

Better Corporate Governance With E-voting Gradually Gets Adopted in Taiwan

-a Big Data Analysis of Taiwan's E-voting in AGMs

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Introduction

Toward the realization of corporate governance and shareholder activism, Taiwan Depository & Clearing Corporation (TDCC) set up an e-voting platform for shareholders' meetings where shareholders can effectively exercise their voting rights without limits or boundaries in time and space. Established under the instructions of Taiwanese authorities in 2009, this system is expected to improve Taiwanese companies' corporate governance rankings in Asia, further enhance the operation of securities markets, and protect shareholders' rights. In recent years, TDCC has been actively promoting the adoption of e-voting procedures at shareholders' meetings in TWSE/TPEX listed and emerging stock companies. In accordance with the *Company Act*, the competent authority has increased the scope of mandatory e-voting schemes year by year. Shareholders' meetings in Taiwan have thus entered a new era. TWSE/TPEX listed companies with over NT\$10 billion paid-in capital and over 10,000 individuals in the shareholder register on the last book closure date have been required to adopt e-voting at shareholders' meetings since 2012. Those with NT\$5 billion paid-in capital and over 10,000 individuals in the shareholder register on the last book closure date have been required to adopt e-voting at shareholders' meetings since 2014. Those with NT\$2 billion paid-in capital and over 10,000 individuals in the shareholder register on the last book closure date have been required to adopt e-voting at shareholders' meetings since 2016. IPO Companies starting from 2016 are also required to follow suit. Starting in 2018, e-voting will become mandatory for all listed companies, marking an important milestone in Taiwan in the history of e-voting.

E-voting shortens meetings and boosts efficiency. Shareholders used to attend their meetings in person or by appointing a proxy or representative. Since the commencement of e-voting, they can choose a more convenient means to exercise their shareholders' voting rights. The new approach also creates better transparency and corporate governance. Companies implementing e-voting have achieved 100% voting by poll. The percentage of companies using a nomination system for candidates of directors and supervisors in e-voting enterprises is higher than that in companies which don't vote through an electronic mode.

In 2016, Taiwan rose two notches up to fourth among eleven Asian markets in corporate governance rankings released by the Asian Corporate Governance Association (ACGA). Some of the key drivers were the explosive growth of e-voting platforms, institutional investors actively participating in shareholders' meetings, increased English information disclosure, as well as the enhanced quality of shareholders' meetings, e.g. voting by poll and a nomination system for candidates of directors and supervisors. Due to the competent authority's successful implementation of relevant policies and TDCC's effort into e-voting promotion, Taiwan's achievements were internationally recognized, and Taiwan has moved up in corporate governance rankings.

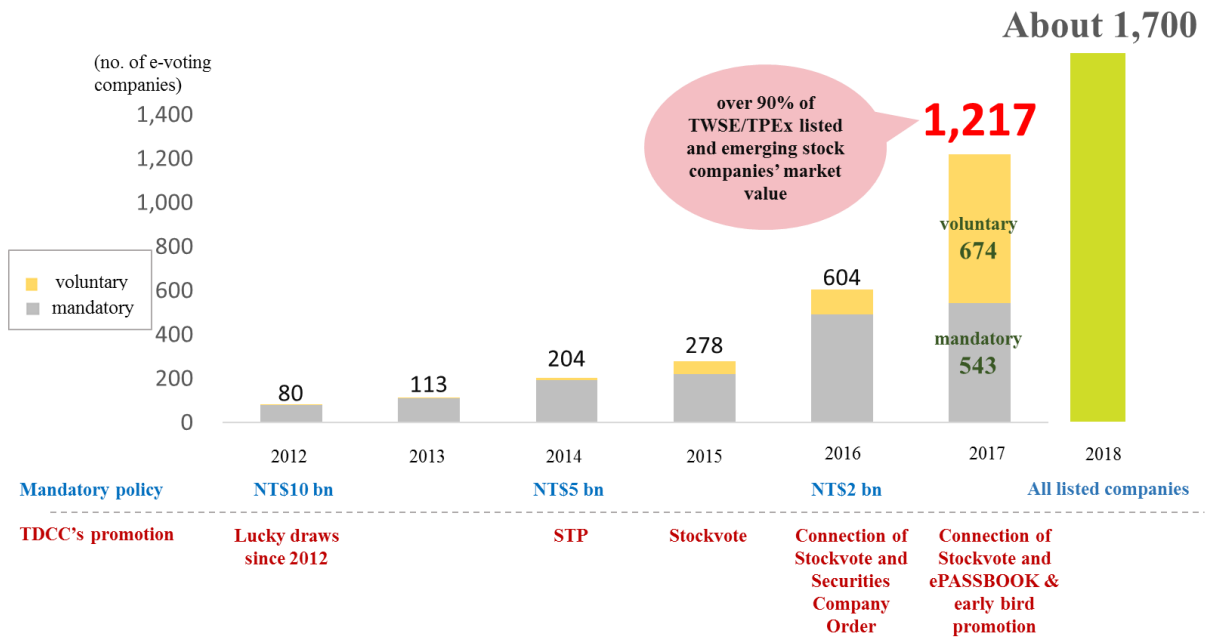
This research will analyze the performance of e-voting promotion over the years, influences of e-voting on shareholders' meetings, and e-voting behavior of shareholders. Data will be examined in hopes of engaging in active ownership, raising shareholders' meeting quality, providing the competent authority with information on policy formulation and system reforms, as well as strengthening corporate governance in Taiwan. Due to length constraints, data analyses will focus on the concerns of issuers and investors. Samples appear to be a little inadequate since only a few of the companies have adopted e-voting in the previous years. Follow-up analyses will be conducted after the universal adoption of e-voting technologies in listed companies in 2018.

