

Taiwan Stock Exchange - Rules & Regulations Directory

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Article Content

Title : Corporate Governance Best-Practice Principles for Securities Firms

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Chapter I General Provisions

Article 1

In order to assist securities firms to establish a sound corporate governance system, and to promote the integrity of the securities market, the Taiwan Stock Exchange ("TSE"), the GreTai Securities Market ("GTSM") and the Chinese Securities Association ("CSA") hereby jointly adopt the Principles to be followed by securities firms.

A TSE/GTSM listed securities firm shall, unless otherwise provided for in the Principles, be required to comply with the Corporate Governance Best-Practice Principles For TSE/GTSM Listed Companies.

A foreign securities firm having Taiwan branches may be waived the application of the Principles' regulations from Chapter I to Chapter IV.

A company concurrently operating as securities firm may be waived the application of the Principles' regulations.

Securities firms are advised to promulgate their own corporate governance principles in accordance with the Principles.

Article 2

When setting up the corporate governance system, in addition to complying with laws, regulations, and articles of incorporation, a securities firm shall also follow the following principles:

1. protect shareholders' rights and interests;
2. strengthen the powers of the board of directors;
3. fulfill the function of supervisors;
4. respect investors' and stakeholders' rights and interests; and

5. enhance information transparency.

Article 3

A securities firm shall follow the Criteria Governing the Establishment of Internal Control System in Securities and Futures Service Enterprises and the standard guidelines for the internal control system of securities firms as jointly promulgated by TSE and such other securities related institutions and take into consideration the overall operational activities of itself and its subsidiaries in establishing an effective internal control system, and review it at all times, in order to keep up with the dynamics of environment inside and outside the company and ensure that the design and enforcement of the system remain effective.

In addition to faithfully performing voluntary reviews of the internal control system, the board of directors and the management shall review the result of the voluntary reviews of each department and the report of the internal audit department at least annually. Supervisors shall also pay attention to and exercise oversight on this matter.

The management of a securities firm shall pay special attention to the internal audit department and its personnel, fully empower them and urge them to conduct audits effectively, evaluate problems of the internal audit system and evaluate the efficiency of operations to ensure that such a system can be carried out effectively on a continuous basis and can assist the board of directors and the management to perform their duties effectively so as to ensure a sound corporate governance system.

Chapter II Protection of Shareholders' Rights and Interests

Subchapter 1 Encouraging Shareholders to Participate in Corporate Governance

Article 4

When implementing the corporate governance system, the ultimate goals of a securities firm shall be to protect shareholders' rights and interests and treat all shareholders fairly.

A securities firm shall establish a corporate governance system which ensures shareholders' right of being fully informed of, participating in and making decisions over important matters of the company.

eholders' meetings in accordance with the rules for the meetings.

Resolutions adopted by shareholders' meetings of securities firms shall comply with laws, regulations and articles of incorporation.

Article 6

The board of directors of a securities firm shall properly arrange the proposals and agenda of shareholders' meetings. Shareholders shall be granted reasonable time to deliberate each proposal and afforded an appropriate opportunity to make statements.

It would be advisable for a majority of the directors to attend in person the shareholders' meetings that are convened by the board of directors.

Article 7

A securities firm shall encourage its shareholders to actively participate in its corporate governance and hold shareholders' meetings on the premise of legal, effective and safe proceedings. A securities firm shall seek all ways and means, including fully exploiting technologies for information disclosure, so as to enhance the attendance rate of shareholders at the shareholders' meeting and ensure the exercise of shareholders' rights by shareholders at the shareholders' meeting in accordance with laws.

Article 8

A securities firm shall record the minutes of the shareholders' meeting in accordance with the Company Law and other applicable laws and regulations. With respect to unanimous by adopted proposal, the meeting minutes shall state: "The resolution is unanimously adopted by all shareholders attending the shareholders' meeting after the chairman inquires all attending shareholders' opinion." As to any proposal that has received any dissent and been adopted in the shareholders' meeting, the meeting minutes shall record the method and result of the voting. With respect to the election of directors and supervisors, the meeting minutes shall record the method of voting adopted therefore and the total number of votes for the directors or supervisors who were elected.

The minutes of the shareholders' meeting shall be properly and perpetually kept by the company during its legal existence. It would be advisable for a securities firm to fully disclose such meeting minutes on its website, if any.

