

Transition Strategies of Sustainable Development for Securities and Futures Sectors

Securities and Futures Bureau

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Enhance Taiwanese capital market's international competitiveness and highlight Taiwan's importance and value on the global stage
--Triple wins for capital market, business sector, and investors



Background

- Thriving development of the securities and futures markets, leading to hectic trading and phenomenal profits growth of securities and futures sectors
- Given securities and futures sectors' pivotal role on Taiwan's capital market, it is necessary for them to catch up with the global ESG (environmental, social, governance) current and address ESG-related issues, in order to fulfill social responsibility

Perfecting the sustainable ecological system

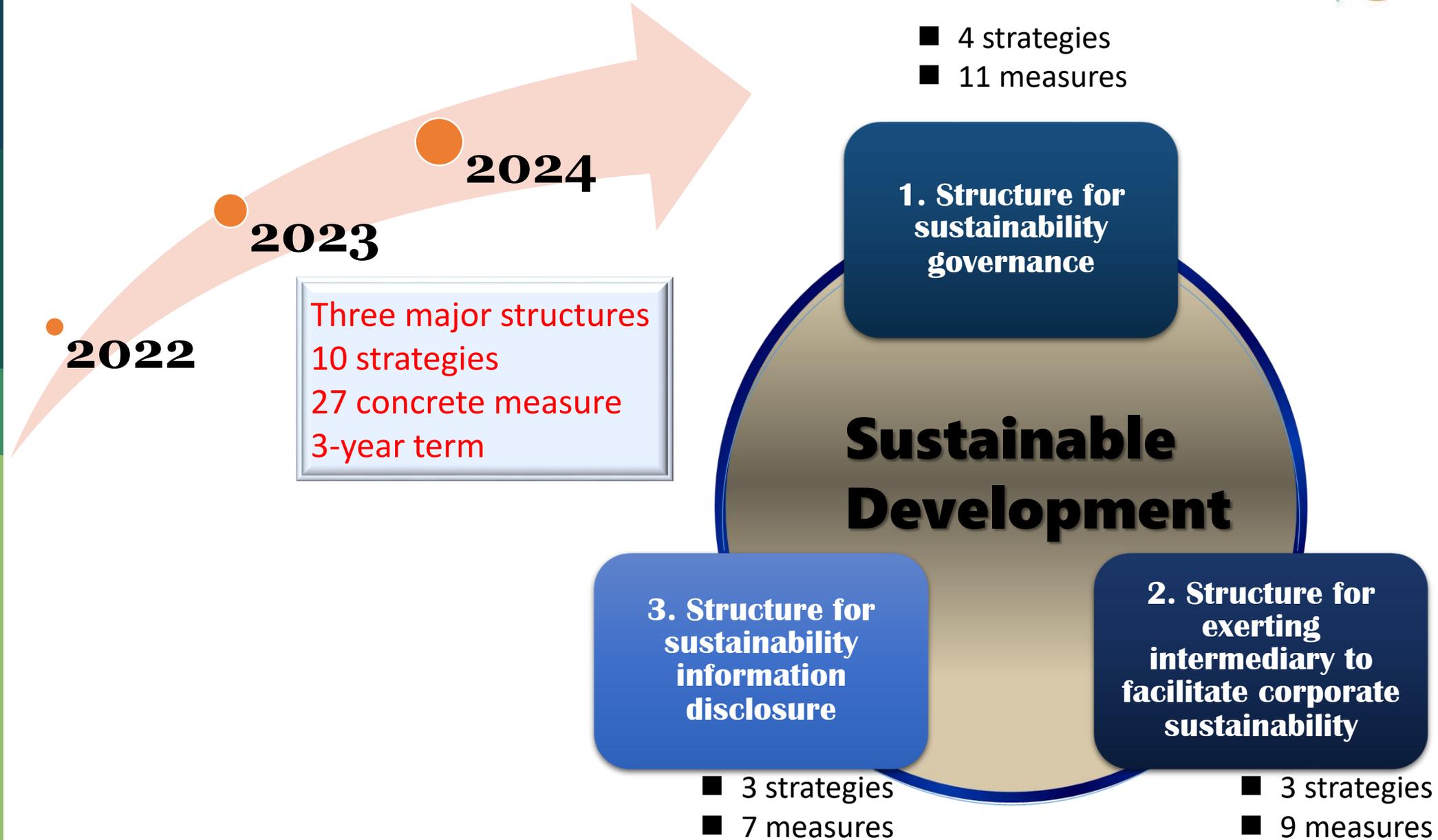
Protecting rights and instituting fair and friendly services

Transitioning of securities and futures management and sectors



Upholding of the capital market's trading order and stability

Strengthening of the self-discipline mechanism and resources integration





Features of the program

(why add it to the many existing programs?)

