



## Other important measures for corporate governance

### I. Strengthening CPAs' accountability for audits

Article 20-1 of the Securities and Exchange Act specifies the individuals responsible and range of liability for misrepresentations or nondisclosures in financial reports, as to strengthen the management of the compilation of companies' financial reports and related documents, and to ensure the civil liabilities of CPAs for auditing. It also allows bona fide purchasers, sellers, or holders of securities to petition a court to requisition the CPA's working papers, and to review or make copies of the same.

With regard to the implementation, the competent authority continues to enhance inspections on the financial reports of listed companies and supervise the quality of audits performed by CPAs. The competent authority may impose sanctions for mistakes or omissions committed by a certified public accountant based on the seriousness of the mistakes or omissions and the nature of the case.

The amendments of the Certified Public Accountant Act in recent years included disqualifications for CPAs, revocation of CPA qualifications for failure to join a CPA association, and regulations on



co-location CPA firms. The enhancement in the management of CPAs will help suppress the occurrence of inappropriate actions.

## II. Strengthening the corporate accounting system

### (I) Advancing the International Financial Reporting Standards (IFRSs)

The International Financial Reporting Standards (IFRSs) have gradually become the sole standards for the global capital market. Full adoption of IFRSs has also become a trend in the international capital market. The FSC has announced plans for the full adoption of IFRSs in stages. Details can be referenced in related webpages of Taiwan Stock Exchange and Taipei Exchange:

Taiwan Stock Exchange

<http://www.twse.com.tw/IFRS/about>

Taipei Exchange

[http://www.tpex.org.tw/web/link/issuer\\_ifrs.php?l=zh-tw](http://www.tpex.org.tw/web/link/issuer_ifrs.php?l=zh-tw)

### (II) IFRSs development history

The FSC established the "IFRSs Service Center" in June 2011 to ensure the integrity and timeliness of the publication of related information before listed companies adopt IFRSs. The Center helps

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companies with tasks for the adoption of IFRSs which shall be adopted in two phases. It also allows voluntary early adoption. The development history is shown in Figure 6.1.

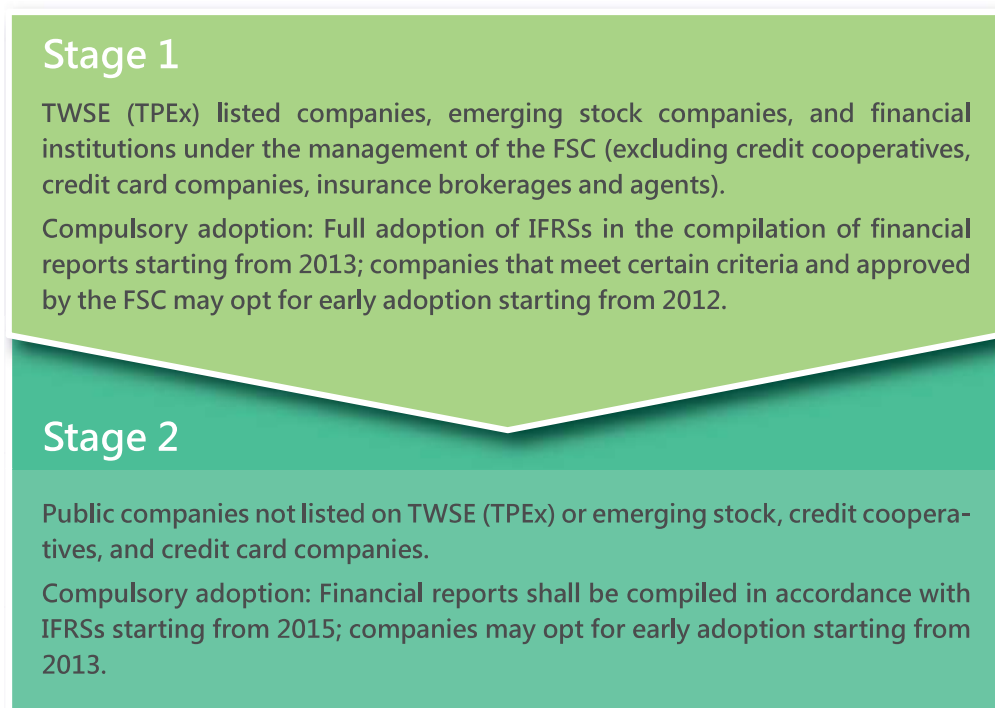


Figure 6.1 Advancement of the International Financial Reporting Standards in two stages in Taiwan

### (III) IFRS adoption history

Taiwan successfully commenced adoption of IFRSs for financial reports since 2013. The IFRS adoption history in Taiwan is shown in Figure 6.2.