Article 9

The chairman of the shareholders' meetings shall be fully familiarized and comply with the rules governing the proceedings of the shareholders' meetings established by the company. The chairman shall ensure the proper progress of the

proceedings of the meetings and may not adjourn the meetings at will.

In order to protect the interests of shareholders owning a significant portion of shares, if the chairman declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of the shareholders' meetings, it would be advisable for the members of the board of directors other than the chairman of the shareholders' meeting to promptly assist the attending shareholders at the shareholders' meeting in electing a new chairman of the shareholders' meeting to continue the proceedings of the meeting, by a resolution to be adopted by a majority of the votes represented by the shareholders attending the said meeting in accordance with the legal procedures.

Article 10

A securities firm shall respect the shareholders' right to know. With respect to the information of the financial conditions, operations, the insiders' shareholdings, and corporate governance status in the company, a securities firm shall faithfully comply with the applicable regulations regarding the information disclosure.

Article 11

The shareholders shall be entitled to profit distributions by the company. In order to ensure the shareholders' investment interests, the shareholders' meeting may according to Article 184 of the Company Law, examine the statements and books prepared and submitted by the board of directors and the audit reports submitted by the supervisors, and may decide, by resolution, profit distributions and deficit off-setting plans. In order to proceed with the above examination, the shareholders' meeting may appoint an inspector.

The shareholders may, according to Article 245 of the Company Law, apply with the court to select an inspector in examining the accounting records and assets of the company.

The board of directors, supervisors and managers of a securities firm shall fully cooperate in the examination conducted by the inspectors in the aforesaid two paragraphs without any obstruction, rejection or circumvention.

Article 12

In entering into material financial and business transactions such as acquisition or disposal of assets, engaging in derivatives products transactions, lending funds of the company to any other person, making endorsements or providing guarantees to any other person, a securities firm shall proceed in accordance with

the applicable laws and/or regulations. A securities firm shall further establish the operating procedures in relation to these material financial and business transactions and report the same to the shareholders' meeting for its approval so as to protect the interests of the shareholders.

Article 13

In order to protect the interests of the shareholders, it would be advisable for a securities firm to designate responsible personnel dedicated to handling shareholders' proposals, inquiries or disputes.

A securities firm shall properly deal with matters arising from any action instituted by shareholders pursuant to the applicable laws claiming damage to such shareholders' interests caused by the resolution adopted in its shareholders' meetings or the board of directors meetings in violation of the applicable laws, regulations or the company's articles of incorporation, or claiming breach by the company's directors, supervisors or managers of applicable laws, regulations or the company's articles of incorporation in performing their duty.

Subchapter 2 Corporate Governance Relationships Between the Company and Its Affiliated Ente

Article 14

A securities firm shall clearly identify the allocation of its management authorities and responsibilities over personnel, assets and financial matters of its affiliated enterprises, and shall conduct risk evaluation and establish appropriate firewalls.

Article 15

Unless otherwise provided by the laws and regulations, a manager of a securities firm may not serve as a manager of its affiliated enterprises.

A director, who engages in any transaction for himself or on behalf of another person that is within the scope of the company's business, shall disclose to the shareholders' meeting the material terms of such transaction and obtain its consent.

Article 16

A securities firm shall establish a sound management system for finance, operations and accounting in accordance with the applicable laws and regulations. It shall further, together with its affiliated enterprises, properly conduct an overall risk evaluation of the major banks they are dealing with, their customers

and their suppliers, and carry out the necessary control mechanism to reduce credit risks.

Article 17

Where a securities firm and its affiliated enterprises enter into inter-company business transactions, a written agreement governing respect of the relevant financial and business operations between each other shall be made in accordance with the principle of fair dealing and reasonableness. Both parties shall definitively stipulate the terms and conditions of the price and payment terms mechanism, and desist from any transactions that are other than at arms' length.

All transactions or contracts made by and between a securities firm and its affiliated persons and shareholders shall follow the principles set forth in the proceeding sub-paragraph and tunneling of profits is strictly prohibited.

