

# 2019 Law Enforcement Report

on Securities  
and Futures Markets

Taiwan Stock Exchange Corporation ("TWSE")  
Taipei Exchange ("TPEX")  
Taiwan Futures Exchange Corporation ("TAIFEX")  
Securities and Futures Investors Protection Center ("SFIPC")  
Supervised by: Securities and Futures Bureau ("SFB"),  
Financial Supervisory Commission ("FSC")

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# Law Enforcement Framework and Results of Law Enforcement

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>> Securities and Futures Markets <<

>> Intermediaries <<

## I. Securities and Futures Markets

As the front-line supervisors for listed companies, the Taiwan Stock Exchange Corporation (hereinafter referred to as the "TWSE") and Taipei Exchange (hereinafter referred to as the "TPEX") impose relevant sanctions in accordance with regulations. In supervision on the issuance market, the TWSE and TPEX may supervise the financial operations of TWSE/TPEX listed 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 filing and material information. In supervision of trading activities, including monitoring and announcement of information of attention securities and disposition measures, the TWSE and TPEX announce information of attention securities involving abnormal trading, and will impose disposition measures if abnormal trading persists. This allows investors to be closely alerted to relevant stocks and thereby reduce investment risk. If TWSE/TPEX listed companies are involved in violation of the "Securities and Exchange Act" and other relevant laws and regulations, the Securities and Futures Bureau (hereinafter referred to as the "SFB"), Financial Supervisory Commission (hereinafter referred to as the "FSC") will impose relevant administrative sanctions. In the case of securities-related law violations, insider trading, or manipulation of stock prices, the FSC will collaborate with the Ministry of Justice in criminal investigation and prosecution. After the evidence of relevant cases is reviewed by the SFB in consultation with prosecutors stationed at the FSC, it will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution.

To enhance the soundness of the futures market and prevent price manipulation, the Taiwan Futures Exchange Corporation (hereinafter referred to as "TAIFEX") conducts market surveillance in accordance with the "Regulations Governing Market Trading Surveillance." If futures trading is found to have reached certain defined protocols relating to abnormal trading, TAIFEX may publish trading information and take relevant necessary measures, including adjusting margins, limiting the trading volumes or positions of futures traders, or suspending or terminating all or part of futures trading. If illegal conduct, such as manipulation of futures prices and insider trading, is found, TAIFEX will immediately report it to the SFB or the appropriate law enforcement agencies for prosecution and investigation to protect the rights and interests of investors and to maintain the sound development of the futures market.

To protect the rights of investors and promote corporate governance, the Securities and Futures Investors Protection Center (hereinafter referred to as the "SFIPC") may institute class action litigation on behalf of the investors, request damages from the persons in charge on behalf

of the companies and/or investors, and institute actions for dismissal of persons in charge in the case of any unlawful securities event, in accordance with the "Securities Investor and Futures Trader Protection Act."

## Results of Law Enforcement in 2019

### TWSE TPEX

In 2019, measures imposed by the TWSE and TPEX on TWSE/TPEX listed companies in supervision on the issuance market included the following: 260 companies received letters requesting improvement, 106 companies paid penalties amounting to NT\$4.99 million, 103 companies with specific financial or business conditions were subjected to altered trading, periodic call auction or suspended trading, 303 companies were included in the Key Financials Section, and 237 companies were subject to the periodic disclosure of financial information. These measures were imposed to allow investors to make informed decisions in matters of risk and to protect investors' rights and interests. In supervision on the trading activities, the TWSE and TPEX announced 705 attention securities for 2,997 times for investors to make informed decisions in matters of risk; the TWSE and TPEX also announced the information of 102 stocks under disposition measures for 154 times and imposed advance collection of buy-side payment or sell-side securities on such securities to maintain order and safety of securities trading.

### SFB

In 2019, the SFB imposed administrative sanctions on 270 TWSE/TPEX listed companies for violation of the "Securities and Exchange Act" and its authorized regulations. The amount of administrative sanctions totaled NT\$69.14 million. Among the administrative sanctions imposed by the SFB, the violations of Article 22-2 or 25 of the "Securities and Exchange Act" with respect to the registration of insiders' shareholding accounted for the largest proportion, or 149 cases, and the violations of Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the same act with respect to financial statements accounted for the second-largest proportion, or 32 cases.

#### Ministry of Justice

According to the statistics of the Investigation Bureau, Ministry of Justice, there were 60 cases of violation of the "Securities and Exchange Act" in 2019, involving a total of 284 suspects and NT\$15.9 billion. The main types of crimes included nine cases of document counterfeits in collection or issuance, 14 cases of stock price manipulation through abnormal trading, 12 cases of insider trading, nine cases of unconventional transactions, 12 cases of special breach of trust and embezzlement, and three cases of fraudulent financial statements.

#### SFIPC

In 2019, the SFIPC instituted 12 class action litigations in accordance with the "Securities Investor and Futures Trader Protection Act," with 2,704 authorizers and the amount of compensation sought reaching NT\$1.69 billion; the SFIPC also brought two derivative suits and five discharge suits against the persons in charge on behalf of the companies, so as to urge the directors or supervisors to perform duties in good faith and further strengthen corporate governance.

## II. Intermediaries

### (I) Securities Firms

A securities firm shall not commence to operate its business unless it is a member of a securities dealers association, which shall formulate self-governing rules and request all members to abide by them. This includes the standards and policies to which all members agree to uphold, and compliance shall be regularly checked to assure observance and conformity are upheld.

According to the "Securities and Exchange Act," the TWSE and TPEx shall formulate the business bylaws or operational rules specifying trading orders of securities dealers or brokers and sign a contract regarding the use of the securities market with securities firms. For securities firms and their employees that violate market rules, the TWSE and TPEx may take relevant disciplinary actions against them. In case of serious violations, the TWSE and TPEx may suspend part or whole of their securities dealing, brokerage business, or businesses in other operating locations for not more than three months, or issue a warning to persons who violated the regulation or suspend their duties. If securities firms and their employees are involved in violation of securities laws and regulations, the "Securities and Exchange Act" empowers the FSC to impose relevant administrative sanctions. For securities-related law violations that involve criminal offenses, since

the Ministry of Justice is the authority with the power to conduct criminal investigation and institute criminal proceedings, the FSC closely collaborates with the Ministry of Justice. The FSC proactively collects relevant evidence, consults with the prosecutors stationed at the FSC, and refers those cases to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for further criminal investigation or prosecution.

## (II) Securities Investment Trust Enterprises and Securities Investment Consulting Enterprises

A securities investment trust enterprise or securities investment consulting enterprise shall not commence its business unless it is a member of a securities investment trust and consulting association, which shall formulate the self-regulatory rules and check the compliance of all members with the laws, regulations, and self-regulatory rules on a regular basis to strengthen the internal controls of these enterprise types and discipline of their employees.

If securities investment trust enterprises, or securities investment consulting enterprises, or their employees are found to have violated the "Securities Investment Trust and Consulting Act" and other relevant regulations, the SFB will impose relevant administrative sanctions. If the violations involve criminal liability, the cases will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution after being reviewed by the SFB in consultation with the prosecutors stationed at the FSC.

## (III) Futures Commission Merchants

Futures commission merchants ("FCM") sign a contract regarding the use of the futures market with TAIFEX. Based on the contractual relationship, TAIFEX is the front-line supervisor for futures commission merchants and hence imposes relevant sanctions against those violating the market regulations.

A futures commission merchant shall not commence its business unless it is a member of the Chinese National Futures Association ("CNFA"), which shall stipulate self-regulatory rules, coordinate all members to abide by the laws, regulations, and self-regulatory rules, as well as discipline the FCM's employees to follow the code of conduct.

The SFB has urged TAIFEX to formulate relevant regulations governing the finance, business, and internal controls of FCMs and to strengthen its audit and FCM supervision. If FCMs are found to have violated the "Futures Trading Act" and other relevant laws and regulations, the SFB will impose relevant administrative sanctions. If the violations involve criminal liability, the cases will be transferred to the Investigation Bureau, Ministry of Justice or district prosecutor's offices for criminal investigation or prosecution after being reviewed by the SFB in consultation with the prosecutors stationed at the FSC.

## Results of Law Enforcement in 2019

TWSE  
TPEX  
TAIFEX

To maintain order in the securities market and to protect the rights and interests of investors, the TWSE and TPEX imposed measures on securities firms for violation of relevant regulations by issuing 120 letters warning or requesting improvement (120 cases) and imposing 11 penalties/delinquency fines; TAIFEX imposed measures on FCMs for violation of the "Operating Rules of the Taiwan Futures Exchange Corporation" by issuing 22 letters requesting improvement and imposing 17 penalties.

SFB

When securities firms, securities investment trust enterprises and securities investment consulting enterprises, and FCMs violate the "Securities and Exchange Act," "Securities Investment Trust and Consulting Act," "Futures Trading Act," and relevant laws and regulations, the SFB will impose administrative sanctions in relation to the violations. In 2019, the SFB imposed 87 administrative sanctions on the aforesaid intermediaries, including imposing penalties of NT\$13.02 million and suspending business operation of or discharging 24 persons who violated the relevant laws and regulations.



# Types of Law Enforcement and Case Study

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>> Measures Imposed by the TWSE, TPEX, and TAIEX <<

>> Administrative Sanctions Imposed by the SFB <<

>> Investigation of Criminal Liability <<

>> Investigation of Civil Liability <<

## I. Measures Imposed by the TWSE, TPEX, and TAIEX

### (I) Measures of TWSE/TPEX Listed Companies

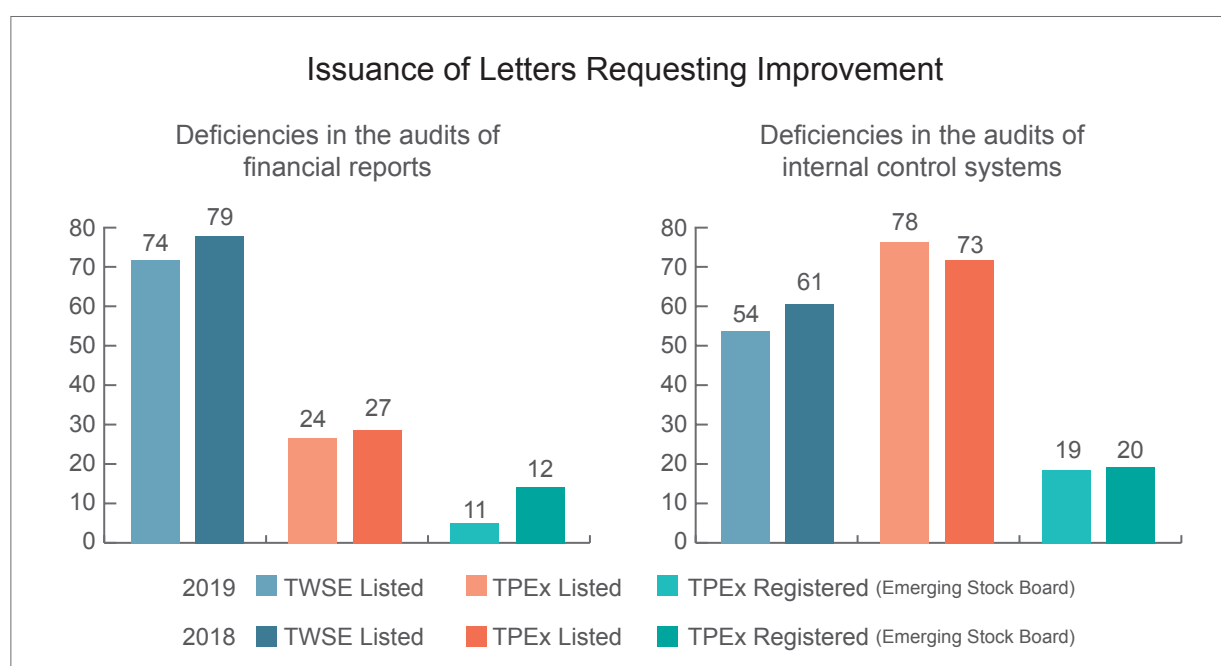
If TWSE/TPEX listed companies are found to have violated relevant regulations, the TWSE and TPEX may, depending on the severity of the circumstances, issue a letter requesting improvement within the given time limit, include such companies in periodic financial disclosures, impose penalties, adopt altered trading, or suspend securities trading to improve the soundness of the capital market and to protect the rights and interests of shareholders. Sanctions imposed by the TWSE and TPEX in 2019 are described as follows:

1. The TWSE and TPEX found deficiencies in financial reports and internal control systems audits of TWSE/TPEX listed companies and issued a letter requesting improvement:

2019	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Deficiencies in the audits of financial reports	74	24	11
Deficiencies in the audits of internal control systems	54	78	19

2018	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Deficiencies in the audits of financial reports	79	27	12
Deficiencies in the audits of internal control systems	61	73	20



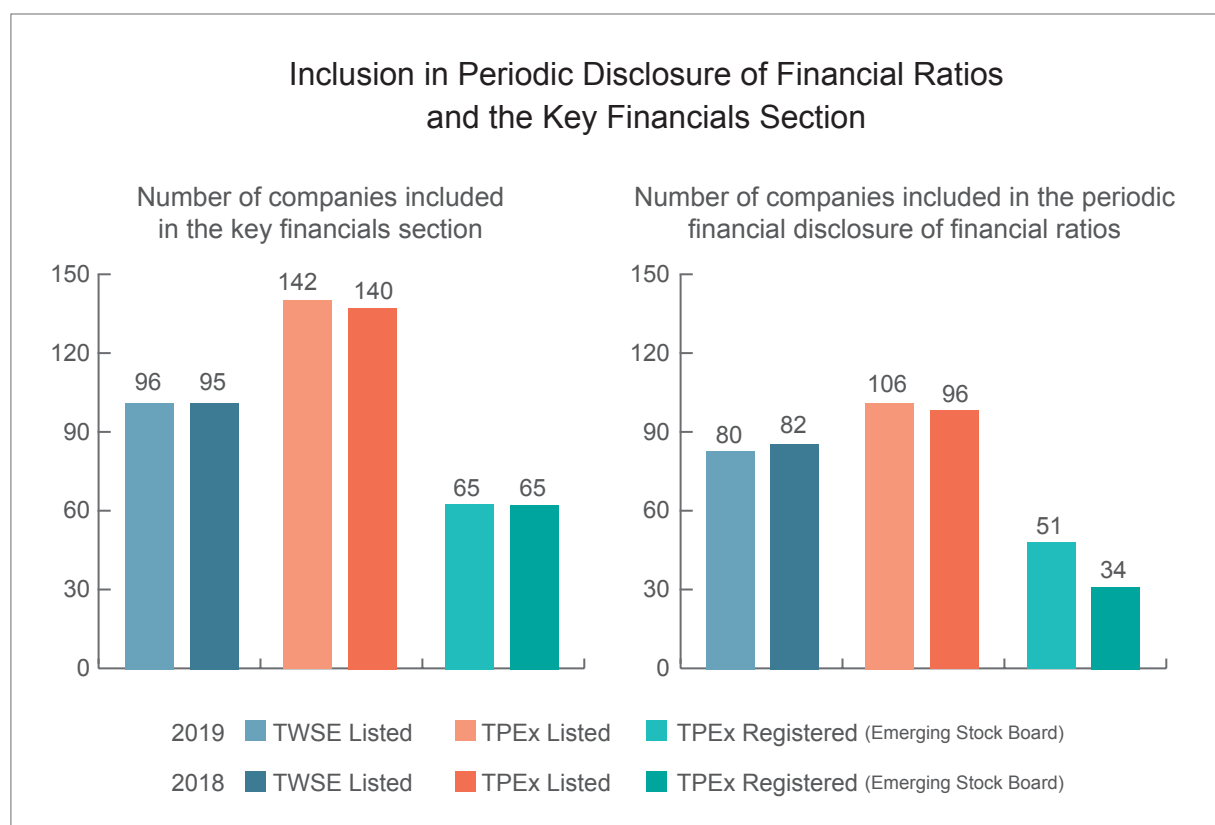
**Brief analysis:** For the issuance of letters requesting improvement in the deficiencies found in financial reports and audits of internal control systems of listed companies, the TWSE reported 140 and 128 cases of TWSE listed companies and TPEX reported 100 and 102 cases on listed companies and 32 and 30 cases on emerging stock board registered companies in 2018 and 2019, respectively.

2. Companies were required to be included in the periodic disclosure of financial ratios and the Key Financials Section:

2019	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Number of companies included in the key financials section	96	142	65
Number of companies included in the periodic financial disclosure of financial ratios	80	106	51

2018	TWSE Listed	TPEX Listed	TPEX Registered (Emerging Stock Board)
Number of companies included in the key financials section	95	140	65
Number of companies included in the periodic financial disclosure of financial ratios	82	96	34



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

As of 2019 and 2018, the number of TWSE listed companies included in the Key Financials Section was 96 and 95, respectively; the number of TPEX listed companies included was 142 and 140; and the number of emerging stock board registered companies included was 65 and 65. As of 2019 and 2018, the number of TWSE listed companies included in the periodic financial disclosure of financial ratios was 80 and 82, respectively; the number of TPEX listed companies so included was 106 and 96; and the number of emerging stock board registered companies so included was 51 and 34.