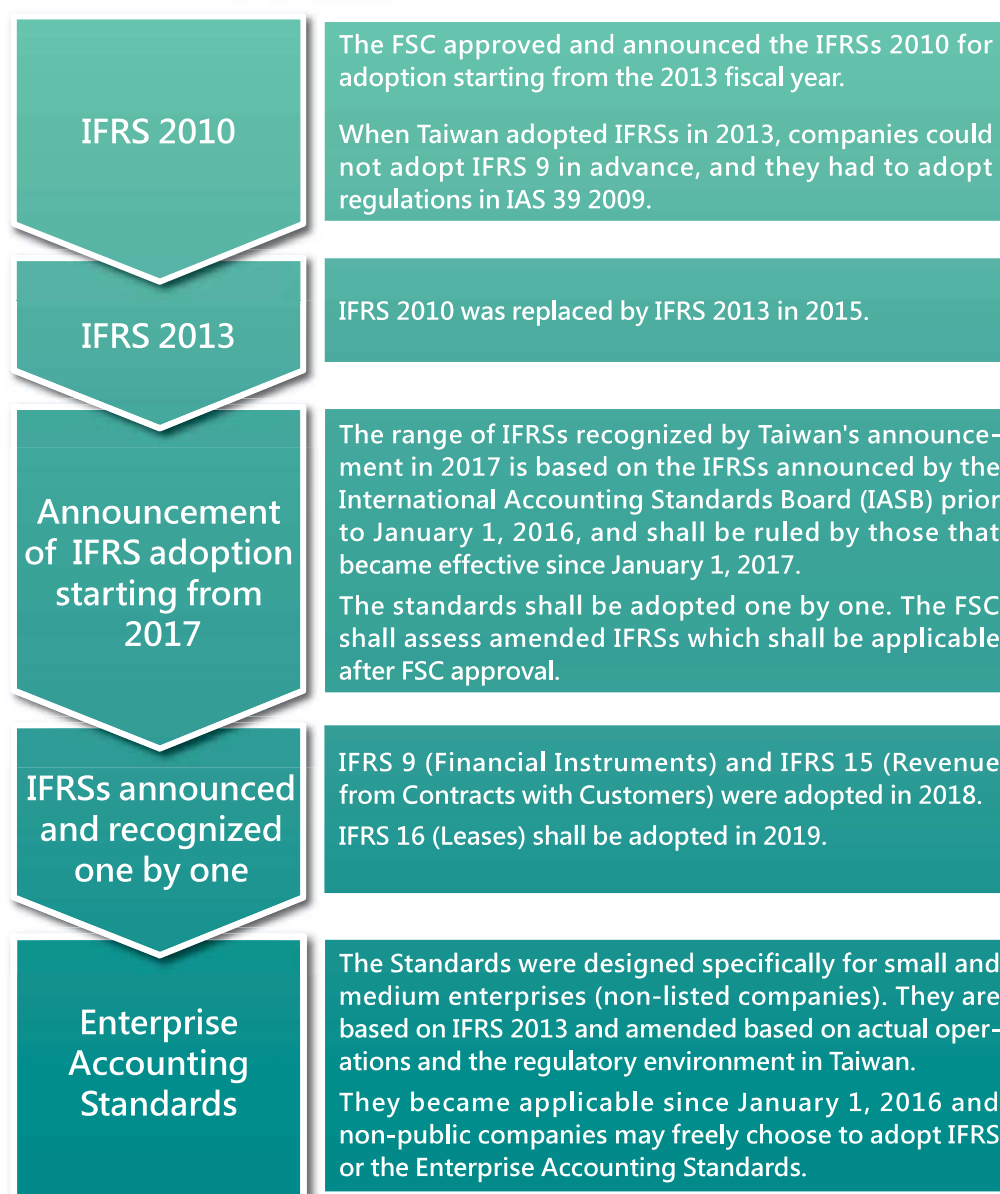


Figure 6.2 IFRSs adoption history in Taiwan

### III. Special inspections of internal control systems and financial operations

#### (I) Regulations on internal control systems

The Regulations are established to ensure that public companies establish internal control systems, disclose their operations and financial information, and strengthen the management of their operating risks for the purposes of improving their operations and efficiency, secure their assets, and protect shareholder interests. Mechanisms for strengthening internal controls are listed in Table 6.1.

