

## Content

Title : Directions for Secondary Reviews of Financial Reports of Companies with a Secondary Listing on the Exchange (or OTC) Market **Ch**

Date : 2012.12.13

Legislative : 2. Name and full text of 7 points amended and issued per 13 December 2012 Order No. Financial-Supervisory-Securities-Auditing-1010056540 of the Financial Supervisory Commission; to take effect from 1 January 2013 (Original name: Directions for the Secondary Review of Financial Statements of Foreign Companies Offering and Issuing Taiwan Depository Receipts)

Content : 1. These Directions are adopted pursuant to Article 28, paragraph 1, and Article 64, paragraph 2 of the Regulations Governing the Offering and Issuance of Securities by Foreign Securities Issuers.

2. When a Certified Public Accountant (CPA) licensed in the Republic of China (ROC) is engaged to provide an opinion on the differences between the accounting principles applied in the financial reports of a foreign company with a secondary listing on the ROC exchange (or OTC) market and those of the ROC, and the impact of such differences on its financial reports (below, "accounting principle differences and impacts"), the CPA shall conduct the necessary secondary review procedures in accordance with regulations and provide a secondary review report.

3. A CPA licensed in the ROC engaged to conduct a secondary review on accounting principle differences and impacts shall conduct the following secondary review procedures:

(1) Obtain a written declaration that the auditing and attesting CPA of the financial reports complies with the independence requirement of the International Ethics Standards Board for Accountants (IESBA).

(2) Study the Chinese translation of the financial reports and check them against the original language versions to ascertain whether their content matches the meaning of the original.

(3) Verify whether the correct calculations were used to convert monetary amounts in the financial statements for expression in the ROC currency. The exchange rate may in principle be the exchange rate on the balance sheet date for the most recent year, provided that the conversion method and the basis used for the exchange rate shall be noted in the bottom section of the financial statements, as well as the highest, lowest, and average exchange rate for the most recent three years.

(4) Note the differences between the accounting principles used in the financial reports of the foreign company and those used in the ROC.

(5) Conduct a secondary review of the process of reconciling the accounting principles of the two countries.

(6) Conduct a secondary review of whether the format of the financial reports conforms to the requirements of the ROC.

(7) Ascertain whether, during the period from the balance sheet date in the financial reports to the date when the secondary review report is produced, any event under Article 36, paragraph 3, subparagraph 2 of the Securities

and Exchange Act having a material impact on shareholder equity or securities prices has occurred with respect to the foreign company.

4. After completing the secondary review procedures specified in the preceding paragraph, the CPA licensed in the ROC shall produce a secondary review report (the standard report form shown in Appendix 1, Form 1). Given any of the following circumstances, however, an explanation shall be provided in the middle section and appropriate amendments made to the content of the opinion section (Appendix 1, Forms 2 and 3):

(1) The auditing and attesting CPA does not meet the independence requirements of the International Ethics Standards Board for Accountants (IESBA).

(2) The scope of the CPA's secondary review has been restricted.

(3) An error is found or full disclosure has not been made in accordance with the laws of the foreign company's home country.

(4) Supplementary disclosures of relevant information have not been made pursuant to these Directions.

5. When the format of the major financial statements prepared by the foreign company pursuant to the laws of its home country and generally accepted accounting principles does not meet the requirements of the ROC, or when the application of different accounting principles has caused the monetary amounts stated under comprehensive income or under individual items in the balance sheet to meet the criteria for restating financial statements under Article 6 of the Securities and Exchange Act Enforcement Rules, the CPA licensed in the ROC shall adjust and prepare original and restated balance sheets (Appendix 2), comprehensive income statements (Appendix 3), and cash flow statements (Appendix 4) on behalf of the foreign company.

6. The secondary review report produced by the CPA licensed in the ROC shall be bound into a single volume in order of the following items, with a table of contents and page numbers on its front page:

(1) The secondary review report by the CPA licensed in the ROC.

(2) The major financial statements for the most recent year with monetary amounts converted into New Taiwan Dollars.

(3) The audit reports of foreign CPAs (Chinese translation).

(4) Financial statements and related notes or appendices (Chinese translation).

(5) The audit reports of foreign CPAs (in the original language).

(6) Financial statements and related notes or appendices (in the original language)

7. When the foreign company changes its reviewing CPA in the ROC, the successor CPA shall inquire with the predecessor about information on the engaging party for use as a reference in deciding whether to accept the engagement. An inquiry usually includes the following matters:

(1) Whether there is a discrepancy in opinion with respect to accounting principles or any other major matters between the predecessor reviewing CPA and the company's management.

(2) The engaging party's reasons for changing the reviewing CPA.