**Cases:**

- (1) Ju X Company's main business continued to operate at a loss with a relatively high debt ratio. Although commercial promissory notes, which would mature in August 2020, were reclassified as long-term loans, high liquid assets were not sufficient to cover short-term debts. Given its doubtful solvency, Ju X Company was included in the Key Financials Section (Indicator 9) and required to disclose its financial information on a regular basis to keep investors updated.
- (2) In 2019, Yi X Company suspended its main business activities and disposed of related assets, and its certified public accountant issued an audit or review report that indicated major uncertainties of its business continuity; because of the business suspension, Yi X Company's revenue had been reported as zero for six consecutive months, which met the regulations of the TPEX in respect of delisting; therefore, Yi X Company was included in the Key Financials Section to keep investors informed.

- (3) Ding X Company was repeatedly penalized by the Customs Administration, Ministry of Finance and failed to appeal against the order of provisional attachment. The TPEx then required that Ding X Company should announce and timely explain the total amount of goods seized and fines imposed by the Ministry of Finance, the amount of provisional attachment ordered by the Ministry of Justice, and the actual amount enforced and included it in the Key Financials Section to alert investors to its financial disclosures.
- (4) Chuang X Company's main business continued to operate at a loss with net cash used in operating activities. Chuang X Company also financed from its shareholders. Given its doubtful working capital turnover, Chuang X Company was included in the Key Financials Section (Indicator 9) and required to regularly announce the estimated cash receipts and expenditures in the following three months and its available credit line to keep investors updated.

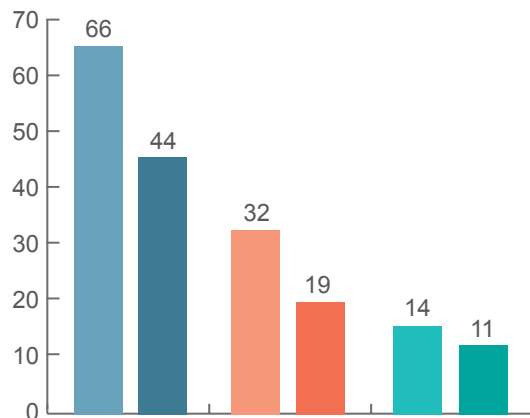
3. TWSE/TPEx listed companies paid penalties for violating the regulations governing information reporting and material information:

2019	TWSE Listed	TPEx Listed	TPEx Registered (Emerging Stock Board)
Number of violations of the regulations governing information reporting and material information	66	32	14
Number of companies paying penalties for violating the regulations governing material information, press conferences, and information reporting	62	30	14
Amount of penalties for violating the regulations governing material information, press conferences, and information reporting (in NT\$10,000)	256	205	38

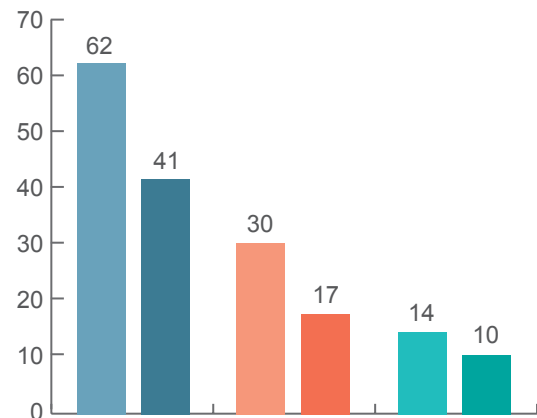
2018	TWSE Listed	TPEx Listed	TPEx Registered (Emerging Stock Board)
Number of violations of the regulations governing information reporting and material information	44	19	11
Number of companies paying penalties for violating the regulations governing material information, press conferences, and information reporting	41	17	10
Amount of penalties for violating the regulations governing material information, press conferences, and information reporting (in NT\$10,000)	191	115	22

## Penalties for Violating the Regulations Governing Information Reporting and Material Information

Number of violations of the regulations governing information reporting or material information



Number of companies paying penalties



2019 ■ TWSE Listed ■ TPEX Listed ■ TPEX Registered (Emerging Stock Board)  
 2018 ■ TWSE Listed ■ TPEX Listed ■ TPEX Registered (Emerging Stock Board)

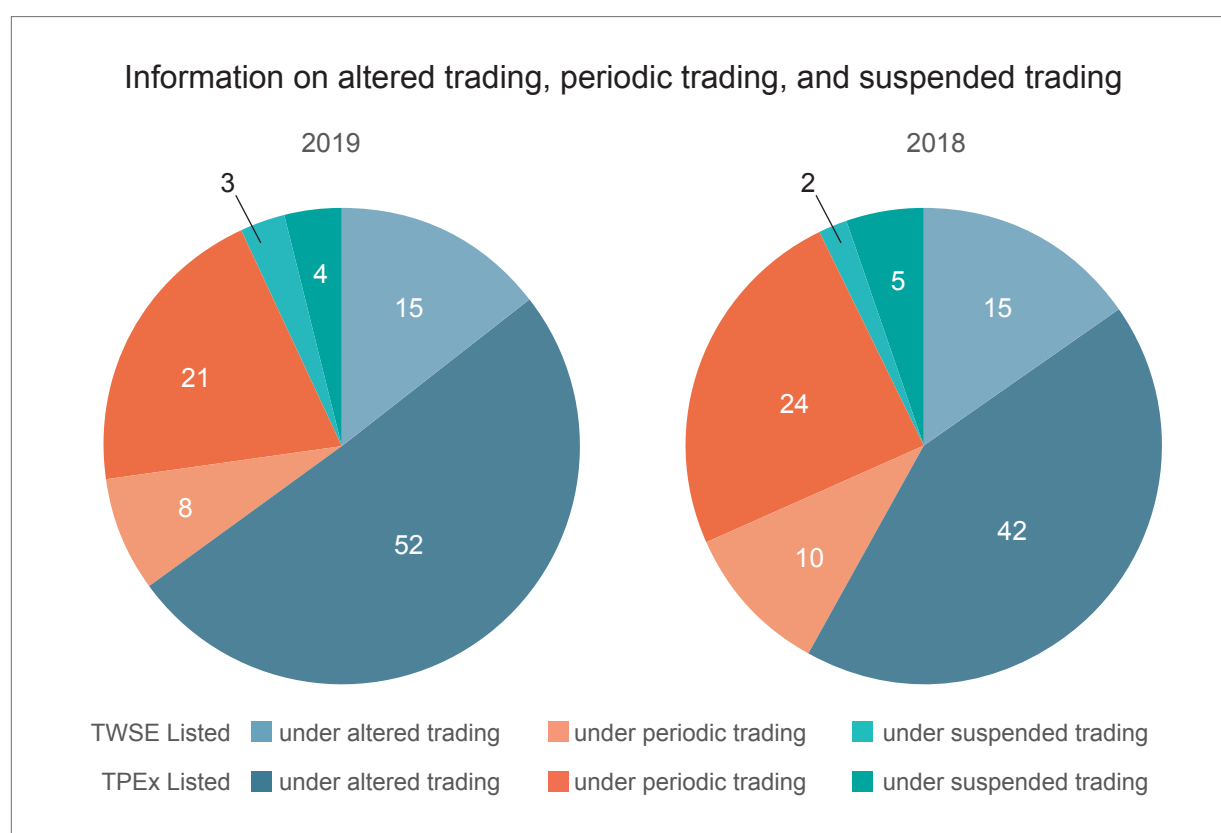
**Brief analysis:** In 2018 and 2019, penalties for violating the regulations governing information reporting and material information were respectively reported as follows: 41 and 62 cases of TWSE listed companies; 17 and 30 cases of TPEX listed companies; and 10 and 14 cases of emerging stock board registered companies; the amount paid by TWSE listed companies totaled NT\$1.91 million and NT\$2.56 million and averaged NT\$46,600 and NT\$41,300 per case; the amount paid by TPEX listed companies totaled NT\$1.15 million and NT\$2.05 million and averaged NT\$67,600 and NT\$68,300 per case; and the amount paid by emerging stock board registered companies totaled NT\$0.22 million and NT\$0.38 million and averaged NT\$22,000 and NT\$27,100 per case. As the financial and business operations of some listed companies repeatedly violated the relevant laws and regulations in 2019, the number of violations and the number of non-conforming companies increased from the previous year.

### Cases:

- (1) On November 27, 2019, the board of directors of Cheng X Company resolved to pass the issuance of new shares of its reinvestment, Company A, to external investors, along with the share subscription agreement and amendment to the Articles of Incorporation. The announcement of material information and the press conference on the same day neither explained the agreement fully nor correctly declared the reasons for the reduced shareholding ratio, and the Chinese and English versions of material information on independent directors' opinions were not disclosed on the Market Observation Post System within the prescribed time limit, all of which violated Subparagraphs 10, 44, and 49, Paragraph 1, Article 4 and Paragraph 4, Article 6 of the "Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities." Therefore, the TWSE imposed a default fine of NT\$100,000 on Cheng X Company.
- (2) Chang X Company failed to file the respective financial reports for 2018 and the first quarter of 2019 within the prescribed time limit. Since November 21, 2018, the checks of the director and general manager of the Company bounced due to insufficient deposits; on December 7, 2018, the checks were dishonored due to insufficient funds, subjecting the director and general manager to mandatory discharge. In addition, the material information regarding the criminal litigation changed against customers brought on May 14, 2019, the Board's resolution to pass private placement on May 15, 2019, and receipt of the approved extension of the 2018 financial report filing from the competent authority on May 21, 2019 were not disclosed within the prescribed time limit. Therefore, the TPEX imposed default fines on Chang X Company several times, totaling NT\$140,000.
- (3) Fraud incidents existed in De X Company and its subsidiaries due to major deficiencies found in the internal control systems; the general manager of De X Company was suspended from operation, but such material information was not disclosed and explained in detail within the prescribed time limit, which violated Subparagraphs 6 and 16, Paragraph 1, Article 34 of the "Rules Governing the Review of Emerging Stocks for Trading on the TPEX." Therefore, the TPEX imposed a penalty of NT\$130,000 on De X Company.

4. Information on altered trading, periodic trading, and suspended trading:

Trading Disposition	2019		2018	
	TWSE Listed	TPEX Listed	TWSE Listed	TPEX Listed
Number of companies under altered trading	15	52	15	42
Number of companies under periodic trading	8	21	10	24
Number of companies under suspended trading	3	4	2	5





**Brief analysis:** If TWSE/TPEX listed companies have financial or business operations specified in TWSE/TPEX regulations, then the TWSE and TPEX have the right to adopt altered trading or periodic call auction for listed securities, and may further suspend the trading of listed securities. The TPEX also imposes the same sanctions for convertible (exchangeable) bonds issued by TWSE/TPEX listed companies. The number of TWSE listed companies under altered trading in 2019 was the same as that in 2018, and the number of TWSE listed companies under periodic trading in 2019 was slightly reduced from that in 2018; the number of TPEX listed companies under altered trading in 2019 increased mainly because of an increase in companies whose net worth became less than one-half of the share capital stated in their financial reports.

**Cases:**

- (1) In June 2019, Da X Company failed to submit relevant information within the prescribed time limit, which violated Subparagraph 19, Paragraph 1, Article 49 of the "Operating Rules of the Taiwan Stock Exchange Corporation." Therefore, the TWSE subjected Da X Company to altered trading.
- (2) Lu X Company's net worth recognized in the financial reports disclosed and declared on March 21, 2019 in accordance with Article 36 of the "Securities and Exchange Act" was negative, and its certified public accountant issued an audit report that indicated major uncertainties of the company's business continuity, pointing out violations of Subparagraph 3, Paragraph 1, Article 49 and Subparagraph 4, Paragraph 1, Article 49-2 of the "Operating Rules of the Taiwan Stock Exchange Corporation." Therefore, the TWSE subjected Lu X Company to altered trading and periodic call auction, effective on March 25, 2019.
- (3) Due to major deficiencies found in the internal control systems, Chang X Company was suspended from trading on the TPEX, effective January 21, 2019. Chang X Company failed to disclose and declare the financial reports for 2018 and the first and second quarters of 2019 within the prescribed time limit, so the suspension continued; in addition, its net worth became less than three-tenths of the share capital stated in its financial reports, and its certified public accountant issued a review report that indicated substantial uncertainty concerning their ability to sustain business. Therefore, the TPEX subjected Chang X Company to altered trading and periodic trading; moreover, the by-

election of independent directors was not held to fill the vacancies for directors and all independent directors within the prescribed time limit, and checks of Chang X Company bounced due to insufficient deposits, which were added to the grounds for altered trading of Chang X Company's securities on May 16, 2019 and August 6, 2019, respectively.

- (4) Ai X Company disclosed and declared that its net worth became less than one-half of the share capital stated in its financial reports for the first quarter of 2019. As a result, the TPEX subjected Ai X Company's securities and two convertible bonds to altered trading, effective on May 20, 2019.

## (II) Measures on Trading Activities

### 1. Announcement of attention securities:

After the daily close of the centralized securities exchange market, the TWSE and TPEX analyze the trading activities of TWSE/TPEX listed companies. If abnormal trading is found to have reached a certain standard, the TWSE and TPEX will announce the name of the securities firm and its trading information (such as price increase/decrease, trade volume, turnover, and concentration risk) in the market to allow for sufficient information for investors to make informed decisions in matters of risk.

### 2. Information of disposition securities:

If there has been significant abnormality in the trading price and volume of TWSE/TPEX listed companies repeatedly reaching the criterion for information of attention securities for a certain period of time, the TWSE and TPEX will impose an advance collection of buy-side payment or sell side securities on such securities to avoid its serious impact on the market while maintaining order and safety of securities trading.

In 2019, the TWSE announced 365 attention securities 1,506 times and information of 33 disposition securities 49 times. In 2018, the TWSE announced 431 attention securities 2,335 times and information of 83 disposition securities 189 times.

In 2019, the TPEX announced 340 attention securities 1,491 times and information of 69 disposition securities 105 times. In 2018, the TPEX announced 392 attention securities 1,872 times and information of 112 disposition securities 188 times.

### (III) Measures of Intermediaries

#### 1. Measures of securities firms:

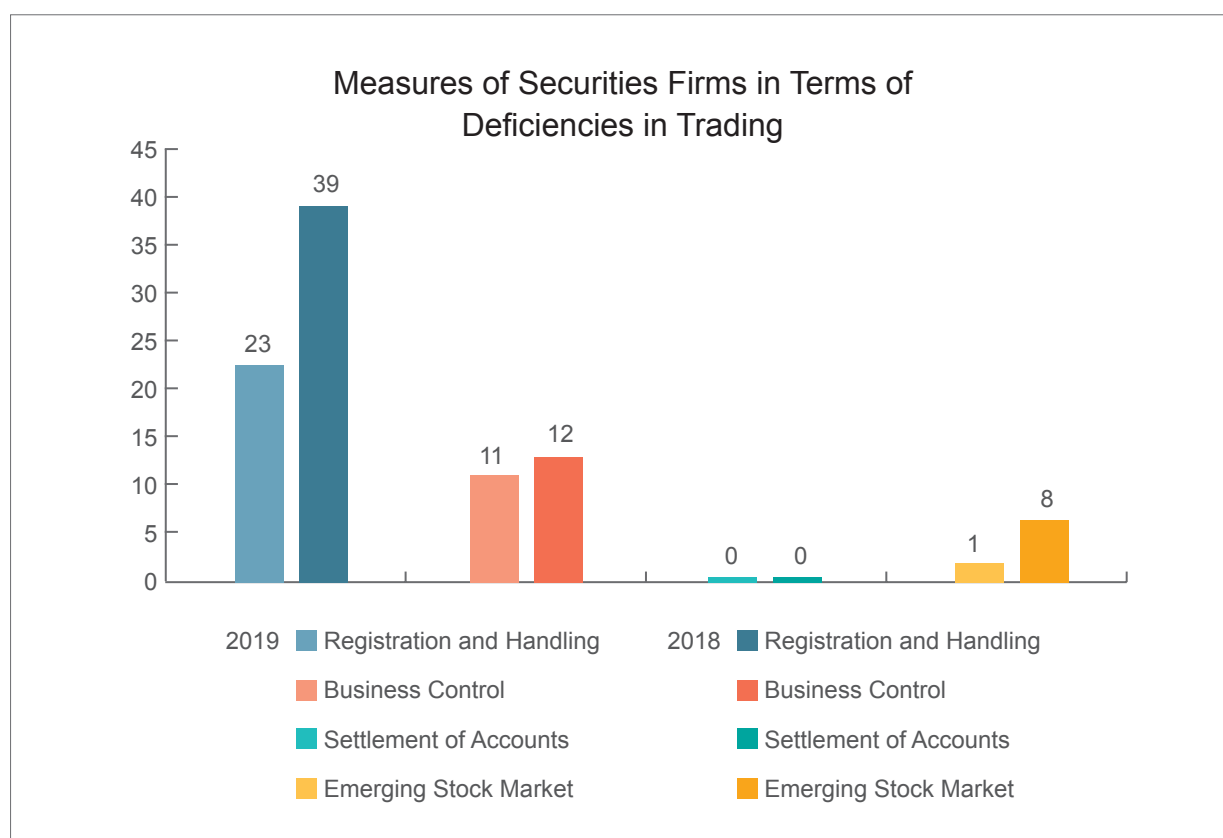
When securities firms violate relevant regulations, the TWSE and TPEx may, depending on the severity of the circumstances, issue a letter requesting securities firms to improve, impose penalties/delinquency fines, suspend part or whole of their securities dealing, brokerage business, or businesses in other operating locations for not more than three months, issue a warning to persons who violated the regulation or have their business halted to maintain order in the securities market and to protect the rights and interests of investors. Securities firms sanctions in 2018 and 2019 are described below:

#### (1) Measures of securities firms in terms of deficiencies in trading:

2019				
Type of Violation	Measure	TWSE	TPEx	Total
Regulations governing reporting and handling	Issuance of a letter requesting improvement	4 cases	18 cases	23 cases
	Imposition of delinquent fines	1cases (totaling NT\$30,000)	NT\$0	
Regulations governing business control	Issuance of a letter requesting improvement	9 cases	2 cases	11 cases
Regulations governing clearing and settlement	Imposition of delinquent fines	NT\$0	NT\$0	0 case
	Suspension of trading	0 case	0 case	
Regulations governing the emerging stock market	Issuance of a letter requesting corrections	-	1 case	1 case
	Imposition of penalties	-	NT\$0	

## 2018

Type of Violation	Measure	TWSE	TPEX	Total
Regulations governing reporting and handling	Issuance of a letter requesting improvement	13 cases	23 cases	39 cases
	Imposition of delinquent fines	2 cases (totaling NT\$60,000)	1 case (totaling NT\$30,000)	
Regulations governing business control	Issuance of a letter requesting improvement	11 cases	1 case	12 cases
Regulations governing clearing and settlement	Imposition of delinquent fines	NT\$0	NT\$0	0 case
	Suspension of trading	0 case	0 case	
Regulations governing the emerging stock market	Issuance of a letter requesting corrections	-	7 cases	8 cases
	Imposition of penalties	-	1 case (totaling NT\$100,000)	



**Brief analysis:** In 2019, the violations of the regulations governing business control accounted for the highest percentage of sanctions imposed by the TWSE on securities firms in terms of trading, totaling nine. Most of the violations were the involvement of insiders in securities lending and loaned securities in excess. The violations of the regulations governing reporting and handling accounted for the second-highest percentage of the sanctions imposed by the TWSE on securities firms in terms of trading, totaling five. The main reason was that the securities firms did not make changes to a trading category within the time limit.