Table 6.1 Mechanisms for strengthening internal controls in Taiwan

Concrete Target	Related Measures
<b>Guidelines for Establishment of Internal Control Systems</b>	The "Guidelines for Establishment of Internal Control Systems by Public Companies" and "Guidelines for Certified Public Accountants Conducting Project Audits of Internal Control Systems of Public Companies" have been consolidated into the "Regulations Governing Establishment of Internal Control Systems by Public Companies".
<b>Strengthen internal controls related to financial statements</b>	<ol style="list-style-type: none"> <li>1. The internal control systems of public companies shall include controls for the "management of related party transactions" and "management of the preparation process of financial statements".</li> <li>2. CPAs entrusted to conduct special audits of the internal control systems of a company conducting initial public offering of stocks shall conduct such audits and express opinions pursuant to the aforementioned control measures and "monitoring and management of its subsidiaries" for the establishment of related operation procedures.</li> </ol>



Concrete Target	Related Measures
<b>Strengthen internal risk control and management</b>	Public companies shall formulate adequate risk management policies and procedures and establish effective risk management mechanisms to assess and monitor the respective risk-bearing capacity, current status of risks already incurred, and to determine their compliance with the risk response strategies and risk management procedures.
<b>Strengthen competency of internal audit personnel</b>	Article 11, Paragraph 1 and Article 17, Paragraph of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" expressly requires public companies to appoint appropriate numbers of qualified persons as professional internal auditors and appoint deputies for them. The internal auditors of a public company shall pursue continuing education to improve their auditing quality and competence. These measures aim to successfully implement the internal control system and strengthen corporate governance.

## (II) Amendments of the COSO "Internal Control — Integrated Framework"

In response to the updated "Internal Control— Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of the United States in 2013 and actual requirements in the country, the FSC has amended provisions in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises

in Securities and Futures Markets" in September 2014, and the key amendments are as follows:

1. Amended "financial reporting goals" from the three major goals of the internal control system into "reporting goals", and content related to the five components of internal control;
2. Added "operating management for meetings of the audit committee", "implementation of legal compliance for the respective industry", "management of intellectual property rights", "management of shareholder services", and "management of personal information protection" into control operations;
3. Strengthened related control and management measures to ensure product safety, environmental safety, and occupational safety;
4. Added provisions that state internal audit personnel may not provide or receive illegitimate profits, and expressly provided that companies shall appoint deputies to act on behalf of internal auditing personnel;
5. Loosened requirements and allowed the heads of business units to serve concurrently as the chief auditors.

### **(III) Strengthening the anti-money laundering and counter-terrorism financing system of financial institutions**

To strengthen domestic financial institutions' anti-money laundering (AML) and counter-terrorism financing (CFT) system, the FSC has



established related regulations in recent years and the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" was revised on both September 30, 2017 and May 30, 2018. The main measures for strengthening control in the domestic securities and futures firms are as follows:

1. The Board of Directors shall bear the ultimate responsibility of ensuring the establishment and maintenance of appropriate and effective internal control systems.
2. The code of conduct for directors shall include at least measures required for reporting in the event of material losses and the internal control system shall include the handling of material incidents and reporting mechanisms.
3. Internal control systems should include AML/CFT mechanisms and management of compliance with relevant laws and regulations. Companies shall also establish comprehensive AML/CFT plans for the entire group.
4. The annual audit plan should include the management of compliance with relevant AML/CFT laws and regulations.
5. In the event that an internal audit unit receives an inspection report or a legal compliance officer discovers a material violation of laws, the directors and supervisors shall be notified immediately and they shall report to the Board of Directors.



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6. To fully implement personal information protection and AML/CFT mechanisms, the competent authority may request related securities and futures agencies to perform special inspections on internal control systems.
7. The legal compliance unit shall supervise offshore branches in performing related affairs.