



28 February 2014

To: APG Asset Management
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Hong Kong

Attn

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Address:

Re: Issues of Approving Financial Statements at Annual General Meetings

Dear ,

We are writing on behalf of the undersigned institutional investors and the Asian Corporate Governance Association (ACGA). As longstanding investors and members of ACGA, an independent membership association and governance-related policy advisor in Asia including Korea, we firmly believe that good corporate governance is crucial to the long-term success and economic value of companies. With this in mind, we wish to express our concerns on the financial statements that shareholders are asked to approve at annual general meetings (AGMs) in Korea.

Approval of financial statements is typically the first item in an AGM agenda in Korea. It is a statutory requirement to submit AGM-approved financials to the regulator no later than 90 days after the end of a company's fiscal year. Companies usually notify shareholders about the AGM agenda two weeks before the meeting (some do it earlier) and most shareholders, especially foreign institutional investors, exercise their votes in the form of proxies based on the information included in the AGM notice.

A governance issue arises because auditors typically do not officially finalise their work until a statutory deadline set at 'no later than one week before AGM'. It is often the case, therefore, that the summary financials included in the AGM Notice are neither final, nor confirmed as final, and no final auditor's opinion is attached. This means that shareholders are being asked to approve draft financial statements without any knowledge of the auditor's opinion. This practice deviates significantly from both good corporate governance principles and globally recognised voting norms. Some global investors have already started declining the approval of Korean financial statements as they must adhere to their own globally applicable proxy voting policies.

One could argue that since audited financial statements are made available one week before AGM, shareholders should still be able to correct their votes if the final numbers are different from those in the draft and/or the auditor's opinion turns out to be negative. Technically speaking, there are a couple of ways that shareholders could change their votes, including: 1) reprocessing the proxy voting procedure through custodian banks; and 2) participating in AGMs in person to correct their earlier votes. However, for practical reasons, the first option is not feasible due to a tight cut-off time for proxy submission set by the regulators in Korea. The second option is also extremely challenging for foreign investors due to distance and the time required, particularly in light of the peak AGM seasons in other markets.

We acknowledge that this issue is partly the result of conflicts in the deadlines set by the Commercial Law in relation to financial reporting, auditing and AGMs. Therefore, some of us have individually and collectively engaged the relevant authorities such as the Financial Supervisory Service and Korea Exchange to voice our concerns, and such efforts will continue going forward. The core issues are:

- How to re-align the procedures relating to financial reporting, auditing and AGM in accordance with globally recognised norms?
- Whether or not companies, auditors, and shareholders have sufficient time to carry out their respective duties and responsibilities?
- Whether or not there exists any room for improvement in the current procedures required by various regulations, which work as an impediment to effective and efficient reporting, auditing and dialogue with shareholders (including around AGMs)?

Since changes in law and regulation take time, we respectfully urge XXX Corporation to work with us in finding solutions to this issue. One interim idea is that companies could, when sending out their AGM notices, provide shareholders with an auditor's statement that: 1) confirms the financial numbers included in the AGM notice are final; and 2) contains the auditor's official opinion on the financial statements. We look forward to hearing your views on these proposals and welcome any other suggestions you may have.

We would appreciate an opportunity to discuss this issue with you in person in the near future. Please contact Ms. Y.K. Park at APG (yk.park@apg-am.hk or 852-3769 0339) or Mr. Jamie Allen at ACGA (jamie@acga-asia.org or 852-2160 1789).

Sincerely yours,

Jamie Allen
Secretary General

Yoo-Kyung Park
Director, Sustainability &
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**Asian Corporate Governance
Association**



**APG Asset Management
Asia**

