IHS Markit

APAC 2021 Proxy Season Review

Part 1
Mainland China, Hong Kong, Taiwan

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World economies, lawmakers, companies, and investors accelerated their efforts toward net zero in 2021. With many areas hit by extreme weather and more regions setting up their own carbon-neutrality targets in line with the Paris Agreement, investors engaged more actively with issuers on climate adaptation and mitigation. Clean energy, climate resilience, biodiversity, and marine environmental topics also saw increased focus. Meanwhile, diversity, board Independence, and shareholder activism were key issues, in addition to labor and human rights. Responding to capital-market demand, more issuers took action on Environmental, Social, and Governance (ESG) priorities. Alongside the emergence of say-on-climate proposals, the amount of reporting and transparency expected of corporates increased, as did additional expectations and stricter voting criteria surrounding institutional investment. The common global concern of climate change affected shareholder meetings for the first time in 2021, with shareholders proposing say-on-climate proposals across Europe and beginning to hold companies accountable for their climate-change targets and performance. Many nations back pledge to reduce emissions at COP26 this week. This trend will continue next year.

Key Topics

Climate change

Climate change requirements are becoming more stringent every year, not only In the Asia-Pacific region but globally. At 2021 annual general meetings (AGMs), Australia and Japan were the only markets in the APAC region in which climate-related shareholder proposals were put forward. However, with carbon-neutrality targets in place, we expect to see more such proposals in coming years.

In Australia, Rio Tinto's management accepted a shareholder proposal that requisitioned resolution on climate-related lobbying. The proposal passed with a 99% approval rate. In Japan, on the other hand, shareholder proposals requiring disclosure of information in-line with the Paris Agreement were submitted to MUFG and Sumitomo Corporation. Both received less support than a similar proposal made at a 2020 Mizuho Financial Group shareholder meeting. This year's lackluster support spotlighted the impact of a major voting advisory firm refusing to back shareholder proposals. It was a result of shareholder evaluation of ESG initiatives at both companies and the fact that both companies had already made progress in disclosing information in-line with the Task Force on Climate-Related Financial Disclosures (TCFD).

Say on climate

A group of investors are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in-line with global efforts to limit warming to 1.5 degrees Celsius. There is support for investment aligned with different international initiatives such as the Climate Action 100+ plan (CA100), Science Based Targets initiatives (SBTi) and the Net Zero Asset Manager Initiative (NZAMI).

By July 2021, there were 128 NZAMI signatories with USD 43 trillion assets committed under management. To fulfill this commitment, many became more proactive in engaging with investee companies and exercising their votes when expectations were not met. Some committed to considering voting against the chairperson of a board or other responsible directors of companies when they were not believed to demonstrate sufficient management of climate-related risks, such as those below a Level 4 management rating from the Transition Pathway Initiative,1 or when a company strategy was materially misaligned with the goals of the Paris Agreement. IHS Markit published a four-part series in Q3 2021 providing a review on this topic in the European and Asia-Pacific markets, of which demonstrate that some global brand such as Total or Shell that have been subject to Say on climate proposals and shareholder engagement in 2021.

Diversity

Voting advisory firm Institutional Shareholder Services Inc. (ISS) revised its gender voting guidelines for Korean and Australian markets. Both markets have begun recommending

1 https://www.transitionpathwayinitiative.org/

against the chairperson of nominating committees when no women sit on their boards, starting with 2021 shareholder meetings.

Several institutional investors, not only in regions in which ISS revised its guidelines, confirmed cases in which they decided to vote against companies without female board representation, in accordance with their voting standards. Another major investor reported that, given the relatively early stage of diversity initiatives in the Asia-Pacific region, it focused on encouraging greater diversity through engagement and, as a result, only exercised its voting rights against companies it considered inadequate.

In the Japanese market, the Corporate Governance Code was revised this year to include specific statements that boards of directors should balance diversity and appropriateness in their composition—and emphasize this as an item for consideration by nominating committees—citing specific examples such as gender, internationality, work experience, and age. In addition, according to a source, one of the major voting advisory firms is currently considering strengthening gender standards in the Japanese market starting in 2022. It is presumed that shareholder demands on gender will continue to attract high attention.

Board Independence

In terms of guidelines for voting advisory firms, ISS introduced a new standard that one-third or more of outside directors must be classified as independent in the Japanese market from 2021. Board independence Guidelines have been raised in a wide range of markets including India and the Philippines. But the situation is much complex than the other regions in APAC. In addition, Japan's revised Corporate Governance Code states that in the prime market to be established from next year, independent outside directors should represent at least one-third of the entire board. This adds to Glass Lewis requirements and institutional investor guidelines for the region already in place.