Article 18

A corporate shareholder having controlling power over a securities firm shall comply with the following provisions:

1. it shall bear a duty of good faith to other shareholders and shall not directly or indirectly cause the company to engage in transactions at other than arms' length or involve in management conduct for illegal profit.
2. its representative shall follow the rules implemented by the securities firm with respect to the exercise of rights and participation of resolution, so that at a shareholders' meeting, the representative shall exercise his/her voting right for the best interest of all shareholders and in good faith and, when acting as a director or supervisor, he/she will exercise the fiduciary duty of a director or supervisor.
3. it shall comply with relevant laws, regulations and the articles of incorporation of the company in nominating directors or supervisors and shall not act beyond the authority granted by the shareholders meeting or board meeting.
4. it shall not improperly intervene in corporate policy making or obstruct corporate management activities.
5. it shall not restrict or impede the management of the company by methods of unfair competition.

Article 19

A securities firm shall ensure the command at any time of information of the identity of major shareholders or its ultimate control persons who own a higher percentage of shares and have actual control over the company.

A securities firm shall disclose from time to time important information about its major shareholders relating to the pledge, increase or decrease of shares, or other matters that may possibly trigger a change in the ownership of their shares.

The major shareholder indicated in the first paragraph refers to the one who owns five percent or more of the outstanding shares of the company or the shareholding stake thereof is on the top ten list, provided however that the company may set up a lower shareholding threshold according to the actual shareholding stake that may control the company.

Chapter III Enhancing the Function of Board of Director

Subchapter 1 Structure of Board of Directors

Article 20

The board of directors of a securities firm shall be responsible to the shareholders' meetings. Procedures and arrangement relating to corporate governance shall ensure that, in exercising its authority, the board of directors will comply with laws, regulations, articles of incorporation, and the resolutions of shareholders' meetings of the company.

Regarding the structure of the board of directors of a securities firm, the number of the board members shall be properly determined by reviewing to the scale of corporate management and operation and the shareholding of the major shareholders and taking into consideration of the practical needs for operation. While installing independent directors, it shall take into account the reasonable professional composition of the directors and the objective requirements for them to perform the duty independently.

The board members shall have the necessary knowledge, skill, and experience for performing their duties. To achieve the ideal goal of corporate governance, the board of directors shall have the following abilities:

1. ability to make operational judgment;
2. ability to perform accounting and financial analysis;
3. ability to conduct management administration;
4. ability to conduct crisis management;

5. possession of securities and financial derivatives products professional knowledge;
6. possession of perspective of international market;
7. ability to lead; and
8. ability to make decisions.

Article 21

In order to achieve the goal of corporate governance, the major duties of the board of directors of a securities firm are as follows:

1. stipulation of an effective and appropriate internal control system;
2. selection and supervision of managers;
3. review of the management policy and business plan of the company;
4. review of the financial goals of the company;
5. supervision of the result of operations of the company;
6. supervision and handling of the risks encountered by the company;
7. ensuring the compliance with relevant laws and regulations by the company;
8. planning the future development of the company;
9. creation and maintenance of the company image and fulfillment of social obligations;
10. appointment of CPA or attorneys; and
11. protect the rights of investors.

Article 22

A securities firm shall incorporate a fair, just, and open procedure for the election of directors and adopt the cumulative voting mechanism in order to fully reflect shareholders' views, unless a different mechanism has otherwise been implemented in the articles of incorporation. Where the board of directors resolves to set up independent director positions, the requirements and standards for such independent directors shall comply with the second paragraph of Article 25.

The aggregate shareholding percentage of all of the directors of a securities firm shall comply with the laws and regulations. Restrictions on the share transfer of each director and the creation, release, or changes of any pledges over the shares held by each director shall be subject to the relevant laws and regulations, and the relevant information shall be fully disclosed.

Article 23

Before a securities firm convenes the shareholders' meeting to re-elect the directors, it would be advisable that the qualifications, education and work, background and the existence of any other matters set forth in Article 30 of the Company Law and Article 53 of the Securities and Exchange Law with respect to the candidates recommended by shareholders or directors be reviewed in advance and the review result thereof be provided to shareholders for their reference, so that qualified directors will be elected.

Article 24

Clear distinctions shall be drawn between the responsibilities and duties of the chairman of the board of a securities firm and those of its general manager.

It would be inappropriate for the chairman to also act as the general manager. If the chairman 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.

Subchapter 2 Independent Directors

Article 25

Independent directors of a securities firm, if any, shall be elected by the shareholders' meeting in accordance with Article 23 and in case of any shortfall, an election of additional independent directors shall be timely arranged.

