

# **Corporate Governance Roadmap 2013**



**Financial Supervisory Commission**

# 2013 Corporate Governance Roadmap

## Table of Contents

<b>Chapter 1 : Foreword .....</b>	<b>1</b>
<b>Chapter 2 : Implementation Challenges of Corporate Governance in Taiwan.....</b>	<b>4</b>
<b>Chapter 3 : Corporate Governance Roadmap.....</b>	<b>7</b>
<b>I. Vision: Establishing a Culture of Good Corporate Governance and Creating Corporate Values with Shared Interest .....</b>	<b>7</b>
<b>II. Projects .....</b>	<b>7</b>
<b>III. Strategy Map .....</b>	<b>9</b>
<b>Project 1: Shaping a Culture of Good Corporate Governance.....</b>	<b>11</b>
<b>Project 2: Promoting Shareholder Activism .....</b>	<b>26</b>
<b>Project 3: Enhance Board Functions.....</b>	<b>35</b>
<b>Project 4: Disclose Material Corporate Governance Information.....</b>	<b>43</b>
<b>Project 5: Further Advance Enforcement Framework..</b>	<b>51</b>
<b>Action Plans and Implementation Timeline.....</b>	<b>60</b>
<b>Chapter 4 : Method of Implementation .....</b>	<b>65</b>
<b>Chapter 5 : Conclusion .....</b>	<b>65</b>

# 2013 Corporate Governance Roadmap

## Chapter 1 : Foreword

Corporate governance refers to a mechanism for guiding and managing a business that helps fulfill the responsibility of the company management, protect the legal rights of shareholders, and safeguard the interest of other stakeholders<sup>1</sup>. Good corporate governance should provide with proper incentives that instigate a company's board of directors (the Board) and its management to accomplish operational goals in ways that produce the greatest interest for the company and all shareholders. Good corporate governance should also help transform a company's management structure and provide an effective oversight mechanism to encourage the company to better use resources, improve efficiency and, in turn, increase its competitiveness to reach the end of better social welfare.

Taiwan has been educating public companies on the importance of corporate governance since 1998. The Executive Yuan formed the "Corporate Governance Reform Task Force" on January 7, 2003 to study various issues of corporate governance for drafting the "Corporate Governance Policy Doctrine and Action Plans", which then became the basis of promoting corporate governance. Under those action plans, the Taiwanese government promoted and implemented various policies, such as practices enhancing the independence of the Board, incentives for incremental establishment of functional

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<sup>1</sup>OECD points out that corporate governance refers to a framework that regulates the relationships between a corporation, its management, its Board of Directors (Supervisors), its shareholders, and other stakeholders (such as employees, creditors, customers, the community, and the government). The corporation shall set its business objectives, ensure those objectives' accomplishment and monitor business performance through the framework.

committees in corporate boards, issues of corporate governance best practices, measures promoting electronic voting, improvements on the decision-making process and disclosure of related party transactions, introduction of investors protection measures, and more transparent corporate information.

While implementation outcomes of the corporate governance measures mentioned above are fruitful, the Taiwanese government found that neighboring countries have faster pace in their reforms on corporate governance, and which triggers the Taiwanese government to pay more attention to this trend. According to the CG Watch 2010 issued by the Asian Corporate Governance Association (ACGA) which evaluates corporate governance practices in Asian countries, Taiwan was ranked 4<sup>th</sup>, showing that Taiwan's efforts in pursuing good corporate governance have been recognized by relevant entities. In addition, Taiwan has consecutively ranked 13<sup>th</sup> for 3 years in the Global Competitiveness Report compiled by World Economy Forum (WEF), indicating that Taiwan maintains a great level of competitiveness. However, the CG Watch 2012 issued by the ACGA ranked Taiwan down from the 4<sup>th</sup> to the 6<sup>th</sup>. The report reveals that while Taiwan gradually implements reforms in corporate governance, its pace was behind other evaluated Asian countries.

In light of aforementioned evaluation results from the CG Watch 2012, Taiwan aggressively reviews the international trends of corporate governance development and facilitates its implementation of relevant measures based on the growing need of Taiwan's capital market to maintain its regional competitiveness. The Organization for Economic Cooperation and Development (OECD) outlines 6 reform priorities for taking Asian corporate governance to a higher level and reminds Asian

countries to work on implementation so that it can keep pace with amendments of laws and regulations, and that principles of corporate governance can be fulfilled. In addition, in recent years, certain companies were found using corporate resources inappropriately for proxy fights or infringing shareholders' rights. Those ill cases indicate room for improvement on corporate governance in Taiwan and an urge for companies to take serious initiatives to pursue good corporate governance. To enable clear and better understanding on the future policy and plans for good corporate governance in Taiwan, the Taiwanese government issues the Roadmap as a guidance. The Roadmap is also designed for helping businesses grow in a healthy and sustainable way so that they can increase market confidence and Taiwan's international competitiveness.

## **Chapter 2 : Implementation Challenges of Corporate Governance in Taiwan**

One of the features of Taiwan's capital markets is that the majority of listed companies are small and medium enterprises and family businesses. Their decision-making process is considered lacking transparency or disadvantaging minority shareholder interest. Additionally, individual investors take the lion share in the market who tend to be short-term-interest sighted and careless on the long-term value of the enterprise's sustainability. As a result, some businesses value short-term performance, have weak motivation of practicing good corporate governance measures, and at the end run into operational crises or illegal activities.

The following part singles out 5 major challenges facing Taiwan's corporate governance implementation in reference to observations and recommendations from international organizations as well as domestic experts and scholars:

- I. **The corporate governance culture is not well-established:**  
Taiwan has been promoting good corporate governance for 10 years. While it has made some progress in relevant legislation and enforcement, many companies still merely observe laws and regulation and have little incentives and actions to take initiatives to improve their corporate governance practices. Furthermore, resources of the private sector and non-profit organizations have not been effectively integrated. As a result, the efficiency and effectiveness of corporate governance is not widely perceived.
- II. **The independence of the Board can be further improved:**  
Family members taking posts as board members or

supervisors are common phenomenon of domestic small and medium businesses in Taiwan. That situation receives criticisms of performing unsuitable functions and monitoring mechanisms because a handful of people are able to easily maneuver the decision making processes.

- III. **Shareholder actions are inadequate:** it is perceived that minority shareholders value short-term gains and show little enthusiasm in participating in company affairs. Likewise, domestic institutional investors rarely exercise voting rights and extend their influence. Therefore, it is necessary to promote and exercise shareholder activism.
- IV. **The enforcement effectiveness on corporate governance requires improvement:** Government agencies are constrained by the principle of enforcing by laws, so they sometimes may not render immediate and effective guidance, deterrence, or disciplinary actions against lawbreakers. Therefore, aside from amending laws, taking good advantages of private sector resources to assist with oversight functions is also critical. Additionally, the disclosure of law enforcement information has the effect of deterrence against and prevention of law infractions, and thus the timeliness of relevant disclosure should be enhanced.
- V. **The transparency and comprehensibility of information disclosed can be further enhanced:** it is found that information disclosed by some companies tends to be box-ticking. It is particularly true when they disclose non-financial information. Investors, therefore, hardly catch main points or use the information for investment judgment due to

the incomplete information. In addition, some areas of corporate governance practices have insufficient statistics, making it difficult for market participants and regulators to comprehend the overall changes.



## **Chapter 3 : Corporate Governance Roadmap**

### **I. Vision: Establishing a Culture of Good Corporate Governance and Creating Corporate Values with Shared Interest**

This roadmap demonstrates expectations of capital market participants on using 3 joint forces, i.e. full set of laws and regulations, self-discipline of corporations, and market oversight mechanisms, to encourage companies and investors to actively involve in corporate governance. With those efforts, it is anticipated that a culture of good corporate governance will surface in which companies are sound and healthy, managements are ethical and sincere, the markets are competitive and full with confidence, stakeholders share mutual benefits and the industries maintain their sustainable development.