Activism

Shareholder activism continues to be on top of the agenda in the Asia-Pacific region, especially in Japan, South Korea, and Singapore. One of the biggest events in the region this year was the shareholder meeting of the Japanese issuer, Toshiba, at which an activist shareholder proposal was passed at a meeting in March 2021. At the annual shareholders meeting in June, two board candidates resigned and two were not elected, forcing Toshiba to implement a restructuring plan with a new management team.[2]

From the capital market side, COVID-19 accelerated ESG investment. Based on Morningstar data, global ESG-fund assets under management (AUM) continue to increase. In APAC, the ex-Japan region continues to grow since the boost from Q4 2020. The majority of ESG investors were seen from mainland, South Korea, and Singapore. By 2025, global ESG-fund AUMs are slated to reach USD 53 trillion, accounting for more than one-third of the global fund.[3] As a result, investors are also increasing engagement on climate resilience and natural capital, particularly in sectors with higher exposure to long-term investment risk.

2 We will share a case study of Toshiba in Japan Market review.
3 Bloomberg data sources.

Global investment voting disclosure

In December 2020, NBIM led the way in voting disclosure global best practices by announcing that it would publish voting instructions five days before a shareholder meeting.[4] In the past, investors had been cautious about announcing vote intentions ahead of shareholder meetings due to concerns over their influence in the market. The move at NBIM is significant. It means publication of 120,000 decisions a year, searchable online[5] and provides time-series data of its voting records dating back to 2013 for some companies. For the Exxon Mobil AGM in May 2021, NBIM provided voting-policy references and voting rationale for all votes against board recommendations. This practice is applied across all company votes in all markets, item-by-item. Sometimes, disclosing votes ahead of shareholder meetings may prove challenging for investors, but timely or even real-time vote record disclosure once a shareholder meeting is held may become a normalized practice within five years.

Here are other global trends related to voting trends:

- BlackRock has chosen to allow its institutional investors to vote on behalf of their own investments managed by BlackRock. According to The Wall Street Journal, starting in 2022, BlackRock said its large investors will be able to vote on everything from who sits on boards, to executive pay, to what companies should disclose on greenhouse gas emissions. The change allows those BlackRock clients to lay claim to voting on some USD 2 trillion in investments tied to index-tracking assets managed by BlackRock in institutional accounts.

- State Street Global Advisors (SSGA) recently published an update to their 2021 CEO Letter saying: "In 2022, we will vote against the Chair of the Nominating & Governance Committee at companies in the S&P 500 and FTSE 100 that do not have at least 1 director from an underrepresented community on their boards."[6]

- Neuberger Berman expanded its advance voting disclosure initiative starting in 2020 and established the NB votes notification system,[7] in which a manager publishes vote intensions of selected proposals of selected companies ahead of shareholder meetings. One can subscribe to their daily vote email alerts.

- Japan's Government Pension Investment Fund (GPIF) is the world's largest single pension fund.[8] It became a signatory of the UN-backed Principles for Responsible Investment (PRI) in 2015. GPIF delegates corporate engagement activities to its appointed external managers, as clarified under the 2020 Japan Stewardship Code, and regularly evaluates them. According to the June 2021 survey of listed companies regarding institutional investor stewardship activities,[9] GPIF reiterated its support of TCFD. GPIF signed onto Climate Action 100+ in 2018, shortly after the initiative was formed. Engagement on climate issues with Japanese companies are led by the special pairing of non-Japanese asset owners, such as California Public Employees' Retirement System (CalPERS), and a Japanese asset manager.

4 https://www.ft.com/content/92bde7f0-4007-45e0-9d03-3b3b2b9065da
5 https://www.nbim.no/en/the-fund/responsible-investment/our-voting-records/
6 https://www.ssga.com/us/en/institutional/ic/insights/ceo-letter-2021-proxy-voting-agenda
7 https://www.nb.com/en/global/esg/nb-votes
8 GPIF own YouTube channel: https://www.youtube.com/channel/UCWpjyPh1kw0VyfIPpcVMIXw
9 https://www.gpif.go.jp/en/investment/summary_report_of_the_6th_survey.pdf

- Legal & General Investment Management (LGIM) and Allianz Global Investors, with USD 1.8 trillion and EUR 633 billion (USD 752 billion) assets under management, respectively, provide itemized voting records since 2017,10 with market- and sector-based statistics as well as votes cast by proposal types. NN Investment Partners, with EUR 298 billion (USD 354 billion) assets under management, has disclosed voting records since 2018.

- Legal & General Asset Management wrote to their investee companies earlier this year saying that, if they do not have at least one board member from an ethnic minority background by 1 Jan 2022, L&G will start to vote against the chairperson of the nominations committee. [11]

- Other investors are also catching up with best practices on disclosure, leveraging the voting platforms of proxy advisers, such as ISS and Glass Lewis. The Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (TIAA), with over USD 1 trillion assets under management provides itemized voting records since 2014.12 Its statement on responsible investing covers a range of ESG issues with specific proxy guidelines on ESG-related shareholder resolutions.[13]

- From IHS Markit's internal data, the top 10 institutional investors investing in APAC region (by Total Global Equity) were like the following. This list includes worldwide big index funds such as Vanguard, Blackrock and sovereign/asset owners such as National Pension Service and China Investment Corporation. 7 out of 10 investors are signatories of PRI, meaning they place emphasize stewardship priorities in their investment chain.

