Taiwan

GLASS LEWIS

2024 Benchmark Policy Guidelines

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Table of Contents

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Our customers include the majority of the world's largest pension plans, mutual funds, and asset managers, collectively managing over $40 trillion in assets. We have teams located across the United States, Europe, and Asia-Pacific giving us global reach with a local perspective on the important governance issues.

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Guidelines Introduction

Corporate governance in Taiwan is centered primarily around (i) the Company Act, (ii) the Securities and Exchange Act, (iii) Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies (Corporate Governance Principles), (iv) Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Company (Independent Directors Regulations), (v) Regulations Governing the Exercise of Powers by Audit Committees of Public Companies (Audit Committee Regulations), and (vi) Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter (Remuneration Committee Regulations). The principal regulatory agency for securities markets is the Financial Supervisory Commission (FSC), part of the Executive Yuan of the government of Taiwan.

Glass Lewis uses local laws, regulations, listing rules, as well as best corporate governance practices for developing our policy guidelines, while our guidelines may go beyond legal minimum requirements. Specifically, our guidelines may include global corporate governance best practices and are reviewed annually to ensure they remain current with market practice, regulations, governance codes, and the evolving standards of best practices for corporate governance. Accordingly, unless specifically noted otherwise, a failure to meet these guidelines should not be understood to mean that the company or individual involved has failed to meet applicable legal requirements.

Summary of Changes for 2024

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant sections of this document:

Election of the Board of Directors and Supervisors

As of June 2023, all 1,791 listed companies on the Taiwan Stock Exchange and the main board of Taipei Exchange have established audit committees to replace the supervisor system. Thus, we have removed content related to the election of supervisors and independence of supervisors.

Voting Recommendations on the Basis of Independence

We have removed content regarding the slate election of directors and supervisors.

Director Commitments

We have updated our policy on board commitments for directors who also serve as executives of the company under review. We previously refrained from recommending a vote against overcommitted executives at the company where they serve as an executive. Going forward, we will generally recommend voting against an executive at the company where they serve as an executive on the basis of overcommitment if they hold more than four external directorships. For directors who serve as an executive of an external public company, we will

continue to recommend that shareholders vote against on the basis of overcommitment if they serve on more than one additional external public company board. We have also updated the language of this section, for clarity.

In accordance with local regulatory requirements, we also removed our maximum director commitments policy on financial companies' independent directors.

Independent Director Board Tenure

In 2024, the board tenure limitation for independent directors, which is 12 consecutive years, will remain unchanged. However, we plan to lower it to 9 consecutive years in 2025.

Director Bonuses

We have added new content regarding director bonuses.

Equity-Based Compensation Plans

We have updated our policy regarding the minimum vesting period. From 2024, we will no longer recommend voting against equity-based compensation plans with a minimum vesting period of between one to two years provided that such plan incorporate a clawback and/or malus mechanism. We have also expanded the cases in which we may recommended against individual equity grants.

Non-Compete Restrictions

We have removed the exemption for directors who either represent the same legal entity on other boards or are employed by the same legal entity's subsidiaries.

Virtual Shareholder Meetings

We have added a new paragraph to reflect local regulatory amendments on virtual or hybrid shareholder meetings.

A Board of Directors that Serves the Interests of Shareholders

Regulatory Framework

Previously, listed Taiwanese companies were governed by a two-tier board structure consisting of the board of directors and the supervisors. Based on the requirements of the Securities and Exchange Act, Taiwan listed companies are transitioning to establishing an audit committee composed of independent directors to replace the supervisory system.[1] Although the transition was previously optional, as of January 1, 2020, the requirement became mandatory for all listed companies. If the terms of the company's current directors and supervisors have not yet expired in 2020, this requirement may be applied from the time of expiration of the terms currently being served. According to the Taiwan Stock Exchange (TWSE), as of June 2023, all of 1,791 listed companies on TWSE and the main board of the Taipei Exchange (TPEx) have established audit committees.[2] The function of the audit committee is very similar to that of the supervisors: providing an important, independent internal mechanism for monitoring directors and management.

Election of Boards of Directors

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favor of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance and have members with a breadth and depth of experience.

Taiwan does not permit staggered election terms for board members. We note that the Company Act allows institutional or governmental shareholders to appoint representatives as directors and supervisors.[3] Shareholders are often asked to approve the appointment of an undetermined representative of an institutional or governmental shareholder, rather than vote on the election of a specific individual. In this case, after the election, the institutional or governmental shareholders will appoint a specific representative to be a member of the board.

[1] Securities and Exchange Act, Articles 14-2,14-4, and181-2.
[2] Accordingly, we will remove contents related with election of supervisors and independence of supervisors in TWSE and TPEx listed companies in 2024.
[3] Company Act, Article 27.

Cumulative Voting

Under Taiwanese law, board members are elected by cumulative vote.[4] Under this system, the number of voting shares of each shareholder is multiplied by the number of persons to be elected, and a shareholder has the right to cast all votes for one candidate or divide the votes among two or more candidates. In addition, companies who adopt a candidate nominee system may seek shareholder approval of the appointment of a certain number of directors from a pool of nominees that exceeds the available positions.

Independence of Directors

In Taiwan, the percentage of independent board members is low due to a high level of family and executives on boards and the requirement for board members in aggregate to own a certain percentage of the company's equity interest under ratios regulated by the Securities and Futures Bureau, FSC.

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making objective decisions. Similarly, when a director sits on multiple boards and has a track record that indicates a lack of objective decision-making, that will also be considered when assessing their independence. Ultimately, the determination of a director's independence must take into consideration both their compliance with the applicable independence listing requirements and past judgments made.

We look at each director nominee to examine their relationships with the company, the company's executives and other directors. We do this to find personal, familial or financial relationships (not including director remuneration) that may impact the director's decisions. We believe that such relationships can make it difficult for a director to put shareholders' interests above those of the director or a related party. We also believe that a director who owns more than 1% of a company can exert disproportionate influence on the board and, in particular, the audit committee.

We put directors into three categories based on an examination of the type of relationship they have with the company:

> **Independent Director** — An independent director has no material,[5] financial, familial[6] or other current relationships with the company,[7] its executives or other board members, except for board service and standard fees paid for that service. An individual who has been employed by the company within the

[4] Company Act, Article 198.

[5] A material relationship is one in which the dollar value exceeds 1% of either company's consolidated gross revenue for other business relationships (e.g., if the director is an executive officer of a company that provides services or products to or receives services or products from the company).