The independent directors shall be those natural persons having professionalism and knowledge of securities or derivatives and good characters who are not the representatives stipulated in Article 27 of the Company Law and without any of the following instances within the latest one year:

1. being an employee of a securities firm or director, supervisor, or employee of its affiliate; however, in the case where a financial holding company and its subsidiary that is a securities firm are deemed as the "parent and subsidiary" as provided in the Statements of Financial Accounting Standards and the independent directors or independent supervisors of the subsidiary are the independent directors or independent supervisors of the financial holding company, this restriction is not applicable;
2. being a natural person who holds directly or indirectly at least 1% of the total outstanding and issued shares of a securities firm or is one of its top ten shareholders;

3. being the spouse or relatives within one degree of consanguinity of the persons described in the preceding two items;
4. being a director, supervisor, or employee of a corporate shareholder who holds at least 5% of the total outstanding and issued shares of a securities firm or is one of its top five shareholder;
5. being a director, supervisor, manager, or shareholder of at least 5% of the total outstanding and issued shares of a company or entity who has financial or business transaction with a securities firm; and
6. being a professional who provides a security firm or its affiliates with financial, commercial, or legal services, or the owner, partner, director (trustee), supervisor (inspector), manager of a sole proprietorship, partnership, company, institution, or organization who provides it with the same services and also their spouses.

If a security firm has managing directors, it is advisable that there shall be one or more independent director among them.

Article 26

A securities firm shall stipulate expressly the scope of duties of the independent directors and empower them with manpower and material support related to the exercise of their power. The company or other board members shall not restrict or obstruct the performance of duties by the independent directors.

A securities firm shall stipulate expressly the compensation of the directors in its articles of incorporation or pursuant to a resolution of the shareholders' meeting. Different but reasonable compensation from that of other directors may be set forth for the independent directors.

Subchapter 3 Audit Committee, Risk Management Committee, and Other Functional Committees

Article 27

For the purpose of developing monitoring functions and strengthening management mechanisms, the board of directors of a securities firm may, taking into account the basis of the size of the board and the number of the independent directors, set up audit, risk management, nomination, compensation or any other functional committees and have them stipulated in the articles of incorporation.

Functional committees shall be responsible to the board and submit the proposals to the board of directors for approval.

Functional committees shall adopt regulations governing the exercise of their power and duty to be approved by the board of directors. The regulations governing the exercise of their power shall at least comprise of the functions, responsibilities, the process for exercising the power (the status of the organization, the qualifications of the members, the resources for exercising the power and duty and the procedure for such exercise) and annual review and assessment of the necessity of renewing the policy of regulation for exercising the power and duty.

Article 28

It is advisable that a securities firm make it the first priority to set up the audit committee and the risk management committee.

The main functions and duties of the Audit Committee are as follows:

1. examination of the accounting system, financial conditions, and the procedure for financial reports of the company;
2. reviewing the procedures for major financial and business transactions such as acquisition or disposition of assets, engaging in derivatives transaction, making loans to others, and endorsement or provision of guaranty for others;
3. communications with the CPAs of the company;
4. examination of the internal auditors and their performance;
5. examination of the internal control of the company;
6. assessment, inspection, and monitoring the existence and threat of risks of all kinds;
7. inspection of law compliance by the company;
8. reviewing the transactions set forth in Article 32 of the Principles where voting shall be disqualified due to conflicts of the interest of directors, especially material related-party transactions, acquisition or disposition of assets, engaging in derivatives transactions, making loans to others, and endorsement or provision of guaranty for others;
9. assessing the qualifications of CPAs and nomination of qualified candidates;
10. stipulation of the investor protection policy and examination of its implementation;

11. proposing the remuneration of the directors, supervisors, and managers and the adjustment thereto;
12. proposing suggestions for the application of disqualification by directors;
13. reviewing the qualifications and performance of the general manager and other managers and proposing suggestions of appointment or discharge; and
14. proposing suggestions and review report with respect to the management policy and operation plan of the company.

The main functions and duties of the Risk Management Committee are as follows:

1. stipulation of risk management policy and framework and designate responsibilities to the relevant corporate departments;
2. stipulation of risk assessment criteria; and
3. setting the overall level of risk of the company and of each corporate department and managing the risk.

