

Taiwan Depository & Clearing Corporation
Code of Conduct for ESG Ratings Providers
(Draft)

September 2023

Chapter 1 Introduction

This Taiwan Depository & Clearing Corporation Code of Conduct for ESG Ratings Providers (Draft) ("this Draft Code of Conduct") is adopted to ensure the quality of the ESG ratings information on the Taiwan Depository & Clearing Corporation (TDCC) ESG Investor Relations Platform ("ESG IR Platform").

I. Scope of ESG ratings

1. "ESG ratings" in this Draft Code of Conduct means scores or ratings given by ESG ratings providers to individual companies with respect to any one or more issues within environmental, social, or governance dimensions.
2. "ESG ratings" in this Draft Code of Conduct includes only ratings given to public companies. It does not include ratings given to non-public companies, countries, corporate bonds, sovereign bonds, funds, or other investment or financing projects.
3. "ESG ratings" in this Draft Code of Conduct also does not include the provision of raw ESG data (or data produced by means of estimation when there is a lack of available data).

II. Targets and methods for implementation

1. This Draft Code of Conduct is targeted at ESG ratings providers. ESG ratings providers may include financial or non-financial institutions (e.g., research or data vendors, academic institutions, non-governmental organizations or initiatives), but do not include print or electronic media that issue ratings or rankings, nor institutions that compile ratings other than on a regular basis.
2. ESG ratings providers must own the copyrights, trade secrets, patents, or other intellectual property rights in the ESG ratings, and be entitled to license TDCC to make relevant uses of the ESG ratings.
3. Considering that multiple markets have already adopted related codes with which they require ESG ratings providers to comply, if an ESG ratings

provider already publicly complies (or states that it will comply) with similar codes of one or more markets, after confirmation by TDCC, TDCC will not impose further requirements.

4. If an ESG ratings provider does not publicly comply (or does not state that it will comply) with similar codes of one or more markets, TDCC, when entering into a licensing agreement, will require the ESG ratings provider to state that it will comply with the Principles and Guidelines set out in Chapter 2 of this Draft Code of Conduct.

III. Principles-based

1. The ESG ratings industry has been developing rapidly. Considering this, this Draft Code of Conduct is principles-based.
2. This Draft Code of Conduct comprises 7 Principles and 31 Guidelines. ESG ratings providers can decide appropriate ways to implement the Principles and Guidelines in their research and disclosures according to their unique situations.

IV. Major international norms and this Draft Code of Conduct

1. TDCC has formulated Principles 1 to 6 based on reference to relevant reports and codes of the International Organization of Securities Commissions (IOSCO) and Japan's Financial Services Agency.
2. Principle 7 is additionally formulated to enhance and ensure the quality and usability of domestic ESG ratings information published on the TDCC ESG IR Platform.

V. Publication and Amendment of this Code

After this Draft Code of Conduct has been publicly announced, it will be presented for public consultation and comment on the TDCC ESG IR Platform. After the solicitation of public comments, it will be submitted for final approval by the president of TDCC and then published for implementation. The same shall apply to any amendments hereto.

Chapter 2 Code of Conduct for ESG Ratings Providers

To enable TDCC and ESG IR Platform users to fully understand ESG ratings providers' (1) research quality; (2) management of conflicts of interest; (3) policies for communicating with companies subject to assessment; (4) performance experience and track record, ESG ratings providers need to provide written statements to TDCC of conformance with the following Principles and Guidelines.

Principle 1. ESG ratings providers should adopt procedures to ensure the quality of ESG ratings they issue. Their ratings should, to the extent possible, be based on publicly disclosed information. If any non-public information is used, it should be done using transparent and defined methodologies.

- Guideline 1-1 ESG ratings providers should adopt policies and procedures to ensure that the ESG ratings they issue are based on a thorough analysis of all relevant information available to them.
- Guideline 1-2 ESG ratings providers should adopt systematic, continuously applied methodologies, and disclose the methodologies while paying attention to intellectual property conditions.
- Guideline 1-3 ESG ratings providers should regularly review and maintain their ESG ratings methodologies.
- Guideline 1-4 ESG ratings providers, when updating their methodologies, should communicate sufficiently with stakeholders regarding changes made to the methodologies as well as potential impacts of these changes to the ESG ratings, and should disclose when the data is obtained or updated.
- Guideline 1-5 ESG ratings providers should disclose the sources of data used in determining their ESG ratings, and the estimations and methods used when actual data is not available. When disclosing data, transparency is advisable regarding the time period that data is relevant to as well as whether the data is publicly sourced.
- Guideline 1-6 It is advisable for ESG ratings providers to disclose the frequency and timing of updates to ratings.
- Guideline 1-7 ESG ratings providers should provide ESG ratings to TDCC in a machine-readable format.
- Guideline 1-8 If any procedures involved in ESG ratings are outsourced by ESG ratings providers, the outsourced party should be required to take any necessary

measures to comply with the Principles and Guidelines herein.

Principle 2. ESG ratings providers should adopt policies and procedures to ensure their decisions are independent, free from interference from the external environment, and appropriately address potential conflicts of interest that may arise from, among other things, other business activities within their organizations, their personnel, etc.

Guideline 2-1 ESG ratings providers should adopt, and concretely implement, policies and procedures to identify potential conflicts of interest that may affect the ESG ratings assessment and analysis conducted by the provider or its employees, and establish and disclose relevant policies to avoid, or appropriately manage and mitigate, the conflicts of interest.

