

Content

Title :	Regulations Governing the Preparation of Financial Reports by Insurance Enterprises <b>Ch</b>
Date :	2020.02.15
Legislative :	Amended on 15 February 2020 per Order Ref. Jin-Kuan-Bao-Tsai 10904902551 of the Financial Supervisory Commission.
Content :	<p>Article 15</p> <p>To meet the objective of presenting full and complete information about the financial position, financial performance, and cash flows of an insurance enterprise, financial reports shall contain explanatory notes disclosing the following:</p> <ol style="list-style-type: none"><li>1. Company history and scope of business operations.</li><li>2. A statement undertaking that the preparation of financial report complies with these Regulations, applicable laws and regulations (the titles of the laws or regulations), as well as IFRS, IAS, IFRIC Interpretations, and SIC Interpretations.</li><li>3. The date on which the financial report was authorized for issue and the process involved in authorizing the financial report for issue.</li><li>4. The effect or impact that may arise when it has or has not applied a new or revised IFRS, IAS, IFRIC Interpretation, or SIC Interpretation endorsed by the FSC.</li><li>5. A summary of significant accounting policies used that are relevant to an understanding of the financial report, and the measurement basis (or bases) used in preparing the financial report.</li><li>6. Significant accounting judgments, estimations, and assumptions, as well as information about the assumptions it makes and other major sources of estimation uncertainty.</li><li>7. Objectives, policies and processes for managing capital, and any change in capital structure, including funding, liability, and equity.</li><li>8. If for a special reason there is a change in accounting treatment, thus affecting the comparison of financial data between two successive periods, the reason for the change and its effect on the financial report shall be noted.</li><li>9. Information on the amount recognized in the financial report and the nature and extent of risks arising from insurance contracts that meet the definition set out in IFRS 4 includes the following:<ol style="list-style-type: none"><li>(1) Accounting policies for insurance contract that require disclosure in accordance with IFRS 4, paragraph 37 (a)</li><li>(2) The recognized assets, liabilities, equity, income, and expense arising from insurance contracts, and the process of determining assumptions that have the material effect on those measurement, reconciliations of changes in insurance liabilities and reinsurance assets during all compared reporting periods, asset segregation requirements for specific restricted assets, effect of changes in estimates and assumptions, loss recognized based on the result of liability adequacy test, gain and loss for the period recognized due to reinsurance ceded, and if gains and losses on buying reinsurance are deferred and amortized, the amortization for the period and the unamortized amounts at the beginning and at the end of period.</li><li>(3) Risk management objectives, policies, procedures and methods.</li><li>(4) Sensitivity analysis of insurance risk, concentrations of insurance risk, trends of claims, and credit risk, liquidity risk and market risk.</li><li>(5) Other information required for disclosure in accordance with IFRS 4.</li></ol></li><li>10. If it is necessary to provide the basis of valuation for any amount, financial instrument, or other items presented in the financial report, that basis of valuation shall be noted.</li><li>11. If any item presented in the financial report is subject to any legal,</li></ol>

regulatory, contractual, or other restriction, the circumstances and timing of the restriction and other related information shall be noted.

12. Material contingent liabilities and unrecognized contractual commitments.

13. Financial risk management objectives and policies.

14. Borrowing to meet cash flow needs arising from payment of major benefits.

15. The addition, construction, idling or sale of major operating assets and investment assets.

16. Significant transactions with related parties.

17. Losses due to major disasters.

18. Major litigation pending or concluded.

19. The signing, completion, avoidance, or lapse of major contracts.

20. Information on financial instruments. The information shall be disclosed in accordance with IFRS 7, including the significance of financial instruments for an entity's financial position and performance, qualitative and quantitative information on risk exposure for each type of financial instrument, and if overlay approach is selected, relevant information required of disclosure in accordance with IFRS 4.

21. Relevant information about leases. The information shall be disclosed in accordance with IFRS 16, including disclosure of information that gives a basis for users of the financial statements to assess the effect that the leases have on the financial position, financial performance, and cash flows of the Insurance Enterprise, and relevant qualitative and quantitative information about its leasing activities.