Table 1: Top 10 Institutional Investors investing in APAC, as of August 2021

Rank	Institution Name	Total Global Equity ($m)	Value (Asia) $m	% Port in Asia	UN PRI
1	The Vanguard Group, Inc.	4478683	361001	8.1%	Yes
2	Central Huijin Investment Company, LTD	298348	298348	100.0%	No
3	Nomura Asset Management Company, LTD	281550	263020	93.4%	Yes
4	BlackRock Fund Advisors	2897033	256376	8.8%	Yes
5	Norges Bank Investment Management	948134	194565	20.5%	Yes
6	China Investment Corporation, LTD (CIC)	184280	180423	97.9%	No
7	National Pension Service (Korea)	204397	154095	75.4%	Yes
8	Nikko Asset Management Company, LTD	141763	126908	89.5%	Yes
9	Capital World Investors (U.S.)	858904	123741	14.4%	No
10	Sumitomo Mitsui Trust Asset Management	280771	121555	43.3%	Yes

In this review we will explore policy trends, investor actions, common solicitations, and key dissent in resolutions in the market of mainland China, Hong Kong, and Taiwan. A follow-up report will focus on developments in Japan and South Korea market.

10 https://vds.issgovernance.com/vds/#/MjQwMQ==/
11 https://group.legalandgeneral.com/en/inclusive-capitalism/investing-for-good/why-diversity-matters-in-business
12 https://vds.issgovernance.com/vds/#/MTIwODY=/
13 https://www.tiaa.org/public/pdf/ri_policy.pdf

Mainland China market

Looking back at the twists and turns of mainland China's equity market over the past 30 years, A-share companies have always taken survival and growth as top priorities. The inclusion of A shares in MSCI, in addition to the removal of Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) quotas, has facilitated the opening of the mainland China equity market and the attraction of offshore investors. Meanwhile, registration-based IPO reform has spurred onshore and offshore investors to request more comprehensive company disclosure. The global trend of sustainable investing has undoubtfully impacted mainland China, with policy playing an influential role.

Momentum of rising ESG disclosure by listed companies echoes policy advocacy

In 2021, a stringent dual-control system on energy consumption and intensity was implemented under the 3060 decarbonization target. In addition to kicking off the world-largest carbon market, President Xi Jinping recently announced at the general debate at the United Nations General Assembly that mainland China "will not build new coal-fired power projects abroad," which is a significant step forward in addressing global climate change and global warming. President Xi also pledged at the United Nations Biodiversity Conference (COP15) that mainland China will donate 1.5 billion yuan (USD 232.5 million) to set up the Kunming Biodiversity Fund to help developing countries protect a variety of plant and animal life.

Against such a backdrop, 2021 has witnessed significant ESG regulatory policy development in mainland China. We summarized the key ESG policies in Appendix. ESG disclosure by listed companies is not yet mandatorily required in mainland China; the increasing number of ESG reports on Shanghai and Shenzhen Stock Exchanges in 2021 spotlights the shift of company philosophy to a better balance between profit and sustainability.

Voting policy trends of 2021

Major revisions of 2021 voting policies by proxy advisors ISS and Glass Lewis focused on topics including A-share private placements, corporate guarantees, dividend distribution, board gender diversity, independent director tenure, and change of shareholder meeting notice periods. Except for the revisions aligning with regulatory changes, two of the key developments, about which ISS hasn't included discussion, were updated by Glass Lewis:

- Board gender diversity has been put on the Glass Lewis agenda and the requirement of at least one female director will take effect from 2022.
- In-line with institutional investors' requests to have more time to analyze each meeting agenda, Glass Lewis started to oppose reducing shareholder meeting notice periods from 45 days to 20 and 15 days, respectively, for AGMs and Extraordinary General Meetings (EGMs).

Regulatory updates in relation to corporate governance and investment stewardship

Dedicated action on corporate governance of listed companies launched by the China Securities Regulatory Commission (CSRC) started on 11 December 2020 and completed its first stage of company self-inspection in August 2021. According to the self-inspection results, [14] there was a trend toward enhancing onshore institutional investor active ownership through proxy voting as well as company engagement. In the meantime, companies became more responsive in investor communication.

On the other hand, major problems to be addressed included the irregular behavior of controlling shareholders and actual controllers, insufficient independence levels of independent directors, lack of disclosure, and weak internal-control systems. In response to the irregularities of controlling shareholders in financial industry, China Banking, and Insurance Regulatory Commission (CBIRC) proposed new regulations in September to restrict behavior and further strengthen the responsibilities of major shareholders of bancassurance institutions.

Along with stricter regulatory supervision and institutional investor stewardship, there is new focus on educating and protecting retail. The incorporation of investor education into education curricula was highlighted in the speech of CSRC Vice Chairman, Yan Qingmin in July 2021.[15] In a retail-dominated equity market, protection of shareholder rights, including but not limited to the rights to be informed, vote, engage, and receive dividends, could contribute to the improved corporate governance of listed companies and an overall well-developed economy.

