

10508 台北市敦化北路 201 號 7 樓
7th Floor, 201, Tun Hua N. Road
Taipei, Taiwan, R.O.C. 10508
金融(Finance) Fax:886-2-2514-9841
投資(Investment) Fax:886-2-2713-3966
訴訟(Litigation) Fax:886-2-2713-3999
專利(Patent) Fax:886-2-2718-8497
商標(Trademark) Fax:886-2-2718-7099



新竹所 Tel: 886-3-579-9911
Hsinchu Office Fax: 886-3-579-7880
台中所 Tel: 886-4-2376-0101
Taichung Office Fax: 886-4-2376-2020
台南所 Tel: 886-6-505-2998
Tainan Office Fax: 886-6-505-2939
高雄所 Tel: 886-7-215-3899
Kaohsiung Office Fax: 886-7-215-3768

Amendment to the "Implementation Rules Governing Banks' Internal Control and Auditing Systems"

On June 14, 2005, the Financial Supervisory Commission, Executive Yuan (the "FSC") promulgated amended "Implementation Rules Governing Banks' Internal Control and Auditing Systems" (the "Rules").

The amendment is to deal with and reflect the changes of financial environment and regulatory supervision method since the passage of the original Rules more than three years ago.

The Rules contain a total of 42 articles and the main points are as follows:

1. To strengthen the function of compliance officers

- (1) A bank shall assign a senior level officer to act as the compliance officer of its head office, and such officer shall report the implementation of compliance system to the board of directors (the "Board") and supervisors at least biannually (Article 8); and
- (2) Each unit in a bank shall appoint designated person(s) to conduct self-evaluation under compliance function (Article 10).

2. To require banks to establish risk control mechanisms

- (1) a bank shall set up appropriate risks management policy and procedure by a resolution of its Board (Article 11);
- (2) a bank shall establish an independent unit exclusively responsible for risks control and the unit shall periodically submit the risks control report to the Board (Article 12); and
- (3) the guiding principles that a bank shall include in its risks control mechanism (Article 13).

3. To strengthen internal auditing system

A bank's internal auditors shall require each unit to conduct self-evaluation, submit a report for review by the internal auditors. Such report, together with the defects on internal control and improvement of irregularities matters identified by the internal auditors shall be used in preparing the affidavit on internal control system by the auditors (Article 17).

4. To strengthen the management of subsidiaries

A bank shall in its internal control system establish a necessary control system over its subsidiaries and such bank's chief auditor shall periodically review the auditing performance of its subsidiaries (Article 29).

5. To enhance function of corporate governance and market disciplines

It is required that a bank's affidavit on internal control system must be signed by the chairman, approved by the Board, disclosed on the bank's website and on the website designated by the regulator. Further, such affidavit on internal control system shall be contained in the bank's annual report, offering circular or prospectus so as to implement corporate governance, enhance information disclosure quality with the involvement of the power of market discipline (Article 32).

6. To impose reporting requirements relevant to implementation of auditing plans

A bank is now required to submit report to the regulator through the internet system stating its implementation of auditing plan and defects on internal control and improvement of irregularities identified by internal auditors (Articles 36 and 37).

7. To require foreign banks' branches in Taiwan to comply with the Rules

The Rules provide that foreign banks' branches in Taiwan (the "Branches") must equally comply with the Rules as local banks. However, if the Branches' internal control and auditing systems are established in accordance with the internal control

and auditing systems policies of its head office and the Branches can prove such systems and policies are not less strict than those required under the Rules, submitting a comparison chart with detailed statement ("Chart and Statement") signed by its responsible person in Taiwan to the regulator, the Branches may instead apply its head office's internal control and auditing systems (Article 41).

If the Branches' head office has made any change of its internal control and auditing systems, such Branches shall immediately submit the Chart with Statement (specifying the changes) signed by its responsible person in Taiwan to the regulator for record.

A Branch's violation of the above-mentioned internal control and auditing systems approved by the regulator will be deemed that the Branch has violated the Rules.

Please also note that because it is the first time for the Branches to be subject to the Rules, some exceptions and grace periods are granted:

1. For those officers at various levels who have authority to approve business or transaction and complete the internal auditing training provided by its head office, if the requirements of such training are not less strict than those required in the Rules, the relevant requirements prescribed in the Rules may be waived (Article 24);
2. For those officers at various levels who have authority to approve business or transaction, if the Branches have been established prior to June 14, 2005 ("Amendment Date") on which the Rules were amended, they should obtain the qualification or complete the training required under the Rules within one year after the Amendment Date (Article 24); and
3. If the Branches have been established prior to the Amendment Date, such Branches should either truly comply with the Rules or submit the Chart and Statement to the regulator for record within six months after the Amendment Date (Article 41).

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