



ICGN

International Corporate Governance Network

Taiwan Stock Exchange

By email: 1248@twse.com.tw

30 March 2020

Subject: ICGN comment letter to the Taiwan Stock Exchange consultation on the Revision of Stewardship Principles for Institutional Investors

The International Corporate Governance Network (ICGN) is pleased to respond to the Taiwan Stock Exchange (TSE) consultation on the Revision of Stewardship Principles for Institutional Investors

Led by investors responsible for assets under management in excess of US\$52 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide. Our policy positions are guided by the ICGN Global Governance Principles¹ and the ICGN Global Stewardship Principles,² both of which have been developed in consultation with ICGN Members and as part of a wider peer review. For more information on ICGN please see: www.icgn.org.

One of ICGN's core policy priorities is to make successful stewardship a reality.³ ICGN's Global Stewardship Principles (GSP) have influenced stewardship standards in a broad range of markets globally and have been endorsed by many of the world's leading institutional investors.⁴ ICGN is also a regular contributor to regulatory consultations on stewardship, and has provided feedback in the past to the TSE with regard to the Stewardship Principles for Institutional Investors (Principles).⁵ In this context ICGN would first like to congratulate TSE again for introducing the Principles in 2016, and it is our hope that this has led to improvements in investor stewardship in the Taiwanese market. It is a healthy practice to review the existing Principles periodically-- to address how they have worked in practice and to consider potentially relevant developments in stewardship in other markets.

¹ See: ICGN Global Governance Principles:

http://icgn.flpbks.com/icgn_global_governance_principles_jpn/

² See: ICGN Global Stewardship Principles:

https://www.icgn.org/sites/default/files/ICGN_Global_Stewardship_Principles_JPN_1.pdf

³ See ICGN Policy Priorities:

<https://www.icgn.org/sites/default/files/ICGN%20Policy%20Prriorities%202018-9.pdf>

⁴ ICGN's own Global Stewardship Principles are currently in the process of revision in 2020 following Membership consultation and policy committee review.

⁵ See ICGN comment letter to Taiwan Stock Exchange, February 2016:

https://www.icgn.org/sites/default/files/Taiwan%20Exchange%20stewardship%20code%20consultation_1.pdf

We would like to present ideas for your consideration as outlined below.

Overarching foreword or guidance statement

From the red underlining in the TSE's consultation document it is clear what changes are being proposed, and intent behind many of the proposed changes may be largely self-explanatory. However, we think it might be beneficial if TSE were to articulate more clearly the thinking that is behind these proposed revisions and its approach to stewardship more generally. Perhaps the TSE can complement the Principles themselves with a short guidance document for users.

Environmental, Social and Governance (ESG) factors

It is positive to see the Principles introduce the integration of ESG factors into the investment and stewardship in the new Guidelines 1-2 and 3-3. ESG has been a core element of ICGN's GSP since their 2016 launch, and it is encouraging to see the TSE's Principles also bring ESG more formally into practice of stewardship. You may wish to emphasise the use of ESG factors in investment decision making. We believe ESG factors should be considered not only in the context of stewardship, engagement and voting, but also in investment decisions relating to valuation and the buying or selling of financial assets.

The Principles do not make any mention of systemic risks relevant to institutional investors, even if they may be linked to ESG factors. It is important for investors to recognise that systemic risks, including those relating to the coronavirus, climate change, wealth inequality and anti-corruption, can affect the sustainable value creation of individual companies as well as the health of economies and financial markets. The TSE may therefore wish to include mention of systemic risks in the Principles.

“Ecosystem” of stewardship

The TSE Principles focus on the role to be played in stewardship by 'institutional investors', without distinguishing the specific roles of asset owners and asset managers. We appreciate that one of the objectives of the Principles was to keep them simple and flexible. But we observe that other stewardship codes, as well as ICGN's own GSP, focus on not only the distinct activities of asset managers and asset owners—but also on other players in the stewardship 'ecosystem', including service providers (proxy agencies, ESG ratings and investment consultants). Without this additional perspective, the TSE Principles are more limited in nature than other stewardship codes, and possibly vaguer in terms of practical application.

Stewardship reporting

We support the new call in Guideline 6-3 of the Principles for investors to publish a stewardship report, and we think the framework presented will be useful for signatories. ICGN's GSP place increasing emphasis on the reporting of stewardship outcomes as an indicator of effectiveness. Stewardship has the greatest meaning when it is directly relates to practical outcomes, and not just a process or policy

framework. Beneficiaries should have a clear understanding as to how stewardship provides meaningful value and benefits.

Governance of stewardship

We note that Principle 2, with its focus on conflicts of interest, remains unchanged. It is positive to see considerable attention in the Principles focused on managing conflicts. But we would encourage the TSE's Principles to consider broader aspects of governing stewardship within investment institutions beyond conflicts. This includes greater emphasis on fiduciary duty, culture and values by institutional investors. It is important for investors to embrace these underlying principles and adapt these within their organisations.

For ICGN the governance of stewardship calls for an explicit link between fiduciary duty and long-term value creation, which is in turn directly linked to sustainable benefits for the economy, environment and society. Particularly for investors whose beneficiaries are pensioners and individuals saving for retirement, a long-term perspective is fundamental to stewardship. In turn, sustainable value creation for long-term savers brings wider broad social and economic benefits.

Passive funds

The new proposed Guideline 4-5 draws particular attention to the stewardship obligations of passive funds. We support the point that passive funds do have stewardship responsibilities, even if the investment strategy may be index based. But at least in the English language version of the Principles the wording is awkward and possibly confusing. Stewardship calls for all investors, not just passive funds, to focus on enhancing long term value, engage in dialogue and participate in voting in shareholders meeting. You might just simply say that passive funds have no lesser stewardship responsibilities than other types of investors even if they have an different investment strategy.

Asset classes

We observe that the TSE Principles are focused on investors in listed equities. While this is an important starting point for many investors, we believe the TSE may wish at some point to place more emphasis on the application of stewardship to asset classes beyond listed equities. Institutional investors invest in a wide range of assets on behalf of their beneficiaries, and the broad principles of stewardship are relevant to other classes, including corporate and public sector debt, private equity, real estate and infrastructure.

A final suggestion: on the Corporate Governance Center section of the TSE's website we note that you have a page for "Related links" in the About Us section and under Stewardship Principles you have a list with examples of other stewardship codes. Given the global reach of ICGN and its policy documents, our request is that you include a link to ICGN in the "Related links" page and a link to ICGN's Global Stewardship Principles to be included with some of the other codes listed.

We hope these comments are useful in your deliberations. If you would like to follow up with us with questions or comments, please contact our Policy Director George Dallas: george.dallas@icgn.org .

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kerrie Waring', written in a cursive style.

Kerrie Waring
Chief Executive Officer, ICGN

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