14 http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/202108/t20210806_403037.html
15 http://www.csrc.gov.cn/pub/newsite/tzzbh1/tbtzzjy/202107/t20210714_401615.html

Highlights of proxy voting

Although institutional ownership of A-share companies has been rising in recent years, the shareholding structure of A-share listed companies remains dominated by onshore institutional investors and controlling shareholders. CSRC hasn't established an official stewardship code for onshore institutions, most of which haven't formulated their own proxy voting and stewardship guidelines. As a result, the voting results of A-share listed companies seem highly accepted on average and we incorporated detailed analysis on voting-season results for companies dual-listed in mainland China and Hong Kong under our Hong Kong market review.

- **30% of resolutions receiving less than 50% support were in relation to related-party transactions (RPTs).** The ineligibility of connected persons with material interests to vote, namely controlling shareholders, could lead to the unpopularity of RPT agendas. Conflicting interests are deeply entrenched in RPTs and a comprehensive disclosure of such transactions are accordingly expected by most institutional investors. Information, including clear rationale of transactions as well as risk-management mechanisms to control conflicts of interests, is significantly helpful for investors to analyze agendas.
- **All shareholder proposals were highly endorsed (with above 90% support rate) relative to other markets**. The rationale behind this is that controlling shareholders tend to submit shareholder proposals in the interests of management. The rights of minority shareholders have not been actively exercised in the market, while merely a 3% ownership threshold (reduced from 5% in 2019) is required by law to initiate a shareholder proposal.
- **ESG-related proposals were focused on charitable donations and approval of Corporate Social Responsibility (CSR) reports**. Mainland China listed companies tend to consider charity activities and relevant donations as the most significant elements of their overall ESG management, while institutional investors' expectations about detailed disclosure on material ESG risks and opportunities inherent to its business have been explicitly observed over the past years.

Based on the advocacy of carbon neutrality and deepening reform on financial markets, we expect a mandatory ESG-disclosure regulation and a detailed industry-specific roadmap towards carbon neutrality to be published. Due to the structural effect of the registration-based listing reform in mainland China, continually rising shareholder participation (onshore and offshore) in company ESG management can also be expected. Topics are expected to expand from corporate governance to ESG as part of integrated strategy, which is not only an effective tool for risk management but also helpful for issuers' sustainable development in long term. To attract capital from an enlarging sustainable investing pool, the improvement of A-share companies' ESG efforts could be further boosted by both regulators and institutional investors. The improvement of listed companies' ESG performance could inherently promote the healthy and sustainable development of the mainland China capital market.

Hong Kong market

As ESG is gradually implemented in capital markets globally, Hong Kong is also enhancing its standards. Here is a review of recent changes in proxy guidelines in the Hong Kong market, a summary of voting results in the 2021 AGM season, and a look at regulatory changes in ESG practices.

As previously addressed, effective for 2021, ISS updated the re-election criteria of directors concerning independence. ISS generally votes for re-election but considers the opposition of non-independent director nominees when a board is less than one-third independent. ISS added a footnote implying that this might not apply if the lack of board independence is due to peculiar cases.[16]

Glass Lewis made several important changes in its 2021 guidelines on board gender diversity, independent director tenure, related-party transactions, corporate guarantees, multi-class share structures, and virtual meetings.[17] It added multiple new criteria, which incorporates recent changes in corporate-governance trends. The following is a summary of revisions.[18]

Table 2: Summary of changes in ISS and Glass Lewis proxy voting guidelines

Proxy Advisory Firms	Changes
ISS	Might oppose non-independent director nominees when the board is less than one-third independent under ISS classification of directors. This might not apply if the lack of board independence is due to peculiar cases such as immediate retirement, abrupt resignation, or death of an independent non-executive director.
Glass Lewis	• (Added) Board gender diversity: Glass Lewis will expect companies to disclose their diversity policies, including board gender diversity. By 2022, if a company does not have at least one woman on its board of directors, it will recommend shareholders hold the chairperson of the nomination committee or board chairperson. • (Added) Independent director tenure: From 2022, Glass Lewis will no longer view a director as being independent if they have served 12 or more consecutive years on a board. • (Changed) Related-party transactions: Glass Lewis changed the threshold currency of related-party transaction from USD to HKD. • (Added) Corporate guarantees: Glass Lewis will oppose proposals to provide corporate guarantees if companies do not disclose the amount of corporate guarantee it intends to grant. Furthermore, it will oppose transactions in which a company and guaranteed entity only share common directors or common shareholders, but there is no equity relationship or other business relationship between the company and guaranteed entity.