If a securities firm has independent directors, the audit committee and the risk management committee shall both consist of one or more independent directors and be convened by the independent director. It would be advisable that independent supervisors be invited to sit in at the meeting.

At least one of the independent directors of each of the committees as referred to in the preceding subparagraph shall have professional expertise in securities, derivatives, accounting or finance.

Article 29

A securities firm shall select a professional, responsible and independent CPA to be its external auditor, who shall perform regular reviews of the financial conditions and internal control measures of the company. With regard to the irregularity or deficiency timely discovered and disclosed by the auditor during the review, and the concrete measures of improvement or prevention suggested by the auditor, the company shall faithfully implement improvement actions.

A securities firm shall evaluate the independence of the auditor engaged by the company regularly and no less frequently than once annually. In the event that the company engages the same auditor without replacement for five years consecutively, or if the auditor is subject to disciplinary actions or other circumstances prejudicial to the independence of the auditor, the company shall

review the necessity of replacing the auditor, and shall submit to the board the conclusion of such review.

Article 30

A securities firm shall engage professional and competent legal counsel to provide adequate legal consultation services to the company, or to assist in the endeavor by the directors, the supervisors and the management to improve their knowledge of the law, for the purposes of preventing any infraction by the company or its staff of laws or regulations, and ensuring the corporate governance matters will proceed pursuant to the relevant legal framework and the prescribed procedures.

In the event that the directors, supervisors or the management are involved in litigation as result of performing his or her duties as provided by the law or arising from shareholders disputes, depending on the circumstances the company shall retain legal counsel to provide assistance.

Subchapter4 Rules for the Proceedings of Board Meetings and the Decision-making Procedures

Article 31

It is advisable for a securities firm to hold a board meeting no less frequently than once every two (2) months so as to meet business needs. The board meeting may be convened at any time in the event of an emergency. In terms of a regular board meeting, an agenda shall be arranged in advance, notices shall be sent to all directors and supervisors according to the time scheduled set by the laws, the supervisors shall be invited to attend the meeting, and sufficient meeting materials shall be prepared.

A securities firm shall adopt the rules for proceedings of board meetings and report the same to the shareholders so as to enhance the operational efficiency and decision-making capability of the board. The rules shall include:

1. the meeting notice;
2. preparation of attendance sheet and other documents;
3. the principle for deciding the location and time of a board meeting;
4. the chairman of the meeting of the board and observers;
5. the sound recording and videotaping of the proceedings of the board meeting;

6. the convening of the board meeting, discussions of the proposals, directors' statements, directors' vote, supervision of the voting and calculation of the votes;
7. any voting right calculation formula inconsistent with these Principles;
8. meeting minutes, the signature thereupon and other matters;
9. disqualification by directors due to conflicts of interest; and
10. delegation of powers by the board of the directors.

Article 32

[Deleted.]

Article 33

A director shall exercise a high degree of self-discipline and shall voluntarily abstain from voting, for himself or herself or as proxy for another director, on proposal submitted to the board of directors that risks the involvement of the director's own interest to the detriment of the interest of the company. The directors shall practice self discipline as to their internal relationship and must not support each other in an inappropriate manner.

The matters with regard to which a director shall voluntarily abstain from voting shall be clearly set forth in the rules for the proceedings of board meetings. A securities firm shall set forth the matters which shareholders, directors, supervisors and other stakeholders apply for director abstaining on a particular proposal in the rules. The rules shall include qualification of applicants, procedure of applying and reviewing and deadline and formula of responding. The proposal that the director being applied for abstaining from voting shall abstain or not shall be submitted to the board for approval. Before resolution, the director shall not participate in or be proxy for voting on this proposal.

Article 34

When a securities firm convenes a board meeting, relevant materials shall be duly prepared for reference and review by the directors participating in the meeting at any time. If two or more directors construe that the meeting materials are insufficient and such perspective is agreed by one or more independent directors, they may request the board of directors to postpone the respective agenda and the board of directors shall agree if such request is made.

When the board deliberates on the proposals of internal control system,

acquisition or the disposal of assets, conducting derivatives transactions and other material financial or operational transactions, sufficient consideration shall be given to the opinion of the audit committee or that of the independent directors. Any vote for or against the proposal and the reasons therefore shall be recorded in the minutes.