Performance of E-Voting Promotion over the Years

a. The number of e-voting companies hit a record high. E-voting shares are increasingly significant to issuers.

The number of listed and emerging stock companies using e-voting system has grown exponentially every year. 1,217 of them have embraced e-voting infrastructure in 2017, accounting for over 90% of market value. Among these enterprises, 674 voluntarily introduced the system. This number is nearly six times that of the previous year (Figure 1). Thus, the mandatory e-voting companies were outnumbered by the voluntary e-voting companies for the very first time. It is quite clear that e-voting has been recognized by companies trading on the two main boards and the emerging stock board.

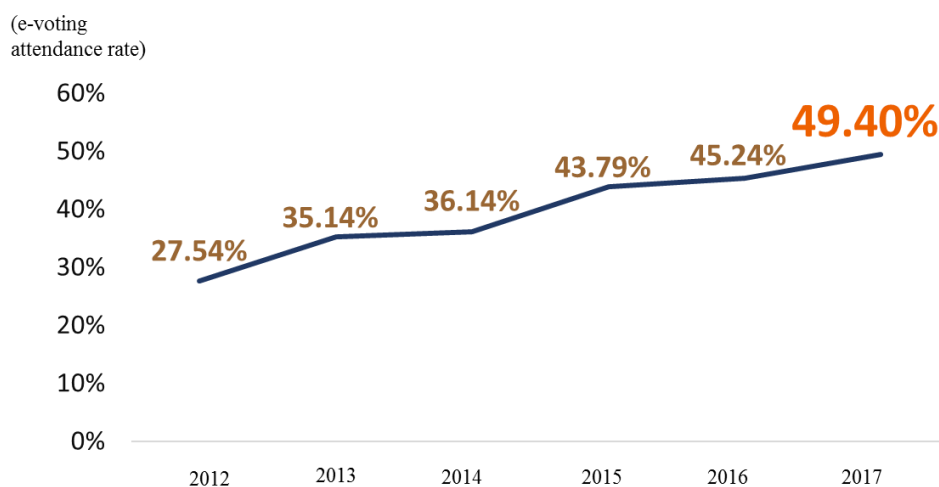
■ **Figure 1 Number of e-voting companies**



The ratio of e-voting shares to total shares held by the attendees is improving as well. In 2017, the average e-voting attendance rate reached 49.4%¹ (Figure 2), proving e-voting particularly significant in the outcomes of shareholders' meetings. Three companies achieved 100% voter turnout, 79 companies enjoyed over 90% voter turnout, and 302 companies had over 50% voter turnout. The competent authority implemented the mandatory e-voting policy phase by phase, and TDCC helped promote it. Online voting systems have been gradually accepted by the market, and thus have yielded a higher e-voting attendance rate.

¹ E-voting attendance rate is the percentage of total e-voting shares cast of total shares cast in a shareholders' meeting.

■ **Figure 2 E-voting attendance rate**

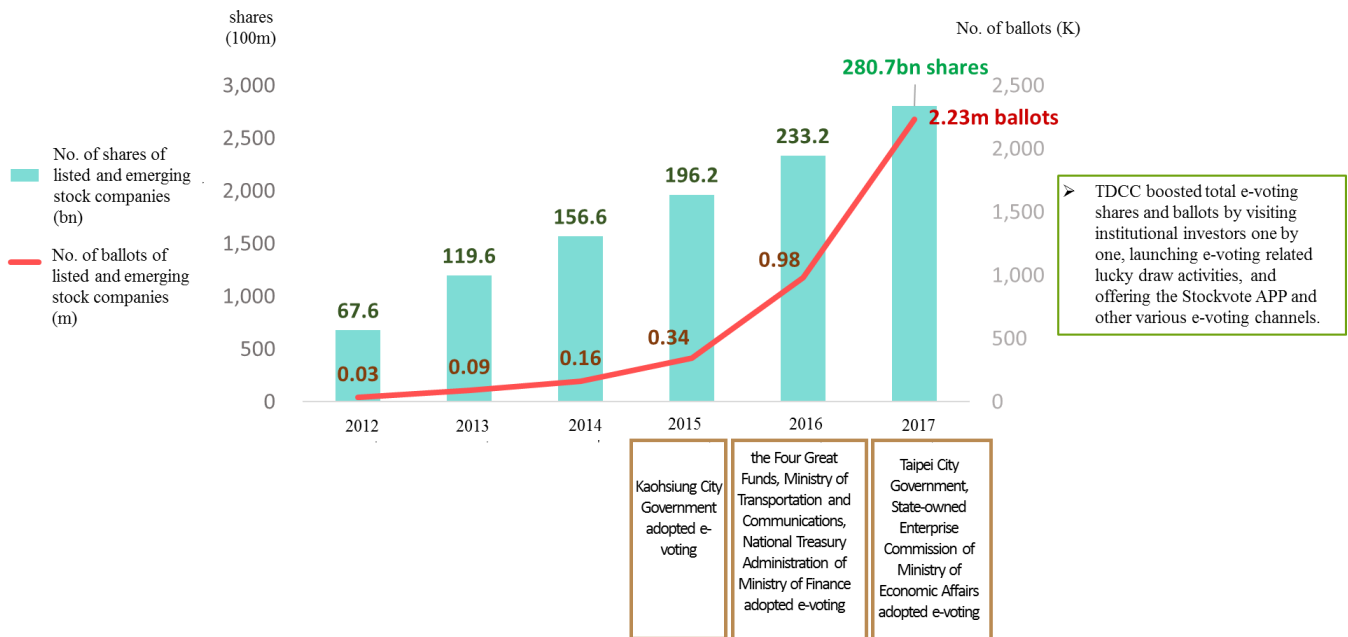


- E-voting attendance rate is the ratio of e-voting shares to total shares possessed by the attendees in a shareholders' meeting.

b. Proactive measures for engaging all investors into e-voting were successful.