### **II. Projects**

To accomplish the vision and overcome the challenges mentioned in the roadmap, the roadmap outlines five projects as follows:

- **Shaping a Culture of Good Corporate Governance:** Through oversight mechanisms of the private sector and markets, we expect that companies and stakeholders value good corporate governance and take initiatives.
- **Promoting Shareholder Activism:** Corporate affairs should make it easy for shareholders to participate in or oversee major decisions of the company and mechanisms should be in place to ensure all shareholders are fairly treated.
- **Increasing the capabilities of the Board:** Board members

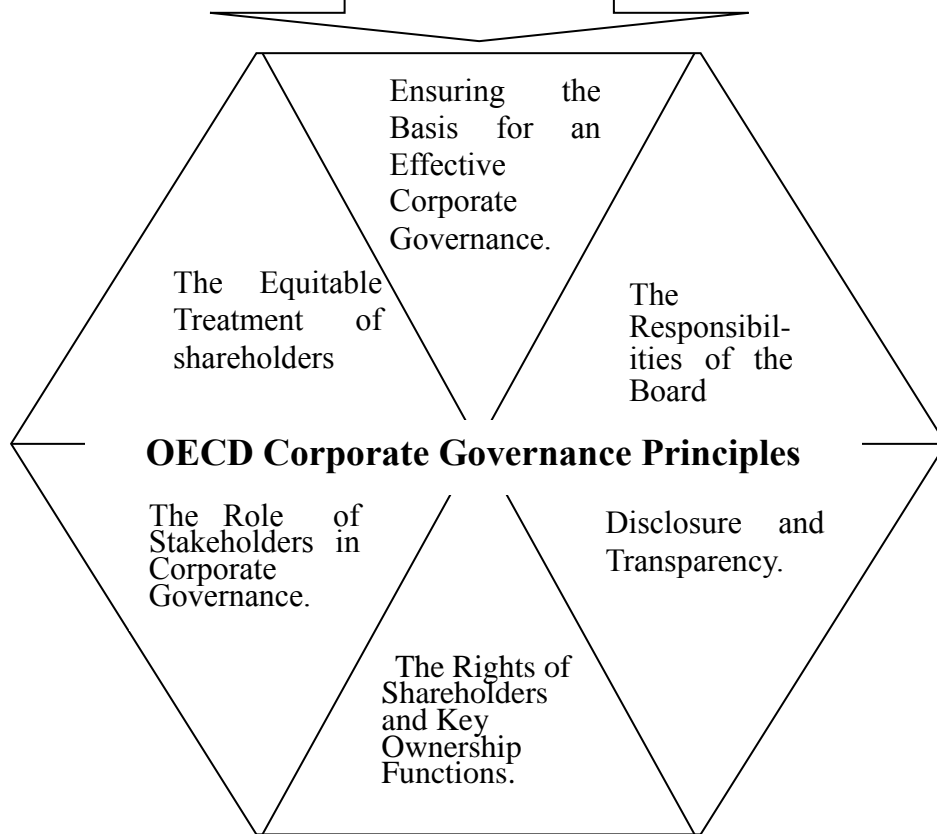
should be fit and proper. The Board should also be equipped with knowledge and profession on strategic directions and effective oversight on the management, and be held accountable to the company and its shareholders.

- **Disclosing Material Information of Corporate Governance:** The Company should disclose material and necessary corporate information, in a matter that is timely, complete, and accurate. Such information includes critical non-financial information corporate ethical business practices and the fulfillment of social responsibilities. Disclosure of integrated law enforcement information reflects the status of a company's legal compliance and should be included .
- **Strengthening regulations:** A full set of laws should be in place for companies to comply with relevant regulations on corporate governance.

For the following section, the Roadmap will briefly describe various concrete measures for each project, together with analysis of current situations. Some measures are improvements upon current mechanisms, while others adopt practices utilized in other countries. The following strategy map will explain FSC's principle in promoting good corporate governance, the policies, measures, and goals to pursue.

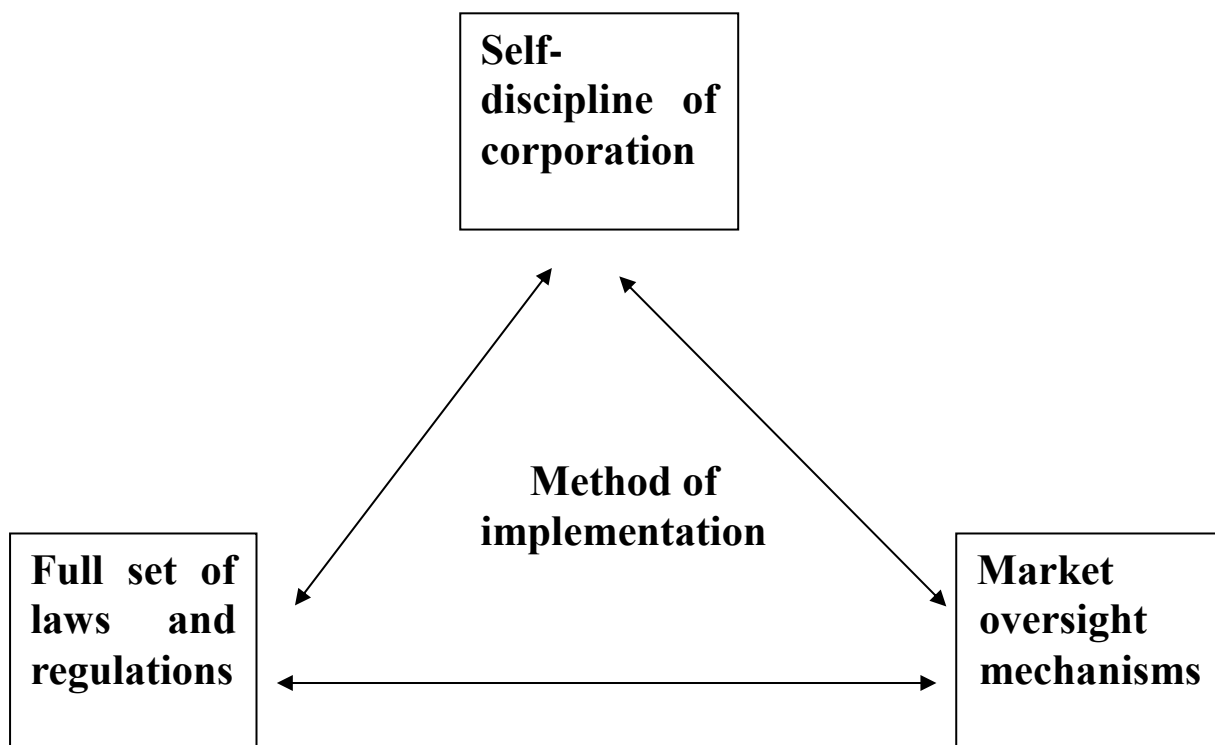
### III. Strategy Map

**Vision:** Establishing a Culture of Good Corporate Governance and Creating Corporate Values with Shared Interest.



Projects	Actions
Shaping a Culture of Good Corporate Governance	<ol style="list-style-type: none"> <li>1. Structuring the Corporate Governance Center.</li> <li>2. Conducting the corporate governance evaluation.</li> <li>3. Compiling a corporate governance index.</li> </ol>
Promoting shareholder activism	<ol style="list-style-type: none"> <li>1. Expanding the adoption of electronic voting.</li> <li>2. Promoting the quality of shareholders' meeting.</li> <li>3. Requesting listed companies to build stakeholder - relation platforms.</li> </ol>
Increasing the capabilities of the Board	<ol style="list-style-type: none"> <li>1. Expanding the applicable scope of mandatory establishment of independent directors and audit committees.</li> <li>2. Strengthening the effectiveness of the Board.</li> </ol>
Disclosing Material Information of	<ol style="list-style-type: none"> <li>1. Increasing the quality of non-financial information disclosure.</li> </ol>

Projects	Actions
Corporate Governance	2. Integrating disclosure of transaction irregularities and law-breaking information.
Strengthening regulations	1. Reshaping the core principles of internal control. 2. Strengthening the protection of shareholders' rights. 3. Amending laws to effectively enforce regulations on corporate governance.



# **Project 1: Shaping a Culture of Good Corporate Governance**

## **Analysis of the current condition**

Since Taiwan formed the Corporate Governance Reform Task Force under the Executive Yuan in 2003, Taiwan has improved the legal infrastructure in the decade that passed. The laws revised are the Company Act, Securities and Exchange Act and its subordinate laws, Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies, listing rules and relevant regulations for the Taiwan Stock Exchange (referred to as TWSE hereafter) and GreTai Securities Market (referred to as GTSM hereafter). In terms of law enforcement, we disciplined companies that did not comply with regulations and offered guidance or assistance to companies that do not abide by corporate governance principles. The government also used Securities and Futures Investor Protection Center (referred to as SFIPC hereafter) in the position of shareholders to monitor companies. The government also used Securities and Futures Institute (SFI) to give companies recognition with its evaluation on information disclosure, in hope that publicly traded companies will pay more attention to governance, information disclosure, and protecting investors' rights.

Like other Asian countries, however, the government mostly dominates these oversight and management measures, and they are top-down reforms on corporate governance. Many companies are only willing to observe the laws and lack the motivation and actions in proactively improving corporate governance. Furthermore, resources in the private sector and

non-profit organizations have not been effectively coordinated. Besides, about 60% of investors in Taiwan's markets are small investors. Without large trading volume in the stock market, the average turnover measured by dollars in the past three years is about 118%, higher compared to Hong Kong and Singapore. This fact shows that small investors do not have a goal of holding stocks for the long term. Their focus is short-term capital gains. This condition forces companies to focus on the stock price rather than steady long-term growth. Additionally, because most small investors do not hold their stocks for a long time, their investment decisions are easily swayed by news in the market. When companies make decisions, they also consider the short-term response in the market and let go of development strategies that seem to produce no benefit in the short-term but beneficial to the company in the long-term.

