

## **TDCC's Use of Digital Technology for Transmission of Materials on Shareholder Meetings of Issuers and Other Notification**

### Abstract

#### I. Content

1. Pursuant to Authority's emphasis on corporate governance and facilitation of shareholder activism

This year (2018), in compliance with FSC's updated version of Corporate Governance Roadmap (2018~2020), the execution of "Planning Item III: facilitation of shareholder activism" can be shown in TDCC ePassBook APP and StockVote platform. These functions employ digital technology to transmit materials regarding shareholder meetings and other notification. Through combining inquiry about information necessary for shareholders and shareholders' rights, facilitation of shareholder activism and supervision of businesses' implementation of corporate governance can be realized.

2. Implementation of electronic notification has been regulated by law; the environment and timing are mature.

Due to the unstoppable trend of digitalization, the addendum of Company Act in 2005, Article 172-4, regulates that shareholder meeting notification can be conducted by way of electronic transmission through the consent of the counterpart. According to addendum of Regulations Governing the Administration of Shareholder Services of Public Companies in 2003, Article 12-1, after receiving consent of shareholders, the company can proceed electronic transmission of materials on shareholder meetings and other notification. The two acts above are the legal basis regulating Taiwan's electronic notification on stock affairs. In addition, as per National Development Council's "2017 Household E-opportunity Research Report," by 2017, domestic internet use had reached 82.3%, and mobile online access also hit a record high. 97.4% of internet users had access to mobile or wireless internet connection. This shows Taiwan has already entered the Internet era; with development of the internet and popularity of mobile devices, Taiwanese' lifestyle has also transformed. Therefore, the development of information technology, the change of usage, and the amendment of the laws all indicate that the trend of replacing written notification with electronic one is inevitable.

3. TDCC constructed platform for stock affairs electronic notification.

After the amendment of the laws, very few issuers had informed shareholders through electronic notification. The manpower for collecting and maintaining shareholders' email addresses and relevant data, the costs for a third party to confirm email transmission, and concern for the duplication of proxies for shareholder meeting gifts all contributed to obstacles and termination of this service regardless of Shareholder Services Office's expenditure on system development. This was definitely not what capital market had expected. Since electronic notification was generally known to be the future trend, the implementation was unstoppable. To avoid the obstacles

mentioned above, the key did not lie in the exclusive execution of TDCC, but in an organization to promote, perform the service, and to gain the trust from authority, investors, issuers, and stock affairs units. Meanwhile, the organization could offer services with highest operation efficiency and least social costs on electronic notification.

4. The integration of TDCC ePassBook and stock affairs information website C.A. Net interface provides general investors and professional institutional investors with electronic notification.

At the moment, TDCC offers various digital services, including TDCC ePassBook, StockVote, and stock affairs information website C.A. Net. As for TDCC ePassBook, the number of users exceeded 400,000 only one year after this service went live. On average, around 1,000 users adopt TDCC ePassBook daily, and it is predicted that the user number will go over 500,000 at the end of the year. It's obvious that in the era of digital technology, investors are more pleased to choose electronic services. In the future, TDCC plans to send materials on shareholder meetings and other notification electronically. This shows the company not only integrates existing digital platforms but also provides investors with comprehensive digitally integrated services. Therefore, through the interfaces of TDCC ePassBook and stock affairs information website C.A.Net, the company provides general investors and professional institutional investors with eNotice service individually.

5. Three stages for phasing in stock affairs electronic notification

Considering investors' acceptance for electronic notification, complexity in capital increase operation and stock affairs such as shareholder meeting notice, TDCC conducted stock affairs electronic notification in three steps. In the first stage, the company sent notification on items not involving active execution of shareholders' rights, such as cash and stock dividends issuance. Building on the market feedback and results of the first stage, the company in the second stage conducted notification on shareholder meetings without proxy solicitation and gift issuance as well as stock affairs involving active execution of shareholders' rights in the first stage. In the third stage, notification covered shareholder meeting notices that were excluded from the second stage and items that needed notification by way of registered mail such as cash capital increase stock subscription.

## II. Conclusion and Recommendations

1. TDCC's platform for stock affairs electronic notification

(1) To Authority:

TDCC has transformed the traditional and manual way of mailing

stock affairs notification to the electronic way through modern technology. This transformation responds to Authority's focus on Fintech and policies on implementation of digitalization as well as electrification. The company has put into practice laws regulating electronic notification and promotion of shareholder activism in corporate governance roadmap; this indeed fortifies Taiwan's corporate governance.

(2) To natural investors and professional institutional investors:

1. Investors show consent through the platform, and this increases the willingness to receive electronic notification.

TDCC offers electronic notification service to every issuer, so investors don't have to approve every issuer's notice one by one. Investors only need to operate on TDCC's eNotice so that they can receive all the electronic notification. Professional institutional investors have a considerable number of investment subjects and clients, and this would not only make the operation process complicated and inefficient but also cause trouble for investors if each issuer collected investors' consent, email address, and relevant data one by one.

