



8 May 2020

Taiwan Stock Exchange Corporation
Corporate Governance Department
9F, No. 7, Sec. 5, Xinyi Rd
Taipei 11049
Taiwan

By email: 1248@twse.com.tw

Re: Revision of Taiwan Stewardship Principles for Institutional Investors – Request for Public Comments Spring 2020

To Whom it May Concern,

We are writing in response to the draft of the Revision of Taiwan Stewardship Principles for Institutional Investors (the “Principles” or the “code”), issued by the Taiwan Stock Exchange Corporation (TWSE) for comment on 2 March 2020.

General comments

The revised Principles are certainly welcome and respond to several of the recommendations that ACGA has made in recent years. The emphasis on “ESG” and “sustainable development” in monitoring, evaluation and investment decisions modernises the Principles, while the recommendation that signatories explicitly understand the “sustainable development” strategy of investee companies lays the groundwork for fruitful engagement around ESG issues. Detailed guidance on reports including statistics, case descriptions and processes, as well as greater explanation of voting decisions provides a structure for more substantive disclosure. The suggestion that signatories track their activities and the outcomes of stewardship to inform subsequent action is a welcome one, as is the explicit encouragement to join advocacy organisations and use collective action for greater impact.

While these reforms will enhance stewardship in Taiwan, due to the somewhat incremental nature of the revisions, there is more that could be done to fundamentally refresh the code and better align it with global best practice. In particular, we think that the code would benefit from a much greater emphasis on the desired outcomes of stewardship and how those outcomes can be measured. That is to say, we believe that additions to the code should focus on providing practical guidance to investors about how to implement effective stewardship practices. For example, while Guideline 1-2 creates an expectation that an investor should integrate ESG factors into the investment evaluation process, the code has little to say about how the investor should go about that task. The UK Stewardship Code 2020 in our view offers a good example of a code which adopts an outcomes-based approach to stewardship. While not advocating that TWSE follow the

detail or structure of the UK code, we think that there is merit in following its close attention to outcomes.

Specific issues

We highlight here a number of areas in which we think that the code could be further improved or strengthened.

Definitions

As a starting point, we would suggest that the code be amended to include a full definition of “stewardship”, which explains why stewardship is considered to be a desirable activity. This addition would provide the rest of the code with a better context.

Similarly, while the inclusion in the code of “sustainable development” as a cornerstone of stewardship is welcome, we suggest that, in order to promote a shared understanding among investors, the code should articulate what is meant by “sustainable development”.

Asset class coverage

We read the revised code as extending only to stewardship in relation to investment in public equities. We believe that the scope of the code should be widened to extend to stewardship across all asset classes. An amendment to that effect would align the code’s scope with that of stewardship codes in a number of developed markets. In our view, investors should use the resources, rights and influence available to them to exercise stewardship, in all the ways their capital is invested. The allocation of some asset owners, especially public pension funds, to fixed income may well exceed their allocation to public equities, and such funds increasingly diversify into other asset classes such as infrastructure and private equity. Consequently, a stewardship code that captures stewardship only in relation to public equities omits a large part of the investment universe in which capital is deployed.

In particular, we think that the code could address the position of fixed income investors as stewards. As bondholders do not have voting rights in the way that shareholders do, the practice of stewardship will differ to that for equity shareholders. Nonetheless, bondholders can exercise significant influence both before debt is issued (for example, by encouraging more comprehensive and forward-looking ESG-related disclosures), and after, by actively monitoring and pursuing non-voting engagement with boards and management on an ongoing basis. Active engagement by bondholders can help to uncover hidden risks or vulnerabilities in an issuer’s business strategy or operations that could impact its credit worthiness.

Furthermore, because investors may be invested across several asset classes, we believe the code should highlight the potential for stewardship conflicts of interest to emerge. These may arise when an issuer is in financial difficulty, or is contemplating strategic decisions that might affect the holders of different asset types in different ways.

Application to service providers

Stewardship codes in some other developed markets have extended their initial scope beyond asset managers and owners to include service providers in the investment ecosystem. This is because those service providers provide services that support their investor clients in fulfilling their stewardship responsibilities. We recommend, therefore, that the Taiwan code be extended beyond asset manager and owners to establish stewardship principles specifically for service providers. In this respect, we consider it particularly important that the code establishes an expectation that service providers have in place appropriate arrangements to manage conflicts of interest, which include establishing a conflicts of interest policy and disclosing to their asset manager and owner clients how, in practice, they have identified and managed conflicts of interest. In other markets, this is usually achieved by adding separate "service provider" stewardship principles to the code in question.

Such service providers include investment consultants, proxy advisors, and data and research providers. These firms support their clients' stewardship by providing services relating to engagement, voting recommendations, data and research provision, and reporting frameworks and standards. These activities form an essential link in the investment value chain stretching from clients and beneficiaries to investee companies, and we therefore think it is essential that stewardship principles be applied to them.

Benchmarking

The revised code does not appear to address the steps that asset owners and asset managers, and their service providers, should take to benchmark their activities against best practice. We think that it would be helpful for the code to include a reference to the importance of benchmarking and for it to set out an expectation that signatories to the code should explain their approach to this matter.

In addition, some institutional investors may also wish to have external assurance, from an independent consultant or specialist auditor that reviews the effectiveness of their stewardship activities. TWSE might therefore wish to consider whether to include a reference in the new code highlighting the potential benefits of obtaining external assurance from a third party.

Voting policy and disclosure of voting results

Principle 5 and 6 contain little detail about what an investor is expected to disclose in regards to its voting policy and voting results. We would make the following suggestions:

- The code should include a clear statement that an investor is expected to disclose its voting policy.
- As regards the content of the policy, and with reference to Guideline 5-3(1), we suggest that where an investor makes a decision to vote only a proportion of its

shares in any given year the investor should disclose its reasons for choosing not to vote, and the exact proportion of its shareholdings in respect of which it has not exercised its right to vote.

- With reference to Guideline 5-4(1), we think that in addition to disclosing its reasons for voting for, against or abstaining from motions “by investee companies”, an investor should be expected to disclose reasons for voting in relation to motions tabled by shareholders. Furthermore, we believe that disclosure should also include an account of any instances in which the investor has voted in a manner contrary to its own voting policy. Similarly, we would suggest that an investor be expected to disclose the extent, if any, to which its clients may direct its voting. Were the code to be amended on these points, it would be better aligned with international best practice as regards voting disclosure.
- We note that Guideline 5-4(1) continues to inform investors that their voting results may be disclosed “in aggregate”. We do not think that this provides an adequate degree of transparency over an investor’s stewardship activities, and we would suggest that the code establish a presumption that an investor be expected to disclose its voting record in relation to each investee company by name, on every resolution at a general meeting, considered separately.
- An investor might delegate management of some of its assets to one or more investment managers. We would suggest that the code specifically address this situation and that an investor should be expected to explain whether voting decisions have been delegated to third-party investment managers, and, if so, how the investor has monitored any voting on its behalf.
- Lastly, we would recommend that TWSE consider amending the code to create an expectation that an investor should disclose its approach to stock lending, and specifically whether it has adopted a policy of recalling its lent stock for voting.

We would be happy to discuss further any of the points raised in this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JA', is positioned above the typed name.

Jamie Allen
Secretary General

*Christopher Mead, Deputy General Secretary, AGCA and Neesha Wolf, ACGA Research Director - Taiwan, contributed to this letter.