



CHAPTER 2 REINFORCING GOOD GOVERNANCE

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2.1. Strengthening Corporate Participation

2.1.1. Corporate Governance Evaluation

Since the launch of the Corporate Governance Evaluation in 2014, it has reached its seventh session. 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.

Continuous improvement of governance quality of Main Board companies

| Corporate governance measures | Number of companies practiced in 2021 | Number of companies practiced in 2020 | Growth rate |
|--|---------------------------------------|---------------------------------------|-------------|
| Establish an audit committee | 686 | 558 | 23% |
| Adopt the candidate nomination mechanism for directors/supervisors | 787 | 756 | 4% |
| File the annual financial report in English | 226 | 158 | 43% |
| File the annual report of the shareholders meeting in English | 200 | 140 | 43% |
| Prepare the previous year's sustainability report | 156 | 126 | 24% |

Due to the severe pandemic situation in 2021, the results of the 7th Corporate Governance Evaluation was announced by video in July to commend companies with excellent corporate governance (top 5% of the TWSE and TPEX listed groups, and top 5% of small and medium market capitalization). In addition, the top 20% Main Board companies ranked in the evaluation results were listed in the "TPEX Corporate Governance Index".

TWSE / TPEX listed companies

TOP 5% of the 7th Corporate Governance Evaluation

TPEX Listed Companies in Top 5% for Seven Consecutive Years



- 3105 WIN
- 4126 PAHSCO
- 4152 TLC
- 5209 CTCL ASI
- 5227 Aleees
- 5347 VIS
- 5371 Coretronic
- 5483 SAS
- 5530 Lungyen
- 6023 Yuanta Futures
- 6147 Chipbond
- 6803 ECOVE



In line with the 5 major projects of "Corporate Governance 3.0 - Sustainability Roadmap" announced by the FSC on August 26, 2020, the evaluation point-adding items added in 2021 were as follows:

| Project items | Point-adding items(included in 2022 indicators) |
|--|--|
| Item I: Enhance board functions; increase corporate sustainability value | <ul style="list-style-type: none"> Promote that the number of independent directors of TWSE and TPEX listed companies shall not be less than one-third of the number of directors Promote TWSE and TPEX listed companies to set up a Nomination Committee Promote TWSE and TPEX listed companies to conduct functional committee performance evaluation Promote that the terms of more than half of the independent directors of TWSE and TPEX listed companies shall not exceed three consecutive terms Promote that quarterly financial statements of TWSE and TPEX listed companies shall be approved by the audit committee |
| Item II: Improve information transparency; promote sustainable practices | Revise the name of the CSR Report to Sustainability Report, and promote the publication of the English version of the Sustainability Report |
| Item III: Strengthen communication with stakeholders; develop productive interactive channels | |
| Item IV: Connect with international standards; adopt diligent governance | |
| Item V: Enforce sustainability governance culture; offer diverse products | |

Important summary of the "Corporate Governance 3.0 - Sustainability Roadmap" :

- From 2023, TWSE and TPEX listed companies with a capital of more than NT\$ 2 billion are required to submit a sustainability report.
- From 2023, TWSE and TPEX listed companies with a capital of less than NT\$ 2 billion and not in the financial industry need to set up a corporate governance officer.
- New international standards, such as the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) standards, are required to disclosure in sustainability reports.
- Revise the name of the current CSR Report to Sustainability Report or ESG Report.
- Promote the provision of English version of Sustainability Report.
- Expand the scope of third-party verification of sustainability reports and improve the disclosure quality of non-financial information.

At the end of 2021, At the end of 2020, TPEX amended and promulgated the operating rules and indicators for the 9th Corporate Governance Evaluation. In the future, TPEX will continue to reinforce the requirement for mandatory content to be included in the investor section or corporate governance section of the TPEX listed companies' website, so as to strengthen the communication channels for stakeholders and create a good interactive environment.

2.1.2. Driving corporate action

In 2014, TPEX formulated the "Rules Governing the Preparation and Filing of Sustainability Reports by TPEX Listed Companies" to require listed companies shall adopt the GRI standards, strengthen ESG practices, and implement climate-related disclosures. The relevant measures will be revised in 2022, with reference to the TCFD, SASB, to strengthen the disclosure of sustainability reports.