As foreign capital increased in Taiwan's securities market, TDCC has cooperated with the leading global provider of online voting solutions in Straight Through Processing (STP) for cross-border voting since 2014. The standardized and automated voting system aimed to encourage participation of foreign investors in shareholders' meetings. TDCC also paid institutional shareholders frequent visits, built convenient multiple e-voting channels via APPs, and in 2012, launched e-voting lucky draw schemes. With the authority's instructions and assistance, all TDCC's hard work has paid off. The e-voting mechanism has been operating reliably and the results have been more spectacular than that those of the past few years. In 2017, the total e-voting ballots hit 2.23 million with 280.7 billion total e-voting shares. They were 2.27 times and 1.2 times of that in 2016 (Figure 3). Foreign institutional investors, the biggest supporters of e-voting, enjoyed the highest e-voting share rate of 58%. Domestic institutional investors with 21%, other institutional shareholders with 19%, and individual shareholders with 2% of e-voting shares trailed behind. The percentage of e-voting shares of domestic institutional investors has accelerated in the past 3 years. The Taiwanese government joined the e-voting trend in 2015. Taipei City Government, Kaohsiung City Government, the Four Great Funds (Postal Savings Fund, Public Service Pension Fund, Labor Pension Fund, and Labor Insurance), Ministry of Transportation and Communications, National Treasury Administration of Ministry of Finance, as well as State-owned Enterprise Commission of the Ministry of Economic Affairs all adopted the new online voting system. A great leap forward regarding the application of stewardship principles and the awareness of exercising shareholder rights was witnessed.

■ **Figure 3 E-voting shares and ballots**



c. Summary

With the imposition of e-voting policies by the authority and the deliberate promotion by TDCC, the number of e-voting listed and emerging stock companies, total e-voting ballots, and total e-voting shares have proliferated. Wider participation of institutional investors has been achieved. The shareholders' meetings have become more effective and efficient concerning voting by poll as well as a nomination system for candidates of directors and supervisors. As a result, Taiwan has risen in corporate governance rankings and has received international acclaim.

Influences on the Shareholders' Meetings of the Issuers

a. Shareholders' meetings have become more efficient.

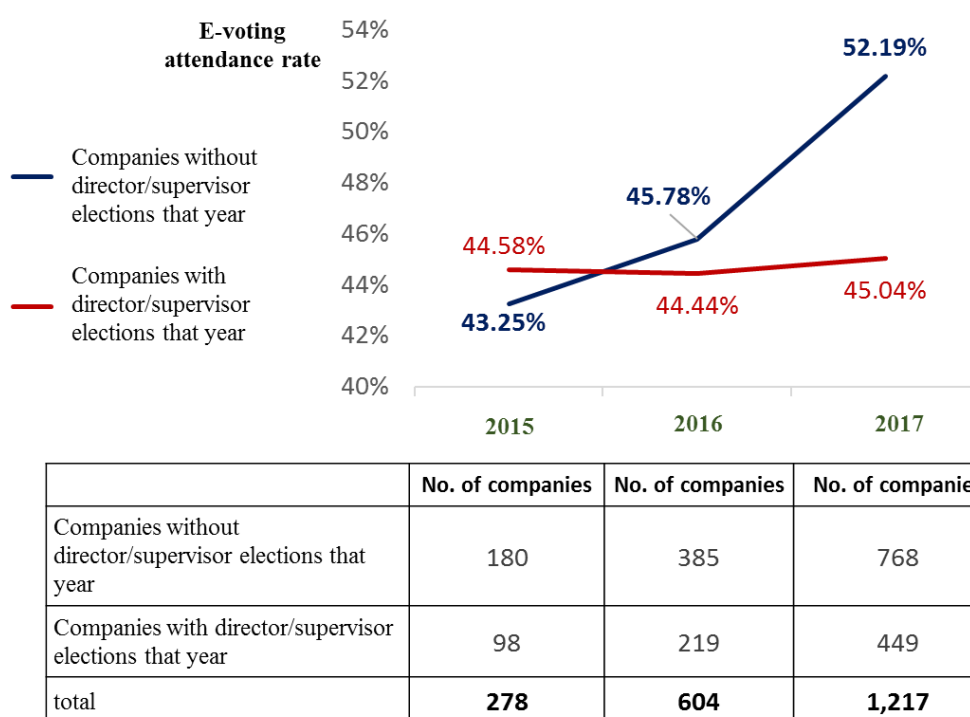
E-voting systems always follow poll-voting rules, making the process more transparent. E-voting develops faster, more productive and cost-efficient meetings. According to statistics, shareholders' meetings in 2015, 2016, and 2017 lasted 74, 60, and 48 minutes on average, showing a 35% decrease from 2015 to 2017. The data also observed a negative correlation between e-voting attendance rate and shareholders' meeting length.

b. Director/supervisor elections slightly affect the e-voting attendance rate.

