

KRX's COP Report [2016]

Communication On Progress
(Jan.1, 2016 - Dec.31, 2016)

Feb. 2017



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I . CEO Message

Dear valued stakeholders,

Since the establishment of Korea's first-ever securities market in 1956, the Korea Exchange (KRX) has made strong efforts to develop it further into a "comprehensive capital market" where approximately KRW 60 trillion of various financial instruments such as stocks, bonds and derivatives are being traded on a daily average despite the hardships experienced so far.

As a member of society, the KRX conducts a series of activities to share such successful outcome that has resulted from the growth of the capital market. Particularly, since 2011, the KRX has been a member of the UN Global Compact, which is an international initiative for sustainable management, and has been supporting and complying with 10 core principles related to human rights, labour, environment and anti-corruption accordingly.

The KRX now submits this COP Report containing our performance delivered over the past one year with respect to these principles. The KRX will do its utmost to adhere to the principles and perform its social responsibilities.

Your continued interest and support will be highly appreciated.

Thank you.

Chan Woo Jeong
Chairman & CEO

II. Introduction of Korea Exchange

1. Purpose and History

1) Purpose

The KRX was established on Jan. 27, 2005 through the integration of four institutions such as the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ committee and the KOSDAQ stock market in order to form a fair price for the securities and derivatives markets and seek stability and efficiency in other types of trading.

The KRX, as a comprehensive exchange for various financial products, is playing a key role for the capital market of Korea, provides tools for asset management for investors via financial investments and also serves as a channel for supplying the industrial capital needed for the business management of corporations.

< Key Matters >

	Detail
Trade Name	Korea Exchange
Representative	Jeong, Chan Woo
Date of Establishment	Jan. 27, 2005
Ground for Permit	Part 7 of the Financial Investment Services and Capital Market Act
Vision	Financial innovation platform for adding value to the world
Key Value	Confidence, Communication, Challenge
Headcount	778
Head Office	Busan International Finance Center (BIFC) 40, Munhyeongeumyung-ro, Nam-gu, Busan, Korea
Seoul Office	76, Yeouinaru-ro, Yeongdeungpo-gu, Seoul, Korea

2) Brief History

	Event
Feb. 1956	Korea Stock Exchange (KSE) established
May. 1996	Launched the Stock Index Futures Market
May. 1996	Established the KOSDAQ Market
July. 1997	Launched the Stock Index Options Market
Feb. 1999	Korea Futures Exchange (KOFEX) established
Sep. 1999	Listed the Korea Treasury bond futures on the KOFEX
Jan. 2002	Launched the equity options market
Jan. 2005	Korea Securities and Futures Exchange established
May 2006	Commenced the trading of currency futures (Yen, Euro)
Aug. 2007	Listed the first foreign company
Feb. 2009	Enacted the Financial Investment Services and Capital Market Act
Feb. 2009	Changed the trade name (Korea Securities and Futures Exchange → Korea Exchange)
Nov. 2009	Launched KOSPI200 futures global market with CME
Aug. 2010	Launched the Night-time Trading of KOSPI200 Options on Eurex
Jan. 2011	Launched the Lao Securities Exchange (KRX holds a 49% stake)
Mar. 2012	Launched the Petroleum Market
Apr. 2012	Launched the Cambodia Securities Exchange (KRX holds a 45% stake)
July. 2013	Launched the KONEX Market
Mar. 2014	Launched the gold spot market
June. 2014	Commenced the mandatory clearing of OTC derivatives
Nov. 2014	Opened the Exchange Traded Notes (ETN) market
Jan. 2015	Launched emissions trading market
Aug. 2015	Opened stock futures market for KOSDAQ stocks
Nov. 2016	Opened the KRX Startup Market (KSM)