[6] Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

[7] A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

past five years[8] is not considered to be independent. We apply a three-year look-back period for all past relationships other than employment.

Affiliated Director — An affiliated director has a material financial, familial or other relationship with the company or its executives but is not an employee of the company.[9] This includes directors whose employers have a material financial relationship with the company, as well as any director/supervisor who owns or controls 1% or more of the company's voting stock.[10]

In accordance with TWSE and TPEx listing rules (the Listing Rules)[11] and the Independent Directors Regulations, if any of the following conditions apply to a person acting as a director, s/he should not be regarded as being an independent director.:[12]

- The individual directly or indirectly holds 1% or more of the total outstanding shares of the company, or s/he is one of the top ten shareholders of the company.
- The individual is a spouse or a relative of a major shareholder, as described above in (i).
- The individual is a director, supervisor or employee of a shareholder that directly or indirectly holds 5% or more of the total outstanding shares of the company, or s/he is a director, supervisor, or employee of one of the top five shareholders.
- The individual is a director, supervisor, manager or shareholder holding 5% or more of the shares of a specific company or institution that has financial or operational interactions with the company.
- The individual is a professional, an independent contributor, a partner, or an executive director, partner, director or manager of an institutional consortium, or the spouse of the same that provides financial, business, or legal or consulting services to the company or an affiliated enterprise of the company.
- The individual is concurrently serving as an independent director or independent supervisor of three or more other public enterprises.

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[8] Pursuant to Article 3 of the Independent Directors Regulations, an independent director of a public company may not have been an employee of the company or any of its affiliate during the two years before being elected or during the term of office. In our view, however, a five-year standard is appropriate because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look back period to directors who have previously served as executives of the company on an interim basis for less than one year.

[9] If a company classifies a director as non-independent, Glass Lewis will classify that director as an affiliate, unless there is a more suitable classification (e.g., shareholder representative or employee representative).

[10] In accordance with the Independent Directors Regulations, we view 1% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of an ordinary shareholder. More importantly, 1% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

[11] The Listing Rules are mandatory and apply to all listed companies.

[12] Pursuant to Article 6 of the Independent Directors Regulations, if an independent director is required to be dismissed during their term of office due to a change in his/ her qualifications, he/she shall not be appointed to be a non-independent director. Similarly, a non-independent director shall not be appointed to be an independent director during their term of office.

Insider — An inside director simultaneously serves as a director and an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company. Supervisors may not be employees of companies where they are appointed to supervise.[13]

Voting Recommendations on the Basis of Independence

In 2002, the Listing Rules were amended to provide that every public company applying for a listing should have at least two independent directors. Also, at least one independent director must be an accounting or finance expert. In addition, as a result of the 2006 amendments to the Securities and Exchange Act, beginning in January 2007, publicly listed companies may appoint independent directors in accordance with the company's articles of association. If a company voluntarily provides for the appointment of independent directors in its articles of association, no fewer than two of the board members and not less than one-fifth of the total number of directors shall be independent.[14] In addition, at least one of the elected independent directors should be a professional in accounting or finance.

However, we note that by the end of 2023 all of the 1,791 listed companies on the TWSE and the main board of TPEx have finished the transition from a two-tier board with a board of directors and a board of supervisors to a single tier board of directors with an audit committee. Per market regulations, where a company has a board of directors with an audit committee, then board independence will be evaluated based on a minimum of three independent directors. In addition, according to the Sustainable Development Action Plans for TWSE and TPEx Listed Companies (2023) (the Sustainable Development Plans), independent directors should compose one third of the total board by 2027. We may change our board independence voting policy for election of directors cases before the 2027 target.

Glass Lewis believes a board with an audit committee and at least three independent directors will be most effective in protecting shareholders' interests. Thus, where there are fewer than three independent directors, we typically recommend shareholders vote against some of the insider and/or affiliated directors to satisfy our recommended level of board independence.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or CEO equivalent, such as president, general manager, or managing director. In particular, given the importance of this executive role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent.

In addition where a board is insufficiently independent, Glass Lewis recommends shareholders vote against the chair of the nominating committee. When the information regarding the chair of the nominating committee is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If

[13] Company Act, Article 222.

[14] Pursuant to the FSC regulations, a board of public financial holding companies and/or public companies with paid-in capital of no less than NT$50 billion should contain at least two independent directors who comprise at least one-fifth of the board. In addition, pursuant to Article 8 of the Independent Directors Regulations, at least one of the managing directors, or one-fifth of all of the managing directors, should be independent.

the board does not have a nominating committee, we believe that the chair of the board should be responsible for the insufficient board independence.

According to the Independent Directors Regulations, independent directors are permitted to serve beyond nine years, but we will re-classify independent directors who have served 12 or more cumulative years to become affiliated.[15] In addition, we scrutinize avowedly "independent" chairs. We believe that they should be unquestionably independent or the company should not tout them as such.

Board Gender Diversity

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought and experience, as such diversity benefits companies by providing a broad range of perspectives and insights.

The Corporate Governance Principles[16] encourages companies to advance norms surrounding board diversity, which includes board member skills and gender diversity. To that end, we believe that all companies should have at least one female director.

Given the rise of board gender diversity as a global best practice, where a board comprises of a single gender or does not have directors that identify with a gender other than the gender that is represented by the board, we will recommend against the nominating committee chair (or board chair in the absence of such nominating or similar committee) responsible for the lack of a sufficiently gender-diverse board.

Performance

The most crucial test of a board's commitment to a company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals as directors and executives of the company and of other companies where they have served. We also look at how directors voted while on the board.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

- **Poor Attendance** — A director who fails to attend a minimum of 75% of the board meetings or 75% of the total of applicable committee meetings and board meetings within the past year.[17] However, if a board member has served for less than a full year, we will not typically recommend voting against him/her for attendance issues. Rather, we will note the failure and track the situation going forward. While we generally recommend directors to attend board meetings in person, we understand it is not always feasible to do so. Therefore, when evaluating a director's attendance, we will consider a director's participation via electronic communication means, such as audio, video or web conferencing "devices."

[15] For further details, please refer to the Independent Director Board Tenure section on p18.
[16] Corporate Governance Principles, Article 20.
[17] Article 31 of the Corporate Governance Principles recommends TSE/TPEx listed companies hold board meetings at least every three months.

Where companies fail to disclose the complete attendance records of the board and its required committees we will recommend shareholders vote against the board chair.

