

CHAPTER 2

REINFORCING GOOD GOVERNANCE

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2-1 Enterprise Empowerment

2-1-1 Corporate Governance Evaluation

With the government's efforts on corporate governance, many companies in Taiwan have deliberately promoted advanced practices while most Taiwanese companies have already been complying. Since the launch of the Corporate Governance Evaluation in 2014, TPEX has been progressively promoting the best practices among listed companies. By commending the outstanding companies, the Corporate Governance Evaluation helps create benchmarks for industry peers and raise market-wide awareness of corporate governance and corporate social responsibility.

Corporate Governance Practices	Number of Companies Practiced in 2020	Number of Companies Practiced in 2019	Growth Rate
Establish an audit committee	558	387	44%
Adopt the candidate nomination mechanism for directors/supervisors	756	561	35%
File the annual financial report in English	158	136	16%
File the annual report of the shareholders meeting in English	140	129	9%
Prepare the previous year's corporate social responsibility report	124	116	7%



Corporate Governance Evaluation

Based on the six principles the Organisation for Economic Co-operation and Development (OECD) issued in 2004, and the G20/OECD Principles of Corporate Governance issued in 2015, the design of indicators also considered relevant domestic and foreign evaluations, development trends, and also laws and regulations. TPEX conducts Corporate Governance Evaluations once a year to examine the performance of listed companies in the previous year (January 1 - December 31).

What We Did for Corporate Governance Evaluation in 2020

The 6th Corporate Governance Evaluation

TPEX announced the results of the 6th Corporate Governance Evaluation and made a video to honor the top 5% companies.

The 7th Corporate Governance Evaluation

TPEX held the online 7th Corporate Governance Evaluation Promotional Event.

The 8th Corporate Governance Evaluation

TPEX amended and promulgated the operating rules and indicators for the 8th Corporate Governance Evaluation.

In 2020, the 6th Corporate Governance Evaluation assessed a total of 699 listed companies with four categories of indicators, including: "protecting shareholder rights and interests and treating shareholders equitably," "enhancing board composition and operation," "increasing information transparency" and "putting corporate social responsibility into practice." Each company's outstanding performance and conditions will be given or subtracted further points, and consequently placed in any of the seven ranks based on total points received.

Compared with the 5th Corporate Governance Evaluation results, 28 companies ranked among the top 20% of this year's list are newcomers, reflecting that the Evaluations have effectively driven listed companies' improvement. Meanwhile, 13 companies have continued to remain in the top 5% for six consecutive years.

Due to the continuing and unknown impacts of the COVID-19 pandemic, the 7th Corporate Governance Evaluation Promotional Event turned online instead. The change did not affect the companies' interests' and still attracted 2,827 participants, reflecting a nearly 43% growth.



FSC Chairman Dr. Tien-Mu Huang was invited to record a speech to honor the top 5% performing listed companies of "the 6th Corporate Governance Evaluation".

The Result of the 6th Corporate Governance Evaluation

Unit: Company

Rank	Number of companies	Number of companies maintaining rank	Number of newcomers
Top 5%	35	30	5
Top 20%	140	112	28
Top 5% for six consecutive years	13		

