ACGA

CG WATCH 2023

KOREA

Dismantling the discount

Retail investors push CG into political agenda

Special report - June 2024

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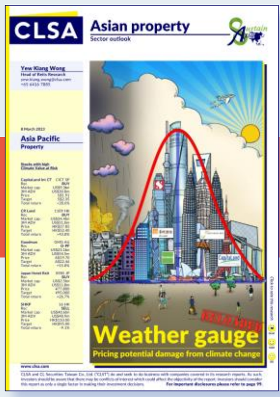
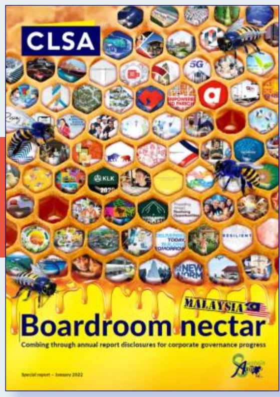
All prices quoted herein are as at close of business 6 June 2024, unless otherwise stated

ESG matters





For important disclosures please refer to page 67.

Dismantling the discount

Korea moved up one place in Asia Pacific CG rankings

Over the past 18 months, Korea's corporate governance (CG) landscape has shown a mix of progress and ongoing challenges. We highlight a leap in retail investor numbers and a rise in institutional activism but note slow legislative progress on strengthening shareholder rights and the lack of a clear CG roadmap. The government's Corporate Value-Up Program (CVP) is a positive step towards addressing the "Korea discount", but its effectiveness remains to be seen. Korea advances one place to eighth in our CG Watch survey, improving its score to 57.1% in 2023 from 52.9% in 2020.

Retail investors push CG onto political agenda; activism on the rise

Korea's improved rating is partly a result of the significant rise in retail investors due to the Covid-19 pandemic. By end-2022, their number reached over 14m, representing more than 30% of registered voters in Korea. Their growing influence was evident in the presidential election of 2022 and continued into the general election of 2024, elevating CG issues into the political dialogue. Institutional activism is also on the rise largely attributed to the Stewardship Code and 3% Rule.

Slow legislative progress and lack of clear roadmap

However, challenges remain. While Korea has made strides in enacting regulations that address longstanding CG issues - such as mandating English disclosures for large companies and enhancing appraisal rights for minority shareholders - legislative progress on strengthening shareholder rights has been slow, with proposals such as the mandatory takeover bid rule still stalled in the National Assembly. The current government lacks a clear CG roadmap to guide its reform efforts. While the CVP has garnered much attention, incentives for corporate participation are still unclear.

Various disclosure gaps at the company level

At the company level, there has been notable progress in the disclosure of sustainability reporting. Yet significant gaps remain in the disclosure of basic governance practices such as board evaluations, diversity policies, director remuneration and director training. These contribute to Korea's below-regional average scores on listed companies.

Directors need more training

Korea also significantly lags behind the regional average in civil society & media in our scoring. This is primarily due to the lack of a formal institution providing systematic and relevant training for directors. Addressing this training gap would enhance the effectiveness of the CVP.

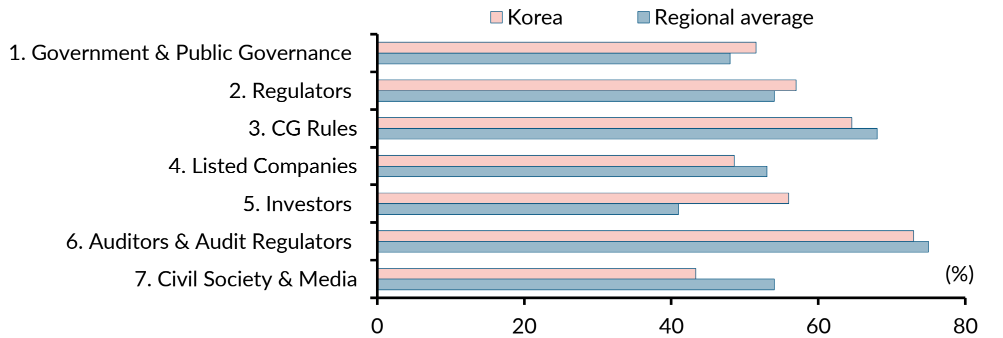
CVP as a primer of change

Near-term, CLSA views the CVP as a primer of change in addressing the persistent Korea discount. Although participation is voluntary, CLSA is reassured by changes among banks due to peer pressure. CLSA also remains positive that tax reform - about which we anticipate announcements in 2H24 – can be a carrot-and-stick tool for policymakers and help align majority and minority shareholder interests.

Korea is ahead of regional average on investors but lags on civil society & media

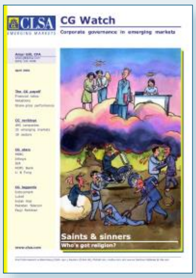
Watch Jongmin Shim's CLSA Video

CG macro category scores 2023: Korea vs regional average



Source: ACGA

CG Watch through the years



Saints & sinners

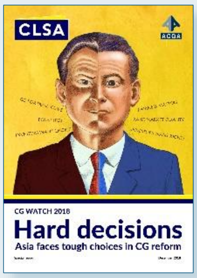
April 2001

Our first edition surveyed and ranked 495 stocks in 25 emerging markets. High CG scorers generally outperform. South Africa, HK and Singapore score well as do transport manufacturing, metals/mining and consumer.

On a wing and a prayer

September 2007

We include "clean and green" criteria in our corporate governance scoring. Climate change is now a matter of corporate responsibility, with attendant economic risks. Yet, Asian firms are largely ignoring the issue.



Hard decisions

December 2018

Regional markets face hard decisions in CG reform as mounting competition for IPOs raises pressure to lower standards. But there is still plenty of evidence of the push toward better CG. Australia maintains its lead, while Malaysia is the top mover.

Make me holy . . .

February 2002

Almost invariably, companies with high CG scores remained market outperformers this year. The top-CG quartile outperformed the country index in nine out of 10 Asian markets under CLSA coverage.

Stray not into perdition

September 2010

Corporate governance standards have improved, but even the best Asian markets remain far from international best practice. Our CG Watch rankings may surprise investors this year even more than the 2007 reordering.

Future promise

May 2021

Our latest edition of CG Watch is bigger and better than ever - two powerful reports provide unique perspectives on how markets and sectors in Asia are rising to the challenge of building sustainable growth.

Fakin' it

April 2003

Companies are smartening their act as stocks with high CG scores outperform. But much of the improvement is in form - commitment is not yet clear. Market regulations are moving up and it is time for regional shareholders to organise.

Tremors and cracks

September 2012

Cracks in Asian corporate governance have become more apparent since our last CG Watch. We provide CG and ESG ratings on 865 stocks , rank the markets and indicate issues investors should watch for in the tremors of Asian investing.

A new order

December 2023

Capturing the biggest ranking shift in 20 years, we see Japan surging and Hong Kong posting a precipitous slide. Strong governance pays, and firms with good CG scores tend to have higher social scores.

Spreading the word

September 2004

Our more rigorous CG survey of 10 Asian markets ex-Japan finds improvements in many of the 450 stocks we cover, following new rules introduced in recent years. CG also emerges as an explanation for beta.

Dark shades of grey

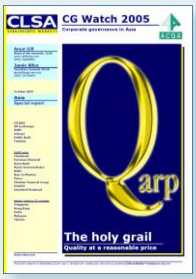
September 2014

This year, we rated 944 companies in our Asia-Pacific coverage. Japan has moved higher, while Hong Kong and Singapore have slipped. Corporate scores have fallen, particularly in Korea. We have revamped our environmental and social scoring.

Ramping up CG reform

May 2024

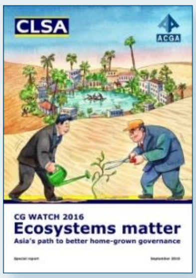
Japan's corporate governance has made significant progress, placing it second in top-down regional rankings, the highest in 20 years, as per ACGA's CG Watch. Regulatory reform and stakeholder progress have been crucial factors in this achievement.



The holy grail

October 2005

QARP (Quality at a reasonable price) is a guide for stock selection in the quest for high-CG stock performance. In the three years to 2004, the QARP basket of the largest 100 stocks in Asia ex-Japan beat the large-cap sample.



Ecosystems matter

September 2016

Governance matters and ecosystems are key. No one stakeholder drives the process; it is the collective interaction that delivers outcomes. Australia heads our bottom-up survey and joins ACGA's top-down survey at No.1. Asia is improving.

Korea - Trying to dismantle the dreaded discount

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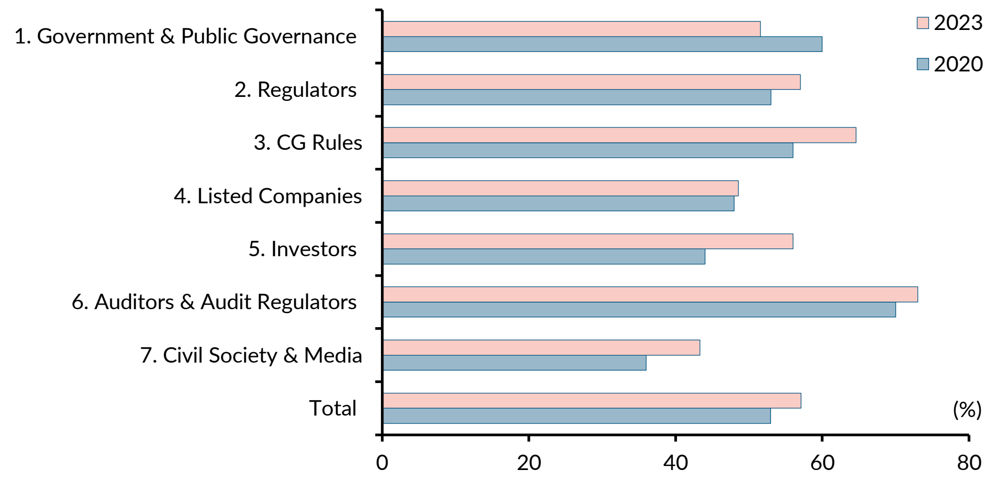
- Korea moved up one spot to claim 8th place on a much-improved score of just over 57%.
- A surge in retail shareholders, who now make up 30% of registered voters, has become a significant political force and sparked government action to address systemic CG and ESG issues . . .
- . . . yet the Yoon administration lacks a credible strategy for CG reform, opting for an opportunistic approach that played poorly in the ballot box in early 2024.
- Shareholder activism is on the rise and becoming more creative.
- Sustainability reporting is improving rapidly, but listed companies still lag in board evaluations, diversity policies and disclosure of director remuneration.
- Korea copies Japan and is trying to "value up" its stock market - a direct attempt to dismantle the "Korea discount".

Korea rises in all categories except government

Figure 1

Korea CG macro category scores: 2023 vs 2020



Source: ACGA

Introduction

Korea rises one place to 8th on a much-improved score

Korea advanced one spot to claim 8th position in the rankings - its first change of position in more than a decade - following a rise in score from 52.9% in 2020 to 57.1% in 2023. An increase in shareholder activism and regulatory responsiveness to long-standing CG issues were two significant factors in its improvement. The emergence of a robust retail investor base, catalysed by the Covid-19 pandemic, also helped to shape both the political landscape and corporate governance policy in Korea. As early as 2021, the number of retail shareholders almost tripled to around 14 million, comprising more than 30% of registered voters. Leveraging social media platforms and YouTube channels, retail investors have been exchanging information and deepening their understanding of shareholder rights.

* I want to extend my special thanks to Jamie Allen for his mentorship on Korea. His generous sharing of knowledge and guidance throughout the CG Watch process were crucial for the completion of this research.

Retail shareholders have been pivotal to CG policy

This enlarged retail base played a pivotal role in putting corporate governance on the agenda of the last presidential campaign, with both parties striving to appeal to small investors. In the months leading up to the election in March 2022, retail investor activists made several CG demands, including the introduction of a mandatory takeover bid rule (an issue also on the agenda of institutional shareholders for many years), stronger rights for dissenting shareholders to request a buyout in a corporate split-off, prohibition of the use of treasury shares to defend management control and legal recognition of an explicit duty of directors to all shareholders and not just the controlling shareholders. Regulators duly made an effort over the past two years to respond to these demands, although substantive achievements have been minimal, with bills stuck in the National Assembly.

Activism is also on the rise

At the same time, there has been a noticeable uptick in recent years in activist interventions targeting corporate governance in the Korean market, both through shareholder proposals and corporate engagement. Align Partners orchestrated one of the most notable campaigns against SM Entertainment over 2022 and 2023. Capitalising on the 3% Rule, which limits the votes of controlling shareholders in the election of audit committee members or outside auditors, Align successfully nominated an auditor candidate and changed the company's governance structure, business strategy and investor relations.

Despite a rebuff at the ballot box, key elements of President Yoon's capital markets policies are likely to continue

The lingering question is whether CG reform momentum will persist in Korea and, if so, how it will unfold. In February 2024, the Financial Services Commission (FSC), the peak regulator, introduced the Corporate Value-Up Program (CVP) as a way to tackle the long-standing 'Korea discount'. Prior to a general election for the National Assembly in April 2024, there was much speculation about how the election result would impact the development of the programme and CG reform generally. Some argued that if President Yoon Suk Yeol's conservative People Power Party performed poorly - as indeed it did - that this would hinder the CVP because the opposition Democratic Party, which now controls a majority of seats, would not pass measures such as tax incentives on inheritance and dividends. While it remains to be seen how the programme plays out, it is likely that the core policy to improve corporate valuations and enhance governance will be sustained since these are also goals of the Democratic Party and backed by the nation's army of retail shareholders. What Korea needs, however, is a multi-year roadmap for CG reform that sets strategy in a coherent way. A mishmash of piecemeal policy measures and the Value-Up Program is not enough.

Recapping CG Watch 2020

Korea's report card since our last survey is average: only three of eight reform areas have been addressed

As Figure 2 shows, Korea has made progress in three out of the eight areas since our previous survey in 2020. These include developing new legislation on a mandatory takeover bid rule, gradually phasing in English disclosure requirements for large listed companies or those with a significant foreign investor base and providing guidance on ESG disclosure for companies. Only the English disclosure requirements are being implemented without delay.

Areas where Korea still needs improvement include instituting a longer cooling-off period, ensuring timely disclosure of voting results by companies, increasing transparency in enforcement statistics by regulators, introducing a formal written consultation process for policies to enhance the participation of foreign investors and establishing a national CG strategy to guide reform.

Progress seen in a new mandatory takeover bid rule, English disclosure and ESG reporting guidance

Figure 2

Korea: recap of 2020

	Recommendations	Outcomes
1.	Reinstitute a mandatory takeover bid rule	In progress/delayed. A compromise version was introduced in the National Assembly in December 2022 but languished. It now needs to be reintroduced in the new parliament.
2.	Enhance English disclosure	In progress. Mandatory English disclosure for material information started in 2024 for listed Korean companies with assets of KRW10 trillion, or those with assets in excess of KRW2 trillion where 30% of their shares are foreign owned.
3.	Introduce ESG disclosure rules and guidelines	In progress/delayed. KRX established an ESG portal where extensive guidelines and information are provided to help companies navigate the new requirements, but the deadline for mandatory ESG disclosure has been pushed to 2026 from 2025.
4.	Extend cooling-off period for outside directors	No progress.
5.	Mandate voting by poll	Some progress: around half the companies on KOSPI are now subject to CG disclosure rules and must produce voting data in their CG reports, but these reports do not come out until 2 months after the AGM.
6.	Enhance disclosure of regulatory enforcement statistics	No progress.
7.	Enhance the (written) consultation process for new policies and regulations	No progress.
8.	Develop a national CG Roadmap	No progress. A Corporate Value-Up Program was introduced in February 2024 to address the 'Korea discount', but it still lacks details and does not equate to a CG Roadmap.

Source: ACGA

1. Government & public governance

Korea falls to 6th after its score plummets to 52%

Korea's score in this category dropped eight percentage points, declining from 60% to 52%, leaving it ranked 6th after coming equal 4th in 2020. The scores for most of the other markets in this category either stayed the same or went up, with Hong Kong and Korea being the only two markets where we saw significant drops in score.

Korea still lacks a strategic CG roadmap

Korea's decline primarily stems from two areas: the absence of a coherent and comprehensive government strategy to drive sustained corporate governance reform and consistent government political support for regulators. In these two areas, Korea's score dropped two and three points, respectively, from our previous survey.

CG reform remains piecemeal and reactive

Over the past 12 to 18 months, the government has taken some important, though piecemeal, steps to tackle systemic corporate governance issues in Korea. Instead of proactively laying out a strategic roadmap for reform, the administration has prioritised decisions based on political expediency, hampering the extent to which reforms can be implemented. On the one hand, the government wants to advance a pro-business agenda that favours the chaebols. On the other, it has been seeking support from the country's large population of retail investors who are increasingly conscious of their rights and now account for one-third of registered voters in Korea.

Pleasing retail has also led to some poor decisions

The contradictions in this approach are apparent. The increase in retail investors has not only led to some pro-CG policies, it also encouraged regulators to institute a blanket ban on short selling in 2023 with an indefinite timeline - not a policy that

ACGA would support. At the same time, the government's fear of upsetting business groups has resulted in ongoing delays in implementing mandatory ESG disclosure requirements - an area where Korea has lagged other Asian markets for many years.

Yoon continues the discredited tradition of pardoning chaebol leaders

President Yoon has also followed the well-worn path of granting special pardons to business leaders in the name of economic revival, while ever-present government interventions in listed, former state-owned enterprises remain another obstacle to good governance that worries investors.

Yoon's strategies did not lead to success in national elections in April 2024

Notably, Yoon's strategy has so far not delivered a political return. His People Power Party did poorly in the recent National Assembly elections in April 2024, giving the opposition Democratic Party (DP) a landslide victory. The DP and its smaller alliance partners won a combined 175 of the 300 seats but fell short of the two-thirds majority needed to impeach the president despite a further 12 seats won by the closely affiliated Cho Kuk Party.

The president's mixed achievements

Yoon has problems getting bills passed parliament

President Yoon took office in May 2022 after securing victory over the Democratic Party's Lee Jae-myung. Yet he has never managed to control the National Assembly and has struggled to get legislation passed. It will remain difficult for the president now that the opposition camp has increased its majority.

An election promise to pass a new bill on mandatory takeover bids has been delayed . . .

During the 2022 election, Yoon promised to reintroduce a mandatory takeover bid rule, a requirement that any acquirer purchasing a controlling stake in a listed company must extend the same offer to all remaining shareholders. Korea did have a version of this rule prior to the Asian Financial Crisis of the late 1990s but dropped it under pressure from the IMF to facilitate corporate restructurings. In 2022, the FSC duly proposed a compromise version of the rule that would mandate bidders acquiring more than 25% of a company to purchase at least 50% plus one share. The rule has been under discussion since the end of that year but failed to get through the National Assembly before the general election in April 2024. It now must be resubmitted. Similarly, another bill on virtual AGMs, proposed in November 2023, faces the same fate.

. . . but rules giving more protection to shareholders in corporate split-offs have come into force . . .

However, not all policies have failed to progress. After LG Chemical carved out its most profitable battery unit in 2020 and sought to list it as a separate business in 2022 without exchanging shares or compensating the original parent-company shareholders, the FSC took action to strengthen shareholder rights. Specifically, it amended the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) to give dissenting shareholders in such split-off the option to request a buyback of their shares and required increased disclosure of company split-off plans (A split-off is a type of corporate restructuring where the parent company creates a new subsidiary and gives shareholders the option to exchange their parent company shares for shares of the new entity. Conversely, in a spin-off, the parent company creates a new subsidiary and distributes its shares to the existing shareholders on a pro-rata basis).

. . . and the FSC is tightening controls on treasury shares

Measures have also been introduced to address the misuse of treasury shares. In leading companies, the buyback of existing shares on the secondary market and their cancellation is a strategic decision aimed at returning value to shareholders. In Korea, issuers often keep such shares in their "treasury" and later use them to benefit their controlling shareholders. One recent practice, which has caused considerable controversy, is the swapping of such shares to create new cross-shareholdings between unrelated companies. By January 2024, the FSC had introduced a plan to amend the Enforcement Decree of the FSCMA to impose limitations on the rights associated with treasury shares during company spin-offs and increasing transparency around the sale of these shares to third parties. It is expected that the decree will be amended in June this year.

Some progress on the Korea discount; none on MSCI

During his presidential campaign, Yoon also pledged to address the 'Korea discount' and committed to upgrading Korea to MSCI Developed Market status, a promise many of his predecessors had also made. While he has made some progress on the former with the Value-Up Program, he has not succeeded on the latter.

Pardon me

A return to the bad old days of presidential pardons

Yoon's contradictory approach to CG reform is further evident in his pardons of corporate leaders previously convicted of corruption and embezzlement, allowing them to resume leadership roles within their companies. Since assuming office he has initiated several rounds of pardons, undertaken in the name of stimulating economic recovery and fortifying national unity.

JY Lee of Samsung was one of the first to be pardoned in August 2022

Shortly after his inauguration in May 2022, Yoon's first wave of clemency included prominent figures like JY Lee, the *de facto* chairman of Samsung Electronics. Lee was involved in the scandal linked to ex-President Park Geun-hye dating back to 2017, when he was accused of making payments through Park's confidante, Choi Soon-Sil, to secure government support for the Samsung C&T and Cheil Industries merger. The controversial merger was seen as key to solidifying Lee's control within Samsung. He was duly convicted of bribery and given a five-year jail term but released on appeal after a year. His original term was also cut in half and suspended.

Yoon's pardon allowed Lee to take up a formal role at Samsung Electronics

In 2019, the Seoul High Court held a retrial, which led to Lee receiving a 2.5-year sentence for bribery and embezzlement in January 2021. Strong lobbying from domestic business groups and even the US Chamber of Commerce - all arguing that Lee's release was vital to the economy and to solving the global chip shortage problem - resulted in his release on parole in August 2021. A parole condition restricted him from taking up any formal position at Samsung, since the Aggravated Punishment of Specific Economic Crimes Act prohibits convicted persons from taking company directorships within five years unless approval is granted by the Minister of Justice as prescribed by a presidential decree. With Yoon's pardon in August 2022, Lee was able to officially return to Samsung's leadership and take on a newly created role as executive chairman. He does not, however, sit on the board - a bone of contention for Samsung shareholders who believe they should be allowed a vote on his position.

Pardons also for executives from Lotte and Dongkuk

Other significant business leaders receiving pardons from Yoon have been Lotte Group's Shin Dong-bin and executives from Dongkuk Steel and STX Group in 2022. The intention was to 'rejuvenate economic leadership without the barriers of past legal constraints'.

A huge number of pardons in early 2024

The most recent pardons occurred before the Lunar New Year, a conventional period for granting clemency, in 2024. This round included more than 450,000 individuals, including business figures like SK Inc.'s Senior Vice Chairman Chey Jae-won and LIG's Chairman Koo Bon-sang. This special amnesty effectively expunged Chey's embezzlement and Koo's fraud records. Chey was convicted of embezzlement and imprisoned for four years alongside his brother, SK Group Chairman Chey Tae-won in 2013. Chey was released on parole in 2016 after serving about three years in prison, while his brother, Chey Tae-won, was granted a presidential pardon in 2015. Koo, on the other hand, was charged with issuing fraudulent commercial papers in 2013 and sentenced to eight years in prison.

JY Lee's trials and tribulations

JY Lee wins in the end

Over almost a decade, JY Lee has found himself in and out of prison. In 2017, Lee was convicted of bribing the confidante of former president, Park Geun-hye, in exchange for the government's support for the Samsung C&T and Cheil Industries merger. Lee was given a five-year prison term but was released after serving one year on appeal. The sentence was then cut in half and suspended. In January 2021, Lee was sent back to prison for another two and a half years after a retrial of the case. In August of the same year, Lee was again released on parole. Yoon's presidential pardon in August 2022 officially cleared him of bribery and embezzlement charges.

In addition to bribery, Lee was also charged with stock manipulation and accounting fraud

Lee also faced trial on separate charges of stock price manipulation and auditing violations related to the Samsung C&T and Cheil Industries merger. Prosecutors sought a five-year jail term and a fine, alleging that Lee and other executives inflated the stock price of Cheil Industries while devaluing Samsung C&T prior to the merger. Lee refuted all allegations, stating that the merger and accounting processes were standard managerial operation and not intended for personal gain or to harm other shareholders.

He was acquitted in early 2024

In early 2024, the Seoul Central District Court ruled there was insufficient evidence to prove that Lee had intended to commit the alleged actions or that shareholders had been misled. Lee was acquitted on both counts, as were several other Samsung executives who were co-defendants.

Political meddling in business

State intervention in CEO succession at former SOEs is a persistent problem

Another unique feature of Korean CG is the government's persistent intervention in privatised state-owned enterprises, particularly around CEO appointments. Even after more than two decades of privatisation, successive governments have attempted to steer these companies' leadership to mirror the preferences of the current administration.

Only one CEO has made it to a second term

Since KT's privatisation in 2002, there has been only one instance when a CEO was able to secure a second term, as each new administration would push for their preferred candidate. The recent leadership transitions at POSCO and KT have highlighted the government's sustained influence in these formerly state-run companies that have no controlling shareholders.

POSCO CEO rebuked for seeking second term

In late 2023, the POSCO nomination committee shortlisted Chang In-hwa, an executive with an engineering background, as a potential CEO candidate because of his technological proficiency at a time when the industry faced the challenge of reducing carbon emissions. However, the process became contentious when the current CEO, Choi Jeong-woo, indicated his desire for reappointment. According to Korea Times and The Korea Economic Daily's reports, this lay behind the public rebuke from Kim Tae-hyun, the head of NPS, who obliquely criticised POSCO's selection process as opaque and unfair. Kim's comments appear to reflect the current administration's position, given the reported longstanding strained relations between Choi and the Yoon administration, as well as Choi's connections to the previous Moon administration. Following the NPS's remarks, Choi was eliminated from the CEO review process.

