

Content

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Subject: Concerning the FSC' s examination findings raised on financial institutions, the way in which the inspected financial institutions report the findings and follow-ups to the board of directors (or the council), as well as the manner of reviews to be undertaken by internal audit units [This circular is for the reference of all member institutions.]

Overview:

1.Financial institutions' internal audit units are to perform ongoing follow-up reviews to address the FSC' s examination findings in accordance with the related internal control and audit regulations governing each segment of the financial industry. These units are to present their assessments of said follow-up reviews and of remedial actions taken in writing to their institutions' board of directors (or the council).
2.As financial institutions' board of directors (or the council) are to be aware of risks brought by business, be monitoring the outcomes of operations, and bear the ultimate responsibility to establish and uphold appropriate and effective internal controls, financial institutions are to address the FSC' s significant examination findings (Form A) so as to ensure that the board of directors (or the council) gives sufficient attention to remedial actions, in the manner set below:

(1)The content of replies to significant examination findings (Form A) submitted to the FSC is to be reported to the board of directors (or the council). Submission to other layers of management for approval, or to an executive board of directors, may not stand in lieu of this.
(2)Proposed remedial actions are to be presented to the board of directors (or the council) as a special item for discussion and are not to be submitted as a report or incorporated into other discussion topics. The board of directors (or the council) shall engage in a comprehensive discussion of the adequacy and effectiveness of the proposed remedial actions.
(3)In accordance with Article 3 of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies," the proposal of the forgoing item of discussion shall be presented to all directors (or council members) seven days prior to a meeting and may not be presented in an *ad hoc* fashion. This is to ensure directors (or council members) have sufficient time to understand the content of the proposal.

3.In addition to implementing the suggested remedial actions that correspond to the FSC' s examination findings, financial institutions are to implement the following risk-based approach to assist the board of directors (or the

council) and management with ensuring the effective operation of internal controls:

(1) Prior to reporting the status of remedial measure taken to address significant examination findings (Form A) to the Financial Examination Bureau (FEB), the internal audit unit shall conduct a review. The form this review shall take is to be based on the circumstances involved in the FSC' s examination findings and the suggested remedial actions. The review may be an on-site or an off-site inspection involving remotely accessing data (including that obtained through relevant financial business information systems). Sampling should be increased where necessary and complete audit trails should be maintained.

(2) Prior to reporting the status of remedial actions taken to address examination findings (Form B) to the FEB, depending on the circumstances involved in the FSC' s examination findings and suggested remedial measures, the audit unit may conduct on-site or off-site audits, or it may take desk review on the paper evidence of remedial actions presented by the business, financial, asset custody, information, or management units or operations centers in which the examination findings occurred. The above complete audit trails should be maintained.

(3) As the other examination findings assigned to follow up by internal audit units, the audit unit shall at its discretion determine the method of verification as well as the timeframe for follow-up actions.

(4) The follow-up review conducted by the audit unit on the FSC' s examination findings shall be listed as an item to be examined by the FSC. If it is uncovered that an effective review has not been carried out, examination findings are to be raised and be incorporated into the reference for assessing the effectiveness of internal audit function performed. Internal audit units shall be instructed to follow up the remedial actions taken based on the FSC' s examination findings including those assigned to follow up by internal audit units.

4. The FSC letter No. Jin Guan Jian Kong 1080602035 of February 15, 2019 shall no longer be in effect.