2. Investors receive electronic notification through TDCC ePassBook or stock affairs information website C.A.Net

Based on the success in e-voting at shareholder meetings, domestic issuers and shareholders have approved of the mechanism of integrating digital application and shareholder equity. In addition, TDCC launched TDCC ePassBook in March in the previous year, and it is estimated that the number of users will exceed 500,000 at the end of this year. TDCC has also set up mechanism for investors' consent to save email address and mobile number for future stock affairs electronic notification through push notification. This shows the infrastructure and setting will be increasingly mature.

In 2014, TDCC also established stock affairs information website C.A.Net; currently the website offers stock affairs information electronic transmission services containing stock splits application between custodians and issuers, ex-rights (dividend) information transmission, preferential tax rate, and Straight Through Process services. This comprehensive range of services for investors will be expanded and reach professional institutional investors. After institutional investors receive email from C.A.Net, the whole batch of stock affairs electronic notification files can be downloaded from the platform, which significantly increases the efficiency of processing stock affairs notification.

(3) To issuers/shareholder service units:

Serving as a neutral and objective member of the securities market, TDCC also

offers lists of owners of issuer securities. Therefore, issuers don't have to worry about the leak of shareholder information. In addition, there is a connection mechanism between every shareholder service unit and TDCC, so it is widely accepted that TDCC provides stock affairs electronic notification.

## 2. Phasing in stock affairs electronic notification

Currently there are more than a dozen kinds of notification sent from issuers to investors. The purposes of the notification are different, and the further action of the shareholders after receiving the notification may vary, not to mention the fact that users' habits have not been built. Therefore, phasing in is a more suitable way for implementation. This research suggests that TDCC'S stock affairs electronic notification go live through phases according to notification types:

(1) Due to the popularity of using electronic notification in Taiwan, services such as ex-rights (dividend) that do not involve active execution of shareholders' rights are provided in the first stage.

(2) In the second phase, the service range of notification expands to stock affairs including active execution of shareholders' rights such as notification on merger, capital reduction, notice for change of tickets, and agreement to capital increase shares through book-entry. Notification on shareholder meetings without proxy solicitation and gift issuance is also conducted.

(3) In the third stage, pursuant to the amended laws such as Company Act, Enterprises Mergers and Acquisitions Act, and regulations on the use of proxies, electronic notification covers all shareholder meeting notice and notification by way of registered mail such as cash capital increase stock subscription.

3. Stock affairs items not included in shareholder meetings are suggested to be sent electronically without shareholders' consent under amended laws.

Although there are laws regulating electronic notification, so far there have only been very few issuers adopting this way. That is because considerable amounts of manpower and time have to be devoted in advance for consent of shareholders, and the market in Taiwan features high stock turnover rate and the enormous number of retail investors. Notification on a variety of items not only influences shareholders' rights to different extents but also differs in solutions in legal and reality aspects. Therefore, this research proposes suggestions on electronic notification services in terms of law so as to reach the goal of comprehensive electronic notification:

(1) Stock affairs notification in addition to shareholder meetings.

Investigation and discussion should be conducted on laws regulating notification by way of electronic transmission, including shareholder meeting minutes, notice on issuance of stock dividend and cash dividend, notice on capital cash increase payment, notice on overall change of tickets, agreement to capital increase shares through book-entry, and issuers' use of electronic transmission without shareholders' consent. For the purpose of showing formality or in case of any other concerns, issuers can maintain written notification for specific stock affair.

## (2) Shareholder meeting notification

In compliance with Company Act and the Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies, as issuers should send shareholder meeting notification electronically, proxies should also be sent in the meantime. In reality, however, proxies are generally associated with gift giving procedure. As proxies are sent electronically, the problems of duplicating proxies and ways of giving gifts should be solved because these issues are subject to a wider range of law amendment. In addition, the sticking point to shareholder meeting electronic notification is the way to obtain consent from shareholders. There are numerous difficulties to overcome through TDCC's e-service for issuers to gain shareholders' "Yes," so shareholder meeting electronic notification is included in the last phase.

## 4. TDCC ePassBook offers one-stop service to integrate value-added information and electronic notification

Our goal has always been utilizing instant and useful information for a more convenient lifestyle: either compiling big data and turning monotonous figures into meaningful statistical data or integrating daily bills to control and analyze everyday cash flow. After investors are more familiar with TDCC ePassBook and electronic notification, the service range will not be limited to shareholder service items that issuers want to release and inform shareholders of. The examples are as below:

### (1) Provide statistical information for investment decisions

With the arrival of information explosion, statistical information has been even more valued. Take "TDCC Stock Rights Distribution Table" for example. This chart is recommended by FSC to compete for open data application award held by National Development Council. The table won not only widespread praise from a majority of investors but also first place in the best open data application award with the highest votes. In the future, through the basis of stock affairs electronic notification created by TDCC, more value-added information services will be generated from TDCC ePassBook. There will be a wider range and more useful services for investors' references.

### (2) Provide investors with integrated electronic notice services

With the increase in the use of TDCC ePassBook and change in users' habits, cross-industry alliance can be taken into consideration. eNotice not only offers notification on issuers' stock affairs information for investors, it can also cover even everyday matters such as various tax statements, utility bills, fines, and overdue parking fee reminder, etc. There's no need for relevant units to send written notices. In addition to benefits of energy efficiency and carbon reduction, investors can receive notification from different units through one single platform. Therefore, the effect of no information missing or skipped will be achieved.