In light of these facts, we should make the best use of market mechanism and convey the information related to corporate governance to minority shareholders through private-sector institutions and media. We should change the perception of minority shareholders on the value of companies and lead them to emphasize the benefit in long-term, stable development of companies. Minority shareholders should pay attention to the reasonableness of the decisions made by the management and whether such decisions damage the equity of minority shareholders. Furthermore, we should empower minority shareholders so that they have a greater say on the issues of companies and they have an easier time in exercising their rights as shareholders. In doing so, they can let companies understand

shareholders' expectations on the company and fine-tune the course of the company's management and decision-making process.

Companies should recognize the benefits created by corporate governance. They should be willing to promote relevant measures of corporate governance and inspect the risks they face internally and seek improvement and plans that improve governance through market mechanisms such as media, shareholders, and feedback from institutional investors, as well as results of all types of feedback. If companies have doubts or difficulties in governance, there should also be non-government institutions that help them make improvements, or there should be examples from other companies that they can use as reference so that these companies can stay updated with trends in governance and improve management results.

## **Action Plans**

### **I. Consolidating and coordinating resources in the private sector. Structuring the corporate governance center.**

(I) Reasons for implementing such change:

1. There are many issues in corporate governance, and laws are the minimum standards. Many such tasks are best implemented with the assistance from the private sector. Currently, there are already institutions in the private sector that help implement corporate governance. Examples are the Taiwan Corporate Governance Association, Taiwan Institute of Directors, The Business Council for Sustainable Development of Taiwan, Taiwan Corporate Social Responsibility Association, The Institute

of Internal Auditors, Stock Transfer Association, and Investor Associations. However, some of the functions of these institutions overlap, and these institutions do not always work with coordination. The formation of the Corporate Governance Center can take advantage of the strength of these private institutions and use their resources in an orderly fashion, so that we can accomplish the goal of improving corporate governance overall in Taiwan.

2. The Corporate Governance Center can not only consolidate the resources of the government, the private sector, TWSE (and GTSM), and the media, but also serve as a platform for exchanging ideas. The platform can consolidate the suggestions from companies and opinion leaders for reference in future government policies. The center can also be the first contact for investors and help them understand the importance of corporate governance to their investment, so that they can take actions and exercise their power.
3. Leaders of companies play a pivotal role in the effective implementation of corporate governance. To make the Board place greater emphasis on corporate governance, we should perform self-evaluations or peer reviews on the following matters among members of the Board: participation of Board meetings, their contributions, familiarity with the agenda, training, leadership, and so on. This way, we can make the Board understand the extent it has been discharging its duty, their strengths and



shortcomings, and the fit of individual directors for their jobs, so that the company can make necessary improvements.

4. In addition, to improve corporate governance, we should not only help publicly traded companies adhere to ethical business practices, value the rights of shareholders and stakeholders, and maintain information transparency, but also actively prevent illegal acts and investigate criminal acts, so that we can deter bad companies from damaging the order of the market and damaging investor confidence. While regulators review the companies' financial and business conditions through regular oversight and periodic audit, the most effective way to prevent wrongdoing is the provision of clues or evidence by those who are familiar with the company's actual condition. Those who are familiar with the company's actual condition include the current or former employees of the company, CPAs, attorneys, major shareholders, or other individuals who provide service to the company. When they provide information for use by regulators in the investigations, the regulators can quickly control relevant evidence and increase the chance of finding illegal acts. Therefore, we should encourage whistleblowers to step forward and give them proper rewards. The Ministry of Justice is also actively drafting the bill for "Protection for Those Who Expose Illegal Information Inside Institutions Act," so that it can provide protection that is more comprehensive to whistle blowers,

expose illegal acts, and effectively prosecute crimes.

5. Considering that the TWSE is the foremost frontline regulator for Taiwan's publicly traded companies, it not only drafted corporate governance doctrines and relevant examples, but also accumulated sufficient experience on the international development, promotion, and education on corporate governance. In addition, it has good working relationships with other agencies on securities and private-sector organizations. Therefore, the TWSE will form a Corporate Governance Center and bring GTSE, Taiwan Depository and Clearing Corporation (referred to as TDCC hereafter), SFIPC, various private-sector organizations, and opinion leaders onboard in the formation of Corporate Governance Center.

(II) Focuses of implementation: After the Corporate Governance Center is formed, it will be responsible for the following tasks:

1. Continuing education for directors: We consider the professionalism and competencies that a director should possess and are drafting a "Director Continuing Education Map." By the use of learning passport and other measures, we design required and elective courses, or leave the option to the companies to design the course they need. Relevant training institutions divide the tasks and provide the service. We are also increasing the number of hours required for directors' continuing education and creating a reporting and reviewing mechanism.

2. Investor education: We are planning to draft an investor education plan. We design lesson plans and manuals for different investors to help them understand the rights of shareholders, the value of sustainable development of a company, and the resources at their disposal. We also want investors to know how they can urge companies to comply with laws and impose self-regulation to increase competitiveness by exercising their rights.
3. Platform for the exchange of ideas:
  - (1) We will gather and compile the development trends of corporate governance around the world and the opinions on the practice of corporate governance in the private sector (such as companies, opinion leaders, investors, and organizations related to corporate governance). We will also hold conferences with relevant organizations in the private sector and regulators so that we can understand the direction of implementing corporate governance in the near future and the ways organizations in the private sector can help. The conclusions of these conferences will be the reference for modifying and drafting relevant measures.
  - (2) We will establish regular channels of communication (such as columns or programs) with the media, use media to promote the idea of corporate governance, use the force of public opinion, and help sending messages on policies and conveying the results of corporate governance in Taiwan.

- (3) We will create formal channels by which investors (such as institutional investors and minority shareholders) communicate with publicly traded companies and gather the opinion of stakeholders. Then we will provide such information to companies to help their decision-making.
4. Expanding and substantiating the database of independent directors: Currently the SFI is creating a talent database for independent directors. To meet the needs for the talent of independent directors in the future and to meet the needs of companies, we will ask the Corporate Governance Center to cooperate with the SFI, ask for talent in the industry, and keep their information in the database. We will also ask the Corporate Governance Center to invite private sector institutions to help us evaluate the suitability of the talent in the database for these jobs, so that we can further improve the usefulness of the database.
5. Promoting Board performance evaluation: We encourage companies to draft their own self-evaluation or peer-review methods, as well as proposing the action plans for improvements after the evaluation. Furthermore, companies performing voluntary self-evaluations or peer-reviews demonstrate their willingness to improve Board performance. This issue should be included as an indicator of corporate governance evaluation as a score booster.
6. Measures to encourage whistle-blowers: The FSC, the

TWSE, and the GTSM have all created rules on rewards for exposing illegal acts. These organizations should review and modify regulations to encourage whistleblowers to provide evidence in a more convenient and goal-oriented manner. The Corporate Governance Center should also coordinate with private sector organizations to promote the application of rules on rewards for exposing illegal acts in various situations, so that we can encourage whistleblowers to expose illegal acts.

7. The coordination of other measures: we will encourage and coordinate the private sector to divide the tasks, collaborate, and perform various tasks. These include evaluating corporate governance, evaluating information disclosure and evaluating shareholders' meeting. Other tasks include surveys on the implementation of corporate governance, job function training, experience sharing and observations, coordinating the private sector to choose the best annual report on a regular basis, and creating corporate governance statistical database. This way, we can achieve the best use of resources.

(III) Key measure implementation timeline:

1. 2013: Planning the formation of Corporate Governance Center and drafting relevant operation plans.
2. 2014:
  - (1) Completing the formation of Corporate Governance Center and implement all key measures.

- (2) The TWSE and GTSM will complete the revision of “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and add Board self-evaluation or peer-review categories. We will also gather the self-evaluation methods from Boards in foreign companies and draft relevant examples for use by publicly traded companies.
  - (3) We will compile the incidents of reporting by whistleblowers, the outcome of on-site audits, and the payment of rewards so that we can review and improve relevant measures.
- 3.2015: We are proposing that we list the self-evaluation or peer-review as an indicator of corporate governance evaluation.

## **II. Conducting the corporate governance evaluation**

### **(I) Reason for the implementation**

1. To help investors and companies understand the result of implementation by the company in terms of governance and its position in the market overall, it is necessary to use the market mechanism to promote the improvement of corporate governance. Currently, the evaluation of corporate governance is fee-based when companies in the private sector perform them. Companies accept evaluation on a voluntary basis. While the implementation is showing results, we still do not know the comparative performance of corporate governance in the overall market for these

companies.

