

CORPORATE GOVERNANCE IN TAIWAN



Figure 2.1 OECD Corporate Governance Principles



Corporate Governance System and Development in Taiwan

I. Design of the Corporate Governance System in Taiwan

The current design of companies limited by shares in Taiwan is mainly an adaptation of the political system's separation into



three powers, as reflected in the Board of Directors, supervisors, and shareholders' meeting. In terms of the internal mechanisms for corporate governance, the Board of Directors carries out executive functions; supervisors oversee the Board of Directors' execution of duties; and the shareholders' meeting is the highest agency of the company. The powers of these three entities are balanced so as to ensure achievement of corporate governance goals.

In addition, a public company may establish an audit committee to replace supervisors, and in view of a company's scale, nature of business, or other essential considerations, the competent authority may order it to establish an audit committee (Article 14-4 of the Securities and Exchange Act). A company whose stock is listed on the stock exchange or traded over-the-counter shall establish a remuneration committee (Article 14-6 of the Securities and Exchange Act).

II. Corporate Governance Development in Taiwan

(I) History

The Executive Yuan established the "Taskforce for Reforming Corporate Governance" on January 7, 2003 and proposed the "Policy Agenda and Action Plan to Strengthen Corporate Governance" as the basis for advancing corporate governance. The Executive Yuan

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continued to advance and implement various policies, including increasing the independence of the Board of Directors, strengthening the establishment of functional committees of the Board of Directors by stages, using the OECD Corporate Governance Principles as reference to establish the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies which are suited to domestic conditions, advancing e-voting, strengthening the decision-making process and disclosure of related-party transactions, introducing investor protection measures, and increasing information transparency for companies, all in order to help with building a solid foundation for corporate governance in Taiwan.

(II) Outcomes of implementing the "Corporate Governance Roadmap"

To expedite reforms, the FSC announced the "Corporate Governance Roadmap 2013" in 2013, with the goal of establishing a corporate governance culture and create mutually beneficial corporate values. It conducted annual reviews on the implementation status of each action plan, and amendments were made on a rolling basis. Execution of the plans was completed in 2017. Related goals and outcomes of implementation are shown in the table below. The Five Action Plans, their respective concrete measures, and implementation outcomes are listed in Table 3.1. A review of Taiwan's advancement of important corporate governance measures are shown in Figure 3.1.