During the proceeding of the board meetings, managers from the relevant departments who are not directors shall sit in at the meetings, make report on the current business conditions of the company and respond to inquires raised by the directors, so as to assist the directors in understanding the conditions of the company for the purpose of adopting an appropriate resolution.

Article 35

Staff personnel of a securities firm attending board meetings shall faithfully record meeting minutes in details and the summary, method of resolution, and voting results of all the proposals submitted to the board meeting in accordance with relevant regulations.

The board meeting minutes shall be signed by the chairman and secretary of the meeting. The director attendance records should be kept completely. Board meeting minutes shall be treated as important corporate records and, during the life of the company, shall be placed in safekeeping permanently.

Where a resolution of the board of directors violates laws, regulations, articles of incorporation, or resolutions adopted in the shareholders' meeting, and thus causing injury to the company, dissenting directors whose dissent can be proven by minutes or written statements will not be liable for damages.

Article 36

A Securities firm shall set forth in their articles of incorporation the scope of delegation to managing directors or the chairman when the board of directors is in recess. The delegation shall be specific, and general authorization is not permitted. When material interest of the company is involved, the matter shall be disposed of by a resolution of the board of directors.

Article 37

A securities firm shall ask the appropriate corporate department or personnel to handle matters and implement actions pursuant to the board of directors' resolutions in a way consistent with the program schedule and objectives. It shall also follow up on these matters and faithfully review their implementation.

The board of directors shall ensure full control of the implementation and

progress of these matters and make a report in subsequent meetings so as to ensure that the board's management decisions are faithfully implemented.

**Subchapter 5 Fiduciary Duty, Duty of Care and
Responsibility of Directors**

Article 38

Members of the board shall faithfully conduct corporate affairs and discharge this duty of care as a good administrator. In conducting the affairs of the company, they shall exercise their power with a heightened level of self-discipline and prudential attitude. Unless matters are reserved for resolutions in shareholders' meetings by law or in the articles of incorporation of the company, they shall ensure that all matters will faithfully adhere to the board's resolutions.

Where resolutions of the board involve major policy directions of the corporate management, the board shall make careful consideration and may not affect the implementation and effectiveness of corporate governance.

Independent directors shall perform their duties in accordance with relevant laws, regulations and the company's articles of incorporation so as to protect the interest of the company and shareholders.

Article 39

If a resolution of the board of directors violates law, regulations or the company's articles of incorporation, at the request of shareholders holding shares continuously for a year or an independent director, or at the notice of a supervisor to discontinue the implementation of the resolution, members of the board shall take appropriate measures or discontinue the implementation of such resolution as soon as possible.

Upon discovering any threat of the company suffering material injury, members of the board shall immediately report to supervisors in accordance with the foregoing paragraph.

Article 40

[Deleted.]

Article 41

According to the articles of incorporation or resolution adopted in a shareholders' meeting, a securities firm may take out liability insurance for directors with respect to their liabilities resulting from exercising their duties

during their terms of occupancy so as to reduce and spread the risk of material harm to the company and shareholders.

Article 42

Members of the board are advised to comply with the plans of Chinese Securities Association or Securities & Futures Institute (hereinafter referred to as "SFI") to participate in training courses of finance, business, commerce, accounting or law which cover subjects relating to corporate governance upon becoming directors and throughout their term of office. They shall also ensure that company employees at all levels will enhance their professionalism and knowledge of the law.

The training of directors shall be fully disclosed, and such information along with their performance during the current term shall be provided to shareholders for their consideration to elect the next term of directors.

Chapter IV Empowering the Supervisors

Subchapter 1 Duties of Supervisors

Article 43

A securities firm shall stipulate a fair, impartial, and open procedure for the election of supervisors and shall adopt the cumulative voting mechanism to fully reflect the opinions of the shareholders, unless a different mechanism has otherwise been implemented in the articles of incorporation.

The aggregate shareholding percentage of all of the supervisors of a securities firm shall comply with the laws and regulations. Restrictions on the share transfer of each supervisor and the creation, release, or other changes of any pledges over the shares held by each supervisor shall comply with the relevant laws and regulations, and the relevant information shall be fully disclosed.

