



## Corporate Social Responsibility and Sustainable Development

### I. Introduction of Corporate Social Responsibility

Corporate social responsibility (CSR) refers to companies' responsibilities towards all stakeholders in addition to creating profits and being responsible for shareholder interests. The aim of CSR is to promote economic prosperity, social welfare, and sustainable development for environmental protection in response to social issues such as human rights, labor rights, distribution of resources, corruption and bribery, and other economic and environmental issues. Therefore, governments and capital market regulators from all nations actively establish regulations to require companies to fulfill their social responsibilities, and many successful multinational companies have included CSR in their business activities and integrated CSR with their core strategies to form the foundations of their sustainable development. The scope of CSR is specified in Figure 5.1.

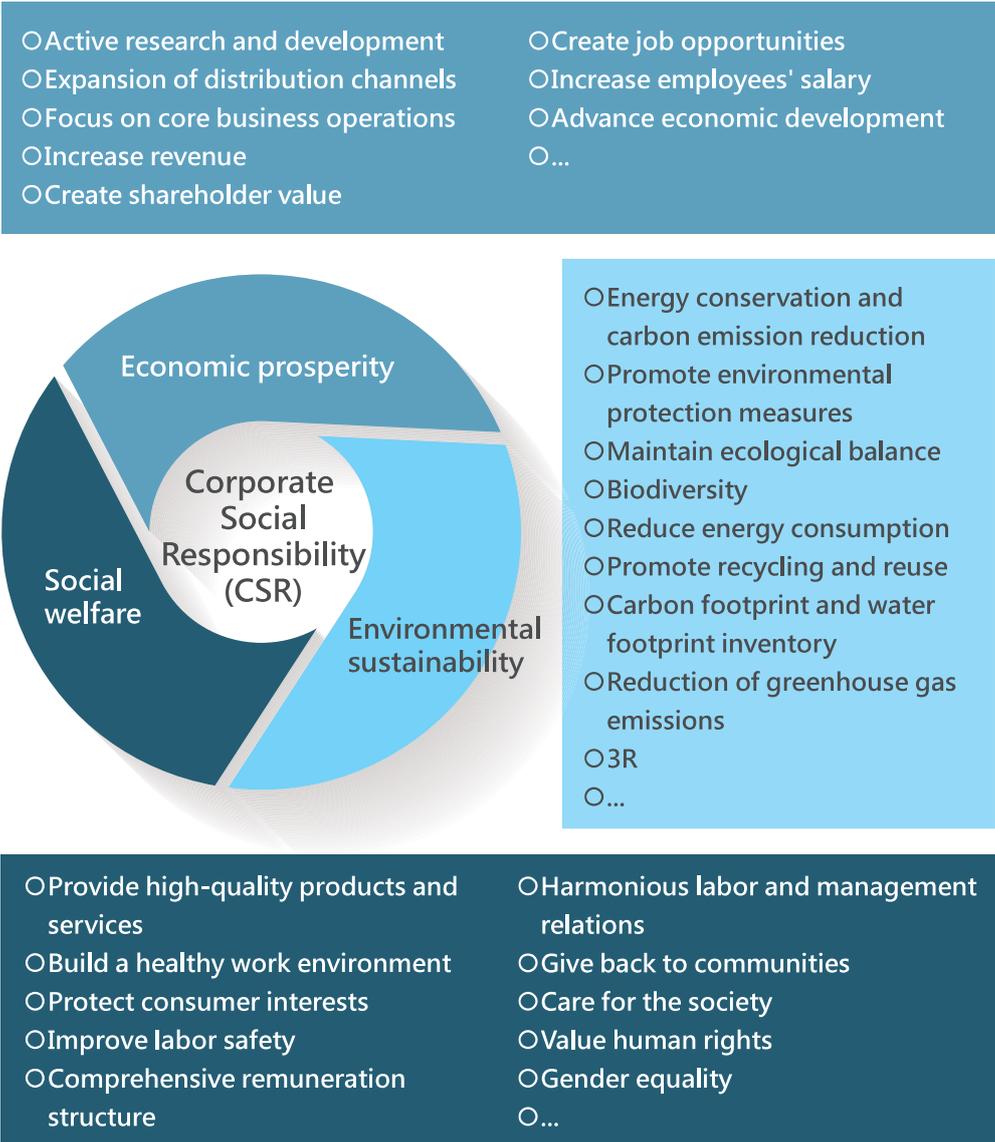


Figure 5.1 Scope of corporate social responsibilities

## II. CSR Advancement in Taiwan

Competent authorities and related agencies have promoted CSR in the capital market system, market investment, and practical advancement of CSR in order to increase companies' awareness of their social responsibilities and fully advance companies' implementation of CSR. Important developments are specified in Table 5.1.