16 https://www.issgovernance.com/file/policy/active/asiapacific/Hong-Kong-Voting-Guidelines.pdf
17 https://www.glasslewis.com/wp-content/uploads/2016/12/Guidelines_HONG-KONG.pdf
18 Please refer to Glass Lewis proxy guideline for full description

	• (Added) Multi-class share structures: Generally, Glass Lewis believes multi-class voting structures are typically not in the best interests of common shareholders. It will analyze on a case-by case basis but put emphasis on a board's level of responsiveness. • (Added) Virtual meetings: When analyzing the governance profile of companies that choose to hold virtual-only meetings, Glass Lewis will look for robust disclosure in company proxy statements, which assure shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

Voting summary for 2021 Proxy Season

We investigated 32 Hong-Kong-located companies, which constitute the Hang Seng Index through governance insight. All resolutions proposed by management were approved at the latest AGMs. However, some resolutions were highly dissented by shareholders. The table below shows resolutions with less than 70% approval rates.

Table 3: Summary of highly dissented proposals in 2021 proxy season

Company	AGM date	Proposal	Approval Rate
WH Group	1 June	Authority to Issue Repurchased Shares	54.2%
WH Group	1 June	Authority to Issue Shares without Preemptive Rights	56.3%
Shenzhou International Group Holdings	28 May	Authorize Reissuance of Repurchased Shares	60.8%
CSPC Pharmaceutical Group	18 May	Authority to Grant Options under Share Option Scheme	61.4%
Shenzhou International Group Holdings	28 May	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	62.4%
Hang Lung Properties	30 April	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	68.9%

Resolutions with low approval rates shared a common characteristic related to the issuances of shares. The major concern of institutional investors was that the possible aggregate-share issuances were too big compared to outstanding shares (some investors set the threshold as 10%). Some investors also complained about a lack of sufficient information to justify the proposals. For example, in a proposal to recommend authorization to grant options under a share-option scheme, some investors voted against the measure because disclosures did not provide sufficient understanding of company remuneration policies and the link between performance-based pay and company performance. On the election of board members, some candidates also received low approval rates. The table below shows election resolutions that received less than 80% approval rates.

Table 4: Summary of highly dissented executive-election proposals

Company	AGM date	Candidate	Approval Rate	Major Reason of Vote Against
Power Assets Holdings	12 May	Wu Ting Yuk, Anthony	69.4%	Overboarded
CK Asset Holdings	13 May	Albert Chow Nin Mow	73.2%	Audit committee member: excessive non-audit fees paid to its auditor
WH Group	1 June	Wan Long	75.2%	Serving as chairperson and CEO concurrently
New World Development	26 Nov. 2020	Cheng Kar-Shun, Henry	76.4%	Non-independent sitting on a key committee, overboarded
Hong Kong Exchanges and Clearing	28 Apr.	Zhang Yichen	77.0%	Overboarded
Hong Kong & China Gas	2 June	Lee Ka-shing	77.9%	Lack of board gender diversity, non-independent sitting on a key committee, non-independent chairperson
CK Asset Holdings	13 May	Donald J. Roberts	78.4%	Audit committee member: excessive non-audit fees paid to its auditor
CSPC Pharmaceutical Group	18 May	Cai Dongchen	79.6%	Lack of board gender diversity, non-independent lead or presiding director, non-independent nominating committee chairperson
Power Assets Holdings	12 May	Ralph Raymond Shea	79.9%	Over tenure, lack of board gender diversity

Expanding the research to Hong Kong companies not constituting the Hang Seng Index, some resolutions were also rejected. For example, two candidates for Mingfa Group (International) were rejected.

Company	AGM date	Candidate	Assent Rate	Major Reason of Vote Against
Mingfa Group (International)	4 June	Liu Yuwei	22.3%	Less than 75% attendance rate
Mingfa Group (International)	4 June	Lam, Lee G	22.0%	Overboarded

Both ISS and Glass Lewis recommended to vote against the candidates. Some global investors, such as Legal & General and Dimensional Fund advisors, also voted against them. BlackRock voted against one of the candidates. Mingfa Group then held an extra general meeting on 27 September to re-propose the candidates. ISS and Glass Lewis recommended to vote against them again. Glass Lewis expressed concerns that the re-proposals made light of shareholder intentions revealed at the June AGM. However, both candidates were ultimately elected with more than 90% approval rates.

ESG regulatory changes and market development

HKEX has led the ESG disclosure movement in the Hong Kong market by introducing an Environmental, Social and Governance Reporting Guide in its listing rules. While the guide had been applied on a "comply-or-explain" basis since 2017, the latest amendments, effective since 1 July 2020, introduced mandatory disclosure requirements. Given that Hong Kong recently released a climate action plan for 2050, we predict ESG disclosure, particularly the environmental pillar, will be further enhanced.

