



Taiwan's shareholder meetings in focus

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Preface

Since the establishment of the Corporate Governance Reform Task Force in 2003, policymakers and the private sector have actively implemented policies to enhance the quality of governance. Mandated by the Financial Supervisory Commission (FSC), the Taiwan Stock Exchange (TWSE) set up the Corporate Governance Center in 2013 followed by the Stewardship Principles for institutional investors in 2016.

The changing landscape in corporate governance is rapidly developing in part due to a modernized approach from regulatory forces and a more positive attitude from the issuer community towards shareholder expectations as Environmental, Social and Corporate Governance (ESG) continues to pressure investor relations officers on articulating corporate strategies. In August 2020, market regulators announced a new Corporate Governance Roadmap 3.0 (2018-2020), Green Finance Action Plan 2.0 and revised stewardship principles for institutional investors. These concerted efforts are reflected in the improvement of Taiwan's ranking to 4th from 5th in the Asian Corporate Governance Association's CG Watch 2020 alongside a table of other territories in the region.

IHS Markit reviewed this year's Annual General Meeting (AGM) proxy season in Taiwan from a corporate governance perspective. This report summarizes key takeaways of our analysis of 75 largest companies in the market. The findings include a forward-looking view to help mitigate potential disruptions to Taiwanese issuers that may arise as a result of loose corporate planning or a failure to keep up with peer groups.

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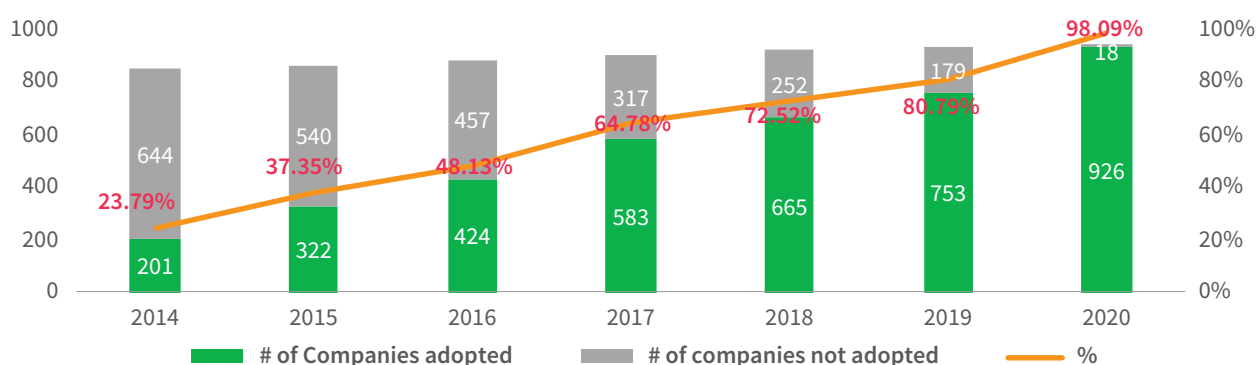
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A. 2020 AGM Voting Trends

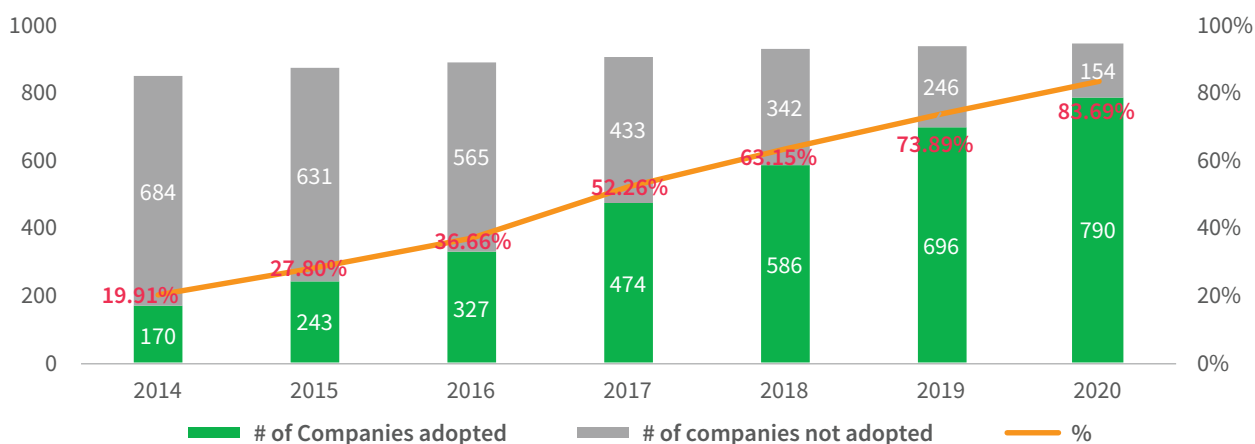
- **Adoption of nomination system for directors and supervisors becoming the standard norm.** In 2020, nearly 100% (926 companies shown in Figure 1) of TWSE-listed companies on the main board have adopted nomination systems for the election of directors and supervisors in their articles of association. It reflects a 23% increase (vs. 753 companies in 2019) and a 360% increase (vs. 201 companies in 2014).
- **Audit committees have risen to 83% of the companies analyzed.** As shown in Figure 2, 790 companies established audit committees by June 2020, equivalent to 83% of TWSE-listed companies and representing a 365% increase from 170 in 2014.

