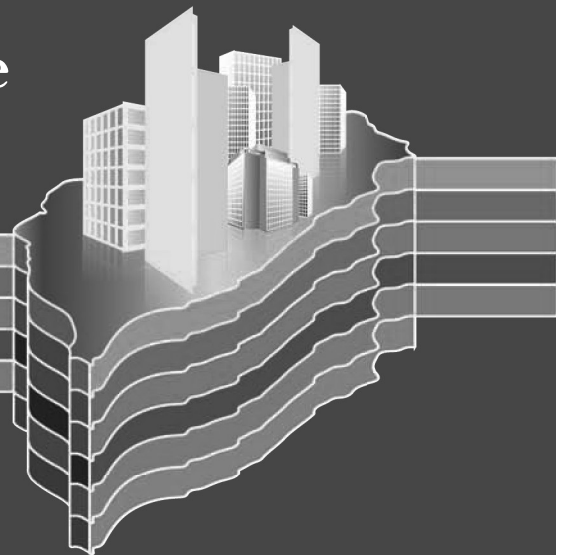


2018

**Corporate Governance
in Taiwan**



Purpose of Publication

Taiwan has been promoting the importance of corporate governance to domestic public companies since 1998, and has continuously advanced and implemented various policies. The Executive Yuan established the "Taskforce for Reforming Corporate Governance" on January 7, 2003 to discuss issues pertaining to corporate governance, and proposed the "Policy Agenda and Action Plan to Strengthen Corporate Governance" as the basis for advancing corporate governance.

The competent authority, the Financial Supervisory Commission (FSC), announced the "Corporate Governance Roadmap" in 2013, and proposed five major projects including consolidating corporate governance culture, promoting shareholder activism, enhancing board functions, disclosing important corporate governance information, and augmenting regulatory enforcement, as well as 13 specific measures to serve as guidance for advancing corporate governance policies. Under the guidance of the competent authority, Taiwan Stock Exchange (TWSE) established the "Corporate Governance Center" in 2013, and invited peripheral agencies related to the securities industry to integrate resources from diverse circles and advance various major corporate governance operations in order to raise the standards for corporate governance in Taiwan's domestic capital market.



With joint efforts from the competent authority, TWSE, Taipei Exchange (TPEX), Securities & Futures Institute (SFI), and Taiwan Corporate Governance Association (CGA), all projects proposed in the "Corporate Governance Roadmap 2013" were implemented, and related regulations and measures were adjusted, revised, and implemented through amendments on a rolling basis to build a solid foundation for the corporate governance system in Taiwan.

The advancement of corporate governance is a path whose improvement requires constant efforts. To cope with the rapid changes in and increasing internationalization of capital markets, and to expand and build upon the outcomes of the "Corporate Governance Roadmap 2013", the FSC compiled the opinions of related agencies and experts on corporate governance affairs, and formulated the three-year "Corporate Governance Roadmap (2018-2020) " which includes several major aspects of reform such as the advancement of institutional investor supervision, introduction of a system for corporate governance personnel, enhancement of information disclosure in English, advancement of the candidate nomination system, improvement of corporate governance evaluation efficacy, and enhancement of legal compliance. The aim is to transform the government's top-down approach for advancing corporate governance into a corporate governance culture that is deeply rooted and inspires the voluntary attention to corporate governance of companies. The



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purpose is to create a friendly investment environment and improve Taiwan's international competitiveness.

To strengthen corporate governance education for domestic and multinational companies, under the guidance of the competent authority, the Institute has been providing overview of the current implementation status of corporate governance in Taiwan in both Chinese and English since December 2001, and we have amended the contents of this publication in accordance with important changes in Taiwan's corporate governance system. The 2018 version contains a framework and contents adjusted based on the Corporate Governance Roadmap (2018-2020), which shall be published and made available for free downloads. We sincerely hope that this publication will aid readers who wish to learn about the development of corporate governance in Taiwan.

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Introduction

Corporate governance refers to methods for corporate management and supervision. In the wake of the 1997 Asian financial crisis, "strengthening corporate governance" was considered to be a solution for companies during times of crisis. The financial crisis ignited by the Enron scandal in the United States in 2001 compelled the U.S. government to take active measures to tackle corporate management issues, and led to the promulgation of the Sarbanes-Oxley Act. Multiple tunneling and fraud cases were exposed in Taiwan in 1998. Therefore, in that same year, the competent authority began advocating the importance of corporate governance to domestic public companies. Taiwan Stock Exchange Corporation (TWSE), Taipei Exchange (TPEX), Securities & Futures Institute (SFI), and Taiwan Corporate Governance Association began concerted efforts on advancing a system with independent directors and audit committees, as well as the establishment of the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies", which meet national conditions in order to help domestic companies strengthen corporate governance and improve international competitiveness.

The amendment of the Company Act, Securities and Exchange Act, and their related regulations in 2006 institutionalized the principles of corporate governance and made them legally binding. In the wake of the financial crisis in 2008, the competent authority, the Financial Supervisory Commission (FSC), proposed plans for strengthening corporate governance and business ethics and protecting investors as well as multiple measures to ensure that companies and financial institutions strengthen legal compliance and build a new financial order. The Company Act and Securities and Exchange Act would later be amended to require the compulsory adoption of a cumulative voting system for the election of directors and supervisors, introduce restricted stocks, divide the exercise of voting rights, require the compulsory establishment of audit committees and remuneration committees, and allow the competent authority of securities to enforce mandatory adoption of e-voting among public companies.

According to the Corporate Governance (CG) Watch survey, based on 11 Asian markets and published by the Asian Corporate Governance Association (AGGA) and CLSA in September 2016, Taiwan advanced to the fourth place from sixth place in 2014, and was only preceded by Singapore, Hong Kong and Japan. Taiwan's total score rose from 56 to 60, exhibiting a larger increment in scores than any other country within the survey. Moreover, Taiwan also showed improvement within five categories, including corporate governance rules and practices,

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enforcement, political and regulatory environment, IGAAP (or "accounting and auditing"), and corporate governance culture.

To fully strengthen corporate governance policies in Taiwan, the FSC published the "Corporate Governance Roadmap 2013" in December 2013 and adopted amendments on a rolling basis. Related measures were completed in 2017 in accordance with the plan. To conjoin the development of corporate governance in Taiwan, and connect local policies with international practices, the FSC officially launched the new three-year Corporate Governance Roadmap (2018-2020) in April 2018 as the basis for related entities to continue enhancing corporate governance in Taiwan and thereby improve the international competitiveness of the Taiwanese capital market. Related milestones are detailed in Appendix 1 (source: "TWSE Corporate Governance Center website").



Corporate Governance Overview

I. Definition

A sound corporate governance system must include legitimate incentives to encourage the Board of Directors and management to achieve business objectives while maximizing benefits for the company and all shareholders. It must also help transform corporate management structure and provide effective supervision mechanisms to encourage companies to make good use of resources, improve efficiency, increase competitiveness, and promote social welfare for all citizens.

II. OECD Corporate Governance Principles

Since its promulgation in 1999, the OECD Corporate Governance Principles have been widely accepted as international standards for good corporate governance. The six principles proposed in the 2004 amendment are provided as references for companies to build a sound corporate governance system. The amendments in 2015 strengthened the role of institutional investors and measures against insider trade. The six principles are detailed in Figure 2.1 below.

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Figure 2.1 OECD Corporate Governance Principles



Corporate Governance System and Development in Taiwan

I. Design of the Corporate Governance System in Taiwan

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

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

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

II. Corporate Governance Development in Taiwan

(I) History

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

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

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

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

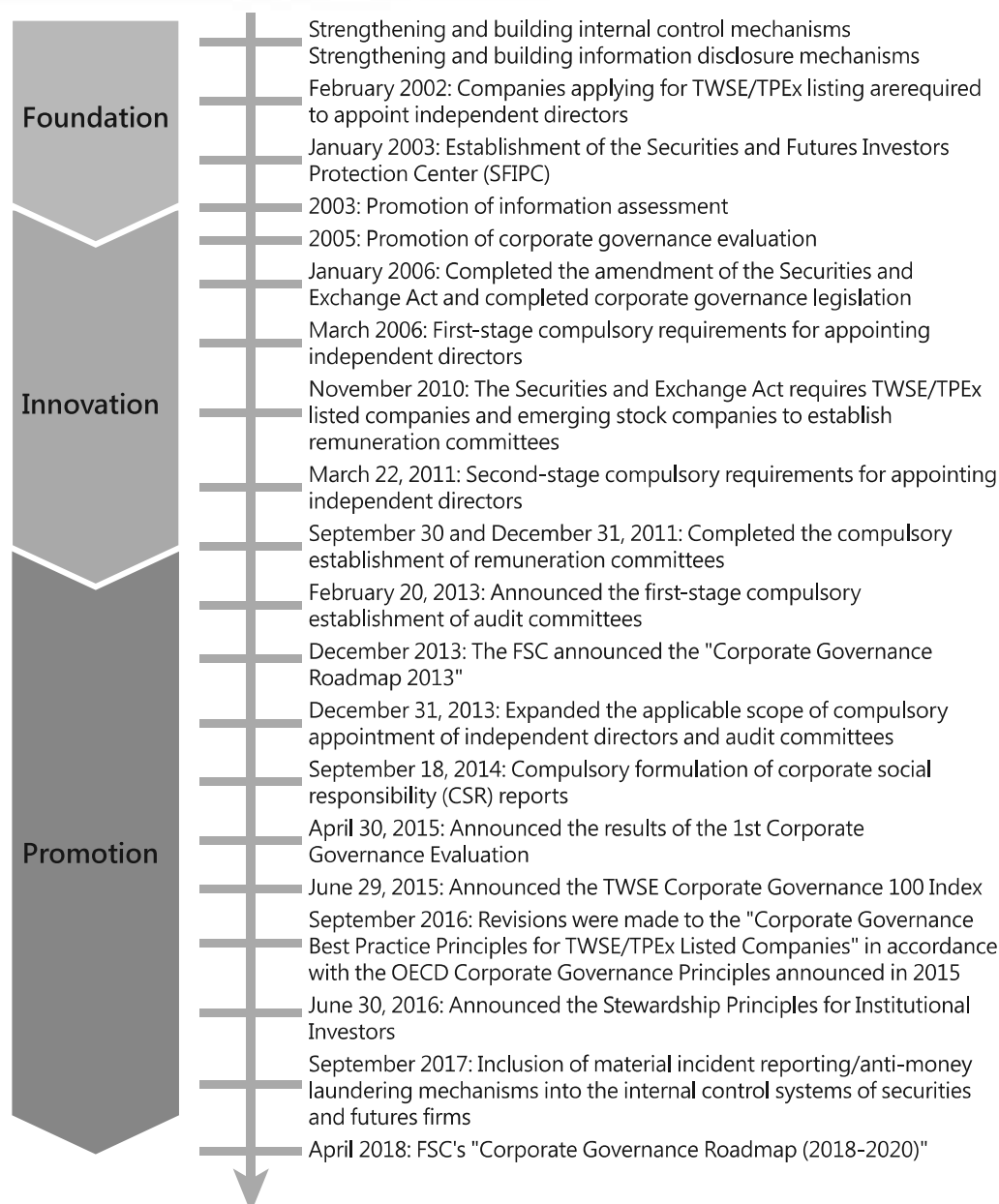


Figure 3.1 Important corporate governance developments in Taiwan

Source: FSC website

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(III) Corporate Governance Roadmap (2018-2020)

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

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

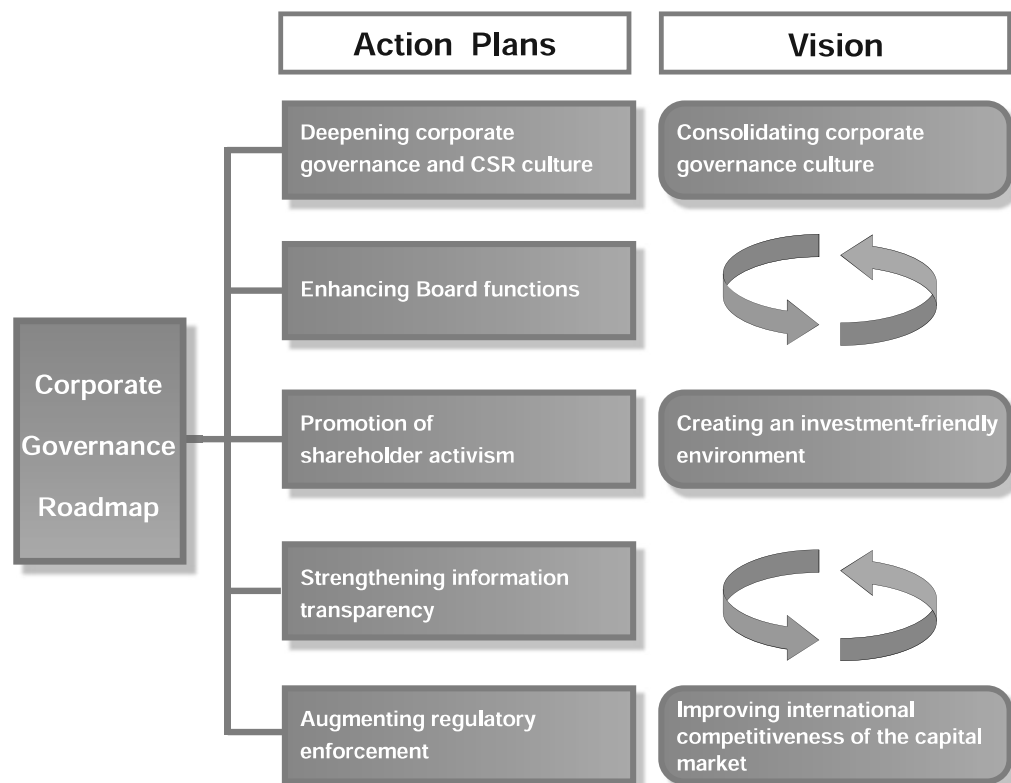


Figure 3.2 Corporate Governance Roadmap (2018-2020) Action Plan and Vision



Current Status of the Implementation of Corporate Governance Principles in Taiwan

I. Deepening corporate governance and CSR

(I) Legislation

Taiwan amended the Company Act and Securities and Exchange Act in 2006, as to institutionalize corporate governance principles. The main framework of established legislation is in the Company Act, Securities and Exchange Act, and related regulations of TWSE and TPEx for listed companies.



Figure 4.1 Important corporate governance regulations

1. Company Act

Act The main framework of corporate governance in Taiwan is established in the Company Act, which regulates the operations of the shareholders' meeting, Board of Directors, and supervisors. In keeping with international trends, Taiwan has introduced restricted stocks, divided the exercise of voting rights, and added multiple voting rights for close companies based on regulations in foreign countries, so as to build an environment suitable for international investment, and require compulsory cumulative voting for the election of directors and supervisors. In addition, e-voting, proxy forms for attendance, and shareholder proposal rights have been established to achieve goals for corporate governance by establishing related regulations for the shareholders' meeting, Board of Directors, and shareholders activism.

The Legislative Yuan passed the amendment to the Company Act on July 6, 2018, and it was promulgated by the President on August 1. The scale of the amendment was immense and the goal was to include measures for strengthening corporate governance and advancing shareholder interests. The key amendments included anti-money laundering measures, loosening of the format for convening meetings of the Board of Directors, simplifying director nomination procedures, and preventing major proposals from being set forth as extempore motions.

2. Securities and Exchange

The Securities and Exchange Act was amended in 2006 to introduce independent directors and audit committees and to strengthen the Board's functions, structure, and operations. To facilitate the policy of gradual compulsory requirements for appointing independent directors, companies are encouraged to establish a nomination committee system. "Sample Template of XXX Co., Ltd. Charter of Nominating Committee" was announced by TWSE for use as reference. Based on the authorization granted by the Securities and Exchange Act, the FSC established the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies", "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies", "Regulations Governing Procedure for Board of Directors Meetings of Public Companies", and "Regulations Governing Establishment of Internal Control Systems by Public Companies", in order to strengthen legislation of corporate governance, implement the functions of the Board, promote shareholder activism, and assist in the healthy growth of companies. In addition, the FSC issued administrative orders related to corporate governance for compliance by domestic companies. The content of these orders included appointment of independent directors, establishment of an audit committee, and adoption of e-voting.

3. Regulations for TWSE/TPEX listed companies

TWSE and TPEX have continued to announce related regulations. Related regulations are shown in Table 4.1.