Director/supervisor elections are decisive motions which can impact a company's operation and development. Thus, these elections and the e-voting attendance rate were analyzed. Companies with and without director/supervisor elections during 2015 to 2017 were classified into two

groups. Extreme values were removed. The results indicated that big shareholders are more inclined to attend in person or by proxy in companies holding director/supervisor elections, leading to lower e-voting attendance rates (lower than that of the ungrouped data). In the years without director/supervisor elections, companies had higher e-voting attendance rates (higher than that of the ungrouped data and that of the years holding such elections). In addition, e-voting attendance rates have sustained steady growth (Figure 4).

Figure 4 How do director/supervisor elections affect e-voting attendance rate?

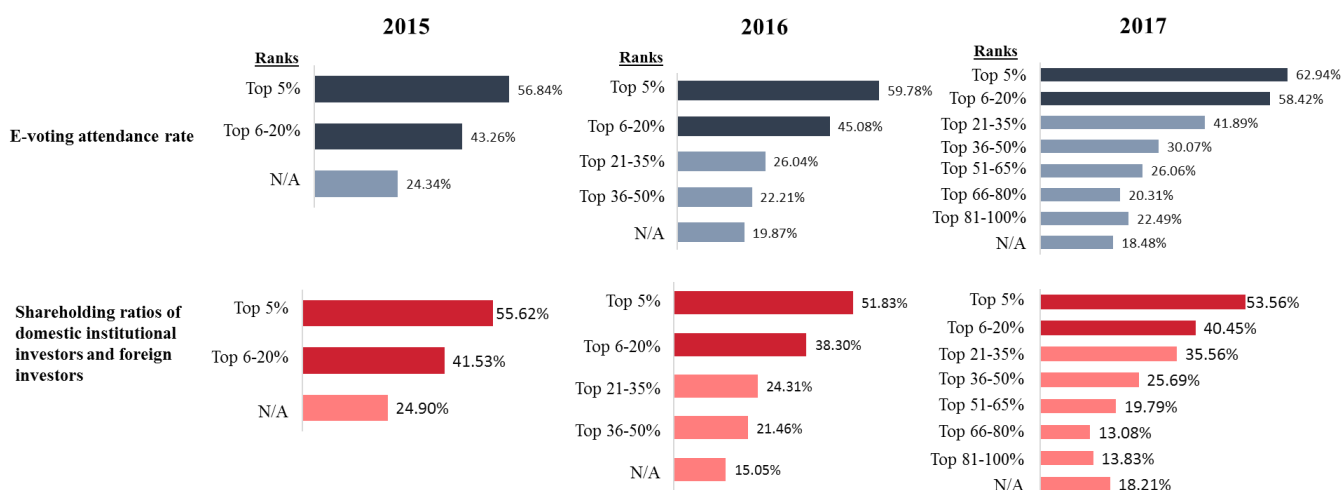


c. E-voting has significantly positive effects on corporate governance.

Nomination systems and voting by poll are valuable tools that help build a transparent voting process. On the one hand, up to 71% of e-voting companies adopted a nomination system for director/supervisor elections in 2017. Among them, the percentage of compulsory e-voting companies reached 84%. The number of listed and emerging stock companies which conducted offline elections was only 33%. On the other hand, e-voting companies have maintained a 100% voting by poll rate while companies with offline voting systems observed only 24%. Moreover, the number of e-voting companies applying for a nomination system rose from 89 in 2012 to 860 in 2017, an increase of 9.7 times. In short, e-voting boosts nomination systems and voting by poll, further strengthening corporate governance.

In 2017, companies ranked in the top 20% of corporate governance enjoyed over 50% of e-voting attendance rate on average. Reviewing the past three years, companies which scored higher had a higher e-voting attendance rate. Enterprises with better corporate governance rankings observed higher shareholding ratios of domestic institutional investors and foreign investors, as well as higher e-voting attendance rates (Figure 5).

■ **Figure 5 Issuers with higher corporate governance rankings tend to have better e-voting attendance rates**



* The corporate governance rankings of e-voting companies were based on the previous year's performance

d. Summary

Statistics show that e-voting does make shareholders' meetings more efficient, and increases the use of poll-voting rules as well as nomination systems for director/supervisor elections in listed and emerging stock companies. It is also a contributing factor in achieving better corporate governance rankings.

An Analysis of E-voting Behavior

Since it will be compulsory for all listed enterprises to adopt e-voting systems in 2018, the number of e-voting companies is expected to increase by one third. It is estimated that every year, 1,700 companies will allow their shareholders to vote online. Voting through electronic means makes meetings more accessible, which in turn makes shareholders more proactive. Thus, shareholders casting votes remotely play a key role in influencing the meeting results. It will be important for issuers to have a proper understanding of shareholders' voting behavior in online settings, so future shareholders' meetings will be neatly planned and arranged. The following

analyses probe into different types of shareholders' e-voting behavior, including individual shareholders and institutional shareholders based onshore and offshore.

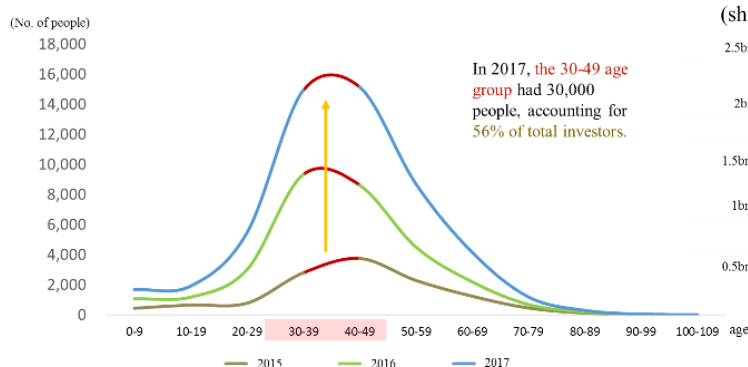
a. Individual shareholders

TDCC has been conducting lucky draw campaigns to encourage individual shareholders' participation in meetings and exercise of voting rights. They can choose to vote via PC or APP. In 2017, 2.13 million e-voting ballots were cast. In order to understand these shareholders, their age, region, and choice of voting channels were examined.