2. Currently, the SFI has already adopted the 10-Year information disclosure evaluation. The content of the evaluation is limited to assessing whether publicly traded companies have disclosed information that is mandated by laws and relevant to investors' rights. The evaluation does not cover whether companies accomplished tasks on corporate governance. Therefore, we need to create a system that provides evaluation free of charge for all publicly traded companies in the category of corporate governance.
3. Considering that the Corporate Governance Center will coordinate all resources in the private sector and serve as a forum for the government, the TWSE, the GTSM, and the private sectors to communicate with each other, we will hand the task of performing corporate governance evaluation to the Corporate Governance Center. We hope that, by this evaluation, we can instigate competition between corporations and urge corporations to emphasize corporate governance, and further create the corporate governance culture in Taiwan.

## (II) Focuses of Implementation

1. The Corporate Governance Center will form an evaluation committee, gather the opinions of opinion leaders and scholars, draft evaluation indicators and grading schemes, and form evaluation teams to be in charge of initial evaluation. The evaluation will score

the following issues: Disclosures of corporate governance matters on the websites, annual reports, and Market Observation Post System by publicly traded companies; incidents related to corporate governance during the year; and the operation or discharge of duties of shareholders' meeting, the Board, and independent directors. In the end, the evaluators will rank companies by the scores they earn, and companies and investors will publish the results for use.

2. The TWSE and GTSM will combine the results of the evaluation of corporate governance with incentives or punishment mechanisms. Then it will propose differentiated management measures to encourage publicly traded companies to implement corporate governance.

(III) Key measure implementation timeline:

1. 2013: Accomplish the formation of the first corporate governance evaluation committee, the design of indicators and grading schemes, and promoting to publicly traded companies so that companies under the evaluation can understand the purpose and method of the evaluation, and its indicators and grading schemes.
2. 2014: The evaluation of corporate governance is based on the data from the whole year of 2014. Initial evaluation scores will be given on all indicators for the first year.



3. 2015: Release the first (2014) evaluation result as an encouragement (we expect to release the evaluation results of companies that perform better). The TWSE and GTSM will propose the method of linking corporate governance results and differentiated management mechanism, and then decide the time of implementing such mechanism.
4. 2016: Release the result from the second corporate governance evaluation. (We expect to release the evaluation result of more than half the listed companies.) We will also spread the information on the newly added evaluation categories.
5. 2017: Release the result from the third corporate governance evaluation. (We expect to release the evaluation result of all listed companies.)

### **III. Compiling a corporate governance index**

#### **(I) Reasons for implementing such change:**

1. Taiwan's stock market is composed of mostly small investors, and most of them do not appreciate the long-term value of publicly traded companies. In addition, the company's governance is difficult to grasp for small investors unless they have a long-term commitment to the company. Therefore, we think it would be better when a compiler of the index chooses companies with better corporate governance practices and compile a corporate governance index of publicly traded companies for use by investors in their stock

selection. This approach can not only save the cost of time for small investors when they choose investments among companies with better corporate governance, but also compel publicly traded companies to compete with each other and improve their corporate governance and produce virtuous competition.

2. For institutional investors, the corporate governance index also offers quite a few indicators for investment and helps them decide the percentage of investment among their choices in the portfolio. For the companies, in order to compete for the attention of institutional investors, publicly traded companies must actively improve corporate governance and attract the inflow of long-term funds.
3. As of now, the TWSE has already compiled the “Taiwan Employment Creation 99 Index” and “Taiwan Corporate Operation 101 Index,” which are indices that lean toward corporate social responsibility. A certain investment trust company in Taiwan has already used the fulfillment of corporate social responsibility by a corporation as the criteria for stock selection and launched a corporate social responsibility fund. Its analysis shows that, since the beginning of this year, the performance of the fund is better than the TWSE Weighted Index. It shows that compiling such an index serves as an example. Additionally, if the index were compiled by the

TWSE or the GTSM, which are quasi-government agencies, the index would be more credible.

(II) Focuses of implementation:

The TWSE and GTSM will determine the criteria for selecting stocks and pick publicly traded companies with better corporate governance records to compile the corporate governance index. They will publish the list of index components and update the list regularly for reference by investors.

(III) Key measure implementation timeline:

1. 2014: We will determine the criteria or indicators for selecting companies in the index, invite investment institutions or rating agencies to offer their opinion, and send this message to publicly traded companies so that they will improve the level of corporate governance or accept relevant evaluation or certifications.
2. 2016-2017: We will complete the compilation of the corporate governance index, publish it, and promote the use of this index.

## **Project 2: Promoting Shareholder Activism**

### **Analysis of the current condition**

Shareholder activism means that when shareholders invest in a company, they will choose corporations with better corporate governance as their investments and avoid investing in companies with poor corporate governance. Additionally, shareholders can also motion and speak at shareholders' meeting, and use the power of oversight in the market to compel companies to change their current practices and improve corporate governance.

To implement shareholder activism, Taiwan has already issued official letters and declared that publicly traded companies with more than NT\$ 5 billion of paid-in capital and more than 10,000 shareholders must adopt electronic voting at the shareholders' meeting in 2014 to facilitate voting. Shareholders then can no longer be bound by the time and location of shareholders' meeting. Article 172-1 of Company Act in Taiwan states that shareholders with more than 1% of shares issued may propose motions at annual shareholders' meeting in written format. Article 192-1 grants the right to shareholders owning more than 1% of shares issued to propose a list of candidates for directors for companies that use the director nomination system. Also, Article 38-1 of Securities and Exchange Act in Taiwan states that, when shareholders owning more than 3% of shares believe that certain issues cause material damage to shareholders' equity, they may state the reasons, evidence, and explain the necessity and request the regulator

perform inspections on certain issues or related statements and financial records of the issuer of the security to protect the right of shareholders.

Additionally, to encourage shareholders to actively participate in the affairs of the company and help companies understand the opinion of shareholders and stakeholders, we should create mechanisms to encourage companies to engage in dialogues with minority shareholders.

## **Action Plans**

### **I. Expanding the adoption of electronic voting**

#### **(I) Reasons for implementing such change:**

Because, in recent years, the annual shareholders' meetings among publicly traded companies are excessively concentrated in a few days, shareholders cannot attend all shareholders' meeting to exercise their voting rights and affect the shareholders' rights. To encourage shareholders to participate in the management of their companies and further improve corporate governance, we will implement electronic voting in stages so that the method of voting can be more convenient and diverse. Shareholders can no longer be constrained by the time and location of shareholders' meeting and implement shareholder activism.

#### **(II) Focuses of implementation:**

1. Increasing the number of companies required to adopt electronic voting: Currently, publicly traded companies with more than NT\$10 billion of paid-in capital and 10,000 shareholders are required to list electronic

voting as one of the options of exercising the voting right. The range of companies required to offer electronic voting will be expanded to include publicly traded companies with more than NT\$ 5 billion and 10,000 shareholders since January 1, 2014. We will also improve corresponding measures (such as in-person voting after electronic voting, processing the proxies, and the issue of gifts).

2. We will encourage companies that provide electronic voting platforms to collaborate with international voting platforms and design the “international voting Straight Through Process (STP)” in order to facilitate the voting by foreign shareholders.
3. We will encourage funds controlled by the government and financial institutions overseen by this commission to support and use electronic voting as much as possible.

(III) Key measure implementation timeline:

1. 2013: We will review the implementation of electronic voting and urge TDDC to design “international voting Straight Through Process (STP).” At the same time, we continue to encourage corporations to adopt electronic voting and recommend funds controlled by the government and financial institutions overseen by this commission to use electronic voting to allow shareholders to express their opinions, so that we can increase the adoption rate of electronic voting among Taiwanese businesses.

2. 2014: Complete the development of “international voting Straight Through Process (STP).”

## **II. Promoting the quality of shareholders’ meeting**

### **(I) Reasons for implementing such change:**

1. The shareholders’ meeting is the highest decision making body in a corporation. Shareholders of Taiwan’s publicly traded companies are mostly minority shareholders. To encourage shareholders to oversee the operation of companies, we propose designing mechanisms that facilitate minority shareholders to participate in shareholders’ meetings.
2. Foreign investors hold about 30% of shares in Taiwan’s publicly traded companies. Some companies have high international exposure. Not only are some of the Board members foreign persons, foreign institutional investors pay great attention to the development of companies normally. TO make the information of shareholders’ meeting more transparent and make the shareholders’ meeting fair to all parties, we find it necessary to adopt more measures to improve the decision-making quality at shareholders’ meetings to improve the participation of shareholders and protect their rights.
3. Because the Company Act and the Securities and Transaction Act require that shareholders’ meeting convene within six months of the year-end, publicly traded companies concentrate the shareholders’ meeting in May and June to coordinate with the release of

financial statements. Currently, the FSC has asked the TWSE and GTSM to adopt measures to limit the number of companies holding shareholders' meeting each day under 120. To make the dates of shareholders' meeting more spread-out, we will continue to propose improvement measures.