Table 4.1 Related corporate governance regulations for listed companies

Rules Governing Reviews	1. Rules Governing Review of Securities Listings. 2. Rules Governing the Review of Securities for Trading on the TPEX, Rules Governing the Review of Foreign Securities for Trading on the TPEX.
Independent directors	Companies applying for initial listing on TWSE and TPEX are required to appoint independent directors.
Audit Committee	Starting from January 2018, companies applying for an initial public offering and those applying for initial TPEX trading with a paid-up capital of NT\$600 million or above are required to set up an audit committee.
Related Principles	1. Corporate Governance Best Practice Principles. 2. Corporate Social Responsibility Best Practice Principles. 3. Ethical Corporate Management Best Practice Principles.

(II) Implementation and the Corporate Governance Roadmap

For the purpose of assisting companies, media and investors in developing correct corporate governance concepts, TWSE established the Corporate Governance Center in 2013, as to integrate the functions of TPEX and peripheral agencies in advancing corporate governance measures. The goal is to internalize corporate governance as well as CSR, and combine them with company culture, thereby shaping the overall corporate governance and CSR culture in the Taiwan



securities market. The primary project in the Corporate Governance Roadmap is "deepening corporate governance and CSR culture" which includes strategic goals, such as enhancing the effectiveness of the corporate governance evaluation system, developing and promoting CG 100 index and Taiwan ESG index-related products, and deepening corporate governance and CSR awareness.

1. Gradually introducing a more defined mix of qualitative corporate governance evaluation indicators and releasing evaluation results while taking into account industry differences (Action Plan I of the Corporate Governance Roadmap)

To improve the effectiveness of the Corporate Governance Evaluation, TWSE will increase the number of qualitative indicators and differentiation in point awarding in the Corporate Governance Evaluation. It will also consider incorporating surveys and on-site visits (including interviews with CPAs, internal audit personnel, and corporate governance personnel) to understand the actual state of governance in companies. TWSE will also study the feasibility of announcing the results of evaluations according to industry type.

2. Inducing the establishment of an ESG index for TPEX-listed companies and promoting the use of the CG 100 index and ESG index (Action Plan I of the Corporate Governance Roadmap)

To develop an ESG index for listed companies in Taiwan, TWSE shall compile relevant indices for TWSE-listed companies while TPEX shall study the feasibility of an ESG index for TPEX-listed companies.

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Components of the ESG index shall be reviewed every three years based on results of the Corporate Governance Evaluation and, through promotion of CG index and ESG index, goals such as using market mechanisms to encourage investors to invest in companies with better corporate governance and which carry out CSR shall be achieved, ultimately leading companies to value corporate governance voluntarily.

3. Promoting the importance of corporate governance and CSR (Action Plan I of the Corporate Governance Roadmap)

TWSE, TPEX, and the Securities and Futures Investors Protection Center (SFIPC) shall collect domestic and foreign case studies, draft critiques, develop education materials, arrange relevant promotion, courses, lectures, or seminars based on the aforementioned materials for the media and investors. These shall strengthen the voluntary focus of companies, media, and investors on corporate governance and CSR.

II. Responsibilities and functions of the Board of Directors

(I) Legislation

1. Board of Directors

(1) Composition

To strengthen the structure of the Board of Directors, the Securities and Exchange Act requires public companies to appoint at least 5 directors. The methods of election shall still be regulated by the

Company Act. Unless otherwise approved by the competent authority, more than half of the directors shall be persons who have neither a spousal relationship nor a relationship within the second degree of kinship with any other director. The qualifications and selection process of directors are shown in Figure 4.2.

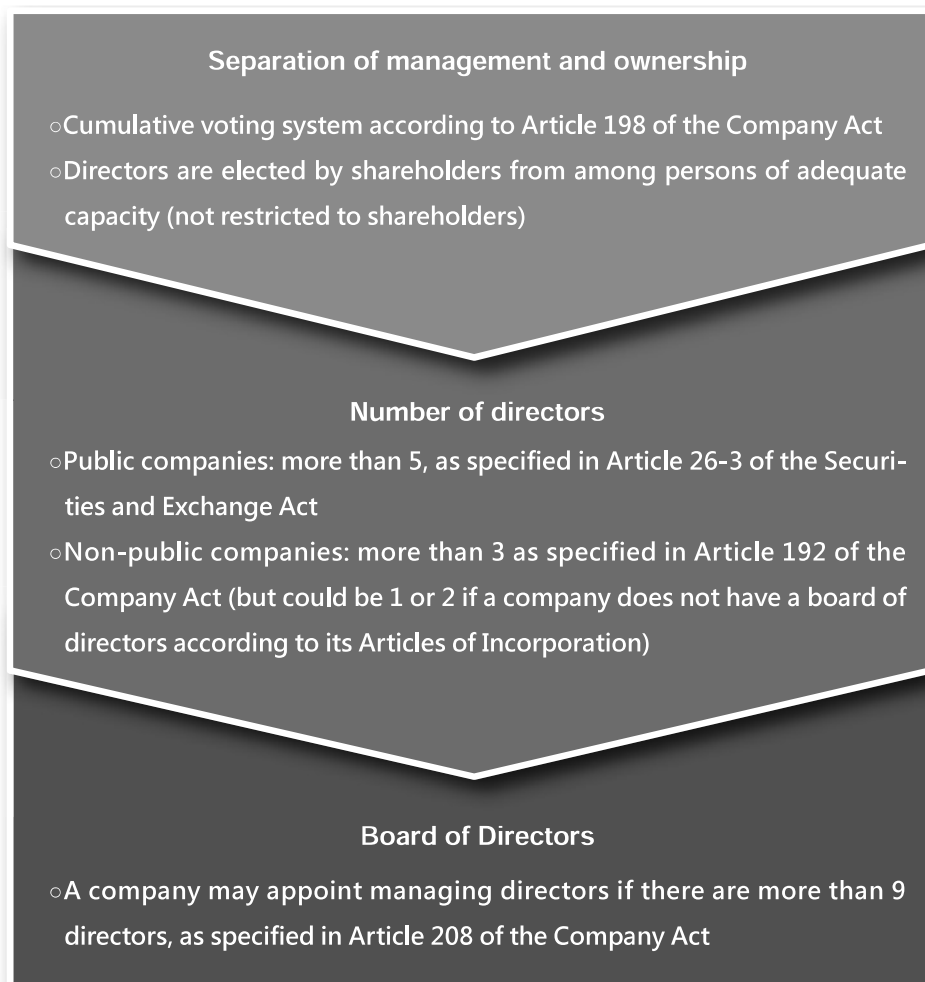


Figure 4.2 Qualifications and selection process of directors

(2) Powers

Public companies may appoint independent directors in accordance with their Articles of Incorporation or requirements of the competent authority. Any dissenting opinions or qualified opinions expressed by independent directors in regard to board meeting resolutions shall be recorded in meeting minutes. Related powers are specified in Table 4.2:

Table 4.2 Regulations related to the Board of Directors

Provision	Content
Article 193 and Article 202 of the Company Act	Business operations of a company shall be executed pursuant to the resolutions to be adopted by the Board of Directors, except for the matters the execution of which shall be effected pursuant the resolutions of the shareholders' meeting as required by the Company Act or the Articles of Incorporation of the company.
Article 23 of the Company Act	The responsible person of a company shall have the loyalty and shall exercise the due care of a good administrator in conducting the business operation of the company; and if he/she has acted contrary to this provision, shall be liable for the damages to be sustained by the company there-from.
Article 26-3 of the Securities and Exchange Act	The Article stipulates how a company shall formulate rules for the conduct of directors meetings.
Article 14-3 of the Securities and Exchange Act	The Article stipulates how matters that may cause material impact on the financial position and business operation of the Company shall be reported to the Board of Directors for resolution. If an independent director expresses an objection or qualified opinion, the matter shall be recorded in the board meeting minutes.

Provision	Content
Regulations Governing Procedure for Board of Directors Meetings of Public Companies	The Regulations stipulate the main content of agenda, procedures, meeting minutes, announcements, and other compliance items related to board meetings which shall be implemented in accordance with the Regulations.
Regulations Governing Establishment of Internal Control Systems by Public Companies, Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets	These Regulations require public companies and public, authorized securities and futures enterprises to establish internal control systems and annual audit plans that include management of meetings concerning operations of the Board of Directors.

(3) Independent directors

To improve corporate governance in Taiwan, Article 14-2, Paragraph 2 of the Securities and Exchange Act requires independent directors to possess professional knowledge, and imposes restrictions on their shareholdings and the positions they may concurrently hold. They shall maintain independence within the scope of their directorial duties, and may not have any direct or indirect interest in the company. Taiwan's development of the independent directors system is detailed

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in Figure 4.3, and the number and percentage of listed companies in Taiwan that have appointed independent directors are detailed in Figure 4.4.

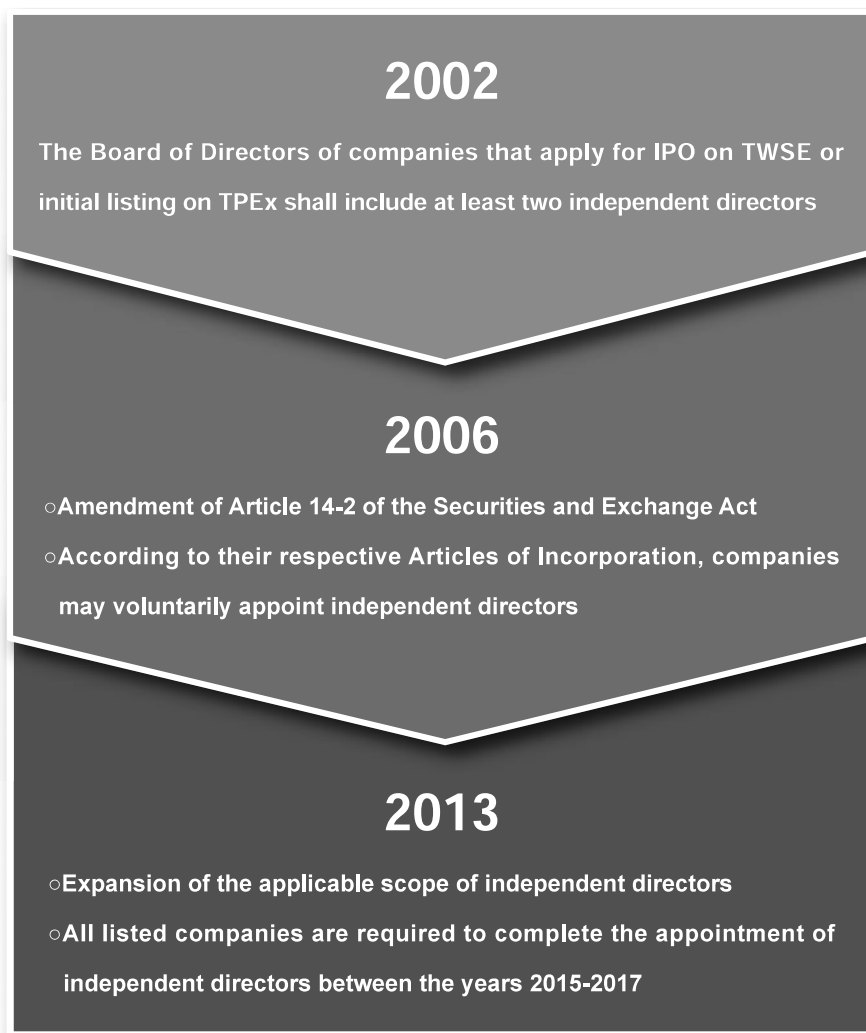


Figure 4.3 Taiwan's advancement of the independent directors system

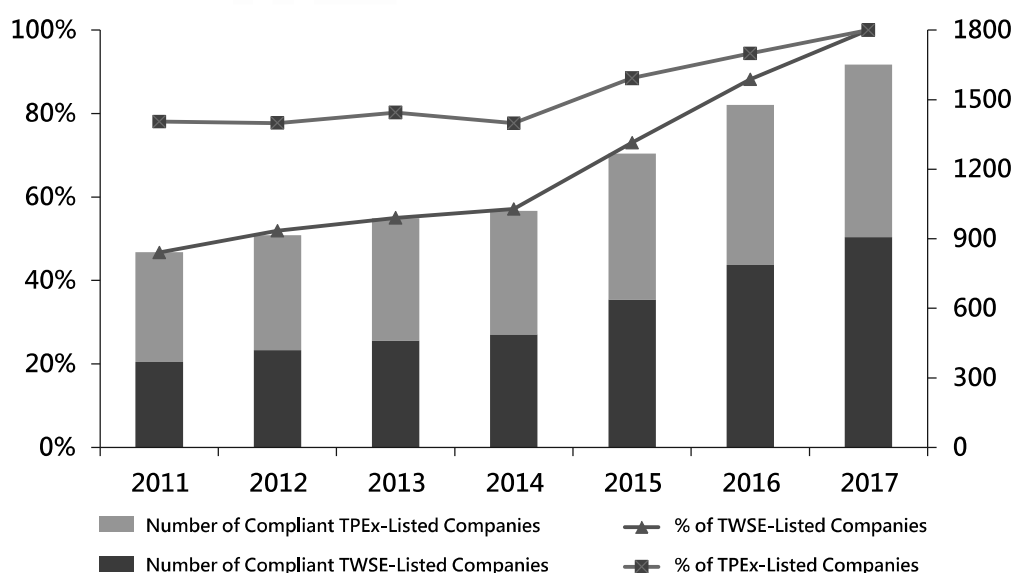


Figure 4.4 Number and percentage of listed companies in Taiwan that have appointed independent directors

① Regulations on the number and qualifications of independent directors

According to Article 14-2, Paragraph 1 of the Securities and Exchange Act, a company that has issued stocks may appoint independent directors in accordance with its Articles of Incorporation. The competent authority, however, shall require it to appoint independent directors as necessary in relation to the company's scale, shareholder structure, type of operations, and other essential factors, amounting to not less than two in number, and not less than one-fifth of the total number of directors.

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To ensure the professional qualifications and independence of independent directors of public companies, they are required to possess specific professional qualifications and at least 5 years of work experience. They must also not violate requirements for independence specified in Article 3 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" during the two years before being elected and during the term of office. Independent directors must meet positive qualifications and they may not possess any negative qualifications as specified in Figure 4.5.

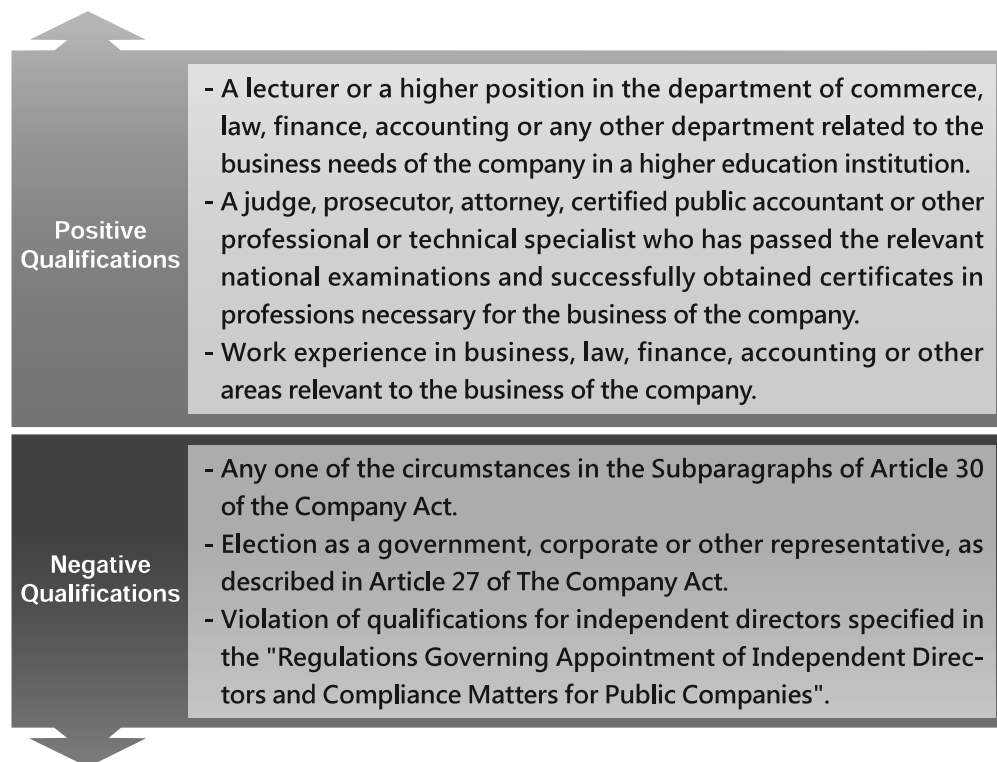


Figure 4.5 Independent directors must meet positive qualifications and they may not possess any negative qualifications



② Restrictions on concurrent services and certification for continuing studies

An independent director of a company may serve concurrently as an independent director of other companies, but the total number of companies shall not exceed 3. According to TWSE and TPEx regulations, independent directors of companies that apply for IPO shall each year take at least 3 hours of professional courses in law, finance, or accounting in the period of listing advisory guidance and obtain related certification documents.