Article 43-1

Before a securities firm convenes the shareholders' meeting to re-elect the supervisors, it would be advisable that the qualifications, education and work background and the existence of any other matters set forth in Article 30 of the Company Law and Article 53 of the Securities and Exchange Law with respect to the candidates recommended by shareholders or directors be reviewed in advance and the review result thereof be provided to shareholders for their reference, so that qualified supervisors will be elected.

Article 44

When a securities firm sets forth the number of supervisors in its articles of incorporation, it shall evaluate the appropriate number on an overall basis. Those who act as supervisors shall have ample professional knowledge and skill, work experiences, possess an honest, practical, fair, and impartial attitude, and shall truly evaluate whether or not they will have sufficient time and energy to devote themselves to acting as supervisors.

Article 45

A supervisor shall be familiar with the relevant laws and regulations, understand the rights, obligations, and duties of directors of the company and the functions and duties, and operation of each department, and attend regular meetings of the board of directors to supervise the operations and to state his/her opinions when appropriate so as to control or discover any abnormal situation early on.

Article 46

A supervisor shall supervise the implementation of the operations of the company and the performance of duties by directors and managers and care the enforcement of the internal control system so as to reduce the financial and operational risks of the company.

Where a director, for himself/herself or on behalf of others, conducts any legal act with the company, a supervisor shall act as the representative of the company. In the event that there is any independent supervisor, to enhance supervision, it is advisable that the independent supervisor shall act as the representative of the company in the above situation.

Article 47

A supervisor shall investigate the operational and financial conditions of the company from time to time and the relevant departments in the company shall provide the books or documents that will be needed for the supervisor's review.

When reviewing the finance or operations of the company, a supervisor may retain attorneys or accountants on behalf of the company to perform the review; however, the company shall inform the relevant persons of their confidentiality obligations.

The board of directors and managers shall submit reports in accordance with the request of the supervisors and shall not for any reason obstruct, circumvent, or refuse the inspection of the supervisor.

When a supervisor performs his/her duties, a securities firm shall provide

necessary assistance as needed by the supervisor, and the reasonable expenses that the supervisor needs shall be borne by the company.

Article 48

For supervisors to timely discover any possible irregular conduct in the company, a securities firm shall establish a channel for supervisors to communicate with the employees, shareholders, and stakeholders.

Upon discovering any irregular conduct, the supervisors shall take appropriate measures timely to curb the expansion of the irregular conduct and shall file a report to the relevant regulatory authorities or agencies if necessary.

Where any of the independent directors, general managers, officers of finance, accounting, and internal audit department, or CPAs resigns his/her position, the supervisors shall further investigate the cause of the resignation.

In the event that a supervisor neglects his/her duties and therefore causes harm to the company, the supervisor shall be liable to the company.

Article 49

When exercising his/her supervision power, each supervisor of a securities firm may convene a meeting to exchange opinions among all the supervisors when he or she feels necessary, but may not by such way obstruct supervisors in exercising their duties.

Article 50

According to the articles of incorporation or resolution adopted in a shareholders' meeting, a securities firm may purchase liability insurance for its supervisor(s) with respect to their liabilities resulting from exercising their duties during their terms of occupancy so as to reduce and spread the material harm to the company and shareholders.

Article 51

A supervisor shall exercise a high degree of self-discipline and shall voluntarily abstain from being involved in a proposal from which the supervisor's own interest might create a possible adverse impact on the interest of the company.

Article 52

Supervisor(s) are advised to participate in training courses of finance, business, commerce, accounting or law which cover subjects relating to corporate governance when he/she assumes the position and shall do the same or during

his/her term of office pursuant to the plan of the Chinese Securities Association and the Institute of Securities Futures.

Subchapter 2 Independent Supervisor System

Article 53

The independent supervisor(s) of a securities firm shall be elected by its shareholders' meeting after compliance with Article 43-1, if the shareholders' meeting has decided to elect so. Article 25II hereof shall apply mutates mutandis to the qualifications and other requirements of independent supervisor(s). In case of any shortfall, an election of additional independent supervisors shall be timely held.

It would be advisable for independent supervisors to reside in Taiwan so as to perform their supervisory function timely.

Article 54

A securities firm shall set forth the compensation of supervisor(s) in its Articles of Incorporation or by a resolution of its shareholders' meeting. Independent supervisor(s) shall be paid a reasonable amount of compensation which may be different from that payable to the company's supervisors.