Figure 1: Number of companies with a nomination system



Source:IHS Markit

Figure 2: Number of companies with an audit committee



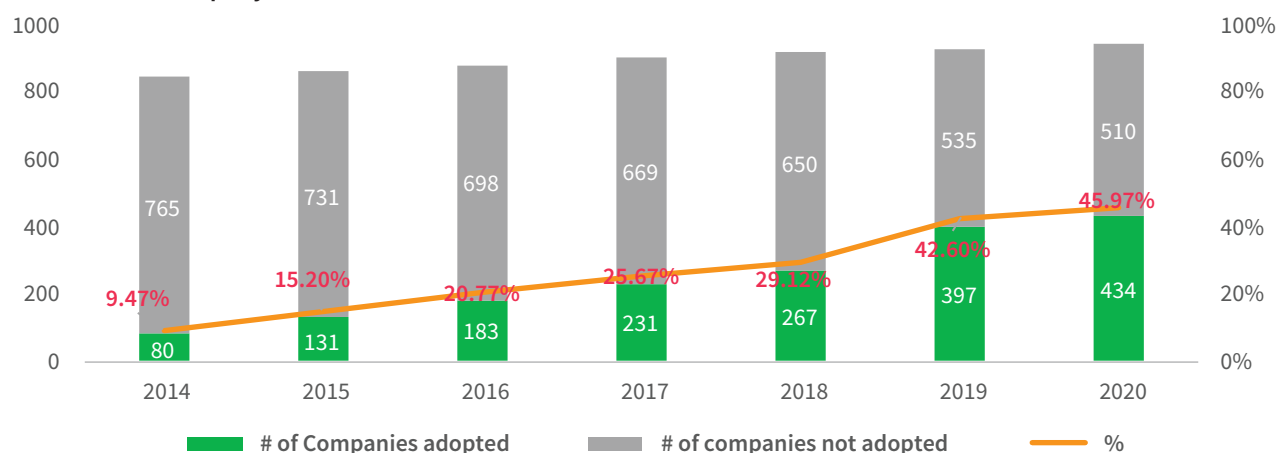
Source:IHS Markit

- **Gender diversity on the board slowly progressed and remains a focus for most businesses.** The percentage of female directors is still maintaining double digits, however, progression remains slow. That said, female representation on the board improved slightly to 13.9% in 2020 according to the data released by the Taiwan Stock Exchange Corporate Governance Center. Out of 1725 listed companies, 565 (32.8% of total) still have all-male boards.

- **Consistent rise in independent board member appointments. minimum requirement of two independent directors/20% independence.** Our analysis shows that TWSE-listed and TPEX-listed companies' boards independence averages 36.1% and 38.0%, respectively. Companies have three independent directors on average. Only 30 companies meet the minimum requirement of 20% board independence, and 443 companies' boards (25.7% of total) are less than one-third independent.
- **More companies are making proxy materials available in English to attract international funds.** Companies that published English meeting handbooks reached 46% for TWSE-listed companies, and 22% for TPEX-listed companies in 2020. For the purpose of transparency enhancement, disclosing company announcements in English is advised. Along with more English disclosures, it can attract potential foreign institutional investors.

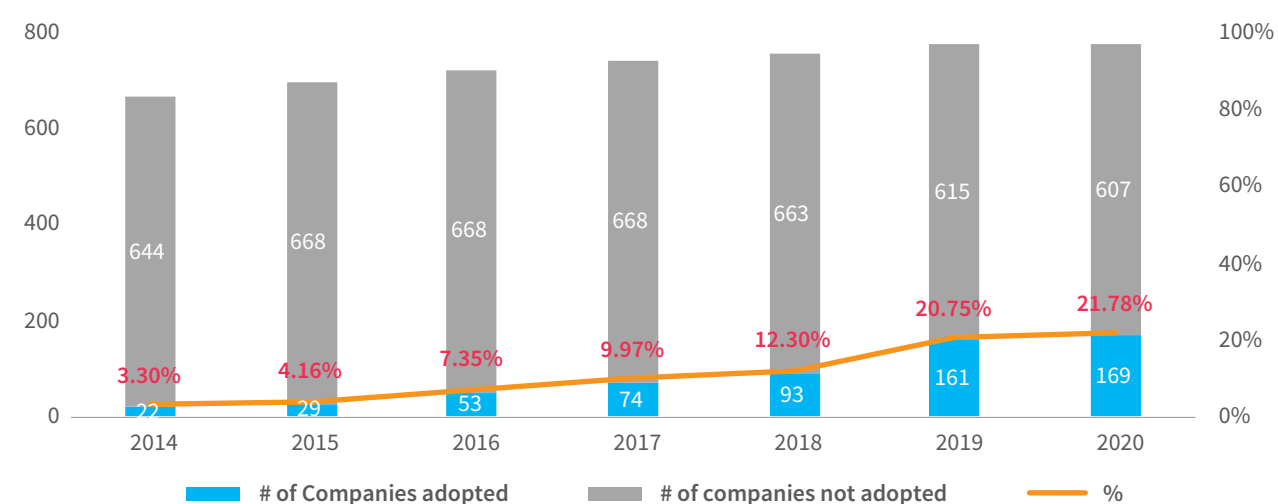
Figure 3: Number of companies that disclose English proxy materials

TWSE-Listed Company



Source:IHS Markit

TPEX-Listed Companies



Source:IHS Markit

B. Dissent on voting resolutions

During the 2020 Taiwan proxy season, the highest dissent rate of resolutions among the top 75 TWSE-listed companies by market capitalization reached over 30%. Table 1 summarizes the top five resolutions by the dissent rate. Key observations are as follows:

- Dissidents were concerned about the amendment of articles, the fairness of employee incentive schemes related to the excessive discount rate and inadequate disclosure of performance hurdles, as well as the release of restrictions on director competitive activities.
- Proxy advisers took different views of these five resolutions (except for the non-compete restrictions of directors during the captioned financial institution's annual general meeting). Sometimes the voting item itself is controversial (e.g. share warrant programs), but it can also be a matter of the extent of disclosure and details of the scheme (e.g. release of non-compete restrictions of directors). Institutional investors sometimes have their own customs voting policies that override proxy advisers' recommendations. Therefore, it is important for companies to understand not only the thought process of proxy advisers, but also their key shareholders. This is key especially for issuers with dispersed ownership structures.
- Interestingly, family-controlled businesses are not necessarily enjoying a high passing rate for some of their AGM resolutions, as evidenced in the case of the financial institution and electronic equipment provider.
- Eight out of the top 10 TWSE-listed companies with the highest dissent rate operate in the technology sector.

Table 1: Top five resolutions by the dissent rate

Micro Industry	Ownership structure	Voting item	Dissent rate	Voting result	Proxy advisers (ISS & Glass Lewis)' recommendation
A semiconductor company	Dispersed	Amend articles of association	35.8%	Pass	Divided
An electronic equipment provider	Dispersed	Approve proposal of transferring shares bought back to employees at a price lower than the average price of the actually purchased shares	32.7%	Pass	Divided
A semiconductor company	Dispersed	Approve the issuance of restricted stocks	31.5%	Pass	Divided
A financial institution	Controlled	Approve release of restrictions of competitive activities of directors	31.1%	Pass	Against
An electronic equipment provider	Controlled	Approve release of restrictions on competitive activities of newly appointed directors (including independent directors) and representatives	28.4%	Pass	Divided

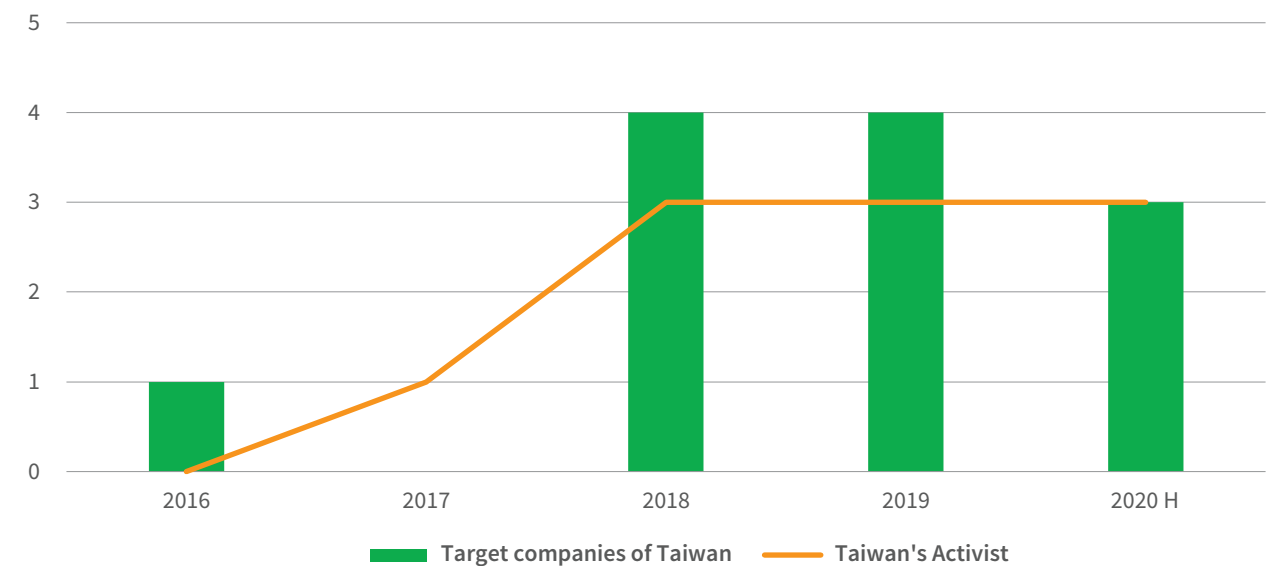


C. Shareholder activism and activist activities

Shareholder activism continues globally, including Asia. In Taiwan, however, it has been relatively inactive partly due to the dominance of family-controlled companies, whose representation declined 1% per year on average in the past seven years but still remains at a high level at 70%, according to Taiwan Institute of Directors' latest white paper in 2020. Retail investors of family-controlled companies also tend to be more short-term oriented and are less inclined to actively engage with companies on core corporate governance issues. However, recent policy developments on corporate governance (refer to Section E for details) and the increased FINI (foreign institutional shareholder base) in Taiwan has prompted the increased level of activism activities.

Figure 4 summarizes the number of activists and the number of companies being targets in the past five years. The number of cases is still small but slowly increasing.

Figure 4: Number of companies targeted by activists and activists in Taiwan



Source: Activist Insight



One example is PJ Asset Management, which is a Taiwan-based investment manager engaging in activist activities. The campaigns posted on its website include detailed analyses of the target companies' sectoral market shares, changes in investment amounts, comparisons of strategies with peers and comparisons of profitability for each brand, as well as pointing out the necessary management structures and performance-linked compensation systems and offering plans for improvement. While campaigns' contribution to increased shareholder values of the target companies remains debatable, we see more activist activities. In 2020, there were three, one of which was developed into a proxy fight.