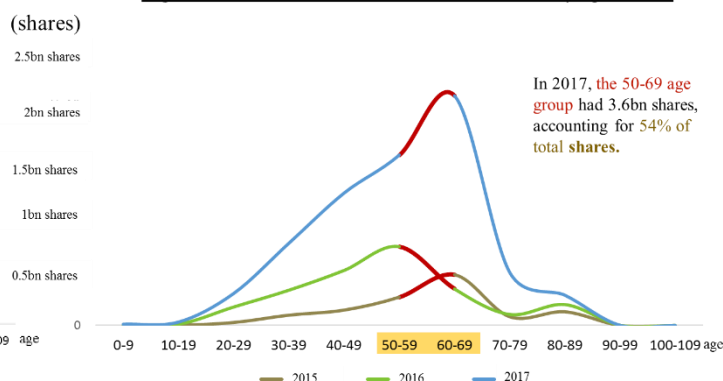
1. The ages of individual shareholders opting for e-voting are bell-shaped.

A demographic analysis from 2015 to 2017 was made to study individual shareholders voting on resolutions online. On the one hand, vote distribution by age formed a bell-shaped curve. Those in the 30-49 age group accounted for 56% of total voters. The distribution is in line with expectations. People in this age group are beginners in stock investment and regular smartphone APP users. The number of users in this age group also increased the most in the past three years (Figure 6.1). On the other hand, investors in the 50-69 age group took up the biggest portion of e-voting shares with 54%, followed by the 30-49 age group with 29%. The voters in the 50-69 age group are fewer than those in the 30-49 age group, but the former are more financially well off, and possess more shares per person. This also conforms to expectations (Figure 6.2). As Fintech is thriving, users of different generations have become more dependent on smartphone APPs. Technology is changing users' behaviors by increasing convenience. E-voting will become more popular with users of all ages in the future.

■ **Figure 6.1 Individual investors' vote distribution by age: number of people**



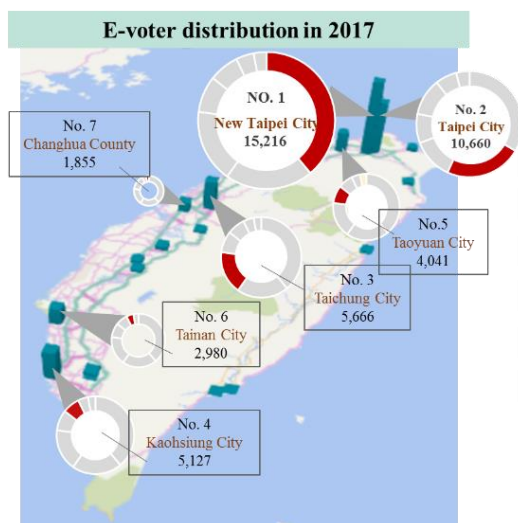
■ **Figure 6.2 Individual investors' vote distribution by age: shares**



2. E-voting users mainly come from the six major cities with Changhua County playing catch up.

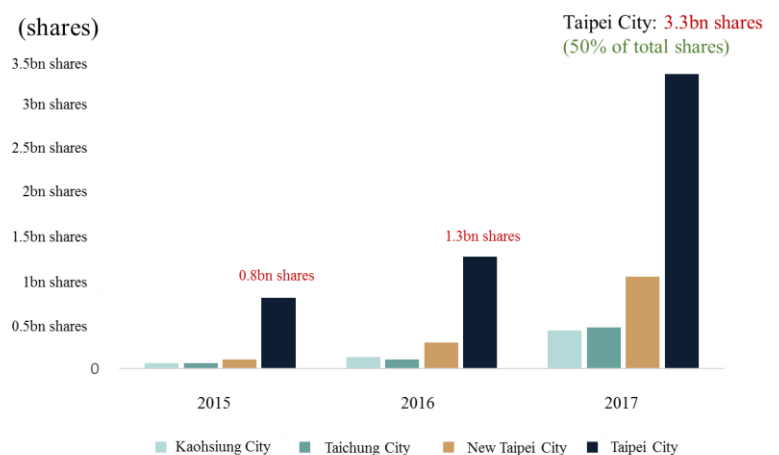
In view of regions over the past three years, investors voting online have been concentrated in seven major cities. In 2017, New Taipei City took first place with 15,000 voters, 28% of the total voters. Taipei City accounted for 20% with 10,000 voters. As for Taichung City, Kaohsiung City, Taoyuan City, Tainan City, and Changhua County, they took up 11%, 10%, 8%, 6%, and 3% of voters respectively. The vote distribution matches Taiwan’s population distribution (Figure 7.1). The seven cities were also the principal sources of e-voting shares. Taipei City was at the top of the list with 3.3 billion shares, 50% of the total e-voting shares. New Taipei City had 1 billion shares accounted for 15%. Taichung City, Kaohsiung City, Tainan City, Taoyuan City, and Changhua County had 7%, 6%, 5%, 4%, and 3% of total shares respectively (Figure 7.2). Reviewing the data from 2015 to 2017, Taipei City has maintained the highest percentage of shares cast even though it’s second in population to New Taipei City.