- **Serious and Material Restatement** — A director who is also the CEO of a company where a serious and material restatement occurred after the CEO had previously certified the pre-restatement financial statements.
- **Company Performance** — All members of a board if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

Experience

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overpaying executives or of serving on boards where avoidable disasters have occurred appearing at companies that follow these same patterns. Glass Lewis has a proprietary database that tracks the performance of directors across companies worldwide.

Voting Recommendations on the Basis of Experience

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with records of poor performance, over-remuneration, audit- or accounting-related issues and/ or other indicators of mismanagement or actions against the interests of shareholders.[18]

Similarly, we examine the backgrounds of those who serve on key board committees to ensure that they have the required skills and diverse backgrounds to make informed judgments about the relevant subject matter. Thus, we recommend the board include at least one non-executive director with core industry experience.

Director Commitments

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade.

As a result, we recommend that shareholders vote against a director who serves as an executive of any external public company while serving on more than one additional external public company board, and against any other director who serves on more than five public company boards.[19] We will count directors who serve as board chairs in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets. Academic literature suggests that one board takes up approximately 248 hours[20] per year of each member's time.

Additionally, because we believe executives primarily focus on executive duties, we generally do not recommend voting against overcommitted directors at the companies where they serve as an executive.

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[18] We typically apply a three-year look-back period to such issues, and we also research to see whether the responsible directors have been up for election since the time of the failure.

[19] Pursuant to the Independent Directors Regulations, a director shall not serve as an independent director of any public company while already serving as an independent director on more than three other public company boards.

[20] NACD Public Company Governance Survey 2015-2016. p. 22.

However, we also acknowledge that overcommitted directors can pose a material risk to a company's shareholders especially in times of crisis – so from 2024, we will recommend voting against executives at the company where they serve as an executive if their external commitments exceed four boards.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies.

We may also refrain from recommending against certain directors if the company provides sufficient and specific rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors.

Pursuant to the Independent Directors Regulations, no independent director of a public company may concurrently serve as an independent director of more than three other public companies.[21]

Conflict of Interest

In addition to the three key characteristics – performance, director commitments and experience – that we use to evaluate board members, as described above, we also consider conflict-of-interest issues in making voting recommendations.

We believe that a board should be wholly free of people who have identifiable and substantial conflicts of interest, regardless of the overall presence of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of directors:

- **Professional Services** — A director who has provided consulting or other material professional services to the company at any time during the past three years, or who has an immediate family member providing such services.[22] Such professional services may include legal, consulting or financial services. We question the need for a company to have consulting relationships with its directors. We view such relationships as creating conflicts for directors, since they may be forced to weigh their own interests against shareholder interests when making board decisions. In addition, a company's decisions regarding where to turn for the best professional services may be compromised when doing business with the professional services firm of one of the company's directors.
- **Business Relationship** — A director who engages in large-scale transactions with the Company, or who has an immediate family member engaging in such an arrangement.

[21] Independent Directors Regulations, Article 4.
[22] See our definition of "material" under Independence of Directors. The Independent Directors Regulations apply a two-year look-back period to most relationships.

- **Interlocking Directorship** — A director who is involved in interlocking directorships: CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[23]
- **Representative Directorship** — The Company Act allows institutional or government shareholders or business affiliates to appoint their representatives as directors and supervisors, provided that such an entity's representatives do not concurrently serve as both directors and supervisors.[24] We believe that having the representatives of the same institutional shareholder or business affiliates acting concurrently as director and supervisor greatly weakens the fundamental function of supervisors.

Board Size

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors in order to ensure that there is sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards with more than 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices makes it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

Pursuant to the Securities and Exchange Act,[25] the board of directors should be comprised of at least five members.

For boards consisting of more than 20 directors, we typically recommend shareholders vote against the nominating committee chair (or board chair in the absence of a nominating committee).

Separation of the Roles of Board Chair and CEO

The Corporate Governance Principles states that clear distinctions shall be drawn between the responsibilities and duties of the board chair of a TWSE/TPEx listed company and those of its general manager.[26] It would be inappropriate for the chair to also act as the general manager. If the chair also acts as the general manager or they are spouses or relatives within one degree of consanguinity, it would be advisable that the number of independent directors be increased.

Glass Lewis believes that separating the roles of corporate officer and chair creates a better governance structure than a combined executive/board chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving goals set by the board. This process is needlessly complicated when a CEO sits on or chairs the board, since a CEO presumably will have a significant influence over the board.

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[23] There is no look-back period for this situation. This only applies to public companies and we only footnote it for the non-insider.

[24] Company Act, Article 27.

[25] Securities and Exchange Act, Article 26-3.

[26] Corporate Governance Principles, Article 23.

It can become difficult for a board to fulfill its role of overseer and policy-setter when a CEO/chair controls the agenda and the boardroom discussion. Such power can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out their vision for accomplishing its objectives. Failure to achieve the board's objectives should lead the board to replace that CEO with someone in whom it has more confidence.

Similarly, an independent chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO or other executive insider often faces. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to protect the interests of shareholders.

We do not recommend that shareholders vote against CEOs who serve on or chair a board. However, we typically encourage our clients to support the separation of the roles of board chair and CEO whenever that question is posed in a proxy (typically in the form of a shareholder proposal), as we believe that such a measure is in the long-term best interests of a company and its shareholders.

Board Evaluation and Refreshment

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognize that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

Independent Director Board Tenure

According to the Independent Directors Regulations, if an independent director candidate has already served as an independent director of the public company for three consecutive terms or more, the company shall publicly disclose, together with the review results under the preceding paragraph, the reasons why the candidate is nominated again for the independent directorship, and present the reasons to the shareholders at the time of the election at the shareholders meeting.[27] While the Independent Director Regulations permits independent directors serving beyond nine years, it does not discuss at what point an independent director should not be considered independent based on their tenure of service after 9 years, notwithstanding a vote on a director's independence based on tenure.

We believe that companies should have policies in place to periodically refresh their independent directors after a long period of service.[28] This is especially the case if minority shareholders lack the voting power to decide on a director's independence. As such, we will not view a director as being independent if they have served 12 or more consecutive years on a board.

However, for assessing the independence of a director between 9 and 12 years, Glass Lewis will consider:

- The extent of a company's explanation of a director's independence, which must not be limited to meeting the legal requirement or definition of being independent; and
- Whether the director meets Glass Lewis's definition of independence.

We will note which independent directors have served on a board for more than 9 consecutive years. Likewise, we will re-classify independent directors (including independent directors who were supervisors until the merging of the board of directors and board of supervisors) who have served 12 or more cumulative years to become affiliated, while we will apply our policies relating to board and committee independence. Where a company would seek to re-appoint a director as an independent director after 12 or more years of service, we would expect a three-year period where a director leaves a board before being re-appointed.