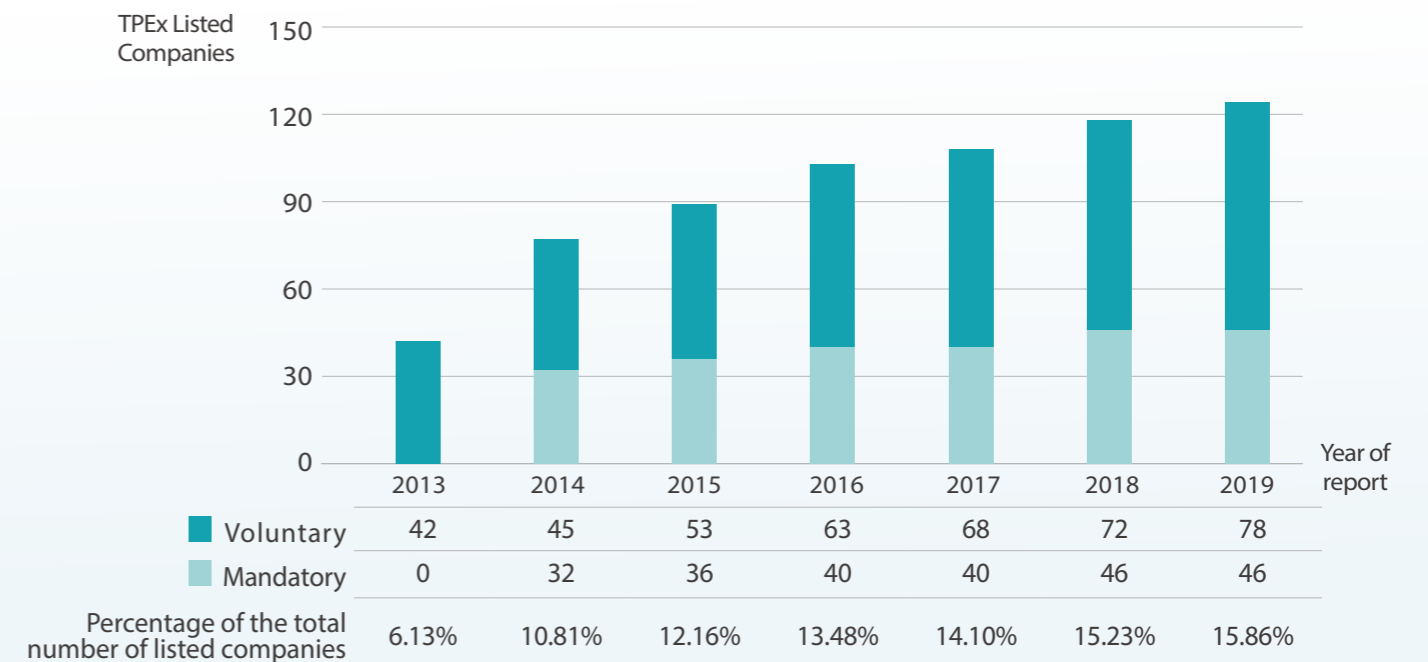
At the end of 2020, TPEX amended and promulgated the operating rules and indicators for the 8th Corporate Governance Evaluation. In the future, TPEX hopes that the annual optimization of evaluation indicators could further strengthen evaluation efficacy and differentiation, thereby encouraging healthy competition among participating enterprises.

2-1-2 Driving Corporate Actions

Countries worldwide have begun to place greater importance on sustainable development, and responsible investment has become mainstream in the capital market. Taiwan has also shifted the early emphasis on strengthening corporate internal control and governance mechanisms to encouraging companies to address corporate social responsibility and broader sustainability issues. By building the environment for responsible investment, the market mechanism would direct capital investment in support of sustainable development. After promulgating the "Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TPEX Listed Companies" in 2014, TPEX gradually expanded the scope considering cost-effectiveness and response time needed. Between 2019 and 2020, TPEX further amended the rules to require listed companies to adopt the GRI standards, strengthen ESG practices, and implement climate-related disclosures. At present, listed companies with paid-in capital of more than NT\$5 billion, those in the financial, chemical, and food industries, and companies whose most recent annual F&B income accounted for more than 50% of their total operating income, are required to prepare and issue corporate social responsibility reports.

TPEX also encouraged listed companies to voluntarily compile corporate social responsibility reports through promotional events, company visits, and corporate governance evaluations. In recent years, the voluntary compilation of corporate social responsibility reports has grown significantly. In 2020, a total of 124 listed companies issued 2019 corporate social responsibility reports, of which 78 were voluntary disclosures.

Number of Listed Companies that Have Compiled Corporate Social Responsibility Reports (2013-2019)



TPEX is expected to revise the "Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TPEX Listed Companies" in 2021 to require listed companies with paid-in capital of more than NT\$2 billion and less than NT\$5 billion to create and file corporate social responsibility reports. In accordance with "Corporate Governance 3.0," further changes will include the expanded applicability of third-party assurance, the name change to sustainability report, and the mandatory adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) standards.

2-2 Operation Management

2-2-1 Ethics and Integrity

Ethical Corporate Management

TPEX has established a robust mechanism to uphold the integrity and cooperated with the competent authority's supervisory measures to act in accordance with the national economic policy. TPEX did not affect the capital market's order or involved in fraud, insider trading, antitrust or anti-competitive practices, and market manipulation.