Case study: A communications equipment provider

In May, two former independent non-executive directors spoke out against the company with the support of another minority corporate shareholder. They called for a special shareholder meeting to seek the removal of five directors and highlight the company's governance issues including the lack of separation of Chair/CEO, the lack of C-suite Management and irrational and Illegal Actions to strengthen the company's corporate governance and enhance shareholder value.

The company resisted the request, arguing there was a redundancy in holding the EGM two weeks before the scheduled annual general meeting (AGM), and that the former directors' group was not qualified to push for improved governance. However, the EGM was finally held and the former directors, utilizing a proxy vendor used by individual investors, successfully obtained a majority of votes in favor of the five dismissal proposals at the EGM.

At the subsequent AGM, where both the management and the former directors proposed a total of 23 director candidates, nine directors were elected with the former directors' side securing a majority.

About a month after the AGM, the company announced the re-appointment of one of the first founding members of the business as CEO. While the full inner workings of the reshuffle remained unclear, it is assumed that this move will help to re-establish order on the Board and build unity among different director groups on the future business strategy.

The particulars of claims submitted by both opposing sides revealed elements of infighting and a lack of information transparency to all elected members. In addition, virtually no case supporting the former directors' proposals were found among the recommendations of major proxy advisors

and the disclosed voting results of institutional investors. Therefore, in this particular case study, one would agree that this might not entirely be categorized as shareholder activism per se, which achieves the goal on the CG Roadmap leading to deepen the corporate governance culture, strengthen the board of directors' function and strengthen responsibilities to shareholders.

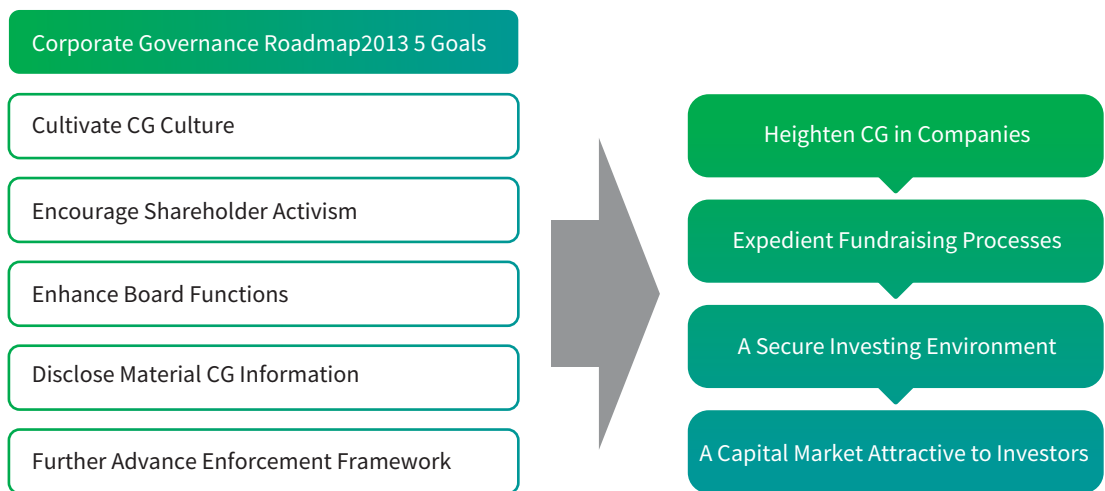
D. Policy development on ESG including corporate governance

Corporate governance roadmaps: 2013, 2018-2020 and 3.0

In 2013, FSC (Financial Services Commission) announced the first Corporate Governance Roadmap, which signaled Taiwan's determination to implement corporate governance reform over the next five years.

In April 2018, FSC launched a new Corporate Governance Roadmap (2018 – 2020) to encourage active participation of companies and investors in corporate governance through deepening corporate governance culture, enhancing board functions, strengthening information transparency, promoting shareholder activism and augmenting regulatory enforcement. It also aimed to root corporate governance culture, create an investment-friendly environment and improve international competitiveness.

Figure 5: Corporate Governance Roadmap 2013



Source: Taiwan Stock Exchange Corporate Governance Center

Figure 6: Corporate Governance Roadmap (2018-2020)



Source: Taiwan Stock Exchange Corporate Governance Center

In August 2020, FSC further announced Corporate Governance 3.0 - Sustainable Development Roadmap (CG 3.0) as a new three-year program from 2021 to 2023.

Figure 7: CG 3.0 Core Vision and Action Plans (2021-2023)



Source: Taiwan Stock Exchange Corporate Governance Centre

CG 3.0 has the following five action plans:

- **Strengthen duties and functions of boards to enhance the sustainable value of enterprises,** including the appointment of more independent directors, adoption of independent director term limits, introduction of risk management committees to the boards of listed companies, appointment of more corporate governance officers, provision of a more diversified range of training programs for

directors and the release of templates for the exercise of duties and powers by independent directors and audit committees.

- **Enhance information transparency and promote sustainable operations**, especially on ESG performance. Key measures include enhancing the disclosure of sustainability reports with reference to the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) framework, expanding the scope of companies subject to the mandatory requirement to produce sustainability reports, requiring a third-party assurance, encouraging listed companies to disclose and file operating status information, and shortening the deadline for filing of annual financial reports.
- **Strengthen communication with stakeholders and create effective interaction channels**, with greater scrutiny of the fairness for companies to handle their own shareholder services and the transparency of e-voting results. Another key focus is to mitigate the concentration of annual meetings during the shareholder meeting season and strengthen the disclosure of corporate governance information on the Market Observatory Post System (MOPS) website and company websites.
- **Encourage stewardship and align with international norms**, with key focuses on stewardship code for proxy advisers, disclosure of institutional investors' stewardship reports, as well as a public stewardship evaluation mechanism.
- **Deepen a corporate culture of sustainable governance and provide diversified products** through establishing a sustainability market, promoting sustainability-related products and continuously review corporate governance evaluation systems.

