in another person's name. Therefore, the FSC imposed a fine of NT\$240,000 and NT\$300,000 for violations of Articles 22-2 and 24 of the "Securities and Exchange Act" in 2022, respectively, with the intention of maintaining market order and bolstering the sound development of the market.

4. The FSC imposed a heavy fine of NT\$4 million on Eastspring Investments for the company's failure to effectively check and monitor illegal stock trading by its former chief investment officer Liu and serious internal control deficiencies, and ordered the company to relieve Liu of his duties.

When conducting regular inspections of personal transactions among SITE personnel aimed at strengthening the supervisory mechanism for SITEs, the FSC found that Liu, former chief investment officer at Eastspring Investments, used another person's account to trade the same stocks in the Eastspring Investments managers' fund and discretionary investment accounts. During a general business inspection conducted on Eastspring Investments in September 2021, the FSC further discovered that Liu ordered the fund and discretionary investment manager to trade specific stocks, which were the same ones traded with another person's account he used on the same day. Liu's actions of deciding on investment targets first before conducting investment analysis was deemed in violation of the investment process.

The FSC handled this case in accordance with administrative procedures and checked the account information involved in this case with the TWSE and TPEx. After examining all the statements, facts, and evidence in the investigation process, the FSC determined that there was a lack of specificity and clarity in the management mechanism with respect to how the chief investment officer can assist fund managers as stipulated in Eastspring Investments' internal control system, and the company also failed to review the reasonableness of its system over the long run. Furthermore, owing to the absence of a control mechanism for the chief investment officer in the supervisory training model for fund or discretionary investment managers, Liu abused his authority to interfere with the investment decisions of fund or discretionary investment managers. At the same time, the company's internal control system was also unable to prevent conflicts of interests due to its ineffective design and implementation.

In light of the aforesaid deficiencies, Eastspring Investments failed to effectively check and monitor its chief investment officer's personal transactions and violations in the form of interference with investment decisions. Moreover, there were also major deficiencies in its internal control system as the company failed to run its business based on the principles of the due care of a good administrator, duty of loyalty, ethics, and integrity, which clearly affected the normal operation of its fund and discretionary investment businesses. On July 28, 2022, the FSC not only imposed a fine of NT\$4 million on Eastspring Investments and suspended the company from signing new discretionary investment contracts for three months, but also ordered Eastspring Investments to submit a review report on its internal control system issued by a CPA not providing attestation services and relieving Liu of his duties. The FSC also sent a letter to the head office of Eastspring Investments, asking it to strengthen the supervision of its businesses in Taiwan and conduct prudent assessments on the suitability of the candidates when appointing the future chairman and president in Taiwan, so that it fulfills the responsibility of supervising its subsidiary's operations.

The FSC will continue to conduct regular and proactive inspections of the personal transactions of personnel involved in the securities investment trust business, as well as impose severe punishments on companies and individuals who violate the relevant laws and regulations so as to maintain investors' confidence in the securities market and bolster the development of the securities investment trust business.

5. The FSC imposed a fine of NT\$3 million on Daniel Securities Investment Consulting for the company's serious deficiencies in its finances and business, poor corporate governance, and ineffective operation of its internal control system, and ordered the company to relieve its chairman Chen of his duties

A series of deficiencies has been found at Daniel Securities Investment Consulting on multiple occasions, such as repeatedly loaning funds to others, running businesses that were not approved by the FSC, changing its business premise on its own, providing its business premise to other companies in which its chairman has a stake for company registration in Taiwan, and violations of specific regulations by its business personnel. In view of the large number of violations committed by Daniel Securities Investment Consulting, the FSC imposed a fine of NT\$3 million on the company in accordance with the "Securities Investment Trust and Consulting Act," and ordered the company to relieve its Chairman Chen of his duties.

In this case, SITCA found in an audit that Daniel Securities Investment Consulting provided administrative assistant services to foreign company Everglory Group Pte. Ltd. without FSC approval in order to assist Everglory Group in negotiating matters related to the sale of financial products at OBUs and OSUs with financial institutions in Taiwan, which was in violation of Paragraph 4, Article 4 of the "Securities Investment Trust and Consulting Act." Furthermore, the company moved to another location without FSC approval despite knowing that it should apply for prior approval before changing its business premise, which was in violation of Subparagraph 4, Paragraph 1, Article 3 of the "Regulations Governing Securities Investment Consulting Enterprises." Daniel Securities Investment Consulting also shared its business premise with other companies in which Chen had a stake for company registration in Taiwan, and placed their signboards at its business premise, which was in violation of Subparagraph 11, Paragraph 1, Article 8 of the "Standards Governing the Establishment of Securities Investment Consulting Enterprises." In addition, Daniel Securities Investment Consulting allowed its business personnel to concurrently hold positions in other companies, which was in violation of Paragraph 1, Article 6 of the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises." The FSC also penalized Daniel Securities Investment Consulting for loaning its funds to Chen in 2018 and required the company to take corrective actions. However, the company continued to loan its funds to Chen for private use in 2019, which had a huge impact on the company's business operations. Owing to the severity of such a violation and also the fact that it was a repeat offense, the FSC imposed a heavier punishment on Daniel Securities Investment Consulting.

In response to the deficiencies above, the FSC imposed a fine of NT\$3 million on Daniel Securities Investment Consulting for violating Subparagraphs 1, 7, 8, and 9, Article 111 of the "Securities Investment Trust and Consulting Act" on March 31, 2022. Moreover, Chen, who was the main owner of the company, committed a serious offense by leading the company to commit the aforesaid violations, so he was no longer fit to serve as chairman at the company. As a result, the FSC ordered Daniel Securities Investment Consulting to relieve Chen of his duties pursuant to Paragraph 2, Article 103 of the "Securities Investment Trust and Consulting Act." The FSC also sent a letter to Daniel Securities Investment Consulting requiring the company to submit a report on the correction of the aforesaid deficiencies within three months. At the same time, the FSC consulted the SITCA to provide the company with additional guidance and assistance when making corrections, implementing and enhancing internal control management at the company, as well as leading the company to run its business in compliance with the law.

II. Investigations of Criminal Liability

1. Unconventional transactions: Chun X Company Chairman Shen X suspected of violating the “Securities and Exchange Act”

In this case, Shen X was the chairman of Chun X Company, a TPEx-listed company. In 2014, Shen X arranged for Chun X Company to buy NT\$98,217,000 worth of Class D preferred shares issued by a fund he controlled, which was an act of concealment of related party transactions. In 2015, Shen X bought a stake in TPHK Company, a subsidiary of Chun X Company, with the GPS patent right he owned at an unreasonably price of approximately NT\$4,207,561,000. As a result, Chun X Company lost control of TPHK Company and the right to claims for dividends, which in turn caused a loss of approximately NT\$99,116,280 to Chun X Company. From 2016 to 2019, Shen X conspired with Shen Chou X Hsiung, a director of Chun X Company, to arrange for Chun X Company to purchase the right to use the yet-to-be-patented “battery pack patent” worth NT\$150 million from TPHK Company, as well as fraudulently engaged in the sale of electric sedans totaling NT\$148.5 million and the purchase of parts and components totaling NT\$134 million on behalf of the subsidiary, thus resulting in a substantial cash outflow from Chun X Company. In 2018, Shen X colluded with Shen Chou X Hsiung to arrange for TPHL Company, an affiliate of Chun X Company, to issue a special bonus to him in order to offset the payment of shares in the transaction between him and TPHK Company; however, this information was not disclosed in Chun X Company’s financial statements. According to the calculations, Shen X’s action of taking out huge asset amounts from Chun X Company through unconventional transactions and concealment of related party transactions not only resulted in a significant loss of NT\$598,980,758 that undermined the interests of both Chun X Company and all its shareholders, but also led to the falsification of the company’s financial statements. This case was investigated by the Taipei City Field Division under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Taipei District Prosecutors Office.

2. False financial statements: Yang X Kuo and others at Kai X Company suspected of violating the “Securities and Exchange Act”

In this case, Chou X Yuan was the head of the First Enterprise Customer Service Section at the Taichung Branch of Chung X Company Southern Taiwan Business Group (Taichung Branch), a TWSE-listed company. Lin X Cheng was an engineer and the acting head of the engineering unit at the Taichung Branch. Chen X Sung was a senior engineer at the First Enterprise Customer Service Section under the Taichung Branch. Huang X Chang was the de facto responsible person of Kai X Company. Mei X Neng Company was a downstream contractor of Kai X Company. In 2014, Chou X Yuan and another two persons, who not only knew that Huang X Chang only wanted to borrow funds and had no intention of engaging in actual transactions, but were also aware that the Taichung Branch had no actual need to undertake solar photovoltaic power generation system projects, and that the relevant contracts had already been executed by Kai X Company and Mei X Neng Company in accordance with the previously signed contracts, actually agreed to place the Taichung Branch in between the two aforesaid companies and signed a two-party contract with Kai X Company (project client) and Mei X Neng Company (project vendor) in the form of a subcontract construction project, where payments would be made to Mei X Neng Company upon completion of the acceptance process.

The Taichung Branch received postdated checks issued by Kai X Company, and then disguised the transfer of funds to Kai X Company by this means, which in turn led to misstatements in Chung X Company's financial statements, thereby causing a significant loss of NT\$38,975,520 to Chung X Company. This case was investigated by the Taichung City Field Division under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Taichung District Prosecutors Office.