(II) Focuses of implementation:

1. Under the policy of promoting electronic voting, we encourage proposal-by-proposal voting at shareholders' meeting so that we can truly see the support of proposals among shareholders as reference for future decisions of the Board.
2. We will encourage companies with high foreign ownership to offer shareholders' meeting agenda handbook in English.
3. We will encourage the adoption of candidate nomination system at the election of directors and supervisors.
4. We will improve the concentration of shareholders' meeting.
5. We will direct the SFIPC to fulfill its responsibility of oversight as a shareholder and ask it to gather information from the market, compile a list of companies for whom disputes may arise at their shareholders' meetings, and plan to attend those shareholders' meetings, so that it can oversee the functioning at those shareholders' meetings and protect the shareholders' rights.



6. We will direct TDDC to improve its audit on stock transfer operations and continue to review internal control regulations on stock transfer according to the market condition in future years.

(III) Key measure implementation timeline:

1. 2013:

(1) The TWSE and GTSM will continue to promote proposal-by-proposal voting, provision of English agenda handbook, and nomination system for the election of directors and supervisors at business orientation for publicly traded companies.

(2) We will ask the TWSE to consider factors such as the variation in the number of listed companies and the number of companies required to adopt electronic voting, and review the possible solutions for lowering the highest number of companies allowed to convene shareholders' meeting each day.

2. 2015: We will ask the TWSE and GTSM to review the condition of proposal-by-proposal voting, provision of English agenda handbook, and nomination system for the election of directors and supervisors by promotion and encouragement. Depending on the popularity of these measures, we will propose to the Ministry of Economic Affairs for a revision of regulations in the Company Act or revise securities regulations and make these measures mandatory.

**III. Requesting listed companies to build stakeholder-**

## **relation platforms.**

- (I) Reasons for implementing such change:
1. While minority shareholders make up a higher percentage of the market, their voices are often ignored by companies. While institutional investors own a lower percentage of shares than minority shareholders overall, their opinions and decisions are highly influential to the market. To make the companies pay attention to the opinion of shareholders, we should ask publicly traded companies to create platforms for investor communications.
  2. Of late, some companies use their resources to direct the opinion of institutional investors as instruments in the fight for control of companies among shareholders. To prevent such situations from happening and protect the rights of minority shareholders, **we should draft prudent policies when encouraging institutional investors' shareholder engagement.**
  3. Taiwan's SFIPC is in charge of the very important task that is protecting the investors. For example, it owns one thousand shares in each publicly traded companies and can attend shareholders' meeting as shareholders and monitor the operation of publicly traded companies. It can also arbitrate the disputes between minority shareholders and publicly traded companies, as well as filing class-action lawsuits. This function is lacking at investor protection centers or related groups at other countries. To further empower SFIPC and protect

shareholders' rights, we recommend that it add more power to perform oversight functions before any incident occurs.

(II) Focuses of implementation:

1. The TWSE and GTSM require publicly traded companies to set up corporate websites and provide stakeholder sections on those websites in their listing agreements so that stakeholders can ask questions and voice their concerns. The company should also properly respond. We are also proposing examples of the necessary disclosures on corporate websites for reference by companies.
2. We are asking institutional investors (such as funds controlled by the government and financial institution overseen by this commission) to disclose their criteria for stock selection, the issues they look at on their investees, and their policies on participating in shareholders' meeting and voting. We demand that institutional investors implement their policies.
3. We will add a task for the SFPIC, which is monitoring publicly traded companies on an ongoing basis and create the mechanism for SFIPC to coordinate its functions with the Corporate Governance Center on a regular basis, so that companies respect the opinions of shareholders and respond to the appeals of shareholders. This way, the SFIPC can protect the rights of shareholders before incidents happen.

(III) Key measure implementation timeline:

1. 2014:

- (1) The TWSE and the GTSM will require companies to set up corporate websites and provide stakeholder sections on those websites. They will also propose examples of the necessary disclosures on corporate websites of publicly traded companies.
  - (2) The FSC will send letters to ask government funds and financial institutions overseen by the FSC to demand that corporate governance become a criterion for choosing a company for investment and disclose this fact, that they continue to pay attention to the state of corporate governance of the investees, and that they disclose to third parties the result of their follow-up on corporate governance of publicly traded companies.
  - (3) The SFPIC will use international practices as a reference to propose mechanisms that strengthen functions of monitoring. Under the supervisory framework of the jurisdiction system applied by the TWSE and GTSM, when the SFIPC discovers any deviations, the SFIPC will inform the Center to deal with the situation.
2. 2015: We will evaluate whether we incorporate the availability of stakeholder section on corporate websites as an indicator of corporate governance evaluation and coordinate with institutions in the private sector to follow up on the implementation of the stakeholder section on corporate websites.

## **Project 3: Enhance Board Functions**

### **Analysis of the current conditions**

A rather high percentage of Taiwan's businesses are small and medium enterprises. The directors and supervisors at some companies are still headed by family members. The situation in which shares are concentrated in the hands of founders of companies is still quite common. Because such members have greater investments in the companies, they have an incentive to manage the company properly. The advantage of such situation is high efficiency in the decision-making process, and family members can actively oversee and manage the companies. If the family members are competent, have good ethical standard, and keep up with the evolution in their professional field, they can improve the performance of companies and allow other shareholders to share the profit of operations. However, the downside of concentrated share ownership is that this condition tends to produce blind spots in the decision making process. As well, shareholders with controlling interest may damage the equity of small shareholders for their private gain. Even frauds can occur under such situations. To preserve the advantages of family businesses and avoid their shortcomings, we should emphasize checks and balances in the design of the regulations and institutions. Independent directors and audit committees staffed by independent directors can apply the forces of checks and balances.

Currently, listed companies in Taiwan are not all required to appoint independent directors and form audit committees.

Only financial institutions and listed companies with over NT\$ 10 billion of paid-in capital are required to appoint at least two independent directors and one-fifth of all seats of directors as independent directors. About 62% of listed companies meet this standard. Only financial holding companies, banks, bills finance companies, insurance companies, and integrated securities firms that are subsidiaries of financial holding companies, and non-financial listed companies with more than NT\$ 50 billion of paid-in capital are required to form audit committees in lieu of supervisors. Companies required to form audit committees make up about 13% of all listed companies. Such ratio is lower than that of other countries in the Asia-Pacific region. This condition may negatively affect the trust of foreign investors and international organizations in the corporate governance of Taiwan's listed companies.

Additionally, board members of listed companies in Taiwan are highly homogeneous. For example, they tend to be family members, relatives, and friends, or the staff members when the company was founded. These people may lack the incentive to stay on top of international corporate governance trends, or they may engage in transactions that damage the equity of small shareholders. This condition may further inhibit the growth of corporations. This is why we must pay attention to the diversity among board members. Currently, Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies encourages the Board to form a nomination committee. Based on our understanding, however, few companies actually form such committees. This condition is

very different from the fact that almost 80% of companies in Europe form nomination committees. Additionally, corporate boards are not inclined to perform board performance evaluations or create the mechanism that periodically reviews its own effectiveness. Therefore, they lack the drive to understand and improve their own shortcomings.

## **Action Plans**

### **I. Expand the Scope of Mandatory Independent-Director and Audit Committee Requirement**

#### **(I) Reasons for Implementation**

1. As we can see from relevant information from international studies, the higher the percentage of independent directors in corporate boards, the more significant the positive correlation between “appointing independent directors” and “operating results.” In addition, listed companies are different from privately held companies. The source of capital of the former comes from large number of small shareholders. Therefore, appointing independent directors helps reduce the chance of abnormal incidents or illegal acts taking place at the companies. It is therefore necessary to increase the number of companies required to appoint independent directors.
2. Additionally, since independent directors form audit committees, they are expected to be more independent. Since at least one of the three members has expertise in accounting or finance, their joint decision will make the decision more thorough. Moreover, the audit committee

and its individual members can discharge the functions of supervisors. As a result, to help listed companies stay in tune with international trends, we can further expand the number of companies required to form audit committees.

## (II) Focuses of Implementation

### 1. Mandatory Appointment of Independent Directors:

- (1) As we look at the number of listed companies that appointed independent directors by the end of September 2013, we found that 428 TWSE and 484 GTSM companies have already done so, making up 62.3% of all 1,464 listed companies. Because listed and emerging stock companies are all required to form remuneration committees, and the qualification for the members of such committees is the same as that of independent directors, we believe that it is possible to require all remaining companies to appoint independent directors in one fell swoop.
- (2) In current practice, certain non-public companies or chartered businesses are willing to appoint independent directors. However, because Company Act does not offer legal basis for them to appoint independent directors, we will recommend that the Ministry of Economic Affairs evaluate whether it should add relevant regulations to the Company Act.