③ Provide independent directors with necessary assistance for operations

To ensure that independent directors may carry out their tasks effectively, Article 14-2 of the Securities and Exchange Act was amended in April 2018 to include the following, as to help independent directors perform their duties: "The company may not impede, refuse, or evade the actions of the independent directors in the performance of their duties. As the independent directors deem necessary for the performance of their duties, they may request the Board of Directors to appoint relevant personnel, or may at their own discretion hire professionals to provide assistance. The related expenses will be borne by the company."

(4) Candidate nomination system for the election of directors/supervisors

To improve the soundness of companies' business operations and protect the rights of investors, the candidate nomination system was included in the Company Act. TWSE and TPEX have since 2016 required new listed companies to specify the adoption of the candidate nomination system for the elections of the directors and supervisors in their Articles of Incorporation. Related regulations for the candidate nomination system for the election of directors/supervisors are shown in Table 4.3. The number and percentage of listed companies that have adopted the candidate nomination system for all directors and supervisors are shown in Table 4.4 and Figure 4.6.

Table 4.3 Related regulations for the candidate nomination system for the election of directors/supervisors

Provision	Content
Article 192-1 of the Company Act	In case a candidate nomination system is adopted by a company offering its shares to the public for election of the directors of the company, the adoption of such system shall be expressly stipulated in the Articles of Incorporation of the company; and the shareholders shall elect the directors from among the nominees listed in the roster of director candidates.
Article 216-1	The provisions set out in Article 192, Paragraph 1 to 6 shall apply mutatis mutandis to supervisors.
Article 5 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public	<ul style="list-style-type: none"> ● The election of independent directors at a public company is subject to the provisions of Article 192-1 of the Company Act in that a candidate nomination system shall be adopted, that such system shall be expressly stated in the Articles of Incorporation of the company, and that shareholders shall elect independent directors from among the those listed in the slate of independent director candidates.

Provision	Content
Companies	<p>Related content, such as the nomination rules, criteria for candidates, and reviews by the Board of Directors shall also be established.</p> <ul style="list-style-type: none"> ● If an independent director candidate included by a public company has already served as an independent director of the public company for three consecutive terms or more, the company shall publicly disclose the reasons why the candidate is nominated again for the independent directorship, and present the reasons to the shareholders at the time of the election at the shareholders meeting.

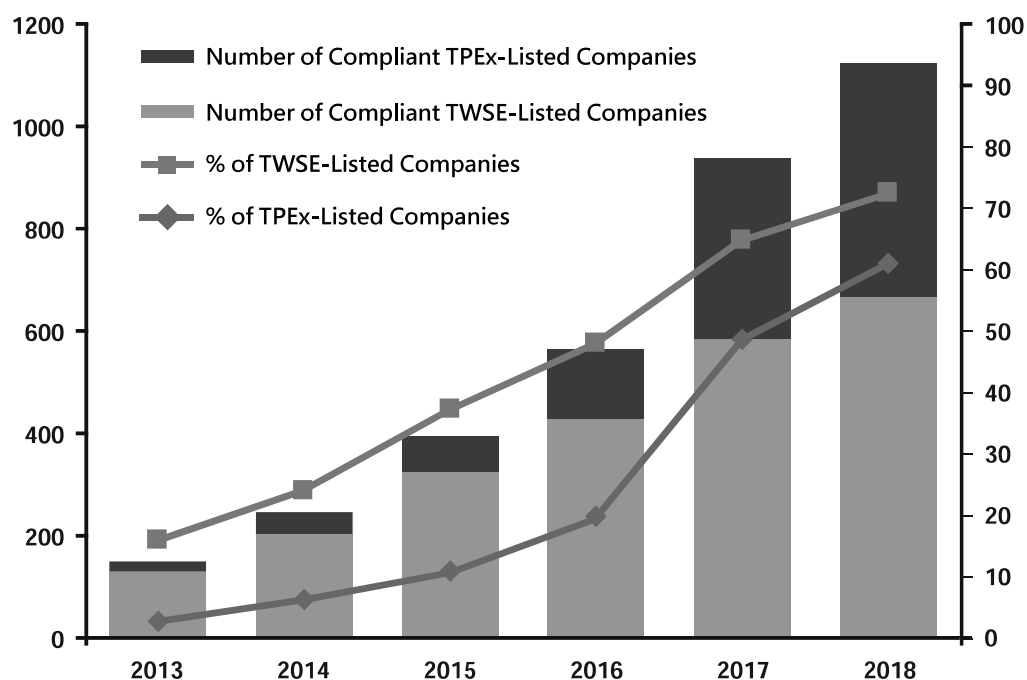


Figure 4.6 Number and percentage of TWSE/TPEX listed companies that have adopted the candidate nomination system for all directors and supervisors

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Table 4.4 Statistics on TWSE/TPEX listed companies that established requirements for full implementation of the candidate nomination system for directors and supervisors in their Articles of Incorporation

Year/ Market Type	Number of Compliant TWSE- Listed Companies	Total Number of TWSE- Listed Companies	Percentage of TWSE-Listed Companies	Number of Compliant TPEX- Listed Companies	Total Number of TPEX- Listed Companies	Percentage of TPEX-Listed Companies
107	665	917	72.52%	462	756	61.11%
106	583	900	64.78%	358	742	48.25%
105	424	881	48.13%	140	721	19.42%
104	322	862	37.35%	73	697	10.47%
103	201	845	23.79%	42	666	6.31%
102	129	812	15.89%	19	645	2.95%

(5) Regulations on disclosure of stock transactions of directors and controlling shareholders

Insiders are required by the laws of Taiwan to report their shareholding status to the competent authority and disclose it in the prospectus and annual report. In addition, legal-person shareholders that are directors or supervisors shall also disclose the main shareholders of the legal person. If the main shareholders of the legal person are legal persons, the names of the main shareholders shall be disclosed. The regulations on disclosure of shares held by insiders are provided in Table 4.5, and the requirements for reports before and after the transfer of shares by insiders are provided in Table 4.6.

Table 4.5 Regulations on disclosure of shares held by insiders

Provision	Content
Article 25 of the Securities and Exchange Act	Upon registering the public issuance of its shares, a company shall file with the competent authority and announce to the public the class and numbers of the shares held by its directors, supervisors, managerial officers, and shareholders holding more than ten percent of the total shares of the company (hereinafter referred to as "insiders", including the spouses and underage children of the aforementioned individuals and nominee shareholders).
Article 11 of the Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses Article 11 of the Regulations Governing Information to be Published in Annual Reports of Public Companies	Setting forth the names, number of owned shares and the shareholding percentage of those who own 5 percent or more of the total issued shares or whose shareholding percentage is among the top ten of all shareholders.

Table 4.6 Regulations on reports before and after the transfer of shares by insiders

Provision	Content
Reports before the transfer of shares	According to Article 22-2 of the Securities and Exchange Act, the transfer of stocks by insiders shall be filed to the competent authority for approval before the transfer.
Reporting after the transfer of shares	According to Article 25, Paragraph 2 of the Securities and Exchange Act, insiders of a company shall file a report on changes in the number of shares held in the previous month to the company before the fifth day of each month. The company shall compile the information and report to the competent authority before the 15th day of each month.
Reporting the establishment of pledges	Where an insider of the company intends to pledge company shares, the pledgor shall notify the company immediately. The company shall report to the competent authority within five days after the establishment of the pledge and make a proclamation.

2. Supervisors or Audit Committee

(1) Supervisors

The Company Act adopts a dual-track system with the Board of Directors and supervisors. Supervisors are responsible for supervising the company's business operations and auditing the company's accounts. Their independence is therefore crucial. The composition and responsibilities of supervisors in Taiwan are provided in Table 4.7.

Table 4.7 Composition and responsibilities of supervisors in Taiwan

Composition	Number	For a company whose shares are issued to the public, there must be two or more supervisors (Article 216 of the Company Act).
	Qualifications	<ul style="list-style-type: none"> ● At least one supervisor shall have a domicile within the territory of the Republic of China. The requirement for supervisors to be shareholders has been canceled (Article 216 of the Company Act). ● A supervisor may not serve concurrently as a director, managerial officer, or any other employee of the company, as to maintain the independence of the supervisor and allow implementation of his/her responsibilities to oversee and audit the accounts of the company (Article 222 of the Company Act). ● At least one supervisor must be a person having neither a spousal relationship nor a relationship within the second degree of kinship with any other supervisor or with any director (Article 26-3, Paragraph 3 and 4 of the Securities and Exchange Act). ● A representative of a government or corporate shareholder may not be elected as a director and a supervisor simultaneously (Article 27, Paragraph 2 of the Company Act), except where the competent authority has granted approval to the public company (Article 26-3, Paragraph 2 of the Securities and Exchange Act). ● The supervisor of Companies listed on TWSE/TPEX should fit the supplementary provisions to the TWSE/TPEX Rules for Review of Securities Listings.

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Powers	<ul style="list-style-type: none">● Independent exercise of supervision power (Article 221 of the Company Act), investigate the establishment process of the company (Article 146 of the Company Act), investigate the business and financial conditions of the company (Article 218 of the Company Act), audit the accounting books of the company (Article 219 of the Company Act), notify the Board of Directors to cease violation of laws (Article 218-2 of the Company Act), inspect the capital contribution when the company issues new shares (Article 274 of the Company Act), review the account books formulated by the liquidator when he/she assumed office (Article 326 of the Company Act), examine liquidation statements (Article 331 of the Company Act), etc.● Under special circumstances, a supervisor shall have the right to represent the company (Article 213, Paragraph 2, Article 218, Paragraph 2, Article 219, and Article 214 of the Company Act).● Right to convene a shareholders' meetings (Article 220 and Article 245 of the Company Act).● Attend board meetings to express opinions (Article 218-2 of the Company Act).
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(2) Audit Committee

The amendment of the Securities and Exchange Act in Taiwan on January 11, 2006 came to include independent directors and audit committees. Companies may choose between the existing dual-track system of directors and supervisors or adopt a single-track system by establishing an audit committee to replace supervisors (Article 14-4 of the Securities and Exchange Act). In addition, the FSC may impose compulsive requirements for companies to establish audit committees in stages based on Article 14-4 of the Securities and Exchange Act, and issue administrative orders to require companies to establish audit committees and replace supervisors. Development process is shown in Table 4.8.

Table 4.8 Development of the audit committees of companies in Taiwan

Year	Development
2013	Public financial holding companies, banks, bills companies, insurance companies, listed integrated securities firms, integrated securities firms which are subsidiaries of financial holding companies, and non-financial TWSE/TPEX listed companies with a paid-up capital of more than NT\$50 billion.
2015-2017	Requirements for public securities investment trust enterprises, non-listed integrated securities firms, integrated securities firms that are not subsidiaries of financial holding companies, listed futures firms, and non-financial TWSE/TPEX listed companies with a paid-up capital of more than NT\$10 billion.

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Year	Development
2017	Non-financial TWSE/TPEX listed companies with a paid-up capital of more than NT\$2 billion and less than NT\$10 billion.
2018	Companies applying for an initial public offering and those applying for an initial TPEX trading with a paid-up capital of NT\$600 million or above.

Related regulations on the composition and powers of the audit committees in Taiwan are provided in Table 4.9.

Table 4.9 Related regulations on the composition and powers of the audit committees in Taiwan

Composition	Due to the unique powers of audit committees, members of these must possess professional skills and retain independence. The Securities and Exchange Act was amended on January 11, 2006, and it stipulates that the audit committee shall be composed of all of the company's independent directors, who shall not be fewer than three persons in number, one of whom shall be convener, and at least one of whom shall have accounting or financial expertise, so as to ensure the exercise of the functions of the audit committee (Paragraph 2, Article 14-4 of the Securities and Exchange Act).
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Powers	Scope	<ul style="list-style-type: none"> ● The provisions of the Securities and Exchange Act, Company Act, and other laws regarding supervisors (e.g., supervising the company's business) shall apply mutatis mutandis to the audit committee (Article 14-4, Paragraph 3 of the Securities and Exchange Act). ● The regulations on supervisors which involve the conduct of supervisors or their roles as representatives of the company in the Company Act shall apply mutatis mutandis to the independent directors of the audit committee (Paragraph 4, Article 14-4 of the Securities and Exchange Act). ● To effectively allow execution of the independence and professional functions of the audit committee, and to strengthen the effectiveness of companies' internal control system operations, the powers of the audit committee shall include the powers of independent directors (Paragraph 1, Article 14-3 of the Securities and Exchange Act), examination of the internal control system, and the right to approve the annual and semi-annual financial reports of the company specified in Paragraph 1, Article 36 of the Securities and Exchange Act (Paragraph 1, Article 14-5 of the Securities and Exchange Act).
	Exercise of powers	<ul style="list-style-type: none"> ● Resolutions in the audit committee meeting shall require the agreement of more than half of all committee members (Paragraph 6, Article 14-4 of the Securities and Exchange Act). Matters of significant impact to the financial position and business operations of the company shall require the agreement of more than half of all members of the audit committee and the approval of the Board of Directors (Paragraph 1, Article 14-5 of the Securities and Exchange Act). ● The competent authority has established the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies" to specify the exercise of powers by the audit committee and the independent directors who are the members thereof, as to achieve the implementation of the new system.

3. Remuneration committee

Article 14-6 was added to the Securities and Exchange Act on November 24, 2010 to require a company whose stock is listed on the stock exchange or traded over-the-counter to establish a remuneration committee. To assist companies in compliance with related regulations, the FSC established and promulgated the "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" on March 18, 2011, based on the authorization provided in the aforementioned Securities and Exchange Act. The Regulations aim to improve the remuneration system for directors, supervisors, and managerial officers of the company. By 2011, all TWSE/TPEX listed companies in Taiwan had established a remuneration committee. Related regulations are provided in Table 4.10.

Table 4.10 Related regulations on the composition and powers of the remuneration committees in Taiwan

Composition	Number	<ul style="list-style-type: none"> ● A remuneration committee shall consist of no fewer than three members appointed by resolution of the Board of Directors. ● Companies that have appointed independent directors in accordance with the Securities and Exchange Act shall appoint at least one independent director as a member of the remuneration committee who shall serve as the convener and chairperson of the committee.
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	Qualifications	The members of the remuneration committee shall meet professional and independence requirements.
	Powers	<ul style="list-style-type: none"> ● Its function is to establish and regularly review the policies, systems, standards and structures of the performance evaluation and remuneration of directors, supervisors, and managerial officers to periodically assess and determine their salary and remuneration. ● The remuneration committee shall perform their duties in accordance with the following principles: <ol style="list-style-type: none"> 1. Performance appraisal and remuneration of directors, supervisors and managers shall be based on the prevailing rates of the industry as well as their individual performance, the company's overall performance, and reasonable assessments of future risks. 2. There shall be no incentive for the directors or managerial officers to pursue remuneration by engaging in activities that exceed the tolerable risk level of the company. 3. The percentage of bonus to be distributed to directors and senior managerial officers based on their short-term performance and the time for payment of any variable remuneration shall be determined by the characteristics of the industry and the nature of the company's business.

(II) Implementation and the Corporate Governance Roadmap

1. Considering expanding the establishment of audit committees (Action Plan II of the Corporate Governance Roadmap)

After Taiwan introduced the mechanism of independent directors, certain listed companies adopted the governance system of appointing independent directors to the Board of Directors and also appointed supervisors. However, the coexistence of supervisors and independent directors has caused difficulties in the distinction of supervision powers. To strengthen the internal supervisory mechanisms of companies, the FSC will gradually require all listed companies to establish an audit committee to replace supervisors.

According to TWSE and TPEx's Rules Governing Review of Securities Listings, starting from January 2018, companies applying for an initial public offering and those applying for initial TPEx trading with a paid-up capital of NT\$600 million or above are required to set up an audit committee.

The FSC shall furthermore formulate regulations requiring that each of the listed companies establish an audit committee to replace supervisors upon expiry of the term of the current directors and supervisors, provided that the office term thereof expires in 2019; this requirement may apply upon expiry of the term of elected directors and

supervisors (i.e., all listed companies shall complete the establishment of the audit committees by 2022).