3. Insider trading: Chi X Company suspected of being involved in insider trading of stocks

In this case, Lin X Chi was a director of Chi X Company, a TWSE-listed company, while Lu X Le was a friend of Lin X Chi. On September 17, 2021, a meeting was held between the directors of Chi X Company, including Liu X Hsin, and lawyers to discuss the feasibility of terminating the company's listing on the TWSE. From October 1 to 14, 2021, Chi X Company successively engaged financial advisors, lawyers, and appraisal institutions to provide consultation and assist in planning the schedule for de-listing of the company, carrying out valuation of the company's Vietnamese plant, and providing the relevant appraisal reports. In a meeting convened on October 15, 2021, the company's audit committee appointed Chiu X Sheng from Kuo X CPAs as an independent expert to issue an opinion on the reasonableness of the repurchase price of the company's shares and whether the application for termination of listing was in line with shareholders' interests as a whole. This appointment evidently suggested that the termination of listing and cessation of public offering were highly likely to take place, and the material news was definite. However, after the news was confirmed and before the news was made public, Lin X Chi and Lu X Le bought 186,000 shares in Chi X Company at prices between NT\$50.4 and NT\$54 per share using the securities accounts they could control during the period from October 26 to November 4, 2021. On the afternoon of November 10, 2021, Chi X Company announced on the Market Observation Post System that the company's board of directors had approved the application for termination of listing on the TWSE and cessation of public offering. Furthermore, the company's directors and the directors who gave their consent to the termination of listing (other than independent directors) would be jointly and severally liable for the acquisition of the company's shares, which would take place at an estimated price of NT\$76 per share. As a result, Lin X Chi and others made NT\$3,463,621 in capital gains from the rise in Chi X Company's share price after the news was made public. This case was investigated by the Northern Mobile Team under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Taipei District Prosecutors Office.

4. Insider trading: Lien X Company suspected of being involved in stock price manipulation and insider trading of stocks

In 2020, Lien X Biomedical Inc. (Lien X Biomedical) began developing the UB-xxx vaccine under the guidance of the Taiwan Food and Drug Administration (TFDA) under the Ministry of Health and Welfare (MOHW), where Lien X Biopharma Inc., a subsidiary of Lien X Biomedical, was tasked with manufacturing the stock protein solution used in the vaccine, while Lien X Pharma Inc. (Lien X Pharma), another subsidiary of Lien X Biomedical that was a Emerging Stock company, was charged with filling and packaging the vaccine. Peng X Chun, special assistant to the chairman of Lien X Biomedical, and Huang X Hua, manager of the Medical Affairs Department at Lien X Biomedical, were the core members of the UB-xxx vaccine research and development team, so they were familiar with the data of the vaccine and the Emergency Use Authorization (EUA) application process. At 10.00 a.m, on August 15, 2021 (Sunday), both of them attended an expert review meeting held by the TFDA for the EUA application for the UB-xxx vaccine produced by Lien X Group, and learned that the neutralizing antibody geometric mean titer and sero-response rate of the UB-xxx vaccine obtained by the Center for Drug Evaluation (CDE) failed to meet the EUA criteria. In order to avoid huge losses that would arise from the drop in Lien X Pharma's share price after the material bearish news was made public, both Peng X Chun and Huang X Hua liquidated their holdings of 63,000 and 3,000 shares in Lien X Pharma, respectively on August 16, 2021. As a result, both of them avoided the impact of the material bearish news on Lien X Pharma's share price after the stock market closed on the same day when Mr. Chen Shih-Chung, the then Minister of Health and Welfare, announced at a press conference held by the Central Epidemic Command Center that the UB-xxx vaccine produced by Lien X Group had failed to meet the EUA criteria. According to the calculations made using the actual average selling price and the average closing price of Lien X Pharma's shares over the 10-day period after the news was made public on August 16, 2021, both Peng X Chun and Huang X Hua avoided losses totaling NT\$4,209,099 million and NT\$195,600, respectively. This case was investigated by the Northern Mobile Team under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Hsinchu District Prosecutors Office.

5. Stock price manipulation: Chuan X Company suspected of being involved in stock price manipulation

In this case, Lin X Yu was a supervisor of Fu X Investment Co., Ltd. (Fu X Company), while Su X Hsing (also the spouse of Lin X Yu) was the current chairman of Fu X Company. Taking advantage of the low share capital, share price, and daily trading volume of Chuan X Co., Ltd. (Chuan X Company), a TWSE-listed company, Lin X Yu used his own securities account and also ordered Su X Hsing to use Fu X Company's securities account in order to drive up Chuan X Company's share price through successive, multiple buy orders at prices higher than previous trading prices during the period from January 3 to February 5, 2018. In addition, they created an impression of brisk trading in Chuan X Company's shares by illegal means through corresponding transactions, and then induced ordinary investors to

buy Chuan X Company's shares by "driving up its share price and trading volume" before selling the shares they owned in the company to generate profits. According to the available figures, the manual manipulation and illegal approaches they adopted such as successive purchase orders at high prices and corresponding transactions caused a 32.36% rise in Chuan X Company's share price from NT\$15.45 at the beginning of the analysis period to NT\$20.45 at the end of the period, which was significantly higher than the 2.18% drop in the prices of similar stocks and the 1.33% increase in the market index. During the analysis period, the average daily volume of Chuan X Company's shares was 680,000 shares, a substantial increase of 1,287.75% from 49,000 shares in the previous month. This figure was much higher than the 19.35% increase in the trading volume of similar stocks and the 20.47% rise in trading volume in the broader market over the same period. Upon calculation, both Lin X Yu and Su X Hsing made NT\$3,890,320 in illegal profits from manipulating Chuan X Company's share price. This case was investigated by the Taipei City Field Division under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Shilin District Prosecutors Office.

6. Stock price manipulation: Hu X Company suspected of being involved in stock price manipulation

In this case, Liao X Feng was the chairman and president of Hu X Company, a TWSE-listed company. Chang X Kung was a director of Hu X Company and a supervisor of Ou X Company, assumed the position of de facto responsible person at Hu X Company since 2017, and served as the de facto responsible person of Billxx Financial Corp. (Billxx). Chen X Yu was a manager of Ou X Company, who was tasked with handling triangular transactions between Hu X Company and the aforesaid overseas company under Chang X Kung's orders. In light of a gradual decline in operating revenue at Hu X Company in 2012, Chang X Kung conspired with Liao X Feng and Chen X Yu to arrange triangular transactions between Hu X Company and Billxx, a company controlled by Chang X Kung, between 2018 and 2020 in order to maintain the impression of Hu X Company continuously posting high operating revenue in its financial statements. These transactions fraudulently increased Hu X Company's operating revenue by NT\$1,379,678,574 over the period from 2018 to 2020, which accounted for 96.67% of its total operating revenue of NT\$1,427,220,000 during the same period. Under the pretext of the aforesaid fraudulent increase in operating revenue, Chang X Kung ordered Chen X Yu, who was also in the know, to place orders using a dummy securities account he controlled. Owing to their manipulations, the closing price of Hu X Company's shares rose 98.17% from NT\$21.90 on July 1, 2020 to NT\$43.40 on October 21, 2021 with a swing of 106.84%, which was much greater than the performance of similar stocks and the market index. As a result, they made NT\$116,937,936 in illegal profits from manipulating Hu X Company's share price. This case was investigated by the New Taipei City Field Division under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan Taipei District Prosecutors Office.

7. Stock price manipulation: Tai X Company suspected of being involved in stock price manipulation

Wu X Jui, who was a researcher at Lu X Investment Company, knew that Tai X Company's share price had been fluctuating between NT\$10 and NT\$12 over a long period of time while its net asset value per share was approximately NT\$20. Furthermore, as there was bullish news on the technical and thematic aspects of the company, Wu X Jui decided to speculate on the company's share price to earn capital gains. Taking advantage of the ease of manipulation of Tai X Company's share price due to its low daily trading volume and the need to engage in margin trading, Wu X Jui began buying Tai X Company's shares at low prices using his own securities account and his mother's (Lin X Hui) securities account, and held these shares since September 2019. From November 20 to December 26, 2019, Wu X Jui placed successive, multiple buy orders at prices higher than previous trading prices while abetting his friends in his investment group on LINE messenger in buying Tai X Company's shares to create an impression of brisk trading in the company's shares, which in turn misled ordinary investors into believing that major players in the market were competing to buy Tai X Company's shares. After the company's share price rose as a result of the aforesaid manipulations, Wu X Jui sold the shares he owned in the company at high prices, and thus made NT\$3.01 million in illegal profits. This case was investigated by the Taipei City Field Division under the Investigation Bureau, Ministry of Justice, and then referred to and prosecuted by the prosecutor of the Taiwan New Taipei District Prosecutors Office.

III. Investigations of Civil Liability

A collection of significant civil cases filed by the SFIPC in 2022 are detailed below:

1. False financial statements and prospectus and stock price manipulation by Pharmally International Holding Co., Ltd. (Pharmally):

Pharmally chairman and other persons, who were suspected of falsely adding the amounts of time and demand deposits at Lu'an Huayuan to Pharmally's consolidated financial statements from the first quarter of 2015 to the first quarter of 2020 (the financial statements in dispute) despite knowing that Lu'an Huayuan Pharmaceutical Co., Ltd. (Lu'an Huayuan), a subsidiary of Pharmally, had no time deposits with Huishang Bank in Mainland China, thereby resulting in false and inaccurate contents of the financial statements in dispute. Pharmally also cited the aforesaid financial statements in the prospectus it published for the issuance of new shares for a cash capital increase in 2017, which in turn led to false and inaccurate contents of its prospectus. On another occasion, Pharmally was suspected of setting up 504 units of machinery and equipment owned by Lu'an Huayuan as chattel mortgages in September 2019 but failed to disclose this information in its consolidated financial statements, thus resulting in the falsification of Pharmally's financial statements from the third quarter of 2019 to the first quarter of 2020. From August to October 2018, Pharmally chairman and other persons manipulated the company's stock price in collaboration with market makers, traders, and dummy securities accounts in Taiwan. In February 2022, the Taiwan Taipei District Prosecutors Office filed an indictment against the wrongdoers at Pharmally for falsifying the company's financial statements, providing false records in its prospectus, and manipulating its stock price.

In May 2022, the SFIPC made an announcement to accept investors' request for compensation based on the wrongful acts stated in the aforesaid indictment. In August 2022, the SFIPC filed a class action lawsuit against the wrongdoers, directors, the president who signed the financial statements in dispute, finance and accounting managers, CPAs, accounting firm, and securities underwriters with the Commercial Court to seek compensation for damages in accordance with Article 28 of the "Securities Investor and Futures Trader Protection Act." In October 2022, the SFIPC filed a class action lawsuit against the wrongdoers who manipulated Pharmally's stock price with the Taiwan Taipei District Court to seek compensation for damages in accordance with Article 28 of the "Securities Investor and Futures Trader Protection Act."