Green Finance Action Plan 2.0

FSC also published the **Green Finance Action Plan 2.0**¹ to join forces between the public and private sectors to achieve carbon reduction and sustainable development goals in Taiwan. FSC proposes two key measurements to encourage improvement of the quality and content of ESG disclosure. In terms of the quality of ESG disclosure, FSC will introduce third-party verification as part of the CSR reporting requirement. FSC is also proposing requirements for companies to disclose material ESG data and climate-related information disclosures that align with TCFD recommendations.

Stewardship Principles

In the same month, Taiwan Stock Exchange (TWSE) published revised Stewardship Principles for Institutional Investors with the following six key focuses:

Principle 1 Establish and disclose stewardship policies

Principle 2 Establish and disclose policies on managing conflicts of interests

Principle 3 Regularly monitor investee companies

Principle 4 Maintain an appropriate dialogue and interaction with investee companies

Principle 5 Establish and disclose clear voting policies and voting results

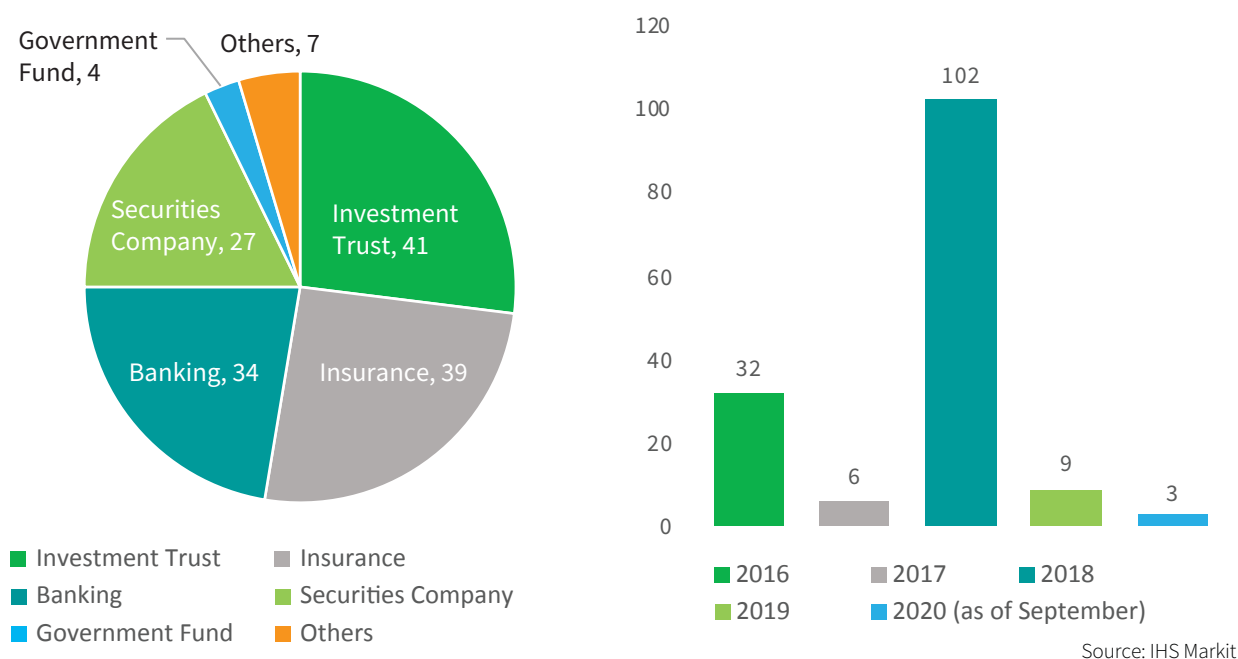
Principle 6 Periodically disclosure the status of fulfilment of stewardship responsibilities

¹ <https://www.fsc.gov.tw/uploaddowndoc?file=News/202011021439280.pdf&filedisplay=Green+Finance+Action+Plan+2.0.pdf&flag=doc>

The most significant revision of the principles is the clear introduction of ESG factors via Guideline 1-2 and Guideline 3-3. Other important revisions include the disclosure of policies adding to voting results, regular review of stewardship policies, the broad disclosure of stewardship reports as well as the extension of the scope of stewardship to other classes such as bonds, real estate, private equity, alternative investment and other asset classes beyond equities.

As of 7 October 2020, 152 investors endorsed signatories in the Stewardship Principles, of which 68 updated for the revision. Breakdown of the types of investors and number of signatories by endorsement year is as follows by the exhibits.

Figure 8: Types of investors and number of signatories



Updates of preparation and filing of Corporate Social Responsibility reports

In 2020, there were key regulatory updates for listed companies on the preparation of CSR reporting.² For listed companies that are in 1) the food, chemical, finance and insurance industries, 2) have over 50% of revenue derived from food and beverage business and 3) have TWD 5 billion share in capital, CSR reporting should, at least, meet the core option of the Global Reporting initiatives (GRI) standards.

The CSR report should include ESG risk assessments and KPIs to manage the identified material topics. Companies also need to disclose employee and climate-risk aspects. The reports should specify whether the disclosure items have been assured or verified by third-parties.

In addition, there were requirements for companies that are in the food and chemical industry to disclose on ESG aspects, particularly regarding suppliers, customers and local communities. Financial and insurance companies should disclose their management approach or topic-specific disclosures on sustainable finance.