By the requirements, listed companies on HKEX should disclose:

- Governance structure: A statement from the board with disclosure of ESG-issue oversight. It would describe the board's ESG management approach and strategy, including the process used to evaluate, prioritize, and manage material ESG-related issues (including risks to issuer businesses), as well as how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to issuer businesses.
- A description of, or an explanation on, the application of the following reporting principles in the preparation of the ESG report
  - **Materiality:** The process to identify and the criteria for the selection of material ESG factors.
  - **Quantitative:** Information on the standards, methodologies, assumptions, and/or calculation tools used as well as the source of conversion factors. The reporting of emissions/energy consumption should be disclosed.
  - **Consistency:** Issuer should disclose in the ESG report any changes to the methods or key performance indicators used or any other relevant factors affecting a meaningful comparison.
- Reporting boundary: A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the report. If there is a change in the scope, the issuer should explain the difference and reason for the change.

The ESG guide also includes disclosure requirements and more detailed information on environmental and social factors on a comply-or-explain basis. Furthermore, HKEX issued a consultation paper reviewing the Corporate Governance Code and Related Listing Rules. It plans to amend them effective from 2022. Among ESG issues, HKEX is proposing to require publication of ESG reports concurrent to annual-report publications. On the corporate governance side, it has discussed topics on culture, director independence, diversity, nomination committees, and communication with shareholders.

In conclusion, listed companies in the Hong Kong market should raise their level of ESG integration as more capital market participants are requiring higher standards. Stricter standards on board diversity and independence are required, considering the recent Glass Lewis changes. This was seen in the AGM results of a few companies, which faced high dissent rates, or even failed to elect candidates due to lack of attendance or over boarding. Moreover, listed companies should be prepared to disclose more sophisticated information on ESG, given recent consultation and revision activities from HKEX.

Taiwan market

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 increased positivity from the issuer community towards shareholder expectations as ESG continues to pressure investor relations officers to articulate corporate strategies.

Roll out of ESG-disclosure guidelines for listed companies by the end of 2021

In August 2020, the FSC launched the Corporate Governance 3.0 - Sustainable Development Roadmap, a three-year program, which intends to strengthen sustainability and corporate-governance establishment and reporting for Taiwanese companies and align with international standards.

In order to promote the roadmap, the FSC announced ESG-disclosure guidelines for listed companies on 5 October 2021. The guidelines are slated to roll out by the end of 2021. To enhance the quality of disclosure on environmental and social information, listed companies are required to disclose more specific and quantifiable information on the following aspects: greenhouse gas emissions, water consumption, waste, and data on occupational-related accidents.

For corporate governance, there are new requirements in regard to the functions of boards of directors. Companies should specify a board's diversity policy, management objectives, and achievement, as well as the qualifications and experience of individual directors and supervisors. For example, many European countries have already had a 30% gender diversity standard. For some cases, asset managers, such as Lyxor Asset Management, will vote against a board if the company in question does not meet the 40% gender diversity requirement. We are expecting to see Taiwan align with the diversity requirement soon.

Strengthening ESG-themed fund disclosure requirements

On 6 July 2021, in order to promote the Green Finance Action Plan 2.0, the FSC strengthened the disclosure requirements for ESG-themed funds. Asset managers will be required to set at least one sustainability goal for their ESG-themed funds and show how the funds help achieve such goals.

2021 AGM voting trends

Impact of COVID-19 on AGMs

To prevent the spread of COVID-19, the FSC mandated on 20 May 2021 that shareholder meetings of public companies should not be held from 24 May to 30 June, postponing dates to 1 July to 31 August. The FSC also announced on 29 June that public companies were allowed to hold shareholder meetings with the assistance of video conferencing, so called "hybrid virtual meetings," if requirements were met. By the end of August, 17 companies successfully completed their first hybrid virtual meetings in Taiwan.

Establishment of audit committees

In 2021, over 92% of TWSE-listed companies (882 companies) and 83.1% TPEx-listed companies (656 companies) established an audit committee in replacement of the supervisory system, according to new regulations. This shows that the majority of listed companies have been transitioned from the supervisory system to audit committees.

Board gender diversity

There is a small percentage increase of female directors in TWSE as well as TPE- listed companies. The progress remains slow for gender diversity on boards in Taiwan compared to the rest of APAC.

Listed companies published meeting handbooks for AGMs in English

There are more listed companies making AGM materials available in English to attract international funds. Listed companies that publish English meeting handbooks reached 66.7% for TWSE-listed companies and 29.15 % for TPEx-listed companies in 2021.