As the aforesaid actions of the responsible persons of Pharmally, who were the defendants in this case, had violated the law, the SFIPC filed an appeal with the Commercial Court to relieve these responsible persons of their positions as directors at Pharmally in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act."

In light of the falsification and concealment of the contents of Pharmally's consolidated financial statements from the third quarter of 2019 to the first quarter of 2020 due to the aforesaid wrongful acts, the SFIPC filed a class action lawsuit with the Taiwan Taipei District Court on behalf of investors for damages caused by the aforesaid wrongful acts. On April 20, 2023, the Taiwan Taipei District Court ruled that Pharmally and other six persons would be liable for compensation totaling NT\$5,055,804,553, where a number of directors (including independent directors) would be liable for 0.2% of the aforesaid compensation each; each CPA would be liable for 25% of the aforesaid compensation; while the accounting firm would also assume joint and several liability with each CPA. The court has yet to reach a verdict as this case is still in litigation.

2. Non-arm's length transaction of Uniflex Technology Inc. (Uniflex):

Uniflex's former directors and vice president, who were the defendants in this case, knew that Yi Te Metal Industry Co., Ltd. (Yi Te) and Pei Ying Semiconductors Co., Ltd. (Pei Ying), which were companies that they had substantial control, were unable to fulfill Uniflex's punch processing orders, so Deling Metal Co., Ltd. (Deling) had to be engaged to carry out processing works. However, they transferred Uniflex's punch processing orders from Yi Te and Pei Ying to Deling via non-arm's length transactions and increased the processing costs in the process, thus causing NT\$12,324,379 in losses to Uniflex. In June 2020, the Taiwan Taichung District Prosecutors Office filed an indictment against the wrongdoers for non-arm's transactions. On December 29, 2021, the Criminal Division of the Taiwan Taichung District Court found the defendants guilty of non-arm's transactions.

As regards the losses suffered by Uniflex, the company filed a lawsuit against the defendants with the Taiwan New Taipei District Court to seek compensation in April 2022, while the SFIPC intervened the lawsuit in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act" in May 2022.

The actions of Uniflex's former directors, who were the defendants in this case, not only violated the law, but also caused huge losses to Uniflex. Hence, the SFIPC filed an appeal with the Commercial Court to relieve the defendants of their positions as directors at Uniflex in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act" in May 2022.

3. False prospectus of Roo Hsing Co., Ltd. (Roo Hsing):

In August 2021, prosecutors from the Taiwan Taipei District Prosecutors Office filed an indictment against the defendants in this case on suspicion of concealing material facts in the financial and business documents submitted by Roo Hsing for the application for a cash capital increase to the FSC, which may have had an impact on the reasonableness of the expected benefits of this cash capital increase, and thus committing securities fraud and breach of trust.

The SFIPC made an announcement to accept investors' request for compensation based on the wrongful acts indicated in the aforesaid indictment in November 2021, and then filed a lawsuit against the wrongdoers in this case with the Commercial Court to seek compensation for damages in accordance with Article 28 of the "Securities Investor and Futures Trader Protection Act" in March 2022.

On the losses suffered by Roo Hsing, the SFIPC filed a supplementary civic lawsuit against the defendants with the Taiwan Taipei District Court to seek compensation in January 2022.

As the aforesaid actions of the responsible persons of Roo Hsing, who were the defendants in the case, have violated the law, the SFIPC filed an appeal with the Commercial Court to relieve these responsible persons of their positions as directors at Roo Hsing in accordance with Article 10-1 of the "Securities Investor and Futures Trader Protection Act" in December 2021 and January 2022.

4. Insider trading of Lite-On Semiconductor Corporation (Lite-On):

On August 9, 2019, Lite-On published a major announcement that it had been acquired by Diodes Inc., which was positive news that would have a material impact on Lite-On's stock price. The defendant in this case, who was a close friend of Lite-On's chairman, received this major news before the takeover was made public. Thinking that he could profit from this circumstance, he disclosed this news to his younger sister; then, both of them engaged in insider trading by "entering into an equity swap contract to establish a position equivalent to purchasing Lite-On shares" and "purchasing Lite-On shares with their own or other people's accounts." The Taiwan Taipei District Prosecutors Office filed an indictment against the two defendants on suspicion of insider trading in February 2022, while the Taiwan Taipei District found both of them guilty on June 30, 2022.

The SFIPC made an announcement to accept investors' request for compensation based on the wrongful acts indicated in the aforesaid indictment in September 2022, and then filed a class action lawsuit against the wrongdoers in this case to seek compensation for damages in accordance with Article 28 of the "Securities Investor and Futures Trader Protection Act" in November 2022.

CHAPTER 3

Chapter III. Challenges and Improvements in Law Enforcement of the Securities and Futures Sectors in Taiwan

- I. Implementation of Digital Transformation and Related Improvement Measures in the Securities and Futures Sector in Taiwan
- II. Implementation of Cyber Security Management and Related Improvement Measures Among TWSE/TPEX-listed Companies and Service Enterprises in the Securities and Futures Markets in Taiwan
- III. Implementation of Enhanced Customer Protection and Related Improvement Measures in the Securities and Futures Sector in Taiwan to Address Risks Related to Investments Made by Senior Citizens



Effective law enforcement can ensure that participants in the securities and futures sectors comply with the “Securities and Exchange Act” and related laws and regulations. In the process of law enforcement, competent authorities not only are faced with challenges brought about by changes in the external environment, but also have to take appropriate supervisory measures and assist businesses in transformation and coping with such challenges so as to maintain market order and protect investors’ rights.

With the booming development of financial technology (FinTech) around the globe in recent years, innovating financial business with emerging technologies, providing a diverse range of service channels, improving customer experience, enhancing customer relationships through digitalization, and creating new service models has become the primary strategies for financial institutions, while the COVID-19 pandemic has accelerated digital transformation among financial institutions. Following the rapid development of FinTech coupled with the innovation and liberalization of financial services, the malicious use of information and communication technology has not only posed a serious threat to national and international financial systems, but also affected the stability of financial markets. According to projections provided by the National Development Council, Taiwan is set to become a super-aged society in 2025, where people aged 65 and above will exceed 20% of the country’s overall population by then. Therefore, how to safeguard elderly investors’ rights has turned into a major issue in the securities and futures markets.

In an ongoing effort to cope with the development of digital financial technology in 2022, the SFB has been devoting itself to promoting digital transformation in the businesses of securities firms, futures commission merchants, SITEs, and SICEs and enhancing cyber security management among TWSE/TPEX-listed companies and service enterprises in the securities and futures markets. At the same time, the SFB also supervises and guides the securities and futures industries to protect elderly investors’ rights, with the intention of boosting the competitiveness and sound development of the securities and futures markets in Taiwan and safeguarding investors’ rights. The concrete measures taken by the SFB are detailed in the following sections.

I. Implementation of Digital Transformation and Related Improvement Measures in the Securities and Futures Sector in Taiwan

(1) Continuously pushing the securities and futures industries to provide various services online:

Services that can be provided by electronic means include account opening, order placement, application for various services, signing of transaction contracts, change of basic information, bill statements, and notification of customer rights.

(2) Promoting the development of securities investment consulting services with automated tools (robo-advisor) among SICEs:

In response to the trend of FinTech development while protecting investors’ rights, SITCA has instituted the “Securities Investment Trust & Consulting Association of the R.O.C. Guidelines for Securities Investment Consulting Services of Securities Investment Consulting Enterprises (SICEs) with Automated Tools (Robo-Advisor).” These guidelines not only set out the relevant principles, such as the definition of securities investment consulting services with automated tools (robo-advisor), the Know Your Customer (KYC) procedure, supervision and management of algorithms, and notice to customers concerning precautions for using robo-advisor services, but also require such enterprises or their group to establish a specialized committee to be in charge of various matters, such as designing customer questionnaires, developing and adjusting algorithms, as well as supervising and managing the rebalancing of investment portfolios. As of the end of 2022, sixteen SICEs have engaged in this service, generating a scale of NT\$6.201 billion and garnering up to 164,000 customers.

(3) Rolling out “Open Securities” that enables search for public data in the securities and futures industries:

The SFB rolled out “Open Securities,” which enables search for public data in the securities and futures industries, in accordance with the “FinTech Development Roadmap” and the “Capital Market Roadmap.” The first phase of Open Securities involves searching for public data in the securities and futures industries, where members of the public can search for public data provided by securities and futures businesses (including 23 information items such as information on products [e.g., investable subjects] in the securities and futures industries) via a one-stop integrated platform set up by a third-party service provider (TSP). This initiative will help consumers choose the right securities and futures business for themselves, thereby enhancing the benefits of financial inclusion. The service was launched in June 29, 2023.

(4) Continuously studying and deliberating on a variety of digital identity authentication mechanisms to advance financial inclusion:

In an effort to advance digital transformation in the development of the securities and futures business and boosting the accessibility of financial services, the FSC will continue to study and deliberate on the provision of more diversified, secure, effective, and convenient digital identity authentication methods, such as Fast Identity Online (FIDO) and Mobile ID, aimed at enabling investors to acquire securities and futures services such as account opening, trading, and investment in a secure, fast, and convenient manner.

With a view to optimizing online account opening and providing a diverse range of identity verification methods, the FSC approved the relevant rules and regulations instituted by the TWSE and TPEx on December 14, 2022, allowing securities firms to perform identity verification for online account opening via Mobile ID. On August 16, 2022, the FSC approved the self-regulatory rules established by the SITCA, allowing identity verification for online account opening with an electronic payment account. On October 13, 2022, the FSC also approved the “Compliance Matters for Securities Investment Consulting Enterprises in Identity Verification via Mobile ID for Online Signing of Securities Investment Consultant Appointment Contracts” promulgated by SITCA, allowing SICEs to perform identity verification for online account opening via Mobile ID.