Table 4.11 Status of the establishment of audit committees in Taiwan

Date/ Market Type	Number of Compliant TWSE- Listed Companies	Total Number of TWSE- Listed Companies	Percentage of TWSE-Listed Companies	Number of Compliant TPEX- Listed Companies	Total Number of TPEX- Listed Companies	Percentage of TPEX-Listed Companies
107.6	554	917	60.41%	299	756	39.55%
106.12	474	907	52.26%	277	744	37.23%
106.6	446	900	49.56%	261	742	35.18%
105.12	327	892	36.66%	210	732	28.69%
105.6	306	881	34.73%	187	721	25.94%
104.12	243	874	27.80%	156	712	21.91%
104.6	219	862	25.41%	134	697	19.23%
103.12	170	854	19.91%	106	685	15.47%
103.6	159	845	18.82%	98	666	14.71%

Source: TWSE Corporate Governance Center Website

2. Promoting the Emerging Stock Companies to appoint independent directors (Action Plan II of the Corporate Governance Roadmap)

As emerging stock companies are those preparing to be listed in the future, for the purpose of assisting them to strengthen their corporate governance and implement the supervisory function over the Board of Directors, TPEX shall amend the "Rules Governing the Review

of Emerging Stocks for Trading on the TPEx", requiring companies applying to be registered as Emerging Stock Companies to establish independent directors starting from 2019.

The FSC shall promulgate an order, requiring that all emerging stock companies appoint independent directors upon expiry of the term of the current directors and supervisors to replace supervisors, provided that the office term thereof expires in 2019; this requirement may apply upon expiry of the term of elected directors and supervisors (i.e., all emerging stock companies shall complete the establishment of independent directors by 2022).

3. Introducing supplementary measures for circumstances where the chairman, president or equivalent officer (the most senior manager) are identical, and are spouses or first-degree relatives (Action Plan II of the Corporate Governance Roadmap)

According to TWSE and TPEx statistics, 32% of listed companies currently have chairmen serving concurrently as company president. In order to clearly separate the powers of the chairman and president, and to strengthen the independence of the Board of Directors, companies whose chairman and president and equivalent officer (the most senior manager) are identical, or which are spouses or first-degree relatives should include additional independent directors in their boards and not



have a majority of the directors concurrently acting as employees or managers. Such conditions shall be incorporated into the amendment for the corporate governance evaluation indicators.

4. Strengthening the independence of the remuneration committee of listed companies and Emerging Stock Companies (new Action Plan II of the Corporate Governance Roadmap)

To strengthen the independence of the remuneration committee and provide flexibility for companies to appoint external experts as members of the remuneration committee, more than half of the members of remuneration committees of listed and emerging stock companies shall be independent directors.

5. Facilitating information transparency and reasonable remuneration of individual directors and supervisors (Action Plan II of the Corporate Governance Roadmap)

For the purpose of promoting the reasonableness of the establishment of remuneration for directors and supervisors of listed companies, the FSC will study the feasibility of expanding the disclosure of the remuneration information of individual directors, supervisors, presidents, and vice presidents of listed companies, so as to promote reasonable and transparent salaries through investors' supervision mechanisms.

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6. Requiring the Board of Directors to conduct self-evaluation (or peer-evaluation) and combining the result of the performance evaluation with the review mechanism for directors' remuneration (Action Plan II of the Corporate Governance Roadmap)

- (1) Strengthen the powers exercised by members of the remuneration committees of listed companies and the combination of performance evaluation and remuneration of directors. Revise the "Corporate Governance Best Practice Principles", and thus encourage companies to conduct board members' self-evaluation (or peer-evaluation), and submit the evaluation results to the Board of Directors for approval and as well as reference for the performance, remuneration and reelection of each individual director.
- (2) TWSE and TPEx shall consider amending the Sample Template of "Self-Evaluation or Peer Evaluation of the Board of Directors of XX Co., Ltd." to incorporate the latest developments and practices for compliance by companies.
- (3) TWSE and TPEx shall conduct random checks on the internal control review of listed companies of which after-tax profit and loss are in deficit but remuneration is increased to a certain ratio, so as to ascertain whether such companies have duly executed their remuneration policy for directors, supervisors, and managers.



7. Promoting the establishment of corporate governance professionals (Action Plan II of the Corporate Governance Roadmap)

- (1) To implement corporate governance and facilitate the Board of Directors to exert their proper functions, relevant foreign regulations will be used as reference to promote the timely appointment of corporate governance professionals. Since the corporate governance requirements for the financial and insurance industries should be stricter than general industries, and a high number of shareholders are affected by the corporate governance status of large-scale listed companies, competent authorities for each financial industry under the FSC shall require financial and insurance companies (including financial holding companies, banks, bills companies, insurance companies, listed integrated securities firms, and integrated securities firms which are subsidiaries of financial holding companies) to appoint at least one corporate governance professional. TWSE and TPEx shall require listed non-financial companies whose paid-up capital is NT\$10 billion or more to appoint at least one corporate governance professional. The aforesaid regulations shall be enforced as of 2019.
- (2) In terms of personnel training, TWSE shall cooperate with private sectors to plan training courses for corporate governance professionals. In addition, TWSE and TPEx shall stipulate in

their relevant regulations that listed companies should establish standardized operation procedures for handling the requests of any member of the Board of Directors.

8. Rationalizing the accountability and responsibilities of directors and supervisors by introducing directors and supervisors liability insurance (Action Plan II of the Corporate Governance Roadmap)

To ensure that directors and supervisors perform their duties, TWSE and TPEx shall require all companies applying for initial public offering to purchase directors and supervisors liability insurances starting from January 2018, in accordance with the "TWSE Rules Governing Review of Securities Listings" and "TPEx Procedures for the Review of Securities for TPEx Listing".

9. Setting out assessment methods for the recruitment, discharge, performance review and remuneration of internal auditor(s) (Action Plan II of the Corporate Governance Roadmap)

For companies that have already established audit committees, the appointment and dismissal of the chief internal auditor shall require the approval of the committee and the confirmation of the Board of Directors. The review and remuneration of the chief internal auditor shall also require the approval of the committee and the confirmation of the Board of Directors. To strengthen the independence of internal



auditing, listed companies are encouraged to submit the appointment, evaluation and remuneration of internal auditors of listed companies to the Board of Directors for approval, or be signed off by the chief auditor and then reported to the Chairman for approval.

III. Promotion of shareholder activism

(I) Legislation

1. Shareholder rights

According to the current Company Act of Taiwan, shareholders may play important roles in corporate governance through the exercise of various shareholder rights, as specified in Figure 4.7.

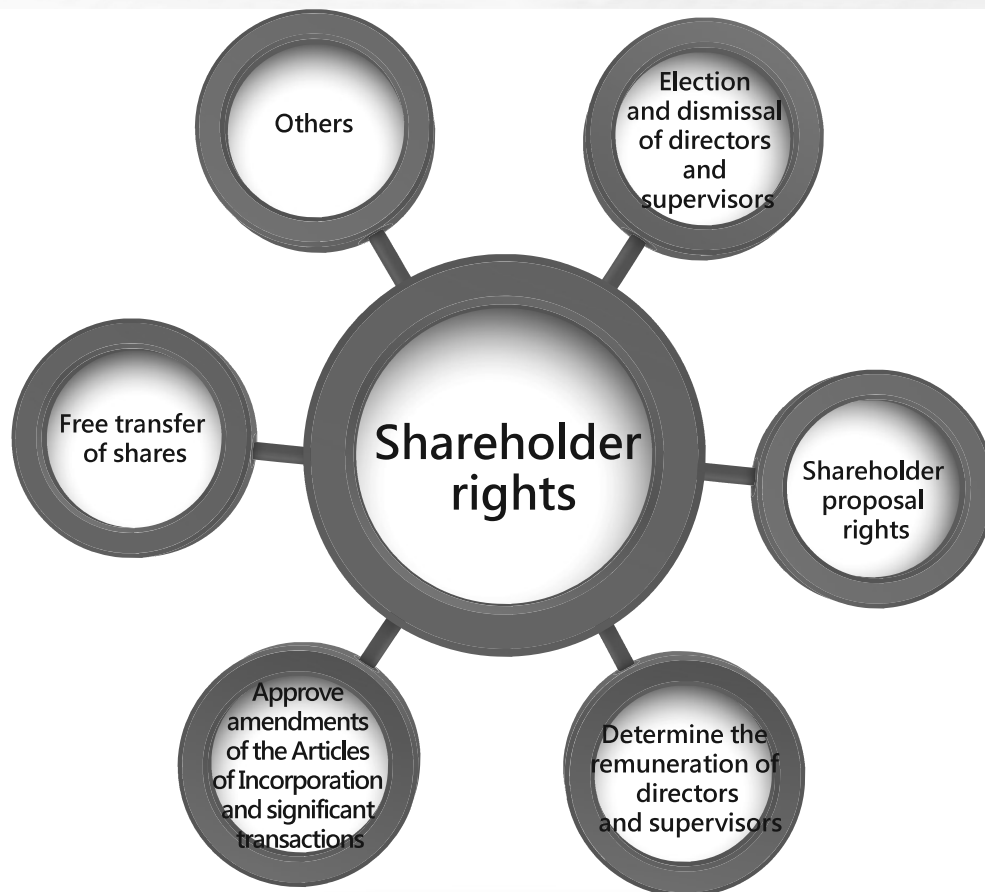


Figure 4.7 Shareholder rights

2. Shareholder proposal rights

To provide shareholders with opportunities for participating in company operations, Article 172-1 of the Company Act amended in 2018 offers provisions on the exercise of shareholder proposal

rights. The methods for submitting proposals are shown in Figure 4.8. If the company fails to accept and process proposals submitted by shareholders in accordance with related regulations, the person in charge of the company shall be liable for penalties as stipulated by laws. In addition, the shareholder making the proposal shall be present in person or by proxy at the general shareholders' meeting and take part in discussion of the proposal.

Prior to the book closure date and before a general shareholders meeting is convened, the company shall issue a public announcement for acceptance of shareholders' proposals and state the method for submitting the proposals, whether in writing or in electronic format.

A shareholder who holds one percent (1%) or more of the total issued shares of the company may submit a proposal under "300 words" to the company, based on the company's announcement, for discussion at a general shareholders' meeting.

After the company receives the shareholders' proposals, it shall inform the shareholders who submitted proposals of the screening results prior to the date for issuance of a general shareholders' meeting notice. Shareholders' proposals shall be submitted for review upon convening of the Board of Directors' meetings, and the results shall be notified to each shareholder who submitted a proposal. The company shall also list in the meeting notice the proposals that meet requirements.

Figure 4.8 Operation procedures for the exercise of shareholder proposal rights

3. Shareholder absentee voting system

Shareholders may attend shareholders' meetings in person or by proxy. In response to the arrival of the digital age, and to encourage shareholders to participate in voting in shareholders' meetings, thus increasing opportunities for participation in the company's business operations, Article 177-1 of the Company Act was added in 2005 to include the two following methods for exercising voting rights:

- (1) Exercise of voting right through electronic means in accordance with the Electronic Signatures Act
- (2) Exercise of voting right in writing

The company shall specify methods for exercising voting rights in writing or by electronic means in the shareholders' meeting notice for knowledge and implementation by shareholders (Article 177-1 and Article 177-2 of the Company Act). In addition, all new companies listed on the TWSE and TPEX have included e-voting as one of the channels for shareholders to exercise their voting rights in their Articles of Incorporation since 2016. The FSC later found results to be good in its assessment, and expanded the requirement for full adoption of e-voting to all listed companies in 2018. This was an important milestone for encouraging shareholders to exercise their rights and the development process is shown in Figure 4.9.



Figure 4.9 History of the development of e-voting in Taiwan

4. Shareholder subrogation litigation

The shareholder subrogation litigation system was established to allow small shareholders to file an action against the manager of a

company where necessary (Article 214 of the Company Act). It is also a useful tool for protecting shareholder interests in Taiwan. The revision to the Company Act in 2018 lowered the threshold for litigation filed by a supervisor against a director of a company. The shareholding criteria for shareholders were also reduced from continuously holding 3% or more of the total number of the outstanding shares of the company over one year to continuously holding 1% or more of the total number of the outstanding shares of the company over six months.

Article 10-1 of the "Securities Investor and Futures Trader Protection Act" (hereinafter referred to as the Investor Protection Act) provides that when a protection institution discovers conduct by a director or supervisor of an exchange-listed or OTC-listed company in the course of performing his or her duties that is materially injurious to the company or is in violation of laws, regulations, and/or provisions of the company's Articles of Incorporation, it may request the company to institute an action against the director or supervisor and institute a lawsuit in court for an order dismissing the director or supervisor in accordance with regulations, without regard to the restrictions of Article 214 and Article 200 of the Company Act. They may supervise the management of the company to loyally perform their fiduciary duties.

5. Solicitation of proxy authorization forms

Certain provisions in the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies"



were amended in March 2018 to strengthen the management of proxy authorization forms, prevent absent solicitors from affecting the exercise of voting rights of shareholders to appointed proxies, and prevent companies from using the distribution of shareholders' meeting souvenirs to cause unfairness in the solicitation of proxy authorization forms between different shareholders. As minority shareholders from financial institutions may make use of proxy authorization forms to obtain management rights and affect the stable operations of these, the FSC amended regulations regarding solicitation criteria in the Regulations in August. The implementation of these measures was postponed to July 1, 2019 so as to facilitate implementation by the public companies. The key points of past amendments are as follows:

Table 4.12 Key points in the amendments of the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies in March 2018

Amendment of Article 5	<p>To effectively regulate solicitors who attend shareholders' meetings in accordance with the intent of the shareholders and to assure the exercise of voting rights based on instructions given to them, as well as to protect the shareholders' exercise of their own rights, this Article expressly provides that, in the event of a violation of Article 10-1 of the Regulations, solicitors shall be sanctioned by the FSC in accordance with Subparagraph 5, Paragraph 1, Article 178 of the Securities and Exchange Act, and may not serve as solicitors for three years.</p>
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Addition of Article 10-1	The company shall transfer solicitation information to the SFI or publicly announce it in a daily newspaper 30 days before a general shareholders' meeting or 15 days before an extempore shareholders' meeting. The solicitor shall attend the shareholders' meeting as mandated by the shareholder. The solicitor may not include any words that would indicate the solicitor is not required to attend the shareholders' meeting in the written text and announcement for solicitation of proxies.
Amendment of Article 11	To maintain fairness in the solicitation of proxy authorization forms, and to prevent companies from using the distribution of shareholder souvenirs to cause unfairness in the solicitation (or acquisition) of proxy authorization forms between different shareholders, companies are required to deliver shareholders' meeting souvenirs to solicitors based on the principle of fairness.

Table 4.13 Key points in the amendment of the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies in August 2018

Amendment of Article 5	Where a financial institution convenes a shareholders' meeting with election of directors or supervisors on the agenda, the criteria for general solicitors shall be increased from individuals who have continuously held 2‰ or more of the total number of issued shares of the company to individuals with 0.5‰ or more of the total number of issued shares of the company for one year or more. The criteria for holding 800,000 or more of the issued shares of the company was deleted.
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Amendment of Article 6	If a shareholder of a financial institution intends to appoint a trust enterprise or shareholder services agent as solicitor (unlimited solicitation), the shareholder's criteria were amended, and only admit one who has continuously held more than 10% of the issued shares of the company for one year or more, and meets the eligibility requirements for major shareholders specified in the Financial Holding Company Act, the Banking Act of the Republic of China, and the Insurance Act, or one who is not applicable to the related application procedures in the aforementioned legislation.
Amendment of Article 15	The targets of examinations in the current proxy authorization forms include the solicitor, the entity who processes solicitation on behalf of the solicitor, the appointed agent, and related parties thereof. Wording was revised to prevent confusion in the definitions of the aforementioned “related parties ” and the related parties referred to in Article 6 of the amended Regulations.

Note: The aforementioned revisions to Article 5 and Article 6 of the Regulations shall enter into force on July 1, 2019.

6. Related regulations on methods of resolutions of the shareholders' meeting

To implement shareholders activism, shareholders are not required attend the meeting in person when exercising their voting rights during the meeting (Article 177 of the Company Act). The sequence of applicability is:

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- (1) Personal attendance and e-voting (Paragraph 2, Article 177-2 of the Company Act)
- (2) Proxy authorization form and e-voting (Paragraph 3, Article 177-2 of the Company Act)
- (3) Proxy authorization form and personal attendance (Paragraph 4, Article 177 of the Company Act)

The competent authority has therefore established related regulations to expedite actual operations, as shown in Table 4.14.