A securities firm shall value the function of independent supervisor(s) so as to strengthen the risk management and financial and operational controls of the company.

Chapter V Respecting Stakeholders and Interested Persons' Right

Article 55

A securities firm shall maintain communications with its banks, other creditors, employees, investors or other companies with whom the company has business relationship and shall respect and protect their legal rights.

In the event that the legal rights of a stakeholder are harmed, the company shall handle such matter in a proper manner and in good faith.

Article 56

The company shall provide sufficient information to banks and its other creditors to facilitate their evaluation of the operational and financial conditions of the company and decision making process. When any of their legal rights or interest is harmed upon, the company shall respond with a responsible attitude and assist creditors in obtaining compensation through proper means.

Article 57

A securities firm shall not only respect and protect the legal rights of investors, but also conduct its business in good faith and handle all disputes properly.

Article 58

A securities firm shall establish communication channels with employees and encourage employees to communicate directly with the management, directors and supervisors so as to reflect employees' opinions about the management, financial conditions and material decisions of the company concerning employee welfare.

Article 59

In developing its normal business and maximizing the shareholders interest, a securities firm shall pay attention to investor's interests, orders of securities markets, and shall have a high regard for the social responsibility of the company.

Chapter VI Improvement of Information of Transparency

Subchapter 1 Disclosure of Enhancing Information Disclosure

Article 60

A securities firm shall perform its disclosure obligations faithfully in accordance with the relevant laws and regulations.

A securities firm is advised to establish a public web-reporting system, appoint personnel responsible for gathering and disclosing the information and establish a spokesperson system so as to ensure the proper and timely disclosure of information about policies affecting shareholders and stakeholder.

Article 61

[Deleted.]

Article 62

In order to enhance the accuracy and timeliness of the information disclosed, a securities firm shall appoint spokesperson and acting spokesperson who understand thoroughly the company's financial and business conditions and who are capable of coordinating among departments for gathering relevant information and representing the company in making statements independently.

A securities firm shall appoint one or more acting spokesperson who shall represent the company, when the spokesperson cannot perform his/her duties, in making statements independently, provided that the order of authority is established to avoid any confusion.

In order to implement the spokesperson system, a securities firm shall unify

the process of making external statements and require management and employees to maintain the confidentiality of financial and operational secrets and prohibit disclosure thereof by them at will.

Article 63

In order to keep shareholders and stakeholders fully informed, it is advisable for a securities firm to take advantage of the convenience of the Internet and to set up a web site containing the information regarding the company's finance, operation and corporate governance. It is also advisable to contain the corporate governance information in English as well.

To avoid misleading information, the aforesaid web site shall be maintained by specified personnel, and the recorded information shall be accurate, in detail and updated timely.

Subchapter 2 Disclosure of Information of Corporate Governance

Article 64

A securities firm shall disclose the following relevant information regarding corporate governance for the fiscal year in accordance with laws and regulations and the regulations of the TSE, GTSM or Chinese Securities Associations:

1. corporate governance framework structure and rules;
2. ownership structure and shareholders' equity;
3. structure and independence of board of directors;
4. responsibility of the board of directors and managerial personnel;
5. composition, duties and independence of supervisors;
6. the progress of training of directors and supervisors;
7. risk management information;
8. shareholders' rights and relationship;
9. details of the events subject to information disclosure required by law and regulations;
10. the enforcement of corporate governance, deficiency between the corporate governance principles implemented by the company and the Principles, and the reason for the deficiency; and
11. other information regarding corporate governance.

The Taiwan branches of foreign securities firms may choose not to disclose the matters set forth in items 2 to 6 in the preceding paragraph.

A securities firm is advised, according to the actual performance of the corporate governance system, to disclose the plans and measures to improve its corporate governance system through appropriate mechanisms.

Chapter VII Ancillary Rules

Article 65

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Article 66

A securities firm shall at all times monitor domestic and international development of corporate governance and thereby review and improve the company's corporate governance mechanism so as to enhance performance of corporate governance.

「The English translation is provided by courtesy of Lee and Li Attorneys at Law at the engagement by the Taiwan Stock Exchange Corporation, GreTai Securities Market and Chinese Securities Association jointly」

Data Source : Taiwan Stock Exchange - Rules & Regulations Directory

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