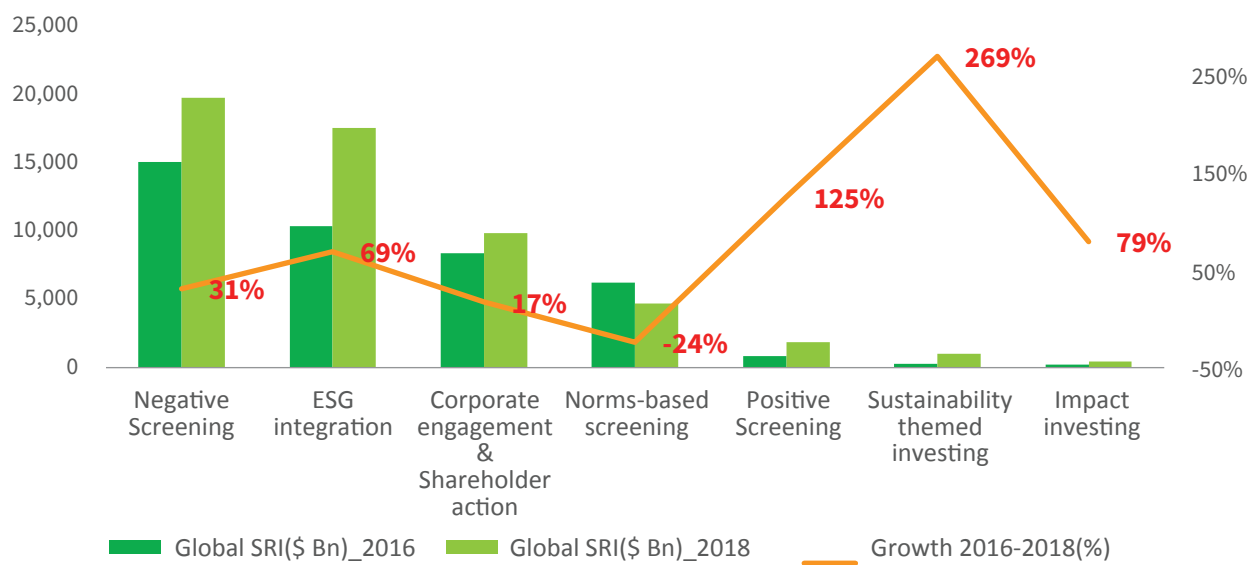
² <https://twse-regulation.twse.com.tw/ENG/EN/law/DAT0201.aspx?FLCODE=FL075209>

E. Sustainable finance in Taiwan

Global sustainable finance trend

According to the 2018 Global Sustainable Investment Review, socially responsible investments reached \$30.7 trillion at the start of 2018, a 34% increase in two years. At the same time, investors integrated ESG principles into \$17.5 trillion, a 69% increase. Assets that focus on corporate engagement and shareholder activism around environmental and social issues have grown to \$9.8 trillion, a 14% increase.

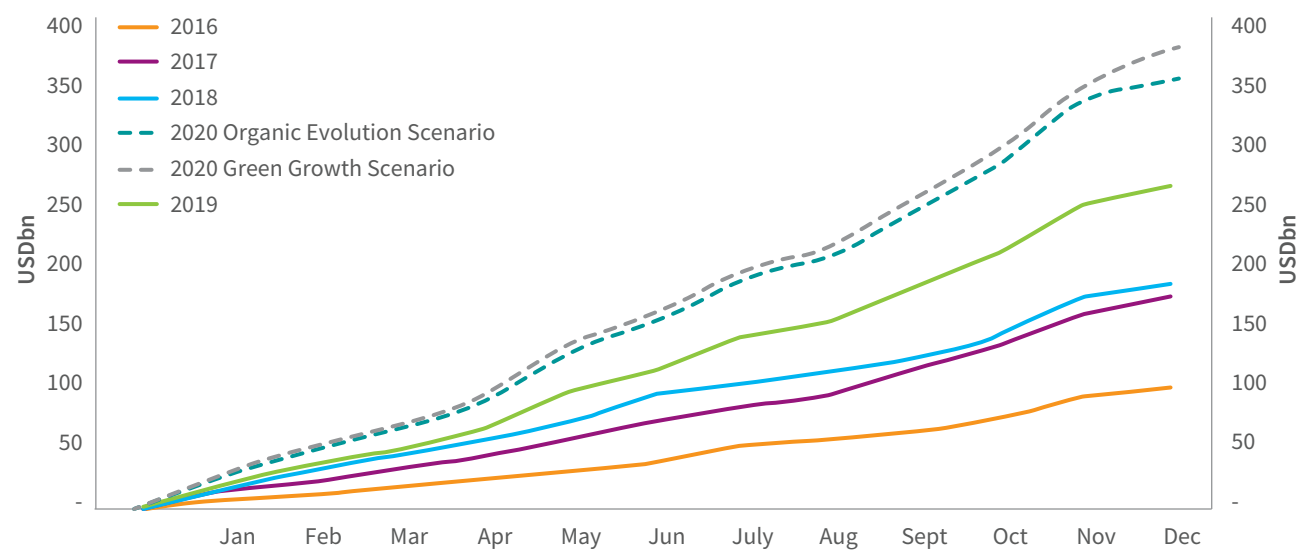
Figure 9: Global SRI size breakdown by types of strategies and growth rate in three years