Bird's-eye view for the top-down approach

- Concerted support of securities and futures sectors for other FSC programs via the intermediation of peripheral securities and futures units and the three major industry associations

Program presentation in simple language

- Design of structures, strategies, and concrete measures according to the features, existing legal mechanisms, and practices of the board of directors of securities and futures sectors

See the wood and the trees, problem solving via in-depth understanding

- Formulation of implementation measures and timeline for various FSC policies for uniform compliance by businesses



Challenges and risks facing securities and futures sectors

Change in social environment and structure

- Investment focus shifting towards aged citizens and young people

Rampant pandemic and system disruption

- Operating continuation and recovery

Global sustainability transition current

- Impact on business and products of traditional securities and futures firms

Transition and
business
opportunities???

Structure for sustainability governance

- 1** Establishment of sustainability values and ESG culture
- 2** Establishment of information security system
- 3** Implementation of accountability system for the board of directors and management
- 4** Assistance of functional committees for the board of directors in the fulfillment of the latter's duties



Structure for exerting intermediary to facilitate corporate sustainability



5

Empowerment of underwriters and financial consultants to assist companies listed on the TWSE, TPEX, and Emerging Stock Market in materializing various sustainability and ESG programs

6

Establishment of the mechanisms of self-discipline, incentives, and supervision by dealers, investors, mutual-fund managers, and discretionary-account managers for their ESG and responsible investing

7

Brokerage, Wealth management, and Mutual-fund agency-
Materialization of the practices of fair customer treatment and protection of such investors as senior citizens and the physically and mentally challenged

Structure for sustainability information disclosure

8

Strengthening the capabilities for coping with climate-change risk

9

Increasing disclosure of sustainability information

10

Perfecting channels for information disclosure and external communications

Strategy 1: Establishment of sustainability values and ESG culture

01 Setup of sustainability committees by the three major securities and futures associations

- ◆ Setup of platform for communications, coordination, and policy consulting on sustainability and ESG issues
- ◆ Assistance for communication and coordination and proposal of policy suggestions
- ◆ Discussion on self-discipline norms, exemplars, or guidelines formulated by associations

03 Formulation of study roadmap for corporate directors and supervisors

- ◆ Publication of study roadmap for corporate directors and supervisors by securities and futures associations
- ◆ Mandatory annual study hours for corporate directors and supervisors

02 Holding of ESG forums



- ◆ Holding of forums for corporate directors, supervisors, senior manager by TWSE, TPEX, Taiwan Futures Exchange, and the three major securities and futures associations
- ◆ Understanding of international development trend and major supervisory norms
- ◆ Sharing of domestic and foreign financial cases

04 Passage of sustainability and ESG measures by the board of directors

05 Quarterly report on implementation of sustainability and ESG items to the board of directors

- ◆ Formulation of short-, medium- and long-term policies, along with annual concrete measures
- ◆ Report on implementation performance to the board of directors at least quarterly
- ◆ Requirement for implementation in stages

Strategy 2: Establishment of information security system

06 Strengthening of information security system

07 Embracing of international standards

Implementation of the following measures:

- ◆ Embracing of international information security management standards
- ◆ Obtaining of third-party information security management certification
- ◆ Obtaining of international or professional certificates by information-security staffers.
- ◆ Expansion of information security unit and manpower



Strategy 3: Implementation of accountability system for the board of directors and management

08 Periodic evaluation of core operating system and equipment to assure operating continuation and resilience

- ◆ **Identification of various risk factors**
Securities and futures sectors should identify various risk factors, such as information-system outsourcing, concentration of information service providers, and possible impact on core operating system and equipment.
- ◆ **Adoption of proper measures**
Securities and futures sectors should adopt proper measures to assure operating continuation and resilience.
- ◆ **Assessment of input resources**
Securities and futures sectors should assess necessary input of resources, including physical resources and manpower for reflection in annual budgets or education and training plan, to be disclosed in sustainability reports, annual reports, financial statements, or corporate websites.