Compared with the sanctions imposed in 2018, the issuance of a letter requesting improvement for violation of the regulations governing reporting and handling was significantly reduced from 13 to 4 cases in 2019. The main reason was that the number of securities firms failing to make changes to a trading category within the time limit was reduced. It is possible that the issuance of a letter requesting improvement in 2018 did effect a warning for securities firms to make improvements. Overall, the issuance of a letter requesting improvement for violation of the regulations governing business control showed a downward tendency; however, the number of violations in respect of insiders' involvement in securities lending increased slightly. This could be due to newly qualified insiders' unfamiliarity with the regulations. Compliance will be continuously promoted. In 2019, the violations of the regulations governing reporting and handling accounted for the highest percentage of sanctions imposed by the TPEx on securities firms in terms of trading, totaling 18. Most of the violations were failures to report default by customers within the time limit. The violations of the regulations governing business control accounted for the second-highest percentage of the sanctions imposed by the TPEx on securities firms in terms of trading, totaling two. The main reasons were the insiders in securities borrowing and lending and margin short sales exceeding limits due to securities firms' negligence.

**Cases:**

- (1) When accepting securities borrowing/lending requests made by customers, Yuan X Securities Company violated the Financial Supervisory Commission Order Jin-Guan-Zheng-San-Zi No. 0950003988 and Article 37-1 of the "Operating Rules for Securities Lending by Securities Firms," stipulating that no insiders shall engage in borrowing and lending securities. Therefore, the TWSE issued a warning letter and requested corrections.

- (2) On November 28, 2019, Wenhua Branch of Ri X Securities Firm did not report customer defaults within the time limit, which violated Article 2 of the "Taipei Exchange Directions for Securities Brokers Reporting Delayed Settlement and Default by Customers." Therefore, the TPEX issued a letter of warning and requesting for corrections.

(2) Measures of securities firms in terms of deficiencies in financial and business operations:

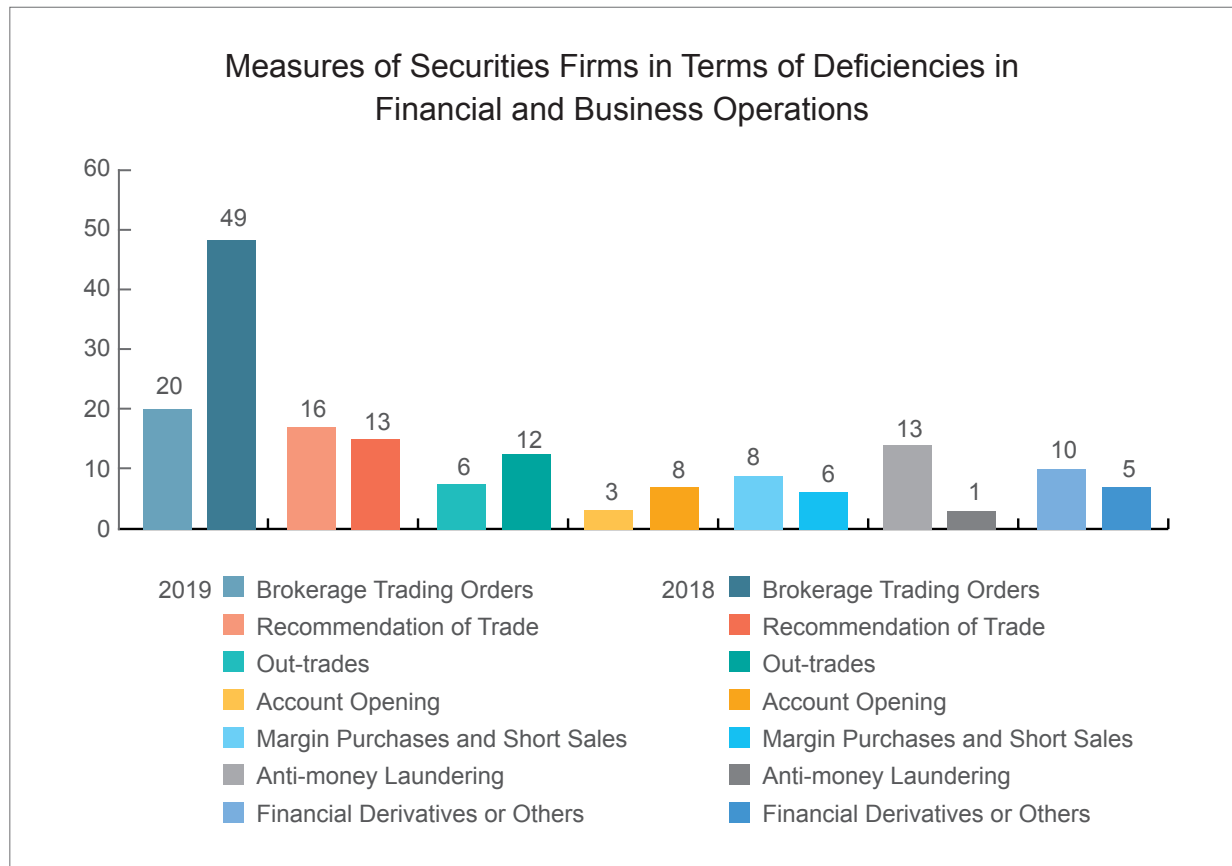
### 2019

Type of Violation	Measure	TWSE	TPEX	Total
Regulations governing brokerage trading orders	Issuance of warning and request for correction	7 cases	8 cases	20 cases
	Issuance of warning and request for correction and imposition of penalties	4 cases	1 case	
Regulations governing recommendation of trade in securities and securities borrowing and lending	Issuance of warning and request for correction	13 cases	1 case	16 cases
	Issuance of warning and request for correction and imposition of penalties	1 case	1 case	
Regulations governing out-trades	Issuance of warning and request for correction	4 cases	1 case	6 cases
	Issuance of warning and request for correction and imposition of penalties	1 case	0 case	
Regulations governing account opening	Issuance of warning and request for correction	2 cases	1 case	3 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	
Regulations governing margin purchases and short sales	Issuance of warning and request for correction	1 case	7 cases	8 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	
Regulations governing anti-money laundering and combating the financing of terrorism	Issuance of warning and request for correction	7 cases	6 cases	13 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	
Regulations governing financial derivatives or other business operations	Issuance of warning and request for correction	0 case	8 cases (Note)	10 cases
	Issuance of warning and request for correction and imposition of penalties		2 cases	

Note: Including deficiencies in securities dealing, bonds, and information security.

## 2018

Type of Violation	Measure	TWSE	TPEX	Total
Regulations governing brokerage trading orders	Issuance of warning and request for correction	24 cases	15 cases	49 cases
	Issuance of warning and request for correction and imposition of penalties	5 cases	5 cases	
Regulations governing recommendation of trade in securities and securities borrowing and lending	Issuance of warning and request for correction	12 cases	0 case	13 cases
	Issuance of warning and request for correction and imposition of penalties	1 cases		
Regulations governing out-trades	Issuance of warning and request for correction	8 cases	3 cases	12 cases
	Issuance of warning and request for correction and imposition of penalties	1 cases	0 case	
Regulations governing account opening	Issuance of warning and request for correction	7 cases	1 cases	8 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	0 case	
Regulations governing margin purchases and short sales	Issuance of warning and request for correction	4 cases	1 case	6 cases
	Issuance of warning and request for correction and imposition of penalties	0 case	1 case	
Regulations governing anti-money laundering and combating the financing of terrorism	Issuance of warning and request for correction	1 cases	0 case	1 case
	Issuance of warning and request for correction and imposition of penalties	0 case		
Regulations governing financial derivatives or other business operations	Issuance of warning and request for correction	0 case	5 cases	5 cases
	Issuance of warning and request for correction and imposition of penalties		0 case	



**Brief analysis:** Today, the brokerage business remains the main source of income for securities firms in Taiwan. According to the table above, deficiencies in the brokerage business of securities were significantly reduced as a result of the audits conducted by the TWSE and TPEX and corrections made by securities firms. In 2019, anti-money laundering, network and system security, and information security were the priorities in the audit on the securities and futures markets, so more cases of deficiencies were found.

**Cases:**

- (1) From 2005 to 2007 and 2013 to 2016, Chiu XX, an associated person of Chun XXX Securities Company, Hsinchu Branch, continuously borrowed from customers and remitted the borrowed money to his/her bank account and his/her relatives' for buying and selling securities, which violated the "Operating Rules of the Taiwan Stock Exchange Corporation." The TWSE issued a warning letter and requested improvement, plus imposed a default fine of NT\$50,000; in addition, the TWSE requested Chun XXX Securities Company to have the associated person suspended for five months.

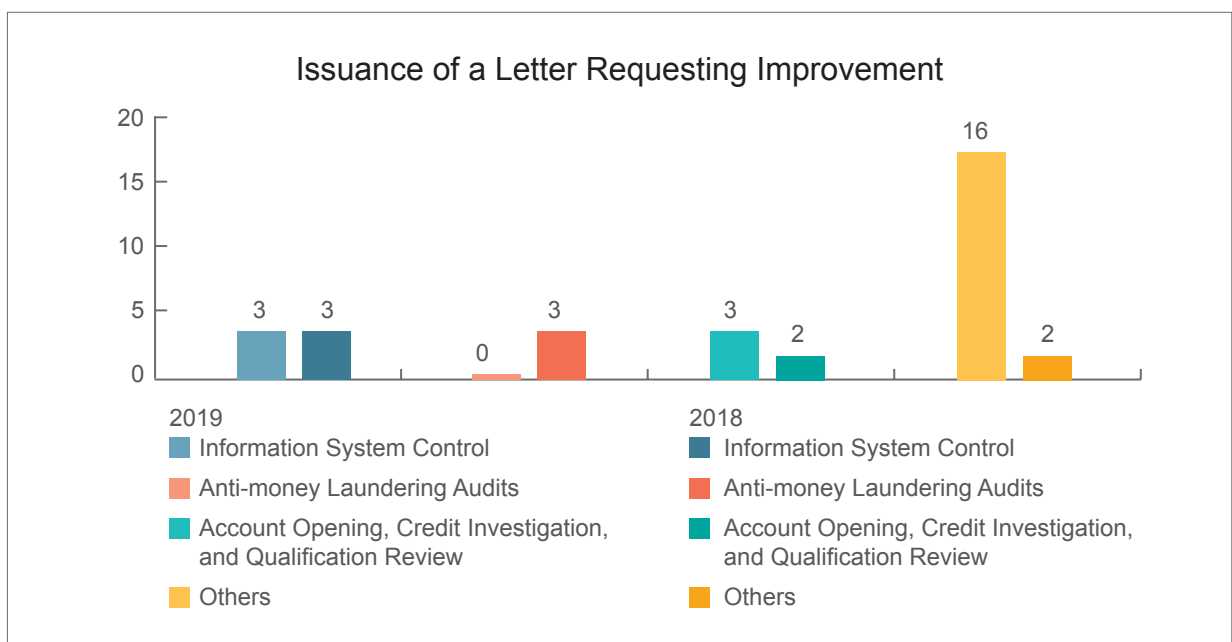


- (2) Chiang XX, an associated person of The Cxxxxx Securities Company, Xisong Branch, enticed customers to buy a fictitious product, PGN, with a high interest rate, borrowed from customers, falsified transaction vouchers, and sold stocks fraudulently. As the responsible treasurers and managers of The Cxxxxx Securities Company did not keep the company seals or personal seals properly, Chiang XX took advantage of it and falsified transaction vouchers successfully. The aforesaid persons of The Cxxxxx Securities Company violated the "Rules Governing Securities Trading on the TPEX." Therefore, the TPEX issued a letter of warning and request for corrections on internal controls and internal audits and imposed a penalty of NT\$200,000; in addition, the TPEX requested The Cxxxxx Securities Company to warn or halt related associated persons execution of business for a period between one month to six months, depending on the seriousness of the violations.

## 2. Measures of futures commission merchants:

### (1) Issuance of a letter requesting improvement:

Type of Violation	2019	2018
Information system control	3 cases	3 cases
Anti-money laundering audits	0 case	3 cases
Account opening, credit investigation, and qualification review	3 cases	2 cases
Others	16 cases	2 cases



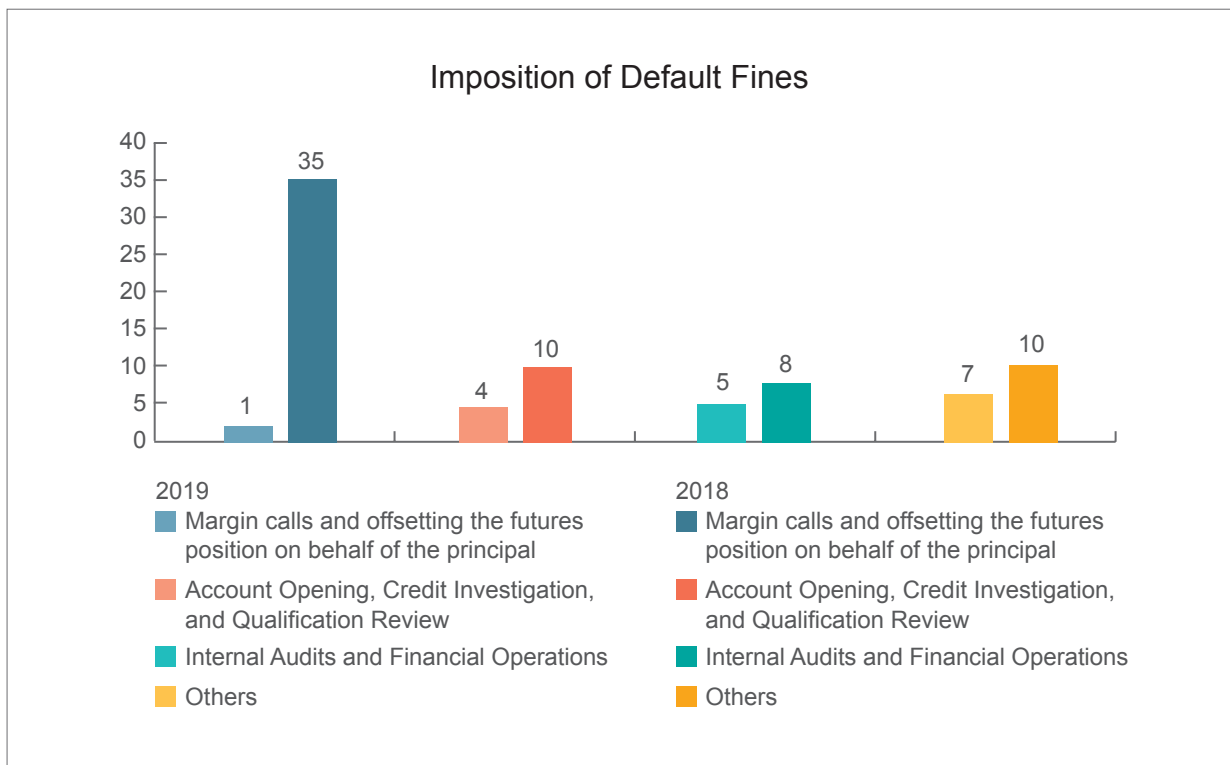
**Brief analysis:** In 2018 and 2019, due to violations of Article 125 or 126 of the "Operating Rules of the Taiwan Futures Exchange Corporation" by futures commission merchants, TAIFEX issued 10 and 22 letters requesting improvement, respectively.

**Cases:**

- (1) The traders' charges for options trading were inconsistent with those declared by Kang X Futures Company to the Chinese National Futures Association, which violated the "Operating Rules of the Taiwan Futures Exchange Corporation." In 2019, TAIFEX issued Kang X Futures Company a letter requesting improvement.