22. Information about employee benefits. The information shall be disclosed in accordance with IAS 19, and shall include the influence of defined benefit plans on the amount, timing, certainty of future cash flows, actuarial losses arising from changes in demographic assumptions and financial assumptions, and the expected contributions in the next reporting period in the following financial year.

23. An insurance enterprise that offers investment-linked insurance plans shall disclose in the Notes the content and amount of assets, liabilities, income and expense respectively in tabulated format for insurance contracts that meet and do not meet the definition set out in IFRS 4. In addition, sales bonus or allowance obtained from counterparties in connection with the aforementioned business shall also be disclosed.

24. An insurance enterprise that operates non-life insurance shall disclose the amount of respectively the retained gross earned premium from compulsory and non-compulsory insurance and present the calculation process.

25. An insurance enterprise that operates non-life insurance shall disclose the amount of respectively the retained claims for compulsory and non-compulsory insurance and present the calculation process.

26. An insurance enterprise that operates non-life insurances shall disclose the insurance retention limit per risk unit by type of insurance.

27. An insurance enterprise that operates compulsory auto liability insurance shall disclose in the Notes information on its assets, liabilities, income and costs in tabulated format (Forms A ~ B).

28. Investment items and limits under discretionary management of a securities investment trust enterprise or securities investment consulting enterprise.

29. Operating segment information. The information shall be disclosed in accordance with IFRS 8.

30. Information on discontinued operations.

31. Major operations, assets and liabilities assigned to or assumed from other enterprises.

32. When the insurance enterprise is a subsidiary of a financial holding company, manner of revenue, cost, expense and profit (loss) sharing between the insurance enterprise and the financial holding company and other subsidiaries in terms of business or trading activities, joint business promotions, sharing of information, and sharing of facilities or premises.

33. Information on investment in the Mainland Area.

34. In the case of private placement of securities, the type, issue date, and amount shall be disclosed.

35. Information about investments in derivative instruments.

36. When subsidiaries hold shares in the parent, the names of the subsidiaries and the shareholdings, amounts, and reasons shall be separately presented.
37. Major organizational adjustments and significant management reforms.
38. Material effects of changes in government laws and regulations.
39. Description of important accounting policy for foreign exchange valuation reserve mechanism, hedging strategy and risk exposures, the effect on profit (loss), liabilities and equity by not applying this reserve mechanism and calculated earnings per share without applying this reserve mechanism.
40. Fair value information. The information shall be disclosed in accordance with IFRS13, and shall include information on recurring or non-recurring fair value measurement of assets and liabilities, inputs such as fair value valuation technique and parameters or assumptions used in fair value measurement, and Level 3 of fair value hierarchy.
41. Foreign-currency-denominated assets and liabilities that have significant influence, including the amount of risk exposure, currency, and exchange rate for monetary and non-monetary items denominated in foreign currencies.
42. The net worth ratio which means equity divided by total assets excluding separate accounts for investment-linked insurance.
43. Supporting information for items presented in the balance sheet and in the statements of comprehensive income, of changes in equity and of cash flows, or other necessary descriptions essential for avoiding misunderstanding by users or for the fair presentation of the financial reports.

#### Article 20

An insurance enterprise shall provide information on its business conditions in accordance with the following provisions:

1. Significant business matters: The insurance enterprise shall provide information on matters arising over the most recent 5 fiscal years that have had a significant impact on its business, including acquisition or merger, demerger, change in management rights (equity) reaching 10% or more, transfer of business, investments in affiliated enterprises, reorganization, acquisition or disposal of major assets, and significant changes in operation method (including sales system) or business activity.
2. Remuneration to directors, supervisors, president (general manager), vice presidents (assistant general managers), and Chairmen of the board and presidents (general managers) rehired as consultants after retiring from the insurance enterprise or its affiliate enterprises and related information:
  - (1) Remuneration paid to directors, supervisors, president (general manager), vice presidents (assistant general managers), and consultants in the most recent fiscal year: (Form 9, and Form 9-1)
    - A. An insurance enterprise may opt either to disclose aggregate remuneration information, with the name(s) indicated for each remuneration bracket, or to disclose the name of each individual and the corresponding remuneration amount.
    - B. An insurance enterprise having any of the following circumstances is required to disclose the remuneration paid to each individual director, supervisor, president (general manager) and consultants:
      - a. The insurance enterprise's most recent capital adequacy ratio, whether CPA-reviewed or adjusted following FSC examination, is below 200%.
      - b. The insurance enterprise showed an after-tax deficit in the parent company only or individual financial reports for the most recent three fiscal years. This requirement, however, shall not apply if the parent company only or individual financial report for the most recent fiscal year shows net income after tax and such net income after tax is sufficient to make up the accumulated deficits.
      - c. The insurance enterprise is required by the FSC to increase capital but fails to complete capital increase according to its proposed capital increase plan.
    - C. The insurance enterprise, if a public company that has had an insufficient director or supervisor shareholding percentage stipulated in Article 2 of the Rules and Review Procedures for Director and Supervisor