In terms of the capital market system, the FSC continued to provide revisions on regulations for the disclosure of CSR information in 2008, and TWSE and TPEX announced the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies" and "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" in 2010 to guide listed companies in Taiwan in fulfilling their corporate social responsibilities and ethical corporate management, and thus step closer to sustainable development.

In terms of market investment, the Labor Insurance Fund and Labor Retirement Fund have continuously included CSR as a factor in their investment in securities, and TWSE and TPEX have announced employment indicators and remuneration indexes to encourage companies to increase job opportunities and employees' salaries through the design of the indexes and product launches.

With regard to the practical advancement of CSR, TWSE and TPEX have organized the annual "Corporate Ethical Management and



Social Responsibility Forums for TWSE/TPEX Listed Companies" since 2011 to provide listed companies with CSR case studies. TWSE joined the Sustainability Working Group of the World Federation of Exchanges (WFE) in 2014 and became a member of the Global Reporting Initiatives (GRI) in 2015 to use information exchange and learning to establish regulations that are in line with international trends in Taiwan's capital market.

In response to the 17 Sustainable Development Goals (SDGs) proposed in the United Nations "2030 Agenda for Sustainable Development" in 2015, Taiwan has included SDGs into national development plans and international collaboration plans and published the Voluntary National Review (VNR) in 2017 to explain Taiwan's sustainable development policies and goals. Companies, government authorities, academic and research institutes, non-government organizations, and other stakeholders across different sectors jointly established the "Alliance for Sustainable Development Goals" on August 21, 2018 to construct a platform for exchanging sustainable development information and resources. The government, industries, research institutes, and NGOs shall work together to achieve the 17 SDGs proposed by the United Nations.

Taiwan has received international recognition in corporate social responsibility and sustainable development due to the competent authority's active advancement. Taiwan ranked seventh among 25

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important economies surveyed in Bloomberg's ESG Disclosure Score in January 2018. It ranked first in the Asia Pacific and Japan region. 18 Taiwanese companies were included in the Dow Jones Sustainability Index (DJSI) in 2017, making Taiwan the highest-ranking emerging market in terms of weighted market value.

Table 5.1 Important milestones in Taiwan's CSR advancement

Year	Development
2008	The FSC began formulating regulations for CSR disclosure
2010	<ul style="list-style-type: none"> <li>● Promulgation of the Corporate Social Responsibility Best Practice Principles and Ethical Corporate Management Best Practice Principles</li> <li>● TWSE launched the "Taiwan Employment Creation 99 Index"</li> </ul>
2011	Started annual organization of the "Corporate Ethical Management and Social Responsibility Forums for TWSE/TPEX Listed Companies"
2013	<ul style="list-style-type: none"> <li>● Corporate Governance Roadmap 2013</li> <li>● TWSE established the Corporate Governance Center</li> </ul>
2014	<ul style="list-style-type: none"> <li>● TWSE joined the Sustainability Working Group of the World Federation of Exchanges (WFE)</li> <li>● TWSE launched the "Taiwan High Compensation 100 Index"</li> <li>● TPEX launched the "Labor Employment 88 Index" and "Compensation Index"</li> <li>● Announced the requirement for compulsory formulation of corporate social responsibility (CSR) reports for specific listed companies</li> </ul>



Year	Development
2015	<ul style="list-style-type: none"> <li>● The Environmental Protection Administration established the "Greenhouse Gas Reduction and Management Act" and set long-term goals for reducing greenhouse gas emissions in Taiwan</li> <li>● TWSE launched the "TWSE CG 100 Index"</li> <li>● TPEX launched the "TPEX Corporate Governance Index"</li> <li>● Announced the requirement for compulsory formulation of corporate social responsibility (CSR) reports for 2016 for additional listed companies from 2017</li> </ul>
2016	<ul style="list-style-type: none"> <li>● TWSE published the "Stewardship Principles for Institutional Investors"</li> <li>● TWSE and TPEX revised the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies"</li> </ul>
2017	<ul style="list-style-type: none"> <li>● The Executive Yuan published the first Voluntary National Review (VNR) for Taiwan's implementation of the United Nations "Sustainable Development Goals" (SDGs)</li> <li>● Taiwan Index Plus Corporation and FTSE Russell jointly announced their mutual compilation of the "FTSE4Good TIP Taiwan ESG Index"</li> <li>● The traditional Chinese version of the GRI Standards was officially published and it shall be adopted for the formulation of CSR reports starting from 2019</li> </ul>
2018	<ul style="list-style-type: none"> <li>● TPEX published the "Operational Directions for Green Bonds"</li> </ul>

