



# Taiwan Market Review

# Main regulatory updates and forthcoming changes

In August 2020, the Financial Supervisory Commission ('FSC') launched the 'Corporate Governance 3.0 - Sustainable Development Roadmap' ('the Roadmap'), a three-year program to strengthen sustainability and corporate governance and to align them with international standards. In 2023, the market witnessed several regulatory changes as a part of the Roadmap.

With the purpose of enhancing transparency of information, all TWSE/TPEX-listed companies with paid-in capital of no less than NT\$600 million must provide English versions of shareholder meeting handbooks, annual reports, and financial statements<sup>1</sup> from 2023. In addition, sustainability reports are now compulsory for TWSE-listed companies with paid-in capital between NT\$ 2 billion and NT\$ 5 billion. Shareholder meeting handbooks must be provided at least 14 days before shareholder meetings of listed companies with paid-in capital of at least NT\$ 10 billion or for those with more than 30 percent share capital held by foreign investors. Some regulatory changes are still on the way. For example, on 1 August 2023<sup>2</sup>, the FSC proposed revisions to lower the substantial shareholding disclosure threshold to five percent. The new regulations will be effective as of 10 May 2024, if approved. Another upcoming regulatory change is slated to begin in 2024 and will be implemented in stages by capital size. It would require public companies to upload meeting handbooks 30 days before shareholder meetings at the latest. Annual reports would be required 14 days before the shareholder meeting under the same changes.

In addition to transparency requirements, changes occurred with respect to investor interaction and voting. Effective from 2023, the FSC will expand the scope of companies required to provide electronic voting channels from TWSE/TPEX-listed companies to emerging stock companies<sup>3</sup>.

At the beginning of 2023, Taiwan also launched its new 'Climate Responsive Act'. The Act establishes a carbon pricing mechanism to provide more feasible solutions and economic incentives in accordance with commitments to net-zero targets by 2050. The carbon pricing system will allow the government to collect carbon bills based on the polluter pays principle and

will take effect in 2024. Forthcoming requirements for all listed companies include completing corporate GHG inventories before 2027. These inventories will have to be verified by 2029.

Also taking place in 2023, the TWSE revised its Corporation Operation Directions for the Board of Directors, putting particular focus on the implementation of corporate governance. The directions stipulate that companies are required to appoint a corporate governance officer, a chief executive for corporate governance matters, from 30 June 2023. In response to concerns about board elections, the amended directions require at least three independent directors on the board, up from the previous requirement of two. By 2027, boards will be required to comprise at least one-third independent directors. The current regulation specifies one-fifth. Moreover, the tenure of independent directors may not exceed three terms. By 2024, the majority of independent directors must meet the tenure criteria and by 2027 independent directors may not serve on the board for more than three terms. When it comes to gender diversity, the FSC encourages at least one female director appointed by 2024 as part of the TWSE/TPEX-Listed Company Sustainable Development Action Plan (2023).

## Top topics for proxy advisors in 2023

ISS and Glass Lewis revised their 2023 voting policies. The updates focus on topics including related-party transactions, director nomination, board independence, accountability for climate risks, and equity-based compensation plans.

In the ISS voting guidelines, the only update specific to the Taiwanese market was with respect to related-party transactions. Following new legislation in January 2022, shareholder approval is required for related-party transactions exceeding 10 percent of a company's total asset value. Therefore, ISS expects a substantial number of such proposals and will consider related-party transactions on a case-by-case basis going forward. The APAC-relevant changes in the ISS guidelines also apply to the Taiwanese market, which include board accountability for climate-related issues and disclosure requirements for companies with significant GHG emissions.