Source: Global Sustainable Investment Review

i. Global green bond market

Figure 10: Sustainable finance annual issuance and scenario analysis

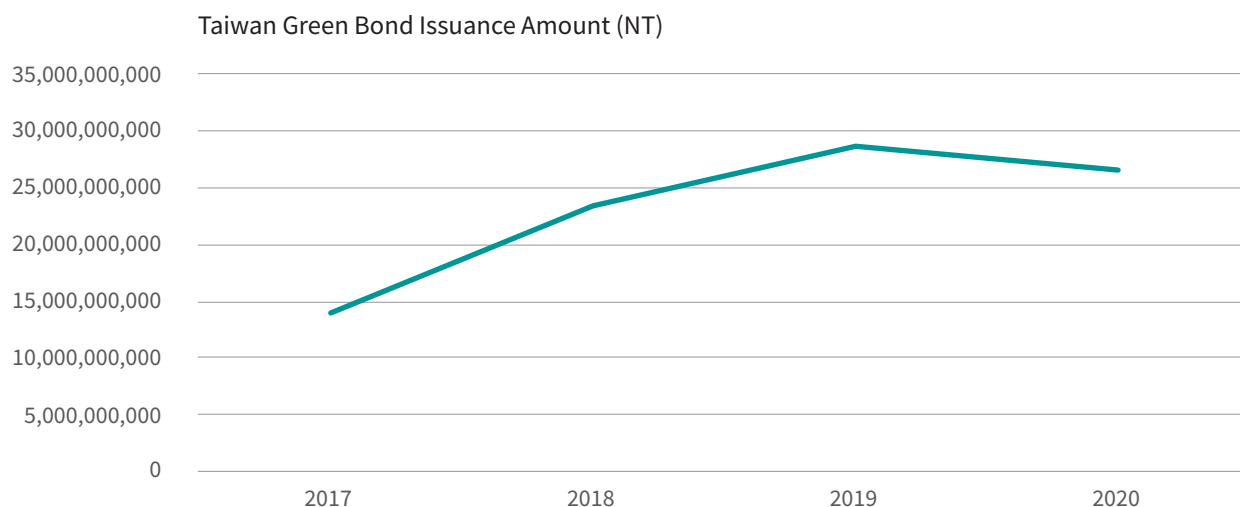


Source: ESB

Despite the pandemic, the global green bond issuance has increased with new issuances totaling \$ 58.7 billion as of September 2020. The EU announced the use of the green bond market to re-active the economy in the region through a Euro 220+ billion issuance. The International Capital Market Association (ICMA) expects the auto sector, Germany and the EU to remain strong drivers for the green bond market growth throughout 2021.

ii. Taiwan green bond market

Figure 11: Taiwan green bond issuance from 2017 to 2020 November



Source: Taipei Exchange

As of November 2020, Taiwan had issued NT\$26.6 billion worth in green bonds. This reflects a slight decrease compared to same-time last year. However, we expect green-bond issuance to surpass last year by year end, as Taiwan Semiconductor Manufacturing Co. is planning to issue NT\$12 billion in green bonds in December.

iii. ESG Indices

There is growing demand, both in Asia and globally, for asset owners to integrate ESG factors into their investment decisions. Alongside the increase in passive funds, ESG integration into passive strategies is gaining momentum.

Many ESG indices have been introduced globally and in Taiwan. The MSCI Taiwan ESG Leaders Index is a capitalization-weighted index that provides exposure to companies with high-ESG performance relative to their sector peers. The index is designed for investors seeking a broad, diversified sustainability benchmark with relatively low tracking error to the underlying equity market. The index is a member of the MSCI ESG Leaders Index Series. Constituent selection is based on data from MSCI ESG Research.

The index outperformed MSCI Taiwan by a large margin in terms of gross returns with less risk over the past 10 years.

FTSE4Good TIP Taiwan ESG Index, launched in December 2017, is designed to measure the performance of companies on the TWSE that meet the globally recognized ESG standards used by

the FTSE4Good Index Series. It is used in the creation of index tracking funds, derivatives and as a performance benchmark.

The selection criteria cover ESG ratings as well as financial performance criteria. The ESG ratings are comprised of an overall rating that breaks down into underlying ESG-exposure measures and performance scores built on over 300 individual indicator assessments.

The index has been broadly accepted. In 2018, it was officially named as a domestic investment benchmark of the Taiwan Bureau of Labor Funds (BLF) with a total investment amount of \$1.4 billion.

In 2019, the TWSE launched Yuanta FTSE4Good TIP Taiwan ESG ETF. In 2020, the Taiwan Futures Exchange launched F4G TIP TW ESG Futures. Both have an underlying index of the FTSE4Good TIP Taiwan ESG Index.

Yuanta FTSE4Good TIP Taiwan ESG ETF (stock code: 00850)

Yuanta FTSE4Good TIP Taiwan ESG ETF (stock code 00850), issued and managed by Yuanta Securities Investment Trust, was listed at TWSE on 23 August 2019. The ETF's investment objective is to closely track the performance of FTSE4Good TIP Taiwan ESG Index (before fees and expenses) using a full replication method. On 30 October 2020, its total asset was TWD 6,831 million. (\$239 million).