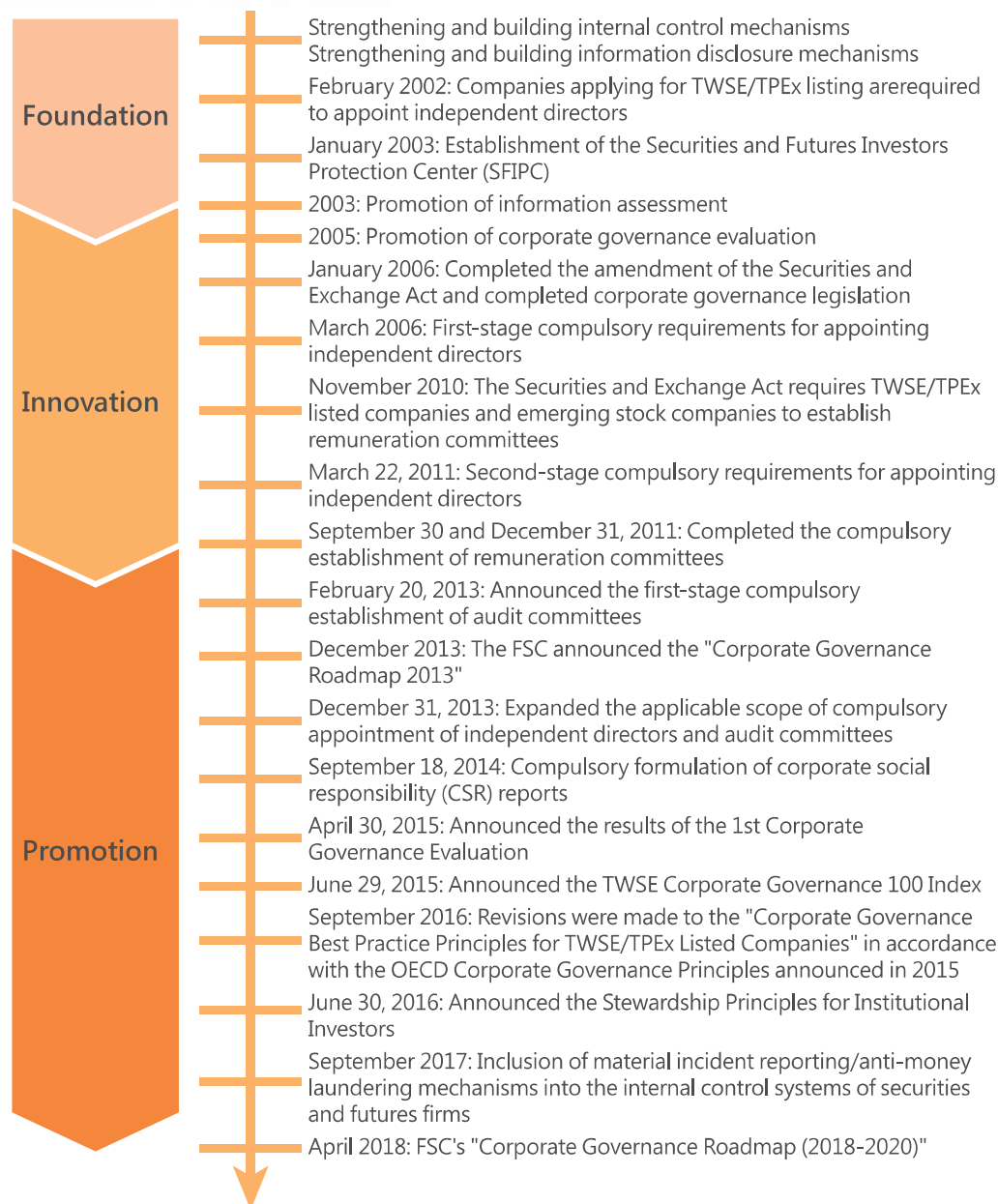


Figure 3.1 Important corporate governance developments in Taiwan

Source: FSC website

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Table 3.1 Strengthening of concrete measures and implementation results of the Corporate Governance Roadmap

| Action Plans | Specific Measures | Implementation Results |
|---|---|---|
| Shaping corporate governance culture | 1. Establishment of the Corporate Governance Center | The Corporate Governance Center was established in October 2013. |
| | 2. Implementation of Corporate Governance Evaluation | The first Evaluation was organized in 2014, and the fifth round was carried out in 2018. |
| | 3. Compilation of the TWSE Corporate Governance 100 Index | The "TWSE Corporate Governance 100 Index" and "TPEX Corporate Governance Index" were launched in June 2015. Taiwan Index Plus Corporation and FTSE Russell jointly announced their compilation of the "FTSE4Good TIP Taiwan ESG Index" in December 2017. |
| Promotion of shareholder activism | 1. Expansion of the implementation of e-voting | From 2016, all companies listed for the first time on the TWSE and TPEX shall include e-voting as one of the channels for shareholders to exercise their voting rights in their Articles of Incorporation; the requirement shall be applicable to all TWSE/TPEX listed companies in 2018. |



| Action Plans | Specific Measures | Implementation Results |
|--------------|--|--|
| | 2.Improvement of the quality of shareholders' meetings | Improved the proportion of TWSE/ TPEX listed companies using e-voting, case-by-case voting, English shareholders' meeting handbooks, and candidate nomination system for electing directors and supervisors, as detailed in Tables 3.2 to 3.4 and Table 4.4. |
| | 3.Set up of communication platforms for stakeholders | 1.In 2014, TWSE and TPEX required all listed companies to set up stakeholder sections for inquiries and feedback on their corporate websites before the end of 2015. 2.The articles (Article 7 and Article 10) related to stakeholders in the "Corporate Social Responsibility Best Practice Principles for TWSE/ TPEX Listed Companies" were amended in November 2014 and July 2016. |
| | 4.Announced the "Stewardship Principles for Institutional Investors" | TWSE Corporate Governance Center, Taiwan Financial Services Roundtable, Taiwan Depository and Clearing Corporation, and the Securities Investment Trust and Consulting Association of the R.O.C. announced the "Stewardship Principles for Institutional Investors" on June 30, 2016. |