II. Implementation of Cyber Security Management and Related Improvement Measures Among TWSE/TPEx-listed Companies and Service Enterprises in the Securities and Futures Markets in Taiwan

(1) TWSE/TPEx-listed companies

As cyber security among TWSE/TPEx-listed companies concerns investors’ rights, the FSC has completed the relevant cyber security measures in line with the rollout of the “National Cyber Security Policy,” and steered the TWSE and TPEx to set up a cross-departmental task force on cyber security. At the same time, the FSC has also made amendments to various rules and regulations, such as the “Regulations Governing Information to be Published in Annual Reports of Public Companies,” the “Regulations Governing Establishment of Internal Control Systems by Public Companies,” and the “Guidelines on Cyber Security Management and Control for TWSE/TPEx Listed Companies,” as well as formulated relevant guidelines. The FSC has bolstered cyber security among TWSE/TPEx-listed companies in the following ways:

A. Stepping up the deployment of information security personnel among TWSE/TPEX-listed companies:

To strengthen the cyber security management mechanism among TWSE/TPEX-listed companies, the FSC amended the “Regulations Governing Establishment of Internal Control Systems by Public Companies” and issued a related order on December 28, 2021. According to the said amendments, TWSE/TPEX-listed companies with a paid-in capital of NT\$10 billion or more that were constituents of the FTSE TWSE Taiwan 50 Index at the end of the previous year, and that primarily engage in e-commerce media goods or services shall appoint a chief information security officer and set up an information security unit (consisting of an information security supervisor and at least two information security officers) by the end of 2022, whereas the remaining TWSE/TPEX-listed companies, excluding those with consecutive losses before tax over the past three years or those whose net asset value per share is lower than the par value of their shares, shall appoint an information security supervisor and information security officers by the end of 2023.

B. Disclosing information on cyber security risk management among TWSE/TPEX-listed companies:

In order for public companies to attach greater importance to cyber security, the FSC announced the amendment of the “Regulations Governing Information to be Published in Annual Reports of Public Companies” on November 30, 2021. As stipulated in the said amendments, TWSE/TPEX-listed companies shall specify their cyber security policies, specific management plans, and investments in resources for cyber security management. In the event of a significant cyber security incident, TWSE/TPEX-listed companies shall disclose any losses they suffer as a consequence of the incident, the possible impact of the incident and corresponding response measures taken, as well as the impact of cyber security risks on their financial and business operations and corresponding response measures.

C. Bolstering cyber security risk management among TWSE/TPEX-listed companies through the Corporate Governance Evaluation:

With the aim of encouraging TWSE/TPEX-listed companies to incorporate information security management systems and improve cyber security by means of systematic management, the TWSE revised the Corporate Governance Evaluation indicators to include the introduction of information security management system standards, such as ISO 27001 and CNS 27001 or other third-party verified standards, as bonus items on December 29, 2021.

D. Formulating cyber security guidelines and examples:

In an effort to assist TWSE/TPEX-listed companies in cyber security, the TWSE and TPEX promulgated the “Guidelines on Cyber Security Management and Control for TWSE/TPEX Listed Companies” as a reference for TWSE/TPEX-listed companies in the implementation of cyber security management on December 23, 2021.

E. Encouraging TWSE/TPEX-listed companies to join the cyber security sharing platform:

With a view to increasing sharing of cyber security information among TWSE/TPEX-listed companies, the TWSE and TPEX are getting TWSE/TPEX-listed companies to join the cyber security information sharing platform, also known as the “Taiwan Computer Emergency Response Team and Coordination Center” (TWCERT/CC), in stages.

(2) Intermediaries

A. Guiding and supervising securities and futures businesses to prevent various forms of hacking attacks:

a. Distributed Denial-of-Service (DDoS) attack:

The FSC has over time guided and supervised securities firms, futures commission merchants, SITES, and SICEs to handle a DDoS attack when it takes place in accordance with the defense and response Standard Operating Procedures (SOP) formulated by the relevant associations by preparing a traffic cleaning mechanism, ramping up monitoring and real-time traffic diversion, and blocking foreign IPs if necessary to avoid interruption of external network services due to such an attack.

b. Credential stuffing attack:

The FSC requires securities firms and futures commission merchants to implement multi-factor authentication methods (e.g., order placement certificate, one-time password (OTP), and biometric) when providing online order placement service to ensure that customers log in personally when using the service. They are also required to learn about the reasons for abnormal customer account logins in real time through the use of high-quality passwords and monitoring of abnormal customer account logins to prevent customer accounts from being used by hackers.

c. Website defacement attack:

The FSC requires securities firms, futures commission merchants, SITES, and SICEs that develop their own websites to have information security personnel maintain the normal operation of their websites, strengthen regular monitoring and protection mechanisms. They should also put in place an automatic monitoring or restoration mechanism, replace their websites with a static one or stop their services immediately in the event of a website defacement attack. Meanwhile, the FSC requires securities firms, futures commission merchants, SITES, and SICEs, whose website is developed by an outsourced developer, to contact the outsourced information service provider to ensure the normal operation of their websites in accordance with the contract, confirm the correctness of the system and data backup, store the backup data properly, and review the integrity of the restoration operation so as to ensure that the services they provide are normal. Upon verification, a total of 108 websites owned by securities firms (including self-developed and outsourced ones) have a monitoring mechanism in place and are equipped with protective measures.

d. Structured Query Language (SQL) injection attack:

The FSC guided and supervised securities firms, futures commission merchants, SITES, and SICEs to handle such an attack in accordance with cyber security inspection mechanisms and regulations, carry out information system vulnerability scanning on all the network systems that provide services to the outside world in accordance with the relevant rules and regulations, assess risks associated with the vulnerabilities previously identified in the system and complete vulnerability remediation, as well as keep close tabs on attack incidents and prevent them.

e. Being aware of social engineering e-mails:

Securities firms, futures commission merchants, SITES, and SICEs should inform their employees that if they accidentally open a suspicious e-mail, they should immediately notify information security personnel and seek their help to inspect and handle the incident, as well as save the audit trails of the incident such as file content, system, and connection to facilitate follow-up digital forensic operation.

B. Bolstering cyber security protection among small and medium-sized securities firms:

The FSC guided and supervised the TWSE to help securities firms install three network and cyber security devices, i.e., Intrusion Protection System (IPS), Web Application Firewall (WAF), and Security Information and Event Management (SIEM). Originally, only Tier 1 and Tier 2 securities firms (i.e., those with a paid-in capital of NT\$10 billion or more) were required to install these devices, but now, Tier 3 and Tier 4 small- and medium-sized securities firms are also encouraged to install relevant network security measures (where Tier 3 securities firms should install IPS, WAF, and SIEM, and Tier 4 securities firms should install IPS or WAF). These measures aim to upgrade the cyber security protection capabilities of small- and medium-sized securities firms and bolster network security protection.

C. Requiring securities and futures businesses to appoint a chief information security officer and deploy appropriate human resources and devices to be responsible for information security systems and other related measures:

In an effort to build an organizational culture among securities and futures businesses that emphasizes information security, and strengthens their ability to deal with information security issues, the FSC required securities firms, futures commission merchants, SITEs, and SICEs that meet certain criteria (i.e., securities firms with a paid-in capital of NT\$10 billion or more, futures commission merchants with a paid-in capital of NT\$2 billion or more, and SITEs and SICEs with an average monthly domestic and foreign assets under management of NT\$600 billion or more in the previous year) to assign at the vice president level, a chief information security officer, who is tasked with overseeing the promotion and coordination of information security policies and the allocation of resources. They were also required to deploy appropriate human resources and devices to be responsible for planning and monitoring information security systems and implementing information security management according to their paid-in capital amount.

D. Strengthening work-from-home information security regulations for securities and futures businesses:

The FSC guided and supervised the TWSE, TPEx, and SITCA to strengthen work-from-home information security regulations for financial businesses in the following ways:

- a. Adding provisions that require securities firms to regularly review the content of their contingency plans and assess whether new risks have arisen, as well as including information security control measures for “telecommuting” in information security regulations (i.e., establishing a secure connection mechanism and authorization confirmation mechanism).
- b. Adding provisions that require SITEs and SICEs to regularly review the content of their contingency plans and assess whether new risks have arisen, as well as ramping up education and training for employees working from home.
- c. Adding provisions that require futures commission merchants to regularly conduct information security and personal data risk assessments, as well as including information security control measures for “telecommuting” in information security regulations (i.e., establishing a secure connection mechanism and authorization confirmation mechanism).

III. Implementation of Enhanced Customer Protection and Related Improvement Measures in the Securities and Futures Sector in Taiwan to Address Risks Related to Investments Made by Senior Citizens

In view of the fact that Taiwan will soon become a super-aged society, the FSC has found through its supervision that financial institutions providing elderly investors with financial instruments that do not conform to their risk tolerance and product suitability have become an emerging risk in Taiwan. Therefore, the FSC guided and supervised the relevant associations to study and formulate the relevant self-regulatory rules, and to include them in the internal control system for the securities and futures industries, with the intention of strengthening the protection mechanism for senior customers' financial consumer rights in the securities, securities investment trust, securities investment consulting, and futures industries.

In April 2022, the Taiwan Securities Association (the TWSA), SITCA, and Chinese National Futures Association (CNFA) established the "Self-regulatory Rules for the Provision of Financial Services to Senior Customers by Securities Firms," the "Assessment Criteria for the Suitability of Financial Instruments or Services Provided to Senior Financial Consumers by Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises," the "Self-discipline Guidelines for Futures Companies in Examining New Client's Credibility and Providing Financial Services to Senior Clients" and "Assessment Guidelines for Financial Products and Services Provided to Senior Clients of Futures Service Enterprises," respectively. The key points of these regulations are detailed as follows:

(1) Applicable subjects:

Natural persons who are senior customers aged 65 and above at securities firms, SITEs, SICEs, and futures enterprises (including futures commission merchants, and futures service enterprises).

(2) Know Your Customer (KYC) procedure:

- A. The securities and futures industries should design a risk attribute assessment mechanism for senior customers that conforms to their risk characteristics.
- B. SITEs and SICEs are still required to carry out the fixed-term, fixed-amount investment procedure according to the original terms and conditions if they find that a senior financial customer's risk tolerance has changed to the extent that it does not meet the risk level of the fund in his/her original fixed-term, fixed-amount investment when updating their fund suitability assessment. However, they are not allowed to add new deduction limits or frequency.
- C. Futures commission merchants should carry out annual reassessment of fixed income certificates or asset certificates in the most recent year provided by traders aged 70 and above in the most recent year. For such traders with a total fixed income of less than NT\$600,000 or an asset amount of less than NT\$50 million in their asset certificates upon reassessment, future commission merchants may accept new buyer's option orders from these traders.