■ **Figure 7.1 Individual investors’ vote distribution by region: number of people**



* Taichung City: 11%; Kaohsiung City:10%;
 Taoyuan City: 8%; Tainan City: 6%;
 Changhua County: 3%

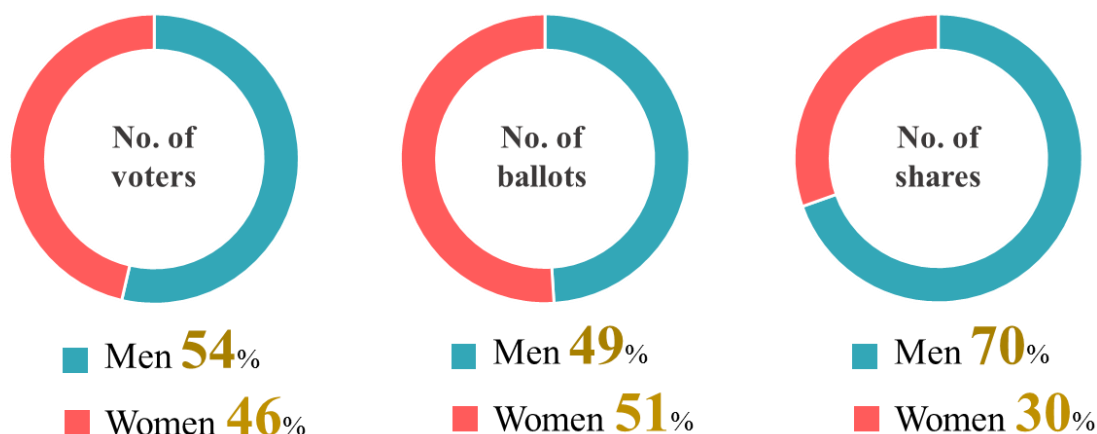
■ **Figure 7.2 Individual investors’ vote distribution by region: shares**



3. The voting gender gap is large concerning e-voting shares.

The distribution patterns have remained similar in the past three years. Take the year 2017 as an example. The number of men using e-voting was slightly higher than that of women, yet the ratio of men to women in e-voting ballots stood at approximately 1:1. However, the number of shares men cast was much higher than women’s (Figure 8).

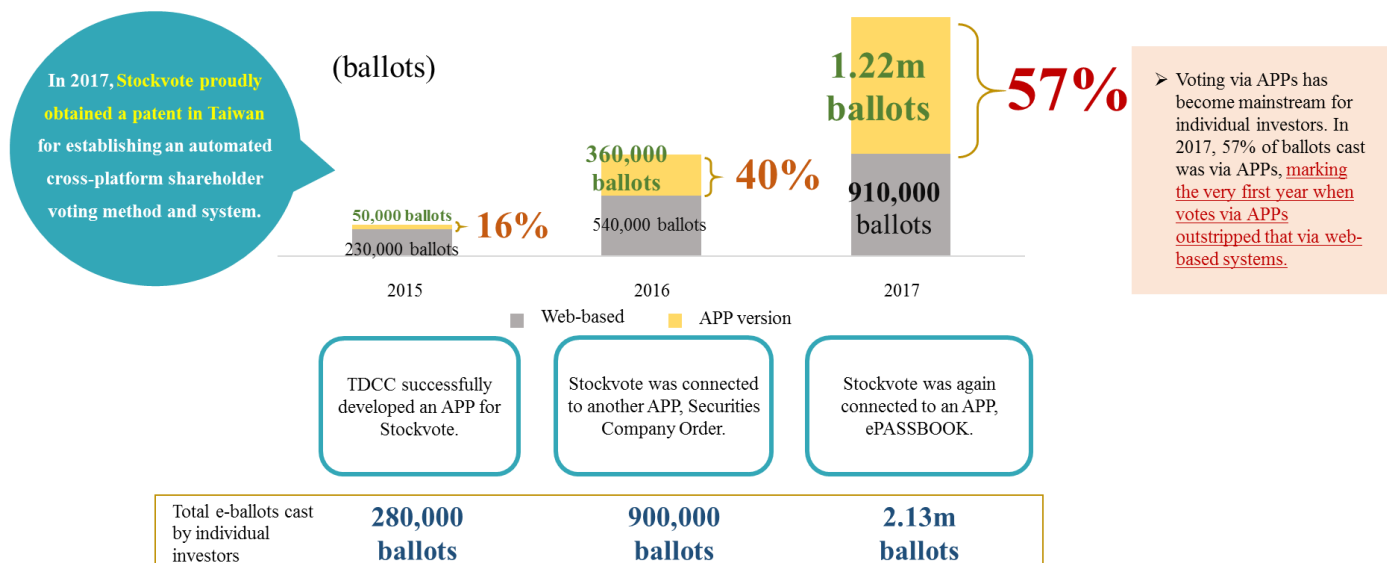
■ **Figure 8 Individual investors' vote distribution by gender in 2017**



4. Individual shareholders express a strong preference for voting via APP, reflecting technology trends.

With the aim of developing more convenient e-voting channels, in 2009 TDCC launched Stockvote, an electronic voting platform, for shareholders to vote via PC. The handheld device boom drove the development of the Stockvote APP. As the number of handheld devices increases exponentially, the Stockvote APP was released in 2015. In 2016, TDCC was granted a patent on Stockvote for its link to securities companies' APPs since screen trading has become more and more popular. Later on, ePASSBOOK, a bankbook Fintech APP, was published to replace the traditional paper bankbooks, and provide a new channel for shareholders to vote with. The number of registered users of ePASSBOOK has surpassed over 220,000. Voting through this APP provides shareholders with great convenience. The statistics show that near 1.22 million ballots were cast via APPs in 2017, accounting for 57% of total individual shareholder ballots. This was the very first time the ballots cast via APPs outstripped that via PCs. It proves that TDCC has accurately caught the mobile device trend and fully utilized Fintech to develop e-voting APPs which fulfill individual shareholders' needs (Figure 9).