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| Action Plans | Specific Measures | Implementation Results |
|---|---|--|
| Improvement of board functions | 1.Expansion of the applicable scope of independent directors and audit committees | The proportion of TWSE/TPEX listed companies that appointed independent directors in 2017 reached 100%; as of June 2018, the proportion of listed companies that have established audit committees was 60.41% for TWSE-listed companies and 39.55% for TPEX-listed companies. |
| | 2.Strengthening of the effectiveness of the board | 1.Establishment of the directors and supervisors training resource section in the Corporate Governance Center 2.Establishment of a talent database of independent directors and a database on the status of the appointment and establishment of independent directors and functional committees. |
| Disclosure of important corporate governance information | 1.Improvement of the quality of non-financial information disclosure | From September 2014, food, chemicals, financial and insurance companies, and companies with more than NT\$10 billion in capital are required to formulate corporate social responsibility (CSR) reports. In 2015, the law was amended to include companies with a capital between NT\$5 billion and NT\$10 billion. In principle, it has been applicable since 2017. |



| Action Plans | Specific Measures | Implementation Results |
|-------------------------------------|---|---|
| | 2. Integration of disclosure of information regarding penalties and irregular transactions | TWSE and TPEx set up sections dedicated to information disclosure, and set up the Enforcement Records section in the Corporate Governance Center. |
| Strengthening of legislation | 1. Set up of core rules for companies' internal control systems | Amended the Regulations Governing Establishment of Internal Control Systems by Public Companies on September 22, 2014 for implementation on January 1, 2015. |
| | 2. Strengthening of the protection of shareholder rights | TWSE and TPEx strengthened requirements for listed companies to disclose hearing procedures, review standards, and other information for shareholder nomination or proposal reviews. |
| | 3. Study of related regulations to ensure companies' respect for corporate governance-related regulations | TWSE and TPEx jointly revised the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" and examples in related regulations on September 30, 2016 for reference by companies. Related agencies continue to revise Corporate Governance Best Practice Principles for the insurance industry, bills finance enterprises, banks, financial holding companies, investment trust consulting enterprises, futures firms, securities firms, and other financial institutions. |

Source: Information compiled from the Corporate Governance Center website (<http://cgc.twse.com.tw/front/aboutCorpgov>)

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Table 3.2 Statistics on TWSE/TPEX listed companies that adopted e-voting for general shareholders' meetings

| Year/ Market Type | Number of Compliant TWSE- Listed Companies | Total Number of TWSE- Listed Companies | Percentage of TWSE-Listed Companies | Number of Compliant TPEX- Listed Companies | Total Number of TPEX- Listed Companies | Percentage of TPEX-Listed Companies |
|-------------------------|--|--|---|--|--|---|
| 107 | 917 | 917 | 100.00% | 756 | 756 | 100.00% |
| 106 | 728 | 900 | 80.89% | 423 | 742 | 57.01% |
| 105 | 475 | 881 | 53.92% | 93 | 721 | 12.90% |
| 104 | 256 | 862 | 29.70% | 21 | 697 | 3.01% |
| 103 | 190 | 845 | 22.49% | 11 | 666 | 1.65% |
| 102 | 115 | 812 | 14.16% | 4 | 645 | 0.62% |
| 101 | 81 | 797 | 10.16% | 4 | 622 | 0.64% |

Source: Taiwan Stock Exchange Corporate Governance Center website. Calculated using the total number of TWSE/TPEX listed companies in June each year

Table 3.3 Statistics on TWSE/TPEX listed companies that adopted case-by-case voting for general shareholders' meetings

| Year/ Market Type | Number of Compliant TWSE- Listed Companies | Total Number of TWSE- Listed Companies | Percentage of TWSE-Listed Companies | Number of Compliant TPEX- Listed Companies | Total Number of TPEX- Listed Companies | Percentage of TPEX-Listed Companies |
|-------------------------|--|--|---|--|--|---|
| 107 | 917 | 917 | 100.00% | 756 | 756 | 100.00% |
| 106 | 787 | 900 | 87.44% | 511 | 742 | 68.87% |
| 105 | 627 | 881 | 71.17% | 274 | 721 | 38.00% |
| 104 | 393 | 862 | 45.59% | 142 | 697 | 20.37% |
| 103 | 257 | 845 | 30.41% | 69 | 666 | 10.36% |
| 102 | 169 | 812 | 20.81% | 27 | 645 | 4.19% |

Source: Taiwan Stock Exchange Corporate Governance Center website. Calculated using the total number of TWSE/TPEX listed companies in June each year