09 Strengthening of accountability system for corporate chiefs in information security, fair customer treatment, and legal compliance

- ◆ **Designation of staffers and units in charge of supervision and coordination**
Designation of staffers and units in charge of supervision and coordination for information security, fair customer treatment, and legal compliance
- ◆ **Materialization of accountability mechanism**
Requirement of positive qualifications, on top of passive ones, for chairpersons of securities and futures sectors, for materialization of accountability mechanism for the boards of directors and manifestation of its functions
- ◆ **Assurance of division of authority and responsibility and allocation of responsibilities**
Assurance of division of authority and responsibility and allocation of responsibility by the board of directors and supervision by senior management of execution by various business units
- ◆ **Performance evaluation**
The board of directors should conduct overall performance evaluation for business units and employees

Strategy 5: Empowerment of underwriters and financial consultants to assist companies listed on the TWSE, TPEX, and Emerging Stock Market in materializing various sustainability and ESG programs

12 Formulation of self-discipline regulations governing assistance of underwriters with Taiwan Securities Association membership for listed companies in securities issuance

13 Formulation of regulations on evaluation and review procedure for underwriters for IPO for share listing on Taiwan Stock Exchange and Taipei Exchange

- ◆ Assistance for TWSE- and TPEX-listed companies in ESG issue
Revision of self-discipline regulations on assistance of underwriters with Taiwan Securities Association membership for listed companies in share offering and securities issuance and evaluation and review procedure for underwriters in conducting IPO on TWSE and TPEX, so as to strengthen the functions of underwriters and facilitate corporate sustainability transition.



Strategy 6: Establishment of the mechanisms of self-discipline, incentives, and supervision by dealers, investors, mutual-fund managers, and discretionary-account managers for their ESG and responsible investing

14 Inclusion of corporate performance in ESG in investment consideration

Securities and futures firms

- ◆ Strengthening of internal operating flow for stock dealership or futures trading
- ◆ Contents covering internal or external data collection, stakeholder engagement and response, and implementation results

Mutual fund and discretionary-account operation

- ◆ Formulation of guidelines for ESG investment and risk management operating flow for securities investment trust enterprises, in reference to foreign practices
- ◆ Contents covering governance mechanism, integration of ESG factors, and investment and risk management, such as exclusion policy for discretionary-account operation

15 Strengthening of incentives and awards mechanism for securities and futures sectors supporting sustainability and ESG

- ◆ Encouragement for securities and futures firms to issue structured products with linkage to ESG indices or constituent stocks, ETN, contracts or mutual funds of leveraged margin trading, as a plus in evaluation of sustainable finance
- ◆ Encouragement for investment trust firms to include ESG factor and stakeholder engagement and other stewardship practice in such internal control mechanism as investment flow and risk management
- ◆ Encouragement for offshore mutual funds to increase ESG research resources, talent cultivation, and technology transfer for general agents

16 Intensification of review and supervision mechanism for raising of domestic and overseas ESG funds

- ◆ Revision of review forms for fund raising by securities investment trust enterprises and application by general agents for raising and sales of offshore mutual funds, and explanation by offshore fund managers on inclusion of ESG factor in investment flow and risk management

17 Revision of internal control procedure for investments

18 Report on performance in investments in venture capital firms, private equity funds, and trading subsidiaries to the board of directors regularly

- ◆ Inclusion of assistance of securities firms, futures firms, their invested or managed funds for enterprises in transition for sustainability and ESG practices

Strategy 7: Brokerage, Wealth management, and Mutual-fund agency- Materialization of the practices of fair customer treatment and protection of such investors as senior citizens and the physically and mentally challenged

19 Formulation of self-discipline norms for securities and futures sectors concerning protection of senior-citizen investors