(3) Know Your Product (KYP) procedure:

When assessing the risk levels of financial instruments or services for senior customers, the securities and futures industries should appropriately consider factors with higher impact (e.g., longer maturity, low liquidity, new or complex instruments, high risk, early termination penalty, loss of investment principal, etc.), as well as fully reflect their risk levels and label their risk characteristics.

(4) Marketing procedures and operation:

When conducting suitability assessments on senior customers, the securities and futures industries should appropriately assess the suitability of products to be promoted to senior customers and the reasons for promoting such products to them, so as to confirm that the products marketed are suitable for senior customers.

(5) Notification and disclosure procedures:

- A. When providing financial services to senior customers, the securities and futures industries should enhance the readability of marketing and contract documents, including but not limited to using larger font size and easy-to-understand text.
- B. The securities and futures industries should notify senior customers of any changes in their rights and obligations, including but not limited to change, revocation and termination of contracts, unusual transfer of huge amounts of funds or assets, etc., via the appropriate methods agreed in advance.

(6) Customer care questions and non-customer transaction control:

- A. The securities and futures industries are advised to take customer care question measures when senior customers engage in unusual behavior, so as to remind them of transaction risks and prevent frauds.
- B. The securities and futures industries should implement relevant control measures when people other than the senior financial consumer execute a transaction on his/her behalf, including providing senior financial consumers with assistance on authorized transactions and reminding them to validate the identity of the people they authorize to execute transactions on their behalf.

(7) Transaction inspection and validation:

The securities and futures industries should put in place a transaction inspection or validation mechanism for the sale of high-risk products to senior customers, monitoring senior customers' transactions, and enhancing the relevant review mechanism.

APPENDIX

Appendix

- I. Key Amendments to Relevant Laws and Regulations in Taiwan's Securities and Futures Markets in 2022
- II. Information on the Law Enforcement Results of the TWSE, TPEX, and TAIFEX
- III Statistics on Administrative Sanctions Imposed by the SFB from 2018 to 2022



Appendix I. Key Amendments to Relevant Laws and Regulations in Taiwan's Securities and Futures Markets in 2022

I. Amendment to Article 22-1 of the "Securities and Exchange Act" concerning regulations and authorization of matters related to the handling of shareholder services (including shareholders' meetings with video conferencing and electronic voting):

As shareholder services concern the operation of a public company's stock affairs and shareholders' interests and rights, the current "Regulations Governing the Administration of Shareholder Services of Public Companies" has included a number of provisions, including the convening of shareholders meetings, shareholders' meetings with video conferencing, the exercise of shareholders' meeting voting power in writing or by way of electronic transmission, shareholder services including shareholder or stock affairs, in-house or outsourced handling of shareholder services, evaluation of shareholders services, and other matters related to shareholder services, with a view to ensuring clarity in the authorization of such matters. The amendment to Article 22-1 of the "Securities and Exchange Act" was passed by the Legislative Yuan on November 15, 2022, and promulgated by the President of the R.O.C. on November 30, 2022.

II. Amendments to Articles 43-1, 178-1, and 183 of the "Securities and Exchange Act":

With a view to improving the disclosure system for large shareholdings and enhancing information transparency while aligning with overseas legislative trends and bolstering compliance among securities firms, securities service companies, and securities-related institutions to realize the dissuasive effect of sanctions, the FSC proposed amendments to Articles 43-1, 178-1, and 183 of the "Securities and Exchange Act," which were passed by the Legislative Yuan on April 21, 2023 and promulgated by the President on May 10, 2023. The key points and benefits of these amendments are detailed as follows:

(I) Key points of the amendments:

1. One of the amendments included revising the threshold for the reporting and public announcement of large shareholdings from 10% to 5%, and stipulated that the threshold would take effect one year after its promulgation so as to provide public companies with adequate time to prepare and respond to the relevant supporting legislation and practical operations accompanying this amendment.
2. In an effort to strengthen compliance with laws and regulations among securities firms, securities service companies, and securities-related institutions, another amendment involved raising the lower and upper limits of fines for violations of regulations by these institutions from NT\$240,000 to NT\$300,000 and from NT\$4.8 million to NT\$6 million, respectively.

(II) Benefits of the amendments:

1. Improving the development of capital markets: The amendments not only are in line with international legislative trends and help to enhance information transparency, but also bolster corporate governance.
2. Safeguarding investors' rights: The amendments strengthen the supervision of intermediaries and compliance with laws and regulations among intermediaries, thereby realizing the dissuasive effect of sanctions.

III. The SFIPC's response measures with regards to the designation of litigation cases filed by the SFIPC in accordance with the "Securities Investor and Futures Trader Protection Act" as commercial litigation cases under the jurisdiction of the Commercial Court as stipulated in Order Yuan-Tai-Ting-Min-San-Tzu No. 1110015081 issued by the Judicial Yuan on May 17, 2022:

When the Commercial Case Adjudication Act took effect on July 1, 2021, the discharge suits, lawsuits for defective resolutions of shareholders' meetings, as well as class action lawsuits, derivative suits, and disgorgement suits with a subject matter whose amount or value is NT\$100 million or more filed by the SFIPC were regarded as commercial litigation cases under the exclusive jurisdiction of the Commercial Court. However, after the Judicial Yuan designated the litigation cases filed by the SFIPC in accordance with Articles 10-1, 10-2, and 28 of the "Securities Investor and Futures Trader Protection Act" as commercial litigation cases on May 17, 2022, almost all of the present litigation cases filed by the SFIPC, other than the disgorgement cases with a subject matter whose amount or value is less than NT\$30 million, are under the exclusive jurisdiction of the Commercial Court (refer to the table below).

Before the "Commercial Case Adjudication Act" took effect (On or before June 30, 2021)	After the "Commercial Case Adjudication Act" took effect (On or after July 1, 2021)	After designation as commercial litigation cases (On or after May 17, 2022)
All the litigation cases filed by the SFIPC shall be tried by the competent courts in accordance with the "Code of Civil Procedure."	All the litigation cases with a subject matter whose amount or value is NT\$100 million or more, or discharge suits filed in accordance with the "Securities Investor and Futures Trader Protection Act" by the SFIPC shall be tried by the Commercial Court.	All the lawsuits filed by the SFIPC in accordance with the "Securities Investor and Futures Trader Protection Act" shall be tried by the Commercial Court.

The order issued by the Judicial Yuan had a number of substantial effects on the SFIPC, including a significant rise in the number of cases to be tried by the Commercial Court, increased burden of proof, and compressed trial period. In the past, the vast majority of cases filed by the SFIPC were handled by a single lawyer. However, considering the said effect related to the number of cases to be tried by the Commercial Court, the order by the Judicial Yuan will also increase the lawyer's caseload and case-handling burden, which in turn leads to an even tighter allocation of manpower in this respect. Therefore, the SFIPC has taken the following measures in response:

1. Have two lawyers jointly undertake major cases, with the intention of reducing the lawyers' burden and enabling cases to be handled in detail.
2. Digitalize case files to enhance efficiency in case handling.
3. Conduct pre-trial discussion meetings, prepare in advance arguments in court according to the circumstances of each case, and compile different methods of providing proof, so that the lawyer in charge of the case can adopt them according to the actual situation in the case, thereby reducing the lawyer's burden.
4. Conduct related training on an ongoing basis and capitalize on the new system under the Commercial Court. Leverage efforts to exchange and pass on practical experience by continuously hiring experts or scholars with specialized knowledge in specific areas of practice to conduct training aimed at strengthening the lawyers' professional abilities. Take advantage of various new systems under the Commercial Court, such as the party inquiries and expert witness, to bolster the ability to provide proof.

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

I. Dispositions of TWSE/TPEX-listed Companies

If TWSE/TPEX-listed companies are found to have violated the relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting correction within the prescribed time limit, require such companies to make periodic disclosures of financial information and include them in the Key Financials and Trading Section, 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. The sanctions imposed by the TWSE and TPEX over the past five years and the corresponding trends are detailed as follows:

Type of disposition Type of market		Year	2018	2019	2020	2021	2022
Issuance of letter requesting correction (Note 1)	TWSE		102	88	95	72	133
	TPEX (Mainboard)		97	98	118	104	101
	TPEX (Emerging Stock Board)		26	24	26	24	24
	Total		234	220	239	194	253
Inclusion in the Key Financials and Trading Section	TWSE		95	96	114	114	98
	TPEX (Mainboard)		140	142	162	151	131
	TPEX (Emerging Stock Board)		65	65	74	72	76
	Total		300	303	350	337	305
Periodic disclosures of financial information	TWSE		82	80	105	90	84
	TPEX (Mainboard)		96	106	105	93	105
	TPEX (Emerging Stock Board)		34	51	54	58	53
	Total		212	237	264	241	242
Imposition of penalties	TWSE		44	66	69	48	92
	TPEX (Mainboard)		17	30	42	18	16
	TPEX (Emerging Stock Board)		10	14	22	18	14
	Total		71	110	133	84	122
Altered trading, periodic call auction or suspension of trading	TWSE Listed		27	26	30	29	25
	TPEX Listed (Mainboard)		71	77	83	78	75
	Total		98	103	113	107	100

Note 1: Figures in these rows refer to the number of letters requesting correction of deficiencies found in financial statements and internal control system audits issued in the current year.

(I) Issuing letters to TWSE/TPEX-listed companies and TPEX Emerging Stock companies requesting correction of deficiencies:

The TWSE issued 102, 88, 95, 72, and 133 letters to TWSE-listed companies requesting correction of deficiencies found in their financial statements and internal control system audits from 2018 to 2022, respectively. Among the letters issued to TWSE-listed companies, the majority of deficiencies were found in internal control system audits, where 80 letters requesting correction of deficiencies found in internal control system audits were issued in 2022, while a total of 53 letters requesting correction of deficiencies found in financial statement audits were issued in 2022.