Table 3.4 Statistics on TWSE/TPEX listed companies that provided English shareholders' meeting handbooks for general shareholders' meetings

| Year/ Market Type | Number of Compliant TWSE- Listed Companies | Total Number of TWSE- Listed Companies | Percentage of TWSE-Listed Companies | Number of Compliant TPEX-Listed Companies | Total Number of TPEX-Listed Companies | Percentage of TPEX-Listed Companies |
|-------------------------|--|--|---|--|--|---|
| 107 | 267 | 917 | 29.12% | 93 | 756 | 12.30% |
| 106 | 231 | 900 | 25.67% | 74 | 742 | 9.97% |
| 105 | 183 | 881 | 20.77% | 53 | 721 | 7.35% |
| 104 | 131 | 862 | 15.20% | 29 | 697 | 4.16% |
| 103 | 80 | 845 | 9.47% | 22 | 666 | 3.30% |
| 102 | 61 | 812 | 7.51% | 16 | 645 | 2.48% |

Source: Taiwan Stock Exchange Corporate Governance Center website. Calculated using the total number of TWSE/TPEX listed companies in June each year

(III) Corporate Governance Roadmap (2018-2020)

As previously described, the corporate governance measures in the "Corporate Governance Roadmap 2013" announced by the FSC were successfully implemented and achieved concrete results. Companies must keep pace with the times and make continuous improvements to move ahead and achieve international competitiveness. The FSC therefore officially launched the three-year plan for the "Corporate Governance Roadmap (2018-2020)" in April 2018 as guidance for the implementation of corporate governance policies in the next

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three years. The Roadmap aims to deepen corporate governance culture, enhance Board functions, improve the quality of information disclosure, and encourage external shareholder participation in corporate governance, as to improve legal compliance and international competitiveness. The Five Action Plans are shown in Figure 3.2

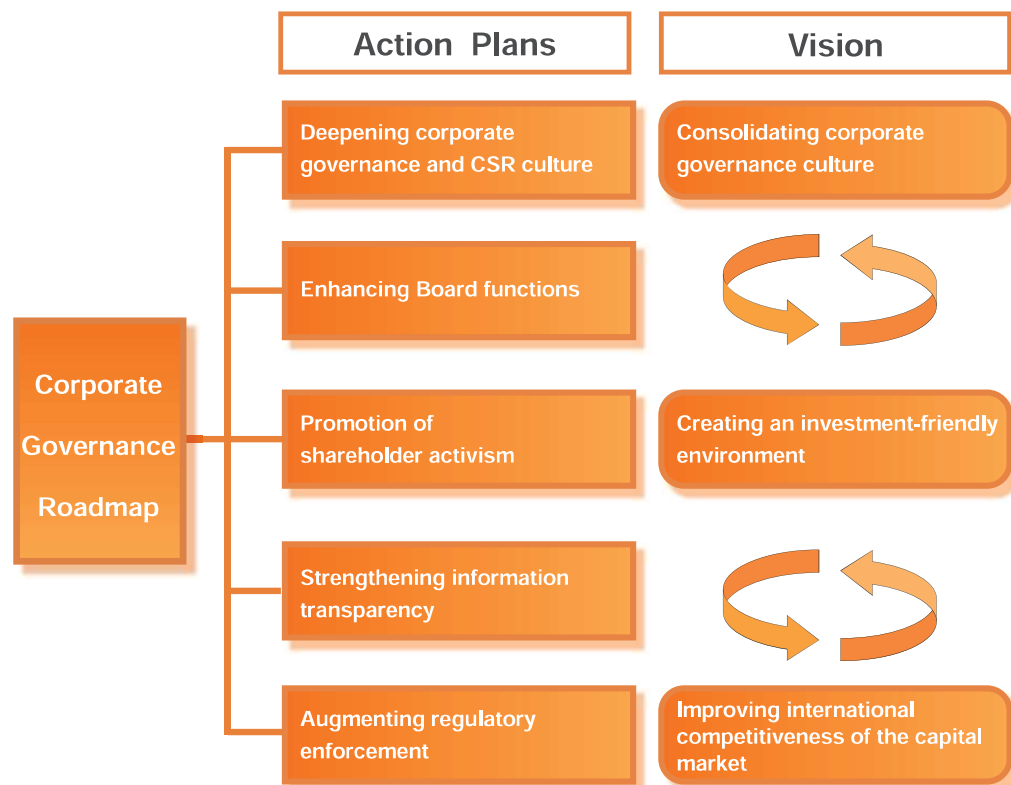


Figure 3.2 Corporate Governance Roadmap (2018-2020) Action Plan and Vision