(2) Imposition of default fines:

Type of Violation	2019	2018
Margin calls and offsetting the futures position on behalf of the principal	1 case	35 cases
Account opening, credit investigation, and qualification review	4 cases	10 cases
Internal audits and financial operations	5 cases	8 cases
Others	7 cases	10 cases



**Brief analysis:** In 2018 and 2019, 63 and 17 cases with respect to default fines imposed by TAIFEX on futures commission merchants for violating Article 126 or 127 of the "Operating Rules of the Taiwan Futures Exchange Corporation" were reported.

**Cases:**

- (1) When Da X Futures Company conducted pre-account opening for traders outside its place of business, the staff member responsible for account opening did not work with the associated person on-site, which violated the "Operating Rules of the Taiwan Futures Exchange Corporation." In 2019, TAIFEX imposed a default fine of NT\$10,000 on Da X Futures Company accordingly.

## II. Administrative Sanctions Imposed by the SFB

The violations of Article 22-2 or 25 of the "Securities and Exchange Act" with respect to the registration of insiders' shareholding accounted for the highest percentage of the administrative sanctions imposed by the SFB. In 2018 and 2019, 107 and 149 cases were reported. The violations of Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act" with respect to financial statements accounted for the second-highest percentage of the administrative sanctions imposed by the SFB. In 2018 and 2019, 34 and 32 cases were reported. The violations of Article 65 and Subparagraph 1, Article 66 of the "Securities and Exchange Act" with respect to internal controls of securities firms accounted for the third highest percentage of the administrative sanctions imposed by the SFB. In 2018 and 2019, 29 and 17 cases were reported.

Table 1: Administrative Sanctions Imposed by the SFB

Violation Type		Legal Basis	2019 (Number of Violations)	2018 (Number of Violations)
<b>A1</b>	Acquisition or disposition of assets	Article 36-1 of the "Securities and Exchange Act"	9	19
<b>A2</b>	Material information	Subparagraph 2, Paragraph 3, Article 36 of the "Securities and Exchange Act"	3	3
<b>A3</b>	Regulations governing appointment of independent directors and regulations governing procedures for board of directors' meetings	Paragraphs 1 and 5, Article 14-2, Article 14-3, and Paragraphs 7 and 8, Article 26-3 of the "Securities and Exchange Act"	7	10
<b>B1</b>	Internal controls of securities firms	Articles 65, 66, and 178-1 of the "Securities and Exchange Act"	17	29
<b>B2</b>	Securities brokerage	Article 23 of the "Computer-processed Personal Data Protection Act"	0	0

	Violation Type	Legal Basis	2019 (Number of Violations)	2018 (Number of Violations)
B3	Employees of securities firms	Articles 56, 178, and 179 of the "Securities and Exchange Act"	14	9
B4	Money Laundering Control Act	Paragraph 5, Article 7 of the "Money Laundering Control Act"	4	7
C1	Registration of insiders' shareholding	Article 22-2 or 25 of the "Securities and Exchange Act"	149	107
C2	Acquisition of large shareholding	Paragraph 1, Article 43-1 of the "Securities and Exchange Act"	5	4
C3	Tender offer	Paragraph 4, Article 43-1 and Article 43-3 of the "Securities and Exchange Act"	1	0
C4	Share repurchase	Article 28-2 of the "Securities and Exchange Act"	16	8
C5	Proxy for the attendance of a shareholders' meeting	Article 25-1 of the "Securities and Exchange Act"	1	3
D1	Internal controls of securities investment trust enterprises and securities investment consulting enterprises	Articles 7 and 93 of the "Securities Investment Trust and Consulting Act"	16	21
D2	Securities investment trust business	Article 17 of the "Securities Investment Trust and Consulting Act"	0	1
D3	Securities investment consulting business	Articles 4 and 70 of the "Securities Investment Trust and Consulting Act"	0	0
D4	Employees of securities investment trust enterprises and securities investment consulting enterprises	Article 69 of the "Securities Investment Trust and Consulting Act"	5	0
D5	Offshore funds	Article 16 of the "Securities Investment Trust and Consulting Act"	0	0
D6	Disclosure of financial information of securities investment trust enterprises and securities investment consulting enterprises	Article 99 of the "Securities Investment Trust and Consulting Act"	0	0
D7	Financial and business inspections of securities investment trust enterprises and securities investment consulting enterprises	Article 101 of the "Securities Investment Trust and Consulting Act"	0	0
E1	Extension of loans or endorsements/ guarantees	Article 36-1 of the "Securities and Exchange Act"	14	8

Violation Type		Legal Basis	2019 (Number of Violations)	2018 (Number of Violations)
E2	Financial statements	Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"	32	34
E3	Accounting officers	Paragraph 3, Article 14 of the "Securities and Exchange Act"	6	1
E4	Certified public accountants	Articles 11, 41, 61, 62, 68, 70, and 71 of the "Certified Public Accountant Act"	15	5*
E5	Registration of the operating status	Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act"	4	0
E6	Internal control systems	Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"	4	5
F1	Futures commission merchants and leverage transaction merchants	Articles 56 and 80 of the "Futures Trading Act"	16	11
F2	Futures services	Articles 82 and 85 of the "Futures Trading Act"	6	4
F3	Employees of futures commission merchants	Articles 61, 80 and 82 of the "Futures Trading Act"	4	4
-	Others		9	0

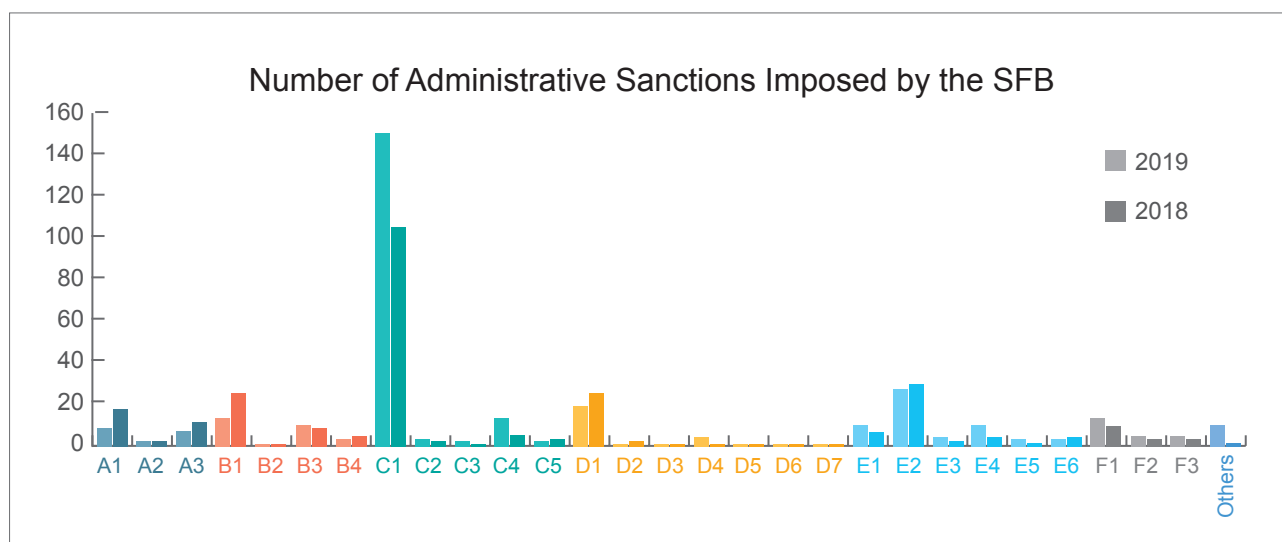
**Total**

**357**

**293**

\* In 2019, sanctions on certified public accountants were included in E4, and are presented by the number of non-conforming certified public accountants. Five non-conforming certified public accountants in 2018 were added retrospectively.

\* In 2019, other types of violations included violations of the regulations governing the time limit for disclosing and declaring annual reports, the "Company Act" regarding the nomination of candidates for directors, and the "Act Governing Relations between the People of the Taiwan Area and the Mainland Area."



## (I) Administrative Sanctions of TWSE/TPEX Listed Companies

### 1. A1: Article 36-1 of the "Securities and Exchange Act"

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" adopted in accordance with Article 36-1 of the "Securities and Exchange Act." A total of nine cases of such violation were reported, including: (1) delay of announcements or failure to make announcements according to the regulations (five cases); (2) failure to seek opinions from external experts (three cases); and (3) others (one case).

#### Case of violation:

In 2019, Tien X Company acquired intangible assets from related parties; however, Tien X Company neither submitted the certified public accountant's opinion on the reasonableness of transaction prices or a professional appraiser's report that should be obtained prior to the date of occurrence, the reason for the selection of the related parties, and other relevant information to the board of directors for approval and supervisors for adoption according to the regulations before signing contracts nor made an announcement of the acquisition of real estate from related parties in a given format within two days from the board of directors' resolution. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Tien X Company.

### 2. A2: Subparagraph 2, Paragraph 3, Article 36 of the "Securities and Exchange Act"

**Brief analysis:** According to Subparagraph 2, Paragraph 3, Article 36 of the "Securities and Exchange Act," public companies shall publicly announce any event which has a material impact on shareholders' rights and interests or securities prices within two days from the date of occurrence. In 2019, the FSC imposed administrative sanctions on three cases of the aforesaid violation. The main type of such violations was the failure to announce changes in the president, litigation or non-litigious matters, or administrative sanctions within a specific deadline (two days from the date of occurrence).

**Case of violation:**

The checks of the president of Chang X Company were dishonored due to insufficient deposits, subjecting the president to mandatory discharge in accordance with Subparagraph 5, Article 30 of the "Company Act"; however, Chang X Company failed to make an announcement within two days from the date of occurrence. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Chang X Company.

**3. A3: Paragraphs 1 and 5, Article 14-2, Article 14-3, and Paragraphs 7 and 8, Article 26-3 of the "Securities and Exchange Act"**

**Brief analysis:** According to Paragraph 7, Article 26-3 of the "Securities and Exchange Act," when the number of directors falls short by one-third of the total number prescribed by the articles of incorporation, public companies shall convene a special shareholders' meeting within 60 days to hold a by-election for directors. In 2019, the FSC imposed sanctions on one case with respect to failure to hold a by-election for directors according to the regulations. In addition, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies" adopted in accordance with Paragraph 8, Article 26-3 of the "Securities and Exchange Act." A total of six cases of such violation were reported, including: (1) directors' failure to enter recusal (two cases) and (2) failure to send a notice of the board of directors' meeting seven days in advance (four cases).

**Case of violation:**

- (1) In 2018, the board of directors of Da X Company resolved to acquire real estate from Kuo X Company and loan to Kuo X Company. One director of Da X Company was also a director and shareholder of Kuo X Company, and two directors of Da X Company were the employees of Kuo X Company. These directors had interests in the board's meeting agenda mentioned above, but none of them explained their interests of concern in the meeting; the minutes at the board meeting did not record the names of the directors and their interests of concern. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Da X Company.

- (2) He X Company held the board meetings on July 21, August 9, September 1, October 2, November 8, and December 27, 2017 and April 2, 2018. As not all of the meetings were convened for pressing business matters, He X Company did not specify the reason for convention and notify the directors seven days in advance. Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of He X Company.

#### 4. C1: Article 22-2 or 25 of the "Securities and Exchange Act"

**Brief analysis:** In 2019, the FSC imposed sanctions on insiders (including their spouses and minor children and those holding shares under the names of other parties) of public companies who violated Article 22-2 or 25 of the "Securities and Exchange Act." A total of 149 cases of such violation were reported, including: (1) transfer of stocks in a centralized securities exchange market or an over-the-counter market within six months from the assumption of office; (2) failure to register the transfer of shares in advance; (3) failure to register the forced sale or auction of stocks by financial institutions or courts in advance; (4) failure to register the actual number of shares held due to error or omission; and (5) failure to register the changes in the number of shares held by their spouses and minor children and those holding shares under the names of other parties.

#### **Case of violation:**

- (1) On XX, 2019, the managerial officer of Shen X Company transferred 12,000 shares of Shen X Company in the centralized securities exchange market but failed to register the transfer of shares in advance in accordance with Article 22-2 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$240,000.
- (2) From 2016 to 2018, the chairman of Yi X Company held the company's shares under the names of Chen XX and Chen XX but failed to register the ownership and trading of Yi X Company's shares under those other names, which violated Article 25 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$420,000.



#### 5. C2: Paragraph 1, Article 43-1 of the "Securities and Exchange Act"

**Brief analysis:** 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 register and disclose such a matter to the competent authority; the same applies to changes in the registrations, if any. In 2019, the FSC imposed administrative sanctions on five cases of the aforesaid violation. The main type of such violation was investors' failure to register the ownership of more than 10% of the total issued shares of public companies or the changes by 1% within a specific deadline.

#### **Case of violation:**

In 2018, Jia XX first acquired more than 10% of the total issued shares of Chun X Company. In 2019, Jia XX continued to acquire the shares, causing a 1% change in both the number of shares and the percentage of shares held by Jia XX, but Jia XX failed to register the acquisition of more than 10% of the shares within 10 days from the date of acquisition and the changes within two days from the date of occurrence. Therefore, the FSC imposed a fine of NT\$600,000 on Jia XX.

#### 6. C3: Paragraph 4, Article 43-1 and Article 43-3 of the "Securities and Exchange Act"

**Brief analysis:** In 2019, public companies whose securities were being acquired violated Paragraph 4, Article 43-1 of the "Securities and Exchange Act" and the "Regulations Governing Public Tender Offers for Securities of Public Companies" adopted in accordance with Paragraph 4, Article 43-1 of the "Securities and Exchange Act"; the FSC imposed sanctions on one case of such violation. When receiving the offeror's public tender offer report form, public tender offer prospectus, and relevant documents declared and disclosed in accordance with the regulations, the public company whose securities were being acquired did not report the prescribed matters in writing to the FSC.

#### Case of violation:

On XX, 2019, Yong X Company received the offeror's public tender offer report form, public tender offer prospectus, and relevant documents declared and disclosed in accordance with the regulations, but did not report the prescribed matters in writing to the FSC until XX, 2019, which violated Paragraph 1, Article 14 of the "Regulations Governing Public Tender Offers for Securities of Public Companies." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Yong X Company.

#### 7. C4: Article 28-2 of the "Securities and Exchange Act"

**Brief analysis:** In 2019, the FSC imposed sanctions on TWSE/TPEX listed companies which violated Article 28-2 of the "Securities and Exchange Act" and the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies" adopted in accordance with Article 28-2 of the "Securities and Exchange Act." A total of 16 cases of such violation were reported, including: (1) failure to report the board of directors' resolution to repurchase shares and the implementation thereof in the most recent shareholders' meeting; (2) providing price quotations for the shares to be repurchased prior to the beginning of trading hours at a centralized securities exchange market or an over-the-counter market; (3) directors selling their shares during the repurchase; and (4) failure to announce the total shares repurchased exceeding 2% of the total issued shares or NT\$300 million within two days.

#### Case of violation:

- (1) Based on the board of directors' resolution in 2018, Ping X Company planned to repurchase its shares between 2018 and 2019. The total shares repurchased exceeded 2% of the total issued shares, but Ping X Company failed to announce it, which violated Article 3 of the "Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies." Therefore, the FSC imposed a fine of NT\$300,000 on the person in charge of Ping X Company in 2019.
- (2) Based on the board of directors' resolution in 2018, Guang X Company planned to repurchase its shares in 2018. Guang X Company commissioned a securities broker to repurchase its shares before the market opened, which violated Paragraph 1, Article 7 of the "Regulations Governing Share

Repurchase by Exchange-Listed and OTC-Listed Companies." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Guang X Company in 2019.

#### 8. C5: Article 25-1 of the "Securities and Exchange Act"

**Brief analysis:** The "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" adopted in accordance with Article 25-1 of the "Securities and Exchange Act" specify the qualifications of solicitors, proxy agents, and companies mandated to handle solicitation matters, the solicitation and acquisition of proxies, and matters with which companies holding a shareholders' meeting shall comply. In 2019, the FSC imposed the administrative sanctions on one case of the aforesaid violation. The main type of such violation was that the employee of a company was not a solicitor, but he/she instructed the shareholders by telephone to sign the proxies and mail them back or authorize him/her to attend the shareholders' meeting.

#### **Case of violation:**

For the shareholders' meeting held by T X Company in 2019, the employee of T X Company was not a solicitor, but he/she instructed the shareholders by telephone to sign the proxies and mail them back or authorize him/her to attend the shareholders' meeting, which violated Paragraph 1, Article 5, Paragraph 1, Article 6, and Paragraph 6, Article 7 of the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies." Therefore, the FSC imposed a fine of NT\$240,000 on the employee of T X Company.

#### 9. E1: Article 36-1 of the "Securities and Exchange Act"

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" adopted in accordance with Article 36-1 of the "Securities and Exchange Act." A total of 14 cases of such violation were reported, including: (1) excess of loans or endorsements/guarantees (three cases); (2) failure to collect short-term loans overdue for more than one year (six cases); (3) failure to make announcements according to the regulations (four cases); and (4) non-conforming operating procedures (one case).

**Case of violation:**

On May 11, 2018, the board of directors of Lei X Company resolved to reclassify prepayments to the subsidiary as a loan, which had not been collected for more than one year. Therefore, the FSC imposed a fine of NT\$240,000 on the employee of Lei X Company.

**10. E2: Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act"**

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated Subparagraphs 1 and 2, Paragraph 1 and Paragraph 2, Article 36 of the "Securities and Exchange Act." A total of 32 cases of such violation were reported for failure to register (restate) financial statements according to the regulations.