According to the Sustainable Development Plans, all independent directors' tenure shall not be more than 9 consecutive years. In 2025, we will classify an independent director as affiliated when their tenure is more than 9 consecutive years.

Initial Public Offering

Where a company recently completed its initial public offering (IPO) and became listed on the stock exchange, we will exempt the company from our guidelines for a period of the first financial year or 12 months from the IPO date, whichever is longer.

However, we will review our exemption on a case-by-case basis if: (i) a company and/or its board members are the subject of serious regulatory investigations or actions; and/or (ii) there are significant concerns about overall corporate governance practices.

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[27] Independent Directors Regulations, Article 5 .

[28] To date, markets in Asia are by regulation or code implementing limits on tenure Please refer to our guidelines for these respective markets for further details.

Board Committees

Committee Independence

Pursuant to the Company Act, companies that adopt audit committees in lieu of supervisors, such committees shall be composed *solely* of independent directors at least three in number. The members of the audit committee should designate a chair, and at least one member of the committee should be an accounting or finance expert.[29]

Regarding companies that have formed additional board committees,[30] we are firmly committed to the belief that the membership of these committees should be composed of *a majority of* independent directors. We typically recommend that shareholders vote against any affiliated or inside director seeking appointment to an audit, remuneration or nominating committees when the committees are not sufficiently independent.

Audit Committee Performance

We believe that audit committees should consist exclusively of independent directors.[31] Regardless of a company's ownership structure, the interests of all shareholders must be protected by ensuring the integrity and accuracy of a company's financial statements. Allowing insider or affiliated directors to oversee audits could create an insurmountable conflict of interest.

Audit committees play an integral role in overseeing the financial reporting process because "vibrant and stable capital markets depend on, among other things, reliable, transparent and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[32]

When assessing an audit committee's performance, we are aware that an audit committee performs a critical role by ensuring the provision of adequate information and explanation to the auditor, which is essential for it to be able to conduct a proper audit of the Company's accounts. The quality and integrity of the financial statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions, and the effectiveness of the internal controls should provide reasonable assurance that the financial statements are materially free from errors. The independence of the external auditors and the results of their work also provide useful information by which to assess the audit committee.

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[29] Company Act, Article 14-4.

[30] Although the basic regulatory model for corporations in Taiwan is a two-tier structure that consists of a board of directors and supervisors, the Corporate Governance Principles recommends the establishment of independent board committees, such as audit, nominating and remuneration committees. The Corporate Governance Principles serves as voluntary recommendations. As of December 2011, all public companies must establish a remuneration committee in accordance with the Remuneration Committee Regulations.

[31] Audit Committee Regulations, Article 4.

[32] "Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

For an audit committee to function effectively, it must include members with sufficient knowledge and financial expertise to diligently carry out their responsibilities. We are skeptical of audit committees with members that lack expertise as a Certified Public Accountant (CPA), Chief Financial Officer (CFO), corporate controller or other similar experience.

Thus, we would recommend voting against the following members under the following circumstances:[33]

- The audit committee chair if the audit committee: (i) did not meet at least four times during the year; (ii) has fewer than three members; (iii) does not have a financial expert or the committee's financial expert does not have a demonstrable financial background sufficient to understand the financial issues unique to public companies; (iv) is responsible for the company's failure to disclose the auditor fees or a breakdown thereof; or (v) is chaired by a non-independent director
- All members of an audit committee in office when: (i) audit and audit-related fees total 50% or less of the overall fees billed by the auditor; (ii) material accounting fraud occurred at the company; (iii) financial statements had to be restated due to negligence or serious material fraud; (iv) the company has repeatedly failed to file its financial reports in a timely fashion for consecutive years[34]; (v) the company has aggressive accounting policies and/or poor disclosure or a lack of sufficient transparency in its financial statements; (vi) an auditor was reappointed that we no longer consider to be independent for reasons unrelated to fee proportions; (vii) the company has failed to report or to have its auditors report material weaknesses in internal controls; (viii) when there is any disagreement with the auditor that results in the auditor resigning or being dismissed; (ix) if the company maintained aggressive accounting policies and/or poor disclosure or a lack of sufficient transparency in its financial statements; or an auditor was reappointed that we no longer consider to be independent for reasons unrelated to fee proportions; or (x) when the company paid excessive fees[35] to its independent auditor for non-audit services.
- Any member of the audit committee who is not considered independent based on our research.
- Any member of the audit committee who owns or represents an entity that owns 20% or more of the company's stock.
- The board chair if the company has not established an audit committee.

In Taiwan, while the appointment or removal of independent auditors is subject to the approval of the board of directors, very few companies submit the appointment or removal of independent auditors for shareholder approval.

We are skeptical of audit committee reports that are boilerplate and provide little or no information or transparency to investors. When a problem such as a material weakness, restatement or late filing occurs, our evaluation of the audit committee takes into consideration the transparency of the audit committee report.

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[33] Where the recommendation is to vote against the committee chair and the chair is not up for election, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair. In the absence of an audit committee, we will recommend voting against the board chair.

[34] Pursuant to Article 228 of the Company Act, at the end of each fiscal year, the board of directors shall prepare the financial statements and records and shall forward them to supervisors for their auditing not later than 30 days before the date of a general meeting of shareholders.

[35] Where audit and audit-related fees total less than 50% of the total fees billed by the auditor.

Remuneration Committee Performance

Remuneration committees are responsible for evaluating and prescribing the remuneration of directors, and executives. Given the potential for conflicts of interests, executives and employees should not be members of the remuneration committee.[36] This oversight includes deciding the bases on which remuneration is determined, as well as the amounts and types of remuneration to be paid. It is important that remuneration be consistent with, and based on, the long-term economic performance of a business' and long-term shareholder returns.

Remuneration committees are also responsible for overseeing the transparency of remuneration. This oversight includes the disclosure of remuneration arrangements, the matrices used in assessing pay-for-performance and the use of remuneration consultants. It is important for investors to have clear and complete disclosure of all the significant terms of remuneration arrangements in order to reach informed opinions regarding the remuneration committee.

Finally, remuneration committees are responsible for overseeing internal controls in the executive remuneration process. This includes monitoring controls over gathering information used to determine remuneration, establishing equity award plans and granting equity awards. Lax controls can contribute to conflicting information through the use of nonobjective consultants, for example. Lax controls can also contribute to the granting of improper awards, such as backdated or spring-loaded options, or the granting of bonuses when triggers for such payments have not been met.

We evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, and not for actions taken solely by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, we will recommend voting against the following members under the following circumstances:[37]

- The remuneration committee chair: (i) if the remuneration committee did not meet at least twice[38] during the year or prior to the determination of significant remuneration related matters (e.g., before executive remuneration was restructured or a new executive was hired during the year); (ii) if the remuneration committee has less than three members; or (iii) if the remuneration committee is chaired by a non-independent director.
- All members of the remuneration committee (during the relevant time period) if: (i) the company entered into excessive employment agreements and/or severance agreements; (ii) performance goals were lowered when employees failed or were unlikely to meet original goals, or performance-based remuneration was paid despite goals not being attained; or (iii) excessive employee perquisites and benefits were allowed.

[36] Remuneration Committee Regulations, Article 6.

[37] If our recommendation would be to vote against the committee chair and the chair is not up for election because the board is staggered or due to a by-election, we do not recommend voting against any members of the committee who are up for election; rather, we will express our concern regarding the committee chair. In the absence of a remuneration committee, we will recommend voting against the board chair.

[38] Remuneration Committee Regulations, Article 8.

- Any remuneration committee member who is not considered independent, when the committee is not majority independent.
- Any remuneration committee member who is considered an executive or employee of the company based on our research.
- The board chair if the company has not established a remuneration committee.

Nominating Committee Performance

The nominating committee, as an agency for the shareholders, is responsible and accountable for the selection of objective and competent board members.

Regarding the nominating committee, we will recommend voting against the following members under the following circumstances:[39]

- The nominating committee chair if: (i) the committee did not meet during the previous year; (ii) the board has fewer than three independent directors for single-tier boards with audit committees; (iii) there are more than 20 members on the board; (iv) if a director who did not attend any meetings in the previous financial year or if the committee re-nominated a director who attended less than 75% of the meetings held by the board and/or the committees for two or more consecutive years; (v) when the company maintains a single gender board; or (vii) the committee is chaired by a non-independent director.
- All members of the nominating committee when the committee nominated or renominated an individual who had a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interests.
- Any nominating committee member who is not considered independent, if the committee is not majority independent.

Environmental and Social Risk Oversight

Glass Lewis understands the importance of ensuring the sustainability of companies' operations. We believe that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social issues. In the absence of explicit board oversight of environmental and

[39] If our recommendation would be to vote against the committee chair and the chair is not up for election because the board is staggered, we do not recommend voting against any members of the committee who are up for election; rather, we will simply express our concern regarding the committee chair. In the absence of a nominating committee, we will recommend voting against the board chair.

social issues, Glass Lewis may recommend that shareholders vote against members of the relevant committee. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

Local Environmental & Social Disclosure Practices

In June 2022, TWSE introduced a new ESG reporting mandate for listed companies on both the TWSE TPEx. Under the new rule, companies are required to publicly disclose relevant information regarding their ESG practices and development status on an annual basis on the platform of Market Observation Post System. Initially seven main topics were covered on the platform included greenhouse-gas emission, energy management, water management, waste management, human resource development, the board of directors, and investor communications.

Transparency and Integrity in Financial Reporting

Accounts and Reports

As a routine matter, the Company Act requires that shareholders approve a company's annual and consolidated financial statements and directors' and auditors' reports. Director and supervisors may be discharged from their liabilities only after all of the statements and records of accounts have been approved by a meeting of shareholders, unless there has been any unlawful conduct by the directors or supervisors.[40]

Unless there are concerns about the integrity of the statements/reports, we will recommend voting for these proposals. However, if all of the necessary documents (i.e., annual financial statements and auditors' reports) have not been made available, we do not believe shareholders will have sufficient information to make an informed judgment regarding this matter.[41] As such, we will recommend that shareholders abstain from voting on this agenda item.

Allocation of Profits/Dividends

In Taiwan, companies must submit the allocation of income for shareholder approval. We will generally recommend shareholders vote for such a proposal.

In accordance with the Company Act, prior to the distribution of dividends, companies are required to allocate at least 10% of their after-tax profits to a legal reserve. Additional allocations to legal reserves are no longer required when the reserve reaches 100% of a company's registered capital.[42] After the statutory requirement for allocation to the legal reserve has been met, the board may decide to declare a dividend payable to shareholders (in cash or shares), allocate a portion to a specific reserve and/or carry the profits forward in retained earnings.

Glass Lewis generally supports a company's policy when it comes to the payment of dividends including decisions not to pay them. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if shareholders would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

It is common for Taiwanese companies to allocate a stock dividend together with a cash dividend. In general, Glass Lewis believes that stock dividend plans are beneficial to shareholders, as they offer a less expensive way for shareholders to acquire additional shares by avoiding paying brokers' commissions or taxes applicable to normal stock transactions. For the company, a stock dividend typically offers a tax benefit and allows it to keep more of its earnings.

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[40] Company Act, Article 231.

[41] Under Article 36 of the Securities and Exchange Act, within three months following the close of each fiscal year, the company shall disclose financial reports that have been duly audited and certified by a certified public accountant, approved by the board of directors and recognized by the supervisors.

[42] Company Act, Articles 112 and 237.

The Link Between Remuneration and Performance

Director Remuneration

Glass Lewis believes that non-employee directors should receive remuneration for the time and effort they spend serving on the board and its committees. In particular, we support remuneration plans that include option grants or other equity-based awards that help to align the interests of outside directors with those of shareholders. Director fees should be competitive in order to retain and attract qualified individuals, but excessive fees can represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

Most listed companies in Taiwan employ a system of remuneration for management that includes a fixed base salary and an annual bonus system. Applicable regulations require that companies disclose the remuneration of directors, president and vice presidents in their annual reports.[43] Companies may either disclose the aggregate or individual remuneration for members of this group, though individual disclosure is necessary under certain circumstances.

We support remuneration plans that include option grants or other equity-based awards, which help to align the interests of outside directors with those of shareholders. We compare the costs of these plans to those of peer companies with similar market capitalizations to help inform our judgments on this issue. In addition, companies tend to have better disclosure surrounding these plans than for their fixed fees and bonuses.

Executive Remuneration

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive remuneration, as such matters should be left to the board's remuneration committee. We view the election of directors, specifically the election of remuneration committee members — as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance practices are in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based remuneration as an effective means of motivating executives to act in the best interests of shareholders. Performance-based remuneration may be limited if a chief executive's pay is capped at a low level, rather than flexibly tied to the performance of the company.