Table 4.14 Related regulations on methods of resolutions of the shareholders' meeting

Method of	Related regulations
Article 177 of the Company Act Proxy Authorization Form	In addition to attending the shareholders' meeting in person, a shareholder may appoint a proxy to attend a shareholders' meeting in his/her/its behalf by filling a proxy authorization form printed by the company, stating therein the scope of power authorized to the proxy, unless otherwise stipulated by the public company or the provisions of the competent authority of securities. When a person acts as the proxy for two or more shareholders, the number of voting power represented by him/her shall not exceed 3% of the total number of voting shares of the company.
Article 177-1 of the Company Act Article 177-2 of the Company Act writing format or E-voting	The voting rights at a shareholders' meeting may be exercised in writing or by way of electronic transmission, provided, however, that the method for exercising the voting rights shall be described in the shareholders' meeting notice to be given to the shareholders. The competent authority in charge of securities affairs,

Method of	Related regulations
	<p>however, shall as necessary in view of the company's scale, shareholder number, shareholder structure and other essential factors, require a company to adopt electronic transmission as one of the methods for exercising voting rights.</p> <p>A shareholder who exercises voting rights in writing or by way of electronic transmission as set forth in the preceding Paragraph shall be deemed to have attended the said shareholders' meeting in person, but shall be deemed to have waived his/her/its voting power in respective of any extempore motion(s) and/or the amendment(s) to the contents of the original proposal(s) at the said shareholders' meeting.</p>
	<p>According to the MOEA's Jing-Shang-Zi No. 09402406590 announcement dated April 11, 2005, where shareholders have objections to a proposal, the company shall specify the quantity and proportion of voting rights as "approval by ○○○ of ○○○ shareholder voting rights in attendance, accounting for ○○ . ○○○ % of total voting rights".</p>
	<p>According to the MOEA's Jing-Shang-Zi No. 09402136260 letter dated October 3, 2005, if shareholders exercise their voting rights in writing or electronically, and they include votes against and abstentions, the chairperson of the shareholders' meeting on that occasion shall consult the shareholders attendance at the shareholders' meeting (excluding shareholders who exercised their voting rights in writing or electronically). If they do not object, they shall still count as shareholder objections to the proposal based on the aforementioned announcement.</p>

(II) Implementing and strengthening the Corporate Governance Roadmap

1. Promoting the candidate nomination system for the election of directors and supervisors along with the adoption of e-voting systems (Action Plan III of the Corporate Governance Roadmap)

TWSE/TPEX listed companies have fully adopted e-voting for shareholders' meetings as of 2018 so as to enhance channels available for the exercise of shareholder rights, increase investors' willingness to participate in corporate governance, and overall, to promote the exercise of shareholder rights. Figure 4.10 shows the trend of growth in the number of electronic votes in the last five years

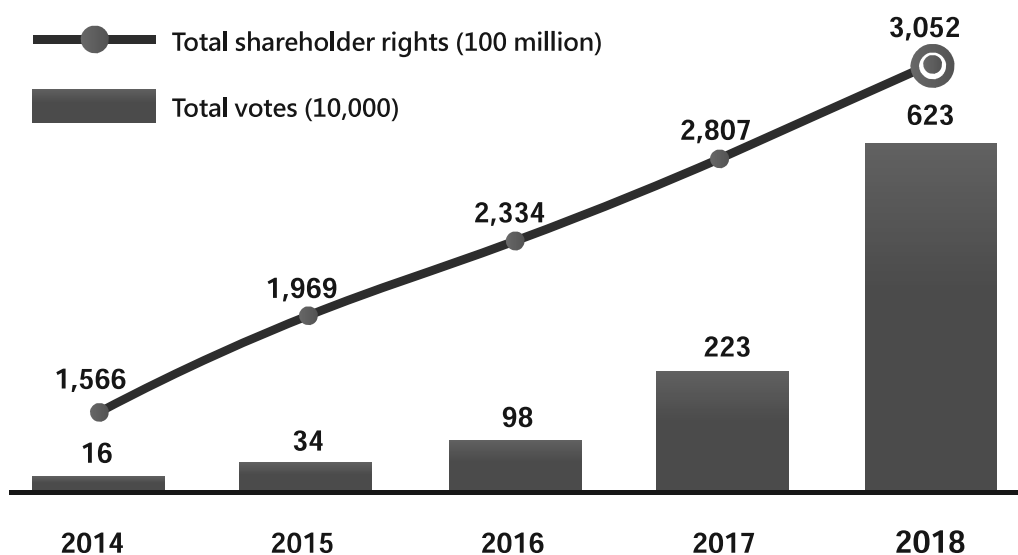


Figure 4.10 Growth in the number of electronic votes in the last five years

Source: TDCC



2. Consolidating information needed by shareholders and channels for shareholders to exercise their rights (Action Plan III of the Corporate Governance Roadmap)
 - (1) Considering that certain investors are not familiar with the information disclosed on the Market Observation Post System (MOPS), the methods for disclosing related information on the website shall be modified based on investors' habits for querying information, and the website shall be optimized.
 - (2) In response to the popularity of mobile technology, the ePASSBOOK app or "TDCC Stockvote" of Taiwan Depository and Clearing Corporation (TDCC) shall be used as platforms for developing and integrating functions for shareholders to access required information and to advance shareholder rights.
 - (3) TDCC shall also introduce Chinese and English versions of the integrated platform for investor relations in the "TDCC Stockvote", so as to facilitate communication between institutional investors and companies.
3. Planning to increase institutional investor signatories to the "Stewardship Principles for Institutional Investors" and improve information disclosure quality (Action Plan III of the Corporate Governance Roadmap)

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Institutional investors collect and use massive funds, and exert significant impact on the market and invested companies. The FSC and the competent authorities in charge of various financial industries shall communicate with banks, insurance companies, investment trust companies, and other related financial institutions and encourage them to sign the "Stewardship Principles for Institutional Investors". The goal is to exceed 70% of signatures by securities investment trust companies in 2018 and 50% or more by other businesses (securities firms, insurance companies, and banks).

To improve the quality of information disclosure related to the "Stewardship Principles for Institutional Investors", TWSE and TPEx shall collect content disclosed by the signatories of the "Stewardship Principles for Institutional Investors" and propose their analyses and recommendations for improvement. Examples of outstanding governance reports collected shall be released at appropriate times on the website of the Corporate Governance Center or the TPEx website for reference by listed companies.

4. Increasing the shareholders' meeting attendance rate of institutional investors including banks and insurance companies (Action Plan III of the Corporate Governance Roadmap)

According to the summary of e-voting information of 2017 shareholders meetings of listed companies and emerging stock



companies as provided by TDCC, the usage percentage of e-voting (number of e-votes emitted divided by the number of companies which allow e-voting held) for insurance companies is 36.77%, and 6.04% for banks.

For the purpose of implementing shareholder activism and increasing the attendance rate of institutional investors, such as banks and insurance companies, in shareholders' meetings, the Banking Bureau and Insurance Bureau of the FSC have in 2018 implemented requirements for the attendance rate of banks and insurance companies to shareholders' meetings of listed companies (including the number of companies where the meetings are attended in person and by e-voting divided by the number of listed companies invested in) to reach 30% and 40% respectively.

IV. Strengthening information transparency

(I) Legislation

The aim of information transparency is to ensure investors are able to make the best investment decisions and effectively prevent fraud. The Securities and Exchange Act requires TWSE/TPEX listed companies to provide internal information and data. The current domestic framework for information disclosure includes information

disclosure in the trading market during the issuance of securities and after the issuance of securities.

1. Market information disclosure during issuance

The prospectus is the most important part of information disclosure provided by a company for its IPO. The prospectus shall contain the following content:

- ◆ The company's operations and financial status
- ◆ Issuance plans and implementation
- ◆ Special notes and important resolutions

TWSE and TPEx have been requiring companies applying for IPO to complete the "Corporate Governance Self-Evaluation Report" as part of its application documents for IPO since 2007. The underwriter is responsible for evaluating whether the applicant has adequately expressed its corporate governance implementation status.

2. Information disclosure in the trading market

The information disclosed in the trading market currently includes periodic information and non-periodic information. Public companies may refer to the "List concerning what information Publicly-held companies should announce to the public or report to the FSC" announcement or report to the competent authority. The applicable scope is specified in Table 4.15.

Table 4.15 Periodic and non-periodic information disclosed on the trading market

Periodic information	Non-periodic information
Monthly operation status, periodic financial reports, annual reports, and meeting minutes of shareholders' meetings, internal transaction parties' information.	Timely announce material information, report and publish the acquisition or disposal of assets, cash capital increase, financial forecast, etc.

To ensure that the financial information of public companies is sufficiently, fairly, and promptly disclosed, the competent authority also requires companies to disclose information on their affiliate companies. Multiple guidelines and regulations have been announced to govern non-periodic material information that might affect shareholders' interests and stock prices, and strict supervision is kept over the prompt disclosure of material information by listed companies. Regulations on information disclosure in the trading market that ensure the accuracy of financial information of public companies are summarized in Table 4.16.

Table 4.16 Related regulations on information disclosure in the trading market

Regulations	Main Content
Article 14	Issuers shall periodically compile and submit financial reports to the competent authority, and the Chairman, managerial officers, and principal accounting officers of the company Act shall also produce a declaration that the report contains no misrepresentations or nondisclosures.

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Regulations	Main Content
XXX Co., Ltd. Procedures for Handling Material Inside Information	Companies are required to establish mechanisms for processing and disclosing material inside information, for the purpose of preventing inappropriate leaks of information, and to ensure the consistency and accuracy of information disseminated to the outside world.
Rules Governing Information Reporting by Companies with TWSE/TPEX Listed Securities	Public companies shall disclose comprehensive financial information within the stipulated period of time when organizing or participating in investor conferences. Domestic entities that organize independent investor conferences shall upload the video and audio link of the conference to the MOPS in accordance with the stipulated period of time. For conferences organized before the trading time on the current day or during the trading time, the organizer shall also provide full video and audio information during the conference for the outside world to view in real-time.
Procedures for Verification and Disclosure of Material Information	The procedures are established to ensure timely information disclosure in the event that a TWSE (TPEX) listed company meets incidents with material impact on the interests of shareholders or stock price.



3. Strengthening corporate governance information disclosure in annual reports

(1) Corporate governance report disclosure

To strengthen corporate governance information disclosure, the competent authority has included the "Corporate Governance Report" as a required disclosure item in the "Regulations Governing Information to be Published in Annual Reports of Public Companies" (hereinafter referred to as "Regulations Governing Information to be Published in Annual Reports"). Items to be disclosed include information on directors, supervisors, and senior managers, corporate governance implementation status, information on CPA fees, and information on the replacement of CPAs.

(2) Strengthening of transparency in companies' financial reports

To strengthen the transparency of companies' financial reports, Subparagraph 5, Article 10 of the Regulations Governing Information to be Published in Annual Reports specifies that the company may opt to disclose professional fees of certified public accountants either by fee range or by individual amount disclosure. In addition, companies shall disclose information as follows under any one of the conditions shown in Figure 4.11:

CORPORATE GOVERNANCE IN TAIWAN

Conditions		
When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto;	When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year;	When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more;
Information for disclosure		
The amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed	The amounts of the audit fees before and after the change and the reasons thereof shall be disclosed	The reduction in the amount of audit fees, reduction percentage, and reason(s) thereof shall be disclosed

Figure 4.11 Disclosure of information on CPA fees by issuers

(3) Strengthening CSR affairs disclosure

The Regulations Governing Information to be Published in Annual Reports and part of the "Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses" strengthened the disclosure of CSR affairs, mainly in relation to the implementation of corporate governance, development of a sustainable environment, and maintenance of social welfare. The key points are shown in Table 4.17.

Table 4.17 Disclosure of CSR-related issues in annual reports

Key points	Benefits
Strengthen information disclosure on the establishment of a remuneration committee.	Periodically review the reasonableness of the remuneration for senior managers, as to protect the rights and interests of shareholders.
Disclosure of the company's employee benefits, such as measures related to studying, training, the pension system and its implementation status, and labor and management interests and their maintenance.	Implement companies' commitments and care for employees.
Fully disclose the company' financial affairs and the resignation and dismissal of related personnel responsible for finances and operations.	Allow the reader of the financial report to fully understand the company's financial position and operation status.
Strengthen the disclosure of CSR operations, ethical corporate management, and measures adopted.	Increase the transparency of companies' ESG information disclosure.

4. Information disclosure of affiliate companies

The competent authority announced the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" in 1999 to require public companies to produce the three reports specified in Table 4.18 at the end of each fiscal year to fully disclose information on the company and its affiliates to investors for reference:

Table 4.18 Three reports on affiliate companies required of public companies

Report type		Content
Affiliate companies Business overview	Consolidated Business Report of Affiliates	Organization chart, shareholding status of directors, supervisors, and the president, division of labor between affiliate companies, and the financial position and business operations of each affiliate company.
Important financial conditions and transactions	Consolidated Financial Statement of Affiliates	Financing, endorsement, significant matters or subsequent events in transactions of derivative financial products, and status of bills and securities held.
Disclosure of related party transactions	Affiliation Report	Information on the purchase and sales transactions, property transactions, financing, and endorsement guarantee between the subsidiary company and the controlling company.

(II) Implementing and strengthening the Corporate Governance Roadmap

1. Information disclosure and publication channels

(1) Information disclosure channels

The main information disclosure channel is the Market Observation Post System, where investors can view the company's latest financial and business information. Foreign investors can learn about the current state of Taiwan's securities market on the English version of the Market Observation Post System. In addition, TWSE and TPEX established



regulations in 2014 to require all listed companies to establish company websites that contain a "stakeholder section" for reference by shareholders and stakeholders.

(2) Integrated announcement channels for public companies

To effectively monitor transaction information, TWSE and TPEx have integrated the databases of their respective online monitoring systems and unified real-time market transaction information and news, transaction details and models, early warning information, and the basic financial and business information of listed companies and securities firms on a single workstation, so as to strengthen the real-time delivery of information and provide support functions for early warning and decision making.

2. Encouraging companies to file their financial statements earlier (Action Plan IV of the Corporate Governance Roadmap)

To speed up the disclosure of financial information, the amendment of the Securities and Exchange Act in 2010 requires issuers to announce and file the annual financial report approved by the Board of Directors and recognized by the supervisors within three months of the end of each fiscal year (previous requirement was four months). The revision of the "Corporate Governance Best Practice Principles " planned in 2018 will also advise companies to publish their annual financial reports within 60 days after the end of the fiscal year and publish quarterly financial reports and monthly management reports before the required deadlines.

3. Enhancing information disclosure in English (Action Plan IV of the Corporate Governance Roadmap)

The current "Corporate Governance Best Practice Principles" already encourage listed companies to disclose financial and business information in English. Starting from 2019, all TWSE/TPEX listed companies whose foreign investor shareholding reaches 30% or more, or where the paid-in capital reaches NT\$10 billion or more (for those with flexible par-value or no par-value, other criteria, such as market value, will be further set out by TWSE and TPEX) shall provide English versions of "Shareholders' Meeting Handbooks", "Annual Reports" and "Annual Financial Reports", as to ensure fair treatment of investors and equality of access to information.

4. Enhancing the comparability and transparency of XBRL format financial reports (Action Plan IV of the Corporate Governance Roadmap)

The eXtensible Business Reporting Language (XBRL) is an open international standard and a common computer language. Its advantages lie in the delivery, and analysis and comparison of information in financial statements, which reduce the cost of information production and usage. TWSE and TPEX began implementation in stages since 2008, and currently, all listed companies, emerging stock companies, and public companies in Taiwan have adopted the XBRL format to file their financial reports.

The XBRL Financial Reporting Taxonomy has been updated to the 2017 IFRS Taxonomy, and formula technology has been adopted. Inline XBRL (hereinafter referred to as iXBRL, a technology standard that embeds XBRL data into HTML webpages, which can be directly opened and viewed on browsers, and renders financial reports both human-readable and machine-readable) shall be adopted in the future, as to improve comparability between financial reports and improve convenience for users. Starting from the first quarter of 2019, all public companies in Taiwan shall use the iXBRL format to file their financial reports. iXBRL applications and shown in Figure 4.12.