According to the financial statement and internal control system audits of TPEX-listed and TPEX Emerging Stock companies, the letters requesting correction of deficiencies found in internal control system audits accounted for the majority of all the letters issued by the TPEX primarily because a total of 118 letters requesting correction of deficiencies found in internal control system audits were issued to TPEX-listed companies in 2020. On the other hand, there was no substantial change in the number of letters requesting correction of deficiencies issued to TPEX Emerging Stock companies over the past five years.

(II) Requiring TWSE/TPEX-listed companies and TPEX Emerging Stock companies to make periodic disclosures of financial information and including them in the Key Financials and Trading Section:

According to the trend of change over the past five years, the number of TWSE-listed companies included in the Key Financials and Trading Section has risen year by year between 2018 and 2020, with a relatively significant increase in 2020 due mainly to the impact of the COVID-19 pandemic on profitability. While no change was observed in 2021, there was a decline in the number of TWSE-listed companies included in the Key Financials and Trading Section thanks to improved financial conditions at TWSE-listed companies following the waning of the COVID-19 pandemic. TWSE-listed companies were included in the Key Financials and Trading Section mainly because of poor operations and finances. The TWSE also required these companies to make periodic disclosures of their financial information. Furthermore, the trend of change in the number of TWSE-listed companies required to make periodic disclosures of financial information was consistent with that in the number of those listed in the Key Financials and Trading Section. With the reduced number of TWSE-listed companies listed in the Key Financials and Trading Section in 2022, there was also a decline in the the number of TWSE-listed companies required to make periodic disclosures of financial information in 2022.

According to the trend of change over the past five years, the number of TPEX-listed companies included in the Key Financials and Trading Section has risen year by year between 2018 and 2020, with a relatively significant increase in 2020 mainly due to the impact of the COVID-19 pandemic on profitability. However, a continuing downward trend was observed throughout 2021 and 2022 mainly because the number of TPEX-listed companies included in the Key Financials and Trading Section due to poor operations and finances has decreased following the waning of the COVID-19 pandemic. In addition, 2021 saw the lowest number of TPEX-listed companies required to make periodic disclosures of financial information over the past five years, with no significant differences observed between the remaining years.

Meanwhile, the number of TPEX Emerging Stock companies listed in the Key Financials and Trading Section increased substantially in 2020 due to the inclusion of six new drug companies registered under TPEX Emerging Stock with a net asset value per share of less than NT\$10 and a negative cash flow from operating activities, which met the relevant financial information indicators, and a number of TPEX Emerging Stock companies whose operating revenue and profitability were affected by the COVID-19 pandemic in the Key Financials and Trading Section. However, no substantial changes were observed between 2020 and 2022.

The number of TPEX Emerging Stock companies required to make periodic disclosures of financial ratios also increased in 2019 due to poor financial ratios or concerns over capital shortages at a number of TPEX Emerging Stock companies due to fluctuations in their operations. However, no substantial changes were observed between 2019 and 2022.

In order 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 and Trading Section in 2021 by defining seven financial information indicators and five trading information indicators and renaming the section “Key Financials and Trading Section.” The purpose of such optimization was to draw investors’ attention and give early warnings.

(III) Imposing penalties on TWSE/TPEX-listed companies and TPEX Emerging Stock companies for violating regulations governing information reporting and material information:

From 2018 to 2022, 44, 66, 69, 48, and 92 penalties were imposed on TWSE-listed companies for violating regulations governing information reporting and material information, which amounted cumulatively to NT\$1.91 million, NT\$2.56 million, NT\$2.57 million, NT\$1.54 million, and NT\$6.57 million, with an average of NT\$43,000, NT\$38,000, NT\$37,000, NT\$32,000, and NT\$71,000 per penalty, respectively. There was an increase in the number of penalties imposed on TWSE-listed companies from 2021 to 2022, with the majority of the cases comprising violations of regulations governing the declaration of material information.

Based on the trend of penalties imposed on TPEX-listed and TPEX Emerging Stock companies for violating regulations governing information reporting and material information over the past five years, the majority of these penalties have been imposed for violations of regulations governing the declaration of material information. There were more violations in 2019 and 2020 because some TPEX-listed companies violated regulations multiple times due to abnormal financial and business operations. On the other hand, there was a decline in the number of penalties imposed on TPEX Emerging Stock companies in 2021 and 2022 thanks to the TPEX’s continuous efforts to organize compliance seminars and enhance the role of lead advisory recommending securities firms in providing guidance to TPEX Emerging Stock companies.

On the whole, a lower number of penalties were imposed on TWSE/TPEX-listed companies and TPEX Emerging Stock companies in 2022 than in 2021, with the majority of these cases made up of violations of regulations governing the declaration of material information. Every year, the TWSE and TPEX hold compliance seminars to explain regulations governing information reporting, material information, and common deficiencies. In an effort to ensure that TPEX Emerging Stock companies comply with the relevant regulations, the TPEX continues to hold seminars to explain how to report information, including material information, as well as common deficiencies. The TPEX also requests intermediaries to urge TPEX Emerging Stock companies to fulfill their obligation to disclose information. For TWSE/TPEX-listed companies and TPEX Emerging Stock companies violating the relevant regulations, the TWSE and TPEX disclosed their violations on MOPS. In the event of repeated or material violations, the TWSE and TPEX issued letters requesting the independent directors or supervisors of these companies to compel their companies to take subsequent corrective actions and supervise these actions, so as to maintain compliance with the relevant laws and regulations.

(IV) Imposing altered trading, periodic call auction, and suspension of trading on TWSE/TPEX-listed companies:

If any of the circumstances stipulated in the rules and regulations promulgated by the TWSE and TPEX is found in the financial or business operations of TWSE/TPEX-listed companies, the TWSE and TPEX have the right to subject the companies' shares to altered trading or periodic call auction, and may further suspend the trading of their shares. The TPEX also imposes the same sanctions for convertible (exchangeable) bonds issued by TWSE/TPEX-listed companies.

From 2018 to 2022, 27, 26, 30, 29, and 25 TWSE-listed companies were subjected to altered trading, periodic call auction, or suspension of trading, respectively, for their net worth fell below half of the share capital specified in the financial statements. In 2022, the number of TWSE-listed companies suspended from trading only increased by four companies from 2021 due mainly to an increase in the number of TWSE-listed companies failing to publish their financial statements within the prescribed time limit. The number of TPEX-listed companies subjected to altered trading over the past five years has changed with the number of TPEX-listed companies whose net worth fell below one-half of the share capital specified in their financial statements. In 2022, the number of TPEX-listed companies subjected to altered trading decreased by three companies from 2021, while the number of TPEX-listed companies subjected to periodic call auction and suspension of trading increased by three companies from 2021.

Among the TWSE/TPEX-listed companies subjected to altered trading, periodic call auction or suspension of trading over the past five years, the certified public accountants appointed by some companies indicated in their audit or review reports that there was considerable uncertainty concerning the companies' ability to continue as a going concern, or that the companies' net worth became less than three-tenths of the share capital stated in their financial statements. As failure to correct the aforesaid issues within a short period of time could adversely affect the overall quality of TWSE/TPEX-listed companies and undermine investors' rights and interests, the TWSE and TPEX amended the relevant regulations in March 2019 to include a three-year period for such companies to make the relevant corrections. Companies failing to take corrective actions within the prescribed time limit will be suspended from trading on the TWSE/TPEX. The purpose of this amendment was to urge TWSE/TPEX-listed companies to improve their financial structure and business operations, so as to safeguard investors' rights.

- Major cases in 2022:
- (1) On July 18, 2022, Roo Hsing Co., Ltd. announced that Weng Shao-Hua had replaced Chang Shoei-Jiang (former Chairman of Roo Hsing) as the representative of legal-person director Wei Hao Investment Co., Ltd. on February 24, 2022. Yet, this appointment cast doubt on both the legality of the Chairman and the validity of the resolutions passed by the board of directors and the shareholders' meeting within this period. Roo Hsing failed to clarify the aforesaid matters in the press conference held at the TWSE on July 19, 2022, which in turn had a huge impact on shareholders' rights and interests. Given the severity of the violation committed by Roo Hsing, the TWSE imposed a penalty of NT\$1.5 million on Roo Hsing, and required Roo Hsing to clarify the aforesaid matters again on July 25. However, Roo Hsing once again failed to clarify a number of issues, including the validity of the resolutions passed by the board of directors and the shareholders' meeting and the financial statements approved during the dispute period, the company's current financial status and highly liquid assets, as well as the outcomes of negotiations with banks and subsequent plans, during the press conference in relation to the aforesaid material information held on July 25, 2022. As the situation above constituted a violation of Subparagraph 14, Paragraph 1, Article 49 of the "Operating Rules of the Taiwan Stock Exchange Corporation," the TWSE announced that Roo Hsing shares were subjected to altered trading starting on July 27, 2022. In addition, Roo Hsing was also found to have violated Subparagraph 1, Paragraph 1, Article 50 of the "Operating Rules of the Taiwan Stock Exchange Corporation" due to its failure to disclose its financial statements for the second and third quarters of 2022 in accordance with the law. Therefore, the TWSE announced the suspension of trading of its shares on the centralized securities exchange market starting on August 18 and November 17, 2022.
 - (2) Lung Ming Green Energy Technology Engineering Co., Ltd. was found to have violated Subparagraph 1, Paragraph 1, Article 50 of the "Operating Rules of the Taiwan Stock Exchange Corporation" due to its failure to disclose and file its financial statements for the third quarter of 2022 within the statutory time limit. As a result, the TWSE suspended the trading of the company's shares in accordance with the "Operating Rules of the Taiwan Stock Exchange Corporation."
 - (3) Owing to the fact that the net worth of Unitel High Technology Corporation fell below half and three-tenths of the share capital specified in its financial statements for the second quarter of 2022, coupled with considerable uncertainty concerning the company's ability to continue as a going concern as indicated in the auditor's review report, the TPEx announced the continuous inclusion of the company's shares in the list of securities under altered trading and the imposition of periodic call auction on its shares starting on August 18, 2022. The company also failed to publish and file its financial statements for the third quarter of 2022 within the prescribed time limit, so the TPEx announced the suspension of trading of its shares starting on November 17, 2022. On another occasion, the company previously filed an infringement claim against investors in the Yang Hwa Technology case, but the Taiwan New Taipei District Court ruled that the company lost the lawsuit in the first instance on May 25, 2022. The aforesaid creditors successively filed for compulsory enforcement between the end of August and the beginning of October 2022, and seized the parent company's bank deposits and central depository account. While the facts disclosed above constituted the material information of a TPEx-listed company, the company not only failed to announce that it has lost the lawsuit in the first instance, but also deliberately concealed the court decision authorizing provisional enforcement and delayed the disclosure of the material information. In order to protect investors' rights, the TPEx requested the company to explain the whole situation in a press conference held on October 25, 2022. The company failed to give a detailed and truthful explanation of the situation in the press conference but provided a follow-up explanation in the material information it disclosed thereafter. Due to the huge impact of its actions on shareholders' rights and interests and the severity of the violation it committed, the TPEx imposed a penalty of NT\$1.5 million on the company.