Share Ownership Ratios at Public Companies for three (3) consecutive months or longer during the most recent fiscal year, shall disclose the remuneration paid to each of the directors or supervisors.

D. The insurance enterprise that has had an average ratio of share pledging by directors or supervisors in excess of 50% in any three months during the most recent fiscal year, shall disclose the remuneration paid to each of the directors or supervisors having a ratio of pledged shares in excess of 50% for each such month.

E. If the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of the companies listed in the financial report exceeds 2% of the net income after tax, and the remuneration received by any individual director or supervisor exceeds NT\$15 million, the insurance enterprise shall disclose the remuneration paid to that individual director or supervisor.

F. If an insurance enterprise listed on the TWSE or the TPEX is ranked in the lowest tier in the corporate governance evaluation for the most recent fiscal year, or in the most recent fiscal year or up to the date of publication of the financial report for that year, the insurance enterprise's securities have been placed under an altered trading method, suspended from trading, delisted from the TWSE or the TPEX, or the Corporate Governance Evaluation Committee has resolved that the insurance enterprise shall be excluded from evaluation, the insurance enterprise shall disclose the remuneration paid to each individual director and supervisor.

G. If the average annual salary of the full-time non-supervisory employees in a TWSE or TPEX listed insurance enterprise is less than NT\$500,000 in the most recent fiscal year, the insurance enterprise shall disclose the remuneration paid to each individual director and supervisor.

H. If the circumstance in item B.b or item F applies to an insurance enterprise listed on the TWSE or the TPEX, it shall disclose the individual remuneration paid to each of its top five management personnel.

(2) Where the insurance enterprise's chairperson, president (general manager), or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its attesting CPA or at an affiliated enterprise of such accounting firm, the name and position of the person, and the period during which the position was held at the accounting firm, shall be disclosed.

(3) The term "affiliated enterprise of the attesting CPA's accounting firm" means one in which the accountant(s) at the accounting firm of the attesting CPA hold more than 50% of the shares, or of which such accountant(s) hold more than half of the directorships, or a company or institution listed as an affiliated enterprise in the external publications or printed materials of the accounting firm of the attesting CPA.

(4) The term "affiliated enterprises" in this Subparagraph refers to those conforming with Article 369-1 of the Company Act.

### 3. Labor-management relations: (Form 10)

(1) Report major employee benefit policies, professional development, training, or retirement programs and the status of their implementation, as well as agreements between labor and management and policies for safeguarding employees' rights and interests.

(2) Report the loss sustained as a result of labor disputes in the most recent 3 fiscal years, together with the disclosure of an estimate of losses incurred to date or likely to be incurred in the future and the mitigation measures taken or to be taken. If the losses cannot be reasonably estimated, the insurance enterprise shall make a statement to that effect.

(3) Describe any violation of the Labor Standards Act found during the labor inspection; including the disposition date, disposition reference No., provisions of the regulations breached, description of the violation, and the disposition.

4. Changes in president (general manager), chief audit officer and actuaries in the most recent 2 years.

5. Changes in the method for allocation of all kinds of reserves.

6. The insurance enterprise had the situation in the most recent year where its shareholders' meeting has adopted the resolution to carry out capital increase or decrease or its board of directors (council) has adopted the

resolution to issue new shares but the application (or filing) was not approved (or approved for record) by the FSC, or where its application for capital change registration was not approved by the Ministry of Economic Affairs.