[43] Regulations Governing Information to be Published in Annual Reports of Public Companies.

Director Bonuses

Bonuses for directors are currently a report item that is not subject to shareholder approval. A company will propose an aggregate bonus based on a fixed percentage of distributable profits prescribed by the articles of association. In general, no breakdown of the bonuses payable to individual directors is available in the meeting handbook, though it may be offered in the annual report. We believe that the prevailing disclosure practices leave much to be desired.

Equity-Based Remuneration Plans

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing them with an incentive to act in a way that will improve company performance.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our analysis takes into account factors such as plan administration, the method and terms of exercise, and express or implied rights to re-price.

Our analysis is both quantitative and qualitative. In particular, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations.

We evaluate equity-based compensation based on the following overarching principles:

- Companies should seek more shares only when they need them.
- Plans should be small enough that companies need approval every three-to-four years (or less) from shareholders.
- Plans should not permit the re-pricing of stock options.
- Plans should not contain excessively liberal administrative or payment terms.
- Plan participants should be limited to employees and directors of the company, its subsidiaries and associates. Performance-based plans should not allow non-executive directors' participation.

In addition, as a general rule, we do not support granting performance-linked compensation to those who carry out supervisory duties because we believe that a non-executive director should hold the same type of securities as ordinary shareholders. Thus, we recommend shareholders vote against when non-executive directors are eligible to participate in a performance-linked plan.

We will oppose the granting of equity-based compensation awards where:

- The exercise price or discount rate of stock options is determined at the discretion of the plan administrator.
- The exercise price discount for stock options exceeds 20% of the market price.
- The minimum vesting period is less than two years unless vesting occurs immediately after a minimum two-year performance period. However, we will support an equity-based compensation plan that has a minimum vesting period of between one to two years provided that there is a clawback and/or malus mechanism in place.
- The equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further

event such as termination of employment of the grantee. However, we may take into consideration the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets as at the time of the transaction leading to a change in control.

We will recommend opposing proposals to grant individual equity awards where:

- The number of share options or shares to be granted has not been disclosed by the company.
- We recommend opposing the plan or plans the awards are being granted under.

Performance-Based Options

Shareholders commonly ask boards to adopt policies requiring that a significant portion of future stock option grants to senior executives be based on performance metrics such as performance-based options that have an exercise price linked to an industry peer group's stock-performance index.

Glass Lewis believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and the company's performance warrant such rewards. While we do not believe that equity-based pay plans for all employees should be based on overall company performance, we do support such limitations for equity grants to senior executives. However, some level equity-based compensation for senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment or in emerging industries. Boards often maintain that basing option grants on performance would hinder their ability to attract talent. We believe that boards can develop a consistent, reliable approach to attract executives who are able to guide the company toward its targets. If the board believes in performance-based pay for executives, then these proposals requiring the same should not hamper the board's ability to create equity-based compensation plans.

Employee Share Purchase Plans

Glass Lewis generally believes that participation by employees in a company in the form of share ownership is often in the best interests of shareholders. In particular, it can help align the interests of employees with those of shareholders by retaining and incentivizing employees to engage in conduct that will improve the performance of a company.

In evaluating employee share purchase plans, we will expect companies to have complete disclosure regarding the terms for such plans. However, we will oppose the establishing of an employee share purchase plan where:

- The discount to the purchase price provided under such plans exceed 20% to the market price, or the purchase is to be determined at the discretion of the plan administrator.
- There are no specified limitations on who may participate in the plan to otherwise prevent executives from being able to purchase a larger portion of shares under the plan than regular employees.
- The administrator of the plan includes insiders or other interested parities instead of a third party asset management company. We are concerned that the management may abuse these authorities in order to serve their own interests.

Governance Structure and the Shareholder Franchise

Amendments to the Articles of Association

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

Amendments to Procedural Rules

Companies in Taiwan frequently request approval of procedural rules for board meetings and shareholder meetings and for financial matters related to capital loans, external guarantees and acquisition and disposal of assets. These rules typically contain more granular provisions related to a company's operations and corporate governance. We usually support amendments to the procedural rules that are made to comply with changes in applicable laws and regulations, or those that accord with reasonable changes to a company's articles of association. This generally applies to our recommendations on financial procedural rules as well, though we may recommend that shareholders vote against these proposals if they propose to increase a company's financial authorities to an unreasonable level.

Increases in Capital

Glass Lewis believes that adequate capital stock is important to a company's operation. Taiwanese companies are authorized to increase share capital through several methods that may or may not involve the issuance of shares.

Issuance of Shares and/or Convertible Securities

In general, the issuance of an excessive amount of additional shares and/or convertible securities can dilute existing holders. Accordingly, if we find that a company has not detailed a plan for its use of the proposed shares, or if the number of proposed shares far exceeds those needed to accomplish a detailed plan, we will typically recommend shareholders vote against the authorization of additional shares.

While we think it is critical for management to have access to an adequate amount of shares in order to allow them to make quick decisions and effectively operate the business, we prefer that, for significant transactions,

management come to shareholders to justify their use of additional shares, rather than seeking a blank check in the form of a large pool of unallocated shares available for any purpose.

Without Preemptive Rights

In our view, unless a board provides any compelling reason, in general any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 20% of the company's total share capital.

Likewise, we believe the discount rate for the new issue should not exceed 15% of the average market price.

Private Placement

In Taiwan, it is common for companies to increase their share capital through private placements. However, many companies issue new shares to specific investors without preemptive rights and at an excessive discount. As such, we would usually apply tighter rules on dilutive private placements that allow for share price discounts. Given poor disclosures regarding the recipients of private placements, we generally apply the same standards to the analysis of these placements as we do to a conventional issuance of shares with or without preemptive rights. We may allow for exceptions in the case of companies who are financially distressed and unlikely to secure financing through other means.

Stock Split

We typically consider three metrics when evaluating whether we think a stock split is likely or necessary: (i) the historical stock pre-split price, if any; (ii) the current price relative to the company's most common trading price over the past 52 weeks; and (iii) some absolute limits on stock price that, in our view, either always make a stock split appropriate if desired by management, or would almost never be a reasonable price at which to split a stock.

Authority to Trade in Company Stock

A company may want to repurchase or trade in its own shares for a variety of reasons. A repurchase plan is often used to increase a company's stock price, distribute excess cash to shareholders or provide shares for employees' equity-based remuneration plans. In addition, a company might repurchase shares in order to offset a dilution of earnings caused by the exercise of stock options.