The personnel department is responsible for formulating disciplinary regulations such as the "Ethical Corporate Management Best Practice Principles," "Employee Confidentiality Measures," "Guidelines for Employee Ethical Conduct," and "Precautions for Employees Acquiring or Disposing of TPEX-traded Securities and Emerging Stocks." Among these, the Joint Meeting of Directors and Supervisors approved the "Ethical Corporate Management Best Practice Principles" and required reporting progress to the board of directors every six months. Still, other disciplinary regulations became effective after the Chairman or Managing Director & CEO's approval.

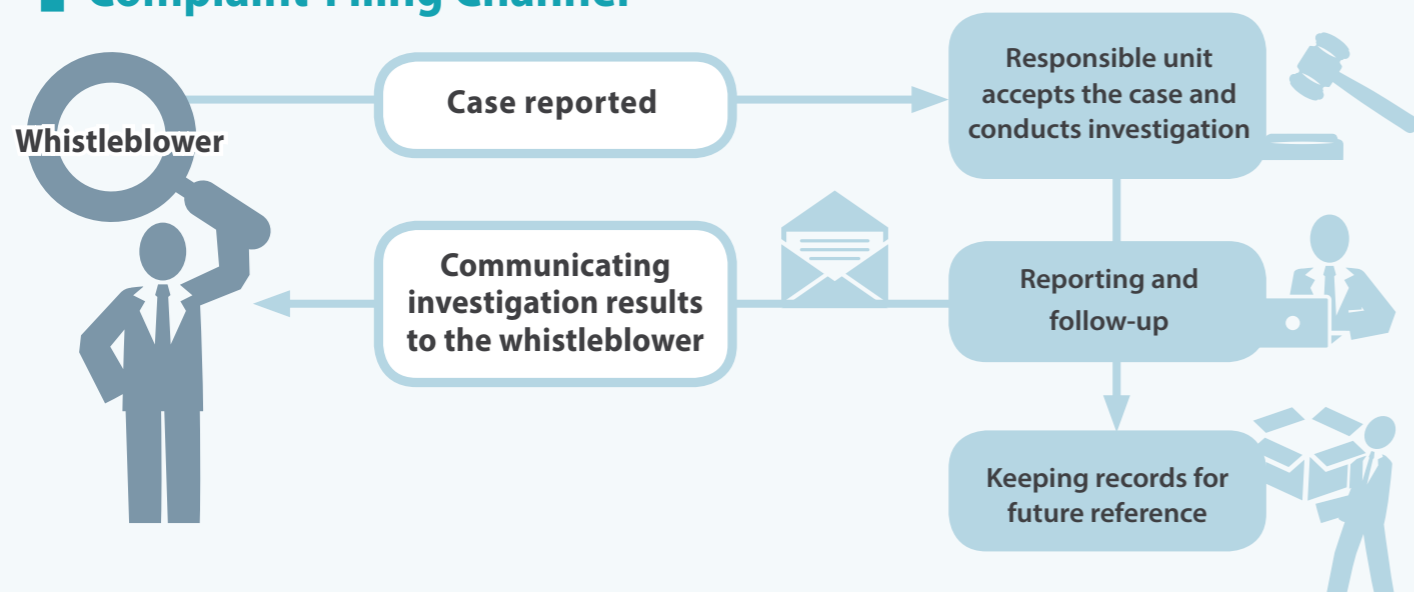
TPEX also formulated the "Disciplinary Standards for Securities Listing (ESM, GISA) and Registration Examiners and ESM Counselors" and the "Disciplinary Standards for Securities Supervisors" for reviewers and supervisors to prevent conflicts of interest and corruption. To this end, TPEX reiterated these regulations internally and reminded all colleagues through internal announcements made in January 2020.

In addition, TPEX has set up the "Implementation Measures for the Whistleblower System." Anyone who suspects TPEX employees of committing crimes, fraud, or violating laws and regulations can file a report. TPEX will conduct investigations impartially, take measures to protect whistleblowers, and handle any criminal matters found in accordance with relevant personnel regulations.