■ **Figure 9 Ballots cast via different voting channels: web-based vs. APP**



b. Institutional Shareholders

Over the past few years, institutional shareholders have possessed many more shares than other shareholders. In 2017, institutional shareholders held 79% of shares, with 58% held by foreign investors and 21% by domestic institutional investors. Nowadays, foreign capital is playing a more significant role in Taiwan's securities market. To attract foreign investors and maximize cross-border voting efficiency, TDCC has partnered with an e-voting servicing company, Broadridge, which helped establish STP in 2014. STP provides a standardized and automated multinational voting process, ensuring smoothness, correctness, and cost-effectiveness for custodian banks. We analyzed and interpreted the voting data in Stockvote, resulting in a better understanding of institutional investors' e-voting behavior, e-voting adoption, and voting tendencies.

1. The Taiwanese government threw their full support towards e-voting, and institutional investors are encouraged to follow suit.

Domestic institutional investors were great e-voting supporters in 2017. Nearly 100% of the stocks held by the Four Great Funds were decided via e-voting. The Ministry of Finance, Ministry of Economic Affairs, Ministry of Transportation and Communications, Taipei City Government, and Kaohsiung City Government also followed suit. Investment trusts are

embracing e-voting as well. The industry's e-voting adoption rate² of stocks and shares are 81.04% and 80.67% respectively. Securities companies hold 4,701 stocks and 2.5 billion shares of companies that adopt e-voting, resulting in 91.19% of stocks voted by e-voting, comprising 73.52% of e-voting shares. The above numbers indicate the widespread adoption of e-voting by securities companies in Taiwan. Banks and insurance companies are also encouraged to use e-voting. The banks hold 894 stocks and 10.1 billion shares of e-voting companies, and their e-voting adoption rate of stocks and shares are 6.04% and 65.62% respectively. In addition, insurance companies hold 2,374 stocks and 29.6 billion shares of e-voting companies. The industry's e-voting adoption rate of stocks and shares are 36.77% and 68.09% respectively. These numbers indicate that among banks and insurance companies, e-voting is mainly adopted by few entities which hold more shares. TDCC has been engaging institutional investors in conversations on e-voting and stewardship. Therefore, e-voting adoption rate of these domestic institutional investors is expected to go up in the future.

2. Institutional investors are crucial to resolutions.

Foreign and domestic institutional investors take a decisive role in the outcomes of shareholders' meetings. E-voting shares held by foreign institutional investors accounted for over 50% of total e-voting shares in 2017, while the average e-voting attendance rate was 49.4%. Foreign institutional investors usually formulate their own voting policies. The e-voting favorable rates³ of foreign institutional investors vary motion by motion accordingly (Table 1). Some of the typical motions in 2017 were reviewed according to Institutional Shareholder Services (ISS)⁴ vote recommendations.

(1) Taking out Non-compete Clause for Directors

The e-voting favorable rate of foreign institutional investors was 64%. ISS offers no clear advice for such a clause, yet its suggestions for director/supervisor elections are worth looking into. In normal circumstances, favorable votes are recommended when

² E-voting adoption rate is the number of stocks/shares held by institutional investors voting online divided by the number of total e-voting stocks/shares held by the institutional investors.

³ E-voting favorable rate is the number of total favorable e-voting shares in a certain motion category related to the institutional investors' holdings divided by the number of total e-ballots cast in that certain category, including favorable and negative votes as well as abstentions.

⁴ ISS is the world's leading advisory firm which provides their institutional clients with shareholders' meeting solutions, resolution research, and shareholder vote recommendations.

the issuers adopt a nomination system. Otherwise, unfavorable votes would be recommended. In 2017 voting statistics were reviewed to observe the relationship between proposals for the removal of non-competition restrictions on directors and the director/supervisor election systems. Sixty-three percent of foreign investors voted in favor in enterprises with nomination systems. Only 17% of foreign investors voted in favor in companies with a non-nomination system. In short, foreign investors' voting tendency is consistent with ISS's suggestions. Whether the issuer adopts a nomination system for director/supervisor elections is a critical factor in voting results.

(2) Issuance of Private Securities

The e-voting favorable rate of foreign institutional investors was 60%. ISS suggests that such a motion should be reviewed on a case-by-case basis. The evaluation is based on the issuing conditions (premiums or discounts), financial aspects (financial plans, current financial capability), corporate control (changes of management and control power), conflicts of interests, market responses, etc. Thus, each enterprise's characteristics will exert different influences on foreign shareholders' voting intentions.

(3) Common Stock Issuances for Cash

The e-voting favorable rate of foreign institutional investors was 61%. ISS advises favorable votes when the scope of issuance is no more than 20% of the outstanding shares. If common stock is issued for a special purpose, e.g. raising capital for a specific project or mergers and acquisitions, it should be evaluated on a case-by-case basis. That is to say, the scope and purpose of the issuance will affect how foreign investors vote.

(4) Common Stock Repurchases for Cash

The e-voting favorable rate of foreign institutional investors was 81%. Unless a buyback occurs in the interests of a certain shareholder or the repurchase will cripple business operation, ISS recommends favorable votes. Foreign investors reveal the same voting tendency as what ISS suggests.