**Case of violation:**

As of June 30, 2019, Bao X Company's finances indicated the major uncertainties of its business continuity, but the notes to the financial reports did not disclose such uncertainties; therefore, its certified public accountant issued a review report with a qualified conclusion. The FSC issued a letter requesting Bao X Company to restate its financial reports, but it failed to do so within the prescribed time limit. The FSC imposed a fine of NT\$240,000 on the person in charge of Bao X Company accordingly.

**11. E3: Paragraph 3, Article 14 of the "Securities and Exchange Act"**

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated Paragraph 3, Article 14 of the "Securities and Exchange Act" and the "Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges." A total of six cases of such violation were reported for the principal accounting officers' non-compliance with qualification requirements.

**Case of violation:**

The principal accounting officer of Wang X Company did not meet the qualification requirements set forth in Article 3 of the "Regulations Governing the Qualification Requirements and Professional Development of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges" but still sealed the financial statements for the six-month period ended June 30, 2019. Therefore, the FSC imposed a fine of NT\$240,000 on this person in charge of Wang X Company.

**12. E4: Articles 11, 41, 61, 62, 68, 70, and 71 of the "Certified Public Accountant Act"**

**Brief analysis:** In 2019, the FSC imposed sanctions on certified public accountants who violated Articles 11, 41, 61, 62, and 68 of the "Certified Public Accountant Act." A total of 15 cases of such violation were reported for the certified public accountants' failure to conduct financial statement audits in accordance with the regulations.

**Case of violation:**

Certified public accountants Wang, X- Chun and Cho, X-Chuan were engaged to audit Jia X Company's financial statements for 2014, but neither audited the internal control system for revenue properly, nor did they adopt alternative audits for those who had not replied to the accounts receivable confirmation letter. Therefore, they were suspended from practices for two months.

**13. E5: Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act"**

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated Subparagraph 3, Paragraph 1, Article 36 of the "Securities and Exchange Act." A total of four cases of such violations were reported for failure to announce and declare the operations according to the regulations.

**Case of violation:**

Hung X Company failed to announce and declare its operations in the previous month before May 10, 2019. Therefore, the FSC imposed a fine of \$240,000 on the person in charge of Hung X Company.

**14. E6: Paragraphs 2 and 3, Article 14-1 of the "Securities and Exchange Act"**

**Brief analysis:** In 2019, the FSC imposed sanctions on the persons in charge of public companies who violated the "Regulations Governing Establishment of Internal Control Systems by Public Companies" adopted in accordance with Article 14-1 of the "Securities and Exchange Act." A total of four cases of such violations were reported for failure to register the annual audit plan and the internal control system statement according to the regulations.

**Case of violation:**

As Le X Company failed to register the 2019 audit plan by the end of 2018, the FSC imposed a fine of NT\$240,000 on the person in charge of Le X Company.

**15. Others**

**Case of violation:**

- (1) Hua X Company held the annual shareholders' meeting on June 27, 2019, but failed to declare the annual report seven days prior to the shareholders' meeting, which violated the "Regulations Governing Information to be Published in Annual Reports of Public Companies" adopted in accordance with Paragraph 4, Article 36 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Hua X Company.
- (2) In February 2019, the total number of shares held by all directors and supervisors of Ching X Company was less than the prescribed percentage, but Ching X Company neither requested the whole of the directors or supervisors other than independent directors to rectify the situation before March 16, 2019, nor notified the competent authority, which violated Paragraph 2, Article 5 of the "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" adopted in accordance with Paragraph 1, Article 26 of the "Securities and Exchange Act." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Ching X Company.

- (3) Cheng X Company requested shareholders to propose a list of candidates for directors and supervisors, along with a certificate of balance of securities trading account proving 1% shareholding, within the given time limit; however, Cheng X Company did not include the candidates proposed by the shareholders, which violated Paragraph 1, Article 216-1 of the "Company Act" that applies mutatis mutandis to Paragraph 5, Article 192-1 of the "Company Act." Therefore, the FSC imposed a fine of NT\$240,000 on the person in charge of Cheng X Company.

## (II) Administrative Dispositions of Intermediaries

1. B1: Article 65, Subparagraph 1, Article 66, or Article 178-1 of the "Securities and Exchange Act"

**Brief analysis:** According to Article 65 or Subparagraph 1, Article 66 of the "Securities and Exchange Act," the FSC imposed administrative sanctions on the securities firms which violated the "Securities and Exchange Act" or orders issued in accordance with the "Securities and Exchange Act." A total of 17 cases of such violation were reported in 2019, including: (1) failure to implement internal controls (nine cases); (2) associated persons' violation of securities laws and regulations due to poor supervision (five cases); and (3) poor supervision of subsidiaries (three cases).

### Case of violation:

De X Securities Company and its person in charge had poor supervision of its subsidiary, De X Venture Capital Co., Ltd. (hereinafter referred to as "De X Venture Capital"), including failure to implement the measures set in the internal control system and risk analysis and management for principal investment. Therefore, the FSC imposed the following sanctions: ordering De X Securities Company to remove its then chairman and directors from their office in accordance with Subparagraph 2, Article 66 of the "Securities and Exchange Act"; imposing a fine of NT\$240,000 in accordance with Subparagraph 4, Paragraph 1, Article 178-1 of the "Securities and Exchange Act"; and ordering De X Securities Company to submit a review report, issued by a non-contracted CPA, on its supervision of subsidiaries and internal controls over securities trading in accordance with Article 33 of the "Regulations Governing

the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" and Subparagraph 5, Article 66 of the "Securities and Exchange Act." In addition, the FSC also required that De X Securities Company should not increase investment in or engage in loans or endorsements/guarantees with its subsidiaries, nor should its subsidiaries De X Venture Capital and De XXX Venture Capital Management Consulting Co., Ltd. increase their investment before the issuance of the CPA's opinion on the design and implementation of its internal control system.

## 2. B3: Articles 56, 178-1, and 179 of the "Securities and Exchange Act"

**Brief analysis:** According to Article 56 of the "Securities and Exchange Act," if any director, supervisor, or employee of a securities firm is found to have committed any act which violates the "Securities and Exchange Act" or another related act or regulation, the competent authority may order the said securities firm to suspend business operation of such person for not more than one year or discharge such person. In 2019, the FSC imposed 14 sanctions on the associated persons of securities firms due to the violations of the regulations, including: (1) fraud or any other acts which are sufficient to mislead customers; (2) acceptance of customers' full authorization; (3) trading of securities with customers' accounts; and (4) trading of securities under the names of relatives.

### Case of violation:

When performing duties, Chiang XX, an associated person of Chun X Securities Company, concealed information, deceived, or acted to mislead customers, embezzled or kept securities or seals on behalf of customers, borrowed from customers, misappropriated seals of the branches and staff of all levels, and forged transaction vouchers. Therefore, the FSC ordered Chun X Securities Company to have Chiang XX discharged.

## 3. B4: Paragraph 5, Article 7 of the "Money Laundering Control Act"

**Brief analysis:** According to Article 7 of the "Money Laundering Control Act," financial institutions shall undertake customer due diligence measures to verify the identity of customers and retain their identification information, and shall conduct enhanced customer due diligence measures for customers who are



politically exposed persons currently or previously entrusted with prominent public functions by domestic or foreign governments, as well as their family members and close associates. The competent authority may impose a fine of between NT\$500,000 and NT\$10 million on financial institutions failing to verify the identity of customers in accordance with the aforesaid regulations. In 2019, the FSC imposed four sanctions on securities firms due to the violations of the aforesaid money laundering control regulations, including: (1) failure to conduct enhanced customer due diligence measures for customers with high risk; (2) failure to take appropriate measures to identify and verify the beneficiary owners of customers; (3) failure to establish policies and procedures for checking the names of customers and counterparties or failure to implement name- checks; and (4) failure to check some types of trading suspected to be money laundering or terrorism financing or failure to keep records of the checks.

#### Case of violation:

As Kuo X Securities Company had the following deficiencies in the operation of anti-money laundering and terrorism financing, the FSC imposed a fine of NT\$500,000 in accordance with the "Money Laundering Control Act" and issued a warning in accordance with Subparagraph 1, Article 66 of the "Securities and Exchange Act": (1) failure to conduct customer due diligence measures for establishing a business relationship with customers; (2) failure to review the resumption of transactions by inactive accounts; (3) failure to conduct periodic review on customers with high risk for more than one year; (4) failure to keep records of the checks on the names of customers; and (5) failure to keep records of continuous monitoring on accounts and transactions.

#### 4. D1: Articles 7 and 93 of the "Securities Investment Trust and Consulting Act"

**Brief analysis:** In 2019, the FSC imposed sanctions on the securities investment trust enterprises and securities investment consulting enterprises which violated the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" adopted in accordance with Articles 7 and 93 of the "Securities Investment Trust and Consulting Act." A total of 16 cases of such violation were reported, including: (1) deficiencies in the management of sales agency training and channel remunerations (five cases); (2) failure to implement the operating procedures for controlling money

laundering and countering terrorism financing (six cases); (3) absence of reasonable analysis bases and grounds in the investment analysis report (three cases); and (4) deficiencies in discretionary investment (two cases).

**Case of violation:**

- (1) Hung X Securities Investment Trust Company did not establish proper audit procedures, mechanisms or criteria for sales agency training, channel remunerations, and other remunerations; when organizing activities through travel agencies, Hung X Securities Investment Trust Company verified the travel agencies' receipts directly without keeping records of price inquiries and comparisons. To this end, the FSC issued a warning requesting rectification.
- (2) When assessing the risk of money laundering and terrorism financing, Xin X Securities Investment Trust Company did not include some risk factors or characteristics; the customer master data for customer due diligence and know your customer (KYC) were not complete. To this end, the FSC issued a warning requesting rectification.
- (3) Tong X Securities Investment Consulting Company proposed to buy and sell the same stock on the same day and issued the same investment analysis report on different stocks without reasonable bases and grounds, which violated Paragraph 1, Article 11 of the "Operating Rules of Securities Investment Consulting Enterprises." To this end, the FSC issued a warning requesting rectification.
- (4) When conducting discretionary investment, Fu X Securities Investment Trust Company traded beyond its authority, indicated the deficiencies in its risk monitoring measures and ineffective internal controls. To this end, the FSC issued a warning requesting rectification.

**5. D4: Article 69 of the "Securities Investment Trust and Consulting Act"**

**Brief analysis:** According to Article 69 of the "Securities Investment Trust and Consulting Act," the competent authority shall prescribe regulations governing personnel requirements, qualification requirements for responsible persons and associated persons, codes of conduct, training, registration deadlines, procedures, and other compliance requirements for securities investment trust enterprises and securities investment consulting enterprises. In 2019, the FSC imposed administrative sanctions on five cases for violation of the aforesaid regulations, including a case regarding the department head of a securities investment trust enterprise who traded in stocks in violation of the regulations

and did not declare the trading in accordance with the regulations, and four cases regarding the associated persons of securities investment consulting enterprises who were not full-time.

**Case of violation:**

- (1) From November 2010 to October 2018, the former head of the audit department of Tong X Securities Investment Trust Company used the accounts of others to buy and sell stocks and traded in a variety of TWSE/TPEX listed stocks that were part of the funds managed by Tong X Securities Investment Trust Company, but did not declare such trading activities in accordance with the regulations, which violated Paragraphs 1 and 2, Article 77 of the "Securities Investment Trust and Consulting Act" and Paragraphs 1 and 2, Article 14 of the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Trust Enterprises." Therefore, the FSC issued a warning requesting rectification and ordered Tong X Securities Investment Trust Company to suspend the former head of the audit department from practices for a year.
- (2) Yu XX, an associated person, and Liu XX, the then head of finance and accounting department of Kao X Securities Investment Consulting Company respectively served as the director and the chairman of other companies concurrently, which violated the provision of Paragraph 1, Article 6 of the "Regulations Governing Responsible Persons and Associated Persons of Securities Investment Consulting Enterprises" that the president, department supervisors, and associated persons of a securities investment consulting enterprise shall serve as full-time employees. Therefore, the FSC ordered Kao X Securities Investment Consulting Company to suspend the aforesaid persons from practices for two months and imposed a fine of NT\$600,000 on Kao X Securities Investment Consulting Company.

**6. F1: Paragraph 5, Article 56 of the Futures Trading Act**

**Brief analysis:** In 2019, the FSC imposed sanctions on the FCMs who violated the "Regulations Governing Futures Commission Merchants" adopted in accordance with Paragraph 5, Article 56 of the "Futures Trading Act." A total of 16 violation cases were reported, including: (1) failure to process account

opening for the principal aged 70 or above in accordance with the regulations (one case); (2) failure to send notification of high-risk accounts according to the principal's instructions (one case); (3) offsetting futures positions on behalf of the principals before sending notification of high-risk accounts (five cases); (4) failure to offset all futures positions on behalf of the principals in accordance with the regulations (three cases); (5) failure to offset futures positions on behalf of the principals according to the account risk management criteria (one case); (6) failure to review the principal's qualifications for standard portfolio analysis of risk (SPAN) (one case); and (7) inconsistency between business operations and internal controls (four cases).

**Case of violation:**

While operating brokerage of futures trading with the FSC's approval, Hua X Futures Company offset futures positions on behalf of the principal before sending notification of the high-risk account. To this end, the FSC imposed a fine of NT\$240,000 on Hua X Futures Company.

**7. F2: Paragraph 3, Article 82 of the Futures Trading Act**

**Brief analysis:** In 2019, the FSC imposed sanctions on the futures service enterprises or their employees who violated the "Regulations Governing Futures Advisory Enterprises" and the "Regulations Governing the Operation of Futures Introducing Broker Business by Securities Firms" adopted in accordance with Paragraph 3, Article 82 of the "Futures Trading Act." A total of six cases of such violation were reported, including: (1) failure to notify the principal of offsetting results (one case); (2) non-conforming processing of SPAN (one case); (3) failure to check the online abnormal transactions of the principals with the same IP and take effective control measures (one case); (4) absence of the staff member responsible for account opening during pre-account opening outside the premise (one case); (5) account opening staff member's failure to engage in futures trading via the intranet (one case); and (6) inconsistency between pre-account opening for corporate customers outside the premise and internal controls (one case).

#### Case of violation:

While operating futures introducing broker business with the FSC's approval, Kuo X Securities Company did not notify the principals of the results after offsetting the futures positions. Therefore, the FSC imposed a fine of NT\$120,000 on Kuo X Securities Company.

#### 8. F3: Article 61 of the Futures Trading Act

**Brief analysis:** In 2019, the FSC requested futures commission merchants to suspend their employees who violated the "Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants" adopted in accordance with Article 61 of the "Futures Trading Act." A total of four cases of such violation were reported, including: (1) provision of trading advice for the principal (one case); (2) trading in futures using the principal's account (one case); and (3) absence of the staff member responsible for account opening during pre-account opening outside the premise (two cases).

#### Case of violation:

While operating futures brokerage business with the FSC's approval, the associated person of Yuan X Futures Company, Chen, provided trading advice for principals, which violated the provisions that responsible persons and associated persons of futures commission merchants shall not make recommendations for trading to futures traders in any way. Therefore, the FSC requested Chun X Futures Company to suspend Chen for a month.

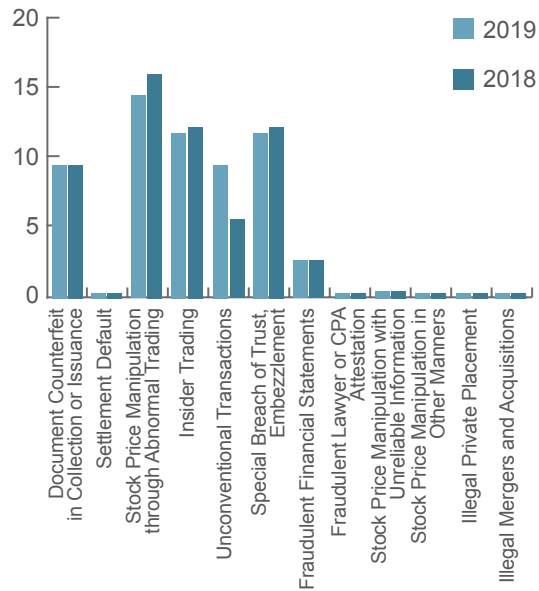
### III. Investigation of Criminal Liability

According to the statistics of the Investigation Bureau, Ministry of Justice, stock price manipulation through abnormal trading accounted for the largest percentage of the violations of the "Securities and Exchange Act," totaling to 14 and 16 cases in 2019 and 2018. In 2019, the largest number of suspects was involved in a special breach of trust and embezzlement, totaling to 72. In 2018, the highest number of suspects was involved in stock price manipulation through abnormal trading, totaling to 61. In 2019, the biggest amount of money was involved in a special breach of trust and embezzlement, reaching NT\$4.95 billion. In 2018, the biggest amount of money was involved in fraudulent financial statements, reaching NT\$10.79 billion.