20 Formulation of criteria on friendly services by the three securities and futures associations

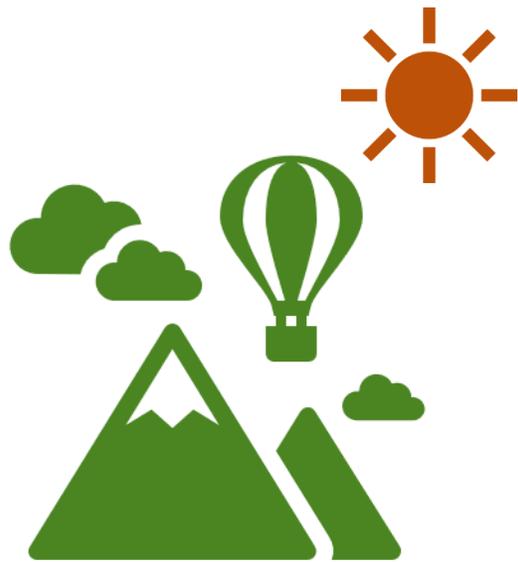
- ◆ **Strengthening of protection for senior citizens**
Formulation by the three industry associations of self-discipline norms for protection of senior-citizen investors by securities firms, futures firms, and securities investment trust enterprises and revision of financial friendly service criteria, for intensifying services for senior citizens and the physically and mentally challenged, on top of formation overall inter-industry norms



Strategy 8: Strengthening the capabilities for coping with climate-change risk

21 Formulation of exemplars or guidelines for climate-change scenario analysis

22 Formulation of exemplars or guidelines for climate-change information disclosure



◆ Formulation of exemplars or guidelines for climate-change scenario analysis

Formulation of exemplars or guidelines for compliance by securities and futures sectors, in reference to FSB TCFD, thereby helping securities firms, futures firms, and securities investment trust enterprises set up scenarios, parameters, and models, as basis for information disclosure

◆ Formulation of related exemplars or guidelines for climate-change information disclosure

Formulation of related exemplars or guidelines, in reference to FSB TCFD to increase information verifiability and comparability, thereby boosting quality of climate-change information disclosure

Strategy 9: Increasing disclosure of sustainability information

Strategy 10: Perfecting channels for information disclosure and external communications

23 Formulation of regulations on compilation of sustainability reports

24 Pushing of compilation and publication of sustainability reports

- ◆ Publication of operating measures governing compilation and filing of sustainability reports by securities and futures sectors, covering sustainability and ESG issues
- ◆ Planning for pushing compilation and publication of sustainability reports by securities and futures sectors in a gradual manner

25 Augmentation of information disclosure for ESG mutual funds

- ◆ Revision of norms on prospectus of mutual-fund managers, requiring mutual fund managers to explain investment targets and strategy, so as to provide concentrated and complete information to prospective investors
- ◆ Formulation of exemplary instruction for offshore mutual fund investors
- ◆ Setup of dedicated section on offshore ESG funds on website of Taiwan Depository & Clearing Corporation and improve ESG fund section on websites of investment trust firms

26 Carbon inventory information disclosure

- ◆ Planning for scope of carbon inventory information disclosure --Disclosure scope
- ◆ Scope 1 Direct greenhouse-gas emission
- ◆ Scope 2 Indirect energy emission
- ◆ Scope 3 Other indirect emission sources--encouraged disclosure



27 Setup on corporate website dedicated section for disclosure of information on sustainability, climate change, and stakeholder engagement and voting at shareholders' meeting for public companies.

Implementation time line

Concrete measures 04 05 08 10 11

Year	2022	2023	2024
Items	<ol style="list-style-type: none"> 1. TWSE- and TPEX-listed securities or futures firms 2. Securities or futures firms affiliated with financial holdings companies 3. Securities investment trust enterprises with managed assets over NT\$600 billion 	<ol style="list-style-type: none"> 1. Securities or futures firms with paid-in capital over NT\$2 billion but under NT\$10 billion 2. Securities investment trust enterprises with managed assets over NT\$300 billion but under NT\$600 billion 	<ol style="list-style-type: none"> 1. Securities or futures with paid-in capital under NT\$2 billion 2. Securities investment trust enterprises with managed assets under NT\$300 billion

Concrete measures 23 24

Year	2023	2024	2025
Implementation scope	<ol style="list-style-type: none"> 1. Subsidiary securities firms or subsidiary futures firms of TWSE- or TPEX-listed enterprises 2. Securities firms with paid-in capital over NT\$2 billion but under NT\$5 billion 3. Securities investment trust enterprises with managed assets over NT\$600 billion 	<ol style="list-style-type: none"> 1. Integrated securities firms with paid-in capital under NT\$2 billion 2. Securities investment trust enterprises with managed assets over NT\$300 billion but under NT\$600 billion 	<ol style="list-style-type: none"> 1. Non-integrated securities firms with paid-in capital under NT\$2 billion 2. Securities investment trust enterprises with managed assets under NT\$300 billion, formulation of simplified disclosure contents for those with managed assets under NT\$100 billion