Preparation process of sustainability reports by listed companies

| 2021 | 2022 | 2023 |
|--|---|---|
| Corporate Social Responsibility Report Renamed as "Sustainability Report" | Chemical industry and financial industry Sustainability report requires third-party verification | Companies with capital of more than NT\$ 2 billion Required to provide Sustainability Report |

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 sustainability reports has grown significantly, exceeded the number of compulsory preparations.

Number of listed companies that have compiled sustainability reports in the last 4 years

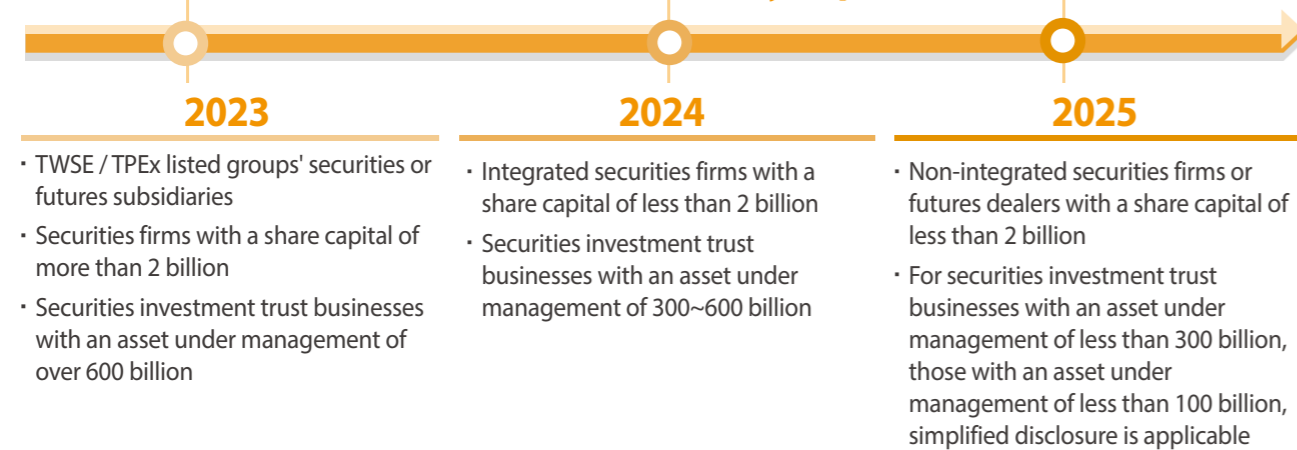
| Year of the report | 2017 | 2018 | 2019 | 2020 |
|--|------------|------------|------------|------------|
| Percentage of total number of listed companies | 14.10% | 15.23% | 16.11% | 19.80% |
| Total number of preparing companies | 108 | 118 | 126 | 156 |
| Mandatory | 40 | 46 | 46 | 48 |
| Voluntary | 68 | 72 | 80 | 108 |



Securities firms' climate change risk management and sustainability report preparation

Regarding climate change issues, TPEX revised the "Risk Management Best-Practice Principles for Securities Firms" in October 2021 to require the disclosure of climate change risk management information every year starting from the end of June 2023. Furthermore, to promote the sustainable development of the securities and futures industry, the competent authority plans to gradually promote the preparation and announcement of the sustainability report.

Timeline for Securities Firms' Sustainability Report Release



2.2. Operational Governance

2.2.1. Operations of TPEX governance

Responsibilities and operations of the functional committees

| Committee | Main responsibilities | Members | Operations |
|--|--|---|--|
| Sustainable Development Committee | Coordinate and promote the sustainability strategies of TPEX, and make decisions, track and review related sustainability work, so as to implement the promotion goals of the sustainability strategies. | The Managing Director & CEO of TPEX serves as the chairperson, the two Deputy CEOs and the Chief Administrative Officer serve as the vice chairpersons, and the heads of various departments serve as members | • Meetings are convened twice a year. |
| Risk Management Committee | Review the effectiveness of the promotion and implementation of risk management policies and crisis management operations of TPEX. | The Managing Director & CEO of TPEX serves as the chairperson, and the two Deputy CEOs, Chief Administrative Officer, heads of various departments and commissioners serve as the committee members. | • Meetings are convened once a year. • Risk items are identified by each department. |
| Business Continuity Committee | Coordinate and supervise the business continuity management system of TPEX to ensure the appropriateness and effectiveness of the system and the coordination between departments. | | • Meetings are convened once a year. • review relevant plans and conduct on-paper and field simulation drills. |
| Internal audit team | Ensure the effectiveness of risk management. | Chief auditor, a team leader and 2 coordinators. | The internal control system is revised twice a year, and the audit results and improvement status are regularly reported to the joint meeting of directors and supervisors on a quarterly basis. |
| Personal Data Protection Management Committee | Strengthen the implementation of various personal data protection mechanisms and resolve opinions on personal data management review. | Chairperson, vice chairperson, chief administrative officer, contact person for personal data protection, representative members of each department, and contact person of departmental personal information. | Hold 2 personal information management review meetings every year, and conduct contingency training and simulation drills for personal data infringement incidents |