An omnishambles at KT

A parallel situation unfolded in 2023 at KT, where the board initially endorsed the long-serving CEO Ku Hyeon-mo, lauding his role in the company's digital shift and financial improvements, as the sole CEO candidate. However, NPS contested the decision, calling for a more transparent and fair process. President Yoon was critical as well, openly suggesting Ku's reappointment would be akin to self-appointment. Facing these obstacles, Ku exited the race, and KT's board started a fresh round of nominations that saw 33 new applications, including 15 from KT's own executives. Yun Kyung-lim emerged as the final candidate but faced immediate opposition from NPS and the president's People's Power Party again, discrediting him as a proxy for Ku. Soon after, prosecutors launched an investigation into both Ku and Yun over allegations of malpractice by a civic group. Confronted with escalating political and legal pressures, Yun stepped down just days before the shareholder meeting, leaving a leadership void at KT as Ku's term also concluded at the same time.

Foreign investors are deeply troubled by the government's interventions

These two cases are particularly concerning for minority foreign investors because, in both instances, the government, which holds no shares in either company, is intervening in governance matters that should be addressed by the shareholders. External interference in leadership structures can create a void, destabilising a company's strategic direction and long-term planning. This disruption is especially alarming in large, influential corporations like POSCO and KT, where continuity of leadership is crucial for maintaining stability and driving growth.

Investors expect strategic leadership and a clear succession process

When external pressures or sudden changes influence CEO transitions, they disrupt the steady and strategic leadership that shareholders expect. This can damage investor confidence and affect the company's valuation. For companies like POSCO and KT, lacking a clear and transparent CEO succession plan with a list of potential candidates can lead to rushed appointments that might not match the company's long-term goals or the best interests of its stakeholders.

Foreign investors are also troubled by inconsistency on the part of NPS

Additionally, foreign investors are troubled by NPS's inconsistent approach to engagement on this issue. Its sporadic involvement, which alternates between periods of activity and silence, adds to the confusion.

Politics disguised as corruption

Korea has a single lead agency on corruption

Korea has a leading agency that fights corruption. The Anti-Corruption and Civil Rights Commission (ACRC) was established in 2008, merging three prior institutions: the Ombudsman of Korea, the Korea Independent Commission Against Corruption and the Administrative Appeals Commission. However, unlike the leading corruption-fighting agencies in Hong Kong or Singapore, the ACRC has fewer investigation and enforcement powers. While it does carry out initial inspections following complaints, its focus is more on corruption prevention and education, as its mission is to address administrative abuse and enhance public trust in government across all levels.

The ACRC has taken a range of measures to detect and prevent corruption

Despite its weaker investigative and enforcement powers, the ACRC has undertaken measures to enhance integrity in Korea. These efforts include protecting and supporting whistleblowers, including provisions for non-real name proxy representation by lawyers and the introduction of an emergency relief fund system for whistleblowers. The ACRC also played a role in facilitating the implementation of the Act on the Prevention of Conflict of Interest Related to Duties of Public Servants by providing educational materials and conducting briefings for public officials.

Korea TI score has been on an upward trajectory

As a result, Korea's Transparency International score has been on an upward trajectory since 2016, improving ten percentage points from 53 to 63 in 2023, ranking 32nd out of 180 jurisdictions in 2023. Its score in the annual Political & Economic Risk Consultancy (PERC) survey has also been improving in recent years: it rated 5.54 out of 10 and came 6th in the region in 2020. It made a slight improvement in 2024 with a score of 5.51, but its ranking slipped a place to 7th. (Note: In the PERC survey, lower scores are better.)

The perception remains that Korean governments use corruption to attack their political opponents

Despite this improvement in scores, Korea's efforts to tackle corruption are tempered by a lingering perception that successive governments use corruption to attack political opponents. The PERC survey highlighted this issue as relevant to both Korea and Taiwan, two countries that transformed themselves from authoritarian states to democracies. Indeed, as reported by the Korea Times, several figures from the previous Moon administration have come under scrutiny:

1. Baek Woon-gyu, former minister of trade, industry and energy, is under investigation for purportedly compelling the resignation of 13 public agency chiefs after President Moon's inauguration in May 2017.
2. Representative Park Sang-hyuk, formerly a high-ranking official in Moon's presidential office, is suspected of being complicit in the above events.
3. The former minister and vice minister of gender equality, Chung Young-ai and Kim Kyung-seon, have been questioned over allegations that they contributed to drafting campaign pledges for Lee Jae-myung, the Democratic Party of Korea's presidential candidate who was defeated by Yoon.
4. Lee Jae-myung, the opposition leader, has also been indicted on corruption charges.

This pattern of investigations has raised concerns among critics who fear that such charges may be politicised.

2. Regulators

Korea slips one place to 7th on an improved score of 57%

Korea's score in this category increased four percentage points to 57%, but its rank slipped one place back to 7th, the same position it held in 2018. Just above Korea at 58% was Malaysia and just below at 56% was China; both markets on improved scores as well. Two other markets, Indonesia and Japan, rose in score by more than a percentage point, while Hong Kong fell quite precipitously from 69% to 62%.

Scores rose in both sub-categories

Despite its fall in rank, Korea saw higher scores for both parts of this category. After falling sharply in our last survey, funding/capacity building/regulatory reform regained some ground and increased by a substantial six percentage points. The enforcement sub-category edged up two percentage points.

The structure of the regulatory system has remained stable

There has been no change to the structure of the Korean financial and corporate regulatory system in recent years. The Financial Services Commission (FSC) serves as the peak regulator for banking, insurance and securities, while the Financial Supervisory Service (FSS) acts as a separate entity responsible for supervision and enforcement. The Korea Exchange (KRX) operates as the sole stock exchange, and the Ministry of Justice (MOJ) holds responsibility for company law. Additionally, Korea's Fair Trade Commission (FTC) regulates competition and transactions among businesses, focusing on the chaebols, which dominate the economy and are often at the centre of corporate governance issues in this market.

The FSC has not gained in independence from the government

There also has not been any substantial gain in independence from the government. The FSC's leadership comprises nine commissioners, including six Korean civil servants, the chairman, one standing (ie, full time) commissioner and four ex-officio positions held by the Vice Minister of the Ministry of Strategy and Finance, the Governor of the Financial Supervisory Service, the Deputy Governor of the Bank of Korea, and the President of the Korea Deposit Insurance Corporation. The other three commissioners all come from academia and include the vice chairman, a standing commissioner and one non-standing commissioner.

There has been no change to the system of short official appointments

Not surprisingly, there has also been no change in the system of short official appointments, which sees key people move jobs every 18 months to two years. As mentioned in previous editions of CG Watch, this system makes it difficult to engage in regular and detailed discussion with officials on key CG policies, laws and practices in Korea. Each time ACGA undertakes CG Watch, we meet a new group of officials at each of the main regulators. This means that the conversation, in certain important respects, effectively starts again from the beginning. These comments are not intended to be a criticism of any individual official, as the system is not of their making. We do find, however, that there tends to be somewhat less institutional memory of CG issues among officials in Korea than in the other markets we cover.

But officials did show more interest in our survey this time

In fairness, we must also mention that the level of interest shown by regulatory authorities in this latest version of CG Watch is considerably higher than any previous edition. During our research in 2023, we received detailed and helpful cooperation from many agencies, which took the time to prepare written answers to questions and provided numerous supplementary documents.

2.1 Funding, capacity building and regulatory reform

Korea moved up one rank to 8th on a much-improved score of 51%

Korea’s score increased by six percentage points to 51%, and its rank improved one place to 8th. The leader in this sub-category this time was Japan, whose score leapt nine percentage points on the back of a greatly enhanced regulatory reform effort. Other leading markets included Australia and Taiwan.

Where scores rose, none fell

Scores rose on three questions: to what extent is the securities commission investing in surveillance and enforcement capacity, does the stock exchange provide a detailed archive of company reports and announcements and is there an electronic voting system for investors. There were no areas where scores fell.

Where Korea also does well

Korea does well in two other areas of this sub-category: the transparency and volume of funding for the Financial Supervisory Service (FSS), and the extent to which regulators are modernising company and securities laws.

Where Korea always does poorly

It does poorly on several questions: the transparency and volume of funding for the Korea Exchange (KRX) and the extent to which the latter is investing in new enforcement capacity, whether regulators organise open and fair public consultation exercises on new rules and policies and pre-IPO government preparation in listing applicants.

Investing in technology and enforcement

Regulators are increasing investment in enforcement technology and capacity

Since the onset of the Covid-19 pandemic, both the KRX and FSS have bolstered their market surveillance and enforcement capabilities, along with increasing their budgetary allocations. While KRX does not publicly disclose its funding allocation or investment specifics, it did acknowledge to ACGA that its budget for trading and market surveillance systems had expanded annually since the onset of the pandemic, primarily due to a significant surge in trading volumes.

The FSS is spending a higher ratio of its budget on enforcement personnel

Similarly, FSS's expenditure ratio for securities market enforcement has also consistently risen, reaching 26.1% of its annual budget in 2021, 26.3% in 2022 and 27.1% in 2023. This escalation is attributed to the growing complexity of issues in the capital market, prompting an increase in the number of employees dedicated to securities market enforcement and consequently driving up expenditure in this domain.

The FSS is also using digital tools to greater effect

In its 2021 annual report, the FSS outlined plans for digital transformation in financial supervision. This included implementing systems for unfair trading investigations and robotic process automation, leveraging artificial intelligence and big data technologies. FSS has also developed a Suptech-based system for unfair trading investigations, automating the collection of vast data sources such as online news articles and blogs, and transcribing phone call recordings to text using AI. In its 2022 annual report, the FSS stated that it had enhanced its digital forensics capabilities by acquiring specialised equipment, allowing it to connect to a national digital forensics cloud system managed by the Prosecutor's Office. This integration significantly improved its ability to analyse digital evidence. Further boosting its investigative efficiency, in July 2021, the FSS adopted Nuix forensic software, which enables quick analysis of large volumes of data confiscated during investigations.

As much as 7% of the FSS budget is allocated to "regtech"

The FSS confirmed during our discussion in mid-2023 that it had been actively engaged in several AI and big data analysis pilot projects to enhance investigation efficiency. Specifically, it has allocated roughly 7% of its annual staffing budget towards regulatory technologies, totalling KRW20 billion (US$17.8m) in 2021, KRW30.9 billion in 2022 and KRW27.6 billion in 2023.

English DART system upgraded to enhance accessibility for foreign investors

The FSS upgraded its electronic disclosure website (DART) and put it online from 31 July 2023. The new system allows users to search company names, report titles and file names in English, provides real-time English translations of report titles and permits viewing of Korean financial statements in English through XBRL. For the rest of 2024, the FSS plans to enhance DART's English capabilities further. It aims to improve search functions and provide foreign investors with features like public offering information, which was previously available only to domestic investors. The FSS will introduce an English section to the Public Offering Board and create an offering calendar on the status of subscriptions. Additionally, a new English-only service called English Open DART should be in full operation by the end of 2024. Currently, however, the search functions on DART still need improvement as the results are not accurate and most of the reports are still only available in Korean.

E-voting on the march

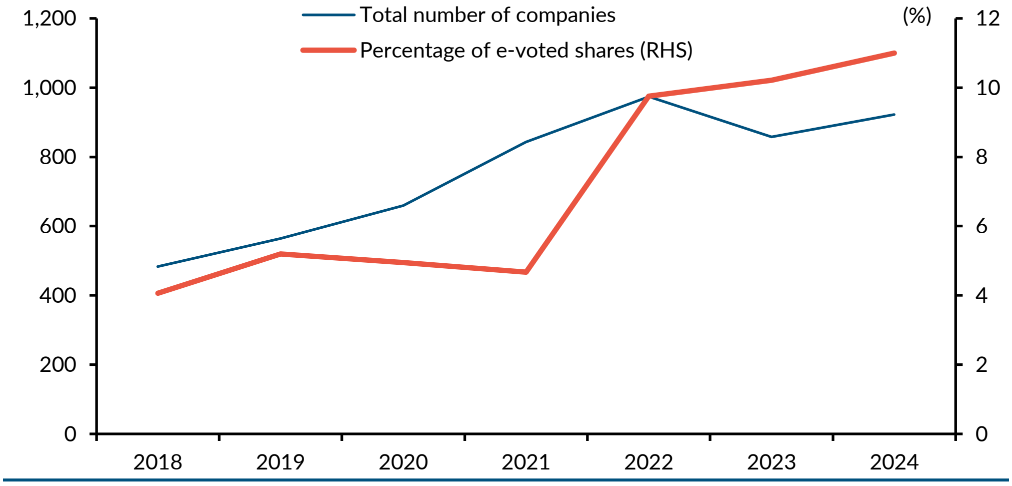
Scores also rose because of a wider adoption of the KSD e-voting system

The wider adoption of the electronic voting (e-voting) system by institutions in recent years also contributed to an increased score. Although there was limited participation from companies when the K-VOTE system was first launched in 2010, its usage has gained momentum. According to the Korea Securities Depository

(KSD), the number of firms providing e-voting at their annual shareholders' meetings has steadily risen from 483 in 2018 to 564 in 2019, 659 in 2020, 843 in 2021 and 974 in 2022. While the number experienced a slight decline to 858 in 2023, it rebounded to 922 in 2024.

Figure 3

E-voting system adoption by companies



Source: KSD, ACGA analysis

According to press releases from KSD, the number of shares being voted electronically through K-VOTE remains low - although they are rising. In 2020, only 4.95% of shares were e-voted, followed by 4.67% in 2021, a slight increase to 9.75% in 2022, reaching 10.21% in 2023, and finally peaking at 11% at the most recent general shareholders' meeting in 2024.

A healthy budget

The FSS is well-funded, with revenues and expenses growing steadily

The FSS consistently maintains robust funding and transparency in its financial operations. Its expenditures primarily cover salaries for executives and employees and operational expenses for regulatory enforcement activities. Annually, the FSS determines its budget based on essential tasks, with provisions for additional initiatives such as bolstering manpower for digital asset oversight or enhancing trade monitoring programmes. As the figure below shows, its budget grew at a steady rate between 2020 and 2022.

Figure 4

FSS's funding and expenditure, 2020 to 2022

Year	2020	2021	2022
Income (₩/million)	337,459	355,418	380,370
Expenses (₩/million)	337,197	355,255	379,927

Source: FSS Annual Reports

Korea adopts a user-pays system for funding the FSS

The FSS's solid funding stems from a well-structured financial framework. Although its budget requires government approval, it is sustained through levies on the financial services industry, fees from securities issuance and a modest contribution from the Bank of Korea. Ensuring fiscal responsibility, FSS balances its books annually and reimburses any unused funds.

CG reform moving forward

Korea scores well again for regulatory reform

Despite the official roll-out of the dual-class share system for venture firms in 2023 - a backwards step in our view - we nevertheless recognise that a range of positive CG reform efforts have been made by regulators to modernise Korea's company/securities laws and listing rules in the past couple of years. This ensured that scores for related questions in our survey (Q2.5 and Q2.6) remained high (see Appendix 2 for our detailed scores). For example:

The delisting process has become more pragmatic and less rigid

- Delisting rules were overhauled in December 2022 to make the regulatory review process more pragmatic and less rigid. In the past, delisting decisions were based mostly on quantitative factors, often leading to companies being removed from the bourse just because they experienced temporary financial difficulties, such as those caused by events like Covid-19. Additionally, failure to meet specific requirements, such as timely submission of reports or maintaining minimum trading volume, could result in immediate delisting. The revised system considers qualitative factors including a company's potential and management transparency. It also allows companies to appeal delisting decisions and provides them with time to make necessary corrections.

More English disclosure is being phased in

- English-language disclosure has become mandatory through a phased-in approach for KOSPI-listed firms with KRW10 trillion or more in assets from 2024. The first phase covers material disclosure information, including matters related to account settlement, statutory disclosure items and material business matters involving trade suspensions. A total of 82 disclosure forms will be subject to this mandatory disclosure.

The FSC wants to stop convertible bonds being used unfairly

- The FSC introduced a revision to prevent convertible bonds from being exploited in unfair transactions. The revised regulations encompass several key provisions: 1. Any private issuance of convertible bonds featuring downward conversion-price adjustment clauses (refixing) must now include provisions for upward adjustments of conversion prices in response to increases in share prices. 2. Restrictions are imposed when issuing convertible bonds with a call option to major shareholders or closely affiliated individuals. The call option exercise is limited to their initial shareholding proportion at the time of convertible bond issuance. Additionally, disclosure obligations pertaining to the call option are reinforced to ensure transparency and accountability.

Note: Other CG reform efforts, including updates on appraisal rights in split-offs and the mandatory takeover bid rule, are outlined in detail in the government & public governance section of this chapter, while KRX's initiatives in ESG, including new guidance for issuers and a web portal, and updated CG disclosure guidelines are included in CG rules below.

Taking inspiration from Japan, the FSC launched a plan in early 2024 to drive up valuations of issuers

Taking aim at the discount

In February 2024, the FSC introduced the Corporate Value-Up Program to address the "Korea discount," which reflects the typical lower market valuations for Korean companies compared to their international counterparts. Taking inspiration from Japan's guidance on cost of capital and corporate profitability, the programme is structured around two principal components. The first encourages participating companies to voluntarily disclose their medium- and long-term strategies to enhance company value. These strategies must identify specific key performance indicators - either financial (such as market evaluation and capital efficiency) or non-financial (including corporate governance aspects like the protection of minority shareholders and board responsibilities). Companies are expected to update their plans and disclose annual progress, although there are no penalties for failing to meet their stated goals.

Unlike Japan, there will be no "naming and shaming"

The second component is the development of the Korea Value-Up Index, which is planned for launch by the third quarter of 2024, with related exchange-traded funds (ETFs) expected by the fourth quarter. This index aims to highlight best practices, thus 'naming and faming' higher performing companies.

The programme is a step in the right direction but lacks enforceability - many hope tax incentives will underpin its future success

While quite ambitious and certainly a big step in the right direction, it remains unclear how much impact the programme will have. It is voluntary, with no compulsory mechanisms to ensure participation or compliance. Some hope that potential tax benefits, such as reductions in inheritance, financial investments income, dividend and corporate taxes, will be considered as potential incentives. However, the likelihood of sweeping legislative changes, especially in inheritance and financial investments income tax, has diminished with the Democratic Party's success in national elections in April 2024 and continued control of the National Assembly. Nevertheless, it is understood that the programme is a bipartisan effort, and both parties are keen to reach a consensus on how best to incentivise corporates to take it seriously.

There is a concern that business groups will use the programme to push for anti-CG measures

While investors very much welcome any attempt to solve the 'Korea discount', it would be fair to say that many remain sceptical of the programme's ability to effect fundamental change. As one foreign investor said, "if the chaebols had wanted to value up, they could have done so voluntarily by now". There is also concern about chaebols lobbying for the inclusion of provisions like poison pills and dual-class shares within the programme, thus further entrenching existing control structures and weakening valuations.

Low marks for KRX transparency, public consultations and pre-IPO prep

KRX is shy about providing figures for its spending on regulatory work

KRX's ongoing lack of transparency regarding its funding and allocation for enforcement capacity remains a point of concern in this survey. As in previous years, KRX offers limited information on its regulatory budget, providing only overall operating revenue, expenses and net profit figures. Crucial details such as breakdowns of regulatory expenditure or investments in human resources are not available. This deficiency in disclosing regulatory spending could raise concerns about potential conflicts of interest, given KRX's profit-oriented objectives.

The public consultation process in Korea needs a major overhaul - and made fair for foreign investors

Another area where Korea does poorly is its lack of proper public written consultations on regulatory and policy reforms. Unlike other leading markets in the region, where regulators conduct extensive public consultation exercises with detailed papers and lengthy consultation periods, Korea follows a more discreet and expedited approach. Regulators announce rule changes on their websites, often providing only summaries in English, and allow a window of two to six weeks for responses, but sometimes as short as 10 days. These announcements are easily overlooked, however, and no detailed consultation documents or conclusions papers are provided. Written submissions from market participants are not made public, and regulators generally do not respond to contributors. While Korea does carry out ad hoc public hearings organised by regulators or the National Assembly, they are conducted solely in Korean and rarely involve foreign investors.

Pre-IPO governance preparation is lacking

Much like many other markets, Korea's performance was also lacking in preparing companies to establish strong corporate governance systems before listing. We assess this based on the presence of rules, guidance and support from investment bank sponsors that demonstrate such preparation. Although sponsors often commence work with clients only 6-12 months prior to an IPO, we believe that clear regulatory expectations in this area would propel prospective listing applicants to be more inclined to prepare adequately.

2.2 Enforcement

Korea moves up to 6th place on a slightly improved score

Korea's enforcement score improved by two percentage points to 64%, moving it from 7th to 6th place in our rankings. It is one place ahead of Japan, which dropped from 5th to 7th, but still below China and Taiwan. This improvement was mainly due to increased coordination among key national regulators and prosecutors. Yet there remains room for improvement, especially in the disclosure of investigation outcomes and more timely release of the FSS annual report in English.

Regulatory coordination improves

The FSC and FSS work through a unit called the Special Judicial Police

Recent years have brought an uptick in coordinated and multi-agency initiatives involving the FSC, FSS and the Prosecutor's Office. The FSC and FSS, for example, cooperate through a Special Judicial Police to enhance investigations into illegal activities within the local capital market. The Special Judicial Police consists of seven members from the FSC and 15 members from the FSS. The establishment of this specialised team is part of efforts to protect investors' rights and promote fairness in the capital market, especially considering increased retail investor activity following the Covid-19 pandemic's onset in early 2020. According to the FSS, the Special Judicial Police works closely with three FSS departments that oversee capital market inspection. Once these departments complete their administrative investigations, the Special Judicial Police quickly handles cases requiring urgent action, such as search and seizure operations.

The unit had success in a manipulation case involving Kakao

One headline investigation by the Special Judicial Police involved the stock manipulation case of Kakao, an Internet company, and Kakao Entertainment Corporation. They were accused of conspiring with the private equity fund management company, One Asia Investment Partners, in February 2023 to invest more than KRW240 billion (approximately US$177m) to interfere with the public takeover attempt of SM Entertainment's management rights by HYBE, another entertainment company. Kakao allegedly artificially inflated SM Entertainment's stock price above HYBE's public takeover offer. In April 2023, the Special Judicial Police raided Kakao's office and confiscated data related to its stock trading. On 26 October 2023, the unit announced that it had referred cases against Kakaos Chief Investment Officer Bae Jae-hyun, along with the head of the investment strategy division and the head of the strategic investment division of Kakao Entertainment, to the prosecution for further investigation.

The FSS is tackling new types of problems . . .

A wider enforcement lens

The FSS supervises corporate disclosure, unfair trading practices (such as insider trading and market manipulation), and accounting oversight (including audits). Over the past couple of years, the agency has continued to boost its enforcement and investigative abilities to tackle new types of transactions and behaviour in the capital market.

. . . such as unfair transactions related to crypto trading and market "finfluencers"

A rise of unfair transactions in cryptocurrency, for example, led to the creation of a new department dedicated to addressing these transactions. The increasing prevalence of unfair transactions linked to social media market influencers ("finfluencers") has also become a focus. Despite the complexities involved in identifying and addressing such activities, both the FSS and KRX are taking steps to enhance their capabilities to address the issue. KRX has strengthened its capacity to gather data from social media and implement a reward system for whistleblowers. The FSS has also been actively providing feedback on the topic of "financial influencers" to the International Organisation of Securities Commissions (IOSCO), which is exploring potential guidelines to regulate this industry.

Illegal short selling is also under the microscope

Another area of focus for the FSS is illegal short selling. Since April 2021, penalties for short selling have been based on the total amount involved, with criminal prosecution now a possibility. In June 2022, a special team was established to investigate the practice, which saw an increase in personnel from eight to 20 members by August 2022. The standard procedure involves the KRX identifying irregularities in transactions, followed by preliminary discussions and referral to the FSS if abnormalities are detected. Priorities for 2024 include placing a stronger focus on cases involving foreign financial institutions. To strengthen its investigative capabilities, the FSS also increased the number of investigators in its four investigation departments from 70 to 95.

New penalties were added for unfair trading in 2024

In addition, the revision of the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA), effective from January 2024, expanded enforcement capabilities for addressing unfair transactions. Previously, only criminal penalties were available to sanction such activities, which could take years to resolve. The amendment introduces a penalty surcharge system for unfair trading, allowing authorities to impose financial penalties up to twice the amount of unfairly gained profits. If no illicit profit is made or if it is impossible to calculate the amount, the maximum penalty is KRW 4 billion. The amendment also provides a clear system for calculating unfair gains as well. *(Please refer to CG rules for more details on this amendment).*

The FSS website lacks a dedicated section for enforcement

Fragmented disclosure

As in previous years, we faced challenges gathering enforcement statistics and supporting narratives in Korea. Unlike regulatory websites in leading markets, the FSS lacks a dedicated section on enforcement that collates relevant press releases and announcements on enforcement action and provides easily understandable statistics for the past three to five years. This makes it difficult to obtain a comprehensive and up-to-date understanding of progress made. While the FSS does publish some investigation cases in press releases, the details are often limited.

Unfair trading data can be found in the FSS annual report . . .