Source: Corporate Governance Center website (<http://cgc.twse.com.tw/front/responsibility>), 2017 Corporate Social Responsibility Yearbook

### III. Current Developments

#### (I) Legislation

##### 1. Regulations on disclosure in the "Regulations Governing Information to be Published in Annual Reports of Public Companies" and "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses"

The competent authority has amended the "Regulations Governing Information to be Published in Annual Reports of Public Companies" and "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses" in 2008 to require public companies to disclose their implementation of CSR in annual reports and prospectuses (including environmental protection, social engagement, social contribution, community service, community welfare, consumer rights, human rights, safety and hygiene, systems and other methods used to plan and organize CSR activities, and their status of implementation).

##### 2. Guidelines for the Adoption of Codes of Ethical Conduct for TWSE/TPEX Listed Companies

To provide guidance to directors, supervisors, and managerial officers of listed companies in Taiwan in complying with ethical standards, and to ensure stakeholders of companies such as customers, suppliers,



and other external entities understand corporate ethical standards, TWSE and TPEX established the "Guidelines for the Adoption of Codes of Ethical Conduct for TWSE/TPEX Listed Companies" on November 11, 2004 for companies to use as reference. It mainly requires listed companies to consider the inclusion of eight major items, including preventing conflict of interests, procedures for exemptions, and disclosure methods. TWSE and TPEX amended the Guidelines on January 28 and February 4, 2015 to require listed companies to disclose the Codes of Ethical Conduct they have established on the company's website, annual report, prospectus, and MOPS.

### 3. Corporate Social Responsibility Best-Practice Principles for TWSE or TPEX Listed Companies

To help listed companies implement CSR, promote economic development, strike a balance between society and environmental ecology, and maintain sustainable development, TWSE and TPEX jointly established the "Corporate Social Responsibility Best-Practice Principles for TWSE or TPEX Listed Companies" on February 6, 2010 which shall be followed by TWSE/TPEX listed companies. The guidelines for compliance include:

- (1) TWSE/TPEX listed companies are advised to promulgate their own corporate social responsibility principles with the Principles as reference.

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- (2) The Principles applies to the entire operations of each company and its business group.
- (3) To implement corporate social responsibility initiatives, TWSE/TPEX listed companies are advised to exercise corporate governance, foster a sustainable environment, preserve public welfare, and enhance disclosure of corporate social responsibility information.
- (4) TWSE/TPEX listed companies shall establish policies, systems or relevant management guidelines which shall be approved by the Board of Directors.

To strengthen companies' CSR implementation, TWSE and TPEX announced the following revisions to the Principles on July 28 and August 1, 2016:

- (1) In fulfilling corporate social responsibility initiatives, TWSE/TPEX listed companies' Board of Directors shall, in its corporate management guidelines and business operations, give due consideration to the rights and interests of stakeholders.
- (2) TWSE/TPEX listed companies are advised to treat customers or consumers of their products or services in a fair and reasonable manner, including upholding fairness and good faith in contracting, duty of care and fiduciary duty, truthfulness in advertising and soliciting, fitness of products or services, notification and disclosure, commensuration between compensation and performance,



protection of the right to complain, professionalism of salespersons, etc. Companies shall also develop relevant strategies and concrete measures for implementation.

- (3) TWSE/TPEX listed companies are advised to dedicate resources to "organizations that commercially resolve social or environmental issues". Methods for investment of resources include: (1) equity investment; (2) commercial activities; (3) endowment; (4) corporate volunteering service, etc.

#### 4. Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies

The FSC instructed TWSE and TPEX to establish the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" on September 3, 2010 to provide listed companies with a reference framework for sound business development and help them establish an ethical corporate culture and healthy development. The Principles were later amended in November 2014, and key amendments are as follows:

- (1) New provisions prohibiting intellectual property rights infringement and engaging in unfair competition, as well as urging for prevention of harm to stakeholders caused by products and services.
- (2) TWSE/TPEX listed companies shall adopt a concrete whistleblowing system and operate it scrupulously.