Ethics and integrity management

Being an important participant in Taiwan's capital market, TPEX aims to promote economic development and assist companies in raising funds. Ethics and integrity management is the cornerstone of sustainable development. In order to ensure that businesses can be implemented fairly and objectively, TPEX has established a complete legal compliance system and implemented the "Ethical Corporate Management Best Practice Principles" since June 2019. The implementation situation is reported to the board of directors every six months. In 2021, TPEX did not affect the capital market's order or involved in fraud, insider trading, antitrust or anti-competitive practices, and market manipulation.

Internal regulatory compliance



All employees

- Employee Confidentiality Measures
- Guidelines for Employee Ethical Conduct
- Precautions for Employees Acquiring or Disposing of TPEX-traded Securities and GISA Stocks



Reviewers and supervisors

- Disciplinary Standards for Securities Listing (ESM, GISA) and Registration Examiners and ESM Counselors
- Securities supervisors' discipline regulations



Personnel performing company audits

- Statement of the person performing the audit

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. In 2021, there were no incidents of employee corruption, violation of the law, or internal complaints.

Complaint-filing Channel





In order to strengthen the awareness of integrity, TPEX regularly organizes education and training courses for all employees to widely publicize the importance of ethical management. In 2021, TPEX held 9 sessions each of courses entitled "Corporate Integrity and Whistleblowing System", "The Importance of Personnel Conduct and Professional Ethics from the Global Anti-Corruption Trend", and "Personal Data Protection Act and Sharing of Information Security Practices", a total of 851 participants participated with a participation rate of 98%. The members of the Board of Directors are mainly impartial personnel appointed by the competent authority from among experts and scholars with legal and corporate management or corporate governance expertise. They already have the ability and experience related to anti-corruption and ethical management themselves. Therefore, TPEX does not provide additional education and training courses for the governance bodies. In addition, in 2021, we have communicated with all board members about anti-corruption. For suppliers, TPEX communicates with suppliers on anti-corruption-related issues by signing a "Corporate Sustainability Development Commitments" with suppliers. A total of 148 letters of commitment were signed in 2021, accounting for 100% of the number of suppliers who signed contracts with TPEX. Besides, we communicated with all employees on anti-corruption-related issues through email, accounting for 100% of all employees.



- Three courses of "Corporate Integrity and Whistleblowing System" were held on March 15, March 24 and March 26 in 2021, with a total of 283 participants, accounting for **98%** of all employees;
- Three educational training sessions of "The Importance of Personnel Conduct and Professional Ethics from the Global Anti-Corruption Trend" were held on April 16, April 23 and April 28, with a total of 279 participants, accounting for **97%** of all employees;
- Three courses of "Personal Data Protection Act and Sharing of Information Security Practices" were held, on August 5, August 10 and August 12, with a total of 289 participants, accounting for **100%** of all employees.

Regulatory compliance

To ensure compliance with laws and regulations, TPEX has set up legal personnel under the Administration Department responsible for legal compliance and regulatory amendments. TPEX makes necessary amendments to relevant internal rules, which will be available in the Law Inquiries section on the TPEX official website, so as to ensure that TPEX can abide the latest laws and regulations. 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 2021 audit results show no particular anomaly.

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. In principle, meetings are held once a year or when necessary. There were no adjustments regarding organization and procedures in 2021.

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 26, 2021, and announced the relevant revision on December 3 for internal compliance.

Risk Management Process and Implementation Results in 2021





ISO 22301 Business continuity management systems certification

In order to ensure the establishment of a compliant disaster response and recovery mechanism to protect the safety of TPEX market transactions and the rights and interests of the investing public, TPEX was successfully certified according to the ISO 22301 Business Continuity Management Systems in November 2020

ISO 22301

Scope of introduction

- Main Board Stock Trading System,
- Electronic Bond Trading System (EBTS),
- Emerging Stock Computerized Price Negotiation and Click system and Derivatives Trading System

The certificate of passing the British Standards Institute (BSI) verification continued to be valid



In order to avoid the high probability of abnormal failure of old equipment, the various host replacement projects have been promoted. In 2021, TPEX had replaced the expired equipment, including transaction hosts, network equipment, database host, virtual host system disk space expansion, to maintain the stable operation of the system and business continuity.