While we can find enforcement statistics in the FSS annual report on cases of unfair trading initiated or received, investigated cases, and enforcement, the tables lack detailed explanations and are out-of-date since the FSS annual reports are often delayed by nine to 12 months. For example, the annual report for 2022 was not available in English until the end of 2023, while the Korean version came out in September 2023.

. . . but accompanying narrative is brief

The 2022 annual report of the FSS briefly explains the rise in total unfair trading cases, attributing it to heightened notifications from KRX concerning illegal short selling cases. This surge followed the expanded collaborative efforts by FSS and KRX dedicated to addressing this issue in August 2022. Increased participation by individual investors in stock trading also contributed to the upward trend.

KOSDAQ is home to most of the bad boys

The report also highlighted the relatively high number of unfair trading cases that the FSS received and initiated related to KOSDAQ. As the table below shows, unfair trading cases in the KOSDAQ market have consistently been higher from 2018 to 2022. In 2022, the number stood at 150, accounting for 68.2% of total cases. From 2018 to 2020, the number of unfair trading cases on the KOSDAQ was about three times higher than on the KOSPI. This disparity decreased in 2021 and 2022, with the KOSDAQ recording about twice the number of cases compared to the KOSPI, correlating with the proportional differences in the number of companies listed on each exchange - 840 on the KOSPI and 1,728 on the KOSDAQ. Including a clear explanation of this trend in the report would enhance readers' understanding of the context.

Figure 5

Number of unfair trading cases initiated or received by the FSS, 2018 – 2022

Year	FSS Identified	KRX referred	Total	KOSPI Market	KOSDAQ Market	Derivatives
2018	62	76	138	39	93	5
2019	45	82	127	29	85	7
2020	70	95	165	37	117	2
2021	45	135	180	72	94	3
2022	42	178	220	69	150	-

Source: FSS Annual Reports 2018-2022

Two emerging trends: unfair trading in CBs and stock leading rooms

Moreover, The FSS highlighted two emerging trends during its meeting with ACGA in August 2023: unfair trading related to convertible bonds and the proliferation of "stock leading rooms." Trading in privately held convertible bonds became more frequent because they are easy to issue and subject to relaxed disclosure requirements. For example, after issuing convertible bonds, a company might falsely announce its expansion into a new business to artificially boost stock prices. It then converts the bonds into stocks and sells them for unfair gains. Other than this practice, the FSS mentioned that there had been no significant change in corporate-related illegal activities. Stock leading rooms, meanwhile, exploit social media platforms like KakaoTalk and YouTube to manipulate retail investors into trading specific stocks.

Data is provided on investigations, but little supporting narrative

The FSS annual report also includes tables showing the number of cases it investigates and handles. Again, little detail is provided beyond a summary. It would be helpful to learn why there was a slight drop in insider trading cases from 2021 to 2022 and what caused the increase in cases related to short-swing profit/violation during lock-up periods.

Figure 6

Unfair trading cases investigated and administered by the FSS, 2021 - 2022

	2021	2022
Deceptive/fraudulent trading	12	21
Market manipulation	10	8
Insider trading	18	16
Failure to report large share holdings or acquisitions	10	8
Short swing profit/violation of lock-up period	14	42
Cases dismissed	16	24
Total	**80**	**119**

Source: FSS Annual Report 2022

The story for enforcement action is similar: numbers, but not much else

Another table shows the number of enforcement actions taken by the FSS, but it also lacks context. As shown in Figure 7, there was a substantial rise in disgorgement or recovery actions from two in 2021 to 50 in 2022. An explanation for the reason behind this surge would have helped readers understand better.

Figure 7

Enforcement actions taken against unfair trading, 2021-2022

	2021	2022
Criminal referral to the prosecution authority	43	44
Disgorgement or recovery of short swing profits and ill-gotten gains	2	50
Warning & other disciplinary actions	19	1
Total	**64**	**95**

Source: FSS AR2022

A large majority of cases referred for prosecution are successful

In a meeting with ACGA, the FSS also shared that in the last five years about 77% of cases referred to the prosecutors' office led to indictments. Most of these cases went to trial and resulted in guilty verdicts, with punishments ranging from fines to imprisonment or both. However, the FSS does not issue press releases after judgments; it only reviews the outcomes internally.

3. CG rules

Korea's score jumped almost 10ppt to 65%, while it increased just one place to 9th

Korea's score in this category jumped almost 10 percentage points from 56% to 65%, although its rank merely improved one place to 9th, just behind Japan. There were two main reasons for this large increase in score: some genuine improvements in the regulatory environment and the re-rating of a few questions from CG Watch 2020. The fact Korea only improved one place shows just how tightly contested this category is and how far behind other markets it remains.

Where scores rose

Scores increased in several areas including: revisions to CG disclosure guidelines; increased efforts by KRX to provide guidance to corporates on sustainability reporting; and measures to address potential loopholes in the penalty system for insider trading.

Where we positively re-rated scores

We positively re-rated scores on the disclosure of share pledges, whether or not directors who have been convicted of fraud must either resign from boards or are quickly disqualified, and the level of protection accorded minority shareholders when issuers undertake private placements to a small number of investors and immediately dilute the value of the holdings owned by other shareholders.

Where rules are still weak

As Korea's moderate score of 65% implies, there are still many chapters missing from the rulebook. One is the disclosure of executive remuneration: although a revision to the "Guidelines on Corporate Governance Disclosure" in October 2023 required enhanced reporting on the alignment between director compensation and performance, the current rule requires firms to disclose only the exact compensation of executives and directors who earn more than KRW500m (approximately US$369,000) a year. Other areas of weakness include AGM issues such as mandatory voting by poll and deadlines for detailed AGM notices and agendas; the related-party transaction regulatory regime; and requirements for board composition and independent directors. Furthermore, the Stewardship Code has not been updated since 2016 and there does not seem to be a plan for doing so soon.

Improving: CG disclosure guidelines *(Question 3.13)*

Korea has never required full disclosure in line with the CG Code

The current regime for CG reporting in Korea derives from a document called the "10 Core Principles", introduced in 2017 and designed to simplify disclosure of issuer compliance with a major revision to the CG Code in 2016. It focussed on three key topics: shareholders, board of directors and audit systems. Compliance was initially voluntary, but due to low take-up rates, it became mandatory in 2019 for large listed companies and has been phased in since for other issuers. Notably, sensitive yet useful parts of the 2016 Code covering the rights of stakeholders and management monitoring by the market" were never incorporated in the disclosure guidelines and were dropped when the CG Code was revised for the third time in August 2021.

It instead mandates reporting in line with simplified disclosure guidelines, amended in March 2022 . . .

Disclosure guidance today is found in a document called the "Guidelines on Corporate Governance Disclosure" that complements the CG Code. This has been revised twice since our last survey - in March 2022 and October 2023. In the first batch of changes, the FSC introduced revisions to require more disclosure on four areas (with the requirements taking effect in May 2022):

- **Corporate restructuring:** In the case of a spin-off, split-off or M&A deal, companies must describe their internal shareholder protection measures in CG reports, including collecting opinions from minority shareholders and how they will protect dissident shareholders in the any ownership structure;
- **Related-party transactions (RPTs):** More detailed reasons behind board decisions to approve certain RPTs relating to management and controlling shareholders;
- **CEO succession policy**: Key details should be provided; and
- **Audit committee**s: A plan to establish one if not already set up.

. . . and again in October 2023

In October 2023, the second revision sought enhanced disclosure on:

- **Dividend policies** for potential investors;
- **Communications** with minority and foreign shareholders, including the availability of channels for foreign shareholders and the percentage of disclosure in English;
- **Capital-raising activities** that could affect existing stock value, including how the board considers the interests of minority shareholders;
- **Board diversity** in gender, age, and experience and an explanation for any lack of diversity;

- Whether **director compensation** and performance are aligned; whether directors utilize liability insurance;
- The scope for disclosing **legal violations by executives** has expanded to include not only embezzlement, malpractice and unfair transactions, but also gaining undue benefits and providing unfair assistance as outlined in the Monopoly Regulation and Fair Trade Act, along with violations of accounting standards. However, the timeframe for disclosing these violations has been modified from an indefinite period to a more specific duration of five years following the conclusion of the execution or exemption of a sentence.

CG reporting for all KOSPI-listed companies will not be required until 2026

While we recognise that efforts have been made to improve corporate governance disclosure in Korea, it remains one of the few markets in the region where mandatory CG disclosure rules still do not apply to the whole market. As of 2022, only 265 issuers on the main KOSPI market had to comply with the guidelines - about a third of the market. This should rise to approximately 406 in 2024 and then all 800+ KOSPI-listed companies by 2026.

Figure 8

Mandatory CG reporting timeline for KOSPI-listed companies, 2019 to 2026

Year	Target company (by assets in KRW)	No. of companies submitting reports
2019-2021	2 trillion or more	175
2022	1 trillion or more	265
2024	500 billion or more	406
2026	All KOSPI listed companies	>800

Source: FSC, May 2022; ACGA analysis

The CG Code 2021

Korea's CG Code dates to 1999 - one of the first in Asia

The Code of Best Practices for Corporate Governance (the CG Code) was originally developed in 1999, shortly after the Asian Financial Crisis, by a non-governmental committee appointed by the Korean government and supported financially by KRX and three business associations. The CG Code has undergone three revisions since its establishment: in February 2003, August 2016 and August 2021.

A revision in 2021 gave the Code a new framework and put more emphasis on board responsibilities

The latest revision, which came into effect after the code was released in August 2021, restructured the overall framework of the code, placing board leadership as the first chapter, followed by shareholder rights protection, auditing, and communication with shareholders & stakeholders. This sequence underscores the increased emphasis on the role and responsibilities of the board of directors.

A stronger focus also on conflicts of interest . . .

The revised code particularly emphasises the board's role in ensuring protection of minority shareholders during related-party transactions or situations where potential conflicts of interest may arise between management and minority shareholders.

. . . ESG management . . .

The new version also places greater importance on the board's role in overseeing ESG management and promoting sustainability within the company.

. . . and CEO succession

Another significant highlight is the CEO succession plan. The board is tasked with establishing a system to nurture and groom potential CEOs, managing succession policy, and disclosing matters concerning management succession.

Higher fines for insider trading - plus new leniency measures to encourage self-reporting of violations

Improving: Insider trading regime *(Q3.11)*
In June 2023, an amendment was passed to the FSCMA to strengthen the penalty framework for unfair trading practices and provide clarity on calculating illicit gains. The revised act became effective in January 2024. The updated law incorporates a new provision for penalty surcharges, allowing fines of up to twice the amount of unlawfully acquired profits, with a revised cap of KRW4 billion (US$2.95m), previously KRW500m. It also includes a standardised method for calculating unfair gains and certain leniency measures to incentivise voluntary disclosure of violations. The revision expanded the enforcement regime for addressing unfair trading practices by introducing financial penalties: the original rule relied solely on criminal proceedings. This change also aims to expedite the resolution process, which previously could take up to two to three years.

Korea is finally getting aboard the ESG reporting train

Partially improving: ESG sustainability reporting standards *(Q3.03)*
Substantial efforts have been made to enhance ESG sustainability reporting standards in the past couple of years. In January 2021, KRX released an ESG disclosure guidance document to support companies who wished to publish sustainability reports voluntarily. In December 2021, it also launched an ESG portal to provide companies with assistance and guidance to adapt to ESG reporting requirements. The ESG portal contains useful resources such as a guide on how to write an ESG report, the different types of ESG disclosure standards (including a newly updated CG report template revised in January 2024) and the latest trends and news on ESG issues. In addition, KRX also hosted education programmes for capacity-building sessions to prepare issuers for ESG disclosure. The outcome of all these efforts can been seen in the high ESG reporting scores in our listed companies section (*see next section*). However, the deadline for mandatory sustainability reporting has been pushed back to 2026 after pressure from the business community. Separately, the Korean Sustainability Standards Board (KSSB) released its disclosure drafts based on the new ISSB global sustainability reporting standards on 30 April 2024 *(see box below)*.

Korea is a strong supporter of the ISSB process

Korea and ISSB
Korea has closely followed the efforts of the International Sustainability Standards Board (ISSB) in its development of global sustainability reporting standards, published in June 2023. Like China and Japan, it has a seat on the ISSB board. It also formed a domestic entity to develop comparable standards for Korean companies called the Korean Sustainability Standards Board (KSSB).

KSSB released draft Korean versions of ISSB S1 and S2 in late April 2024

On 30 April 2024, KSSB released exposure drafts of Korean versions of the ISSB standards, IFRS S1 on general reporting requirements and IFRS S2 on climate disclosure. The two Korean standards are called KSSB 1 and KSSB 2 and cover general sustainability-related financial information and climate-related disclosures, respectively, and one optional standard, KSSB 101, for additional disclosures aligned with policy objectives.

Scope 1 and 2 emissions data will be mandatory to disclose, while the timing of Scope 3 has yet to be determined

KSSB 1 and KSSB 2 emphasise a climate-first approach, requiring entities to disclose climate-related issues due to their significant impact on financial reporting and ease of quantification. Entities can choose to disclose other sustainability-related issues based on their readiness. Industry-based metrics, internal carbon prices and greenhouse gas emissions are also included. The exposure drafts mandate entities to disclose their total gross Scope 1, 2 and 3 greenhouse gas emissions, measured in metric tonnes of CO^2-equivalent; however, the specific requirements and timing for mandatory disclosure of Scope 3 emissions will be decided after considering feedback from consultations with relevant authorities. The consultation period will run for four months to 31 August 2024.

We re-rated scores on three questions where we felt we had previously been wrong or harsh

Where we re-rated scores

We revised scores from our previous CG Watch 2020 survey in three areas: disclosure of share pledges, resignation of directors who have committed fraud and pre-emption rights for minority shareholders. Although rules have not changed in these areas, we concluded that our previous scores were either inaccurate or somewhat harsh.

- **Share pledge disclosure *(Q3.7):*** The FSCMA and its enforcement decree outline regulations regarding share pledging. Shareholders and related persons who own more than 5% and pledge 1% or more of their shares are required to report details within five days. Shareholders are also obligated to disclose material changes in the "form of holding", such as changes in ownership. We amended our score from 0/5 (based on less clear provisions in the Commercial Code) to 4.5. We did not accord full marks because our criteria for reporting deadlines are "within three working days".

- **Directors who have committed fraud *(Q3.20):*** We adjusted Korea's score regarding the requirement for directors convicted of fraud to resign from 1 out of 5 to 2.5/5. Korea has an "Act on the Aggravated Punishment of Specific Economic Crimes" that prohibits any person convicted of specific economic crimes from being employed by financial companies, state-invested institutions or enterprises related to the offense for a specified period, unless they obtain approval from the Minister of Justice. The prohibition periods set out by the law are: 1) five years after imprisonment is completed or a non-execution becomes final, 2) two years after the suspension of execution of imprisonment is completed and 3) the duration of the suspension of sentence of imprisonment. Yet the act's wording is rather vague and does not explicitly address directorships, for example, but rather "employment" - that is to say, the rule imposes some limitations on individuals convicted of fraud from pursuing employment. Most importantly, this rule can also be overridden if the individual "obtains approval of the Minister of Justice as prescribed by Presidential Decree," as happened in the case of JY Lee *(see above)*.

- **Pre-emption rights for minority shareholders *(Q3.21):*** We added half a point to recognise that companies are not allowed to issue third-party allotments (private placements) to protect against hostile takeovers, which took the score to 1.5 out of 5. While Korea's rules in this area do not permit large discounts and companies can only use third-party allotments for specified operational objectives, both of which are good, we remain concerned that there is no limit on the volume of new shares that companies may issue privately each year (best practice is 5-10%). Nor do they need to seek a renewal of private placement mandates at their AGM and controlling shareholders can participate in such placements. Although almost 90% (688) of KOSPI issuers had voluntarily instituted a cap on issuance volume in 2022, only six met best practice standards by setting it at 0-10%. A further 168 companies put the cap at 10-20%, while a substantial 222 companies thought 40-50% was a reasonable level. We continue to believe that rules could be further tightened here.

Where rules are weak

While progress has certainly been made in strengthening CG rules in Korea, much remains to be done. For example:

Korea still has work to do to modernise its CG rulebook: starting with disclosure of executive pay

- **Disclosure of executive and director remuneration**: There has been no update on the disclosure of the exact remuneration of individual directors. Only aggregate and average numbers are required, except for inside directors who earn more than KRW500m per year. For outside directors, only an average or aggregate number is required.

Korea is out of alignment regionally on core AGM standards, like meeting notice periods

- **AGM issues:** Current rules are just as outdated and only require the release of AGM notices with detailed agendas 14 days before meetings, falling far short of the accepted best-practice standard regionally of at least 28 days for full and final AGM agendas - a criteria that dates back almost 20 years. While the CG Code encourages a 28-day notice period, a lot of companies clearly do not follow it. ACGA led an investor delegation to Korea from 25-28 March 2024, with part of the purpose being for our investor members to attend AGMs during that week. Yet as late as 8 March 2024 we were still struggling to confirm the dates for some AGMs because notices had not been released.

Voting by poll is still not mandatory for all listed companies in Korea . . . and even companies required to do it, do not have to release results immediately

  Moreover, mandatory voting by poll is still not required for all listed companies. The CG Code encourages it and companies subject to the CG disclosure requirements (see Figure 8 above) are required to conduct polls and disclose the results in their CG reports. However, these documents do not need to be published until the end of May, approximately two months after the AGM. Unlike most other markets in our coverage, there is no rule stating that voting results must be released promptly after the AGM. While some leading companies do publish such results on their websites promptly, disclosure practices vary widely from downloadable PDF documents with full voting results on each resolution (ie, exact number of votes For and Against, plus percentages) to simplified tables giving only the percentage of For votes on each resolution and the total number of shares represented at the meeting. Providing full and prompt disclosure on this aspect of CG is not difficult and should really be mandatory for all listed companies in Korea. Even when all listed companies must comply with the Guidelines on Corporate Governance Disclosure in 2026, they will still not be required to release AGM voting results immediately.

Shareholder approval is not required for major RPTs

- **Related-party transactions (RPTs):** Regulations do not mandate shareholder approval or third-party advice for significant RPTs. Instituting a rule that requires approval from minority shareholders, who are not affiliates of the controlling shareholders, for transactions exceeding certain material thresholds would significantly enhance minority shareholder protection.

Cooling-off periods for INEDs are too short, as is the maximum term of six years

- **Board independence and skills:** The cooling-off period for independent directors remains at two years, which we consider too short. Moreover, while the number of such directors has increased in Korea, there is a tendency for many appointees to be academics without any practical business experience. Nomination committees are only required for the selection of outside directors. And the maximum term for independent directors is only six years, which is significantly less than the consensus period of nine years globally. Our concern is that this could remove competent outside directors at the height of their effectiveness.

There are now 226 signatories to the Korea Stewardship Code

The Stewardship Code
Introduced in 2016, the Korea Stewardship Code outlines seven principles to guide institutional investors in fulfilling their fiduciary duties with investee companies. The National Pension Service (NPS), Korea's largest pension fund, became a signatory in July 2018 and there are currently 226 signatories to the code.

The Code has spurred more voting against by investors

Following its introduction, the code catalysed institutional investors to take their governance duties more seriously, with higher levels of voting against company resolutions that did not support good governance or long-term value creation. For example, the NPS's ratio of votes against resolutions doubled from 8% in 2016 to more 16% by 2018. The then Korea Corporate Governance Service (KCGS)*, a research think tank originally set up by KRX, found at the time that signatories of the code tripled their voting against rates from 2.42% in March 2017 to 7.61% in March 2018, while non-signatories showed only a marginal increase. Since then, rates of voting against have remained healthy *(see Investors)*.

The Code has not been updated since its creation

In contrast to most other jurisdictions in Asia with stewardship codes, the Korea Code has not been updated since its introduction. In March 2024, KCGS revised the Stewardship Code Guidelines, a document to help institutional investors understand and implement it, to promote the Corporate Value-Up Program. However, any plan to revise the Stewardship Code itself remains unclear.

*(*KCGS is now called the Korea Institute of Corporate Governance and Sustainability. Its acronym remains the same.)*

4. Listed companies

Korea climbed one rank on a modest rise in score to 49%

Korea's performance in this category saw a modest improvement, with its score rising from 48% to 49%, accompanied by a climb in rank from 10th to 9th place. Although there has been significant progress in sustainability reporting among Korean-listed companies, several challenges persist. Key shortcomings identified in our latest assessment include deficiencies in director training for both internal and external directors, inadequate transparency in remuneration disclosure and executive pay policies and a lack of diversity within boards and a credible plan to improve. These persistent issues continue to weigh down the overall score for Korean companies, as do significant gaps in the depth of reporting on board activities and the expertise of directors serving on audit committees. Another noteworthy hurdle is the difficulty in accessing reports, as they are often dispersed across websites and sometimes only available in Korean, including key documents such as business reports and CG reports.

The 15 firms surveyed represented a range of sectors

For this section, we surveyed in depth the governance practices and disclosure of 15 large caps. These firms represented a range of sectors, including semiconductors, electronics, telecoms, autos, banking and finance, chemicals, shipping, construction, energy, internet and consumer goods. Both English- and Korean-language materials were reviewed, with the latter accessed when something was not available in English.

Korean firms are making strides in sustainability reporting

Where Korea does well or above average (3 to 5 out of 5)
One area Korean listed companies did well was on sustainability reporting. As Figure 9 shows, they scored an average of 4 out of 5. While the range was from 0 to 5, most companies achieved a 4 or above. The zero was an outlier. The breadth

and depth of sustainability reports are much improved compared to our 2020 survey, with many firms publishing detailed and more compelling GRI-based reports. Whereas materiality was previously handled quite superficially, issuers today do address it in greater detail and some analyse 'double materiality'. Companies are also improving on their use of SASB standards, although nine of the 15 surveyed could do better here. The picture is similar for TCFD reporting. Not surprisingly, since it is still a new area, most address climate-related matters in a qualitative way, with limited assessment of the financial impacts of climate risks and opportunities.

Pay for INEDs is simple and mostly unconflicted

Korean companies also showed strength in remuneration for independent directors, scoring 4 out of 5 on average. Most are paid fixed fees, not commissions or bonuses based on earnings or stock options that could create conflicts of interest and potentially compromise the objectivity and willingness of such directors to challenge management. Of the 15 companies surveyed, 10 provided independent directors with a fixed fee only. Disappointingly, three companies did not disclose payments to independent directors, stating only that it aligned with industry norms. Two companies paid a fixed fee along with bonus payments.

Where Korean firms are above average

Companies scored slightly less well but still above average on the independence and proficiency of the audit committee (AC), the internal audit department's reporting line to the AC, and the autonomy and composition of the nomination committee.

All companies must have independent AC chairs

As per current regulations, an audit committee is obligatory for listed firms with total assets exceeding KRW2 trillion and the chair must be an outside director. As expected, all 15 companies comply. We deducted points on the expertise of AC members, however, because many came from academic, engineering, social work or marketing backgrounds and lacked obvious accounting and finance knowledge. The rules require ACs to have at least one accounting or finance expert, which in our view is insufficient.

Most companies have internal audit units, though disclosure could be better

Regarding internal audit departments, the good news is that most companies have them (except for two) and they report to the audit committee. Yet there is room for improvement: the interaction between these departments and the AC is often superficially described, with about half of the companies providing only boilerplate statements or no disclosure at all.

Nomination committees have limitations, but most have INEDs as chair and meet quite frequently

In terms of the nomination committee, companies also strictly comply with the Korean Commercial Code, which mandates large listed companies and financial institutions to establish an "outside director nominating committee", with at least half the members being outside directors. However, as its name indicates, this committee only reviews the nomination of outside directors, resulting in point deductions for all companies. All comply with the requirement to have at least half the members as outside directors - indeed a majority have fully independent committees and an independent chair. And nine of the 15 companies have nomination committees that meet three or more times a year.

Where Korea performs averagely (2.5 out of 5)

The provision of key documents leaves much to be desired

Firms rated averagely overall on only one question: ensuring comprehensive and timely access to information for investors. One of the biggest hurdles encountered in conducting our survey of listed companies in Korea was sourcing and accessing reports and information. Locating relevant reports was time-consuming, akin to stumbling through a labyrinth. Numerous companies do not have the relevant reports (business, ESG, CG, audit reports and AGM materials) posted on their websites, and some documents are either absent or hidden within obscure website sections. Some of the reports available are outdated, while documents such as Business and Audit Reports were only available in Korean on local regulatory websites. CG Reports, meanwhile, are generally only available in Korean and mostly on the KRX KIND platform.

Companies do not make it easy for investors to access IR contact information

Although most companies maintain an investor relations page on their websites, many companies offer only generic contact information for investor inquiries, such as a general email address or phone number. In some cases, the investor relations page only provides a generic inquiry form without any specific contact details. None of the 15 companies surveyed have provided complete IR contact information, including designated IR personnel's name, title, and detailed contact details. Although the range of scores shown in Figure 9 goes from 1.5 to 4, only seven companies achieved a score of 3 or more. Five scored 2 or less; and three earned 2.5. There is clearly much room for improvement here.

