

# CTBC

Following embezzlement allegations and earlier sustained efforts to restructure its board, CTBC actively responded to engagement from EOS. The company has since enhanced board effectiveness not only through improved structures and policies but with a robust and ongoing director training programme and board evaluation process, elevating investor confidence.

## Background

Over a period starting in the mid-2000s, CTBC Financial Holding (CTBC) saw several controversies related to alleged legal and regulatory breaches by now-former staff. The company launched a campaign to restructure its board and overall corporate governance as early as 2007. Engagement by EOS at Federated Hermes, which began in 2017, provided the company with practical insight that helped inform its successful establishment of a robust board evaluation process and an ongoing director training programme fit for purpose.

## Our engagement

EOS began engagement with CTBC in February 2017 at its Taipei office. Throughout our engagement, the executive vice president of financial management came to our office in London and explained the company's next board restructuring plans.

We commended the initial changes to strengthen internal control, such as the separation of the legal and compliance departments to ensure the independence of the latter; the introduction of a code of ethics and insider trading policy; and improved independence of the board, becoming Taiwan's first financial holding company to have independent directors fill a majority of seats. We agreed that a critical focus should be ensuring an appropriate governance structure with the separation of powers and stringent checks and balances.

## Sustainable Development Goals



Engagement objective  
**Governance:**  
Board effectiveness

CTBC is one of the largest and most established financial institutions in Taiwan. The holding company has eight major subsidiaries that provide a variety of banking and financial services, including life insurance, securities businesses, venture capital, and asset management. It has a global footprint covering overseas markets including the US, Canada, Japan, China, Hong Kong, Australia and South East Asia.

## Top three successes

1. Engagement at the most senior levels – board chair, CFO, chief compliance officer, board secretary and a subsidiary's head of data intelligence R&D.
2. Input on ESG board expertise through specialist TCFD, cyber security and data privacy training – members are better equipped to provide oversight, enhancing long-term value of the company.
3. Consultation on board level transparency – our insight on board evaluations and skills matrices was utilised by the company, which also improved its candidate nomination disclosures to provide more assurance to investors.



## Changes at the company

In May 2018, the company acknowledged our assessment and reported that it had been researching best practices for governance, especially with regard to independent board evaluations, and that plans were already underway to enhance director training. Its board established an ethics and integrity committee in April 2018 and published the committee charter online.

The company also now uses devices that enable directors to communicate and access information with comprehensive security protection. In October 2018, the third party research company further upgraded its rating for the company on business ethics outlook from category 4 (significant risk) to category 3 (high risk). More recently, the company's business ethics outlook was further upgraded to category 2 (moderate risk) in October 2019.

As of Q2 2019, the new director onboarding process includes mandatory training on anti-money laundering and embezzlement. There are pre-meetings for independent directors before board meetings to brainstorm complicated issues, such as financial budgets and strategy, and these enable debate and opinion to form independently of the executives. For the 2019 AGM, the company expanded its disclosure on the nomination rationale of director candidates and introduced a board matrix.

Board members now also take part in overseas visits and participate in a wide variety of relevant courses on topics including money laundering, digital banking, fintech, US federal regulatory compliance, TCFD and fair dealing.

We introduced the company executives to a third party research firm so that their initial governance improvements could be assessed in a timely manner. Our intervention was a factor in the third party changing its assessment of the company's management capability following the controversy from weak to moderate in April 2017.

In January 2018, engaging with the chief compliance officer and corporate secretary, we focussed on ways to support the company's drive to strengthen board effectiveness, such as by detailing best practices regarding the inclusion of a board matrix. In March 2018, the third party research firm upgraded the outlook of CTBC's controversy rating on business ethics from neutral to positive. Throughout the year, we provided practical guidance as the company pressed ahead with further improvements, including board evaluations, director induction and ongoing training.

In May 2019, we met with CTBC's insurance subsidiary's chief financial officer and chief strategy officer to discuss the company's plans to adopt additional cybersecurity and technology training for the board. We met separately with a subsidiary's head of data intelligence research and development to provide details on the use of responsible big data and artificial intelligence (AI).

Throughout 2019, we engaged with the company seven times in total. In doing so, we provided further information to inform CTBC's continuous improvement of customised director training, specifically for broadening understanding of material ESG issues, including the impact of climate change and the expectations of the Task Force on Climate-related Financial Disclosures (TCFD) reporting (a separate engagement topic). We noted the importance of ensuring the information security of the independent directors' communication platform, adding that we had previously observed other companies sending confidential documents to the private and unprotected personal email accounts of non-executive directors. In 2020, we wrote to the board chair to discuss the expedited publication of ethical AI principles with board oversight.



We are glad to have had the input of EOS as we undertook a campaign that saw our corporate governance become more robust in Taiwan. EOS provided valuable information and insight that helped round out our approach, including in regard to director training and disclosures as well as board evaluation processes. Our constructive engagements on a range of material and emerging ESG issues is one major reason we continue to be one step ahead in anticipating and implementing global ESG trends.

**– Mr Joseph Yen, Board Chair, CTBC**

### Throughout 2019, we engaged with the company seven times in total.

The company published board evaluation guidelines in September 2019. In addition to annual board performance evaluations being conducted, an external and independent professional institution or a panel of external experts and scholars shall evaluate board performance at least once every three years, aligned with best practices.

The performance evaluation criteria are also publicly specified, with different indicators for individual directors and functional committee members. The performance appraisals not only evaluate the overall operations of the board but also require a self-assessment to be performed by each director.

### Next steps

We aim to deepen our discussion on human capital management across the firm, including the board's gender diversity and nomination process. We have also commenced engagement on the responsible use of AI.



**Christine Chow**  
Engagement  
EOS

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## Why EOS?

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