In general, we will recommend voting in favor of a proposal to repurchase and trade in company stock when the following conditions are met: (i) a maximum number of shares which may be purchased has been set; (ii) a maximum price which may be paid for each share – as a percentage of the market price – has been set; and (iii) the authorization expires after 18 months. Further, the Securities and Exchange Act limits the number of shares that may be repurchased to no more than 10% of a company's issued capital.[44]

[44] Securities and Exchange Act, Article 28-2.

In Taiwan, shares may only be repurchased only under a limited set of circumstances, such as (i) when a buyback will be used to transfer shares to employees; (ii) when the buyback is for equity conversion for use in the issuance of corporate bonds with warrants, preferred shares with warrants, convertible corporate bonds, convertible preferred shares or share subscription warrants; or (iii) when the buyback is required to maintain the company's credit or protect shareholder value and rights.[45]

Authority to Cancel Shares and Reduce Capital

Pursuant to the Company Act, a company shall not cancel its shares unless a resolution on capital reduction has been adopted at a shareholders' meeting.[46] A capital reduction shall be effected based on the percentage of shareholding of the investors pro rata, unless otherwise provided for in the Company Act or any other governing laws. It is relatively common for distressed companies in Taiwan to cancel shares in order to offset significant accumulated deficits. We will generally recommend support of such proposals provided that there is no reasonable alternative, such as capital reserves or other ready sources of cash.

Anti-Takeover Devices

Glass Lewis generally believes that authorities that are intended to prevent or thwart a potential takeover of a company are not conducive to good corporate governance and can reduce management accountability by substantially limiting opportunities for shareholders.

Taiwanese law is silent as to whether anti-takeover measures are permitted.

Supermajority Vote Requirements

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business.

Right of Shareholders to Call a Special Meeting

Pursuant to the Company Act,[47] shareholders continuously holding 3% or more of a company's issued share capital for a period of one year or longer may request the board of directors in written request to call a special meeting. If the board of directors fails to give a notice for convening a special meeting within 15 days after the filing of the request, those proposing shareholders may, after obtaining an approval from the competent authority, convene a special meeting on their own. In addition, any number of shareholders of a company who

[45] Securities and Exchange Act, Article 28-2.
[46] Company Act, Article 168.
[47] Company Act, Articles 173 and 173-1.

have continuously held more than 50% of the total number of outstanding shares for a period of three months or longer may convene a special meeting.

Corporate Guarantees

Companies may seek shareholder approval to provide corporate guarantees to subsidiaries, joint ventures and/or associate companies. Where shareholders are asked to approve corporate guarantees, our assessment will take the following into consideration:

- The overall disclosure relating to the corporate guarantees;
- The relationship between the company providing the corporate guarantees and those entities receiving the corporate guarantees;
- The benefits for provision of guarantees to the company itself and its shareholders as a whole, ensuring that the provision of guarantees will not only benefit select major shareholders;
- The size of the corporate guarantees compared to a company's net assets; and/or
- The rationale for the provision of guarantees.

We will oppose proposals to provide corporate guarantees if companies do not disclose the amount of corporate guarantees it intends to grant. The same may be applied where a company and guaranteed entity only share common directors or common shareholders, but there is no equity relationship between the company and guaranteed entity.

For entities to be guaranteed that are related to the guaranteeing company and the amount of corporate guarantees are disclosed, we will evaluate the size of corporate guarantees as a percent of a company's audited net assets (provided standalone financial reporting is available) or consolidated audited net assets, as based on the most recent audited financial statements. Where the proposed corporate guarantees and existing guarantees (if any) are less than 100% of audited net assets, we will support the provision of corporate guarantees. In contrast, where the proposed guarantees and existing corporate guarantees (if any) exceed 100% of audited net assets, we will oppose the provision of corporate guarantees.

Routine Items

Director Insurance and Indemnification

Under the Corporate Governance Principles,[48] with the consenting resolution of a shareholders' meeting, a TWSE/TPEx listed company may take out liability insurance for directors in order to reduce and spread the risk of material harm to the company and shareholders arising from any illegal conduct. However, we believe directors' liability insurance should not cover liabilities arising in connection with a director's violation of laws, regulations or the company's articles of association.

Non-Compete Restrictions

Pursuant to the Company Act,[49] shareholders must approve of the essential contents of any acts committed by a director, for himself or on behalf of another person, that fall within the scope of a company's business. Releasing directors from these restrictions, which prohibit board members from conducting any activities that can be considered to be competitive with the business affairs of the company, may lead to potential conflicts of interest.

Accordingly, we typically recommend shareholders vote for releasing directors from non-compete restrictions only when the competitive entities in question are wholly-owned and controlled subsidiaries, joint ventures or substantial shareholders. In the event that a company proposes releasing directors as a "slate," rather than allowing a vote on restrictions for individuals directors, we will recommend voting against the entire proposal if any of the competitive businesses do not comply with the above standard.

Transaction of Other Business

It is common for companies in Taiwan to include "extraordinary motions" among their agenda items for shareholder meetings. Under local laws and regulations, shareholders voting remotely may not cast their votes on such items in advance, though proxies in attendance at a meeting may vote on their behalf. If included on the ballot, we provide our voting recommendation for extraordinary motions as a technical matter and for the benefit of shareholders who will attend in person. Despite the inability of shareholders attending via proxy to properly exercise their votes on these items, we believe that these shareholders should seize any opportunity provided by the proxy voting process to express their opposition to the transaction of any business for which there was not complete and timely disclosure in advance of the meeting.

[48] Corporate Governance Principles, Article 39.

[49] Company Act, Article 209.

Authority to Carry Out Formalities

In Taiwan, as a routine matter, shareholders are usually asked to grant management the authority to complete any and all formalities, such as required filings and registrations, needed to carry out decisions made at the meeting. In general, we recommend voting for these proposals in order to help management complete the formalities necessary to validate the decisions made at the annual meeting.

Dividend Reinvestment (or Scrap Dividend) Plan

We support plans that provide shareholders with the choice of receiving dividends in stock instead of cash. For the company, a stock dividend typically offers a tax benefit and allows it to keep more of its earnings. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares, as they avoid paying brokers' commissions or the taxes on normal stock transactions. The stock price is usually equal to an average, middle-market price, which is often lower than the price available on the stock exchange.