Figure 1: Number of TWSE-listed companies publishing English AGM handbooks

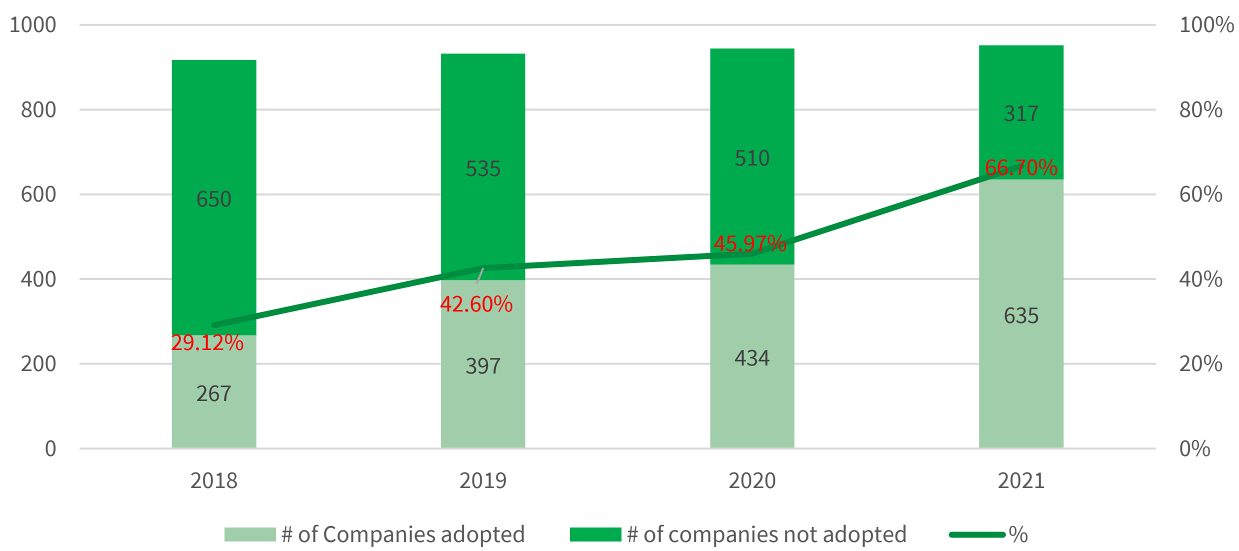
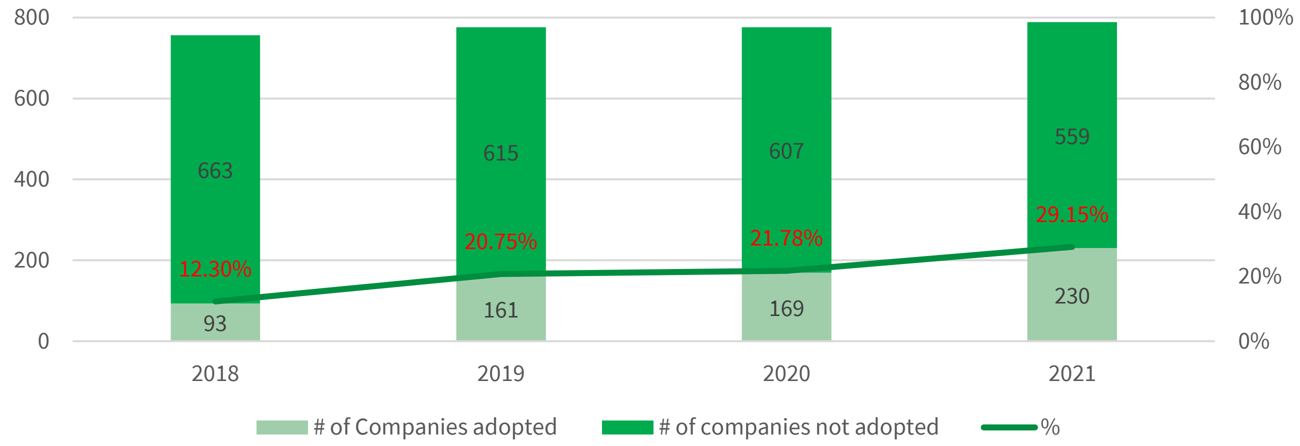


Figure 2: Number of TPEx-listed companies publishing English AGM handbooks



Case study 1: Taiwanese-listed financial institution

FSC introduced regulation for listed companies in 2013 requiring that boards should contain at least two independent directors and 20% board independence.

The management of a listed financial institution proposed director candidates but failed to receive approval for some of them in its AGM, as they were not independent, and the board lacked an independent majority. In some cases, many Foreign Intuitional Investors (FINIs) such as Allianz, UBS. and Aviva Investors will not support candidates if their boards lack sufficient director independence.

Case study 2: One of the largest Taiwanese semiconductor companies

A Taiwanese semiconductor company proposed a resolution on Waiver of Non-competition Clauses for Newly Elected Directors of the Company. According to the Company Act, directors were allowed to serve on the boards of other companies from similar industries upon shareholder approval. The company did not provide information in its AGM meeting handbook in regard to the rationale of the proposal, nor did it explain how to manage potential conflicts of interest. The proposal received only 52% positive votes, with more than 21% voting against and 27% abstaining.

The major concern for FINIs is that there are potential conflicts of interest for directors serving on other company boards. The company failed to provide sufficient information allowing investors to make an informed decision.

In conclusion, key 2021 developments included policies updated to enhance ESG-disclosure requirements for both listed companies and ESG funds to promote the Corporate Governance 3.0 - Sustainable Development Roadmap and Green Finance Action Plan 2.0. Also notable was the fact that COVID-19 lead to AGM postponements. FSC allowed hybrid virtual meetings for AGMs under strict requirements. Meanwhile, further progress was made on audit-committee establishment, the issuance of English AGM handbooks, and board gender diversity.