- (3) TWSE/TPEX listed companies shall establish a dedicated unit that is under the Board of Directors which shall be responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall report the implementation of its duties to the Board of Directors on a regular basis.
- (4) TWSE/TPEX listed companies shall collect quantitative data about the promotion of ethical management and continuously analyze and assess the effectiveness of the promotion of ethical management policies. They shall also disclose the measures taken for implementing ethical corporate management, the status of implementation, the foregoing quantitative data, and the effectiveness of promotion on their company websites, annual reports, and prospectuses, and shall disclose their ethical corporate management best practice principles on the Market Observation Post System.
- (5) For a TWSE/TPEX listed company that has appointed any independent directors, when the ethical corporate management best practice principles are submitted for discussion by the Board of Directors, pursuant to the preceding paragraph, the Board of Directors shall take into full consideration each independent director's opinions and record objections and qualified opinions in the minutes of the Board of Directors meeting.



## 5. Sample Template for "XXX Co., Ltd. Procedures for Ethical Management and Guidelines for Conduct"

TWSE and TPEX published the Sample Template on August 12, 2011 for reference by listed companies, and they separately issued the amended Sample Template on January 28 and February 4, 2015. In addition to amending related regulations in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies", the amendments also included the following provisions on preventing products and services from damaging stakeholders.

- (1) Companies shall adopt and publish on their website a policy on the protection of the rights and interests of consumers or other stakeholders.
- (2) Where there are media reports, or sufficient facts to determine that a company's products or services are likely to pose any hazard to the safety and health of consumers or other stakeholders, the company shall recall those products or suspend the services within a specified date, verify the facts, and present a review and improvement plan.

## (II) Actual implementation

### 1. Compulsory formulation of corporate social responsibility (CSR) reports

TWSE and TPEX separately announced the "Taiwan Stock Exchange Corporation's Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies" and "Taipei Exchange Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TPEX Listed Companies" on November 26 and December 4, 2014 to require domestic listed companies with more than 50% of their income derived from the food and catering industry, companies from the financial insurance industry and chemical industry, as well as companies with a capital of more than NT\$10 billion to compile CSR reports each year starting from 2015, in order to review their CSR implementation and disclose results to stakeholders. From 2017, companies with a capital of more than NT\$5 billion also became applicable to the aforementioned requirement. The status of CSR reports submitted by listed companies from 2011 to 2017 is provided in Figure 5.2.

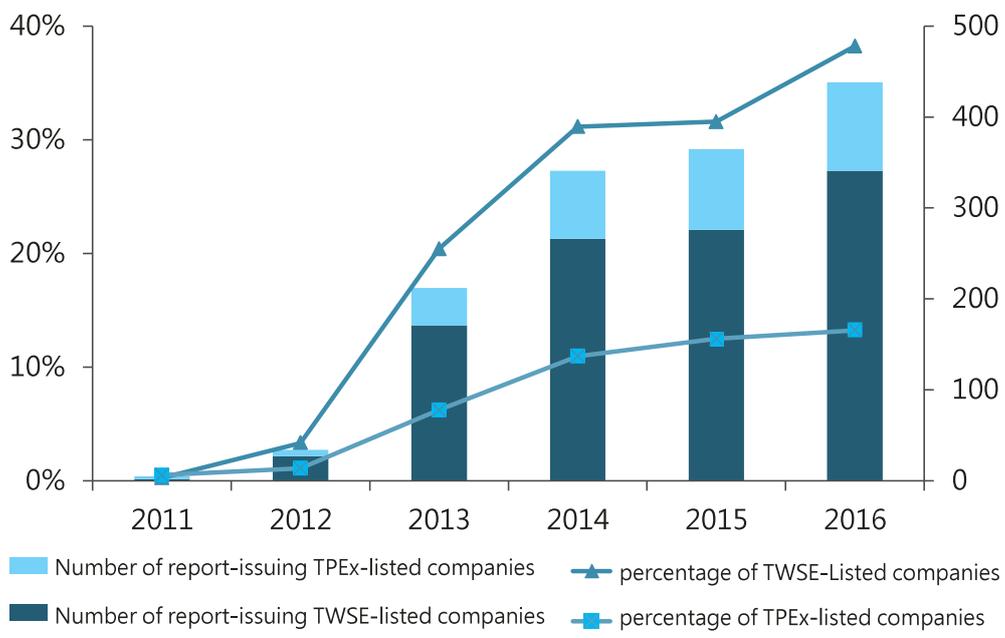


Figure 5.2 Status of CSR reports submitted by listed companies

Source: Taiwan Stock Exchange Corporate Governance Center website

Note: Annual CSR reports are published in the following year. As of August 1, 2018, a total of 300 companies including 246 TWSE-listed companies and 54 TPEX-listed companies have submitted their 2017 CSR reports.