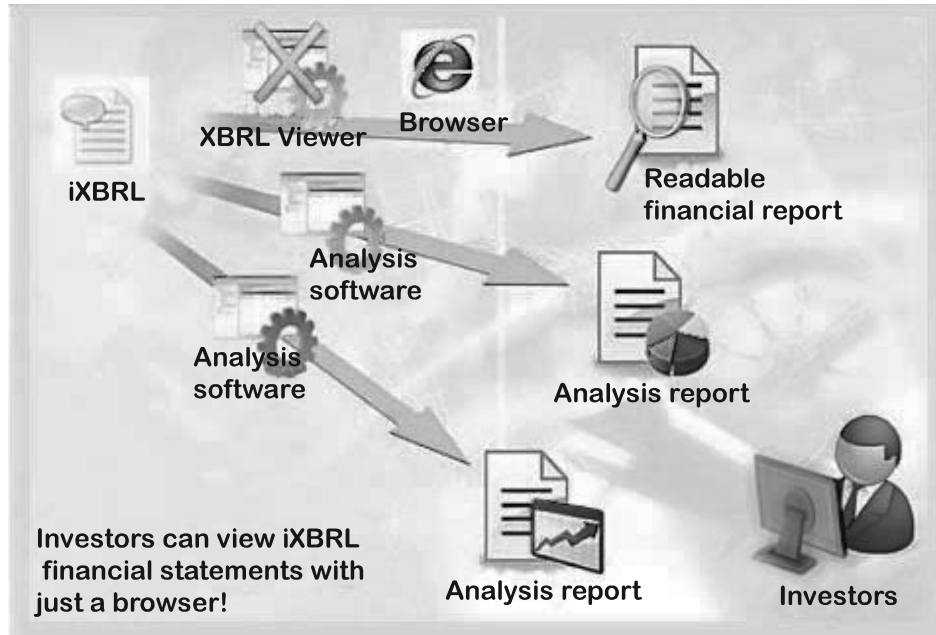


Figure 4.12 iXBRL applications

5. Encouraging TPEX listed companies to hold periodical investor conferences (Action Plan IV of the Corporate Governance Roadmap)

Starting from 2018, TWSE requires all listed companies to hold investor conferences at least once a year, and TPEX has also required primary OTC-listed companies and "biotechnology", "cultural and creative" and "agricultural technology" companies to hold investor conferences at least once a year. TPEX is studying the feasibility of requiring all OTC-listed companies to organize periodic investor conferences.

6. Strengthening information disclosure regarding the remuneration committee and remuneration to directors and supervisors

The FSC has established related regulations, as shown in Table 4.19 and Table 4.20, to strengthen information disclosure on the operations of the remuneration committee and remuneration to director and supervisors.



Table 4.19 Regulations related to the disclosure of information regarding the remuneration committee

Regulations	Content
Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee	Companies shall be required to report on the Market Observation Post System within 2 days of the occurrence of the following situations: 1.Appointment of, or change in, a member of the remuneration committee; 2.Board resolution for the remuneration of directors, supervisors, and managers that is more favorable than the recommendations of the remuneration committee; 3.Members' objections or qualified opinions concerning remuneration committee resolutions that have been recorded in the meeting minutes or on a written statement.
Regulations Governing Information to be Published in Annual Reports of Public Companies and Public Offering and Issuance Prospectuses	If the company has established a remuneration committee, the committee's composition shall be disclosed in the Annual Report.

Table 4.20 Regulations related to the disclosure of information regarding remuneration for directors and supervisors

Regulations	Content
Regulations Governing Information to be Published in Annual Reports and Regulations Governing Information to be Published in Public Offering and Issuance Prospectuses	<p>The company shall disclose information regarding the remuneration of directors and supervisors in annual reports and issuance prospectuses. If any of the following applies to the company, it shall disclose the remuneration paid to each individual director and supervisor:</p> <ol style="list-style-type: none"> 1. A company that has posted after-tax deficits in the consolidated or individual financial reports within the last 2 fiscal years. This requirement, however, shall not apply if the company has posted after-tax net income in the consolidated or individual financial report for the last fiscal year and such after-tax net income is sufficient to make up for the accumulated deficits. 2. A company that has had an insufficient director/supervisor shareholding percentage for 3 consecutive months or longer during the last fiscal year; 3. A company that has had an average ratio of share pledging by director and supervisors that exceeds 50 percent in any 3 months during the last fiscal year; 4. Where the total amount of remuneration received by all of the directors and supervisors in their capacity as directors or supervisors of all of the companies listed in the financial reports exceeds 2 percent of the after-tax net income, and the remuneration received by any individual director or supervisor exceeds NT\$15 million.

Regulations	Content
Taiwan Stock Exchange and Taipei Exchange Rules Governing Information Reporting	Companies shall provide information on the remuneration paid to directors and supervisors in the last fiscal year and reasonable explanations thereof on MOPS before the deadline for submitting the annual financial reports. If the figure for any employee remuneration to directors is distributed and filed as a proposed figure, the actual figure shall be separately filed within 10 days after the close of the fiscal year.

7. Disclosure of salaries and welfare expenses of non-supervisory employees (Action Plan IV of the Corporate Governance Roadmap)

To strengthen the social responsibility of listed companies, Taiwan has gradually adopted measures to require listed companies to disclose information related to employee salary. TWSE and TPEx have encouraged companies to voluntarily disclose salary adjustments since 2018, and they have revised the "Corporate Governance Best Practice Principles" to encourage listed companies to disclose information such as "the number of non-supervisory employees, average annual employee welfare expenses, and the differences from the previous year". Starting from 2019, the aforementioned information shall be listed as items in the Corporate Governance Evaluation, and listed companies shall also be required to disclose the average employee salary and benefits. Starting from 2020, the median salary and welfare expenses shall also be disclosed. The related timetable is provided in Table 4.21

CORPORATE GOVERNANCE IN TAIWAN

Table 4.21 Timetable for the disclosure of the number of employees and salary information of listed companies

Company report item	Applicable reporting year	Company report deadline	MOPS disclosure timing
Information disclosed in the notes of annual financial reports (based on format requirements specified in the appendices of the Regulations Governing the Preparation of Financial Reports for each industry)			
Number of employees (including directors, managerial officers, and hired employees)	Existing regulations	Before the end of March each year	Before the end of May each year
Employee welfare expenses (including detailed information on the nature of the benefits)			
Employee salary expenses			
Additional information disclosure (based on the Taiwan Stock Exchange and Taipei Exchange Rules Governing Information Reporting by Public Companies)			
Number of full-time non-supervisory employees	2018 information first reported in 2019	Before the end of April each year	Before the end of June each year
Total salary of full-time non-supervisory employees			
"Average" salary of full-time non-supervisory employees			
"Median" salary of full-time non-supervisory employees	2019 information first reported in 2020		

Source: TWSE and TPEx



8. Improving the quality of non-financial information disclosure (Action Plan IV of the Corporate Governance Roadmap)

Since September 2014, Taiwan has promoted preparation of Corporate Social Responsibility (CSR) reports among listed companies, and currently requires the financial insurance industry, food industry, chemical industry and listed companies whose paid-in capital reaches 5 billion or more to prepare and report CSR reports. For the purpose of making this information useful for reference by investors, the Commission will keep promoting enhancement of disclosure quality of non-financial information in the CSR reports among companies, and will evaluate and select non-financial information that investors are more concerned about for disclosure in the annual reports.

Along with the issuance of GRI Standards, Taiwan has required listed companies to compile mandatory CSR reports in accordance with GRI Standards starting from 2019. Expansion of the scope of third-party verification of CSR reports shall be considered in 2020.

(III) Corporate governance evaluation system (Action Plan I of the Corporate Governance Roadmap)

Corporate Governance Evaluation was listed as a key work item to effectively improve corporate governance standards in Taiwan. The aim is to use the results of comparison in corporate governance throughout the overall market to help investors and companies understand corporate governance's actual performance.

CORPORATE GOVERNANCE IN TAIWAN

Under the supervision of the FSC in 2014, Corporate Governance Evaluation was conducted by the Corporate Governance Center, TWSE in collaboration with Taipei Exchange; they were responsible for compiling and drafting evaluation indicators. The SFI was appointed to establish an "evaluation work group" to undertake evaluation tasks. The scope included corporate governance affairs disclosed by listed companies on their corporate websites, annual reports, and on the Market Observation Post System, along with information on the operations or exercise of powers by the shareholders' meetings, Board of Directors, and independent directors occurred within the year. These were graded based on related supervision records of the FSC, TWSE, and TPEx, and the results were published for reference by the companies and investors.

To ensure that listed companies have sufficient time to plan for improvements or compliance, the content of the evaluation is announced before the end of the previous year. Indicative templates and grading guidelines are also provided to companies for reference. In addition, TWSE and TPEx organize periodic seminars to explain the key points in the evaluation system and communicate with attendees to answer their questions.

The evaluation indicators in the 4th Corporate Governance Evaluation include 99 indicators which are divided in five main categories (as specified in Table 4.22). The results of the evaluation

were announced in the press conference in April 2018. A total of 864 TWSE-listed companies and 675 TPEx-listed companies were included as targets of evaluation. Seven levels were announced based on the scores, and the listed companies which made it to the top 5% in corporate governance were awarded and commended.

Table 4.22 Statistics on specific indicators from each category in the 4th Corporate Governance Evaluation

Indicator category	Number of indicators in each category			Total	Percentage
	A + B	C +	C -		
Protect the rights and interests of shareholders	13	-	-	13	15%
Equal treatment of shareholders	12	1	1	14	13%
Strengthen the structure and function of the Board of Directors	28	3	1	32	32%
Increase information disclosure transparency	19	2	--	21	22%
Implement corporate social responsibility	13	2	--	15	18%
Others	--	1	3	4	-
Total	85	9	5	99	100%
Percentage				100%	

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The Corporate Governance Evaluation, introduced in 2014 in Taiwan, was held for the fifth time this year. The content and scoring items in the evaluation indicators are amended each year in accordance with policies and implementation status. Public companies have exhibited significant improvements in all aspects of corporate governance. The implementation results are provided in Table 4.23. The Corporate Governance Roadmap shall incorporate qualitative indicators and differentiated scoring to enhance the effectiveness of the corporate governance evaluation system, create healthy competition among companies, and improve overall standards of corporate governance in Taiwan.

Table 4.23 Implementation results of the corporate governance evaluation system

Category	Item/Number of companies
Protection of shareholder rights and interests/ equal treatment of shareholders	Adoption of the candidate nomination system for the election of directors/supervisors in the Articles of Incorporation
	Adoption of e-voting
	Organization of general shareholders' meeting before the end of May
	Adoption of case-by-case voting in general shareholders meetings
	Report of the results of shareholders' votes in support of, against, and abstentions from each proposal on the very day of the general shareholders' meeting
	Number of days between the filing of the annual report and the shareholders' meeting
	Number of days between the filing of the shareholders' meeting handbook and the shareholders' meeting
Structure and function of the Board of Directors	Establishment of the audit committee
	Appointment of independent directors
Information disclosure	Submission of financial report of the previous year before the end of February
	Provision of an English version of the meeting notice
	Issuance of an English version of the annual report for the shareholders' meeting
	Issuance of an English version of the proceedings manual
Disclosure of non-financial information	Compilation of the CSR report for the previous year - August 1

Source: Taiwan Stock Exchange. *355 companies are expected to compile reports by the end of 2018

CORPORATE GOVERNANCE IN TAIWAN

2018	2017	2016	2015	2014	Change in 5 years (%)
663	583	424	322	201	230%
917	728	475	256	190	383%
114	91	88	62	43	165%
917	787	627	393	257	257%
874	735	578	354	87	905%
17.88	18.21	18.15	16.13	14.38	24%
30.78	30.88	30.37	28.66	25.7	20%
554	474	327	243	170	226%
917	907	787	638	488	88%
82	81	70	47	22	273%
450	387	264	133	73	516%
193	177	144	107	80	141%
267	232	183	131	80	234%
246*	342	275	267	171	44%

in accordance with regulations



The Corporate Governance Center has already announced the instructions and evaluation indicators for the 5th Corporate Governance Evaluation in December 2017, and listed companies have been evaluated on the implementation of corporate governance in 2018. The results are expected for announcement in April 2019.

In addition, the Taiwan Corporate Governance Association also organizes the "Corporate Governance System Assessment", which requires payment. Companies may voluntarily participate in the assessment. Assessed companies that reach certification standards in the comprehensive assessment shall receive a certification from Taiwan Corporate Governance Association.

V. Augmenting regulatory enforcement

(I) Legislation

1. Criteria and differences

(1) Prevention of insider trading and short-swing trading

The civil and criminal liabilities for insider trading and disgorgement for short-swing trading are established to ensure that regulations on insider trading and short-swing trading provide effective deterrence to insiders of companies. Regulations on insider trading and short-swing trading are provided in Figure 4.13 and Figure 4.14. A comparison is provided in Table 4.24.

CORPORATE GOVERNANCE IN TAIWAN

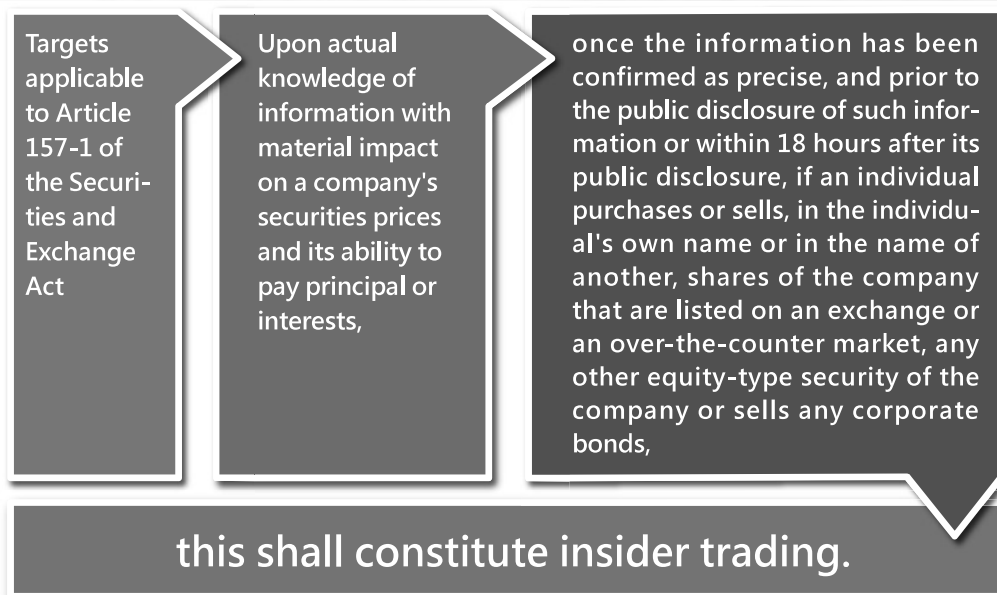


Figure 4.13 Regulations on insider trading and criteria



Figure 4.14 Regulations on short-swing trading and criteria

Table 4.24 Comparison of insider trading and short-swing trading

	Insider trading	Short-swing trading
Provision	Article 157-1 of the Securities and Exchange Act	Article 157 of the Securities and Exchange Act
Purpose of legislation	Maintain fairness in the market	
Objectives	Similarities: shares and equity-type securities Differences: Non-equity corporate bonds (subjects of insider trading also included)	
Subjects of regulation	Similarities: Directors, supervisors, managerial officers, shareholders holding more than 10% of the company's shares, natural persons specified in Paragraph 1, Article 27 of the Company Act, spouses and underage children of the aforementioned individuals, and individuals holding shares in the name of others Differences: Natural persons specified in Paragraph 1, Article 27 of the Company Act, individuals who learn of the information by reason of occupational or controlling relationships, individuals who have lost the aforementioned positions within the last 6 months, and recipients of information (subjects regulated by insider trading regulations also included)	
Time	After the material information is confirmed, before announcement or within 18 hours of the announcement.	Sales within six months after its acquisition or repurchase within six months after its sales.
Legal ramifications	1. Criminal liabilities 2. Civil liabilities	Civil liabilities: Disgorgement

(2) Disgorgement

Once a transaction is established as a short-swing transaction, the Board of Directors or supervisors of the company shall exercise the right of claim for "disgorgement", and request the actor to pay the respective proceeds to the company. The "SFIPC" was officially established in 2003, and it executes claims disgorgement for profits resulted from short-swing transactions performed by insiders in accordance with Article 157 of the Securities and Exchange Act. The results of implementation each year are specified in the overview of insider short-swing transaction disgorgement cases in Appendix 2. In addition, TWSE and TPEx also enhanced inspections on irregular stocks to investigate illegal activities.