Appendix

Latest ESG policy developments in mainland China as of July 2021

Time	Policy	Highlight
January	Administrative Measures for Trading of Carbon Emission Rights (for Trial Implementation)	Overarching legislation for mainland China's Emissions Trading Scheme (ETS)
February	The Guidelines on Investor Relations Management of Listed Companies (Consultation Paper)	Listed companies should include ESG information while communicating with investors
March	Shenzhen Special Economic Zone Green Finance Regulation	Mainland China's first green finance regulations, which clarify the main responsibilities of financial institutions and green enterprises, stipulates the supervision and management measures of government departments and the central financial regulatory agency in Shenzhen
April	Green Bond Endorsed Projects Catalogue (2021 Edition)	Coal, other fossil energy production, and clean utilization projects were excluded to align with international standards
May	Environmental Information Disclosure System Reform Plan	The mandatory environmental information disclosure mechanism will be established by 2025
May	Green Finance Evaluation Scheme for Banking Financial Institutions	Green finance assessment plan for financial institutions was issued and the results will be included in central bank's policy and prudent-management tools
June	Revised Guidelines on the Format of Annual and Semi-annual Reports for Listed Companies	Annual reports will now include environmental and social information
June	Code of Corporate Governance for Banking and Insurance Institutions	Banks and insurers are encouraged to pay attention to ESG factors such as environmental protection and social responsibility
July	Guidelines on Environmental Information Disclosure for Financial Institutions	Provides framework guidance for financial institutions' environmental information disclosures

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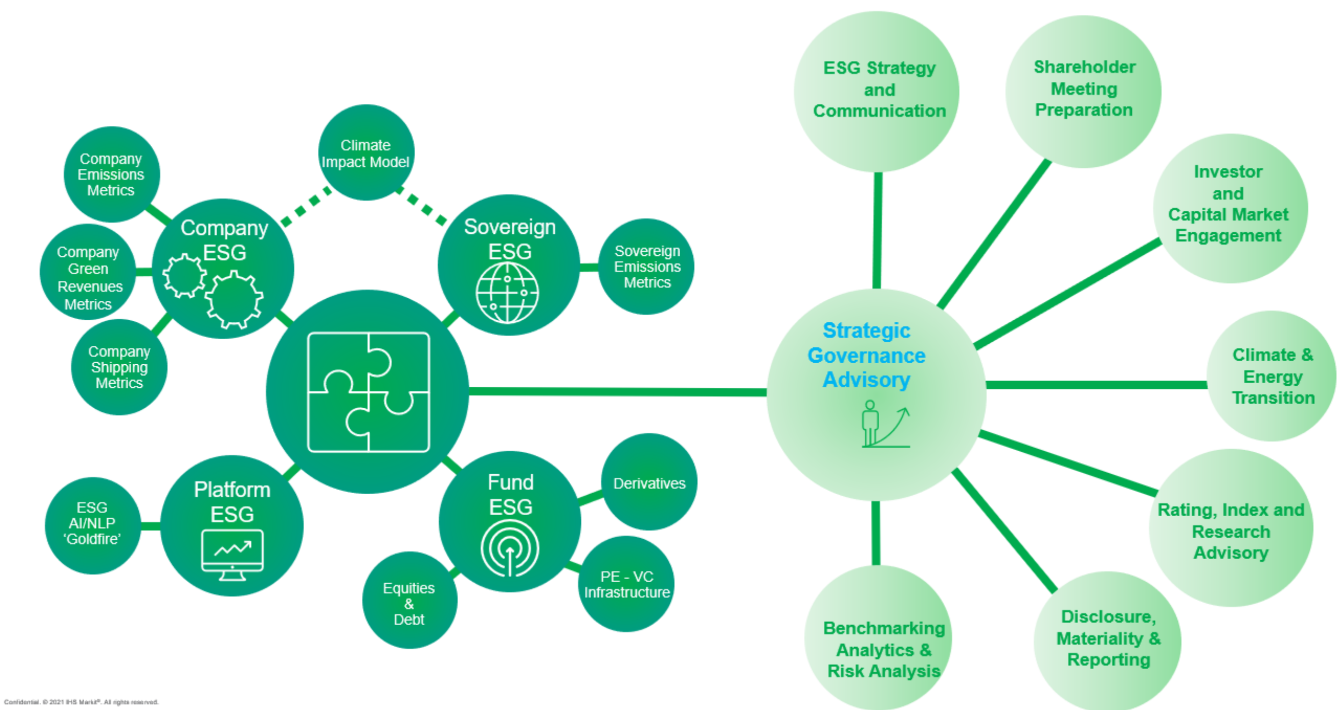
- Assess capital market sentiment
- Understand the influence of a particular ESG rating and disclosure framework
- Implement a climate transition program in line with carbon neutral scenario



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