Figure 9

Korea listed company scores, CG Watch 2023

Question	Average score	Range of scores
1. Does the company's board governance reporting compare favourably against international best practice?	2	1-5
2. How would you rate the quality of the company's ESG/sustainability reporting?	4	0-5
3. Does the company provide comprehensive, timely and quick access to information for investors?	2.5	1.5-4
4. Does the company undertake annual board evaluations, either internally or using external consultants?	1	0-4
5. Does the company disclose and implement a credible board diversity policy?	1	0-4
6. Does the company provide induction and/or ongoing training to all directors?	1.5	0-2.5
7. Does the company have an independent chairman and/or a lead or senior independent director?	3	0-5
8. Does the company disclose total remuneration of each member of the board of directors?	1	0-2
9. Are the independent directors paid partly or wholly in stock options or restricted share awards? Do they share in a percentage of company earnings or other commissions in addition to their base fee?	4	0-5
10. Are audit committees (or an equivalent) independently led and competent in financial reporting/ accounting matters?	3.5	2-4
11. Does the company have an internal audit department that reports to the audit committee?	3.5	0-5
12. Does the company provide a detailed explanation of its executive remuneration policies?	2	0-5
13. Does the company have a nomination committee and is it independently led?	3.5	0-4.5
14. Does the nomination committee have a female chair or at least one female director?	1.5	0-5

Note: Based on 15 large caps from a range of sectors. Source: ACGA research

Where Korea does poorly (0 to 2 out of 5)

CG reporting is still lagging in many areas

Korea's performance was most lacking in several key areas, notably corporate governance (CG) reporting, conducting thorough board evaluations, establishing credible board diversity policies, providing adequate training for all directors, disclosing total remuneration of each director, outlining executive remuneration policies and promoting gender diversity within the nomination committee.

It is hard to know what a Korean board has been doing during the year

In addition to the difficulty of navigating Korean CG reports, the content of reports on board activities also requires enhancement. Many companies opt for a compliance-driven approach, either omitting key information entirely or providing minimal detail, often limited to a basic table listing meeting agendas and outcomes (eg, approval status). This approach fails to offer investors meaningful insights into the substance of discussions within boards and committees, thereby hindering their ability to gain a deeper understanding of how the company’s board functions.

Board evaluation continues to be basic

Board evaluation is another area where Korean companies lag best practice around the region. Evaluations are only conducted on independent directors and none of the companies use a third-party consultant to provide an independent assessment of the board. Most evaluations are based on self-assessment questionnaires answered by directors themselves. Disclosure on the process and conclusions is usually lacking, with most issuing just a boilerplate statement saying that the company carries out an annual board evaluation in the form of a self-evaluation questionnaire. Only two companies disclosed details on the conclusions of the evaluation and possible next steps their boards are considering for improvement.

Board diversity policies are superficial

Board diversity policies are superficial. Most are generic, merely stating a commitment to non-discrimination based on ethnicity, gender, religion and nationality and the pursuit of directors with appropriate skills. We found only two companies that had specific targets for diversity. This lack of proactive measures is evident in the representation of female directors on boards. Only six of the 15 companies surveyed have achieved a 20% to 30% female presence on their boards. The remaining appear to adopt a compliance-oriented approach, merely meeting the minimum requirement of having at least one woman director. Similarly, we found only two companies that meet other dimensions of diversity, such as age and nationality.

Little is disclosed about director training

Training of directors remains a weak point for Korean companies. While most mention some form of ongoing training, and four organise induction courses, this appears to include outside directors only. None of the companies seem to take independent directors on field trips to operational or manufacturing sites. Lastly, disclosure on the type of training is just a one-liner with the name of the course but no further details.

No improvements in director pay disclosure . . .

Disclosure of executive and director compensation remains a concern. As Korea's main securities law, FSCMA, only requires disclosure of the exact remuneration of an individual director or executive who earns more than KRW500 million (approximately US$369,000) per year, full disclosure of the remuneration of each is missing. All companies provided only aggregate or average numbers for director pay. We also found two companies that did not disclose compensation at all but only give a statement such as "we pay our directors in alignment with industry standards".

. . . or the disclosure of executive comp

Most companies also do not disclose detailed executive remuneration policies. None had a detailed explanation of how KPIs were linked to compensation. Only two had a clawback policy. Most policies list some general terms and factors, such as business performance, operating profit, financial returns and sales, stating that compensation takes these into consideration. Only three companies had some sort of explanation of their policies on share-based awards. Most companies (except for four) have a compensation committee consisting of only independent directors that determines the compensation ceiling and evaluates remuneration for inside directors. With the revision of the CG Disclosure Guideline rolling out, we hope to see more disclosure of how director pay is linked to KPIs.

Few women sit on nomination committees

There is a significant lack of women on the nomination committees of Korean companies. Out of 15 companies, five have an all-male nomination committee. Only three companies have a majority of female directors on their nomination committees, and just one company has a committee chaired by a woman. According to the ACGA's board diversity research on Hong Kong and China, enhancing the gender composition of nomination committees can significantly increase the overall percentage of female directors on boards. This presents a clear opportunity for Korean companies to advance their diversity initiatives going forward.

5. Investors

Korea retained 3rd place with a huge increase in score

Korea remains relatively strong in this category and maintained its grip on 3rd place with a substantial 12-percentage-point increase to 56%, leaving both India (with which it shared 3rd in 2020) and Malaysia (which scored only one percentage point less in 2020) in the dust. Yet its absolute score remains well below Japan at 65% and Australia at 69%, indicating how weak this category is in general across the region.

Institutional activism has grown markedly since 2019

Korea has experienced a significant surge in institutional shareholder activism since 2019. Align Partners' campaign against SM Entertainment in 2022 marked a pivotal moment as its success significantly influenced investor attitudes, leading to greater acceptance of activism and spurring an uptick in similar activities. Institutional activists have adjusted their strategies, showed a heightened understanding of public sentiment, and used digital media platforms to disseminate their message. The policy framework, in particular the Stewardship Code and the 3% Rule for the election of audit committee members and auditors, has also created a more favourable enabling environment for activism.

A new wave of retail investors has added weight to the activist cause

A second contributing factor to Korea's higher score in this category has been the emergence of a new wave of retail investors since Covid-19. Their numbers have almost tripled, reaching 14.24 million by the end of 2022, and making them a potent force whose support has been sought by both activists and political parties. Some retail investors have voted in favour of activist campaigns in recent years, such as those led by Align and ANDA Asset Management. But for a range of reasons, a majority often side with management.

Despite some setbacks, activism is unlikely to abate

Despite such setbacks, it is unlikely that the rise of activism in Korea will abate given the tilt towards a more investor-friendly regulatory environment and the emphasis in the Corporate Value-Up Program on shareholder value. Moreover, the fact that activists have garnered significant levels of support for some AGM proposals - despite losing the vote - is a positive sign that a portion of retail investors are keen to promote greater shareholder value sooner rather than later.

Activism expands and diversifies

Cases of activism against companies have risen exponentially

According to the global research firm, Insightia, instances of activists targeting corporate governance in Korea have been on the rise since 2019. That year saw eight recorded cases against companies but the number sharply rose to 27 by 2021. Activism in Korea soared to a new height in 2022, largely influenced by the success story of Align Partners, a local activist fund, in its campaign against SM Entertainment, a prominent K-Pop entertainment company. Consequently, 2022 saw a total of 49 Korean companies under the activist spotlight, primarily through shareholder proposals. In 2023, activism reached another new peak with 77 companies being targeted.

Common tactics include proposals, director nominations, going public with criticisms

Research conducted by Hannuri Law Firm, a legal practice headquartered in Seoul, shows that some of the common tactics employed by activists include:

- Submitting shareholder proposals to reform governance practices or demanding financial changes like increased dividends;
- Engaging in proxy battles to replace board members or advance their agenda;
- Issuing public letters and releasing press releases and statements to get public attention; and
- Requesting access to shareholder lists, board meeting minutes, and accounting records.

Activists face an uphill battle getting domestic retail and institutional investors on side

While Align has garnered much of the attention, other significant activist funds and the battles they have fought are outlined below. As the examples show, success not surprisingly has been mixed.

- **ANDA Asset Management**, supported by minority shareholders, pressed for reform of SK Chemical's management structure and dividend policy in 2022 following its decision to split off its drug-making unit, SK Bioscience, in 2018. ANDA argued that this harmed the value of the parent company. In 2022, the investor voted against SK Chemicals' 19% payout ratio, reappointment of Gwanghyeon Jeon as an inside director due to his concurrent role as a director of SK Bioscience, appointment of Jaehyun Ahn as a non-standing director based on concerns of his role as CEO of SK Discovery (parent company of SK Chemicals), and the remuneration cap for directors.
- **ANDA** also challenged KT&G at its AGM in 2023 by advocating for a higher dividend payment of KRW7,867 (US$6.06) per share, although 68% of shareholder votes supported the company's proposal of KRW5,000 per share. Shareholders also did not support ANDA's call for the appointment of three directors. Another activist fund, **Flashlight Capital Partners,** put forward proposals as well, including one for a dividend payment of KRW10,000. This received 32% support.
- **City of London Investment Management, ANDA, and Whitebox Advisors (+ two other investors)** with a collective ownership stake exceeding 1% in Samsung C&T presented a shareholder proposal at the company's 2024 AGM, calling for increased share buybacks and higher dividends. The group proposed the company buy back treasury stocks worth KRW500 billion (US$375m at the time) for cancellation and distribute dividends of KRW4,500 per common share and KRW4,550 won per preferred share (almost double the KRW2,550 and KRW2,600, respectively, offered by the company). The investor group failed to win this battle, with 77% of votes siding with the company. Yet many viewed the 23% of votes in favour as a meaningful level of support.

Contributing factors

'Activists need to appeal to the public's sense of injustice', say one investor

In the view of some activists, it is critical to tell a story that appeals to the public's sense of injustice rather than merely focus on transactional or financial matters. One local activist told ACGA that the Korean public would not be easily convinced about the need to curb chaebol family control and/or increase dividends because many people still respect the pivotal role they played during the country's rapid economic growth. Demands to increase dividends can sometimes be viewed as a sign of greed. On the other hand, if activists can show that corporate behaviour has been blatantly unfair - such as in the corruption case involving Samsung and its collusion with former President Park Geun-hye in 2017, which incited public outrage and street protests - then the public would more likely get behind an activist message.

Digital media is helping to spread the activist message

The use of digital media platforms has helped to spread the message too. While the major families control most of the media in Korea, digital media offers an alternative channel for activist investors. Align Partners for example has invested in and leveraged a fintech app called "Bside". This platform enables shareholders to delegate voting rights online, eliminating the need for physical document delivery.

Korea's revised 3% Rule has been an important catalyst for activism

An important regulatory tool that has had a positive impact on activism and corporate governance in Korea was a December 2020 revision of the 3% Rule. This limited the voting rights of controlling shareholders to 3% when electing directors to the audit committee or appointing standalone "auditors" (the traditional supervisory system similar to the Japanese system and not to be confused with external accounting auditors). This amendment extended the rule to all directors (previously it applied only to outside directors), introduced a separate election for at least one member of the audit committee at the AGM (ie, in addition to the resolutions electing directors to the board), and covered the removal as well as appointment of audit committee members. (Note: Listed companies with assets of less than KRW2 trillion are not required to establish an audit committee but can appoint an auditor instead.)

The 3% Rule electrified the AGM of SM Entertainment

One fund that used the amended 3% Rule to good effect was Align Partners in its fight against SM Entertainment. Despite only owning 1.1% of the K-Pop company, Align was able to have its nominee, Junho Kwak, elected as an auditor of the company in March 2022. Kwak requested access to the minutes of board meetings and accounting books, resulting in SM Entertainment's termination of production contract with Like Planning, a company which is reportedly owned by Lee Soo-man, the founder of SM Entertainment. By February 2023, SM Entertainment and Align Partners settled on 12 clauses that would overhaul the company's management and governance structure, business strategy, and relationship with its shareholder base.

Korea has seen a steady rise in shareholder proposals over the past 5 years

Proposals on the up

KCGS, the governance and sustainability research think-tank, has analysed shareholder proposals submitted to AGMs of KOSPI- and KOSDAQ-listed firms from 2018 to 2023. While the data reveal broad stability in the number of companies receiving shareholder proposals between 2018 and 2021, figures rose thereafter and reached 50 in 2023. The number of agenda items, on the other hand, has shown a much bigger increase: from 89 in 2018 to 195 in 2023.

Figure 10

Shareholder proposals for listed companies in Korea from 2018 to 2023

	2018	2019	2020	2021	2022	2023
Total number of firms	34	33	31	34	37	50
KOSPI-listed firms	8	16	8	16	17	22
KOSDAQ-listed firms	16	17	23	18	20	28
Total number of agenda items	89	107	120	168	142	195

Source: KCGS

The content of proposals has been changing

Common agenda items in proposals over the past three years include the appointment of directors, auditors and audit committee members, making up an average of 57% of all proposals. This category has shown a steady increase each year. Somewhat earlier, in 2021, many proposals were aimed at amending the articles of incorporation and primarily came from institutional investors. These proposals sought to enhance board and management performance, including the formation of committees for related-party transactions and compensation under the board of directors. Other proposals focused on measures such as cumulative voting and separating the CEO and board chair roles.

The “Donghak Ants”

Koreans jumped on the investing bandwagon during Covid-19

The Covid-19 pandemic had a catalytic effect on retail investment in Korea. With individuals confined to their homes, many turned to the equity market to invest their savings, especially the younger generation who found themselves priced out of other investment opportunities due to rising property prices. As a result, the number of retail investors almost tripled from 5.02 million in 2018 to 14.24 million by the end of 2022, accounting for 30% of Korea’s registered voters. As of 2022, retail investors account for 64% of the annual transaction amount in the Korean stock market, the highest ratio globally.

Digital platforms have been a critical influencer of retail behaviour

A dominant feature of this latest retail wave is the role played by digital platforms and their influence on the surge of retail investors and their investment behaviour. These platforms have transformed how retail investors make decisions and communicate. They favour informal channels like YouTube and Instagram over traditional financial institutions for stock trading advice and adopt a do-it-yourself (DIY) approach to investing. Social media platforms have also enabled retail investors to share information, educate themselves about shareholder value, and compare practices across various markets.

Retail investors have organised digital campaigns to protect their rights

Through such platforms retail investors have also organised themselves, catalysing movements such as "Save KOSPI" that is dedicated to reforming the domestic financial market to bolster shareholder value. This movement was dubbed the "Donghak Ants", drawing a parallel to the Donghak Peasant Revolution in the late 19th century (“a neo-Confucian movement that rejected Western technology and ideals”, according to Wikipedia) and using the term "ants" used to mean small investors. These investors rallied together to address issues like poor corporate governance and management decisions that they believe harm shareholder value, and pushing these ideas to the forefront of policy discussions, especially during elections. The campaign has involved collecting ideas for financial market reforms through social media and posting online with the hashtag #savekospi. A dedicated website had garnered the views of more than 13,000 people.

Retail shareholders have contributed to a rise in proposals to AGMs

According to an analysis by KCGS, retail investors have also contributed to an increase in the number of proposals submitted at general shareholder meetings. Between 2021 and 2023, the number of KOSPI- and KOSDAQ-listed companies receiving shareholder proposals from minority shareholder alliances and individual shareholders has been on an upward trend. By 2023, companies getting proposals from individual shareholders more than doubled compared to the previous two years. Meanwhile, proposals from minority shareholder alliances have almost doubled - from 10 and 11 in 2021 and 2022, respectively, to 18 in 2023.

Figure 11

Listed companies receiving shareholder proposals in Korea (No. of companies)

From:	2021	2022	2023
Institutional Investors	5	9	9
Minority Shareholder Alliances	10	11	18
Individual Shareholders	6	5	14

Source: KCGS

The content of proposals ranges from higher dividends to amending articles, appointing new directors and buying back shares and cancelling them

Delving more deeply into the 2023 figures shows that 12 of the proposals to increase dividends came from individual shareholders, while institutional investors accounted for eight and minority shareholder alliances put forward seven proposals. For minority shareholder alliances, their other proposals covered several categories including:

- **Amendments to articles of incorporation**: Removing management protections, such as abolishing supermajority voting requirements and implementing cumulative voting.
- **Appointments of inside and outside directors**: Holding boards accountable for failures in corporate management. Minority alliances also lead in nominating outside directors and audit committee members, surpassing even institutional investors in this regard.
- **Share repurchases and cancellation**: Although institutional investors were the most active proponents in this area, there were instances where they collaborated with minority shareholder alliances on proposals for share repurchases and cancellations. However, these proposals were uniformly rejected.

A stockholders alliance advocates in the retail shareholder space

A self-funded non-profit, the Korea Stockholders' Alliance (KSA) was established in October 2019 to protect individual stockholders' rights. As noted on its website, KSA currently represents 59,885 retail investors. Since its inception, KSA has emerged as a formidable voice for retail investors, organizing public campaigns and protests over various corporate practices, including issues related to short-selling and split-offs of major companies. KSA also pursues legal actions and crafts petitions directed at the Blue House to push for regulatory changes. The group has taken a strong stance against short selling, arguing that small investors face an uneven playing field against institutional and foreign investors, who benefit from greater access to capital and information. A presidential petition launched by the group to abolish short selling attracted over 200,000 signatures in 2021. In November 2023, the FSC then imposed a blanket ban on short selling.

Local proxy firms expand

Korea has a homegrown proxy advisory industry

Like Australia, China, and India, but unlike most jurisdictions in this region, the Korean market is home to a local proxy advisory industry. It remains a relatively small industry, however, with a limited number of clients. There are three local proxy advisory firms - KCGS, Sustinvest the Korea ESG Research Institute - with all three launching their services around the same time: 2012, 2013 and 2014, respectively.

KCGS recommended votes against on almost 14% of AGM resolutions in 2024

KCGS provides a range of services for institutional investors, from the provision of ESG data to advising on the exercise of shareholder rights. During the most recent AGM season in March 2024, KCGS analysed 2,504 agenda items at 371 company meetings. It recommended negative votes on 344 (13.7%) of the resolutions. KCGS updates its voting guidelines regularly, with the last revision in February 2023.

Sustinvest began life as an ESG data provider

Founded in 2006, Sustinvest is an ESG data provider that offers a variety of ESG-related services, including ESG ratings, analytics and advisory. The firm also analyses AGM agenda items and provides voting recommendations. However, the number of clients and their identities are not disclosed on its website.

KRESG became a standalone entity in 2021

The Korea ESG Research Institute (KRESG) is a subsidiary of Daishin Economic Research Institute, a subsidiary of Daishin Securities. KRESG offers a range of other services on top of proxy advisory, including ESG evaluation, stewardship code revision support, and director evaluations. As of June 2021, KRESG was providing proxy advisory and ESG evaluation services to 40 pension funds and asset managers. It also states that it was a proxy analysis provider to NPS from 2021 to 2023.

ACGA members attend AGMs

ACGA members attended AGMs in March 2024

In late March 2024, ACGA organised a delegation of investor members to visit Seoul for four days. A key objective of the trip was to enable members to physically attend AGMs of investee companies and ask questions in the meetings. For some, this was their first experience of a Korean annual meeting.

The process was not without its challenges

The process was not without its challenges. Due to Korea's 14-day AGM notice rule, it was not clear as late as the first week of March when some company AGMs would be held, making it difficult to plan and organise schedules. Requirements for attending AGMs varied among companies, with identification and Power of Attorney measures often ambiguously communicated to shareholders, particularly problematic for foreign investors who need to use a global custodian bank or international proxy advisory service.

Companies showed flexibility on interpretation

Some members were initially informed there would be no English translation available at the AGM, while one company said that any interpreter brought to the meeting would also have to be a shareholder! A few companies later provided this service after noticing that several foreign investors wished to attend.

SK Hynix held a smooth hybrid AGM

Most companies did not allow ACGA staff to attend their meeting, as we are not a shareholder, although we did have the chance to participate in the hybrid AGM of SK Hynix. Aside from some minor internet lags during the meeting, our experience was generally positive.

Q&A was tightly controlled in most cases

However, members of ACGA observed that some AGMs were chaired by the CEO rather than the Chairman and that independent directors were not consistently present at these meetings. Asking questions during the AGMs also presented some challenges. Members were often restricted to asking questions only of the resolutions being discussed, and it was unclear in some meetings whether there would be a Q&A session afterwards for more general inquiries about the company. We also received feedback that some investor relations personnel were unprepared to share their contact details, as they did not bring business cards to the meetings.

Members valued the chance to participate

Overall, however, ACGA members valued the opportunity to participate directly in the AGMs and appreciated the efforts made by many companies.

6. Auditors & audit regulators

Korea retained 8th place with a slightly improved score of 73%

Korea's score in this category improved three percentage points to 73% and it retained 8th place. Scores changed on four questions and fell on one. The main issue here is not standards - Korean accounting and auditing standards are comparable with international norms. The issue is also not the absence or weakness of an independent audit oversight board - the FSS undertakes this role and has a wide range of powers. The problem mirrors the enforcement of securities laws, namely limited disclosure of the enforcement work of FSS. We see no improvement here in the past three years.

Standards

Korean accounting and auditing standards closely follow international norms

The story here is almost identical to what we said in 2020: Korean accounting standards are fully converged with IFRS and detailed information is available on all the standards. For this reason, it scores full marks on the related question (Q6.1). Unfortunately, while Korean auditing standards align with international norms as well, it is much harder to find updated information on them. For this reason, we maintained the score at 4 out of 5.

Finding updated information on auditing standards, especially in English, is a challenge

Here is the problem: the Korean Institute of Certified Public Accountants (KICPA) has a limited English website that contains an out-of-date and overly concise description of the audit and assurance system in Korea. There is a page called "Resources" that offers publications for sale, only in Korean, one of which is the 2022 Audit Handbook. This appears to contain an updated version of the Korean Standards on Auditing (KSAs). Another page called "Library" offers a downloadable document on KSAs in English. However, it is not clear when this was published, and the standards do not appear to be the most recent ones. Other pages under Resources called "Press Releases", "Current Activities" and "Technical Update" do not have recent information on KSAs either. On the Korean website, there is a section called "Accounting/Audit" which leads to several subpages, one of which is called "Accounting Auditing Standards". This contains news releases on some updated standards, but not a complete list of all KSAs. In all our years of doing CG Watch, we have consistently struggled to find a straightforward answer to which KSAs have been updated and when.

Looking for accounting standards is a breeze

In contrast, finding information on accounting standards (K-IFRS) is fast and efficient. The English website of the Korea Accounting Standards Board (KASB) has a section called "Standards" that provides a sub-link to K-IFRS, which provides a handy table listing all the IFRS standards and the comparable K-IFRS standards (with links to the text of the latter). The website also offers easy access to all KASB submissions to IASB and summary agendas of monthly KASB meetings, which includes latest accounting standards being discussed.

Auditor independence

We raised the score on auditor independence . . .

We added a point for whether the government has enacted effective rules on the independence of external auditors (Q6.3), bringing the score to 4 out of 5. This was in recognition of the greater autonomy that auditors feel as a result of amendments to the Act on External Audit of Stock Companies in 2017. This mandates the FSS to appoint an auditor to listed companies for three out of every nine years. Feedback from auditors has been positive. Not only do they feel they have more freedom from management than in the past, but they can also now raise their fees to a more reasonable level. Hourly fees for auditing in Korea have historically not been high.

. . . and key audit matters

We also added a point for the implementation of the "key audit matters" standard in Korea (Q6.5). A review of the 15 large companies in our listed companies survey showed that all included KAMs at the beginning of their audit reports. Most reports typically detailed two KAMs, explaining their significance and how they were addressed. However, there were two instances where the reports listed only one KAM each.

Audit oversight

Higher points also for audit regulatory effectiveness

Scores increased on two questions in this section and fell on one. We added a point to our question on the responsibilities of the local audit oversight board (Q6.6) to take note of the fact that the FSS does have registration powers over audit firms under the amended Act on External Audit of Stock Companies (this power dates to 2019). This took the score to 4 out of 5. We also added a point and gave the same score to the following question (Q6.7) on whether the oversight board exercised effective regulatory control. Given the FSS has been implementing its enhanced powers over CPA firms for more than six years now, and accounting scandals are much less a feature of Korean capital markets, an improved score seems warranted. Auditors generally believe the regulator is becoming more effective.

7. Civil society & media

Korea's score jumped 7 ppts, but it remains at 10th

Korea's score in this category continued the upward trend we witnessed in 2020, when it increased five percentage points (ppts) to 36%. This time it jumped an impressive seven ppts to 43%, yet its ranking stayed the same at 10th place. This indicates that while civil society may be becoming more diverse and supportive of capital market reform and corporate governance in Korea, it remains notably less robust than in other leading markets in our survey.

Where scores rose

Scores increased on four questions (though in some cases only slightly): the existence of high-quality company secretarial training (or its equivalent); the extent to which professional associations are promoting awareness of corporate governance and ESG; whether business chambers and associations are working with members to improve CG/ESG; and the independence and breadth of media reporting on CG issues.

Where scores remain low

The areas that continue to drag down Korea's score in this category include: the absence of any institute of directors providing director training or any equivalent to a company secretarial institute providing training to board secretaries; the generally low level of involvement of professional associations and business chambers in raising awareness of CG; and the independence and skill of media in reporting on CG issues.

Where Korean civil society is most developed

There are some areas, however, where Korea typically scores well. It has an established group of non-profit organisations dedicated to improving corporate governance. These bodies participate in public hearings on new regulation and policy. And both professional institutes and academic organisations carry out original research on CG in Korea.

Absence of training

Director training in Korea never developed in the way it has in other markets

For more than 20 years, Korea's system for training directors has remained far less developed than other markets in Asia. While it established an institute of directors in the early 2000s, this entity did not evolve into the type of organisation one finds elsewhere, namely a national body that runs regular and multi-level courses to train new and existing directors. Nor does it have anything like a company secretarial institute that trains the people who run the board of directors and shareholder meetings, since such a role is not envisaged under Korean company law.

Companies say little about the training they give to directors

As our listed companies section confirms, most directors receive limited training and what does take place is usually only for independent directors. Training is especially essential in a market where companies appoint many academics with no business background. Moreover, with such things as sustainability, climate matters, cyber risk and human rights becoming increasingly important and topping the agenda for both companies and investors globally, directors from all walks of life would benefit from training in these specialised areas.