2. Securities Investor and Futures Trader Protection Act

The Investor Protection Act was officially promulgated on January 1, 2003 to protect the basic legal rights of securities investors and futures traders. It is also used to supplement existing laws to bridge shortfalls in the protection of the interests of securities investors and futures traders.

3. Financial Consumer Protection Act and related regulations

The "Financial Consumer Protection Act" was established in June 2011 in response to the increasingly complexity of financial products

and services, in order to strengthen judicial remedies in the event of disputes. The establishment of the Act aims to strengthen regulations for the protection of financial consumers, and to establish mechanisms for processing financial consumer disputes outside the litigation system to offer further protection for the interests of financial consumers.

Likewise, the FSC has established six regulations including the "Criteria for a Prescribed Level of Financial Capacity or Professional Expertise for the Scope of Professional Investment Institutions, Institutional Investors, and Natural Persons", "Regulations on the Advertisement, Solicitation, and Business Promotion Activities of Financial Service Industry", "Regulations for Financial Services Industry Ascertaining the Suitability of Financial Products or Services to the Financial Consumers", "Regulations on Requirement for Explaining Important Content of the Contract and Disclosing Risks by the Financial Service Industry before the Provision of Financial Products or Services", "Regulations on the Establishment and Management of Institutions for Processing Financial Consumer Disputes", and "Regulations Governing the Qualification Requirements, Appointment and Dismissal of Ombudsman Committee Members and the Procedures by which the Ombudsman Body Handles Ombudsman Cases" in accordance with the Financial Consumer Protection Act on December 12, 2011, as to protect the interests of financial consumers and facilitate the development of a healthy financial market.

(II) Implementing and strengthening the Corporate Governance Roadmap

1. Securities investor and futures trader protection mechanisms

(1) SFIPC

The SFIPC was established in accordance with the Investor Protection Act. Its range of operations includes petitions for investigation, class action lawsuits, and litigation for dismissals. It also advocates the exercise of shareholder rights to implement the spirit of shareholder activism, and focuses on investor interests and corporate governance issues of public companies.

(2) Class action lawsuits

After the revision of the Investor Protection Act, shareholders in Taiwan may file class action lawsuits based on methods specified in Article 28 of the Investor Protection Act and Article 41 of the Taiwan Code of Civil Procedure. The regulations are specified in Figure 4.15.

Article 28 of the Investor Protection Act

For protection of the public interest, within the scope of the SFIPC's Articles of Incorporation, the protection institution may submit a matter to arbitration or institute an action in its own name with respect to a securities or futures matter arising from a single cause that is injurious to multiple securities investors or futures traders,

after having been so empowered by not less than 20 securities investors or futures traders.

Article 41 of the Taiwan Code of Civil Procedure

Multiple parties who have common interests may appoint one or more persons from themselves to sue on behalf of the appointing parties and the appointed parties.

There is no requirement for 20 individuals and only multiple parties with common interests are required.

Figure 4.15 Regulations on class action lawsuits in the Investor Protection Act and the Code of Civil Procedure

(3) International Investor Alert

The FSC has requested Taiwan Securities Association to establish and place online the "International Investor Alert" page to disclose illegal financial institutions, unauthorized financial products, or frauds announced by competent authorities of securities in futures in foreign countries.

2. Financial consumer protection system

The FSC also made donations for the establishment of the "Financial Ombudsman Institution" in accordance with Paragraph 1, Article 13 and Article 14 of the Financial Consumer Protection Act. The Institution officially commenced operations on January 2, 2012 and it provides financial consumers with a reasonable, fast, effective, and professional dispute resolution channel outside the litigation system.

3. Whistleblowing system

The establishment of a comprehensive whistleblowing system in a company can effectively prevent harm from frauds on companies and allow companies to carry out corporate self-regulation.

Whistleblowing systems have been included in the "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" and "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" since 2014. Related regulations are specified in Table 4.25.

Table 4.25 Regulations related to whistleblowing systems

Regulations	Content
Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies	Article 28-2: A TWSE/TPEX listed company is advised to establish and announce channels for internal and external whistleblowers and have whistleblower protection mechanisms in place. The unit that handles whistleblowers' reporting shall be independent, provide encrypted protection for the files furnished by whistleblowers, and appropriately restrict access to such files. It shall also formulate internal procedures and incorporate those procedures into the company's internal control system for management purposes.
Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies	Article 23: TWSE/TPEX listed companies shall adopt a concrete whistleblowing system and scrupulously operate the system. The whistleblowing system shall include at least the following: <ul style="list-style-type: none"> I. An independent mailbox or hotline, either internally established and publicly announced or provided by an independent external institution, to allow company insiders and outsiders to submit reports. II. The dedicated personnel or unit appointed to handle whistleblowing system shall report any tip involving a director or senior manager to the independent directors or supervisors. Categories of reported misconduct shall be delineated and standard operating procedures for the investigation of each shall be adopted.

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	<p>III. Documentation of case acceptance, investigation processes, investigation results, and relevant documents.</p> <p>IV. Confidentiality of the identity of whistleblowers and the content of reported cases.</p> <p>V. Measures for protecting whistleblowers from inappropriate disciplinary actions due to their whistleblowing.</p> <p>VI. Whistleblowing incentive measures.</p> <p>When material misconduct or likelihood of material impairment to the TWSE/TPEX listed company comes to their awareness upon investigation, the dedicated personnel or unit handling the whistleblowing system shall immediately prepare a report and notify the independent directors or supervisors in written form.</p>
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The FSC has also continued to amend related standards for the internal control systems of securities firms, banks, insurance companies, and other financial institutions in 2018, and required all companies to establish an internal whistleblowing system. They shall also designate a unit with independent authorities to process and investigate reported cases. The whistleblowing system shall be included as part of the internal control system.

4. Adding a legal basis for punishments (Action Plan V of the Corporate Governance Roadmap)

The current Securities Exchange Act does not provide the punishment for violations of the "Regulations Governing the Exercise



of Powers by Audit Committees" or the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee". For the purpose of strengthening the regulatory enforcement, amendments to the Act will be proposed, so as to provide the legal basis of the relevant punishments. In addition, to be in line with the international trends and the practical needs of Taiwan, the TWSE and TPEx will set out in their regulations the relevant requirements for the standards that corporate governance comply with. They will also set out multiple measures to deal with listed companies who violate corporate governance requirements, so as to enforce compliance with the relevant regulatory requirements for corporate governance.

TWSE and TPEx have currently established additional corporate governance requirements in relevant rules and regulations based on the Corporate Governance Roadmap and the amendments of the Company Act. They are also working on finding diverse ways to enforce them. The FSC is also preparing to add legal basis for punishments for violation of Paragraph 4, Article 14-4 of the Securities and Exchange Act ("Regulations Governing the Exercise of Powers by Audit Committees") and Paragraph 1, Article 14-6 of the same Act ("Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee").



Corporate Social Responsibility and Sustainable Development

I. Introduction of Corporate Social Responsibility

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

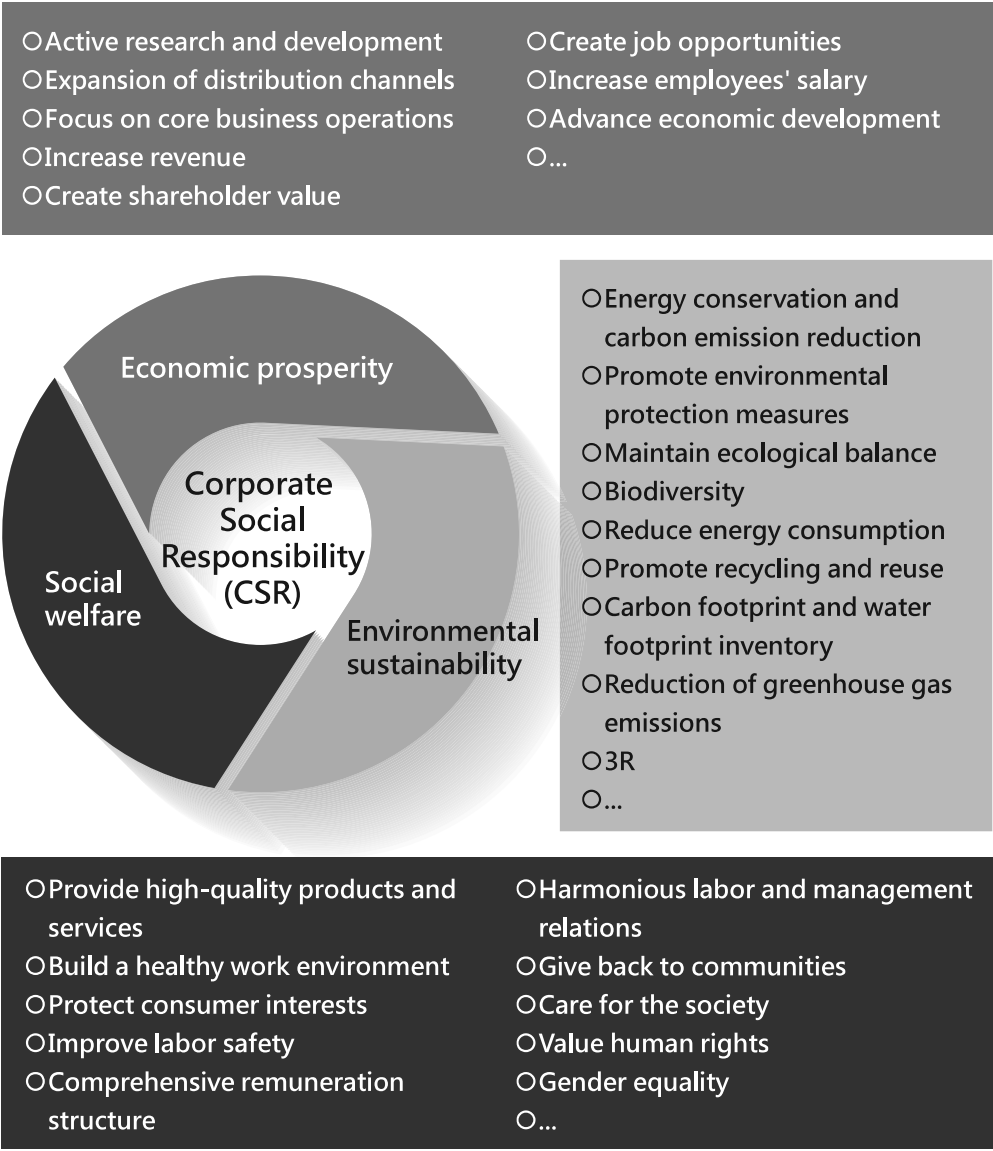


Figure 5.1 Scope of corporate social responsibilities

II. CSR Advancement in Taiwan

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

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

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

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



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

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

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

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

Table 5.1 Important milestones in Taiwan's CSR advancement

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

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

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

III. Current Developments

(I) Legislation

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

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

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

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



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

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

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

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

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

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

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



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

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

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

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

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

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



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

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

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

(II) Actual implementation

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

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

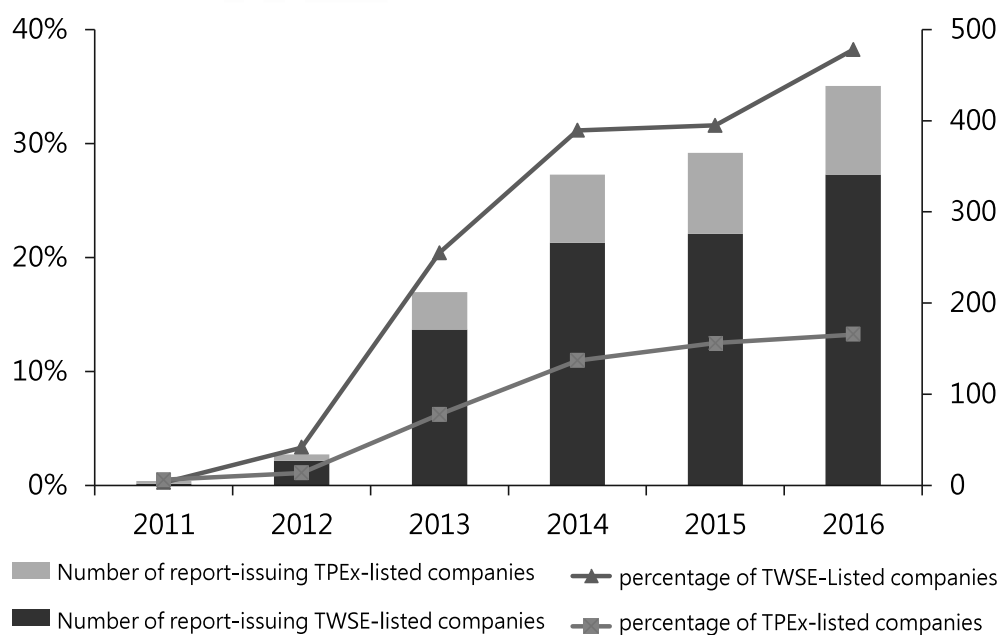


Figure 5.2 Status of CSR reports submitted by listed companies

Source: Taiwan Stock Exchange Corporate Governance Center website

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

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

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

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



Figure 5.3 CSR section on TWSE Corporate Governance Center website

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



Figure 5.4 CSR section on TPEX website

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

3. Compilation of indexes related to CSR

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

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

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

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

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



Other important measures for corporate governance

I. Strengthening CPAs' accountability for audits

Article 20-1 of the Securities and Exchange Act specifies the individuals responsible and range of liability for misrepresentations or nondisclosures in financial reports, as to strengthen the management of the compilation of companies' financial reports and related documents, and to ensure the civil liabilities of CPAs for auditing. It also allows bona fide purchasers, sellers, or holders of securities to petition a court to requisition the CPA's working papers, and to review or make copies of the same.

With regard to the implementation, the competent authority continues to enhance inspections on the financial reports of listed companies and supervise the quality of audits performed by CPAs. The competent authority may impose sanctions for mistakes or omissions committed by a certified public accountant based on the seriousness of the mistakes or omissions and the nature of the case.

The amendments of the Certified Public Accountant Act in recent years included disqualifications for CPAs, revocation of CPA qualifications for failure to join a CPA association, and regulations on



co-location CPA firms. The enhancement in the management of CPAs will help suppress the occurrence of inappropriate actions.

II. Strengthening the corporate accounting system

(I) Advancing the International Financial Reporting Standards (IFRSs)

The International Financial Reporting Standards (IFRSs) have gradually become the sole standards for the global capital market. Full adoption of IFRSs has also become a trend in the international capital market. The FSC has announced plans for the full adoption of IFRSs in stages. Details can be referenced in related webpages of Taiwan Stock Exchange and Taipei Exchange:

Taiwan Stock Exchange

<http://www.twse.com.tw/IFRS/about>

Taipei Exchange

http://www.tpex.org.tw/web/link/issuer_ifrs.php?l=zh-tw

(II) IFRSs development history

The FSC established the "IFRSs Service Center" in June 2011 to ensure the integrity and timeliness of the publication of related information before listed companies adopt IFRSs. The Center helps

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companies with tasks for the adoption of IFRSs which shall be adopted in two phases. It also allows voluntary early adoption. The development history is shown in Figure 6.1.

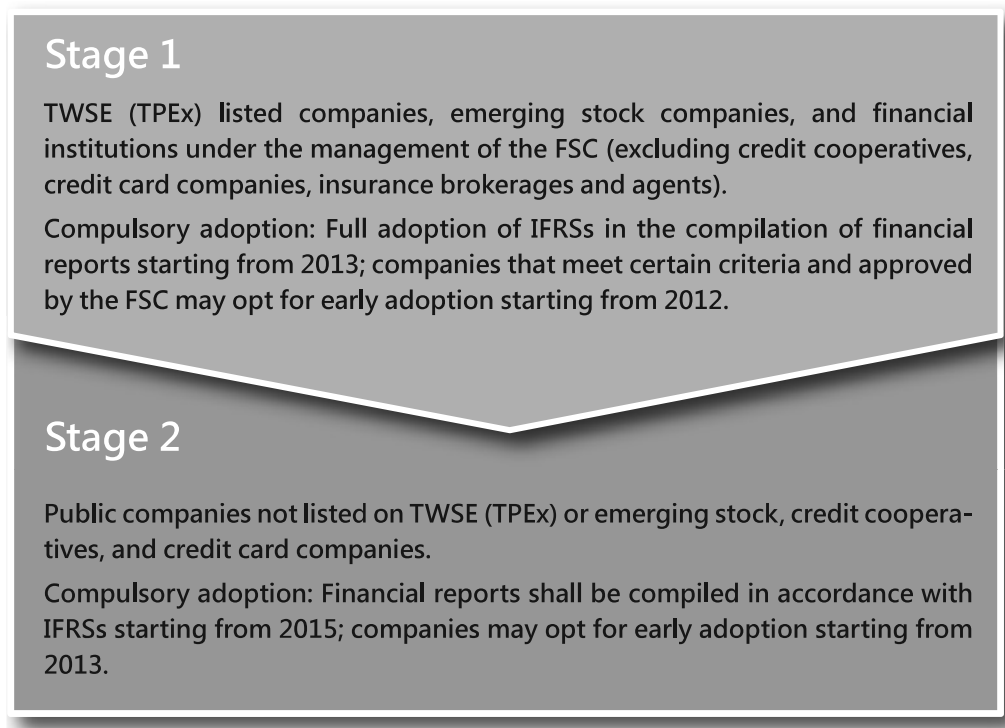


Figure 6.1 Advancement of the International Financial Reporting Standards in two stages in Taiwan

(III) IFRS adoption history

Taiwan successfully commenced adoption of IFRSs for financial reports since 2013. The IFRS adoption history in Taiwan is shown in Figure 6.2.