The internal audit team also actively inspects employees' transactions every quarter and reports integrity incidents to ensure compliance with self-disciplinary regulations. In 2020, there were no incidents of employee corruption, violation of the law, or internal complaints.



Complaint-Filing Channel



Regulatory Compliance

TPEX has set up a "Legal Administration Team" under the Administration Department responsible for legal compliance and regulatory amendments. The Legal Administration Team regularly follows the competent authority's actions, and publishes compiled information on TPEX's intranet to keep all TPEX employees abreast of the latest laws and regulations. TPEX makes necessary amendments to relevant internal rules, which will be reported to the competent authority for approval. Recent amendments will then be available in the Law Inquiries section on the TPEX official website.

To ensure effective legal compliance and internal control system, each TPEX department performs legal compliance self-evaluations every six months, and submits the results to the internal audit team for review. With the internal audit team further performed annual legal compliance audits, the 2020 audit results show no particular anomaly.

In addition, TPEX regularly organizes legal compliance education and training courses for employees following relevant laws, regulations, and internal rules. In 2020, TPEX held three sessions each of courses entitled "Personal Data Protection Act and Sharing of Information Security Practices" and "Integrity Management and Corruption and Bribery Risk Management" to enhance the colleagues' awareness of legal compliance, with participation rates of 99% and 94% respectively.

2-2-2 Risk Management

Risk Management Policy

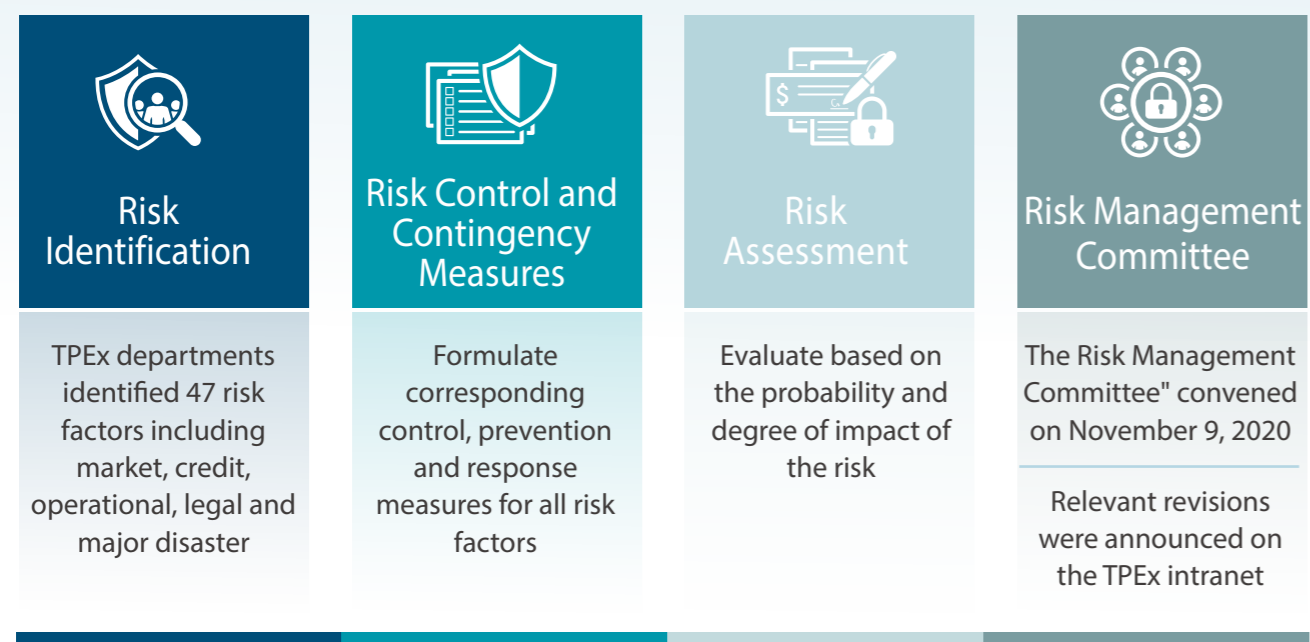
TPEX has built an appropriate risk management mechanism considering the overall operation strategies and the business and legal environment. By integrating risk management into the decision-making process, and requiring each department to effectively identify, measure, monitor, prevent and control various risks, TPEX is capable of minimizing potential risks.