KLCA is doing some training for company secretary equivalents

For all these reasons, we kept our score for director training (Q7.1) at 0 out of 5. We added a point to our question on company secretarial training (Q7.2) in recognition of courses provided by the Korea Listed Companies Association (KLCA) on the management of boards of directors and annual general meetings.

Business ambivalence

Professional bodies are doing more to promote ESG

While Korea is lagging the region in terms of the active involvement of professional associations and institutes in raising the governance standards of companies, we slightly increased our score for this question (Q7.3) in light of efforts being made to promote ESG by entities such as the Korean Institute of Certified Public Accountants (KICPA), the Institute of Internal Auditors, and the Korea Capital Market Institute (KCMI). Established in 1992, KCMI engages in policy research related to the capital markets and economy. In recent years, it has conducted research on treasury shares, short selling, climate risk, material disclosure of ESG issues, and factors that have contributed to the “Korea discount”. (Note: We largely take account of KCMI’s research in our scoring for Q7.7, where Korea earns a 4 out of 5.)

Individual companies are typically more liberal than the chambers which represent them

The Korean business community’s support for improved corporate governance has historically been highly ambivalent, with strong opposition to basic reforms such as director pay disclosure, creating boards that truly supervise management, and fairer dividend policies, among many other things. While certain leading companies today show much greater openness in dealing with shareholders and other stakeholders, and have broadly moved in a positive direction on capital management and board governance, their representative chambers of commerce are far less open-minded (a pattern we see also in Japan). This accounts for the score of 0 out of 5 that the related question in our survey (Q7.4) usually earns.

But KLCA is making efforts to raise CG standards

We raised the score for Q7.4, however, because of the efforts of one entity, the Korea Listed Companies Association (KLCA). It has become more active in recent years, providing courses for outside directors and conducting more research and events related to corporate governance. KLCA also provides proxy advisory services and has created a pool of potential directors for member companies. They admit, however, that there are few women in their potential director pool and not that many companies are using this service. The Association’s membership comprises all 838 companies listed on KOSPI, as well as many of the 1,707 KOSDAQ and 129 KONEX issuers.

FKI is back with a new Korean name and a renewed focus

Amidst this positive momentum, there is some concern about the re-emergence of the Federation of Korean Industries (FKI), a chaebol club that historically fought hard against corporate governance. According to Korea Times and Reuters’ reports, FKI’s influence diminished when major conglomerates - Samsung, SK, Hyundai Motor and LG - temporarily withdrew their memberships due to its alleged involvement in the bribery scandal of former President Park Geun-hye. In August 2023, however, the Federation relaunched itself with a new Korean-language name, marking a significant rebranding aimed at distancing itself from its past. The new name, "Hangyeonghyeop," which can be translated as "Association of Korean

Businessmen," carries historical significance as it was the organisation's original name from its founding in 1961 until 1968. While its English name has remained the same, the change of its Korean name signals the organisation's intent to forge a new path forward away from past scandals. Since its relaunch, FKI's membership has rebounded to 420 firms, considerably higher than the 300 it had at the onset of the Park scandal in 2017.

FKI pushes back against mandatory ESG disclosure

Since its rebranding, FKI has become active again in public policy, often issuing statements in a moderate tone and in the name of "Korea Economic Cooperation". Some of these opinions, however, continue to reflect its earlier dislike of corporate governance reforms. In October 2023, for example, the FKI issued a report titled "Challenges and Improvements for Early Implementation of Mandatory ESG Disclosure", highlighting the hurdles hindering the adoption of such reporting. It stated five reasons why it would be difficult to implement mandatory ESG disclosure by 2025, including the absence of clear standards, short preparation time to meet the 2025 timeline, lack of human resources and infrastructure, expansion of legal risks, and challenges for industrial companies to meet disclosure requirements. The Federation suggested that the government should postpone the mandatory disclosure schedule, companies should enjoy "support measures" such as starting with voluntary reporting and companies should first establish an "ESG management system" across their organisations. While these measures appear reasonable and pragmatic, the fact remains that Korean officials have been talking about ESG reporting for several years and companies have had time to start adapting. ESG reporting has also been a fact of life for listed companies in many parts of the region since 2015/16. Under pressure, the FSC postponed the disclosure timeline to 2026 from its original 2025 deadline.

Business fears the Value-Up programme will be used to push more CG standards

There is also some predictable pushback against the Value-Up Program becoming an avenue for CG improvements in Korea. In mid-April 2024, the Korea Economic Research Institute (KERI), a research entity under FKI, hosted a roundtable discussion on the suitability of using corporate governance as a standard for corporate value enhancement incentives. The roundtable highlighted a broad scepticism about the effectiveness of CG standards in genuinely boosting corporate value, raising concerns about the alleged lack of empirical evidence supporting the idea that improved governance correlates with increased corporate value. The speakers also questioned the appropriateness of applying a uniform governance structure as a criterion for value enhancement across different companies. (As an aside: Investors may rightly wonder if participants have heard of the Korea discount and the way in which poor governance is indeed driving lower valuations.)

Some would like DCS rights broadened - but luckily not too many

Then on 29 April 2024, the FKI published a survey detailing the business community's expectations of the new National Assembly. One of the requests was for "differential voting rights", although fortunately only 12.5% of respondents seem to think it is important.

Where Korea shines

Korea has active non-profit groups pushing CG

Korea continues to have a vibrant ecosystem of non-profit organisations and advocacy groups dedicated to CG and ESG issues. Thus, Korea received a perfect score for Q7.5 and 4 out of 5 for Q7.6. One active player, Solidarity for Economic Reform (SER), continues to be active in promoting better corporate governance in Korea with regular public comments on CG policy and development as well as letters and campaigns to companies. SER's research affiliate, the Economic Reform Research Institute (ERRI), also publishes extensive research, opinion pieces and analysis on timely CG issues in Korea.

SER and APG successfully petitioned KT on treasury shares in 2023

During the 2023 AGM season, SER collaborated with the Dutch pension giant, APG, and submitted a shareholder proposal to KT, the leading telecommunications company in Korea. The proposal requested an amendment of the company's articles to require it to disclose the purpose and an annual plan for its treasury shares, and to obtain shareholder approval should the company want to dispose of treasury shares to initiate any mutual (cross) shareholdings. The proposal gained the support of NPS and proxy advisory firms and was passed at the AGM.

SER and APG won on most counts at HDC in 2022

Similarly, the year before, APG and SER submitted a shareholder proposal to Hyundai Development Company (HDC) following an accident at the company's construction site, killing six of its workers. The proposal asked HDC to amend its Articles to include a commitment to sustainable management, safety and compliance with construction laws; the establishment of a safety and health committee within the board; and the requirement for HDC to disclose its sustainability practices. These proposals were all approved. However, an additional agenda item to allow shareholders to submit ESG-related proposals on an advisory basis was rejected after receiving 69.4% against votes.

Korea has a new non-profit promoting CG - the Korea Corporate Governance Forum

A new player in the civil society space in recent years is the Korea Corporate Governance Forum (KCGF), established in December 2019 with the mission to lead corporate governance discussions and policy development in Korea through research, education and engagement. According to its website, KCGF membership includes market participants, academics, policy experts, lawyers, and businessmen - although it would be fair to say that investors are the dominant group and many of those serving on KCGF's board are local activists. KCGF has hosted seminars addressing various aspects of corporate governance. For instance, on 18 May 2022, it organised a "Succession and Governance" seminar and has been issuing extensive feedback and opinions on the Corporate Value-Up Program *(see the box below)*. More recently, KCGF engaged with ACGA during our visit to Korea in March 2024, exchanging views on the Value-Up Program and ongoing corporate governance issues in Korea.

Media on CG in Korea

Media coverage of CG is gradually improving

While Korea's media coverage of CG continues to score relatively low at 1.5 (Q7.8), there has been a slight improvement in objective reporting on corporate misconduct and the chaebols. As corporate governance garners increasing attention in this market due to the rising wave of shareholder activism, outlets like the Korea Times, Korea Herald, Yonhap and Korea Economic Daily have been consistently covering events and issues related to shareholder activities, disputes and governance issues. However, investigative journalism exposing corporate scandals or fraud remains rare: chaebols still exert considerable influence over the media. Nonetheless, emerging online platforms like BizWatch are making strides in this area. BizWatch, a relatively new online media outlet focusing on finance and corporate business sectors, features a section called "Governance Watch." This section delves into CG-related issues, offering insights into corporate behaviours through analysis of company disclosure. It has consistently touched upon some timely issues, such as succession, tax, treasury shares and related-party transactions.

KCGF has actively supported Value-Up with ideas and suggestions

KCGF joins the Value-Up debate

Since the launch of the Corporate Value-Up Program in February 2024, the Korea Corporate Governance Forum (KCGF) has actively contributed feedback. On 18 February, it published an opinion piece titled, "For the Success of the Corporate Value-Up Program, Follow 4 Major Principles: 'This is the Last Chance to Reduce Korea discount". The article emphasised key actions, including the creation of a separate, independent corporate governance report in both Korean and English; positioning the board of directors at the forefront of the programme instead of management; encouraging active engagement between the FSC, KRX, and both domestic and international long-term investors; and a government commitment to support the programme for a minimum of 3-5 years. On 26 February, KCGF published another paper giving the programme an interim score of B-.

10 key support measures for Value-Up

Then on 5 April, KCGF released a paper listing 10 pressing CG issues for the programme, which were proposed to the 22nd National Assembly. These included:

1. Amending the Commercial Code to specify directors' fiduciary duties
2. Empowering boards to drive the Value-Up process
3. Mandatory cancellation of treasury shares
4. Introducing separate taxation and a lower rate for dividend income
5. Encouraging the NPS to fulfil its role as a steward and increase its domestic equity holdings
6. Reinforcing board independence, with independent directors serving one-year terms subject to annual re-election
7. Revising the Corporate Tax Act
8. Implementing a warning system for potential delisting, requiring companies to explain any decreases in shareholder returns compared to the previous year, with the possibility of delisting for those failing to enhance shareholder value or those showing a continuous decrease in ROE due to overcapitalisation.
9. Evaluating mergers between parent companies and their subsidiaries or affiliates at fair value rather than market price to protect general shareholders' rights
10. Adjusting inheritance and gift taxes

What to avoid

Downgrade watchlist

Factors that could force Korea’s market score to fall in 2025:

- ❑ Loss of momentum or rollback of the Corporate Value-Up Program
- ❑ Loss of momentum in shareholder activism and reduced demands for CG reforms from minority shareholders, including retail investors
- ❑ Introduction of poison pills or dual-class shares as part of Value-Up
- ❑ Mandatory takeover bid rule is not reintroduced to the National Assembly or faces further delays
- ❑ Further delay of mandatory ESG disclosure timeline
- ❑ Continued government interference in former SOE management

Next Steps

Our recommendations for the next stage of CG reform in Korea include the following:

A strategic roadmap would make reform less piecemeal and more forward-looking

1. **CG roadmap:** While we acknowledge the government's efforts to address some systemic issues in Korea, these efforts often appear to be a reaction to current political pressures and quite piecemeal. A more effective approach would be to develop a comprehensive, strategic and medium-term corporate governance (CG) roadmap for the next three to five years. Such a roadmap would guide the country's overall reform effort, focusing on addressing the root causes of corporate governance issues in a cohesive and systematic manner. It could also help to provide more policy continuity between different administrations over time.

A formal system of director training would support governance performance and the Value-Up programme

2. **Director training**: Amid ongoing discussions about amending the Commercial Code to clearly define directors' fiduciary duties to shareholders, it is equally important to establish an institution or institutions for director training. Currently, there is no formal institution to provide systematic and relevant training for directors, a gap that is vital to address to ensure directors fully understand and can effectively fulfil their responsibilities. Such training would directly support the Value-Up Program, since the latter requires a sound understanding of financial management and governance leadership. In this context it is worth noting that investors and market experts in Japan share similar concerns about the readiness of boards there to make the most of the Tokyo Stock Exchange's guidance on cost of capital. It is clear that many directors, including independent directors, lack the financial literacy to understand certain capital management and profitability metrics. Given that the Value-Up Program was directly inspired by the Japanese experiment, Korea would benefit from studying how boards there are working to ensure directors have the right set of skills to improve corporate value on a sustained basis.

Lead independent directors fulfil several useful roles

3. **Lead independent director:** Korea requires financial firms to have an independent director as chairman of the board. In the absence of a similar rule for listed companies generally, it would be beneficial to create a "lead independent director" position. Such a director not only provides balance in board discussions (which otherwise could be dominated by the chairman) but is expected to lead discussion among other independent or outside directors in the absence of management and be a principal point of contact for institutional shareholders.

Stricter controls around treasury shares are urgently needed

4. **Treasury shares:** While measures are being considered to address the handling of treasury shares during company split-offs and to enhance transparency regarding their usage more generally, we believe that treasury shares should be cancelled promptly. They should not be retained as a means for controlling shareholders to defend their control. If companies have plans to utilise treasury shares, such plans then should be fully disclosed to shareholders.

It is time to revise the Stewardship Code

5. **Revision of the Stewardship Code:** The introduction of the Stewardship Code has significantly influenced responsible shareholder behaviour and activism in Korea, motivating institutional investors to actively engage with companies and exercise their rights as shareholders by voting in a more informed way on company resolutions. However, the Stewardship Code has remained unchanged since its inception in 2016, nearly a decade ago. Given the ongoing governance reform efforts and the rollout of the Corporate Value-Up Program, a timely revision of the Stewardship Code would be appropriate. Other jurisdictions in Asia with stewardship codes, in particular Japan and Taiwan, have amended them at least once. Areas where greater focus is needed include: collective or collaborative engagement; how to engage effectively with companies; the management and disclosure of conflicts of interest; and so on.

There are several measures Korea could take to enhance its AGM processes

6. **AGM notice period and voting results:** The annual general meeting (AGM) is a crucial opportunity for shareholders to directly engage with management and the board of directors, raising any high-level questions they have about the company. Therefore, it is essential to establish rules that promote shareholder participation at AGMs. Currently, the notice period for such meetings in Korea is still set at 14 days, an out-of-date rule that falls short of the 28 days that has been regional and global best practice for more than a decade. Additionally, the clustering of AGMs remains a problem. We suggest that Korea could consider Taiwan's method of assigning quotas for AGMs each day, or adopt Singapore's strategy, where companies must coordinate their AGM scheduling with the exchange to prevent major companies from holding AGMs on the same day. Meanwhile, we recommend that the KRX rules be amended to require all listed companies to vote by poll at their AGMs and publish the results within 24 hours. Currently, only companies required to comply with the guidelines on CG disclosure must report AGM voting results in their CG reports, yet these are usually not released until two months after the AGM in late May.

A more open and structured public consultation process would contribute to policymaking in Korea

7. **Public consultations:** In Korea, policy and corporate governance-related hearings, organised by regulators or conducted in the National Assembly, are typically held in Korean. Unfortunately, these events usually exclude foreign investors who make up a substantial portion of the investment community in Korea. Inviting foreign participants to these discussions and committees would be advantageous, allowing them to provide direct feedback on relevant policy developments. Additionally, improving the written consultation process would be beneficial. This could include making consultation papers and documents available on official websites, clearly listing the timeframe for public comment, specifying the channels for submitting feedback, and publishing the written submissions of market participants online.

Company checklist

Actions companies could take over the short to medium term to enhance their governance practices and disclosure include the following:

Actions companies could take to enhance CG practice and disclosure immediately

1. **Board diversity policies**: Instead of merely fulfilling compliance requirements with at least one female director on the board, adopt a more substantive policy that includes specific targets and action plans. This should involve tracking progress and maintaining a roster of potential candidates. Additionally, appoint at least one female director to the nomination committee.
2. **Board evaluation:** Engage a third-party consulting or advisory firm to conduct an independent evaluation of the entire board, including inside directors. Ensure that the results are fully disclosed, highlighting both strengths and areas for improvement, and clearly outline the expected next steps.
3. **Director/executive remuneration disclosure:** Move beyond the basic disclosure of aggregate remuneration for directors and specifics only for inside directors who earn more than KRW500m. Instead, disclose the exact remuneration for each director by name, with a breakdown of each compensation component.
4. **Board composition and skills matrix:** Develop a skills matrix that defines each necessary skill and explains why it is important for the company's business strategy. List each director by name, detailing their skills and describing the relevant experience they possess. Demonstrate how the skills matrix influences the selection of new directors and shapes the future composition of the board.

5. **Director training:** Implement induction and ongoing training programmes for both independent and inside directors. While general training on topics such as ESG and sustainability is important, tailored training addressing specific skills gaps would also be beneficial. Independent directors should request field trips to company facilities or manufacturing sites to provide deeper insights into business operations. Ensure the annual budget includes provisions for director training and such trips.
6. **AGMs:** While CEOs attending AGMs to discuss business strategy is understandable, it is important that the chairman chairs these meetings and that independent directors, along with senior management, are present. Companies should clearly outline to shareholders the requirements for attending AGMs and ensure English interpretation services are available. Additionally, there should be a general Q&A session for investors to ask questions on issues of strategic importance, regardless of whether they relate to items on the AGM agenda.

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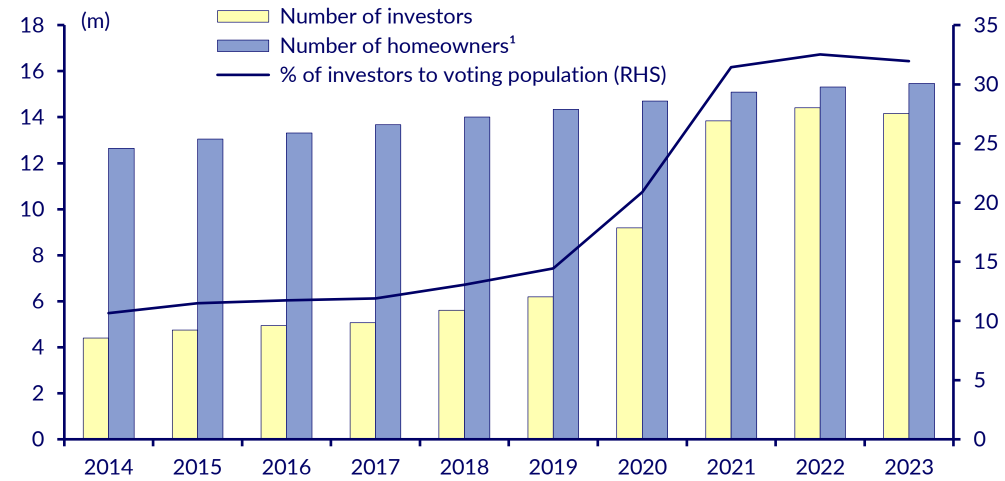
Unlocking K-orporate value

The Korean government has made various policy announcements to boost Korean equities recently. Given one-third of the population invests into equities, we believe it was imperative for the authority to announce favourable measures to win votes. Furthermore, with Korea's household debt-to-GDP ratio over 100% and Korean's household wealth mainly locked in real estate, it is also in the government's interest to generate the wealth effect from equities rather than increasing house prices. Announcements of the Corporate Value-Up Program subsequently followed, initially by the Korea Exchange (KRX) in February, and then backed up by the Ministry of Economy and Finance (MOEF) on tax reforms as well as regulatory watchdogs, the Financial Supervisory Service (FSS) and Financial Services Commission (FSC), on broader governance and market-related matters.

Investors have become a pre-eminent voter group

Figure 12

Number of investors and the proportion to the Korean voting population



[1] 2023 homeowner figures are estimates. Source: CLSA, Korea Securities Depository

We have been vocal on the importance of tax reform not only as an employable carrot-and-stick strategy by the government, but also as a tool that can align the interests between the majority and minority shareholders. For example, the hefty 50% tax rate for inheritance of over ₩3 billion and the 45% levied on dividend income of over ₩20 million leaves majority shareholders no option but to pressure down the value of shares. In their shoes, any efforts to improve valuation would translate into a tax burden, so avoidance would be reasonable. Thus, the General Election result in April 2024 was a key variable. With the opposition party winning the majority of seats, we soften our expectations on inheritance tax reform while hoping for changes in dividend tax. In our view, the increasing number of companies that have cancelled treasury shares, despite the voluntary nature of the announced Value-Up guideline, is still positive that can place peer pressure on listed corporates.

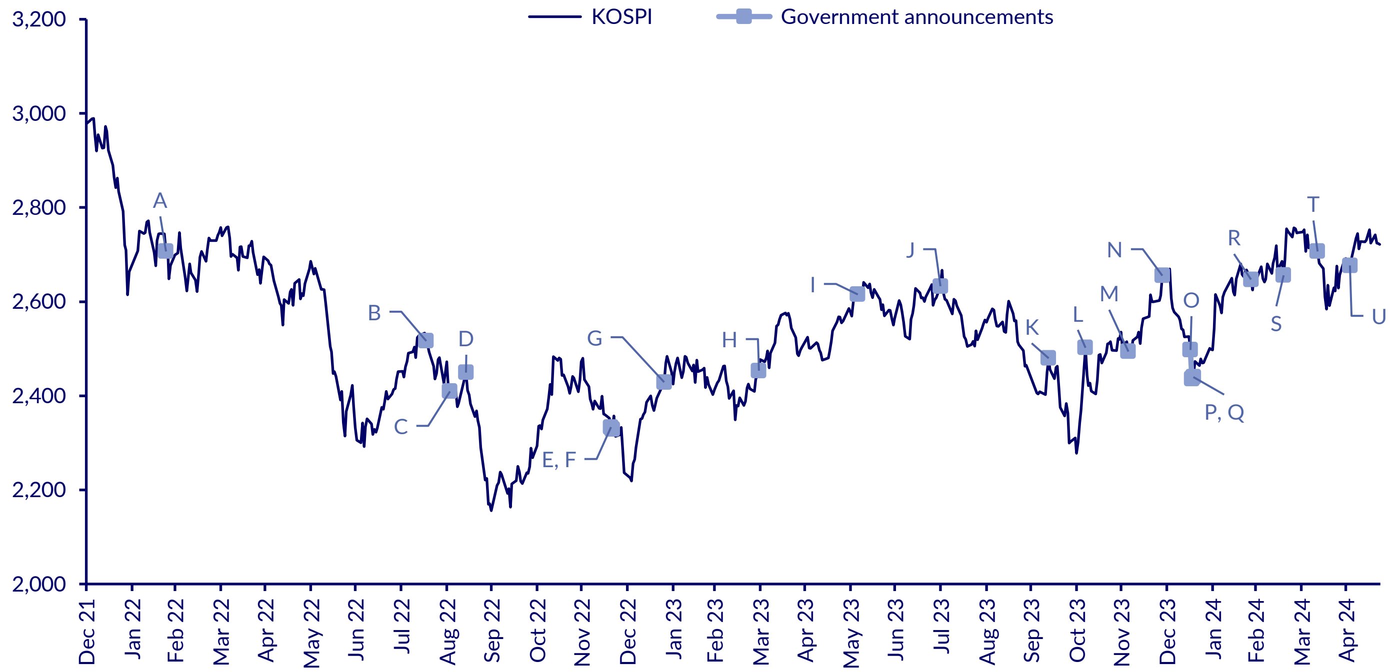
The influx of reforms is an initiative of the Yoon government

Policy push on Korean equities

In retrospect at the end of 2023, there had been ongoing policy announcements by the Korean government to support the equity market in various ways. Not only were market microstructure reforms, such as changes in mandatory tender offers, advancing foreign currency exchange (FX) market to meet global standards and improving foreign investors' access to Korea, encouraged, but shareholders were also in the spotlight.