### 2. Increase the number of companies required to establish audit committees: FSC has already issued letters to declare the range of the first batch of companies required



to establish audit committees in February 2013. Based on the numbers at the end of September 2013, about 122 TWSE companies and 67 GTSM companies have established audit committees. The total number of such companies is about 12.9% of all listed companies. Because the implementation of the audit committee policy is performed in stages like the implementation of independent director policy, we have consulted third party opinions that recommend full-scale, mandatory establishment of audit committees in stages. We will also consider the qualification of members of board committees and their multiple directorships, and draft measures on these issues.

### (III) Implementation Timeline

1. 2013: We will issue official letters stating that all TWSE/GTSM Listed companies are required to appoint independent directors. Those companies with more than NT\$ 10 billion of paid-in capital are required to establish audit committees since 2015, while others with more than NT\$ 2 billion and under NT\$ 10 billion of paid-in capital are required to establish audit committees beginning from 2017.
2. 2014: We recommend the Ministry of Economic Affairs that the Company Act should add provisions that allow companies to appoint independent directors voluntarily.
3. 2015: We will consider qualification of members of board committees and their multiple directorships, and draft measures on these issues.

4. 2016: We will review the regulations such as independent directors, audit committees, and propose improvements.
5. 2017:
  - (1) All TWSE/GTSM Listed companies are required to appoint independent directors. TWSE/GTSM Listed companies with more than NT\$ 10 billion of paid-in capital are required to establish audit committees.
  - (2) TWSE/GTSM Listed companies with more than NT\$ 2 billion are required to establish audit committees. We will also study the time point to implement full-scale adoption of this measure.
6. TWSE/GTSM Listed companies with more than NT\$ 2 billion should have finished establishing audit committees.

## **II. Strengthen the Effectiveness of the Board**

### **(I) Reasons for Implementation**

1. As the environment is changing and complexities in the environment is growing, corporate boards face competition from around the world and expectations from investors. Their members require greater professionalism, skills, and experiences to reinforce their decisions. When it comes to the composition of the board members, individuals charged with the task of managing the company should consider the nature of companies and find candidates with different backgrounds, international experience, foresight,

leadership, and communication skills. They should also consider gender equality.

2. Considering that more and more companies will appoint independent directors and establish audit committees, that they will need to use the nomination system because they are adopting electronic voting, and that the diversity of board members would be more highly valued, to make it easier for companies to appoint competent directors and avoid the fight for control of the company among shareholders and hinder the nomination of independent directors by other shareholders, we will further encourage the establishment of nomination committees among companies.

## (II) Focuses of Implementation

1. Promote board diversity: We will help listed companies pay attention to the advantage of diversity among their board members and implement such measures.
2. Encourage the establishment of nomination committees: The Corporate Governance Center will gather information on the power and function of nomination committees under corporate boards in other countries. It will publish guidelines that help improve the function of the nomination committee. The Center will then review if the establishment of nomination committees or improvement of the nomination system shall be included as corporate governance evaluation indicators.

## (III) Implementation Timeline

1. 2014:

- (1) TWSE and the GTSM will complete the revision of “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies,” which requires that diversity should be a factor in the composition of board members (the content of the article should include the standards of diversity).
  - (2) The Corporate Governance Center will gather regulations on the power, function, and operation of nomination committees under corporate boards in other countries and draft guidelines for listed companies.
2. 2015: We will review if board diversity, the establishment of nomination committees, or improvement of the nomination system shall be included as corporate governance evaluation indicators.

## **Project 4: Disclose Material Corporate Governance Information**

### **Analysis of the current conditions**

Information disclosure is the most important component of sound corporate governance. It not only reduces the risk of information asymmetry but also places all public companies under the scrutiny of the market to protect the rights of shareholders. Currently, most companies release material information through the Market Observation Post System. However, corporate governance information is not required to be disclosed on the Market Observation Post System or corporate websites.

Due to globalization, the International Financial Reporting Standards (IFRS) has become the only standard in capital markets worldwide. The adoption of IFRS has also become a trend in international capital markets. To make it easier to compare financial statements among domestic and international corporations, to improve the international competitiveness of Taiwan's capital markets, to attract foreign capital to invest in the domestic capital market, and reduce the cost of raising capital overseas for domestic corporations, we have been promoting the adoption of IFRS in the compilation of financial statements among Taiwan's corporations. Since 2013, Taiwan's listed companies, emerging companies, and companies in the financial industry (not including credit cooperatives, credit card companies, and insurance brokers and agents) have already been compiling financial statements with IFRS.

The disclosure of non-financial information is also another

priority of implementation for international organizations. The annual report is one of the important information for shareholders to understand the operating condition of the company. While Taiwan's listed companies have been compiling annual reports according to Regulations Governing Information to be Published in Annual Reports of Public Companies, but the non-financial information disclosed therein tends to be inadequate or just formalities. To comply with international standards and correspond with the trend of valuing corporate governance around the world, we should actively help listed companies to improve the disclosure of non-financial information.

Also, the development of corporate social responsibility is already a worldwide trend. More and more corporations devote their resources to the promotion of social responsibilities aside from the pursuit of profit. In addition, many pension funds and financial institutions incorporate corporate social responsibility as their investment guideline. Recent issues of food safety and environment protection underscore the importance of corporate ethical practices. To help corporations fulfill corporate social responsibilities and ethical business practice, this commission is adopting the following measures:

1. We supervised the codification of “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” as reference for listed companies. We have required financial holding companies, banks, bills finance companies, and public companies to disclose the measures

the adopt and the fulfillment of such measures according to “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.”

2. Annually, we collaborate with TWSE and GTSM to convene a large-scale “Conference on Ethical Business Practice and Corporate Social Responsibility for Listed Companies.” We invite companies to share their experience in the implementation of such matters and arrange for the exchange of ideas at the conference. Regularly, TWSE and GTSM also convene small-scale seminars to help corporations refer to international standards to draft and implement internal regulations.
3. We require TWSE and GTSM to establish “Corporate Social Responsibility Area” on their websites. They not only teach corporations how they can fulfill corporate social responsibilities but also offer cases and examples of wrongdoing on fulfilling corporate social responsibilities based on agenda so that corporations can exchange ideas. We also plan to draft guidelines in the following areas: improving competitiveness, fulfilling responsibilities and compiling corporate social responsibility, sustainability or integrated reports.

## **Action Plans**

### **I. Increase the Quality of Non-Financial Information Disclosure.**

#### **(I) Reasons for Implementation**

1. The promotion of corporate social responsibility around the world has been with us for a long time. Taiwan has also codified “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” as guidelines for listed companies. However, critics have said that such principles are outdated. Recent issues of food safety and environment protection underscore the importance of corporate ethical practices. Therefore, it is imperative to amend these guidelines according to international trends and Taiwan’s social issues.
2. As companies grow more international in scope, various industry associations are making the fulfillment of corporate social responsibility one of the criteria for selecting suppliers or customers. Many large funds or financial institutions use the performance of corporate social responsibility as a requirement in choosing investments in the portfolio. Additionally, many capital markets compile corporate social responsibility indices or sustainable management indices (such as Dow Jones of FTSE4Good) and select indicator businesses as index components. To follow the international trend and recognize the movement of emphasis on corporate social responsibility around the world so that the investing public approve of Taiwan’s listed companies, we should actively help listed companies fulfill corporate social responsibility and ethical management.



3. Currently, “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” are short on disclosures on the fulfillment of corporate social responsibility and ethical management. This fact may not be sufficient to help corporations disclose their fulfillment. We should add issues to be disclosed so that companies can properly present their achievements in this area. We can then allow investors to understand these companies better. After fulfilling corporate social responsibility becomes a more common practice in the future, we will require listed companies to draft corporate social responsibility, sustainable development, or integrated reports according to international standards.

(II) Focuses of Implementation

1. TWSE and GTSM will use international ongoing trends of corporate social responsibility and the current condition of Taiwan’s listed companies to revise “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.”
2. We will revise the regulations and attachments of annual reports and prospectuses of public companies and add items that should be substantially disclosed. We will require listed companies to disclose their fulfillment in detail.

3. TWSE and GTSM will study the use of market mechanism or measure to encourage listed companies to further fulfill corporate social responsibility and ethical business practice, or draft corporate social responsibility, sustainable development, or integrated reports according to international standards, and include their performance in this area as one indicator in corporate governance evaluation.

### (III) Implementation Timeline

#### 1. 2014:

- (1) We use the development trends set by international organizations on corporate social responsibility and current conditions of listed companies in Taiwan as reference and revise “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.”
- (2) We will revise “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” and the attached tables and add items on corporate social responsibility and ethical business practice that should be disclosed by TWSE/GTSM Listed companies.