Mandatory CSR reports shall be formulated in accordance with GRI Standards starting from 2019. The scope of third-party verification of CSR reports may be expanded in the future.

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### 2. TWSE and TPEX established the "Corporate Social Responsibility section" on their websites

The "Corporate Social Responsibility sections" on the websites of TWSE Corporate Governance Center (Figure 5.3) and TPEX (Figure 5.4) educate companies on how to perform their corporate social responsibilities, and they also provide case studies and negative education materials on how to perform CSR based on different topics. They also provide references on how companies can improve competitiveness, perform related responsibilities, and draft their CSR reports.



Figure 5.3 CSR section on TWSE Corporate Governance Center website

<http://cgc.twse.com.tw/front/responsibility>



Figure 5.4 CSR section on TPEX website

<http://www.tpex.org.tw/web/csr/content/intro.php>

### 3. Compilation of indexes related to CSR

TWSE and TPEX have established indexes related to CSR and sustainable development as shown in Table 5.2.

Table 5.2 Compilation of indexes related to CSR by TWSE and TPEX

Index	Description	Benefits
(TWSE) Taiwan Employment Creation 99 Index	(1) Launched on December 30, 2010. (2) The Index is the world's first such index, and it selects the top 99 listed companies whose parent companies in Taiwan hire the most employees.	EMP 99 is aimed to encourage companies to hire Taiwanese employees and improve the employment rate in Taiwan. It also encourages listed companies to pay attention to labor rights and fulfill their corporate social responsibilities.

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Index	Description	Benefits
(TPEX) TPEX Labor Employment 88 Index	<p>(1) Launched on May 30, 2014.</p> <p>(2) The constituent stocks of "TPEX Labor Employment 88 Index", which is based on the domestic labor market, consist of 88 companies selected based on liquidity, lack of accumulated deficit, and high employee contribution.</p>	Guide investments for companies that are committed to long-term development in Taiwan, create job opportunities, and cultivate talents.
(TWSE) Taiwan High Compensation 100 Index	<p>(1) Launched on August 25, 2014.</p> <p>(2) 100 constituent stocks were selected based on the main screening criteria and weighted criteria for high compensation.</p>	<p>It encourages listed companies to pay attention to labor rights, salary, and welfare, and therefore fulfill their corporate social responsibilities.</p> <p>Guide investments for companies that provide higher compensation for employees.</p>
(TPEX) Compensation Index	<p>(1) Launched on August 27, 2014.</p> <p>(2) The index is compiled based on the sequence of companies' average employee salary and welfare expenses in the most recent fiscal year and it is reviewed periodically. The stocks of 88 companies are included as constituent stocks.</p>	



Index	Description	Benefits
(TPEX) Corporate Governance Index	<p>(1) Launched on June 15, 2015.</p> <p>(2) Companies that ranked among the top 20% in the Corporate Governance Evaluation, and passed liquidity and financial indicator inspections.</p>	Promote healthy competition among companies and improve standards of corporate governance to form a culture where companies actively seek to improve corporate governance.
(TWSE) CG 100 Index	<p>(1) Launched on June 29, 2015.</p> <p>(2) Companies that ranked among the top 20% in the Corporate Governance Evaluation are screened, and liquidity and financial indicators are also included for selection.</p>	It is a passive product that favors external authorized indexes for companies, and it can also be used as an index for large funds' investment in the domestic stock market.
Taiwan Index Plus Corporation and FTSE Russell's FTSE4Good TIP Taiwan ESG Index	<p>(1) Launched on December 18, 2017.</p> <p>(2) TWSE-listed companies in the constituent stocks of the FTSE4Good Emerging Index are screened based on financial indicators.</p>	It is the first index that comprehensively integrates environmental, social, corporate governance, and financial indicators. It is aimed to help investors implement sustainable investment and receive long-term returns.