Table 1 The rate of favorable votes in motions from foreign investors in 2017⁵

⁵ The “-” in table 1 means there was no such type of motion in e-voting companies' AGMs in 2017.

Motions	The rate of favorable votes from foreign investors
Approval of annual financial statements	71%
Approval of profit appropriation	72%
Approval of loss appropriation	62%
Cash dividend from additional paid-in capital	70%
Regulations	72%
Employee bonuses and director/supervisor compensation	84%
Lifting the ban on investment specified in Article 1 of <i>Company Act</i>	-
Amendment to Operational Procedures for Loaning Funds to Others	61%
Amendment to the Procedure Governing Endorsements and/or Guarantees	60%
Amendment to Disposition Procedures for the Acquisition or Disposal of Assets	71%
Amendment to Handling Procedure for Transaction of Derivative Products	76%
Amendment to Related Parties Transactions	85%
Amendment to Procedures for Mergers and Consolidations, Splits, Acquisitions, and Assignment of Shares	85%
Amendment to Provisions on Election of Directors and Supervisors	74%
Amendment to Rules of Procedure for Shareholders Meetings	72%
Amendment to Provisions on Election of Directors	64%
Amendment to Ethical Corporate Management Best Practice Principles	100%
Amendment to Codes of Ethical Conduct	100%
Amendment to Scope of Powers of Supervisors	77%
Other provisions on procedures or management	62%
Taking out Non-compete Clause for Directors	64%
Issuance of new restricted employee shares	49%
Issuance of employee stock warrants	59%
Issuance of employee share subscription warrant with the exercise price below market price	52%
Transfers of treasury stock to employees with a call price below real average price	92%
Mergers and consolidations	-
Splits	61%
Acquisitions	78%
Assignments of shares	77%
Dissolution	-
Assignments, transfers, disposal, sale	95%
share offering	50%
Profit appropriation proposals	72%
Common stock issuances for cash	61%
Issuance of special shares	93%
Issuance of Private Securities	60%
Loss appropriation proposals	74%
Common stock repurchases for cash	81%
Disgorgement	-
Miscellaneous	38%

c. Summary

Age and region analyses are of great help for companies to have a look into the valuable information on their e-voting users. E-voting channel analysis is useful for TDCC to conduct

thorough planning for future developments and make full use of technology. With the support and efforts of the competent authority and TDCC over the past few years, institutional shareholders are actively involved in e-voting. This study highlights the need for further discussions on foreign investors' motion voting intentions since foreign capital is increasing in listed companies.

Conclusion

The above data reveals the steady growth of e-voting in Taiwan. Although the collection of data is not complete and couldn't cover the whole market regarding the number of e-voting enterprises, the analyses of current data still offers some interesting observations.

a. E-voting has become more and more popular with all types of institutional investors.

Economies of scale will arise after e-voting becomes mandatory for all listed companies in 2018. As the number of e-voting enterprises rises, this new approach will be more widely accepted by investors. It has become an important channel for shareholders to exercise their voting rights since year-over-year increases are seen. In recent years, domestic institutional investors have actively embraced e-voting to join their foreign counterparts. TDCC will continue to invite government agencies and depository institutions to the e-voting community.

b. Transparency in presenting voting results facilities institutional shareholder stewardship.

Better shareholder stewardship can be achieved by attending shareholders' meetings, exercising voting power, regularly engaging in conversations, and interacting with the top management team. To encourage shareholders to keep track of the issuing companies, TDCC added several functions to the existing e-voting system in September 2017. Without extra fees and application procedures, institutional investors can gain access to the e-voting results categorized into up to forty-two types of motion. Users can also choose to incorporate paper ballots into the calculation. The data are conveniently collected and compiled for greater stewardship.

c. TDCC keeps attracting individual shareholders to use e-voting and offering value-added services.

Since the commencement of mandatory e-voting for all listed companies in 2018, TDCC has been developing various convenient e-voting channels and expanding the lucky draw activities to attract more individual shareholders and encourage active ownership by shareholders. Apart from notifications provided by TDCC's ePASSBOOK, TDCC is planning on utilizing Fintech solutions to compile TDCC's data and offer cloud-based services. This will be a comprehensive

platform for investors to engage in a broader market, as well access equity- and securities-related issues.

d. Good communication with shareholders is essential for issuing companies.

With Fintech gaining a competitive edge, e-voting has become one of the important channels for shareholders to exercise their voting rights in meetings. Issuers also need to adjust the communication timing and methods with their shareholders. When it comes to crucial motions, issuing companies should take the initiative in notifying their investors of detailed information so as to effectively vote on proposals. It will greatly reduce information asymmetry and quickly pass resolutions if issuing companies provide easy access to relevant information as well as Chinese and English motions. In the hope of improving message exchange between issuers and institutional investors, TDCC is currently developing a shareholder network system offering one-stop information services and helping issuers know their institutional investors' voting policies. This new platform will facilitate open and timely two-way communication, reduce information asymmetry, and improve corporate governance.

TDCC aims to provide comprehensive services to all players in the securities market. Big data analytics is on the way to becoming a vital tool for more extensive in-depth analyses of e-voting development after the e-voting mandatory policy for all listed companies is introduced in 2018. Value-added information services to issuers are extended to strengthen the issuer-investor relationship. Digital technology is employed to deliver fast and automated electronic notifications of investor-related issues. New technology and new concepts will bring a more efficient market and further enhance corporate governance in Taiwan.