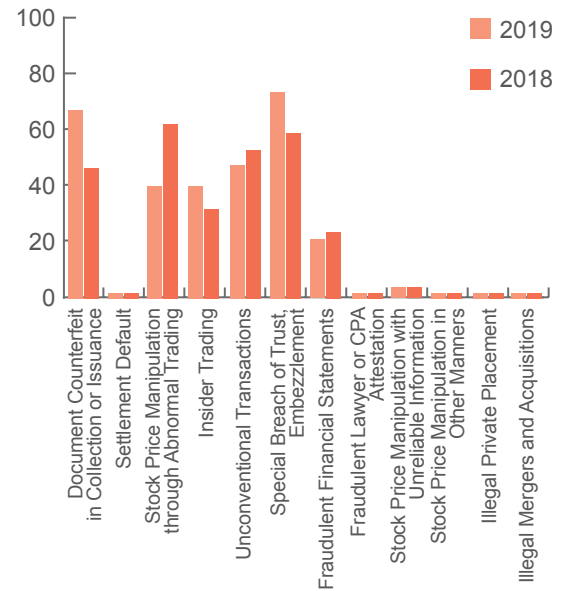
### Violations of the Securities and Exchange Act

Type of Violation	Number of Violations		Number of Suspects		Amount of Money (NT\$)	
	2019	2018	2019	2018	2019	2018
Document counterfeits in collection or issuance	9	9	64	45	4,497,382,285	1,921,649,227
Settlement default	0	0	0	0	0	0
Stock price manipulation through abnormal trade	14	16	40	61	3,256,010,315	2,068,786,402
Insider trading	12	13	40	35	85,449,958	47,412,740
Unconventional transactions	9	6	47	51	1,997,315,821	1,018,196,168
Special breach of trust and embezzlement	12	13	72	59	4,959,682,053	4,190,436,544
Fraudulent financial statements	3	3	20	23	1,146,144,397	10,798,432,908
Fraudulent lawyer or CPA attestation	0	0	0	0	0	0
Stock price manipulation with unreliable information	1	1	1	1	0	20,363,500
Stock price manipulation in other manners	0	0	0	0	0	0
Illegal private placement	0	0	0	0	0	0
Illegal mergers and acquisitions	0	0	0	0	0	0
<b>Subtotal</b>	<b>60</b>	<b>61</b>	<b>284</b>	<b>275</b>	<b>15,941,984,829</b>	<b>20,065,277,489</b>

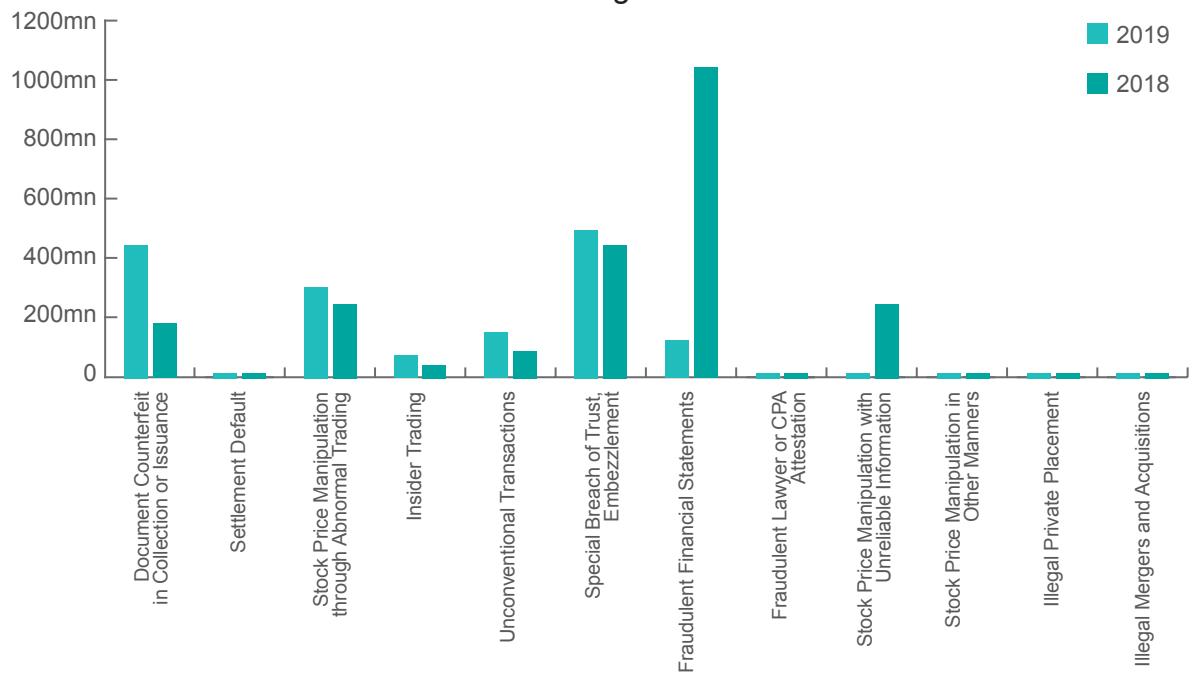
### Violations of the Securities and Exchange Act



### Number of Suspects Involved in Violations of the Securities and Exchange Act



### Type of Violations of the Securities and Exchange Act



## Major cases:

### 1. Document counterfeits in collection: Hao X Technology Co., Ltd. and Ri X Industrial Co., Ltd.

Wu, X-Hao was the person in charge of Ri X Industrial Co., Ltd. (hereinafter referred to as "Ri X Company") and other companies, and once served as the person in charge of Hao X Technology Co., Ltd. (hereinafter referred to as "Hao X Company"). Kuo, X-Lun was the incumbent person in charge of Hao X Company. Knowing that Ri X Company and Hao X Company were not qualified for listing on the TWSE/TPEX given their millions of New Taiwan Dollars of registered capital, Wu, X-Hao and Kuo, X-Lun sought advice from a syndicate that navigated businesses to registration changes (composed of CPA Chen, X-Yuan, etc., in Chao X Case) and schemed to issue new shares fraudulently. In 2012, they sugarcoated companies with poor business operations and finances as high-tech companies to attract investors to buy their stocks, and committed multiple organized crimes, including securities fraud and money laundering, in violation of the "Company Act" and "Business Entity Accounting Act."

After acquiring companies with poor business operations, the syndicate advertised the companies as rising companies with exaggerated and false propaganda materials to attract investors while manipulating financial figures to create the illusion that the companies have promising prospects and will soon be listed on the TWSE/TPEX. Between 2012 and 2013, Ri X Company and Hao X Company falsely issued new shares several times to puff up their capital to NT\$100 million. To complete the materialized issuance of stocks, Wu, X-Hao and Kuo, X-Lun proceeded to apply for the issuance of stocks and entrusted a company ignorant of what happened to print stocks. Together, Wu, X-Hao and Kuo, X-Lun held a total of 21,100 thousand shares. The stocks were sold at high prices through wholesalers whose specialty was acquiring unlisted stocks and promoting them via investment seminars, telephones, industry analysis reports, and salesforce. The companies claimed to be listed on the TWSE/TPEX within three years and expected to make profits in the future, causing numerous unspecified investors to mistakenly believe that the companies have sufficient capital, sound finances, and prospects for sufficient orders. Wholesalers used several dummy accounts to transfer stocks and then sold them through unregistered traders. The traders sold 5,060 thousand shares and 5,000 thousand shares of the two companies' stocks to hundreds of unspecified investors at NT\$59 per share. Through the fraudulent issuance of shares, this organized operation defraud investors of NT\$308.76 million in total.



To repay personal debts, Wu, X-Hao and Kuo, X-Lun continuously cooperated with the syndicate to fraudulently issue new shares from 2013 to 2017, and sent the notification of subscription payment and the subscription plan to shareholders, causing many shareholders to mistakenly believe that the companies had plans for research and development and expansion; to reduce the original cost of subscription, the shareholders invested an additional NT\$190,869,927. The case was referred to the Taiwan Taipei District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

## 2. Stock price manipulation: Manipulation of Yi X Chan Company' stock price

Lee X was the administrator of the Facebook page, "Fu X Ju," with nearly 90,000 members. Lee X had repeatedly posted comments on "Fu X Ju" using a pseudonym, "Yueh X," having considerable control over members' decisions to trade in individual stocks. From May 2016 to January 2017, Lee X and his girlfriend, Fan, X-Chen, Fang, X-Hsuan, and his friend, Lin, X-Chih, continuously manipulated the stock prices of Yi X Chan Company, Kai X Company, Fei X Company, Ching X Company, and Xin XX Company (e.g., purchasing at high prices, selling at low prices, and corresponding transactions), causing the stock prices of these companies to rocket (Yi X Chan Company from NT\$11.9/share to NT\$30.45/share, a 155.88% increase; Kai X Company from NT\$12.9/share to NT\$29/share, a 124.81% increase; Fei X Company from NT\$4.99/share to NT\$7.2/share, a 44.29% increase; Ching X Company from NT\$21.55/share to NT\$63.8/share, a 196.06% increase; and Xin XX Company from NT\$14.85/share to NT\$23/share, a 54.88% increase).

To make more profit, Lee X posted comments on "Fu X Ju" to agitate for purchasing stocks so that he could sell at high prices to members who were ignorant of what happened, causing numerous investors to suffer losses. Some of these investors raised their question about Lee X's comments on "Fu X Ju," but they were criticized or kicked off the page by the administrator per Lee X's instructions. Lee X then continued to deceive unsuspecting investors using the same methods to make huge profits. During the search, an amount of NT\$16,889,900 was seized in cash. Illegal profits made by Lee X and his accomplices through the manipulation of stock prices of the aforesaid five companies amounted to NT\$69,642,430. The case was referred to the Taiwan Taoyuan District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

### 3. Stock price manipulation: Chen, X-Hung's manipulation of Chao X Company's stock price

In 2013, Chao X Industrial Co., Ltd. listed on the TWSE (hereinafter referred to as "Chao X Company") required funds to purchase land and factories for overseas expansion. Chairman Lin, X-Yun and director Lin, X-Hung of Chao X Company got acquainted with Liu, X-Ling, an associated person of a securities firm, and Chen, X-Hung, a stock operator and person in charge of Shang X International Co., Ltd. (hereinafter referred to as "Shang X Company") through their friend, Yen, X-Ching. They agreed to manipulate the stock price of Chao X Company by increasing the trading volume and price of Chao X Company's stock in order to attract investors to subscribe to Chao X Company's stock, further raising the issue price per share and the amount raised. Based on the agreement to gain profits from abnormal trading on the securities market through the manipulation of Chao X Company's stock price and corresponding transactions, Lin, X-Yun and Lin, X-Hung were responsible to provide funds and Chao X Company's stock as a bargaining chip; Chen, X-Hung used 10 securities trading accounts and bank accounts of five persons, including the aforesaid individuals and Chang, X-Ting, an employee of Shang X Company, to manipulate the stock price of Chao X Company (e.g., purchasing at high or ceiling prices or selling at low or floor prices) through an online ordering platform from March 1, 2014 to January 29, 2015 (period of analysis). Chen, X-Hung used corresponding transactions and dummy accounts to effectively attract unspecified investors to purchase stocks, causing the stock price of Chao X Company to increase from NT\$48.60/share (closing price on March 3, 2014) to NT\$97.00/share (closing price on January 29, 2015), a 99.58% increase, with an amplitude of 130.45%. This showing deviated from the plastic industry stock index, a 2.66% decrease (amplitude of 20.38%) and significantly higher than the market, a 9.58% increase, in the same period. In the period of analysis, Chao X Company issued 10,000 thousand new shares at NT\$93.25/share and successfully raised NT\$932,500,000; the actual profits and pro forma profits totaled NT\$133,055,880. The case was referred to the Taiwan Taoyuan District Prosecutors Office for prosecution by the Taoyuan City Field Division of the Investigation Bureau, Ministry of Justice.

#### 4. Insider trading: Short sale of Dong X Company's stock

Fu, X-Sheng, President of Dong X Co., Ltd. listed on the TWSE (hereinafter referred to as "Dong X Company"), was responsible for managing the performance of production, management, personnel, general affairs and administration, and domestic and foreign sales of Dong X Company. On October 6, 2018, Fu, X-Sheng learned in the internal meeting that the Suao Plant would be suspended by the Environmental Protection Bureau, Yilan County in the near future (material information of the case). Although Fu, X-Sheng was aware that Dong X Company's stock price would drop upon announcement of such material information and that he had a position which prohibited him from trading before the announcement of material information which could have an impact on Dong X Company's stock price, he, with criminal intent to engage in insider trading, notified his younger sister, Fu, X-Hsiang, of such material information via LINE around noon on October 7, 2018. Later, Fu, X-Hsiang personally opened a margin account at a securities firm and transferred a margin for short selling 26 thousand shares of Dong X Company's stock from the bank account of her spouse, Yang, X-Tung, who was ignorant of what happened, to her personal securities trading account. On October 8, 2018, Fu, X-Hsiang called her older brother, Fu, X-Lang (Fu, X-Sheng's younger brother) around 9 a.m. to tell him the aforesaid material information. Then, Fu, X-Lang shorted 31 thousand shares of Dong X Company's stock via mobile APP and telephone using his personal margin account. On October 9, 2018, Dong X Company's stock price plummeted after such material information was announced at noon; Fu, X-Hsiang and Fu, X-Lang gradually purchased Dong X Company's stock back and gained profits of NT\$83,666 and NT\$115,897 (net of fees and transaction taxes) respectively. This behavior had harmed the investors' rights to fair trading and acquisition of information on the securities market. The case was referred to Taiwan Taipei District Prosecutors Office for prosecution by Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

#### 5. Insider trading: Merger between Jing X Company and Can X Company

Lin, X-Jung was the person in charge of Di X Construction Co., Ltd. (hereinafter referred to as "Di X Company"), a corporate supervisor of Can X Optoelectronics Co., Ltd. listed on the TWSE (merged company, hereinafter referred to as "Can X Company"); Lin, X-Ping was an employee and corporate representative of Di X Company at the board meeting of Can X Company; Tsai, X-He was the manager of Zi X Accounting Firm. Zi X Accounting Firm was a financial advisor engaged by Jing X Optoelectronics Co., Ltd. listed on the TWSE (hereinafter referred to as "Jing X Company") to provide on-site audits for mergers and acquisitions; Chen, X-Ling is the mother of Mei, X-Hung, who worked as a legal officer of Pu X Business and Law Firm (hereinafter referred to as "Pu X Law Firm"). Mei, X-Hung was responsible for supporting the merger of Jing X Company.

Whereas Jing X Company intended to acquire Can X Company (hereinafter referred to as the "Merger and Acquisition Case"), both parties started to discuss the stock swap or merger on April 15, 2014. On May 28, 2014, both parties officially met with their financial and legal advisors to discuss the schedule for stock swap and on-site audit. From June 6, 2014 to June 17, 2014, the aforesaid professional institutions conducted on-site audits of the other party. On June 20, 2014, the financial advisor of Jing X Company issued an opinion on the reasonableness of the stock swap percentage, proposing 3.448 common shares of Can X Company in exchange for one common share of Jing X Company. On June 30, 2014, the boards of directors of both parties resolved to pass the Merger and Acquisition Case, with a press conference held in the afternoon to make such an announcement. Although Lin, X-Jung, Lin, X-Ping, Tsai, X-He, and Chen, X-Ling were aware that the Merger and Acquisition Case was to have a great impact on Can X Company's stock price and investors and that, in accordance with the "Securities and Exchange Act," they were not allowed to trade before the announcement of such material information, Lin, X-Jung and Lin, X-Ping took advantage of their positions to learn such material information in advance and then purchased 92 thousand shares and five thousand shares of Can X Company's stock respectively; when working in the office, Tsai, X-He heard a colleague nearby discuss the Merger and Acquisition Case with the counterpart of Jing X Company on the phone and then purchased 300 thousand shares of Can X Company; by accident, Chen, X-Ling caught a glimpse of the Merger and Acquisition Case documents which Mei, X-Hung brought home and then purchased 230 thousand shares of Can X Company. Before and after the announcement of the Merger and Acquisition Case, the aforesaid persons sold their holdings and gained profits of NT\$17,750, NT\$311,880, NT\$1,067,000, and NT\$726,400 respectively. The case was referred to the Taiwan New Taipei District Prosecutors Office for prosecution by the Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

#### 6. Unconventional transactions: Former vice president of Chi X Company

Lee, X-Hsien was the former vice president and head of Photoresist Research Department I, Specialty Chemicals Division at Chi X Industrial Co., Ltd. listed on the TWSE (hereinafter referred to as "Chi X Company"); Ting, X-Chueh was the former associate officer of Operation Department I, Specialty Chemicals Division at Chi X Company. During their service at Chi X Company, they were responsible for managing and handling the evaluation and introduction of photographic developers and glass cleaners; thus, at the time, they were accounted as employees of Chi X Company issuing securities in accordance with the "Securities and Exchange Act." Although being fully aware that they were obligated to fulfill the duty of care as good administrators and perform their duties in good faith for the best interests of Chi X Company and its shareholders, Lee, X-Hsien and Ting,

X-Chueh caused Chi X Company to engage in unprofitable and unconventional transactions, which harmed Chi X Company's interests, with criminal intent to seek illegal gains for themselves or third parties. Since March 2009, Lee, X-Hsien and Ting, X-Chueh had requested Zhong X Chemicals Company and Ou X Shi Company, the manufacturers of photographic developers and glass cleaners of Chi X Company, to purchase raw materials from Heng X Company established by Lee, X-Hsien and Ting, X-Chueh. Heng X Company purchased raw materials from Zhong X Synthesis Company at lower prices and then resold them to Zhong X Chemicals Company and Ou X Shi Company at unreasonably high prices, causing Chi X Company to suffer losses totaling NT\$213,248,945. The case was referred to the Taiwan Tainan District Prosecutors Office for prosecution by the Tainan City Field Division of the Investigation Bureau, Ministry of Justice.