Virtual Shareholder Meetings

A growing contingent of companies have elected to hold shareholder meetings by virtual means only. Glass Lewis believes that virtual meeting technology can be a useful complement to a traditional, in-person shareholder meeting by expanding participation of shareholders who are unable to attend a shareholder meeting in person (i.e., a hybrid meeting). However, we also believe that virtual-only meetings have the potential to curb the ability of a company's shareholders to meaningfully communicate with the company's management.

Prominent shareholder rights advocates, including the Council of Institutional Investors, have expressed concerns that such virtual-only meetings do not approximate an in-person experience and may serve to reduce the board's accountability to shareholders. When analyzing the governance profile of companies that choose to hold virtual-only meetings, we look for robust disclosure in a company's proxy statement which assures shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

Examples of effective disclosure include: (i) addressing the ability of shareholders to ask questions during the meeting, including time guidelines for shareholder questions, rules around what types of questions are allowed, and rules for how questions and comments will be recognized and disclosed to meeting participants; (ii) procedures, if any, for posting appropriate questions received during the meeting and the company's answers, on the investor page of their website as soon as is practical after the meeting; (iii) addressing technical and logistical issues related to accessing the virtual meeting platform; and (iv) procedures for accessing technical support to assist in the event of any difficulties accessing the virtual meeting.

Before late 2021, Taiwan had not enacted laws, regulations or rules to allow for the holding of virtual and/or hybrid shareholder meetings. However, in December 2021, the Legislative Yuan approved the amendments of

the Company Act[50] to allow public companies to hold their shareholders' meetings electronically. As a result, in 2022, companies began to amend their articles of associations to permit virtual or hybrid shareholder meetings.

While there are some limitations[51] on shareholders attending shareholders' meeting virtually, such as the number of questions one can ask and a word limit on those questions, we note that the limitations in question are technical limitations due to the nature of virtual meeting platforms. Virtual meetings still provide a benefit to shareholders who cannot attend the meeting in person.

[50] Company Act, Article 172-2.
[51] TWSE Sample Template for XXX Co., Ltd. Rules of Procedure for Shareholders Meetings, Article 11.

Overall Approach to Environmental, Social & Governance

Glass Lewis evaluates all environmental and social issues through the lens of long-term shareholder value. We believe that companies should be considering material environmental and social factors in all aspects of their operations and that companies should provide shareholders with disclosures that allow them to understand how these factors are being considered and how attendant risks are being mitigated. We also are of the view that governance is a critical factor in how companies manage environmental and social risks and opportunities and that a well-governed company will be generally managing these issues better than one without a governance structure that promotes board independence and accountability.

We believe part of the board's role is to ensure that management conducts a complete risk analysis of company operations, including those that have material environmental and social implications. We believe that directors should monitor management's performance in both capitalizing on environmental and social opportunities and mitigating environmental and social risks related to operations in order to best serve the interests of shareholders. Companies face significant financial, legal and reputational risks resulting from poor environmental and social practices, or negligent oversight thereof. Therefore, in cases where the board or management has neglected to take action on a pressing issue that could negatively impact shareholder value, we believe that shareholders should take necessary action in order to effect changes that will safeguard their financial interests.

Given the importance of the role of the board in executing a sustainable business strategy that allows for the realization of environmental and social opportunities and the mitigation of related risks, relating to environmental risks and opportunities, we believe shareholders should seek to promote governance structures that protect shareholders and promote director accountability. When management and the board have displayed disregard for environmental or social risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental and social risks that threaten shareholder value, we believe shareholders should consider holding directors accountable. In such instances, we will generally recommend against responsible members of the board that are specifically charged with oversight of the issue in question.

When evaluating environmental and social factors that may be relevant to a given company, Glass Lewis does so in the context of the financial materiality of the issue to the company's operations. We believe that all companies face risks associated with environmental and social issues. However, we recognize that these risks manifest themselves differently at each company as a result of a company's operations, workforce, structure, and geography, among other factors. Accordingly, we place a significant emphasis on the financial implications of a company's actions with regard to impacts on its stakeholders and the environment.

When evaluating environmental and social issues, Glass Lewis examines companies':

Direct environmental and social risk — Companies should evaluate financial exposure to direct environmental risks associated with their operations. Examples of direct environmental risks include those associated with oil or gas spills, contamination, hazardous leakages, explosions, or reduced water or air quality, among others. Social risks may include non-inclusive employment policies, inadequate human rights policies, or issues that

adversely affect the company's stakeholders. Further, we believe that firms should consider their exposure to risks emanating from a broad range of issues, over which they may have no or only limited control, such as insurance companies being affected by increased storm severity and frequency resulting from climate change.

Risk due to legislation and regulation — Companies should evaluate their exposure to changes or potential changes in regulation that affect current and planned operations. Regulation should be carefully monitored in all jurisdictions in which the company operates. We look closely at relevant and proposed legislation and evaluate whether the company has responded proactively.

Legal and reputational risk — Failure to take action on important environmental or social issues may carry the risk of inciting negative publicity and potentially costly litigation. While the effect of high-profile campaigns on shareholder value may not be directly measurable, we believe it is prudent for companies to carefully evaluate the potential impacts of the public perception of their impacts on stakeholders and the environment. When considering investigations and lawsuits, Glass Lewis is mindful that such matters may involve unadjudicated allegations or other charges that have not been resolved. Glass Lewis does not assume the truth of such allegations or charges or that the law has been violated. Instead, Glass Lewis focuses more broadly on whether, under the particular facts and circumstances presented, the nature and number of such concerns, lawsuits or investigations reflects on the risk profile of the company or suggests that appropriate risk mitigation measures may be warranted.

Governance risk — Inadequate oversight of environmental and social issues carries significant risks to companies. When leadership is ineffective or fails to thoroughly consider potential risks, such risks are likely unmitigated and could thus present substantial risks to the company, ultimately leading to loss of shareholder value.

Glass Lewis believes that one of the most crucial factors in analyzing the risks presented to companies in the form of environmental and social issues is the level and quality of oversight over such issues. When management and the board have displayed disregard for environmental risks, have engaged in egregious or illegal conduct, or have failed to adequately respond to current or imminent environmental risks that threaten shareholder value, we believe shareholders should consider holding directors accountable. When companies have not provided for explicit, board-level oversight of environmental and social matters and/or when a substantial environmental or social risk has been ignored or inadequately addressed, we may recommend voting against members of the board. In addition, or alternatively, depending on the proposals presented, we may also consider recommending voting in favor of relevant shareholder proposals or against other relevant management-proposed items, such as the ratification of auditor, a company's accounts and reports, or ratification of management and board acts.

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