Implementation time line

Concrete measures 06 07

Securities firms, futures firms

Capital ranking	2022	2023	2024
Over NT\$20 billion	Introduction of international standards	Obtaining of third-party certification and obtaining of international or professional certificates by staffers in charge	
Over NT\$10 billion but under NT\$20 billion	Introduction of international standards	Obtaining of third-party certification and obtaining of international or professional certificates by staffers in charge	
Over NT\$ 4 billion but under NT\$10 billion	Introduction of international standards	Obtaining of third-party certification and obtaining of international or professional certificates by staffers in charge	
Under NT\$4 billion			Obtaining of international or professional certificates by staffers in charge

Securities investment trust enterprises

Implementation scope	2022	2023	2024
Managed assets over NT\$600 billion		Obtaining of international or professional certificates by staffers in charge	Introduction of international standards
Managed assets NT\$ 300~600 billion			Obtaining of international or professional certificates by staffers in charge
Engagement in automated wealth-management business			Obtaining of international or professional certificates by staffers in charge

Implementation time line

Concrete measures 26

Securities firms, futures firms

Carbon information	Type	2023	2024	2025	2026	2027	2028	2029	2030
Inventory	TWSE- or TPEX-listed integrated securities firms and futures firms	Over NT\$10 billion (individual entity)		Over NT\$10 billion (consolidated) NT\$5 billion-10 billion (individual entity)	NT\$5 billion-10 billion (consolidated) Under NT\$5 billion (individual entity)	Under NT\$5 billion (consolidated)			
Verification			Over NT\$10 billion (individual entity)			Over NT\$10 billion (consolidated) NT\$5 billion-10 billion (individual entity)	NT\$5 billion-10 billion (consolidated) Under NT\$5 billion (individual entity)	Under NT\$5 billion (consolidated)	
Inventory verification	Integrated securities or futures subsidiaries of TWSE- or TPEX-listed enterprises	In step with TWSE- or TPEX-listed parent companies							
Inventory	Integrated securities firms and futures firms not affiliated with TWSE- or TPEX-listed enterprises			Integrated securities firms and futures firms NT\$5 billion-NT\$10 billion (individual entity)	Integrated securities firms and futures firms NT\$5 billion-10 billion (consolidated) Integrated securities firms and futures firms NT\$2 billion-NT\$5 billion (individual entity)	Integrated securities firms and futures firms NT\$2 billion-5 billion (consolidated) Integrated securities firms and futures firms NT\$1 billion-NT\$2 billion (individual entity)	Integrated securities firms and futures firms NT\$1 billion-2 billion (consolidated)		
Verification						Integrated securities firms and futures firms NT\$5 billion-NT\$10 billion (individual entity)	Integrated securities firms and futures firms NT\$5 billion-10 billion (consolidated) Integrated securities firms and futures firms NT\$2 billion-NT\$5 billion (individual entity)	Integrated securities firms and futures firms NT\$2 billion-5 billion (consolidated) Integrated securities firms and futures firms NT\$1 billion-NT\$2 billion (individual entity)	Integrated securities firms and futures firms NT\$1 billion-2 billion (consolidated)

Concrete measures 26

Securities investment trust enterprises

Carbon information	Type	2023	2024	2025	2026	2027	2028	2029	2030
Inventory	Securities investment trust enterprises			Managed assets over NT\$600 billion (company+ mutual funds)	Managed assets at NT\$300-600 billion (company+ mutual funds)	Managed assets at NT\$100-300 billion (company+ mutual funds)	Managed assets UNDER NT\$100 billion (company+ mutual funds)		
Verification						Managed assets over NT\$600 billion (company)	Managed assets at NT\$300-600 billion (company)	Managed assets at NT\$100-300 billion (company)	Managed assets UNDER NT\$100 billion (company)

Highlights of the strategy



Implant of sustainability DNA in securities and futures operation

- Comprehensive of ESG evaluation for underwriting, financial consulting, dealership, investments, mutual funds, discretionary-account operation, brokerage, wealth management, and mutual-fund agency



Information security involves national security, major information-security upgrading

- Comprehensive strengthening of information security via information-security governance, materialization of accountability and risk management system, firm grip on core operation, and linkage to international standards



Staying at the forefront of sustainability current

- Pushing compilation of sustainability reports and carbon inventory and verification in securities and futures sectors at full scale

THE END