#### 7. Unconventional transactions: Lee, X-Te, head of Corporate Customer Section of Changhua Office, Zhong X Company

Zhong X Co., Ltd. listed on the TWSE (hereinafter referred to as "Zhong X Company") required that each office should meet certain performance criteria to achieve the goal of revenue growth. Knowing that Liu, X-Keng and Chou, X-Hsien, an engineer and an officer of Zhong X Company respectively, were obligated to perform their duties in good faith and were not allowed to, directly or indirectly, make Zhong X Company engage in unfavorable and unconventional transactions or loan to others that could cause significant damage to the company in violation of laws and regulations, articles of incorporation, and the scope of business authorized by the board of directors, Lee, X-Te, the head of Corporate Customer Section of the Changhua Office (serving from December 1, 2014 to January 8, 2018) agreed on the "lending through false transactions" with contractors under the pressure of the performance requirements. First, the owner (customer) searched for the project contractor (buyer); then, the Changhua Office falsely entered into a construction contract and a purchase contract with the owner (customer) and the project contractor (buyer) respectively. As the Changhua Office was incapable of executing and inspecting and accepting the contracts, it paid the project contractor directly upon fraudulent inspection and acceptance, and then the project contractor transferred the payment to the owner. Upon receipt of payment, the owner issued a post-dated check (to be cashed in 3 to 10 months) to the Changhua Office for the purpose of lending. In addition to increasing the total book turnover, the Changhua Office drew a certain percentage (approximately 5%) as the actual profit, which was also the interest on the loan. Hsieh, X-Hsuan, the person in charge of the owner or project contractor, worked with Lee, X-Te and others to engage in false construction projects such as an astronomical museum between 2017 and 2018, making the Changhua Office lend a huge amount of money without any guarantee and bear the high risk of failing to collect payment. The post-dated check issued by the owner bounced, ultimately causing the Changhua Office to suffer a huge loss. Zhong X Company then paid a

total of NT\$334.61 million plus. Although partial payment was collected or compensated, Zhong X Company still suffered a huge loss of NT\$324,479,277 as of May 2019. The case was referred to the Taiwan Taichung District Prosecutors Office for prosecution by the Maritime Affairs Field Division of the Investigation Bureau, Ministry of Justice.

#### 8. Fraudulent financial statements and appropriation of assets: Da X Yang Company

Sun, X-Ying was the president and person in charge of Da X Yang Beverage Co., Ltd. listed on the TWSE (hereinafter referred to as "Da X Company") and the person in charge of Shu X Food Co., Ltd. (hereinafter referred to as "Shu X Company") and Guo X Food Co., Ltd. (hereinafter referred to as "Guo X Company"); Chung, X- O was the nominal representative of corporate directors, Shu X Company and Guo X Company, and was actually responsible for handling accounting affairs of Da X Company, Shu X Company, and Guo X Company and executing decisions made by Sun, X- Ying.

In July 2017, the court ruled on the consumer lending litigation between Guo X Company and the Central Deposit Insurance Corporation (hereinafter referred to as "the CDIC") Guo still owed Chinfon Commercial Bank Co., Ltd., which the FSC assigned the CDIC to take over on September 26, 2008; the CDIC then entrusted the Bank of Taiwan to manage Chinfon Commercial Bank Co., Ltd.) that Guo X Company should pay NT\$391 million to the CDIC; however, Guo X Company did not have sufficient funds to pay the fine and was unable to borrow enough money from the bank to pay the CDIC. Sun, X-Ying was fully aware that, under the "Securities and Exchange Act," the directors and managers of companies issuing securities are not allowed to, directly or indirectly, make companies engage in unprofitable and unconventional transactions, act against their duties with intent to benefit themselves or third parties, or loan to others that could cause significant damage to companies in violation of laws and regulations; Sun, X-Ying also knew that purchasing land and factories from Shu X Company in Jiali District, Tainan City and from Guo X Company in Hunei District, Kaohsiung City and on Xiugang section in Xindian District, New Taipei City did not benefit Da X Company, and had no intention to sell the aforesaid land and factories to Da X Company; in addition, Guo X Company with poor finances was capable of paying the land value increment tax and other related taxes to complete the transfer of land. To prevent the CDIC from requesting compulsory enforcement based on the court's ruling by selling the real estate of Guo X Company by auction, Sun, X-Ying schemed to transfer the debts of the personal holding company, Guo X Company, to Da X Company with better profitability and credit terms in collusion with Chung, X-O. With the available funds of about NT\$100 million, Da X Company, given its inability to purchase the aforesaid land without a loan, applied to increase the loan, which was forcibly used to purchase the land of Shu X Company and Guo X Company. Such an unconventional transaction



caused Da X Company to suffer a loss of more than NT\$583,917,364 and thereby brought NT\$580,026,213 to Sun, X-Ying and Guo X Company. The case was referred to Taiwan Taipei District Prosecutors Office for prosecution by New Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

#### 9. Fraudulent financial statements: Lin, X-Hui suspected of appropriating assets of En X Li Company and Ching X Company

En X Li Company: In June 2017, En X Li Industry Co., Ltd. listed on the TPEX (hereinafter referred to as "En X Li Company") required funds, so Lin, X-Hui was introduced to Lin, X-Chin, the chairman of En X Li Company, by a friend, to subscribe for the En X Li Company's shares through private placement. Although Lin, X-Hui was not an employee of En X Li Company, he was responsible for its secondhand equipment brokerage. Lin, X-Hui arranged transactions between Yi X Company, controlled by Lin, X-Hui, and O X Company, jointly controlled by Lin, X-Hui and Fang, X-Ching with criminal intent, and En X Li Company to increase the sales of En X Li Company. After En X Li Company entered into the contracts with the aforesaid companies, the checks of En X Li Company were delivered to Yi X Company, with the nonnegotiable terms cancelled, before the inspection and acceptance of goods, enabling Yi X Company to prompt for withdrawal without the completion of transactions. This caused En X Li Company to bear the risk of failing to collect payment. Such unconventional transactions amounted to NT\$124,975,000, of which En X Li Company suffered a huge loss of NT\$73,332,900.

Ching X Company: Ching X Optoelectronics Co., Ltd. listed on the TWSE (hereinafter referred to as "Ching X Company") operated at a huge loss. To maintain Ching X Company's stock price, Chairman Wu, X-Song agreed to transfer the substantive management rights of Ching X Company to Lin, X-Hui in August, 2018. Nonetheless, Lin, X-Hui and Fang, X-Ching manipulated the revenue of Ching X Company through false transactions. Companies controlled by Lin, X-Hui and Fang, X-Ching sold secondhand semiconductor equipment to Ching X Company, which then resold it to Ya X Telecommunication Company owned by Lin, X-Hui to inflate Ching X Company's profits; otherwise, Ching X Company sold secondhand fixed assets without actual value to Ya X Telecommunication Company at high prices or fraudulently provided equipment for Ya X Telecommunication Company and collected installation fees, so as to avoid delisting due to no revenue and negative net worth. False claims about revenue from the aforesaid false transactions were recognized in the financial statements of Ching X Company for the first,

second, and third quarters of 2018; illegal gains totaled NT\$16,224,500, NT\$42,919,800, and NT\$7,700,000 respectively, accounting for more than 50% of revenue each quarter. This was the clear concealment of the fact that Ching X Company was of no worth. The case was referred to Taiwan Taipei District Prosecutors Office for prosecution by New Taipei City Field Division of the Investigation Bureau, Ministry of Justice.

## IV. Investigation of Civil Liability

### (I) Class action litigations

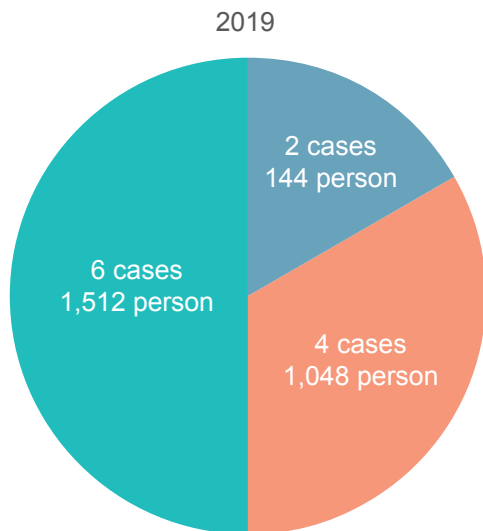
In 2019 and 2018, the SFIPC instituted 12 and 10 class action litigations, respectively; the amount of compensation sought reached NT\$1,699,419 thousand and NT\$1,006,295 thousand, and the number of authorizers was 2,704 and 1,978, respectively.

Type of Action	Number of Actions		Amount of Compensation Sought (in NT\$1,000)		Number of Authorizers	
	2019	2018	2019	2018	2019	2018
False financial statements or prospectuses	2	2	708,070	369,199	144	935
Stock price manipulation	4	3	800,407	254,959	1,048	450
Insider trading	6	4	190,942	309,898	1,512	487
Combination (Note)	0	1	0	72,239	0	106
<b>Total</b>	<b>12</b>	<b>10</b>	<b>1,699,419</b>	<b>1,006,295</b>	<b>2,704</b>	<b>1,978</b>

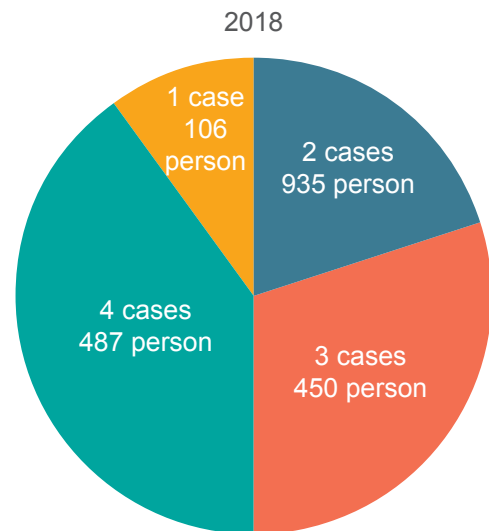
Note: The combination of two or more types of violations, including false financial statements or prospectuses, stock price manipulation, insider trading, and others.



### Type of Class Action Litigations Instituted by the SFIPC



False Financial Statements or Prospectuses  
Stock Price Manipulation  
Insider Trading  
Combination

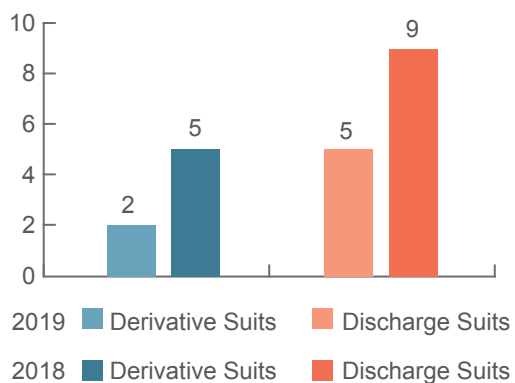


False Financial Statements or Prospectuses  
Stock Price Manipulation  
Insider Trading  
Combination

### (II) Derivative suits and discharge suits

In 2019 and 2018, the SFIPC instituted two and five derivative suits (including participation); for discharge suits, five and nine cases were instituted in 2019 and 2018, respectively.

#### Statistics on derivative suits and discharge suits instituted by the SFIPC



Type of Action	2019	
	Number of Actions	Amount of Compensation Sought (in NT\$1,000)
Derivative suits	2	115,776
Discharge suits	5	-

Type of Action	2018	
	Number of Actions	Amount of Compensation Sought (in NT\$1,000)
Derivative suits	5	3,438,567
Discharge suits	9	-

### (III) Cases

#### 1. Insider trading: Qiao X Company and Jian X Company

Well known in the industry and among the investors, the accused led Qiao X Company to become the world's second-largest and Asia's largest supplier of forged wheels for automobiles. As a representative of Qiao X Company, the accused resigned as the president in July 2017 due to different business philosophies and other factors. In August 2017, the chairman of Jian X Company persuaded the accused into taking up a post as the president of Jian X Company. The accused and others who learned from the accused the information on resignation and assumption of office that would have a great impact on the companies' stock prices purchased the stocks of Qiao X Company and Jian X Company before the announcement of such information. In August 2018, the Taiwan Ciaotou District Prosecutors Office brought a prosecution against the criminal offenders who were suspected of being involved in insider trading.

In December 2018, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In April 2019, according to Article 28 of the "Securities Investor and Futures Trader Protection Act," the SFIPC instituted, with the Taiwan Ciaotou District Court and Taiwan Tainan District Court, a class action litigation against the criminal offenders for damages. In September 2019, the SFIPC settled with the criminal defendants and received compensation of more than NT\$57.67 million. The relevant action in this case has been withdrawn.

#### 2. Stock price manipulation: Chao X Company

From the end of 2013 to the beginning of 2014, the accused intended to increase the trading volume and price of Chao X Company's stock for the purpose of issuance of new shares. From March 2014 to January 2015, the accused were suspected of manipulating the price of Chao X Company's stock targeting the then stock price of Di X Company of the same type at NT\$100 per share. In May 2019, the Taiwan Taoyuan District Prosecutors Office filed suit against the criminal offenders who were suspected of manipulating the stock price.

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

The above behavior of the persons in charge of Chao X Company already constituted a violation of laws and regulations. In September 2019, according to Article 10- 1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC appealed to the Taiwan Changhua District Court for discharging the persons from the directorship of Chao X Company. As of December 2019, the accused already resigned or were replaced by the representatives designated by the corporate shareholders.

### 3. False financial statements: Chun X Company

From March 2009 to October 2014, the accused were suspected of arranging RPTs and false (circular) transactions between the companies controlled by them and Chun X Company; however, the financial statements of Chun X Company for the aforesaid period concealed such RPTs and inflated the turnover. In July 2019, the Taiwan Hsinchu District Prosecutors Office initiated a lawsuit against the criminal offenders who were suspected of preparing false financial statements.

In August 2019, the SFIPC made an announcement based on the violations specified in the criminal indictment to accept investors' request for compensation. In November 2019, according to Article 28 of the "Securities Investor and Futures Trader Protection Act," the SFIPC instituted, with the Taiwan Hsinchu District Court, a class action litigation against the criminal offenders for damages.

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

## (IV) Trend Analysis

### (1) Class action litigations

A. Number of cases: The number of prosecutions in 2019 was two more than that in 2018. The reason was that there were more illegal cases of insider trading and stock price manipulation in 2019, but the difference was only slight.

B. Number of authorizers: Among the prosecutions in 2019, those against He X Company and Sheng X Company involved a longer period or a larger number of shareholders; the number of investors requesting compensation in these cases significantly increased compared with that in other cases. Therefore, the number of authorizers in 2019 was more than that in 2018.

Amount of compensation sought: In addition to the aforesaid prosecutions involving more investors requesting compensation in 2019, the amount of compensation sought from Chun X Company was relatively high given its high stock price. Therefore, the amount of compensation sought in 2019 was higher than that in 2018.

## (2) Derivative suits and discharge suits

When bringing derivative suits and discharge suits according to Article 10-1 of the "Securities Investor and Futures Trader Protection Act," the SFIPC should first evaluate whether the companies are TWSE/TPEX listed companies and whether the criminal offenders serve or used to serve as the directors or supervisors of the companies. If the two prerequisites are met, the SFIPC may proceed to institute derivative suits or discharge suits on a case-by-case basis. The number of derivative suits and discharge suits in 2019 was lower than that in 2018. The main reason was that fewer cases met the statutory prerequisites in 2019. Considering the large scale of TWSE/TPEX listed companies and numerous shareholders, ethical corporate management and the soundness of the market are tied with the country's economic development and social stability in addition to the investors' rights and interests. To promote corporate governance, the FSC initiated the amendment to the "Securities Investor and Futures Trader Protection Act" in 2019 with the goal of perfecting legislation for derivative suits and discharge suits.

## (V) Implementation Results

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

In 2019, the SFIPC assisted investors in instituting class action litigations for securities and futures cases, and has secured compensation of NT\$890 million plus, including more than NT\$700 million from reconciliations and NT\$100 million from litigations (e.g., compulsory enforcement, and pay-off and acquisition of illegal gains upon rulings). With the constant evolution of judicial decisions, the SFIPC had more wins in class action litigations, which further facilitated settlements 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 confidence in the market.

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

In 2019, the SFIPC won seven discharge suits. In another five cases, the directors and supervisors resigned or were not reappointed after the SFIPC brought the discharge suits. This legal system effectively prompts directors and supervisors to perform their duties in good faith and fulfill their duty of care as good administrators, so as to further corporate governance.

# Law Enforcement Collaboration and Coordination

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- >> Interdepartmental Collaboration in Supervision <<  
on the Issuance Market
- >> Interdepartmental Collaboration in Supervision <<  
on the Trading Activities
- >> Interministerial Collaboration between the FSC <<  
and Ministry of Justice
- >> Crossborder Collaboration in Financial Supervision <<

## I. Interdepartmental Collaboration in Supervision on the Issuance Market

If TWSE/TPEX listed companies are involved in the violation of the "Securities and Exchange Act" and other relevant laws and regulations, the TWSE and TPEX will refer the cases to the SFB for relevant sanctions. If the violations involve criminal liability, they will be 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. In 2018 and 2019, 16 and 12 cases with respect to the persons in charge of TWSE/TPEX companies who were involved in violation of Subparagraph 1 (misrepresentation or non-disclosure of financial reports), Subparagraph 2 (unconventional transactions), or Subparagraph 3 (special breach of trust), Paragraph 1, Article 171 of the "Securities and Exchange Act," 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) or Subparagraph 6 (the making of false statements in the content of financial statements by managerial officers or accounting officers), Paragraph 1, Article 174 of the "Securities and Exchange Act," and Subparagraph 2, Paragraph 2, Article 174 of the "Securities and Exchange Act" (the making of false financial statements or opinions by CPAs), respectively, 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. The TWSE and TPEX also coordinated with law enforcement agencies for prosecution and investigation as needed. In 2018 and 2019, the TWSE assisted juridical institutions in providing relevant information on 23 and 27 cases, respectively, with the TPEX assisting in 38 and 48 cases.