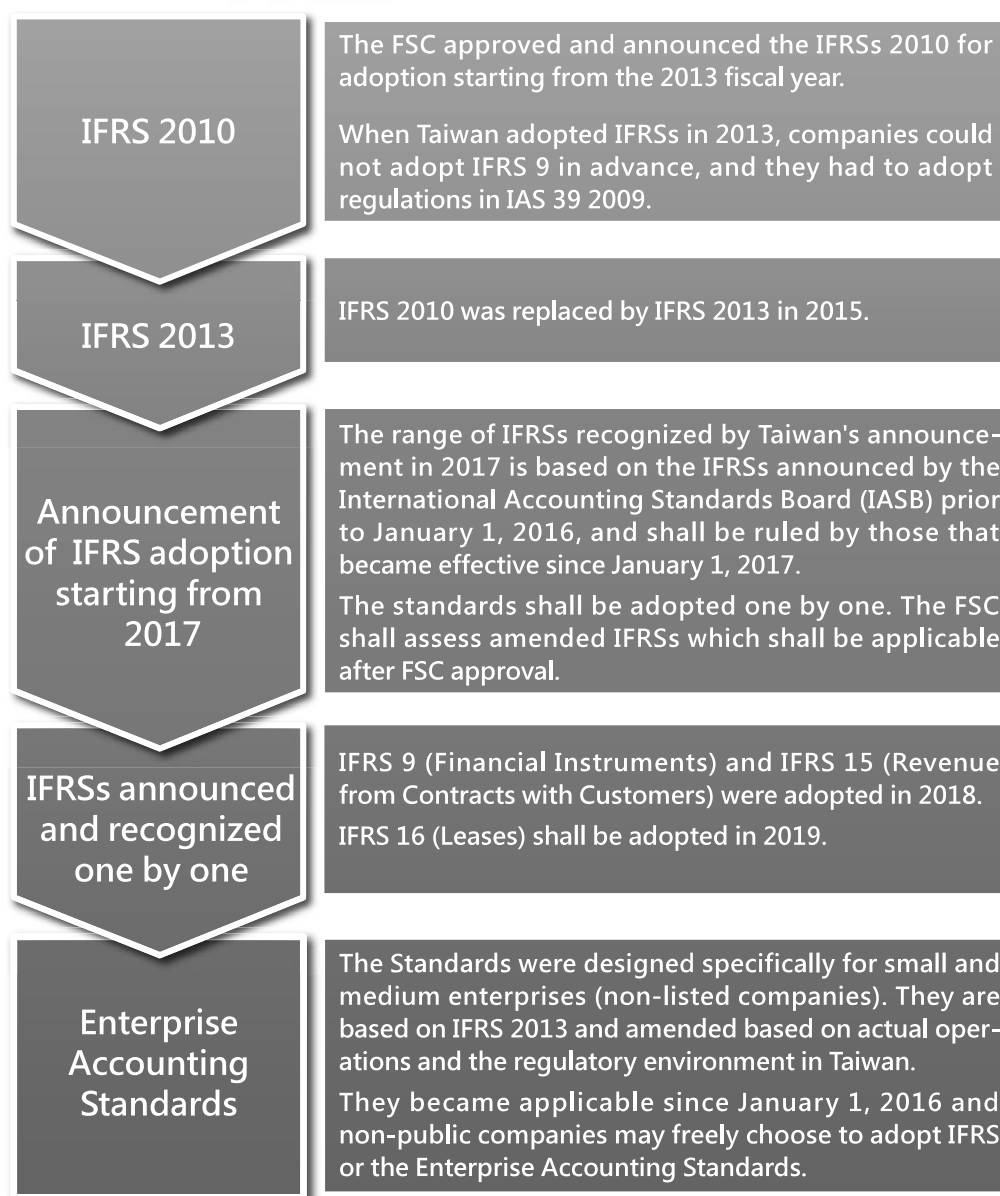


Figure 6.2 IFRSs adoption history in Taiwan

III. Special inspections of internal control systems and financial operations

(I) Regulations on internal control systems

The Regulations are established to ensure that public companies establish internal control systems, disclose their operations and financial information, and strengthen the management of their operating risks for the purposes of improving their operations and efficiency, secure their assets, and protect shareholder interests. Mechanisms for strengthening internal controls are listed in Table 6.1.

Table 6.1 Mechanisms for strengthening internal controls in Taiwan

Concrete Target	Related Measures
Guidelines for Establishment of Internal Control Systems	The "Guidelines for Establishment of Internal Control Systems by Public Companies" and "Guidelines for Certified Public Accountants Conducting Project Audits of Internal Control Systems of Public Companies" have been consolidated into the "Regulations Governing Establishment of Internal Control Systems by Public Companies".
Strengthen internal controls related to financial statements	<ol style="list-style-type: none"> 1. The internal control systems of public companies shall include controls for the "management of related party transactions" and "management of the preparation process of financial statements". 2. CPAs entrusted to conduct special audits of the internal control systems of a company conducting initial public offering of stocks shall conduct such audits and express opinions pursuant to the aforementioned control measures and "monitoring and management of its subsidiaries" for the establishment of related operation procedures.

Concrete Target	Related Measures
Strengthen internal risk control and management	Public companies shall formulate adequate risk management policies and procedures and establish effective risk management mechanisms to assess and monitor the respective risk-bearing capacity, current status of risks already incurred, and to determine their compliance with the risk response strategies and risk management procedures.
Strengthen competency of internal audit personnel	Article 11, Paragraph 1 and Article 17, Paragraph of the "Regulations Governing Establishment of Internal Control Systems by Public Companies" expressly requires public companies to appoint appropriate numbers of qualified persons as professional internal auditors and appoint deputies for them. The internal auditors of a public company shall pursue continuing education to improve their auditing quality and competence. These measures aim to successfully implement the internal control system and strengthen corporate governance.

(II) Amendments of the COSO "Internal Control — Integrated Framework"

In response to the updated "Internal Control— Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of the United States in 2013 and actual requirements in the country, the FSC has amended provisions in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises

in Securities and Futures Markets" in September 2014, and the key amendments are as follows:

1. Amended "financial reporting goals" from the three major goals of the internal control system into "reporting goals", and content related to the five components of internal control;
2. Added "operating management for meetings of the audit committee", "implementation of legal compliance for the respective industry", "management of intellectual property rights", "management of shareholder services", and "management of personal information protection" into control operations;
3. Strengthened related control and management measures to ensure product safety, environmental safety, and occupational safety;
4. Added provisions that state internal audit personnel may not provide or receive illegitimate profits, and expressly provided that companies shall appoint deputies to act on behalf of internal auditing personnel;
5. Loosened requirements and allowed the heads of business units to serve concurrently as the chief auditors.

(III) Strengthening the anti-money laundering and counter-terrorism financing system of financial institutions

To strengthen domestic financial institutions' anti-money laundering (AML) and counter-terrorism financing (CFT) system, the FSC has



established related regulations in recent years and the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets" was revised on both September 30, 2017 and May 30, 2018. The main measures for strengthening control in the domestic securities and futures firms are as follows:

1. The Board of Directors shall bear the ultimate responsibility of ensuring the establishment and maintenance of appropriate and effective internal control systems.
2. The code of conduct for directors shall include at least measures required for reporting in the event of material losses and the internal control system shall include the handling of material incidents and reporting mechanisms.
3. Internal control systems should include AML/CFT mechanisms and management of compliance with relevant laws and regulations. Companies shall also establish comprehensive AML/CFT plans for the entire group.
4. The annual audit plan should include the management of compliance with relevant AML/CFT laws and regulations.
5. In the event that an internal audit unit receives an inspection report or a legal compliance officer discovers a material violation of laws, the directors and supervisors shall be notified immediately and they shall report to the Board of Directors.

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6. To fully implement personal information protection and AML/CFT mechanisms, the competent authority may request related securities and futures agencies to perform special inspections on internal control systems.
7. The legal compliance unit shall supervise offshore branches in performing related affairs.

Appendix 1 Important milestones in corporate governance (2016-August 2018)

Time	Event
April 8, 2016	Announcement of the results of the 2nd Corporate Governance Evaluation.
June 30, 2016	Announcement of the "Stewardship Principles for Institutional Investors".
September 29, 2016	Asian Corporate Governance Association (ACGA) announced the "CG Watch 2016" and Taiwan advanced by two ranks to number four.
December 29, 2016	Announcement of the "2017 (4th) Corporate Governance Evaluation Indicators".
January 18, 2017	Expanded the applicable scope of the mandatory adoption of e-voting in 2018.
March 7, 2017	All TWSE-listed domestic companies are required hold investor conferences at least once a year starting from 2018.
May 17, 2017	Fubon Asset Management Co., Ltd. successfully raised funds and launched Taiwan's first corporate governance ETF "Fubon TWSE Corporate Governance 100 ETF".
June 6, 2017	Publication of the traditional Chinese version of the GRI Standards.
August 11, 2017	Starting from 2018, companies applying for an initial public offering and those applying for initial TPEx trading are required to set up an audit committee, and purchase mandatory director and supervisor liability insurance.

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Time	Event
December 18, 2017	Taiwan Index Plus Corporation and FTSE Russell jointly announced their mutual compilation of the "FTSE4Good TIP Taiwan ESG Index".
December 27, 2017	Announcement of the "2018 (5th) Corporate Governance Evaluation Indicators".
April 30, 2018	Announcement of the results of the 4th (2017) Corporate Governance Evaluation.
April 24, 2018	The FSC officially initiated the Corporate Governance Roadmap.
April 24, 2018	The Securities and Exchange Act was revised to allow independent directors to request the Board of Directors to appoint relevant personnel or may, at their own discretion, hire professionals to provide assistance if they deem it necessary for the performance of their duties. The related expenses will be borne by the company.
July 6, 2018	The Legislative Yuan passed the amendments of the Company Act. Measures to strengthen corporate governance in the Company Act included loosening of the format of meetings of the Board of Directors, simplifying director nomination procedures, consolidating the rights of conveners of shareholders' meetings, increase of corporate governance personnel, and compliance with international AML regulations.

Source: TWSE Corporate Governance Center

Appendix 2 Overview of insider short-swing transaction disgorgement cases

Case Year \ Category	Total No. of Cases	Amount Collectible	Total Cases Closed	Funds Disgorged	No. of Unsettled Cases	Expedited Cases	Legal Proceedings Initiated	Request for Reconsideration	Number of Cases Settled, Q2'2018	Total Funds Settled, Q2'2018	Number of Cases Settled, 2018 up to Q2	Total Funds Settled in 2018 up to Q2
1994H2	84	80,270,024	84	77,717,537	0	0	0	0	0	0	0	0
1995H1	57	20,495,283	57	18,659,741	0	0	0	0	0	0	0	0
1995H2	129	63,325,559	129	54,518,849	0	0	0	0	0	0	0	0
1996H1	117	107,710,560	117	108,273,342	0	0	0	0	0	0	0	0
1996H2	98	64,898,557	98	45,031,101	0	0	0	0	0	0	0	0
1997H1	228	118,576,472	228	95,685,050	0	0	0	0	0	0	0	0
1997H2	192	147,126,764	192	73,396,806	0	0	0	0	0	0	0	0
1998H1	176	826,821,959	176	71,959,757	0	0	0	0	0	0	0	0
1998H2	177	159,294,237	177	39,336,860	0	0	0	0	0	0	0	0
1999H1	205	117,010,423	205	116,991,611	0	0	0	0	0	0	0	0
1999H2	211	107,650,778	211	71,889,755	0	0	0	0	0	0	0	0
2000H1	245	130,138,611	245	98,212,117	0	0	0	0	0	0	0	0
2000H2	196	103,238,355	196	86,983,461	0	0	0	0	0	0	0	0
2001H1	174	31,406,328	174	29,676,038	0	0	0	0	0	0	0	0
2001H2	147	52,568,653	147	52,536,780	0	0	0	0	0	0	0	0
2002H1	199	83,614,103	199	82,224,588	0	0	0	0	0	0	0	0
2002H2	152	22,839,593	152	22,839,593	0	0	0	0	0	0	0	0
2003H1	174	13,318,701	174	13,318,701	0	0	0	0	0	0	0	0
2003H2	328	38,155,725	328	37,716,964	0	0	0	0	0	0	0	0
2004H1	418	51,208,992	418	50,484,927	0	0	0	0	0	0	0	0
2004H2	217	36,288,868	216	32,957,884	1	0	1	0	0	200,000	0	200,000
2005H1	175	22,761,464	175	22,761,464	0	0	0	0	0	0	0	0
2005H2	185	34,611,647	185	34,611,647	0	0	0	0	0	0	0	0
2006H1	146	52,025,132	146	52,025,132	0	0	0	0	0	0	0	0

CORPORATE GOVERNANCE IN TAIWAN

Case Year \ Category	Total No. of Cases	Amount Collectible	Total Cases Closed	Funds Disbursed	No. of Unsettled Cases	Expedited Cases	Legal Proceedings Initiated	Request for Reconsideration	Number of Cases Settled, Q2/2018	Total Funds Settled, Q2/2018	Number of Cases Settled in 2018 up to Q2	Total Funds Settled in 2018 up to Q2
2006H2	179	135,934,128	179	132,517,740	0	0	0	0	0	0	0	0
2007H1	208	61,118,071	208	61,079,199	0	0	0	0	0	0	0	0
2007H2	183	48,118,041	182	46,463,357	1	0	1	0	0	0	0	0
2008H1	194	48,240,524	193	48,233,169	1	0	1	0	0	0	0	0
2008H2	144	38,480,353	143	36,756,370	1	0	1	0	0	0	0	0
2009H1	151	27,580,261	150	27,565,472	1	0	1	0	0	0	0	0
2009H2	162	74,573,302	162	74,573,302	0	0	0	0	0	0	0	0
2010H1	164	66,515,440	164	66,515,440	0	0	0	0	0	0	0	0
2010H2	154	32,266,863	154	32,266,863	0	0	0	0	0	0	0	0
2011H1	155	34,195,685	155	34,195,685	0	0	0	0	0	0	0	0
2011H2	136	51,886,978	136	51,886,978	0	0	0	0	0	0	0	0
2012H1	114	19,520,853	114	19,520,853	0	0	0	0	0	0	0	0
2012H2	100	16,180,352	100	16,180,352	0	0	0	0	0	0	0	0
2013H1	125	16,195,182	125	15,781,271	0	0	0	0	0	0	0	0
2013H2	163	50,950,570	163	39,284,951	0	0	0	0	0	0	0	0
2014H1	144	43,184,614	144	43,184,614	0	0	0	0	0	0	0	0
2014H2	135	15,313,898	135	15,313,898	0	0	0	0	0	0	0	0
2015H1	132	16,054,947	132	16,054,947	0	0	0	0	0	0	0	0
2015H2	127	58,102,598	127	58,102,598	0	0	0	0	0	0	0	0
2016H1	86	129,944,954	85	118,912,059	1	0	1	0	0	0	0	0
2016H2	80	36,484,408	80	36,484,408	0	0	0	0	0	0	0	0
2017H1	127	14,470,984	126	14,383,886	1	1	0	0	0	0	126	14,383,886
2017H2	138	22,403,671	10	172,964	128	128	0	0	10	172,964	10	172,964
Total	7,731	3,543,073,465	7,596	2,395,240,081	135	129	6	0	10	372,964	136	14,756,850

Source: Securities and Futures Investors Protection Center