#### 2. 2015: TWSE and GTSM will research using market

mechanism or measures to encourage TWSE/GTSM Listed companies to further implement corporate social responsibility and ethical business practice (such as compiling corporate social responsibility, sustainable development, or integrated reports), and make the implementation of such requirements an item in the evaluation of corporate governance.

## **II. Integrate Disclosure of Transaction Irregularities and Enforcement**

### **(I) Reasons for Implementation**

1. Currently, abnormal information on listed companies is disclosed in the Market Observation Post System or the websites of TWSE or GTSM in a scattered manner. Investors may find it rather difficult to grasp the legal compliance of these companies. To integrate information such as abnormal trading in the companies' stocks, change of trading methods, or messages of clarification to the media and institutional investor conferences, we will ask TWSE or GTSM to integrate such information on their websites.
2. We have also learned that Hong Kong, Malaysia, the Philippines, and Thailand disclose their statistical data of law enforcement efforts, including the disclosure of the dates when investigations are concluded in the annual reports of regulators. While FSC releases detailed information on companies disciplined in press releases like other countries and summarizes such disclosure in

the Finance Outlook Monthly magazine of FSC on a monthly basis, but comprehensive statistical data is lacking, such as the statistics on various types of disciplines and the total amount of fines. Such comprehensive statistical data demonstrates our law enforcement and serves as a warning to other listed companies. It can be used as reference on improving certain oversight issues.

## (II) Focuses of Implementation

1. TWSE and GTSM will allocate sections on their websites to disclose relevant information in a comprehensive manner and provide methods for convenient searches which meet investors' need.
2. We are planning to create a law enforcement statistical database and properly disclose such information for use in oversight functions.

## (III) Implementation Timeline

1. In 2013, we will complete the disclosure of abnormal information on infractions of rules and trading.
2. In 2014, we are planning for the creation of a database for statistical information on law enforcement.

## **Project 5: Further Advance Enforcement Framework**

### **Analysis of the current conditions**

The current Securities and Exchange Act imposes penalties on certain sections of the appointment of independent directors and the establishment of committees under corporate boards (such as violations of the establishment and appointment for vacant seats of independent directors and audit committees, and failure to present material issues to the audit committee and the board). However, certain issues were not equipped with disciplinary measures (for example, the Securities and Exchange Act does not provide punishment for not following the rules of subordinate laws on independent directors, audit committees, and remuneration committees).

In addition, Taiwan's Company Act and Securities and Exchange Act encourage small shareholders to nominate and make proposals. Shareholders with more than 1% of shares issued may present a list of candidates for directors to companies that use the director nomination system. They may also present proposals in writing at annual shareholders' meeting to the companies they invest in. However, when small shareholders actually exercise such rights or when there is a fight for the control of the company, we sometimes encounter companies that block small shareholders from nominating or proposing with technicalities. This condition negatively affects the basic rights of shareholders. We should improve relevant laws or relevant measures to protect shareholders' rights.

In terms of related party transactions, Taiwan's current regulations on related party transactions focus on avoiding conflicts of interest, disclosing information, provision of price opinions by third parties, and the reasonableness in procedures. For example, the Company Act and the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies require that, in principle, corporate funds cannot be loaned to shareholders or any other person. The Company Act and Regulations Governing Procedure for Board of Directors Meetings of Public Companies stipulate that, when directors have personal interests in the matters of the meeting, they should explain the important issues of their personal interests at that board meeting. If they may harm the interest of the company due to their personal interests, they may not participate in the voting and cannot exercise their voting rights on behalf of other directors. The Company Act also imposes certain responsibilities on controlling the company and forcing affiliated companies to perform non-arms'-length or unprofitable transactions. Additionally, Regulations Governing the Acquisition and Disposal of Assets by Public Companies have already clearly defined "related parties," the procedures for handling related party transactions, and the disclosure of information. However, some related party transactions remain controversial. This is also a topic the international investment community pays attention to, and which demands intensified regulations.

Additionally, to prevent the company from breaking laws or damaging the rights of shareholders, we should encourage

shareholders, persons inside the companies, or persons who provide services to the company to submit evidence immediately to TWSE, GTSM, or regulators for investigation whenever they discover unusual conditions at the company. In addition to improving internal control, this measure can deter illegal acts at the earliest time possible and protect the rights of shareholders.

## **Action Plans**

### **I. Establish the Core Principles of Internal Control**

- (I) Reasons for Implementation: To ensure uniformity in the basic principles of internal control measures among the financial industry and public companies, and to adopt international standards, we are proposing the codification of “Core principles of creating internal control regulations.”
- (II) Focuses of Implementation: We will codify “Core principles of creating internal control regulations,” which will serve as the ultimate guiding principle on internal control regulations for the four departments subordinate to this Commission. In the future, when the core principles are updated to reflect international trends (such as COSO report, “Internal Control – Integrated Framework” in the US) or domestic practices, internal control regulation principles will be modified according to these core principles.
- (III) Implementation Timeline
  - 1. 2013: Because these core principles have to take into consideration the needs of public companies, service

businesses in the securities and futures markets, financial holding companies, banks, and insurance companies, and they also need to incorporate the “Internal Control – Integrated Framework” report recently published by the COSO committee in the US, we are asking TWSE and GTSM to research this matter with us.

2. 2014: We will complete the codification of “Core principles of creating internal control regulations.”
3. 2015: We will complete the revision of internal control principles in various industries.

## **II. Strengthen the Protection of Shareholders’ Rights**

### **(I) Reasons for Implementation**

1. Taiwan’s Company Act has already given the right to nominate and propose to small shareholders. However, board members at certain companies use all means available to prevent small shareholders from nominating or proposing for the sake of retaining control of the companies. Alternatively, they did not include the nomination or proposal information in the meeting agenda, causing negative impacts on shareholders’ rights. To prevent such situations from happening, we need to improve our regulations.
2. Improving mechanisms on related party transactions
  - (1) Related party transactions have caught the attention of many nations and international organizations. Recently, the World Bank has suggested that Taiwan improve the oversight on related party transactions to protect the



rights of shareholders.

(2) Certain Asian nations have relatively stringent regulations on related party transactions. For example, the Company Act in Malaysia stipulates that, when directors or employees use the company's assets, acquire information or opportunities to earn profit, or engage in businesses that are in competition with the company to gain benefit for the individual or for other persons or damage the interest of the company, such acts require the approval from annual shareholders' meeting. Additionally, when directors or major shareholders (holding more than 5% of shares of the company) cannot acquire or dispose of shares or non-cash assets without prior approval from annual shareholders' meeting. Moreover, the listing rules in Singapore, Malaysia, and Hong Kong require that the issuer of the security report immediately any related party transactions in excess of 3% of the group's net tangible assets. Every year, issuers should disclose the total amount, name of related parties, and the corresponding transaction balance on related party transactions in annual reports. Related party transactions in excess of 5% of net tangible assets should also require approval from shareholders' meeting. We also see that New Zealand and Australia require "material" related party transactions approved by the shareholders' meeting.

(3) Recently, based on suggestions from the World Bank,

Taiwan has modified “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” (referred to as Regulations hereafter) on February 13, 2012, which requires reasonableness assessments on the transactions when public companies acquire or dispose of real estate from related parties, or on material asset transaction other than the acquisition or disposal of real estate. The board meeting has to approve of and the supervisors must recognize such transactions, and full information on these transactions must be disclosed immediately. Additionally, Regulations Governing the Preparation of Financial Reports by Securities Issuers also require companies disclose material transactions with related parties in footnotes. (Examples are purchase and sales, accounts receivable and payable, property transactions, loan of funds, and guarantees and endorsements.) After we consult the opinion from external parties, most observers believe that the current mechanisms are sufficient and may be excessively strict. To balance the shareholders’ rights and the efficiency of business operations, we are studying the possibility of drafting guidelines or best practices for reference by companies. We will also reduce the possible impact on shareholders’ rights by related party transactions by improving oversight and information disclosure.

## (II) Focuses of Implementation

1. TWSE and GTSM will study the possibility of requiring

companies to adopt certain evaluation procedures on the nominations or proposals from shareholders based on their contractual relationship with listed companies. If not, those companies will be fined.

2. We will recommend the Ministry of Economic Affairs study protective measures on the shareholders' right of nomination and proposal.
3. TWSE and GTSM will study the viable measures on improving the oversight mechanism on related party transactions. They will also draft guidelines or best practices on related party transactions for reference by companies and educate external parties on this matter.

### (III) Implementation Timeline

#### 1. 2013

- (1) TWSE, GTSM, and SFIPC will study the possibility of requiring companies to adopt certain evaluation procedures on the nominations or proposals from shareholders based on their contractual relationship with listed companies. Companies found to be in breach of this rule will be fined.
- (2) TWSE and GTSM will study the viable measures on improving the oversight mechanism on related party transactions.