1. [Important\\_Milestones\\_of\\_Corporate\\_Governance\\_in\\_Taiwan\\_January\\_to\\_March\\_2023.pdf](https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0,2&mcustomize=news_view.jsp&dataserno=202308010002&dtable=News) (sfi.org.tw)

2. [https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0,2&mcustomize=news\\_view.jsp&dataserno=202308010002&dtable=News](https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0,2&mcustomize=news_view.jsp&dataserno=202308010002&dtable=News)

3. [https://weblinesfi.org.tw/download/resh\\_ftp/CG/2022/Important\\_Milestones\\_of\\_Corporate\\_Governance\\_in\\_Taiwan\\_2022.pdf](https://weblinesfi.org.tw/download/resh_ftp/CG/2022/Important_Milestones_of_Corporate_Governance_in_Taiwan_2022.pdf)

Glass Lewis, on the other hand, updated its voting guidelines for several topics, including board structure, board and committee effectiveness, and equity-based compensation plans. Glass Lewis links board size and independence to nominating committee performance in two ways. First, they will recommend voting against the nominating committee chair if the size of the board is not appropriate in their view. Second, they will target the nominating committee chair if issues are identified in terms of board independence, gender diversity, or poor attendance at board or committee meetings. Other changes relate to the independence of nominating committees and their chairs. Regarding equity-based remuneration plans, Glass Lewis clarified that a 20-percent exercise price discount for stock options would be the upper limit that it accepts, while leaving more discretion for considering the acceleration of award vesting based on the achievement of performance targets.

Although ISS did not announce policy updates for equity-based compensations this year, it opposed a relatively high number of resolutions that addressed equity-based plans and capital increases related to equity-based compensation, including restricted share unions. Apart from the updates in their voting guidelines, ISS and Glass Lewis generally share concerns about insufficient board nominee disclosure, including where representatives of institutional or governmental shareholders remain undefined.

Beyond proxy advisors, investors tended to express dissent for a wide breadth of reasons. Typical governance issues apply here including board independence, gender diversity, committee independence, as well as other concerns. However, there are also some Taiwanese market specifics that cause dissent. For example, the majority of Taiwanese companies elect their directors as a slate. Because international investors usually don't favor slate elections, they apply strict rules for supporting slates. Often, even one candidate who investors consider unqualified may result in high dissent rates for the entire slate's election. Contested director elections also often generate split shareholder opinions on candidates sitting on the board. Finally, family-owned enterprises may cause controversies and conflicts in director elections.

Other proposals that proxy advisors and investors pay close attention to are those related to capital issuances, especially private placements. ISS suggests that most Taiwanese boards have minimal or no independent representation. Given the prevalence of insider-dominated boards in Taiwan, ISS places strict limits on the authorization for issuing shares by way of a private placement to reduce the risk of abuse by

insiders for their own benefit. Glass Lewis applies even tighter rules on dilutive private placements that allow for share price discounts.

Institutional investors are likely to also update their voting policies based on market trends or to take ISS and Glass Lewis recommendations as reference for their voting decisions. Because of this, these updates typically come out after the proxy advisor update cycle and can be expected in early 2024.

## 2024 AGM trends at a glance

In 2023, further developments of 'Corporate Governance 3.0' in Taiwan led to a wide range of regulatory changes. Together with the inclusive characteristics of the Taiwanese market, the following topics will likely be dominant in 2024:

- **Board structure and functions** – Starting in 2024, boards will be expected to further improve their gender diversity and skillsets. They will be required to set numerical targets for board seats of independent directors and female representatives. Moreover, standardized tenure criteria for independent non-executive directors represent a further development in corporate governance.
- **English disclosure** – Timely English disclosures and documents will be required for companies with share capital of NT\$600 million and above, and it is expected that this will expand to more listed companies.
- **ESG disclosure** – With regulatory support, investors may expect that ESG disclosure to be widely available in certain industries in accordance with globally accepted standards.
- **Climate change and GHG emission** – The establishment of a carbon pricing mechanism, as well as the upcoming GHG inventory requirement and GHG inventory verification, reflects increasing concerns and attention to climate risk identification, management, and mitigation.

The new developments show the increasing importance of sustainability in Taiwan. Nevertheless, corporate governance remains the solid foundation upon which the ESG concept functions. Good corporate governance ensures transparency, accountability, and business resilience for shaping long-term success.

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