Guideline 2-2 ESG ratings providers should take appropriate measures to ensure that ESG ratings would not be affected by the existence of any business relationship between the ratings provider or its affiliates and a company that is subject to ESG assessment.

Guideline 2-3 ESG ratings providers should take appropriate measures to prevent their employees from engaging in securities or derivatives trading that could involve conflicts of interest with the ESG ratings.

Guideline 2-4 ESG ratings providers should establish appropriate compensation systems for their employees, and avoid, or appropriately manage and reduce the risk of, actual or potential conflicts of interests related to their ESG ratings.

Guideline 2-5 ESG ratings providers should disclose the measures they use to ensure that any existing business relationship between ESG ratings providers and companies subject to ESG assessment would not affect the subject companies' ratings.

Principle 3. Transparency is an important issue in ESG ratings. ESG ratings providers should therefore disclose the philosophy underlying their provision of the service, e.g., the purposes, concepts, processes, and methodological bases of the ratings, to enable users to understand how their outputs were determined.

Guideline 3-1 ESG ratings providers should make public disclosure and transparency a priority for their ESG ratings, subject to intellectual property considerations.

Guideline 3-2 To enable users to understand the basic content of ratings, ESG ratings

providers should disclose the philosophy underlying their provision of the service, including the intended purposes, concepts, and methodological bases of the ratings.

Guideline 3-3 ESG ratings providers should disclose the data and information sources they rely on in offering ESG ratings, including the use of industry averages, estimations, or other methodologies when actual data is not available.

Guideline 3-4 ESG ratings providers should disclose the procedures and methodologies underlying their ESG ratings to enable users to understand how their outputs were determined.

Guideline 3-5 ESG ratings providers should summarize and disclose information regarding methodologies in an easily understandable manner, including but not limited to:

- the purposes, concepts, and evaluation objectives of the ESG ratings
- the specific content of the assessment methods (specific assessment criteria, important indicators in the assessment, etc., may be disclosed in the form of illustrative examples)
- the assessment processes (assessment procedures and monitoring, etc.)
- the time horizon of the assessment and the timing of data updates
- the contact point that can provide explanations of the assessment results

Guideline 3-6 If any significant change occurs in the methodology or process by which ESG ratings are constructed, the ESG ratings provider should disclose full information to enable the companies subject to assessment and the users to understand the change.

Principle 4. ESG ratings providers should adopt policies and procedures to appropriately handle and protect non-public information obtained in the course of business.

Guideline 4-1 ESG ratings providers should adopt, disclose, and implement written policies and procedures to maintain the confidentiality of and protect non-public information provided to them in the ESG assessment process.

Guideline 4-2 ESG ratings providers should adopt, disclose, and implement written policies and procedures to ensure that confidential information will not

be used for any purposes other than the ESG ratings, unless otherwise specially agreed with the provider of the information.

Principle 5. ESG ratings providers should secure necessary professional human resources to ensure the quality of the ESG ratings they provide.

Guideline 5-1 ESG ratings providers should secure necessary professional human resources and technologies to collect and analyze the information needed for providing appropriate ratings and for making related decisions.

Guideline 5-2 ESG ratings providers should take necessary measures to ensure personnel engaged in ESG ratings provision have professional knowledge and faithfully perform their duties.

Guideline 5-3 An ESG ratings provider's management should recognize that securing and developing human resources is an important element for continuously providing high quality ESG assessments and take actions as necessary for this purpose.

Principle 6. ESG ratings providers should provide companies subject to assessment with appropriate channels to give the companies the opportunity to raise questions and give feedback and should appropriately disclose information on their policies and procedures of engagement with respect to communication with subject companies.

Guideline 6-1 When and if collecting information from a subject company through means such as surveys, an ESG ratings provider should notify the company of the collection period sufficiently in advance.

Guideline 6-2 ESG ratings providers should establish a dedicated contact point where subject companies can raise questions regarding ESG assessment and use appropriate means to inform the subject companies of the contact point.

Guideline 6-3 When disclosing ESG ratings, ESG ratings providers should, to the extent practically possible, simultaneously disclose or inform the subject companies of the essential information sources of the ESG assessment, thereby allowing for the subject company to check whether there are any significant deficiencies in the sources.

Guideline 6-4 When a company subject to assessment raises important or reasonable issues about the information source of ESG assessment, the ESG ratings provider should take timely and appropriate measures such as allowing

the company to verify the accuracy of the underlying important data and correcting errors if any.

Guideline 6-5 ESG ratings providers should disclose their policies regarding communication with companies subject to assessment, including elements such as when the provider will request information from subject companies, how the companies could raise issues, and how the provider would be able to respond to such issues.

Principle 7. To ensure that ESG ratings data has definite research quality and usability, ESG ratings providers should disclose examples of how their ESG ratings have been used by domestic or foreign financial institutions in various investment processes. They should have at least 3 fiscal years of ESG ratings data that are comparable across years, and their ESG ratings data should have been used for at least 3 fiscal years.

Guideline 7-1 The ESG ratings data provided by ESG ratings providers should have an existing track record of use by domestic or foreign financial institutions in various investment processes. The examples of actual use may include use in research reports on individual stocks, in the compilation of indexes, or other investment processes, and the examples of actual use should be disclosed in an appropriate manner.

Guideline 7-2 An ESG ratings provider should have at least 3 consecutive fiscal years of ESG ratings data that are comparable across years.