II. Sanctions on Trading Activities

In the event of significant irregularities in the trading price and volume of the securities of TWSE/TPEX-listed companies that repeatedly disregarded the criteria for the announcement of attention securities, the TWSE and TPEX will impose advance collection of buy-side payment or sell-side securities on these securities to prevent the severe impact of such irregularities on the market while maintaining order and security in securities trading. The sanctions on trading activities and the corresponding trends over the past five years are detailed as follows:

Type of disposition Imposed by		Year	2018	2019	2020	2021	2022
Announcement of attention securities	TWSE		431 securities 2,335 times	365 securities 1,506 times	568 securities 4,262 times	833 securities 5,041 times	478 securities 2,773 times
	TPEX		392 securities 1,872 times	340 securities 1,491 times	465 securities 3,277 times	543 securities 3,828 times	472 securities 2,522 times
Information of disposition securities	TWSE		83 securities 189 times	33 securities 49 times	157 securities 383 times	336 securities 239 times	72 securities 114 times
	TPEX		112 securities 188 times	69 securities 105 times	205 securities 404 times	195 securities 379 times	90 securities 130 times

Brief analysis:

With the TWSE Capitalization Weighted Stock Index (TAIEX) repeatedly reaching record highs in addition to a significant rise in trading volume over the past few years, there has also been an increase in the number and frequency of announcement of attention and disposition securities due to significant irregularities in the trading price and volume of securities over the same period. However, the downward trend in both TAIEX and the trading volume of securities led to a decline in the number and frequency of announcement of attention and disposition securities in 2022.

Over the past five years, the TPEX index closed at 123.54 points with an annual trading value of NT\$8.14 trillion at the end of 2018; 149.36 points with an annual trading value of NT\$7.60 trillion at the end of 2019; 184.10 points with an annual trading value of NT\$12.08 trillion at the end of 2020; 237.55 points with an annual trading value of NT\$20.27 trillion at the end of 2021; and 180.34 points with an annual trading value of NT\$14.87 trillion at the end of 2022. Evidently, an increase in the number and frequency of announcement of attention and disposition securities ensues when both the trading value and volume of securities are rising amid a boom in securities trading, and vice versa.

III. Sanctions on Intermediaries

(I) Sanctions on securities firms

When securities firms violate the relevant regulations, the TWSE and TPEX may not only, depending on the severity of the circumstances, issue a letter requesting securities firms to make the relevant corrections, impose penalties or delinquency fines on securities firms, or suspend, in whole or in part, their securities dealings, their brokerage business or trading at their premises for not more than three months, but also issue a warning to their associates or have them suspended, with a view to maintaining order in the securities market and safeguarding investors' rights.

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

Type of violation	Type of disposition	Imposed by	2018	2019	2020	2021	2022
Regulations governing reporting and handling	Issuance of a letter requesting improvement	TWSE	13 cases	4 cases	5 cases	12 cases	5 cases
		TPEX	23 cases	18 cases	41 cases	42 cases	26 cases
	Imposition of delinquency fines	TWSE	2 cases (totaling NT\$60,000)	1 case (totaling NT\$30,000)	2 cases (totaling NT\$60,000)	2 cases (totaling NT\$60,000)	1 case (totaling NT\$30,000)
		TPEX	1 case (totaling NT\$30,000)	NT\$0	NT\$0	1 case (totaling NT\$30,000)	NT\$0
Regulations governing business control	Issuance of a letter requesting improvement	TWSE	11 cases	9 cases	9 cases	4 cases	10 cases
		TPEX	1 case	2 cases	3 cases	3 cases	1 case
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	NT\$0
		TPEX	0 cases	0 cases	0 cases	0 cases	0 cases
Regulations governing the emerging stock market	Issuance of a letter requesting improvement	TPEX	7 cases	1 case	8 cases	14 cases	1 case
	Imposition of penalties		1 case (totaling NT\$100,000)	0 cases	2 cases (totaling NT\$130,000)	3 cases (totaling NT\$260,000)	1 case (totaling NT\$80,000)

From 2018 to 2022, there were 43 cases of violation of regulations governing business management and control, which constituted the highest proportion of the sanctions imposed by the TWSE on securities firms in terms of trading. Specifically, the majority of these cases were those in which the lending quantity of securities firms engaging in the securities borrowing and lending business exceeded the limit and cases of violation of the non-participation rule for insiders. Next, violation of regulations governing reporting and handling came in second with 39 cases in total, due primarily to securities firms' failure to handle changes in trading categories within the prescribed time limit.

Among the sanctions imposed on securities firms from 2018 to 2022, there was a significant decline in the number of cases of violation of regulations governing reporting and handling in 2022 compared to the previous year. This could be attributed to the reduced number of cases of late filing of customers' changes in trading categories as a result of the reduced volume of information reporting among securities firms following a significant drop in the TAIEX trading value in 2022 compared to the previous year. Among the cases of violation of regulations governing business management and control, the majority of them were cases in which the lending quantity of securities firms engaging in the securities borrowing and lending business exceeded the limit due likely to the large number of lending orders handled by securities firms. As a result, the TWSE will step up efforts to walk them through such deficiencies on an ongoing basis.

In 2022, there was one sanction on a securities firm for the violation of regulations governing the emerging stock market, which mainly resulted from the securities firm's violation of the fundamental spirit of the market-making obligations of recommending securities firms on the emerging stock market and their failure to continuously report reasonable quotes based on professional judgment. The number of cases of violation of regulations governing the emerging stock market decreased in 2022 compared to the previous year. The TPEx will keep reminding securities firms to comply with regulations governing the emerging stock market.

- Major cases in 2022:
 - (1) BNP Paribas was found to have violated Article 2 of the "Taiwan Stock Exchange Corporation Directions for Securities Firms Handling Changes to Trading Category" due to its failure to change the trading category on time when handling customers' transaction information on February 24, 2022. Therefore, the TWSE issued a letter to BNP Paribas requesting correction of the aforesaid deficiency.
 - (2) First Securities Inc. was found to have violated Paragraph 2, Article 39 of the "Operating Rules for Securities Lending by Securities Firms" when engaging in the lending of the shares of Wan Hai Lines Ltd. (Stock code: 2615) on October 28, 2022. As a result, the TWSE issued a letter to First Securities requesting correction of the aforesaid deficiency.
 - (3) When engaging in the lending of the shares of Allied Circuit Co., Ltd. (Stock code: 8155) on March 23, 2022, IBF Securities Co., Ltd. lent not only two board lots, which is the limit for securities eligible for short sale and lending, but also three more board lots later on the same day, thus bringing the total number of shares lent to five board lots. As the action above constituted a violation of Paragraph 2, Article 39 of the "Operating Rules for Securities Lending by Securities Firms," the TPEx issued a letter to IBF Securities requesting correction of the deficiency above.
 - (4) On December 9, 2022, Pocket Securities Co., Ltd. failed to report customers' default information on time as the securities firm only completed the default reporting process at 11:46 on that day, which was later than 11:00 as required by regulations. As the action above constituted a violation of Subparagraph 1, Paragraph 1, Article 2 of the "Taipei Exchange Directions for Securities Brokers Reporting Delayed Settlement and Default by Customers," the TPEx issued a letter to Pocket Securities requesting correction of the deficiency above.

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

Type of violation	Type of disposition	Imposed by	2018	2019	2020	2021	2022
Violation of regulations governing brokerage trading orders	Issuance of warning and request for correction	TWSE	24	7	25	40	15
		TPEX	15	8	8	8	8
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	5	4	4	6	1
		TPEX	5	2	3	2	2
Violation of regulations governing recommendation of securities as well as securities borrowing and lending	Issuance of warning and request for correction	TWSE	12	13	8	8	17
		TPEX	0	3	2	2	0
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	1	1	0	0	0
		TPEX	0	0	0	0	1
Violation of regulations governing out-trades or settlement	Issuance of warning and request for correction	TWSE	8	4	9	8	2
		TPEX	3	0	0	2	1
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	1	1	0	1	1
		TPEX	0	0	0	0	0
Violation of regulations governing account opening	Issuance of warning and request for correction	TWSE	7	2	3	6	5
		TPEX	1	1	2	0	0
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	0	1	0	0

Type of violation	Type of disposition	Imposed by	2018	2019	2020	2021	2022
Violation of regulations governing margin purchases and short sales	Issuance of warning and request for correction	TWSE	4	1	2	1	4
		TPEX	1	5	0	2	2
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	0	0	0	0	0
		TPEX	1	0	0	0	0
Violation of regulations governing anti-money laundering and combating the financing of terrorism	Issuance of warning and request for correction	TWSE	1	7	4	1	9
		TPEX	0	6	4	1	1
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	0	0	0	0
Violation of regulations governing information security (Note 1)	Issuance of warning and request for correction	TWSE	0	0	7	30	10
		TPEX	0	12	13	8	14
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	0	0	7	5	7
		TPEX	0	0	1	0	0
Violation of regulations governing financial derivatives or other business operations (Note 2 and Note 3)	Issuance of warning and request for correction	TWSE	0	0	2	0	1
		TPEX	5	2	9	3	8
	Issuance of warning and request for correction, as well as imposition of penalties	TWSE	0	0	0	0	0
		TPEX	0	2	1	1	0

Note 1: This type of violation includes deficiencies in co-location.

Note 2: This type of violation includes deficiencies in securities dealings and the bond business engaged by securities firms.