Figure 13

Government's policy announcements to boost the equity market



Source: CLSA, FSS, FSC

Figure 14

Timeline of the government's policy announcements

Figure	Announcement date	Summary	Details	In effect?
A	22 Feb 22	Tightening of lock-up standards for newly listed names	6-month period of lock-up will be applied to largest shareholder and the affiliated member who has acquired stocks by exercising stock options after IPO	Yes
B	17 Aug 22	Improvement on 5% reporting rule: specifics need to be disclosed if such ownership has a management participation purpose	Shareholders with intentions to participate in management but have yet to establish plans will be required to file an amended version of disclosure when such plans are set.	Yes
C	2 Sep 22	Shareholder protection attempts will be taken into account when listing split-off company	When companies plan to list their subsidiaries within five years after splitting off, KRX will review the parent company's efforts and restrict IPO if found insufficient.	Yes
		Detailed disclosures required for firms with intentions to split off a subsidiary	Purpose, expectation, shareholder protection policy and plans for listing are mandatory disclosure items.	Yes
		Introduction of right to request stock purchase	Shareholders who voted against the split-off decision at a general meeting for deciding the prospects of a split off can sell their shares to the company at a set price.	Yes
D	13 Sep 22	Insider trading to be disclosed in advance of trading	30 days prior to transaction, insiders including directors and major shareholders are required to disclose details surrounding the trade including its purpose, price and volume if they were to trade at or over 1% of issued shares.	Yes
E	20 Dec 22	Efforts to have minimise blind spots in corporate disclosure and to set a reasonable level of sanctions for violation of disclosure obligations	Proposed policy was to impose obligation to new listing corporates to disclose financial information for the previous quarter and half-year. Currently, disclosure of annual reports of the previous fiscal year is mandatory for new listing corporates.	Pending NA approval
F	21 Dec 22	Introduction of mandatory tender offer for change in control in listed companies	Proposed policy was to impose obligation to purchase at least 50% +1 shares when an acquirer becomes the "largest shareholder" that owns 25% or more of the total shares.	Pending NA approval

Continued on the next page

Figure 14

Timeline of the government's policy announcements (continued)

Figure	Announcement date	Summary	Details	In effect?
G	25 Jan 23	Policies to improve accessibility of Korean capital market to foreign investors	Abolishing foreign investor registration; facilitating foreign investors' use of 'omnibus account'; relieving rigidity of approval process with foreign investors' OTC transaction has been announced.	Yes
H	30 Mar 23	XBRL format to be introduced to disclosure of financial information	Beginning 3Q23, both financial firms and non-financial firms are disclosing their financial statements in XBRL format. Application of XBRL format on annual reports will be broadened to firms that have over W500bn in assets in 2025 and to all firms in 2026.	Yes
I	5 Jun 23	Abolishment of foreign investor registration requirement	An Investor Registration Number was required to create an account to trade listed equities. This was criticised to be unfair and to be afar from the global standard.	Yes
J	31 Jul 23	Expanding availability of English disclosures in DART	Titles of DART disclosures will also be written in English, where most of the content will still be in Korean for now. Beginning 2024, companies with W10tn or more in assets are obligated to disclose major filings in English.	Yes
K	12 Oct 23	Revisions to the Guideline on Reports on Corporate Governance Disclosure	The Corporate Governance Disclosure began in 2019, which is mandatory for firms with assets of W2tn or more. Beginning 2024, firms with at least W500bn in assets will be obligated to file for such disclosures.	Yes
L	6 Nov 23	Short-sell ban	Discussions to improve current short-selling practices, such as limiting short-covering period for institutional investors, are currently under way. Although this is to be lifted in June 2024, President Yoon has stated that short selling will be banned in 2H24 if there are no clear policy improvements.	Yes
M	5 Dec 23	Dividend policy reform - Dividend record date to come post-AGM, informing potential investors about the DPS they will receive	The year-end dividend record date can be set after the AGM date. However, for the quarterly dividend, this announcement is impossible as relevant law is not revised yet. The quarterly dividend record date is currently stipulated as the end of March, June and September.	Yes, for year-end dividend
N	28 Dec 23	Introduction of virtual AGM	Corporates will be able to host AGM online. Current law only permits shareholders to cast votes electronically.	Pending NA approval
O	16 Jan 24	Tax reform announcement	Plans to push for abolishing the 'financial investment income tax' will take effect in 2025; cutting the securities transaction tax and hiking the tax-exemption limit of Individual Savings Account (ISA) were also announced.	Requires NA approval
P	17 Jan 24	President mentions inheritance tax reform	President Yoon stated that there is need for a national consensus on whether inheritance tax is excessively burdensome. During an event held at the Korea Exchange, President Yoon pointed out, "In the case of most listed companies in Korea, if the stock price rises when they transfer the business, it becomes impossible to pass down the business" and added that, "That's why there are not many powerhouse SMEs in Korea, unlike Germany."	Requires NA approval
Q	18 Jan 24	Listed corporates may be obligated to disclose efforts to improve valuation	FSC will run a 'corporate value-add' programme, where listed companies will be obligated to disclose valuation improvement measures. Japan's Tokyo Stock Exchange was used as a benchmark for this policy.	More details to be announced
R	26 Feb 24	Details on the Value-Up Program were released	KRX hosted a seminar, but the market showed a slight disappointment as tax benefits were delayed.	
S	19 Mar 24	MOEF announces tax benefits	MOEF announced a tax benefit to increase shareholder returns	Requires NA approval
T	10 Apr 24	22nd General Election was held	Opposition party won by a landslide; ruling party People Power Party claimed 108 seats out of 300.	
U	2 May 24	Details on the Value-Up Program were released	KRX hosted a second seminar, focusing on how voluntary disclosures should be made by corporates.	Guideline finalised

Note: NA stands for National Assembly. Source: CLSA, FSS, FSC, MOEF

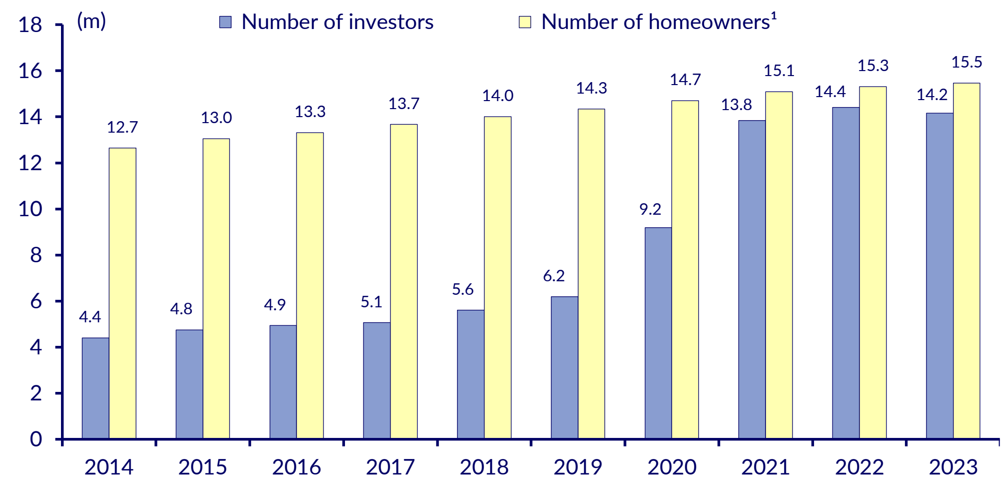
Investors' vote comes into play

Prior to the aforementioned announcements, there was a clear surge in the number of retail investors from 2020 compared to the sluggish increases of previous years. The Covid-19 pandemic was a major catalyst, with retail investors pouring into the stock market with rising levels of liquidity. About one-third of the population with voting rights now owns equities compared with just over 10% in 2016, and this is similar to the ratio of the number of homeowners out of total voters in Korea.

Number of investors owning stocks is now similar to that of homeowners

Figure 15

Number of stock investors vs homeowners

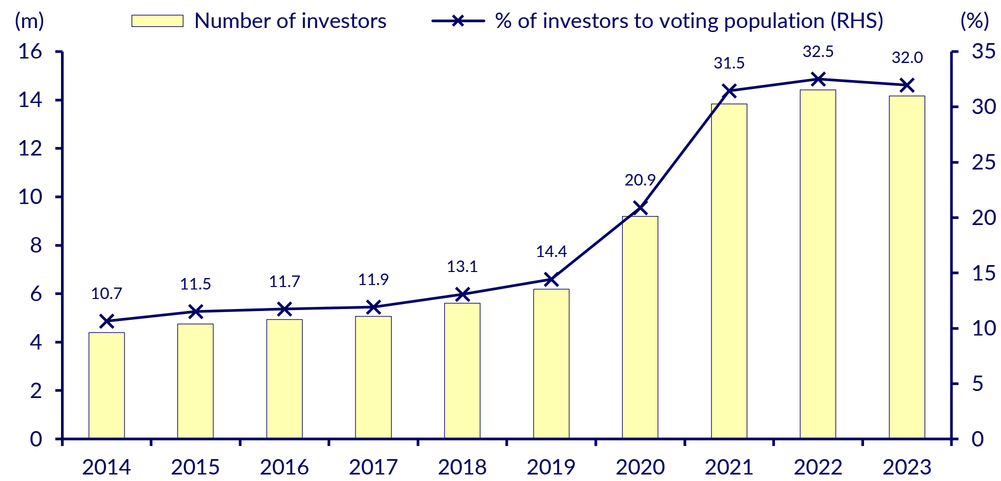


[1] 2023 homeowner figures are estimates. Source: CLSA, Korea Securities Depository

About one-third of the population with voting rights now owns stocks

Figure 16

Percentage of retail investors among the population with voting rights



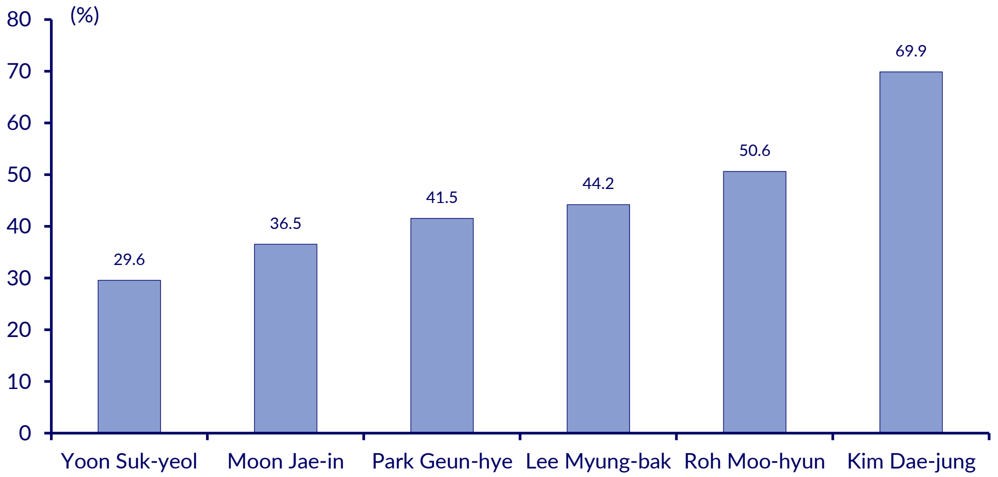
Source: CLSA, Korea Securities Depository

Irrespective of political colour, each administration is increasingly struggling to push their policies through the National Assembly. For President Yoon, this has become difficult, as the majority of seats are once again held by the opposition party (out of 300 total seats, 192 seats are held by the pan-opposition party, while the ruling party has 108 seats). What matters to populist politicians, regardless of their position as a ruling or opposition party, is the number of votes they can attract by winning over voter groups.

Each administration is increasingly struggling to push their policies past the National Assembly

Figure 17

Percentage of bills passed during each government



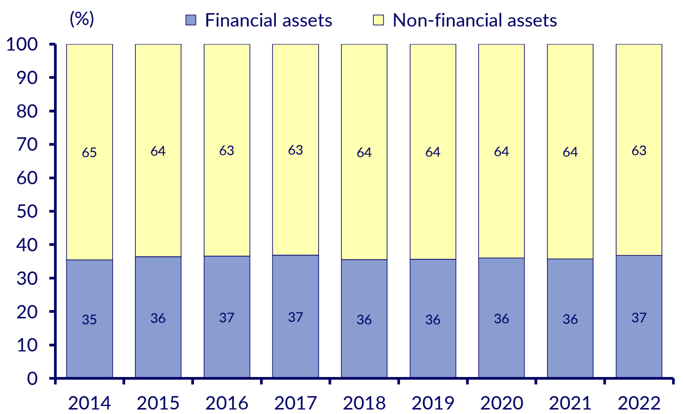
Source: CLSA, National Assembly Bill Information

Real estate concentration a headache for many

Korea's housing market is important for Korean households as it accounts for the majority of Korean households' assets. With homeowners accounting for one-third of the voting population, this is why it has always been tempting for governments to raise property prices.

Figure 18

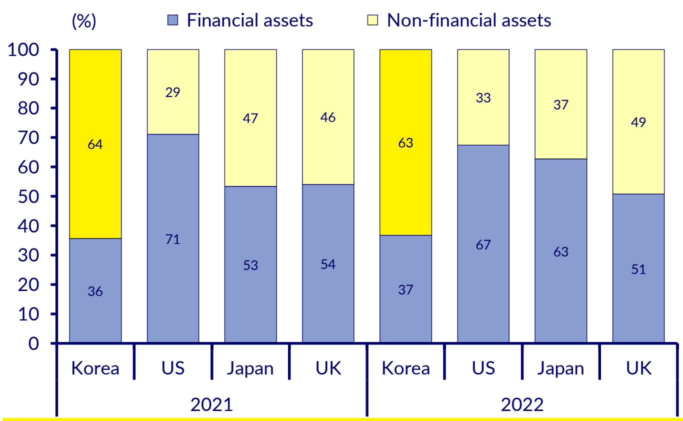
Asset composition of Korean households



Source: CLSA, Bank of Korea

Figure 19

Portion of financial assets in household assets, by country



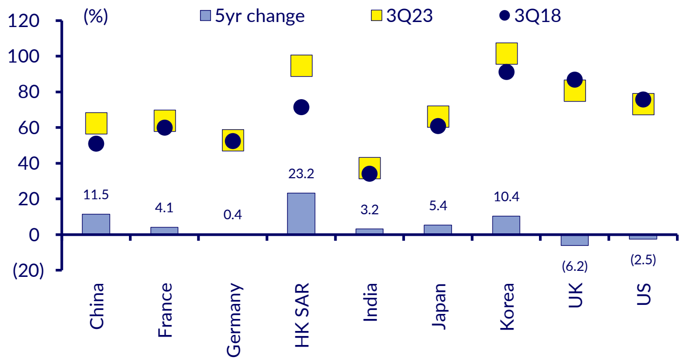
Source: CLSA, Bank of Korea, Federal Reserve, Government of Japan Cabinet Office, Office for National Statistics

However, Korea's household debt-to-GDP level is meaningfully higher than most other countries, as shown in Figure 20. It housing market capitalisation-to-GDP increased to 287% in 2022 vs the 20-year average of 237%.

Therefore, we believe it will be difficult for the government to increase property prices this cycle, as it may incite systematic risk in a higher-for-longer interest rate regime with other macro-level risks, namely an increase in troubled project financing loans. Bank of Korea Governor Rhee Chang-yong has also commented that household debt-to-GDP levels over 80% are restrictive to Korea's economic growth, and the goal is to gradually lower this figure back to the 80% level from more than 100% currently.

Figure 20

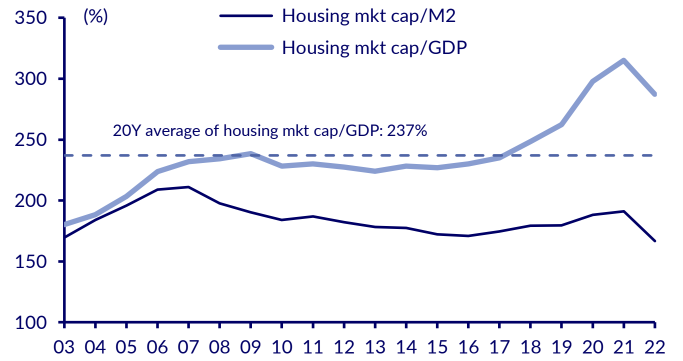
Household debt-to-GDP among the highest



Source: CLSA, BIS

Figure 21

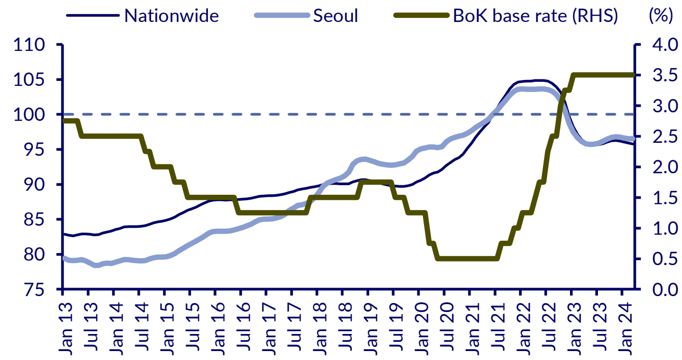
Housing market capitalisation to Korea M2 and GDP



Source: CLSA, Statistics Korea

Figure 22

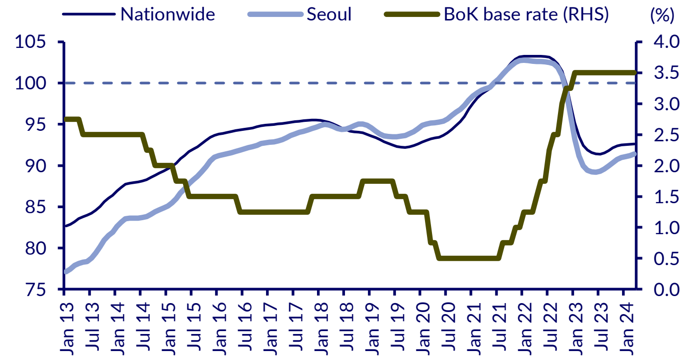
Housing Price Index, monthly



Note: Base price (100) as of June 2021. Source: CLSA, Korea real estate board

Figure 23

Jeonse Price (deposit) Index, monthly



Note: Base price (100) as of June 2021. Source: CLSA, Korea real estate board

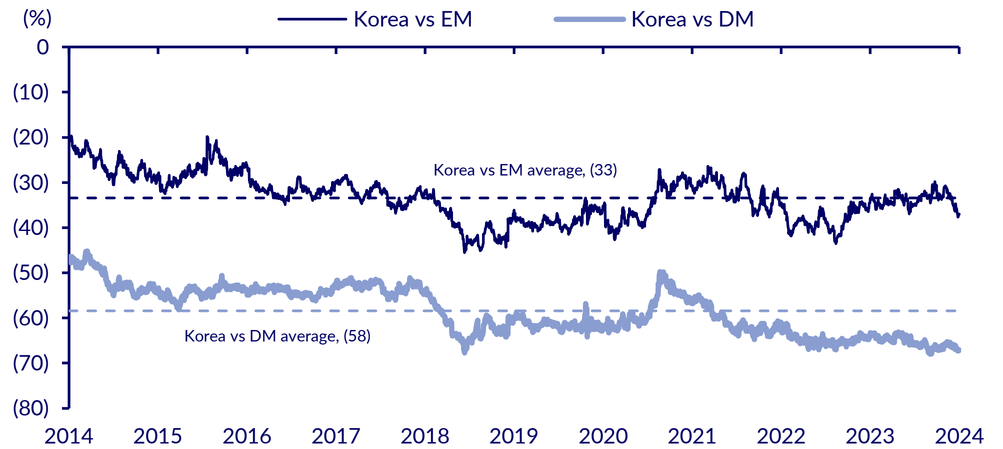
The Korea discount

Korean equities are trading at a deep discount vs both emerging markets (EM) and developed markets (DM) due to the inherent cyclicality of the economy coupled with weak corporate governance and shareholder returns. This may be a low-hanging fruit for investors if Korea could follow in the footsteps of Japan; we believe the Value-Up Program will act as a primer of change.

Korea's earnings are cyclical due to the majority of its earnings coming from exporters; it is better to look at PB than PE for the Korea market

Figure 24

12-month forward PB comparison: Korea versus EM and DM

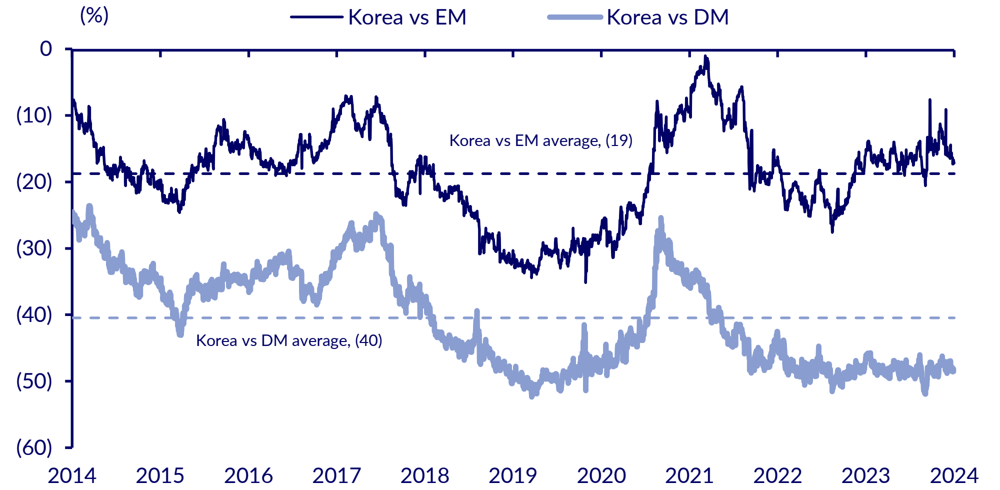


Source: CLSA, Bloomberg

In both PB and PE terms, Korea is trading at a deep discount

Figure 25

12-month forward cyclically-adjusted PE comparison: Korea versus EM and DM



Source: CLSA, Bloomberg

Value-Up Program: hopes vs reality

Our key argument on the Value-Up Program is that a tax reform, especially inheritance tax and dividend income tax reform, is key, as illustrated below.

Figure 26

Our train of thought on Value-Up Program

Korea's key governance issue:
Why increase shareholder return, when low market value is an optimal tax solution?
taxed @ max. 45% with dividend aggregated into other sources of income (for those earning ₩20 million+ in dividends)
taxed @ max. 50% to inheritance receiving ₩3bn+ brackets

Tax burden dislocates majority shareholders' interests from the minority

We believe ***tax incentives*** should be given

Moving parts: Election and revision of tax law
Will opposition's victory stall policy momentum?

#1: Dividends separated from aggregate income + flat tax rate

- Majority shareholders are not inclined to pay higher dividend due to 45% tax rate
- We are likely to see higher payout if dividend income tax rate is fixed at around 10-20% level
- Increase in shareholder returns is positive to valuations and household disposable income
- Government's tax revenue decline can be offset by increase in payout ratio[1]

#2: Inheritance tax cut

- Majority shareholders will not be incentivised to lower the share price
- Interests of minority shareholders and major shareholders can be aligned
- Government can also come up with tax deferral programme on unrealised gain to make it less controversial

[1] Refer to our earlier report titled "*The importance of tax reform*". Source: CLSA

If the sum of the dividend received is over ₩20m, a heavy burden of the maximum 45% tax rate may be applied based on one's comprehensive income

Application of dividend income tax in Korea differs by the taxpayers' sum of income earned from interest received and dividend received. If the sum is ₩20 million or less, it is regarded as a 'separate taxation item' and an income tax rate of 14% is applied on a national tax basis. If the sum of dividend received is over ₩20 million, it is regarded as a 'comprehensive taxation item' despite the 14% national tax rate. The interest income, dividend income, business income, wage and salary income, pension income and other income, which is regarded as the tax base of 'comprehensive income', needs to be summed. This grossing imposes a heavy burden to the taxpayer, as the tax rate applied may spike at its max to 45%, as shown in Figure 27.

Figure 27

Comprehensive income tax rate for the 2023 (current) tax year

Taxable income	Tax rate (%)	Progressive deductions
At or under ₩14 million	6	Not applicable
Over ₩14 million, and at or under ₩50 million	15	1,260,000
Over ₩50 million, and at or under ₩88 million	24	5,760,000
Over ₩88 million, and at or under ₩150 million	35	15,440,000
Over ₩150 million, and at or under ₩300 million	38	19,940,000
Over ₩300 million, and at or under ₩500 million	40	25,940,000
Over ₩500 million, and at or under ₩1 billion	42	35,940,000
Over ₩1 billion	**45**	**65,940,000**

Source: CLSA, National Tax Service

Thus, it is not just the largest shareholders who do not want dividends due to the dividend income being included in comprehensive income for dividends exceeding ₩20 million, but retail investors also do not want it, as their tax payments could spike from such inclusion. However, this trend could be reversed with tax reforms, eg, by separate taxation of dividend income without the ₩20m hurdle.

An ageing population leads inevitably to inheritance, where the tax scheme has not seen any adjustments for 20+ years

Inheritance tax has not seen any adjustments for inflation since 2000, both in the tax rate and tax base, leading to an increase in the number of taxpayers as Korea ages rapidly. Much of the household wealth currently is concentrated in the elderly population. However, there will be an inevitable point where this concentration of wealth gets passed down to the younger generation. Therefore, the number of taxpayers, or voter groups, is set to increase in the near horizon, and the tax burden will inevitably be felt.

Figure 28

Inheritance and gift tax rate (current, effective beginning 1 January 2000)

Taxable income	Tax rate (%)	Progressive deductions
At or below ₩100 million	10	Not applicable
Over ₩100 million, at or below ₩500 million	20	₩10 million
Over ₩500 million, at or below ₩1 billion	30	₩60 million
Over ₩1 billion, at or under ₩3 billion	40	₩160 million
Over ₩3 billion	50	₩460 million

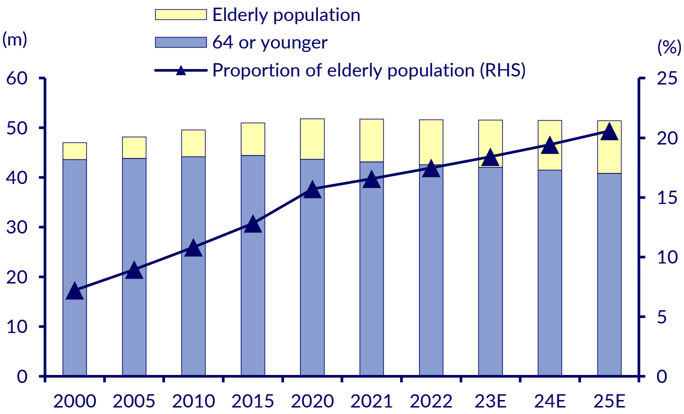
Source: CLSA, National Tax Service

Corporates with aging management are beginning to see this inheritance tax burden pressure

Corporates, especially small-and-medium enterprises (SMEs), are presently experiencing this pressure. A survey conducted by Korea Federation of SMEs states that, while most SMEs have decided to continue their businesses through inheritance given one-third of management is over the age of 60, the main difficulty they expect is the increasing tax burden. Chaebols are a prime example. Samsung families had to divest shares of Samsung Electronics and other major subsidiaries to pay approximately ₩12tn in inheritance tax.