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 11, 2021, the Business Continuity Committee held a meeting to approve the annual update; on December 10, TPEX conducted a drill to simulate the security notification operation of information communication. The scenario was "the Trojan horse program was implanted by hackers because a colleague in the Planning and International Department accidentally clicked on a phishing email. The hacker intruded into the personal computer of the Bond Department to steal the classified information, and the Information Department activated the relevant information security protection mechanism and successfully blocked it before the data was leaked". 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 Audit

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. Suggestions made to each department in 2021 have been improved in 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

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 2021.

| | | |
|--|---|---|
| | Complete education and training provided by a full-time responsible unit | 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 | <ul style="list-style-type: none"> 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. TPEX implements 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 enhancement | <ul style="list-style-type: none"> Establish vulnerability analysis and notice system (VANS) Establish early warning mechanism for the information system Strengthen the sharing mechanism of information security intelligence to the Financial Security Operation Center (FSOC) |
| | Information Security Internal Audit | TPEX's internal audit team conducted audits on information security according to the 2021 Audit Plan, and the audit results reflect no deficiencies. |
| | Information Security External Audit | <ul style="list-style-type: none"> 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 2021; thus, TPEX's ISO 27001 certificate remains valid. |



Same-site and Different-site backup system

All TPEX transaction systems have the same-site and different-site backup system. Beside formulating emergency procedures, including "Business Continuity Plan", "Emergency and Abnormal Situation Handling Manual", "Computer Trading System Abnormal Incident Handling Procedures" and "Full Backup Maintenance and Handling Procedures", TPEX conduct 2 same-site and 2 different-site backup system test drills every year.

TPEX has set the information operation goals for the information system such as not to affect transactions due to programming errors throughout the year, not to cause service interruptions due to capacity factors, and to have a success rate of 96% or more in the test and drill of the backup system. All goals have been met in 2021.

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 2021.

TPEX has also introduced a personal information protection management system in accordance with the provisions of the "Personal Data Protection Act," and has established a personal data protection management manual and various instructions and procedures to provide all colleagues with a unified compliance mechanism in the collection, processing and use of personal data. In addition, TPEX reviews business operations related to personal data protection through external and internal audits once every six months.

| | |
|--|--|
| | <p>Personal data protection management committee</p> <ul style="list-style-type: none"> TPEX has set up a "Personal Data Protection Management Committee", Chaired by the Managing Director & CEO, to organize cross-departmental tasks In 2021, the committee held two meetings: January and July 2021 |
| | <p>Continuing Education for Employees</p> <ul style="list-style-type: none"> All colleagues participated in the 3-hour "Personal Data Protection Act and Sharing of Information Security Practices" education and training course For colleagues in charge of personal data business in each department, conduct education and training courses such as "BS10012:2017 Pre-Verification Preparation", "Privacy Impact and Risk Assessment Education and Training", and "Personal Data Security Incident Emergency Response Cognition". |
| | <p>Internal/ External audits</p> <ul style="list-style-type: none"> The British Standards Institute (BSI) conducts audit and certification every six months: January and July 2021 BS10012:2017 PIMS certification continued to be valid The internal audit team conducts an audit every six months: May and November 2021 |
| | <p>Contingency Training for Personal Data Violation Incidents</p> <ul style="list-style-type: none"> No personal data infringement incidents occurred in 2021, but in order to strengthen colleagues' ability to respond to personal data infringements and crisis awareness, in September 2021, 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 main suppliers are divided into 6 categories, including general services, equipment, and engineering services. In addition to establishing "Property Procurement and Management Guidelines" as a basis for the procurement process, TPEX also regards suppliers as important partners. Since November 2020, TPEX has been requiring suppliers to sign a "Corporate Sustainability Development Commitments" 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. TPEX regularly reviews the successful bidders for their services to confirm whether they are consistent with the contract specifications.



100%

Proportion of local suppliers of TPEX in 2021



148 letters

The percentage of suppliers agreeing to sign the "Corporate Sustainability Development Commitments" was 100% in 2021.