Figure 12: Chart and trading volume of Yuanta FTSE4Good TIP Taiwan ESG ETF



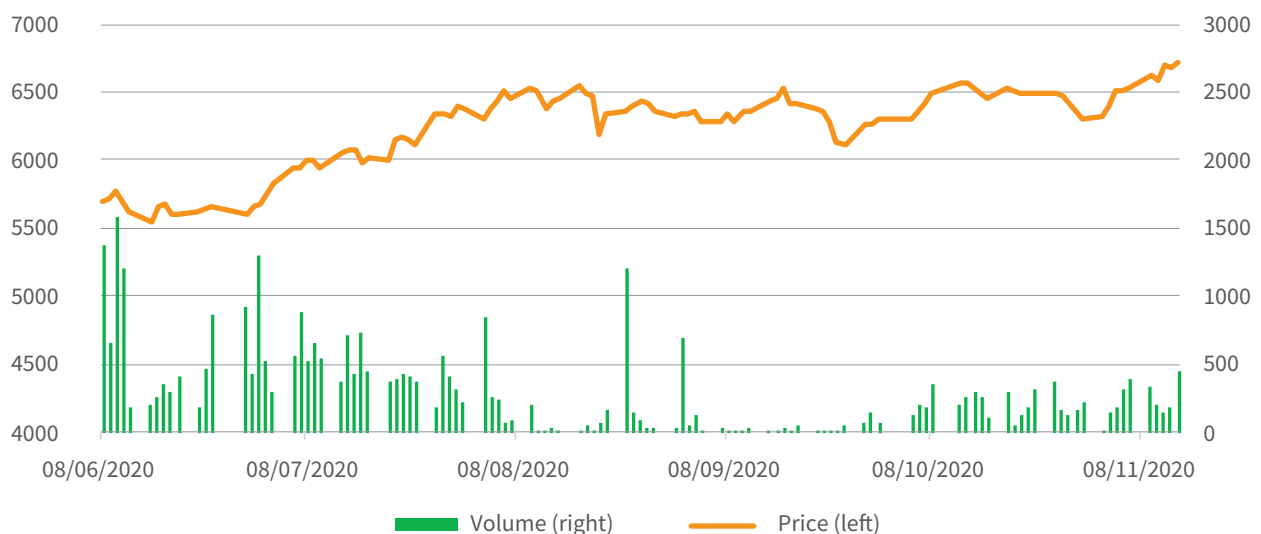
Source: Bloomberg



F4G TIP TW ESG Futures (ticker symbol: E4F)

Taiwan Futures Exchange (TAIFEX) has partnered with FTSE Russell and Taiwan Index Plus (TIP) Corporation to list the first futures contract linked to FTSE4Good TIP Taiwan ESG Index (F4G TIP TW ESG) on 8 June 2020, catering to the continuously growing market need for ESG investment in Taiwan.

Figure 13: Chart and trading volume of F4G TIP TW ESG Futures (nearest contract month)



Source: IHS Markit through data from TAIFEX

The introduction of such ESG products as ETF or future contracts will further drive ESG/sustainability investments trends to Taiwan market.

F. Conclusion and Outlook for 2021

- **Expectations on board composition are increasing in Asia and Taiwan.** More listed companies have adopted nomination systems and audit committees, in line with regulators' requirements. However, stakeholders' expectations on board composition, nomination process, independence and diversity have been increasing. On board independence, some proxy advisers and investors expect at least one-third independence in Taiwan and the rest of Asia. They may recommend voting against the board chairperson in a targeted approach if companies do not meet their independence criterion, as Taiwan-listed companies may not have nomination committees due to the lack of regulatory requirement. On board diversity, investors such as **AXA Investment Management, State Street and Legal and General Investment Management** continue to step up their voting policy on gender balance. Amid the reported increase in gender equality rights in Taiwan,³ we expect institutional investors' engagement on board diversity (gender) to continue in 2021.
- **Articles amendment, employee stock awards and non-compete restrictions of directors are resolutions with significant dissent rate,** other than directors' re-election. We expect the views from investors and proxy advisers to remain divided next year, sometimes due to inadequate disclosure of the proposal details and sometimes due to issues with the proposal itself. Furthermore, a closer look at the performance hurdles revealed that most plans failed to include numeric targets tied to goals or were too vague, and often lacked business targets communicated to shareholders. Other areas include the disclosure of peer groups and qualitative information disclosed in strategy.
- **CG 3.0 and the revised stewardship code furthers shareholder activism.** With the increased disclosure of English announcements prior to annual general meeting, as well as the launch of Corporate Governance Roadmap 3.0, Green Finance Action Plan and the revised stewardship principles, we expect increased level of shareholder activism and higher expectations on Taiwanese companies' ESG disclosure and performance.
- **Climate change remains a top ESG topic in Taiwan and globally.** In addition to Corporate Governance Roadmap 3.0 and the Green Action Finance Action Plan 2.0 that calls for the disclosure of companies' management of climate-related risks and opportunities through the TCFD framework, institutional investors globally emphasize companies' actual climate performance and their respective alignment to the goals of the Paris Agreement to achieve a below 2-degree scenario. Local asset owners such as Cathay Financial Holdings have been active in Asia Investor Group on Climate Change (AIGCC) since 2018 to engage with Asian companies on climate change. Some other institutional investors hold directors accountable. Blackrock states in its 2020 stewardship report that it has put directors of the world's most carbon-intensive firms on watch. Since 2019, Federated Hermes Equity Ownership Services (EOS) have been recommending voting against relevant directors of companies with lukewarm responses on climate change. Some investors further walk their talk by divestment. In December 2020, the Church of England announced its restriction of nine listed companies due to their limited progress on climate-related management, of which five are Asian companies including one from Taiwan.⁴ We therefore advise companies to stay close to both the development of regulatory frameworks and shareholders' expectations.

3 <https://www.taiwannews.com.tw/en/news/3852132>

4 <https://www.churchofengland.org/news-and-media/news-and-statements/church-england-restricts-investment-companies-dont-meet-its>

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