Figure 29

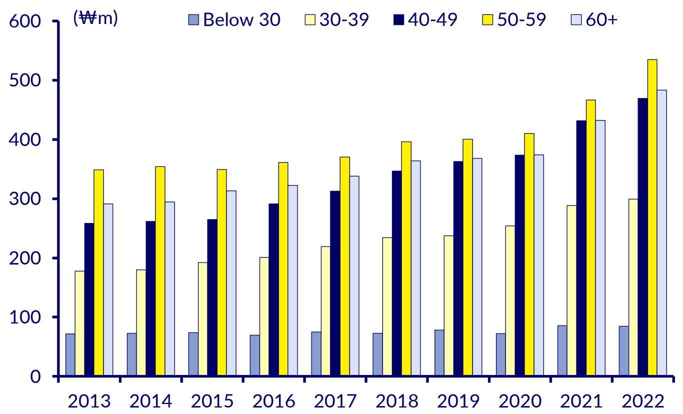
Proportion of elderly (65+ years old) population



Source: CLSA, BIS

Figure 30

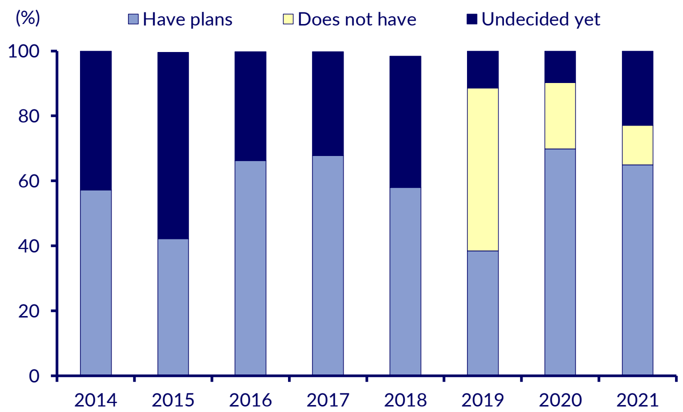
Average household net asset



Source: CLSA, Statistics Korea

Figure 31

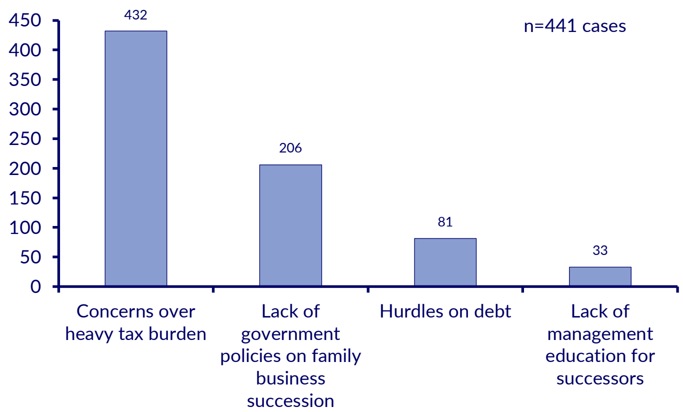
SME CEO survey: Do you have plans to inherit your business?



Note: Choice 'Does not have' appeared from 2019 survey and onwards. Source: CLSA, Korea Federation of SMEs

Figure 32

Main difficulties expected by CEOs during the inheritance process



Note: Multiple answer question. Source: CLSA, Korea Federation of SMEs

It is unreasonable to expect the majority shareholders to pay more taxes

Currently, the willful induction of a valuation discount is clearly beneficial to the majority shareholder as it cuts down the amount of tax outright. The heavy burden also nudges the majority shareholder to pressure down the share price through various mechanisms, notably dilutive practices including split-and-list (double listing of the holdings company and operating companies) and cross-shareholdings or tunnelling profits within group subsidiaries.

Leeway should be opened for the majority of shareholder's economic interests to surface, which aligns with minority interest

However, by lifting the tax burden through tax cuts or by offering a possibility to have taxation deferred, options other than to simply pressure down the prices could be used. Shares valued at fair market value, or at least to 1x book value, could act as an effective collateral to borrow cash given the liquidity and price discovery the stock market enables. Levied inheritance tax could also be paid through dividends paid out from the company. These alternatives could lead to the majority shareholder retaining power and is also likely aligned with minority shareholders' interest.

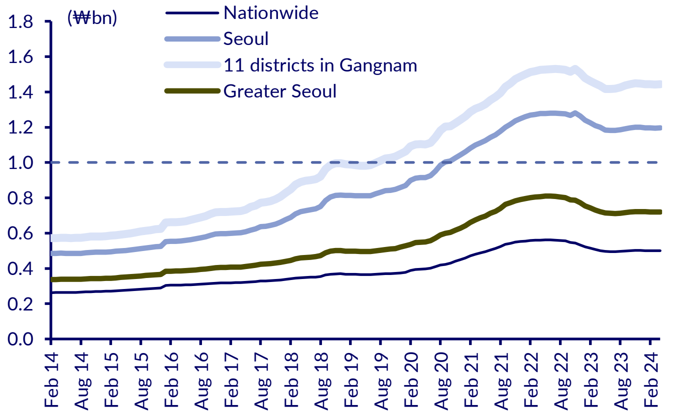
Carrot and stick

What's different with this Value-Up Program is that the Korean government is taking a long-term view and trying to deliver real change that can benefit corporates under a carrot-and-stick strategy, especially conglomerates (chaebols) interested in retaining control of their groups. No previous governments have offered a key carrot such as an inheritance tax cut, thus the issue has been unresolved.

We believe that President Yoon and the ruling party initiating the tax reforms, regardless of election results, is a positive. Given average apartment prices in Seoul surpass ₩1bn, we believe the general population will turn supportive of inheritance tax, which was not the case in the past.

Figure 33

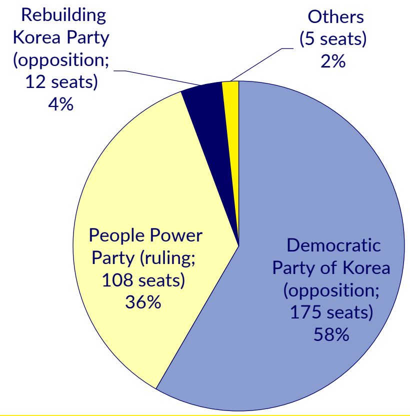
Average apartment price in Korea



Source: CLSA, KB Kookmin Bank

Figure 34

22nd General Election results



Note: Democratic Party/People Power Party includes Democratic Coalition/People Future Party, respectively, to include proportional representation seats. Source: CLSA, National Election Commission

With the carrot, the government also tapped into key changes such as amending commercial law, introducing mandatory tender offers, placing regulations on split-and-listings and more.

Employing a carrot-and-stick approach is what differs President Yoon's initiative; but we soften expectation on inheritance tax reform

However, with the opposition party winning the majority seats, we soften our expectations on inheritance tax reform while hoping for changes in dividend tax.

Ongoing announcements

KRX hosted a seminar on 16 February 2024 to support the 'Corporate Value-Up Program.' Announcements were made outlining plans on how corporates will voluntarily (1) evaluate and analyse valuation, (2) establish, disclose and put to practice plans to improve corporate value and (3) communicate with shareholders.

Initial announcements to support the Corporate Value-Up Program were a disappointment with a lack of details

Initial guidelines provided to listed corporates, included key principles, where listed companies are advised to draw up their corporate value-up plans every year with a medium- to longer-term timeframe (of three or more years), the board of directors should play a key role in preparing and implementing the plans, and companies should publish plans on their website and through a voluntary disclosure to KRX. The initial market reaction was a disappointment, with all the value-up related stocks hit hard, given lack of fresh content and details on the tax reforms. MOEF then mentioned that more announcements would be forthcoming.

Draft guidelines on Value-Up disclosures were announced at the second seminar, which was finalised without major revisions

On 2 May 2024, a second seminar was held to announce draft guidelines with more details on how corporates should disclose their Value-Up policy. Guidelines included six major items are to be implemented, where corporates (1) provide an overview, (2) analyse their current business operations, (3) set goals, (4) plan, (5) evaluate implementation efforts, and ultimately (6) communicate with investors. Corporates were advised to provide quantifiable financial targets and non-financial goals including those related to governance in the third goal-setting stage.

For corporates to analyse their current business operations, extensive metrics were highlighted, including PB and PE ratios, return on equity (ROE), return on invested capital (ROIC), cost of equity (COE), weighted average cost of capital (WACC), dividend per share (DPS), dividend yield and total shareholder return (TSR). The finalised guidelines announced on 27 May 2024 included R&D investment as one of the metrics while also disclosing 'major activities of internal auditors' as a metric to evaluate the independence of internal auditors.

Market focused on the voluntary aspect of the Value-Up disclosures, viewing it as a short-term negative

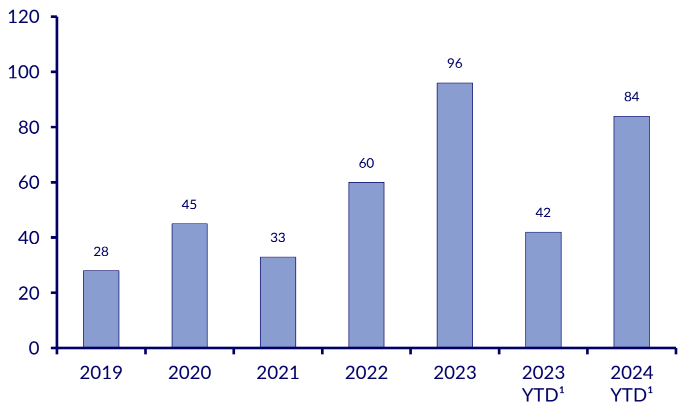
'Peer pressure' was emphasised with the voluntary nature of the participation. There will be no penalties levied upon corporates *not* participating in the Value-Up Program, which briefly led to volatile movement of Value-Up related stocks as corporates' willingness to participate and disclose relevant details may be downplayed by investors.

Banks are an epitome of how peer pressure can lead to more shareholder returns

However, we believe peer pressure will be most likely effective on names that have sufficient capacity - this was the case with Korean banks, where the four major financials; KB Financial, Shinhan, Hana and Woori Financial referred to their peers when setting their policies on shareholder returns. An increasing number of companies also have cancelled treasury shares in 2024, despite the voluntary nature of the value-up guideline announced. In our view, this is a positive that indicates peer pressure can be placed on listed corporates. In addition, Value-Up index and related ETF will be launched subsequently. Authorities appear to be expecting a stigma effect from investors and stakeholders.

Figure 35

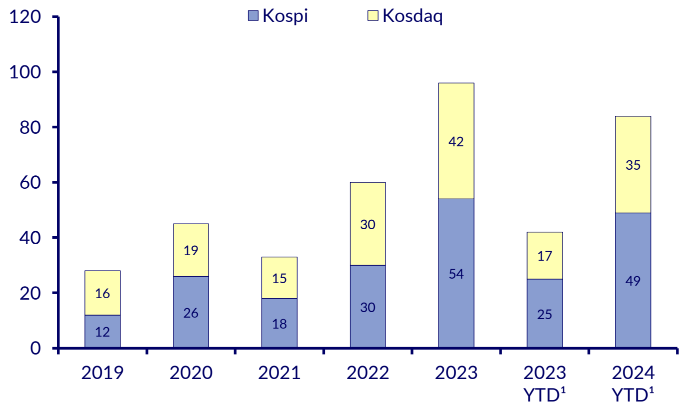
Number of companies that disclosed cancellations



[1] YTD from 1 Jan 2024 to 24 May 2024. Source: CLSA, DART

Figure 36

Number of companies that disclosed cancellations, by market



[1] YTD from 1 Jan 2024 to 24 May 2024. Source: CLSA, DART

What's next

More announcements will arrive in 2H24, with tax-related announcements expected in July

Following the aforementioned guidelines finalised on 27 May 2024, the government's version of tax-related reforms are expected to be announced in July. Announcements on tax reforms were deferred again in the second seminar, but this is partly understandable as the event was held by KRX, not the MOEF, which is responsible for tax policy directives. Deputy Prime Minister and Minister of Economy and Finance Choi Sang-mok has mentioned the overall direction for tax policy reforms just prior to the second seminar. His remarks were that (1) corporate tax burden on certain portions of increased shareholder returns, including dividend payout and treasury stock cancellation, may be eased; and (2) dividend income received by shareholders, from corporates that have increased dividend payout, may receive separate taxation treatment.

Despite the opposition party winning majority seat, unlike the market's concern, we believe the Value-Up Program is likely to see bipartisan support upon reading through both parties' pledges. Even on the inheritance tax cut for small-to-mid-sized companies, both parties were supportive, reading through the recent Special Act on Local Autonomy, Decentralization and Balanced Regional Development act, mentioned in our note, *Korea strategy (Election scenarios)*. It is difficult to expect an inheritance tax benefit for large corporates, but at least the dividend income tax cut and tax benefit on shareholder returns are likely to come through with bipartisan support, in our view.

Looking into history, advance publication of the government's version of tax law for next year was announced in late July

Figure 37

Legislative process of Korean tax law

Late July
- ***"Advance publication"***
- MOEF's draft on next year's tax law is announced

By September
- ***"Deliberation and submission"***
- Key matters will be discussed, to-be finalised, signed by the President and submitted to the National Assembly

By December
- ***"Deliberation by the National Assembly"***
- Government version undergoes review, by the congressmen of the Strategy and Finance Committee

January (next year)
- ***"Amendment of delegated legislation"***
- Relevant regulations including Presidential Decrees are amended to fit the new tax law

Source: CLSA, Korea Legislation Research Institute

Also, the Value-Up index will see development until September, and the ETFs tracking such index will likely be launched in December 2024, regardless of political landscape. In our view, the key Value-Up beneficiaries that could be included in the ETF are autos, conglomerates and financials. Among CLSA Korea's coverage, we have BUY ratings on Kia, SK Square, KB Financial, Hana Financial, Shinhan, Samsung F&M and Meritz Financial Group.

Figure 38

CLSA coverage names among key potential Value-Up beneficiaries

Ticker	Name	Rec	Market price (₩'000)	Target price (₩'000)	TSR (%)[1]	PE (x) 24CL	PE (x) 25CL	PB (x) 24CL	PB (x) 25CL	ROE (%) 24CL	ROE (%) 25CL	Div yield (%) 24CL	Div yield (%) 25CL
086790.KS	Hana Financial	BUY	59.7	78.0	37	4.7	4.2	0.5	0.4	10.1	10.4	5.9	6.4
105560.KS	KB Financial	BUY	77.4	97.0	30	5.5	5.0	0.5	0.4	9.3	9.5	4.3	4.5
000270.KS	Kia	BUY	119.5	150.0	30	4.3	5.8	0.8	0.8	21.0	13.5	4.7	4.7
138040.KS	Meritz Financial	BUY	75.5	100.0	35	6.4	5.8	1.3	1.1	21.4	20.5	2.6	2.9
000810.KS	Samsung F&M	BUY	343.5	400.0	23	6.5	6.0	0.7	0.7	12.2	11.7	6.0	6.7
055550.KS	Shinhan	BUY	45.55	60.50	38	4.9	4.3	0.4	0.4	9.3	9.6	4.7	5.3
402340.KS	SK Square	BUY	76.8	115.0	50	7.0	3.1	0.7	0.7	9.8	22.7	0.0	0.0

[1] TSR = upside plus yield. Source: CLSA

Korea, Taiwan along with India all move up one position from their previous rankings

Appendix 1: Overall market rankings and scores

CG Watch 2023 market rankings and scores (%)

Market	Previous ranking	2023	2020	Change vs 2020 (ppt)
1. Australia	1	75.2	74.7	+0.5
2. Japan	=5	64.6	59.3	+5.3
=3. Singapore	=2	62.9	63.2	-0.3
=3. Taiwan	4	62.8	62.2	+0.6
5. Malaysia	=5	61.5	59.5	+2.0
=6. Hong Kong	=2	59.3	63.5	-4.2
=6. India	7	59.4	58.2	+1.2
8. Korea	9	57.1	52.9	+4.2
9. Thailand	8	53.9	56.6	-2.7
10. China	10	43.7	43.0	+0.7
11. Philippines	11	37.6	39.0	-1.4
12. Indonesia	12	35.7	33.6	+2.1

Note: Total market scores are not an average of the seven category percentage scores. They are an aggregate of the exact scores for each of the 108 questions in the survey, converted to a percentage. Total points for each market out of 540 were: Australia (402.5); Japan (349); Singapore (339.5); Taiwan (339); Malaysia (332); Hong Kong (320); India (321); Korea (308.5); Thailand (291); China (236); Philippines (203); and Indonesia (193). The denominator for Australia was 535, not 540, as one question on SOEs does not apply. Source: ACGA

Market scores by category

Market scores by category: 2023 vs 2020

(%)		AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Government & Public Governance	**2023**	**71**	**32**	**55**	**45**	**32**	**61**	**52**	**37**	**29**	**56**	**67**	**35**
	2020	68	29	65	45	31	60	60	32	28	60	68	35
2. Regulators	**2023**	**66**	**56**	**62**	**53**	**29**	**65**	**57**	**58**	**25**	**63**	**65**	**50**
	2020	65	52	69	53	24	62	53	53	27	63	66	51
- Funding, capacity, CG reform	***2023***	*61*	*44*	*54*	*52*	*35*	*67*	*51*	*56*	*25*	*56*	*61*	*45*
	2020	*62*	*42*	*62*	*51*	*31*	*58*	*45*	*53*	*27*	*56*	*62*	*47*
- Enforcement	***2023***	*72*	*69*	*72*	*54*	*22*	*63*	*64*	*60*	*24*	*71*	*70*	*54*
	2020	*68*	*64*	*76*	*56*	*16*	*66*	*62*	*54*	*26*	*70*	*70*	*56*
3. CG Rules	**2023**	**83**	**63**	**75**	**73**	**40**	**67**	**65**	**79**	**48**	**77**	**71**	**75**
	2020	82	63	75	69	35	58	56	77	45	75	66	76
4. Listed Companies	**2023**	**76**	**39**	**53**	**60**	**36**	**49**	**49**	**66**	**48**	**58**	**55**	**51**
	2020	79	51	59	65	38	44	48	66	55	60	63	60
5. Investors	**2023**	**69**	**22**	**33**	**46**	**20**	**65**	**56**	**42**	**25**	**39**	**40**	**35**
	2020	66	18	34	44	19	60	44	43	21	39	38	38
6. Auditors & Audit Regulators	**2023**	**82**	**49**	**82**	**69**	**65**	**83**	**73**	**92**	**62**	**83**	**83**	**79**
	2020	86	43	81	54	59	77	70	86	60	81	76	76
7. Civil Society & Media	**2023**	**82**	**26**	**50**	**74**	**44**	**66**	**43**	**53**	**33**	**64**	**62**	**46**
	2020	80	22	60	78	38	62	36	44	36	64	62	49

Source: ACGA

Appendix 2: ACGA market-ranking survey

1. Government & public governance

			AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
1.1	To what extent does the current government administration (executive branch) have a clear and credible long-term strategy for promoting corporate governance reform to support capital-market and business-sector development?	2023	2.5	2	0	1	1	4	2	0	2	2	4.5	1
		2020	2	1	1	2	1	3	4	0	2	2	4	1
1.2	To what extent does the current government provide consistent political support for the policy and enforcement work of financial regulators (ie, securities commissions and stock exchanges)?	2023	2.5	2	2	1	1	3.5	1	1.5	1	2.5	4	2
		2020	2	2	3	2	1	3	4	1	1	3	4	2
1.3	To what extent has the central bank or equivalent financial authority set effective guidance for the governance of banks?	2023	3.5	2	3.5	3	3	3	3	4	3	4	3	2
		2020	3	2	4	3	2	2	3	4	3	4	3	2
1.4	Is there a coherent structure to the regulatory system governing the securities market, including the IPO regime? (ie, one without clear conflicts of interest involving either the securities commission or the stock exchange; without fragmentation and disagreement between different regulatory authorities; and where there is a clearly definable securities commission or bureau taking the lead on enforcement)	2023	4	3	3	3	2	4	3	3	3	4	4	4
		2020	4	3	3	3	2	4	3	2	3	4	4	4
1.5	Is the securities commission formally and practically autonomous of government? (ie, not part of the ministry of finance; nor has the minister of finance or another senior official as chairman; nor unduly influenced by government)	2023	3	0	2.5	2	2	2	1	1	1	1	1	2
		2020	3	0	3	2	2	2	1	1	1	1	2	2
1.6	Is the securities commission funded independently (eg, a levy on securities transactions or capital market participants) and not dependent on an annual budgetary allocation from government?	2023	3	0	4.5	3	4	2	4.5	5	1	0	4.5	5
		2020	3	0	5	4	4	2	5	5	1	0	5	5
1.7	Is there an independent commission against corruption (or a group of agencies) with broad powers to tackle public- and private-sector corruption?	2023	3.5	0	3	1	2	2	3	1	0	3	2	0
		2020	3	0	3	1	2	2	3	1	0	4	2	0
1.8	How far advanced is the government in tackling public- and private-sector corruption?	2023	3	1	3	1	1	2.5	2	1	1	3	2	0
		2020	3	1	3	1	1	3	2	0	1	3	2	0
1.9	To what extent has the government sought to achieve and maintain high standards of civil service ethics and accountability?	2023	4	1	2.5	2	1	4	5	1	1	3	4	1
		2020	4	1	3	2	1	4	5	1	1	3	4	1
1.10	To what extent is the judiciary able to act independently of government, and is also perceived as unbiased and clean in relation to company and securities cases?	2023	5	1	4	5	1	3	2	1	1	4	4	0
		2020	5	1	5	2	1	4	2	1	1	5	4	0
1.11	To what extent is the judiciary adequately resourced and skilled in handling company law and securities cases?	2023	5	2.5	4.5	3	1	3.5	3	2.5	2	5	3.5	2
		2020	5	2	5	3	1	4	3	3	2	5	3	2
1.12	Does the legal system allow minority shareholders and other stakeholders fair and efficient access to courts to settle disputes? (ie, in terms of the cost of going to court and the range of legal remedies available).	2023	3.5	3	0.5	2	1	3	2	1	2	1	3	2
		2020	4	3	1	2	1	3	2	1	1	1	3	2
1.13	Does the government follow best practice standards as regards listed SOE governance? (ie, it requires them to follow the same governance standards as private-sector issuers, refrains from interfering in their governance, and so on)	2023	na	3	3	2	1	3	2	2	1	4	4	2
		2020	na	3	3	2	1	3	2	1	1	4	4	2
	2023 category score (out of 65)		42.5	20.5	36	29	21	39.5	33.5	24	19	36.5	43.5	23
	Category percentage (rounded)		71	32	55	45	32	61	52	37	29	56	67	35
	Rank		1	10	5	7	11	3	6	8	12	4	2	9