Note 3: The cases of such a violation leading to the issuance of warning and request for correction included one case of deficiencies in the leverage contract trading business among leverage transaction merchants each in 2020 and 2021. For more details on the relevant sanctions over the past five years, refer to (II) Sanctions on futures commission merchants.

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. Following efforts to carry out follow-ups and offer guidance on an ongoing basis, there has been a decline in the number of deficiencies related to violation of regulations governing information security in 2022 compared to the previous year.

- Major cases in 2022:
 - (1) First Financial Holding Co., Ltd. and IBF Securities Co., Ltd. were found to have violated various regulations, including the "Operating Rules of the Taiwan Stock Exchange Corporation," due to their failure to adopt multi-factor authentication in the sign-in process on their online ordering systems; enhance their protection measures by immediately revising or suspending system service or using other authentication mechanisms to verify customers' own actions as required when the authentication methods for transaction certificate application and update provide inadequate protection; and review as required whether their internal control systems were truly implemented and they have carried out cyber security reporting in a timely manner. Therefore, the TWSE not only requested these securities firms to correct the deficiencies above and issued a warning to the highest-ranking personnel at their IT departments requiring them to address the problems above, but also imposed a penalty of NT\$430,000 on both securities firms each.
 - (2) Taiwan Cooperative Securities Co., Ltd. was found to have committed several violations. First, the securities firm violated the "Criteria Governing Internal Control Systems of Securities Firms" and their internal regulations due to its failure to retain the sign-off information of the manager who is responsible for the convertible bond volatility spread and dispersion strategies. On a separate occasion, a trader at the securities firm's Derivatives Department traded convertible bonds using another person's account from January 1 to November 2, 2021, where the trader not only implemented the buy high, sell low strategy on convertible bonds using this account to drive up the prices of convertible bonds on the valuation day and inflate his trading performance, but also pushed up the prices of convertible bonds with poor liquidity at a high premium and affected the formation of fair prices on some trading days. The trader's actions have constituted a violation of various regulations, including the "Taipei Exchange Rules Governing Securities Trading on the TPEx" and the "Taipei Exchange Rules Governing Insiders of Securities Firms Opening Accounts at Their Securities Firms for Securities Brokerage Trading." As a result, the TPEx required Taiwan Cooperative Securities to correct the deficiencies above and also suspend the trader involved in the aforesaid deficiencies from trading for six months.

(II) Sanctions on futures commission merchants (leverage transaction merchants)

Leverage trading is concurrently conducted by futures commission merchants that engage in the leverage contract trading business at their own premises. In the event that a leverage transaction merchant violates the relevant regulations, the TPEx may issue a letter requesting the leverage transaction merchant to make corrections or improvements within the prescribed time period and request the competent authority to suspend or terminate its leverage contract trading business in accordance with the "Taipei Exchange Rules Governing the Operation of Leverage Contract Trading Business by Leverage Transaction Merchants," so as to maintain order in the over-the-counter market. Leverage transaction merchants that violate the relevant regulations may receive a warning or have their business suspended for one to six months.

1. Sanctions imposed by the TPEx on leverage transaction merchants with deficiencies in the leverage contract trading business:

Type of violation		2018	2019	2020	2021	2022
Engagement in the leverage contract trading business	Issuance of warning and request for correction	0 cases	0 cases	1 case	1 case	7 cases
	Issuance of warning and request for correction, as well as imposition of penalties	0 cases	0 cases	0 cases	0 cases	2 cases

- Trends and major cases over the past five years:
 - (1) Brief analysis of trends over the past five years:

The increased number of deficiency cases in 2022 was a result of not only a growing number of futures commission merchants applying for permission to engage in the leverage contract trading business (five merchants in 2022, including Yuanta Futures, Capital Futures, KGI Futures, Cathay Futures, and Fubon Futures; five merchants in 2021; five merchants in 2020; three merchants in 2019; and three merchants in 2018) and a wider range of related products in the market, but also a higher number of complaints received in 2022. With a view to strengthening management in this regard, the TPEx has revised the relevant audit items and inspection manual in consideration of the deficiencies found in recent audit operations.

(2) Major case in 2022:

Capital Futures Corporation was embroiled in a trading dispute on August 17, 2022 due to quotation errors caused by incorrect setting of codes for commodity trading by the IT vendor involved and the company's failure to check the reasonableness of the quotes and adjust the incorrect quotes in a timely manner. As the dispute constituted a violation of the "Taipei Exchange Rules Governing the Operation of Leverage Contract Trading Business by Leverage Transaction Merchants," the TPEx imposed a penalty of NT\$200,000 on the company and recommended that the company should allocate time for checking and adjusting the quotes on its quotation system to ensure that the quotation errors were corrected before trading began.

(III) 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.

i. Issuance of letter requesting improvement

Type of violation \ Year	2018	2019	2020	2021	2022
Information system control	3 cases	3 cases	0 cases	3 cases	11 cases
Anti-money laundering audits	3 cases	0 cases	1 case	5 cases	6 cases
Account opening, credit investigation, and qualification review	2 cases	3 cases	1 case	1 case	0 cases
Others	2 cases	16 cases	16 cases	7 cases	10 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.

ii. Imposition of default fines:

Type of violation \ Year	2018	2019	2020	2021	2022
Calls and substituted off-set operations	35 cases	1 case	10 cases	3 cases	0 cases
Account opening, credit investigation, and qualification review	10 cases	4 cases	5 cases	0 cases	0 cases
Internal audits and financial operations	8 cases	5 cases	4 cases	2 cases	4 cases
Others	10 cases	7 cases	10 cases	7 cases	6 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.

iii. Trends and major cases over the past five years:

1. Brief analysis of trends over the past five years:

From 2018 to 2022, TAIFEX issued 10, 22, 18, 16, and 27 letters requesting for correction, and recorded 63, 17, 29, 12, and 10 violations incurring default fines. 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 17 between 2018 and 2020 and 2 between 2021 and 2022, while the number of violations incurring default fines averaged 36 between 2018 and 2020 and 11 between 2021 and 2022. On the whole, the number of violations incurring default fines has exhibited a noticeable downward trend over the past two years, indicating that the internal controls and sanctions promoted by TAIFEX should have effected improvement.

2. Major case in 2022

Dah Chang Futures Co., Ltd. continued to accept new trading contracts for futures trading within the period from the afternoon on August 1, 2022 to the morning after-hours trading session on August 2, 2022 even after its traders committed a breach of securities trading contract on August 1, 2022. Dah Chang Futures Co., Ltd. was deemed in violation of the "Operating Rules of the Taiwan Futures Exchange Corporation." Therefore, TAIFEX imposed a fine of NT\$10,000 on Dah Chang Futures Co., Ltd.

Appendix III. Statistics on Administrative Sanctions Imposed by the SFB from 2018 to 2022

□ Table 1 Administrative sanctions imposed by the SFB from 2018 to 2022

Unit: cases

Type of violation		Legal basis	Year					Total
			2018	2019	2020	2021	2022	
A1	Acquisition or disposition of assets	Article 36-1 of the “Securities and Exchange Act”	19	9	2	2	5	37
A2	Material information	Subparagraph 2, Paragraph 3, Article 36 of the “Securities and Exchange Act”	3	3	1	3	6	16
A3	Regulations governing appointment of independent directors and regulations governing procedures for board 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”	10	7	1	8	7	33
B1	Internal controls of securities firms	Articles 65, 66, and 178-1 of the “Securities and Exchange Act”	29	17	26	63	53	188
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”	9	14	13	9	5	50

Type of violation	Legal basis	Year					Total
		2018	2019	2020	2021	2022	
B4	Money Laundering Control Act	7	4	3	2	0	16
C1	Registration of insiders' equity	107	149	143	156	122	677
C2	Acquisition of large equity	4	5	7	3	3	22
C3	Tender offer	0	1	2	0	0	3
C4	Treasury stock repurchase	8	16	14	3	2	43
C5	Proxy for the attendance of a shareholders' meeting	3	1	0	5	2	11

Type of violation	Legal basis	Year					Total
		2018	2019	2020	2021	2022	
D1	Internal controls of securities investment trust enterprises and securities investment consulting enterprises	21	16	27	15	9	88
D2	Securities investment trust business	1	0	0	4	1	6
D3	Securities investment consulting business	0	0	4	1	2	7
D4	Employees of securities investment trust enterprises and securities investment consulting enterprises	0	5	7	11	6	29
D5	Offshore funds	0	0	0	0	0	0
D6	Disclosure of financial information of securities investment trust enterprises and securities investment consulting enterprises	0	0	1	0	0	1

Type of violation	Legal basis	Year					Total
		2018	2019	2020	2021	2022	
D7	Financial and business inspections of securities investment trust enterprises and securities investment consulting enterprises	0	0	0	1	0	1
E1	Provision of loans or endorsements/guarantees	8	14	9	2	2	35
E2	Financial statements	34	32	26	24	25	141
E3	Accounting officers	1	6	6	2	3	18
E4	Certified public accountants	5	15	18	4	10	52
E5	Reporting of operating status	0	4	3	4	3	14
E6	Internal control systems	5	4	0	2	3	14

Type of violation		Legal basis	Year					Total
			2018	2019	2020	2021	2022	
F1	Futures commission merchants and leverage transaction merchants	Articles 56 and 80 of the "Futures Trading Act"	11	16	20	24	8	79
F2	Futures services	Articles 82 and 85 of the "Futures Trading Act"	4	6	4	7	2	23
F3	Employees of futures commission merchants	Articles 61, 80 and 82 of the "Futures Trading Act"	4	4	8	8	2	26
-	Others		0	9	6	4	6	25
Total			293	357	351	367	287	1655

❑ Table 2 Subject and type of administrative sanctions imposed by the SFB in 2022

Unit: cases

Type of sanction Subject of sanction	Penalties	Rectification	Termination of business operations	Discharge of duties	Rectification and penalties	Penalties and termination of business operations	Total
Insiders	122	–	–	–	–	–	122
Public companies	58	–	–	–	–	–	58
Certified public accountants	6	–	5	–	–	–	11
Intermediaries	37	34	2	–	3	1	77
Responsible persons and employees of intermediaries	–	–	10	1	–	–	11
Others	5	–	–	–	–	–	5
Total	228	34	17	1	3	1	284

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