On 27 June 2001 the Legislative Yuan passed the Financial Holding Company (hereinafter referred to as “FHC”) bill into law, which was seen as a milestone in Taiwan’s banking and financial sector. This new legislation is largely modeled the US Financial Modernization Act 1999, or otherwise known as the Gramm-Leach-Bliley Act, which put an end to the model of financial separation between commercial banking and investment banking activities enshrined in the Glass-Steagall Act. The 1999 Act provides for a vehicle, namely FHC, through which a banking organization can engage in any type of financial activities, such as insurance, brokerage or securities (Plotkin and Volland, 2000).

This legislative change is believed not only to enhance the integration of different business functions and provide synergies for financial institutions but also to envisage clearer and more transparent shareholding structures that have traditionally been blurred by cross-shareholdings. The FHC Act also vows to achieve concentrated ownership\(^1\) which helps achieve better alignment between ownership and control so as to reduce agency problems arising from the separation of ownership and control.

Around the same time as this bill’s passage, Enron and WorldCom scandals broke out in the US which aroused heated debates on issues concerning corporate governance and mechanisms for safeguarding shareholders’ interest.

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\(^1\) See 立法院公報，90 卷 43 期 3177 號.
As an FHC has multi-dimensional businesses across different industries by comprising several financial institutions, its failure will subsequently have much severe impact on the society and the economy as a whole by causing disastrous systemic risks. Thus, corporate governance plays a much more important role in FHCs compared to pre-FHC era given that the systemic risk was relatively small and limited to individual industries. Moreover, the FHC Act manifests itself to achieve ‘concentrated ownership’ in view of reducing the occurrences of moral hazard by people who exercise actual control.

Several corporate governance theories have been introduced to provide explanations as to causes for poor corporate governance and solutions thereto. The most important corporate governance model, the principal-agent model, emphasizes the potential problems arising from the separation of ownership and control. This separation means that owners may not in fact be those who actually exercise control over the company. As a result, this creates opportunities for misalignment of owners’ interest with that of people in control. Theoretically speaking, the closer alignment between ownership and control, i.e. one-share-one-vote principle, the more likely that the agency problem can be reduced.

Unlike most other FHCs established by way of consolidation of subsidiaries within business groups, Sino Pac holdings Co., Ltd was established on
May 9, 2002 as a result of a successful merger. Furthermore, SinoPac Holdings has recently been a merging target and its senior management publicly announced their intention to see SinoPac Holdings undergo a second round of merger. Clearly, a company with good corporate governance will prove more valuable to any potential acquirer. Therefore, this thesis is to examine SinoPac Holdings from the perspective of corporate governance. For the purpose of this research, the shareholdings of major shareholder of SinoPac Holdings, the Hong family, is the research subject. The essence of the research is to examine the Hong family’s shareholding and their actual control based on the one-share-one-vote principle before and after the FHC.

This thesis is divided into two major chapters. Chapter one is further divided into two sections, i.e. introduction and discussions on relevant theories. Chapter two concentrates on the case study, divided into four sections, starting with section three of Taiwan’s legal framework which impacts on the misalignment and then followed by section four of the calculation of the Hong family’s ownership, control, and misalignment thereof. Section five is devoted to discussion of the findings by referring to relevant discussions contained in chapter one. The final section is conclusion which summarizes the research and draws possible future research interests.