Source: ACGA

2. Regulators

No.	Funding, Capacity Building, Regulatory Reform	Year	AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
2.1	Is the securities commission sufficiently resourced in terms of funding and skilled staff to carry out its regulatory objectives?	2023	4	1	4	3	2	4	4	4	1	2.5	3	3.5
		2020	4	1	5	3	2	4	4	3	1	2	4	4
2.2	To what extent has the securities commission been investing in surveillance, investigation and enforcement capacity and technology over the past two years?	2023	4	4	4	4	2	3	3.5	3	0	2.5	2.5	3.5
		2020	4	4	4	3	2	3	3	3	0	2	3	4
2.3	Is the stock exchange (or exchanges) sufficiently resourced in terms of funding and skilled staff to carry out enforcement of the listing rules?	2023	2.5	1	3	2	2	4	1	3.5	2	4	3	3
		2020	3	1	3	2	2	4	1	3	2	4	3	3
2.4	To what extent has the stock exchange been investing in surveillance, investigation and enforcement capacity and technology over the past two years?	2023	2	1	1	2	1	2.5	1	2	1	3	2.5	2
		2020	1	1	1	2	1	2	1	3	1	3	3	2
2.5	Has the government and/or securities commission been modernising legislation over the past two years to improve corporate governance and address relevant local CG problems?	2023	3	1.5	1	4	2	4.5	4	1	3	3	4	2
		2020	3	1	2	3	2	3	4	1	4	3	5	2
2.6	Has the stock exchange been modernising its listing rules and best-practice codes over the past two years to improve corporate governance?	2023	2	3.5	2.5	1	0	4	3.5	4	2	3	4	2
		2020	3	2	4	1	0	3	2	3	2	4	5	2
2.7	Do financial regulators (securities commissions and stock exchanges) undertake public and written market consultations prior to major rule changes?	2023	5	1	4	0.5	1	3.5	1	3.5	1	3	2	2
		2020	5	1	5	2	1	2	1	3	1	3	2	2
2.8	Do the securities commission and stock exchange have informative websites with English translations of all key laws, rules and regulations easily accessible?	2023	5	4	5	5	2	3	3	5	3	5	3.5	5
		2020	5	5	5	5	1	4	3	5	3	5	3	5
2.9	Does the stock exchange provide an efficient, extensive and historical online database of issuer announcements, notices, circulars and reports archived for at least 15 years and in English?	2023	5	4	5	2	3	2.5	2.5	5	1	4	3	2
		2020	5	4	5	2	3	1	2	5	1	4	1	2
2.10	Has the stock exchange or another organisation developed an open electronic voting platform ("straight through processing") for investors?	2023	0	3	0	5	4	5	4.5	0	0	0	5	0
		2020	0	3	0	5	3	5	4	0	0	0	5	0
2.11	To what extent does the current IPO listing regime (including rules, guidance, support of investment bank sponsors) prepare companies to implement an effective and meaningful corporate governance system prior to listing?	2023	1	0	0	0	0	1	0	0	0	1	1	0
		2020	1	0	0	0	0	1	0	0	0	1	0	0
	2023 sub-category score (out of 55)		33.5	24	29.5	28.5	19	37	28	31	14	31	33.5	25
	Percentage (rounded)		61	44	54	52	35	67	51	56	25	56	61	45
	Rank		2	10	6	7	11	1	8	4	12	4	2	9
Enforcement														
2.12	Do financial regulators in your market have a reputation for vigorously and consistently enforcing securities laws and regulations?	2023	3	3	3	2	1	2.5	3	2.5	1	2.5	3.5	2
		2020	3	2	3	2	1	2	3	2	1	3	3	2
2.13	Have their efforts improved and evolved over the past two years?	2023	4.5	4	3	3	1	3	4	2	1	4	4	3
		2020	4	3	3	3	1	3	4	1	1	4	3	3
2.14	Does the securities commission have robust powers of surveillance, investigation, sanction, and compensation?	2023	5	4	5	5	1	3	4	5	2	5	5	4
		2020	5	4	5	5	1	3	4	5	3	5	5	5
2.15	Have the government and its law enforcement agencies had a successful track record prosecuting all forms of market misconduct over the past two years, including insider trading, market manipulation, fraud, embezzlement, and false disclosure?	2023	4	4	4	2	1	3	3	2	1	4	3	3
		2020	3	4	5	2	0	3	3	2	1	4	3	3
2.16	Does the securities commission disclose multi-year data on its enforcement activities, with explanations as to what the data means and detailed announcements on individual cases?	2023	5	4	5	4	1	3	2	5	0	3	3	3
		2020	5	4	5	4	0	4	2	3	0	3	4	3
2.17	Does the stock exchange (or related agencies) have an effective range of powers to sanction breaches of the listing rules?	2023	3.5	3	3	3	3	5	4.5	4	3	4	4.5	3
		2020	3	3	3	3	3	5	4	4	3	4	4	3
2.18	Has the stock exchange (or related agencies) had a successful track record enforcing breaches of the listing rules over the past two years?	2023	1.5	3	3	2	1	2.5	2	3	1	3	3	2
		2020	2	3	3	3	1	3	2	3	1	3	3	2
2.19	Does the stock exchange disclose detailed data on and explanations of its enforcement activities?	2023	2	4	5	1	1	3	3	4	1	3	2	2
		2020	2	4	5	1	1	3	3	3	1	2	3	2
2.20	Have the government and regulatory authorities taken steps to minimise and control conflicts of interests between the commercial and regulatory functions of the stock exchange?	2023	4	2	1	2	1	3	2	1.5	1	3	3	3
		2020	3	2	2	2	0	3	2	2	1	3	3	3
2.21	Do financial regulators receive efficient and committed support from other national enforcement agencies and institutions (ie, the police, attorney general, courts)?	2023	3.5	3.5	4	3	0	3.5	4.5	1	1	4	4	2
		2020	4	3	4	3	0	4	4	2	1	4	4	2
	2023 sub-category score (out of 50)		36	34.5	36	27	11	31.5	32	30	12	35.5	35	27
	Percentage (rounded)		72	69	72	54	22	63	64	60	24	71	70	54
	Rank		1	5	1	9	12	7	6	8	11	3	4	9
	2023 category score (out of 105)		69.5	58.5	65.5	55.5	30	68.5	60	61	26	66.5	68.5	52
	Category percentage (rounded)		66	56	62	53	29	65	57	58	25	63	65	50
	Rank		1	8	5	9	11	2	7	6	12	4	2	10

Source: ACGA

3. CG rules

			AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
3.1	Do corporate and financial reporting standards (ie, rules) compare favourably against international standards? (ie, on frequency and timeliness of reporting; robust continuous disclosure; detailed MD&A; sufficient narrative and notes to the P&L, balance sheet, cashflow; and so on)	2023	5	5	5	4	2	4.5	5	4	3	5	4.5	5
		2020	5	4	5	4	2	4	4	4	3	5	4	5
3.2	Do CG reporting standards compare favourably against international standards? (ie, requirements for a Report of the Directors; CG statements or reports; board and committee disclosure; director biographies; internal controls and audit; discussion of risk factors)	2023	4	2	4	4	2	4	3.5	4	3	3	3	5
		2020	5	2	4	4	2	3	3	4	3	3	3	5
3.3	Do ESG/sustainability reporting standards compare favourably against international standards? (ie, stock exchange ESG reporting rules; a sustainability section in the annual report; a separate GRI or TCFD Report; a company law provision that directors have a responsibility to report on environmental and social/stakeholder matters)	2023	4	2	4	4	1	4	3	4	2	5	5	5
		2020	4	2	4	2	1	3	1	4	1	5	5	5
3.4	Is quarterly reporting mandatory, is it consolidated, and does it require P&L, Balance Sheet, and Cashflow statements with an explanation of the numbers?	2023	1	4	1	3	4	5	4	5	4	1	4	5
		2020	1	4	1	3	4	5	4	5	4	1	4	5
3.5	Is timely disclosure of "substantial ownership" required (ie, when investors acquire a 5% stake or sell down below 5%) as well as "creeping" increases/decreases of one percentage point? Disclosure of any change should be within 3 business days.	2023	5	5	5	4	4.5	4	4	5	3	5	2	2
		2020	5	5	5	4	4	4	4	4	3	5	1	2
3.6	Must directors disclose on-market share transactions within three business days?	2023	3	5	5	5	3	2	3	5	3	5	5	2
		2020	3	5	5	5	2	2	3	5	3	5	5	2
3.7	Must controlling shareholders disclose share pledges in a timely manner?	2023	2	5	5	2	1	3	4.5	0	2	3	3	0
		2020	2	5	5	3	1	3	0	0	0	3	4	0
3.8	Is there a closed period (a "blackout") of at least 60 days before the release of annual results and at least 30 days before interim/quarterly results during which directors cannot trade their shares?	2023	5	3	5	5	1	3	1	2	3	5	1.5	1
		2020	5	3	5	5	0	2	0	2	3	5	0	0
3.9	Are there clear rules on the prompt disclosure of price-sensitive information?	2023	5	4	5	4	3	4.5	4	5	5	5	5	4
		2020	5	4	5	4	2	4	4	4	5	5	5	4
3.10	Are there clear rules on the timely and meaningful disclosure of related-party transactions, calibrated for the size/materiality of transactions, and that allow minority shareholders to approve major RPTs?	2023	4	3.5	5	3	0	3	3	5	1	5	2	5
		2020	4	4	5	3	0	3	3	5	1	5	1	5
3.11	Are there clear rules prohibiting insider trading, with strong deterrent penalties?	2023	3.5	4.5	5	3	1	3.5	4.5	5	2	5	3.5	4
		2020	4	4	5	3	0	3	4	5	2	5	3	5
3.12	Is voting by poll mandatory for all resolutions at general meetings, followed by disclosure of results within one day?	2023	4.5	4	4	4	1	3.5	1	5	1	5	4.5	5
		2020	4	4	4	3	1	3	1	4	1	5	4	5
3.13	Is there an up-to-date national code of best practice - and accompanying guidance documents - that takes note of evolving international CG standards and is fit for purpose locally (ie, addresses fundamental CG problems in the domestic market)?	2023	4.5	2.5	3	3	2	4.5	4	4	2.5	3	4	4
		2020	5	3	3	3	2	4	3	4	3	3	4	5
3.14	Is there a stewardship code (or codes) for institutional investors based on the "comply or explain" standard and that seeks investor signatories?	2023	5	0	1.5	5	0	5	4	5	0	2	4.5	5
		2020	5	0	2	4	0	5	5	4	0	1	4	5
3.15	Is there a clear and robust definition of "independent director" in the code or listing rules? (ie, one stating independent directors should be independent of both management <u>and</u> the controlling shareholder; that does not allow former senior executives or former professional advisors/auditors to become independent directors after short "cooling-off" periods, nor people with business relationships)	2023	3	2	2	2	2	3.5	3	3	2	3	3	2
		2020	3	2	2	2	2	3	3	3	2	3	3	2
3.16	Must companies disclose the exact remuneration of individual directors and at least the top five key management personnel (KMP) by name?	2023	5	3	4	4	2	2	2	3	1	3	2	4
		2020	5	3	4	4	2	1	3	3	1	2	2	4
3.17	Are fully independent audit committees mandatory and given broad powers to review financial reporting, internal controls and risk management, and communicate independently with both the external and internal auditor?	2023	4.5	3	4	4	2	2.5	4	4	2	4	3	4
		2020	4	3	4	3	1	2	4	4	2	4	3	4
3.18	Are largely independent nomination committees mandatory and given broad powers to nominate directors?	2023	4	2	2.5	4	2	2	3	4	1	4	2	4
		2020	4	2	2	4	2	1	3	4	1	4	2	4
3.19	Can minority shareholders easily nominate directors?	2023	5	2	2	4	2	5	5	3	2	3	5	3
		2020	4	2	2	4	2	3	5	3	2	3	5	3
3.20	Is there a statutory or regulatory requirement that directors convicted of fraud or other serious corporate crimes must resign - or are removed from - their positions on boards and in management?	2023	5	4	3	3	3	4	2.5	5	5	5	3	5
		2020	5	4	3	3	3	4	1	5	5	5	3	5
3.21	Are pre-emption rights for minority shareholders - their right to buy any new shares issued by the company on a pro-rata basis - firmly protected? (ie, new shares issued for cash must keep to strict caps of no more than 5-10% of issued capital and a 5-10% discount to the current share price; shareholders can approve the extension of such placement mandates at each AGM; and/or measures have been introduced to allow for much faster rights issues)	2023	4	1	2	1	2	1	1.5	3	1	3	1.5	2
		2020	3	1	2	1	2	1	1	3	1	3	2	2
3.22	Must companies release their AGM proxy materials (with final agendas and an explanatory circular) at least 28 calendar days before the date of the meeting?	2023	5	3	4	4	3	2	3	4	4	2	5	4
		2020	5	3	4	4	3	2	3	4	3	2	3	4
3.23	Are there clear and robust rules for the protection of minority shareholders during takeovers and voluntary delistings (taking companies private)?	2023	4	3	4	3	1	2.5	2	3	2	4	4	5
		2020	3	3	4	3	1	2	2	4	2	4	4	5
3.24	Are institutional shareholders free to undertake collective engagement activities without an undue burden from concert-party rules?	2023	5	3	5	5	3	2	3	5	3	4	5	5
		2020	5	3	5	5	3	2	3	5	3	4	5	5
	2023 category score (out of 120)		100	75.5	90	87	47.5	80	77.5	95	57.5	92	85	90
	Category percentage (rounded)		83	63	75	73	40	67	65	79	48	77	71	75
	Rank		1	10	4	6	12	8	9	2	11	3	7	4

Source: ACGA

4. Listed companies

		AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
4.1	Does the company's board governance reporting compare favourably against international best practice?	2	2.5	2	2.5	1	2	2	2	2.5	2	2	1
4.2	How would you rate the quality of the company's ESG/sustainability reporting?	3.5	1	3	3	1.5	3	4	2.5	3	3	4.5	1.5
4.3	Does the company provide comprehensive, timely and quick access to information for investors?	4	2	2.5	4	3.5	3	2.5	4	3.5	3	4	4
4.4	Does the company undertake annual board evaluations, either internally or using external consultants?	2	0	1	2.5	2	2.5	1	3	2	2.5	3.5	1.5
4.5	Does the company disclose and implement a credible board diversity policy?	3.5	0.5	1	1.5	0.5	1.5	1	2	1.5	1.5	3	1
4.6	Does the company provide induction and/or ongoing training to all directors?	3.5	1	2	4	2.5	1.5	1.5	4	3	2	3	2
4.7	Does the company have an independent chairman and/or a lead or senior independent director?	5	0	1.5	2	1.5	0.5	3	3.5	0	4	0	1
4.8	Does the company disclose total remuneration of each member of the board of directors?	5	4	4.5	4.5	0.5	2.5	1	5	1	3	2.5	4.5
4.9	Are the independent directors paid partly or wholly in stock options or restricted share awards? OR: Do they share in a percentage of company earnings or other commissions in addition to their base fee? (Note: We largely deduct scores for this type of compensation, which we consider creates potential conflicts of interest for INEDs. We give higher points where such compensation is not provided.)	5	5	4.5	1.5	1.5	5	4	2.5	4.5	4.5	4	5
4.10	Are audit committees (or an equivalent) independently led and competent in financial reporting/ accounting matters?	5	3.5	4.5	4	4.5	2.5	3.5	4.5	3.5	4.5	4	4
4.11	Does the company have an internal audit department that reports to the audit committee?	3	3	3	4	1.5	2.5	3.5	3.5	3.5	3.5	4	3.5
4.12	Does the company provide a detailed explanation of its executive remuneration policies?	5	0.5	2	2.5	1	3.5	2	2	1.5	2.5	2	2
4.13	Does the company have a nomination committee and is it independently led?	4.5	3.5	3	4.5	2.5	3	3.5	4.5	2	3	1.5	3.5
4.14	Does the nomination committee have a female chair or at least one female director?	2.5	0.5	2.5	1.5	1	1.5	1.5	3	2	1.5	0.5	1.5
	2023 category score (out of 70)	53.5	27	37	42	25	34.5	34	46	33.5	40.5	38.5	36
	Category percentage (rounded)	76	39	53	60	36	49	49	66	48	58	55	51
	Rank	1	11	6	3	12	8	8	2	10	4	5	7

Note: 2020 scores not provided as the company survey substantially changed. Source: ACGA

5. Investors

			AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
5.1	Are domestic institutional investors (asset owners and managers) working to promote better corporate governance in your market through publicly announced policies on CG, ESG, voting or stewardship?	2023	4.5	1	1.5	4.5	0	3.5	3	2	1	1	3	3
		2020	4	1	2	5	0	4	3	2	1	1	3	3
5.2	Are foreign/international institutional investors (asset owners and managers) working to promote better corporate governance in your market through publicly announced policies on CG, ESG, voting or stewardship?	2023	3	2	4	2	1	4.5	3	2	1	4	3	3
		2020	3	2	5	2	1	4	3	2	1	4	3	3
5.3	Do a majority of domestic institutional investors exercise their voting rights, including voting against resolutions with which they disagree?	2023	5	2	2.5	4	2	5	4	3	2	1	2.5	3
		2020	5	1	2	4	1	5	3	2	1	1	3	3
5.4	Do a majority of foreign/international institutional investors exercise their voting rights, including voting against resolutions with which they disagree?	2023	5	3	5	4	3	5	5	3	3	4	4	3
		2020	5	3	5	4	3	5	5	3	3	5	5	3
5.5	Do domestic institutional investors actively participate in annual general meetings?	2023	0.5	1	1	1	1	1	1.5	2	2	1	2	1
		2020	1	1	1	1	2	1	1	2	2	1	2	1
5.6	Do foreign institutional investors actively participate in annual general meetings?	2023	0	0	1	0.5	1	1.5	1.5	1	1	1	0	1
		2020	0	0	1	1	2	1	1	1	1	1	1	1
5.7	Do activist funds exist that seek to address specific company issues or transactions?	2023	2	0	1	1.5	1	5	4	1	0	1	1	0
		2020	2	0	2	1	1	5	3	1	0	0	0	0
5.8	Do domestic asset owners (in particular state pension and investment funds) play a leadership role in prompting responsible investment and investor stewardship?	2023	5	1	1	1	0	3.5	3	3	0	1	0	1
		2020	5	1	1	1	0	3	3	3	0	1	2	2
5.9	To what extent do domestic institutional investors engage in regular individual or collective engagement with listed companies?	2023	4.5	1	1	3	1	2.5	2.5	3	1	1	2.5	2
		2020	5	0	1	3	0	3	2	4	0	1	2	2
5.10	To what extent do foreign/international institutional investors engage in regular individual or collective engagement with listed companies?	2023	2.5	1.5	3	2.5	2	3	3	2	2	3	1.5	1
		2020	3	1	3	2	2	2	3	2	2	3	2	1
5.11	Are domestic investors effectively disclosing how they manage institutional conflicts of interest?	2023	3	0	2	2	2	3.5	0	2	1	1	1	2
		2020	3	0	2	2	2	3	1	2	1	1	0	2
5.12	Do domestic institutional investors disclose voting down to the company level, and give substantive reasons for voting Against?	2023	3	0	0	4.5	0	4	4.5	0	0	0	1	4
		2020	3	0	0	5	0	4	5	0	0	0	0	5
5.13	Do any proxy advisory services operate locally?	2023	5	2.5	0	5	0	4	3.5	3	0	1.5	0	0
		2020	5	2	0	5	0	4	3	4	0	3	0	1
5.14	Do retail shareholders see the annual general meeting as an opportunity to engage with companies, ask substantive questions, and put forward shareholder proposals?	2023	4	1	2	1	2	3.5	1.5	4	2	4	3.5	2
		2020	4	1	2	1	2	3	1	3	2	4	3	2
5.15	Have retail shareholders formed their own (ie, self-funded) associations to promote improved corporate governance?	2023	5	0	0	1	0	0	3	2	3	4	0	2
		2020	5	0	0	1	0	0	0	3	3	4	0	3
5.16	Do retail shareholders or individuals launch public activist campaigns against errant directors or companies?	2023	4	0	2	1	0	3.5	2.5	3	1	5	4	1
		2020	3	1	3	1	0	3	1	2	1	5	3	1
5.17	Do retail shareholders (or government agencies acting on their behalf) undertake lawsuits against errant directors or companies?	2023	3	2.5	1	1	1	2.5	2	0	1	0	5	1
		2020	3	2	1	1	1	3	2	0	1	0	5	1
	2023 category score (out of 85)		59	18.5	28	39.5	17	55.5	47.5	36	21	33.5	34	30
	Category percentage (rounded)		69	22	33	46	20	65	56	42	25	39	40	35
	Rank		1	11	9	4	12	2	3	5	10	7	6	8

Source: ACGA

6. Auditors & audit regulators

			AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
6.1	Are local accounting standards for listed companies fully converged with International Financial Reporting Standards (IFRS)?	2023	5	4	5	3	4	4.5	5	5	5	5	5	5
		2020	5	4	5	3	3	4	5	5	4	5	5	5
6.2	Are local auditing standards for listed companies fully converged with International Standards on Auditing (ISAs)?	2023	5	3	5	4	4	5	4	5	5	4.5	4.5	5
		2020	5	3	5	3	3	4	4	5	4	4	4	5
6.3	Has the government or accounting regulator enacted effective rules on the independence of external auditors? (eg, by introducing limits on the non-audit work that external auditors can do; requirements for audit-partner rotation; whistleblower protection for auditors; a positive duty for auditors to report fraud; and so on)	2023	4	2	4	3	4	4.5	4	4	3	4	3.5	4
		2020	5	2	4	2	3	4	3	5	3	4	3	4
6.4	Is disclosure of audit and non-audit fees paid to the external auditor required, with accompanying commentary sufficient to make clear what the non-audit work is?	2023	5	2	4	4	3	4.5	5	4	5	4	5	5
		2020	5	2	5	4	3	4	5	4	5	4	4	5
6.5	Are extended auditor reports focussing on "key audit matters" (KAMs) required?	2023	5	5	5	5	2.5	2.5	5	5	5	5	5	5
		2020	5	5	5	4	0	2	4	5	5	5	5	5
6.6	Has the government established an independent audit oversight board (AOB) with clear and independent powers of registration, inspection, investigation, sanction (over both auditors and audit firms), and standard setting?	2023	3.5	3	4	3.5	3	4	4	5	2	3.5	4.5	4
		2020	4	0	3	3	3	3	3	4	2	3	5	4
6.7	Does the audit regulator exercise effective and independent disciplinary control over the audit profession?	2023	3	2.5	3	4	3	3.5	4	4	2	2	3.5	2
		2020	3	1	3	3	4	3	3	3	2	2	3	2
6.8	Does the audit regulator disclose its enforcement work and other activities on a timely and detailed basis?	2023	4.5	2	5	3	3	4.5	2	5	1	3.5	3	2
		2020	5	2	5	3	3	5	2	5	1	4	2	2
6.9	Does the audit regulator publish a detailed report on its inspection programme, audit quality, and audit industry capacity (ie, the level of skills and experience in the CPA profession) every one to two years?	2023	4	1	4	3	3	4.5	1	5	1	5	4	4
		2020	5	1	4	2	2	5	1	5	1	5	3	4
6.10	Does the audit regulator proactively seek to promote capacity, quality and governance improvements within audit firms? (This could include, among other things, requiring firms to meet a set of "audit quality indicators". Or creating an "audit firm governance code". Or pushing small firms to consolidate.)	2023	2	0	2	2	3	4	2.5	4	2	5	3.5	3.5
		2020	2	0	2	1	3	4	3	4	1	5	3	3
	2023 category score (out of 50)		41	24.5	41	34.5	32.5	41.5	36.5	46	31	41.5	41.5	39.5
	Category percentage (rounded)		82	49	82	69	65	83	73	92	62	83	83	79
	Rank		5	12	5	9	10	2	8	1	11	2	2	7

Source: ACGA

7. Civil society & media

			AU	CH	HK	IN	ID	JP	KR	ML	PH	SG	TW	TH
7.1	Is there a high quality provision of director training in the market, particularly through an institute of directors?	2023	5	2.5	5	3.5	4	5	0	5	4	5	4	5
		2020	5	2	4	3	3	5	0	4	4	5	3	5
7.2	Is there an institute of company secretaries (or equivalent) actively engaged in company secretarial training?	2023	5	1	4.5	5	4	1	1	5	0	4	1	4
		2020	5	1	4	5	4	1	0	5	0	4	2	5
7.3	Are other professional associations - of accountants, financial analysts and so on - helping to raise awareness of good corporate governance and ESG?	2023	4	1	2.5	3.5	2	3	1.5	2	2	3	3.5	0
		2020	4	2	3	3	1	3	1	1	2	3	2	0
7.4	Are business associations - chambers of commerce, business federations and investment industry bodies - working with their members to improve corporate governance and ESG?	2023	2.5	1	0.5	3.5	1	1.5	1	0	1	2	2.5	3
		2020	2	0	1	3	1	1	0	0	1	2	3	4
7.5	Are other non-profit organisations working to raise standards of corporate governance and ESG?	2023	5	1	2	4.5	2	4	5	2	1	1	4	1
		2020	5	0	3	5	2	5	5	3	2	1	5	1
7.6	Are these groups also involved in public policy discussions and consultations with a view to improving corporate governance and ESG?	2023	4	0	3.5	3.5	2	3	4	2	2	3	2	3
		2020	4	0	5	5	2	3	4	2	2	3	3	3
7.7	Are professional associations and academic organisations carrying out original and credible research on local CG practices?	2023	5	2	1.5	4	2	4.5	4	2	1	4	3.5	1
		2020	5	2	3	5	2	4	4	1	1	4	3	1
7.8	Is the media able to actively and impartially report on corporate governance policy developments and corporate abuses?	2023	3	1	1	3.5	2	4	2	3	2	3	4	2
		2020	3	1	2	4	1	3	1	2	2	3	4	2
7.9	Is the media sufficiently skilled at reporting on corporate governance?	2023	3.5	2	2	2.5	1	3.5	1	3	2	4	3.5	1.5
		2020	3	2	2	2	1	3	1	2	2	4	3	1
	2023 category score (out of 45)		37	11.5	22.5	33.5	20	29.5	19.5	24	15	29	28	20.5
	Category percentage (rounded)		82	26	50	74	44	66	43	53	33	64	62	46
	Rank		1	12	7	2	9	3	10	6	11	4	5	8

Source: ACGA

Companies mentioned

Align Partners (N-R)
ANDA Asset Management (N-R)
APG (N-R)
Cheil Industries (N-R)
City of London Investment Management (N-R)
Daishin Economic Research Institute (N-R)
Daishin Securities (N-R)
Dongkuk Steel (N-R)
Flashlight Capital Partners (N-R)
Hana Financial (086790 KS - ₩62,300 - BUY)
Hannuri (N-R)
Hybe (352820 KS - ₩203,500 - U-PF)
Hyundai Development Company (N-R)
Hyundai Motor (005380 KS - ₩265,500 - O-PF)
Insightia (N-R)
Kakao (035720 KS - ₩45,850 - BUY)
Kakao Entertainment Corporation (N-R)
KB Financial (105560 KS - ₩76,300 - BUY)
KB Kookmin Bank (N-R)
KCGS (N-R)
Kia (000270 KS - ₩122,500 - BUY)
Korea ESG Research Institute (N-R)
Korea Times (N-R)
KT (030200 KS - ₩36,600 - N-R)
KT&G (033780 KS - ₩83,500 - BUY)
LG (003550 KS - ₩79,900 - BUY)
LG Chem (051910 KS - ₩396,500 - BUY)
LIG (N-R)
Lotte Group (N-R)
Meritz Financial (138040 KS - ₩76,700 - BUY)
NPS (N-R)
One Asia Investment Partners (N-R)
POSCO (N-R)
Samsung C&T (028260 KS - ₩141,100 - BUY)
Samsung Electronics (005930 KS - ₩77,200 - BUY)
Samsung F&M (000810 KS - ₩342,000 - BUY)
SER (N-R)
Shinhan (055550 KS - ₩47,000 - BUY)
SK (034730 KS - ₩150,300 - O-PF)
SK Bioscience (302440 KS - ₩51,700 - SELL)
SK Chemicals (N-R)
SK Square (402340 KS - ₩84,800 - BUY)
SM Entertainment (041510 KS - ₩95,800 - N-R)
STX Group (N-R)
Sustinvest (N-R)
The Korea Economic Daily (N-R)
Whitebox Advisors (N-R)
Woori Financial (316140 KS - ₩14,350 - BUY)

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