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

## **II. Interdepartmental Collaboration in Supervision on the Trading Activities**

In 2019 and 2018, four and five cases with respect to the investors who were involved in violation of Article 155 (stock price manipulation) and Article 157-1 (insider trading) of the "Securities and Exchange Act" were reviewed in consultation with the prosecutors stationed at the FSC. The TWSE and TPEx also worked with law enforcement agencies for prosecution and investigation in securities-related violations, including stock price manipulation and insider trading. In 2019 and 2018, this happened a total of 45 and 67 times for the TWSE and 103 and 89 times for the TPEx.

The aforesaid violations in which the TWSE and TPEx cooperated with law enforcement agencies have been prosecuted by district prosecutor's offices or convicted by a court of law. For example, two defendants involved in the manipulation of Long X Company's stock price and insider trading of Taiwan X Insurance Company's stock in 2016 were sentenced to imprisonment for 12 years and four months and eight years and eight months for the violation of the "Securities and Exchange Act" by the Taiwan Taipei District Court in August 2019. The TPEx cracked the first case of stock price manipulation by an online community; the person in charge of Fu X Ju Company was involved in the stock price manipulation and was prosecuted by the Taiwan Taoyuan District Prosecutors Office for the violation of the "Securities and Exchange Act."

## **III. Interministerial Collaboration between the FSC and Ministry of Justice**

The FSC and the Ministry of Justice hold liaison meetings on a regular basis. In 2019, two liaison meetings were held. On November 20, 2019, the Investigation Bureau, Ministry of Justice held the "Inter-agency Meeting on Execution of Economic Crime Prevention," where the FSC, Fair Trade Commission, Bureau of Consular Affairs, Ministry of Foreign Affairs, Department of Commerce, Ministry of Economic Affairs, Intellectual Property Office, Ministry of Economic Affairs, Department of Prosecutorial Affairs, and Ministry of Justice, Taiwan High Prosecutors Office, Police Affairs Agency, Ministry of Internal Affairs, and National Immigration Agency, Ministry of the Interior were invited to deliberate on measures to prevent economic crimes. This included actions to be taken in response to the third round of mutual evaluation of the Asia/Pacific Group On Money Laundering (APG).

## **IV. Crossborder Collaboration in Financial Supervision**

For law enforcement purposes, the FSC may cooperate with foreign securities and futures bureaus in financial supervision, such as information exchange and investigation, through a multilateral memorandum of understanding (MMOU) established by the International Organization of Securities Commissions (IOSCO). In 2019, the SFB sought assistance in 11 cases from competent authorities in other countries, including the Securities and Futures Commission of Hong Kong, Monetary Authority of Singapore, Financial Supervisory Service of South Korea, U.S. Securities and Exchange Commission, Financial Services Agency of Japan, and Securities and Exchange Board of India; authorities in other countries requested assistance in nine cases from the SFB, including the Securities and Futures Commission of Hong Kong, U.S. Securities and Exchange Commission, Financial Services Agency of Japan, British Columbia Securities Commission, and Securities Commission of Malaysia.



# Review/Evaluation of Results of Law Enforcement

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- >> Review/Evaluation of Results of Law Enforcement on TWSE/TPEX Listed Companies in the Past Three Years <<
- >> Results of Major Legal Amendments by the SFB in 2019 <<
- >> Results of Major Legal Amendments by the TWSE and TPEX in 2019 <<

## I. Review/Evaluation of Results of Law Enforcement on TWSE/TPEX Listed Companies in the Past Three Years

Law Enforcement Unit and Action		2019	2018	2017
SFB, FSC	Administration sanctions	270 cases	207 cases	192 cases
	Penalties	NT\$69.14 million	NT\$55.60 million	NT\$60.82 million
Investigation Bureau, Ministry of Justice	Reference of violations of the "Securities and Exchange Act"	60 cases	61 cases	65 cases
TWSE and TPEX	Issuance of a letter requesting improvement	260 cases	272 cases	267 cases
	Inclusion in the Key Financials Section	303 cases	300 cases	295 cases
	Periodic financial disclosure of financial ratios	237 cases	212 cases	183 cases
	Imposition of default fines	106 cases	68 cases	64 cases
	Altered trading, periodic call auction, or suspended trading	103 cases	98 cases	101 cases
	Announcement of attention securities	705 stocks 2,997 times	823 stocks 4,207 times	710 stocks 3,557 times
	Information on disposition securities	102 stocks 154 times	195 stocks 377 times	153 stocks 302 times

In the past three years, the number of administrative sanctions imposed by the SFB on TWSE/TPEX listed companies has shown an increasing trend. Among them, the largest increase occurred in violations of Article 22-2 and Article 25 of the "Securities and Exchange Act" concerning the declaration of insider ownership. From 2017 to 2019, 71, 107, and 149 cases of such violations were reported. The scope of prior declaration of insiders' securities trading covers the directors, supervisors, and managers, as well as shareholders holding more than 10% of companies' shares, to which strict adherence is held. In the past three years, the stock market in Taiwan has been on the rise (the Taiwan Stock Exchange Capitalization Weighted Stock Index ["TAIEX"]) rose from 9253.5 points at the end of 2016 to 11997.14 points at the end of 2019), resulting in higher incentives for insiders to dispose of their holdings; however, they were penalized for negligence of relevant requirements for declaration. The TWSE and TPEX will continue to organize training for the directors or insiders of TWSE/TPEX listed companies to improve the insiders' awareness of compliance and to reduce penalties.

In the past three years, about 300 TWSE/TPEX listed companies were included in the Key Financials Section; about 100 TWSE/TPEX listed companies were subject to altered trading, periodic call auction or suspended trading. For some of these companies, their certified public accountants issued audit or review reports that indicated substantial uncertainty concerning their ability to sustain business or their net worth became less than three-tenths of share capital stated in the financial reports. As failure to improve the aforesaid issues within a short period of time could adversely affect the overall quality of TWSE/TPEX listed companies and the investors' rights and interests, the TWSE and TPEX amended the relevant regulations in March 2019 to prescribe a three-year period for improvement. Companies failing to improve within the prescribed time limit will be suspended from trading on the TWSE/TPEX. The purpose of this amendment was to advocate TWSE/TPEX listed companies to improve their finances and business operations, so as to protect the investors' rights and interests.

The number of default fines imposed on TWSE/TPEX listed companies in 2019 increased from 2018. Most of the cases were violations of the regulations regarding the declaration of material information. Every year, the TWSE and TPEX hold compliance seminars to explain the regulations governing information reporting and material information and common deficiencies. For TWSE/TPEX listed companies violating the relevant regulations, the TWSE and TPEX disclose their violations on the Market Observation Post System; for repeated or material violations, the TWSE and TPEX issue a letter requesting the independent directors or supervisors to compel and supervise improvement of the companies, so as to maintain compliance with the relevant laws and regulations.

In 2019, the supervisory department found that a few companies had the employees of their sister companies serving as their independent directors, leading to ineffective board functions. To this end, the amendment to the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" was made to strengthen the independence of independent directors; the amendment also required that companies should conduct the evaluation of the board's performance and individual board members' performance, and specified the supporting measures for the companies whose chairman and the general manager (or an equivalent officer) are the same person.

## II. Results of Major Legal Amendments by the SFB in 2019

### (I) "Securities and Exchange Act":

To further the implementation of corporate governance, strengthen compliance with laws and regulations, moderately increase the ceiling of fines, and enhance the management of securities firms, securities services enterprises, and related institutions, the "Securities and Exchange Act" was amended on April 17, 2019 and June 21, 2019. The amendments are highlighted as follows:

1. Addition of fines on TWSE/TPEX listed companies, primary TWSE/TPEX listed companies, or foreign emerging stock board companies that fail to establish a remuneration committee and fines for violation of the regulations governing the exercise of powers by the audit committee or the regulations governing the appointment and exercise of powers by the remuneration committee.
2. "Other necessary measures" for securities firms and securities services enterprises were added.
3. The ceiling for fines was increased, and exemption from fines may be granted by the competent authority on a case-by-case basis. The fines on securities firms and securities services enterprises and related institutions for violation of relevant laws and regulations were added, with an institution itself being the subject of penalty.
4. For the purpose of employee retention, the conversion of repurchased shares for employees, warrant bonds, convertible bonds, and employee stock option certificates was extended from three years to five years.
5. The preparation of financial reports is the responsibility of the management. To implement corporate governance and strengthen the management procedures for financial reports, these are submitted to the audit committee and the board of directors to be signed or sealed by the chairman, president, and accounting officer.

(II) Adoption of a nomination system for the election of directors and supervisors of all TWSE/TPEX listed companies:

In light of the fact that all TWSE/TPEX listed companies have a large number of shareholders, with the aim of facilitating sound company development and protecting the rights and interests of shareholders and promoting corporate governance, the FSC issued an order authorized by the proviso in Paragraph 1 of Article 192-1 and Paragraph 1 of Article 216-1 of the "Company Act" on April 25, 2019 stipulating that all TWSE/TPEX listed companies should adopt the candidate nomination system for the election of directors and supervisors from January 1, 2021.

(III) Approval of virtual currencies with the nature of securities as the securities under the "Securities and Exchange Act":

The blockchain enterprises have the need to raise funds through the issuance of virtual currencies possessing the nature of securities. Such virtual currencies are regarded as securities if they are investment-based and liquid and shall be subject to securities trading regulations. To this end, the FSC issued an order on July 3, 2019 in accordance with Paragraph 1, Article 6 of the "Securities and Exchange Act," approving virtual currencies with the nature of securities as the securities under the "Securities and Exchange Act."

(IV) In line with the business practices of public companies, recent amendments to the "Company Act," and regulations regarding the autonomy of independent directors and remuneration committee members, the FSC amended the following four regulations and interpretations on January 15, 2020. The amendments are highlighted as follows:

1. "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies": For corporate directors and supervisors, sisters companies controlled by the same person, or the chairman and the president being the same person or spouse, related personnel shall not be independent directors of public companies. The materiality criteria for the job positions of employees and the amount of compensation for the provision of commercial, legal, financial, accounting or related services to public companies is also established; in addition, independent directors may concurrently serve as such at a public company and its parent or subsidiary or a subsidiary of the same parent.

2. "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies": Where the spouse or a blood relative within the second degree of kinship of an independent director is an interested party with respect to an agenda item of the audit committee meeting, the independent director shall be deemed to be an interested party with respect to that agenda item.
3. "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange": The regulations governing the autonomy of the remuneration committee members are amended based on the regulations governing the independence of independent directors; non-voting participants shall leave the remuneration committee meeting when deliberation and voting take place; in addition, when a meeting of the remuneration committee discusses the remuneration of any member of the remuneration committee, recusal of the member shall be entered and recorded in the meeting minutes.
4. "Regulations Governing Procedure for Board of Directors Meetings of Public Companies": Where a meeting of the board of directors is called by a majority of directors on their own initiative, the directors shall choose one person by and from among themselves to chair the meeting. Where the spouse or a blood relative within the second degree of kinship of a director, or a company which has a controlling or subordinate relation with a director, is an interested party with respect to an agenda item of the board meeting, the director shall be deemed to be an interested party with respect to that agenda item.

### **III. Results of Major Legal Amendments by the TWSE and TPEx in 2019**

#### **(I) Publishing material information on TWSE/TPEx listed companies in English to make the capital market bilingual**

To make Taiwan's capital market bilingual and internationalized and to improve national competitiveness, the TWSE and TPEx promulgated the amended "Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities" and "Taipei Exchange Procedures for Verification and Disclosure of Material Information of Companies with TPEx Listed Securities" on January 3 and January 10, 2020 respectively. Considering the cost of TWSE/TPEx listed companies, the TWSE and TPEx require that TWSE/TPEx listed companies should gradually publish material information in both Chinese and English in four stages based on the amount of paid-in capital or foreign (Mainland Chinese) investors' shareholding conditions:

1. First stage: Where a TWSE/TPEX listed company's paid-in capital as of the end of 2019 reached NT\$15 billion or more, the aforesaid requirements shall apply starting from July 1, 2020.
2. Second stage: Where a TWSE/TPEX listed company's paid-in capital as of the end of 2020 reaches NT\$10 billion or more, or the aggregate percentage of shares held by foreign investors and Mainland Chinese investors in the company as recorded in its shareholders register as of the time of convening the annual general meeting in 2020 reaches 30% or more, the aforesaid requirements shall apply starting from 2021.
3. Third stage: Where a TWSE/TPEX listed company's paid-in capital as of the end of 2021 and the end of 2022 reaches NT\$2 billion or more, or the aggregate percentage of shares held by foreign investors and Mainland Chinese investors in the company as recorded in its shareholders register as of the time of convening the annual general meeting in 2021 and 2022 reaches 30% or more, the aforesaid requirements shall apply starting from 2022 and 2023 respectively.
4. Fourth stage: Where a TPEX listed company's paid-in capital as of the end of each year after 2023 (inclusive) reaches NT\$600 million or more, the aforesaid requirements shall apply to each TWSE listed company and such a TPEX listed company starting from 2024.

(II) Giving effect to the evaluation of the board of directors of TWSE/TPEX listed companies and other new corporate governance measures in 2020

The TWSE and TPEX promulgated the amended "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" and "Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX Listed Companies" on December 27, 2018, requiring that starting from 2020, TWSE/TPEX listed companies should conduct the board's evaluation and individual board members' self-evaluation (or peer evaluation) every year and report the evaluation results before the end of the first quarter of the following year. The TWSE and TPEX promulgated the amended "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" and "Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX Listed Companies" on January 2, 2020. Relevant corporate governance measures will be implemented to strengthen the board functions, protect shareholders' equity, enhance the disclosure of non-financial information, and further ethical corporate management.

In line with the "Corporate Governance Roadmap (2018~2020)," business practices of TWSE/TPEX listed companies, and the competent authority's requirements, the amendments to the "Taiwan Stock Exchange Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE Listed Companies and the Board's Exercise of Powers" and "Taipei Exchange Directions for Compliance Requirements for the Appointment and Exercise of Powers of the Boards of Directors of TPEX Listed Companies" are highlighted below:

1. If the chairman and the general manager or a person having an equivalent position of a TWSE/TPEX listed company are the same person, spouses or relatives within one degree of kinship, the company shall appoint the prescribed number of independent directors before December 31, 2023. A majority of the directors shall not be employees or managerial officers concurrently. For TPEX listed companies with paid-in capital of less than NT\$600 million, they may appoint independent directors before December 31, 2025.
2. TWSE/TPEX listed companies with paid-in capital of NT\$2 billion and above but less than NT\$10 billion should appoint a chief corporate governance officer before June 30, 2021.
3. Those who have been engaged in compliance and internal audit in securities, banking, or futures-related institutions or public companies for more than three years are eligible to serve as chief corporate governance officers.

### (III) Strengthening ESG risk management and awareness of climate-related risks

Based on international trends in the disclosure of non-financial information, the TWSE and TPEX promulgated the amended "Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies" and "Taipei Exchange Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TPEX Listed Companies" on January 2, 2020 to improve the quality of non-financial information of TWSE/TPEX listed companies and to fulfill corporate sustainability. The amended rules shall take effect from the date of promulgation.

Making reference to the disclosures on non-financial information by stock exchanges around the world, the amendments mainly incorporated ESG risk assessments and strengthened the connection between key performance indicators and management of non-financial information, so as to help TWSE/TPEX listed companies disclose non-financial information in line with international practices.



To guide TWSE/TPEX listed companies to pay more attention to climate-related issues, the TWSE and TPEX added the governance around climate-related risks and opportunities and the actual and potential impacts of climate-related risks and opportunities, and explained the processes used to identify, assess, and manage climate-related risks and the metrics and targets used to assess and manage relevant climate-related issues based on the "Recommendations of the Task Force on Climate-related Financial Disclosures" released by the Financial Stability Board.

#### (IV) Urging TWSE/TPEX listed companies to actively improve their finances and business operations

The TWSE and TPEX promulgated the amended "Operating Rules of the Taiwan Stock Exchange Corporation" and "Rules Governing Securities Trading on the TPEX" on March 28, 2019 and March 29, 2019 respectively. For TWSE/TPEX listed companies whose certified public accountants issued an audit or review report that indicates substantial uncertainty concerning their ability to sustain business or whose net worth becomes less than three-tenths of their share capital, their failure to improve within three years after being subject to altered trading or periodic trading is added to the reasons for suspended trading; those failing to improve after six months of suspended trading may be delisted from the TWSE/TPEX. The amendments will come into effect one year after the promulgation to drive TWSE/TPEX listed companies to improve their finances and business operations.

#### (V) Adding the trading halt mechanism for information on emerging stock board companies

To provide investors with a sufficient period of time for the disclosure of material information that occurs or is announced during the trading hours of emerging stock board companies, which can improve information symmetry and allow investors to digest, the TPEX promulgated the amended "Rules Governing the Review of Emerging Stocks for Trading on the TPEX" on July 19, 2019 in accordance with the existing regulations governing TPEX listed companies. The trading halt mechanism for information on emerging stock board companies took effect on March 23, 2020.

For material information to be announced by emerging stock board companies or material resolutions to be passed by the board of directors (e.g., merger, acquisition, demerger, serious decrease in production, and complete stoppage of work), the TPEX may halt the trading of emerging stock board companies' stocks on its own initiative or per request made one business day prior. After the announcement of relevant information, the emerging stock board companies may apply to the TPEX for the resumption of trading.

## Corporate Governance Center



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TWSE Publication No. 02-109-3-06