7. Cases of claim payment and claim recovery from reinsurer involving amount exceeding NT\$20 million in the most recent 3 years and financial impact analysis therefor.

8. Names of reinsurers to whom the reinsurance premium expenses paid in the most recent year account for more than 1% of total premium income and the credit rating of those reinsurers.

9. Where a credit rating agency has been engaged to rate the reinsurer, the name of the credit rating agency, and date and result of rating; if no credit rating agency is engaged, such fact shall be disclosed as well.

#### Article 24

An insurance enterprise shall disclose the following information regarding its CPA and may opt to disclose by bracket or individually:

1. An insurance enterprise having any of the following conditions shall disclose its CPA fees:

(1) When non-audit fees paid to the CPA, to the accounting firm of the CPA, and to any affiliated enterprise of such accounting firm are equivalent to one fourth or more of the audit fees paid to them, disclose the amounts of both audit and non-audit fees and the details of the non-audit services. (Form 19)

(2) When the insurance enterprise changes its accounting firm and the audit fees paid for the fiscal year in which the change took place are lower than those paid for the fiscal year immediately preceding the change, disclose the amount of the audit fees before and after the change and the reason for the change.

(3) When the audit fees paid for the current fiscal year are lower than those paid for the immediately preceding fiscal year by 10% or more, disclose the amount and percentage of and reason for the reduction in audit fees.

(4) The term "audit fees" referred to in Item (1) hereof means professional fees paid by the insurance enterprise to its CPA for audits, reviews, and secondary reviews of financial reports, reviews of financial forecasts, and tax certification.

2. If an insurance enterprise changed its CPA during the most recent 2 years or any subsequent interim period, it shall disclose the following information: (Form 20)

(1) Regarding the former CPA:

A. Date of and reason for the change in CPA, together with a description of whether the CPA or the insurance enterprise terminated or discontinued the engagement.

B. If the former CPA issued an audit report during the most recent 2 years containing an opinion other than an unqualified opinion, state the opinion and reason.

C. Whether there were any disagreements between the insurance enterprise and the former CPA on:

- a. accounting principles or practices.
- b. financial and business report disclosure.
- c. auditing scope or procedure.

d. If any such disagreements did exist, the insurance enterprise shall describe in detail the nature of each such disagreement, how the insurance enterprise addressed it (including whether the insurance enterprise has authorized the former CPA to respond fully to the inquiries of the successor CPA concerning such above-mentioned disagreements), and the final results.

D. Disclose the following matters, if any:

- a. The former CPA once advised the insurance enterprise that it lacked the sound internal controls necessary to develop reliable financial reports
- b. The former CPA once advised the insurance enterprise that the CPA was unable to rely on the insurance enterprise's written representations, or was unwilling to be associated with the issue of the insurance enterprise's financial report.
- c. The former CPA once advised the insurance enterprise that the scope of

the audit must be expanded, or there was information indicating that an expanded audit might impact the reliability of either a previously issued financial report or the financial report to be issued, but due to the change of the CPA or for any other reason, the former CPA did not expand the scope of the audit.

d. The former CPA once advised the insurance enterprise that information has come to the CPA's attention that might impact the reliability of either a previously issued financial report or the financial report to be issued, but due to the change of the CPA or for any other reason, the former CPA did not address the issue.

(2) Regarding the successor CPA:

A. Names of the successor accounting firm and CPA, and date of engagement.

B. If prior to the formal engagement of the successor CPA, the insurance enterprise consulted the new CPA regarding the accounting treatment of or application of accounting principles to a specific transaction, or the type of audit opinion that might be rendered on the insurance enterprise's financial report, the insurance enterprise shall disclose the matters that were the subjects of those consultations and the consultation results.

C. The insurance enterprise shall consult and obtain written views from the successor CPA regarding the matters on which the insurance enterprise disagreed with the former CPA, and disclose information on these views.

(3) The insurance enterprise shall by letter provide the former CPA with a copy of the disclosures it is making in response to Item (1) and Item (2) C of Subparagraph 2 herein, and advise the CPA of the need to respond by letter within ten (10) days should the CPA disagree on any such matters. The insurance enterprise shall disclose the content of the reply letter from the former CPA.