To this end, TPEX has formulated the "Taipei Exchange Risk Management Policy and Crisis Management Operating Guidelines" to fully implement integrated risk and crisis management and achieve business goals unaffected.

Risk Management Committee

TPEX established a risk management committee chaired by the Managing Director & CEO, with the Deputy CEO(s), Chief Administrative Officer, heads of all departments, and commissioners as the committee members. The Risk Management Committee supervises the implementation of TPEX's Risk Management Policy, reviews major risks and response mechanisms, and incorporates risk and crisis management into TPEX's decision-making considerations. There were no adjustments regarding organization and procedures in 2020.

Risk Management Process and Implementation Results in 2020



Risk Response Measures

All TPEX departments are responsible for improving risk management mechanisms according to their respective functions. Through the process of risk identification, analysis and assessment, various business risks are comprehensively evaluated and responded to with risk management countermeasures. TPEX's Risk Management Committee later convened on November 9, 2020, and announced the relevant revision on November 18 for internal compliance.

ISO 22301 Business Continuity Management Systems Certification

To ensure the stable market operation and investors' rights protection, TPEX introduced ISO 22301 Business Continuity Management Systems in January 2020. TPEX was successfully certified according to the ISO 22301 Business Continuity Management Systems in November 2020 after formulating the business continuity manual and procedures, implementing business process interviews, conducting operational impact analysis and risk assessments, and performing business continuity drills.



ISO 22301

ISO 22301 is an international standard for business continuity management. The standard helps companies identify various threats that may affect their service provision, thereby establishing response and recovery plans.



Business Continuity Plan

All TPEX departments update business continuity plans and emergency and abnormal situation handling manuals every year to ensure that critical businesses can immediately respond and resume after disruptions. On November 9, 2020, the Business Continuity Committee held a meeting to approve the annual updates; on December 10 and December 19, TPEX conducted drills to simulate abnormalities of the ESB, listed open-ended fund, gold, bonds, and derivatives systems. The activation of remote backup allowed all key departments to involve in troubleshooting and response implementation, thus strengthening the crisis response mechanism.

To maintain normal market operations amidst the COVID-19 pandemic, TPEX further adopted the backup plan with splitting and distancing. In addition to the continued work-from-home and rotation plan, the intercommunications and gatherings of the capital market are conducted through video conferencing.

Internal Audits

TPEX has formulated an internal control and audit system based on the “Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets,” and each department has developed internal control system regarding its business processes. With details disclosed in the "Internal Control and Audit Section" of the TPEX intranet, TPEX operated the internal control system accordingly to ensure the continued effectiveness.

Under the Board of Directors, the Internal Audit Team is responsible for performing audits on each department, making timely suggestions for improvement, monitoring the improvement progress, and submitting monthly results to each supervisor for review. The Team reports to the Joint Meeting of Directors and Supervisors on a quarterly basis, and consequently reports to the competent authority for reference. With 11 items identified requiring improvement in 2020, most were addressed in 2020 except for one improvement completed on March 11, 2021.

In response to amendments to laws and regulations, TPEX accordingly amends relevant rules and standard operating procedures. Upon completion, TPEX immediately announces details on the intranet and inform colleagues through emails and internal education and training sessions. In addition to conducting monthly self-assessments in accordance with regulations, all departments also conduct assessments on the effectiveness of the internal control system. After review by the internal audit team, there are no cases of failed implementation.

2-2-3 Information Security

TPEX offers enterprises an effective platform for obtaining financing, and at the same time, provides general investors with diversified instruments. It is also committed to maintaining a comprehensive, functional, and effective information security management system and personal data protection system so as to provide the best guarantee for the capital market.

Information Security Management System

TPEX has obtained certification for ISO 9001 on quality management, ISO 27001 on information security, and ISO 20000 on information service, and continues to entrust certifying bodies to perform reviews every six months and re-examinations every three years in accordance with regulations. The certificates have continued to be valid so far, and an information security management review meeting chaired by the Deputy CEO is held every six months to regularly review the implementation of the information security management system to ensure its appropriateness and effectiveness. There were no instances of confidential information leakage in 2020.



