



A ROADMAP FOR ENHANCED GOVERNANCE: THE TAIWAN STORY

Tracy Chen describes how the ‘Five Action Plans’ roadmap is driving improved corporate governance in Taiwan

In Taiwan, and capital markets across the globe, corporate governance requires a never-ending commitment to continuous improvement. It is a journey that is ever evolving.

Our journey began with the grave consequences of the 1997 Asian financial crisis, for which inadequate corporate governance systems were one of the major causes. As a result of the crisis, the Taiwanese securities regulator, the Financial Supervisory Commission (FSC), began to push the concept of corporate governance among public companies harder in 1998.

The impact of the Enron collapse in 2001 and 2002 shone a further spotlight on the pressing need to gain durable momentum in this area. This resulted in the corporate governance white paper being published in 2003 by the Premier, based on the assessment of an expert taskforce, which shaped

the corporate governance landscape in Taiwan.

The Company Act, the Securities and Exchange Act and listing rules were all amended to strengthen our corporate governance legal framework in line with international standards. For example, to facilitate shareholder director nominations, under the Company Act in 2005, certain shareholders were able to include their nominees for directors in the company’s proxy materials for the first time.

After a decade of corporate governance progress in Taiwan, regional corporate governance reforms were driving greater change with which we needed to converge. A sign that more effort was needed came from the Asian Corporate Governance Association (ACGA) in their 2012 publication of *CG Watch*, wherein Taiwan’s ranking shifted from fourth to sixth place among 11 Asian markets.

This sparked a stronger commitment on our part to reform and enhance confidence in Taiwan’s capital markets. The FSC launched the 2013 Corporate Governance Roadmap, covering the vision, projects and actions plans for the next five years (2013-2017).

Each mission identified therein was accomplished and helped to accelerate Taiwanese corporate governance standards. This is evidenced by *CG Watch 2016* which again ranked

“In the first six months of 2018, the number of Stewardship Principles’ signatories doubled”

Taiwan as fourth in the region, up from sixth in 2014.

The primary reason given for this ranking was that “Taiwan has sustained its efforts through a combination of clear government political support, close coordination between key regulatory and support agencies, and the formation of a well-funded Corporate Governance Center at the Taiwan Stock Exchange (TWSE).”

Furthermore, the introduction in 2016 of a Stewardship Code that has been successful in terms of both content and signatories, widespread adoption of E-voting and voting by poll, amplified sustainability reporting, more active engagement by institutional investors and more robust regulatory enforcement all contributed to the ACGA recognition.

This galvanized our determination to create long-term shareholder value and sound capital market foundations. Based on the 2013 roadmap, the FSC launched the latest Corporate Governance Roadmap for the next three years (2018-2020) in April 2018. The Corporate Governance Center at the TWSE provides a platform to consolidate and leverage resources among different entities to facilitate the implementation of the latest roadmap.

“The five action plans enable market participants to understand their roles in implementing the roadmap, and how they stand to benefit”



Tracy Chen has served most of her career managing corporate governance issues at the Taiwan Stock Exchange. She actively contributes to significant corporate governance initiatives, including the Codes, Roadmaps, Evaluation System and the Taiwan Stewardship Principles for Institutional Investors.

To navigate the reform, five action plans were established to highlight the different market participants within the corporate governance ecosystem, and to enable each of them to understand their roles in implementing the roadmap, and how they stood to benefit from continued momentum.

The five action plans are:

- Deepening corporate governance and CSR culture;
- Enhancing board functions;
- Promoting shareholder activism;
- Strengthening information transparency; and
- Augmenting regulatory enforcement.

Deepening corporate governance and CSR culture

In 2014, the TWSE redesigned the annual Corporate Governance Evaluation System by which it assesses the implementation of corporate governance measures among all listed companies. Evaluation results are announced in seven tiers, so investors can easily identify the level of corporate governance standards of individual listed companies. More qualitative evaluation indicators and scoring methods will be applied to further differentiate outcomes in the 2018 version of the Evaluation.

Continuous promotion of the TWSE CG 100 Index and FTSE4Good TIP Taiwan ESG Index, launched in 2015 and 2017 respectively, will support the increase of sustainable and responsible investment. Moreover, training programs, seminars and workshops have been designed by corporate governance professional institutes for investors and companies to help them better understand and embrace corporate governance values.

Enhancing board functions

Our long-term plan has been to move towards a one-tier board system for all listed companies, and the intention is to say goodbye to the two-tier board system in 2022. We are making good progress towards this goal. Since 2013, the FSC has taken a phased approach on the establishment of audit committees, composed of independent directors, in lieu of supervisors. In 2017, after a decade of effort, all listed companies have independent directors in place, accounting for one-third of the board on average.

To assist board members to fulfill their duties, the TWSE will require listed large caps and companies within the financial sectors to appoint corporate governance professionals (also known as company secretaries) by 2019, an entirely new concept and system in Taiwan. Additionally, the scope of individual disclosure of executive and director compensation will be expanded in 2019.

Promoting shareholder activism

External shareholder participation in corporate governance is an important driver of improvement. The Taiwan Stewardship Principles (the Principles), adopting the “comply or explain” approach, were launched in 2016 to further strengthen the role of institutional investors and shape good stewardship practice.

In order to create a stewardship environment, the TWSE began a campaign this year to raise the profile and uptake of the Principles. For example, we met the banking, securities and insurance associations to better acquaint them with the Principles and we invited signatories to share their experience with other investors. Within the first six months of this campaign, the number of Principles’ signatories doubled and reached 78 as of June 2018. The TWSE will assess signatories’ reporting against the Principles and review the content of the Principles by 2020.

In addition, the FSC urges the adoption of the director candidate nomination system and the attendance of institutional investors at shareholder meetings to vote as part of this action plan.

Strengthening information transparency

Greater transparency decreases information asymmetry and assures the fairness and efficiency of the markets. The high-tech cluster in Taiwan, accounting for 56% of total market cap of TWSE listed

companies, has steadily attracted foreign institutional investors over the years, with the result that foreign investors now have a market cap of over 40%.

The changing profile of investors in Taiwan means more English language information is needed. In 2017, 43% of TWSE listed companies disclosed their AGM/EGM handbooks in English, 26% their annual reports, and 20% their annual financial reports. All TWSE large caps and companies with considerable foreign shareholding will have to disclose such information in English starting in 2019.

Improving the quality of non-financial information has been a task we have been undertaking since the introduction in 2015 of mandatory disclosure of CSR or sustainability reports by listed companies with large capitalization or within specific industries.

Augmenting regulatory enforcement

In 2018, the FSC will amend the Securities and Exchange Act to introduce penalty provisions to strengthen the enforcement of corporate governance requirements, increasing monetary penalties significantly. In a related move, the TWSE will revise its listing rules and corporate governance code to be more aggressive and stricter in applying sanctions when any rule or code breach occurs.

The latest Corporate Governance Roadmap sets a clear policy vision to build on the foundations set by the 2003 white paper and 2013 Roadmap.

It is globally acknowledged that corporate governance is a shared responsibility. In that spirit, we at the TWSE and the Corporate Governance Center fully support the FSC and cooperate with NGOs, academia and media – and, of course, investors and listed companies – to pursue the excellence of corporate governance standards that synergize our capital markets.