#### 2. 2014

- (1) We will recommend the Ministry of Economic Affairs study protective measures on the shareholders' right of nomination and proposal.
- (2) We will ask the Corporate Governance Center to draft

guidelines or best practices on related party transactions for reference by companies and educate external parties on this matter.

### **III. Amend Laws to Effectively Enforce Corporate Governance Regulations**

- (I) Reasons for Implementation: We want to improve the effectiveness of law enforcement and force companies to obey laws on corporate governance.
- (II) Focuses of Implementation
  1. We are studying the possibility of imposing penalties on infractions against the following statutes: The establishment of remuneration committee stipulated in Article 14-6 of Securities and Exchange Act, Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies, Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
  2. TWSE and GTSM will study the possibility of adding powers of guidance and discipline on issues related to corporate governance.
- (III) Implementation Timeline: Before 2014, we will complete the review of disciplinary measures in statutes. When necessary, we will ask TWSE and GTSM to

propose relevant measures.

## Action Plans and Implementation Timeline

Year	Action Plans
<b>2013</b>	<ol style="list-style-type: none"> <li>1. Tasks performed by FSC:               <ol style="list-style-type: none"> <li>(1) Issue official letters that require all listed companies to appoint independent directors. Those companies with more than NT\$ 10 billion of paid-in capital are required to establish audit committees since 2015, while others with more than NT\$ 2 billion and under NT\$ 10 billion in paid-in capital are required to establish audit committees since 2017.</li> <li>(2) Review the implementation of electronic voting and urge TDCC to design “International Voting Straight Through Process.”(STP)</li> <li>(3) Continue to promote proposal-by-proposal voting, government funds or financial institutions overseen by this commission to use electronic voting to voice their opinions, so that we can raise the adoption rate of electronic voting among Taiwanese businesses.</li> </ol> </li> <li>2. Tasks performed by the Corporate Governance Center:               <ol style="list-style-type: none"> <li>(1) Plan for the formation of Corporate Governance Center.</li> <li>(2) Accomplish of the formation of the first corporate governance evaluation committee, as well as the design of indicators and grading schemes.</li> </ol> </li> <li>3. Tasks performed by TWSE and GTSM:               <ol style="list-style-type: none"> <li>(1) Complete the disclosure of abnormal information on infractions and trading.</li> <li>(2) Study the viable plans in reducing the number of shareholders’ meetings on the same day.</li> <li>(3) Study the core principles of internal control.</li> <li>(4) Propose with SFIPC that companies need certain procedures to handle nominations or proposals made by shareholders based on listing contract relationships. Those who found to</li> </ol> </li> </ol>

	<p>be in breach of this condition will be fined.</p> <p>(5) Study the viable measures on improving oversight on related party transactions.</p> <p>(6) Continue to promote voting by poll at shareholders' meetings, the provision of English agenda handbook, and nomination system in board elections.</p>
<p><b>2014</b></p>	<p>1. Tasks performed by FSC:</p> <p>(1) Complete the development of “International Voting Strait Through Process ( STP ) ” system.</p> <p>(2) Complete codifying “Core principles of creating internal control regulations.”</p> <p>(3) Revise regulations and attached tables in the annual reports and prospectuses of public companies. Add substantive items to be disclosed for corporate social responsibility and ethical business practice.</p> <p>(4) Require government funds and financial institutions overseen by FSC to use corporate governance as a criteria for choosing a company for investment and disclose this fact, continue to pay attention to the state of corporate governance of their investees, and disclose their follow-up with governance of listed companies.</p> <p>(5) Recommend that MOEA add regulations on voluntary appointment of independent directors in the Company Act.</p> <p>(6) Continue to inspect the punitive regulations of the Securities and Exchange Act. When necessary, TWSE and GTSM shall propose relevant measures.</p> <p>2. Tasks performed by the Corporate Governance Center:</p> <p>(1) Complete the formation of Corporate Governance Center.</p> <p>(2) Complete the initial evaluation of corporate governance evaluation for the first year.</p> <p>(3) Research and propose guidelines for board self-evaluation or peer review.</p> <p>(4) Propose examples for the power, function, and operation of the nomination committee.</p> <p>(5) Propose examples for necessary disclosure on the websites of</p>

	<p>listed companies.</p> <p>(6) Propose guidelines of related party transactions or best practice for reference by companies.</p> <p>(7) Propose the creation of law enforcement statistics database.</p> <p>(8) Compile the incidents of reporting by whistleblowers, the outcome of on-site audits, and the payment of rewards, and study improvements based on such condition.</p> <p>3. Tasks performed by SFIPC: Based on international practices to propose mechanisms that strengthen functions of monitoring.</p> <p>4. Tasks performed by TWSE and GTSM:</p> <p>(1) Revise “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies.”</p> <p>A. Design items for board self-evaluation or peer review.</p> <p>B. Require that the composition of board members should be diverse.</p> <p>(2) Revise “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies” and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.”</p> <p>(3) Require companies to set up websites and provide stakeholder areas.</p> <p>(4) Determining the criteria or indicators for selecting companies in the corporate governance index .</p> <p>(5) Implement measures when companies are in breach of shareholder nomination or proposal evaluation procedures, and ask MOEA to clearly state protection measures for shareholder nomination and proposal rights in laws.</p>
<p><b>2015</b></p>	<p>1. Tasks performed by FSC:</p> <p>(1) Consider and draft corresponding measures on the qualification of members of board committees and their multiple directorships.</p> <p>(2) Complete the revision of internal control principles for all industries.</p> <p>2. Tasks performed by the Corporate Governance Center:</p> <p>(1) Release the first (2014) evaluation results. (Release the</p>



	<p>evaluation results of companies that perform better )</p> <p>(2) Proposing the following items should be included as indicators of corporate governance evaluation:</p> <p>A. Performance of board self-evaluation or peer review</p> <p>B. Provision of stakeholder section on corporate websites</p> <p>C. Promotion of board diversity</p> <p>D. Creation of nomination committees or improvements of director nomination system</p> <p>E. Fulfillment of corporate social responsibility and ethical business practice</p> <p>3. Tasks performed by TWSE and GTSM:</p> <p>(1) Depending on the condition of proposal-by-proposal voting, provision of English agenda handbook, and nomination system for the election of directors and supervisors, propose to the MOEA to revise the regulations in the Company Act or securities regulations and make them mandatory.</p> <p>(2) Design differentiated management mechanisms based on evaluation results</p> <p>(3) Encourage listed companies to further promote corporate social responsibility and ethical business practice (such as social responsibility, sustainability or integrated reports).</p>
<b>2016</b>	<p>1. Tasks performed by FSC: Review regulations such as independent directors and audit committees and propose improvements.</p> <p>2. Tasks performed by the Corporate Governance Center:</p> <p>(1) Release the results from the second corporate governance evaluation. (Release the evaluation result of more than half the listed companies)</p> <p>(2) Promote the newly added corporate governance evaluation indicators and review the existing indicators.</p> <p>3. Tasks performed by TWSE and GTSM: Complete the compilation of a corporate governance index and publish it.</p>
<b>2017</b>	<p>1. Tasks performed by FSC:</p> <p>(1) All listed companies shall appoint independent directors. Listed companies with more than NT\$ 10 billion in paid-in capital shall establish audit committees.</p>

	<p>(2) Listed companies with more than NT\$ 2 billion of paid-in capital are required to establish audit committees.</p> <p>2. Tasks performed by the Corporate Governance Center: Release the results from the third corporate governance evaluation. (Release the evaluation results of all listed companies )</p>
<b>2019</b>	Listed companies with more than NT\$ 2 billion of paid-in capital will complete the establishment of audit committees.

## **Chapter 4 : Method of Implementation**

- I. Regulators, TWSE, the GTSM, and non-profit organizations will jointly promote these agenda. With the directions set by regulators and the force supplied by TWSE, the GTSM, and non-profit organizations (such as SFIPC, SFI, and the Taiwan Corporate Governance Association), we can help the implementation of corporate governance.
- II. FSC will modify the roadmap regularly each year on a rolling basis.

## **Chapter 5 : Conclusion**

Improving corporate governance has always been an important topic internationally and one of the important policies in improving the capital markets in Taiwan. Companies with good corporate governance cannot only raise the competitiveness of the companies themselves, but also increase the trust of investors in the capital market. Good corporate governance creates positive effects for the companies, the nation, and individuals alike.

With this corporate governance roadmap, we will set the direction of implementation and guidance. We hope that the government will lead the way and use the force of government agencies and private sector non-profit organizations to encourage corporations and investors to participate actively in corporate governance. By doing so, we can create a culture of good corporate governance and improve the competitiveness of Taiwan's corporations in the international arena.