Establishing a Full-time Responsible Unit and Providing Complete Education and Training

The information security team performs full-time information security management; information security supervisors and personnel undergo 15 hours of information security professional training and all colleagues undergo 3 hours of information security advocacy training to enhance awareness.



Information Security Protection and Monitoring

- TPEX established an information security protection system and a security operations center (SOC), and has carried out security inspections including diagnostics, server vulnerability scanning, web program vulnerability scanning, program source code and penetration testing.
- TPEX has also introduced ISO 22301, formulated relevant disaster response and recovery mechanisms for events such as natural disasters, active sabotage, system failures, and performed drill tests.
- In the future, TPEX will implement risk identification and management, management review meetings, internal audits, drills and tests, and regular review by certification bodies to continue improving the business continuity management system.



Information Security Internal Audit

TPEX's internal audit team conducted audits on information security according to the 2020 Audit Plan, and the audit results reflect no deficiencies.



Information Security External Audit

- TPEX established an information security management system (ISMS) according to the ISO 27001 standard.
- The British Standards Institute (BSI), an external verification organization, conducted two audits, and discovered no non-conformities in 2020; thus, TPEX's ISO 27001 certificate remains valid.

Protection of Personal Data

TPEX is committed to maintaining personal data security, thus ensuring that the data collection, processing, and utilization comply with confidentiality, integrity, availability, and legal requirements and reducing the risk of personal information breaches. These measures protect the implicated parties' rights and interests and ensure the sound operations of the capital market. There are no personal information breaches in 2020.

To ensure personal data protection, TPEX has established a "Personal Data Protection Management Committee." Chaired by the Managing Director & CEO, the committee regularly reviews TPEX's personal data management policies and goals, and convenes personal data protection management review meetings twice a year (additional if necessary).

TPEX has also introduced a personal information protection management system in accordance with the "Personal Data Protection Act," and has established a personal data protection management manual and various instructions and procedures to provide a unified compliance mechanism. In addition, TPEX reviews business operations related to personal data protection through external and internal audits twice a year.



Personal Data Protection Management Committee

- TPEX has set up a "Personal Data Protection Management Committee" to organize cross-departmental tasks
- In 2020, the committee held two meetings: January and June 2020



Continuing Education for Employees

- All colleagues participated in "Personal Data Protection Act and Sharing of Information Security Practices" education and training course
- Colleagues in charge of processing personal information in various departments engaged in a meeting on "Recommendations and discussions of verifying and auditing common deficiencies"



Internal/External Audits

- The British Standards Institute (BSI) conducts audit and certification every six months: January and July 2020; BS10012:2017 PIMS certification continued to be valid
- The internal audit team conducts an audit every six months: May and November 2020



Contingency Training for Personal Data Violation Incidents

- No personal data infringement incidents occurred in 2020, but in order to strengthen colleagues' ability to respond to personal data infringements and crisis awareness, in August 2020, the vice chairman of the Personal Data Protection Management Committee selected scenarios for conducting personal data infringement incident response training and simulation exercises.

2-2-4 Supplier Management

TPEX provides trading services for securities and financial products, with main suppliers offering general services, equipment, and engineering services. Most procurements made by TPEX are with local suppliers, and the main methods of communication are dedicated telephone, email, and meetings. There were no significant changes in terms of supply chain management in 2020.

In addition to establishing "Property Procurement and Management Guidelines" as a basis for the procurement process, TPEX also regards suppliers as important partners and hopes to exert its influence in the value chain further. Since November 2020, TPEX has been requiring suppliers to sign a "suppliers' Commitment to Fulfill Corporate Social Responsibility" and has urged suppliers in complying with regulations on occupational safety and health, labor human rights, and environmental protection, thereby realizing corporate social responsibility into practice and creating benefits in multiple aspects.

In view of the fact that the quality of information system services may affect information security, TPEX regularly reviews the successful bidders for their services to confirm whether they are consistent with the contract specifications. The review results will then serve as a reference for future supplier evaluation operations. A total of 311 cases were reviewed in 2020, all of which were qualified with a qualification rate of 100%.