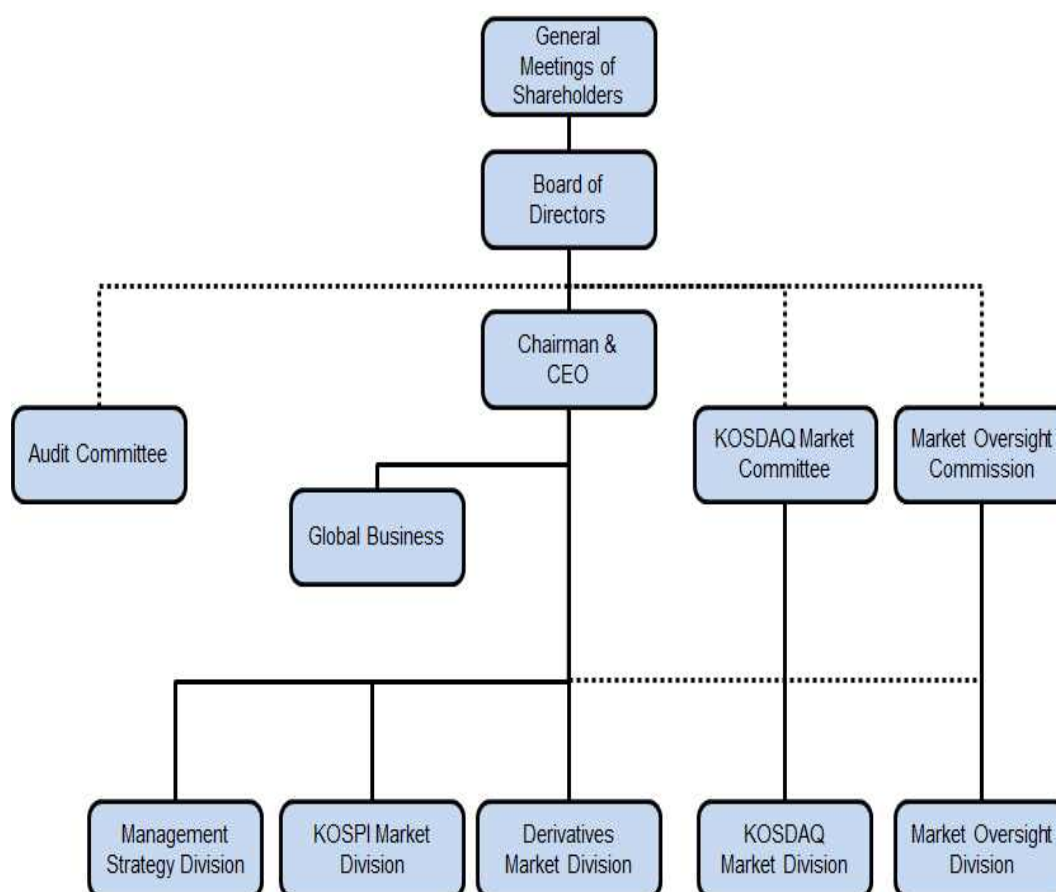
2. Business and Organization

1) Business Areas

- Businesses related to the establishment and operation of the KOSPI Market, KOSDAQ Market, KONEX Market and Derivatives Market (hereinafter referred to as “the Markets”);
- Businesses related to the trading of securities and exchange-traded derivatives products;
- Businesses related to the clearing and settlement subsequent to the trading of securities and derivatives products listed on KRX Market;
- Business related to the verification, clearing and settlement of derivatives traded in OTC markets (hereinafter referred to as the “OTC derivatives”);
- Business related to the listing of securities;
- Business related to the determination of transaction types and product groups of exchange-traded derivatives products;
- Businesses related to the reporting and disclosure by the listed corporations;
- Businesses related to the market surveillance, investigation into abnormal trading and supervision of members;
- Businesses related to the auctioning of securities;
- Businesses related to the mediation of disputes arising from the trading in the KOSPI Market, KOSDAQ Market, KONEX Market and Derivatives Market (only in the case where there is a request from the concerned parties);
- Businesses related to the dissemination and vending of Market data and information;
- Business related to the development, calculation and sales of various indices;
- Businesses related to the development and operation of computer systems in connection with the operation of the Markets;

- Businesses related to the leasing of real estates and computer facilities;
- Business related to the entering into cooperation, linkage and alliance with the foreign exchanges (including their holding company: the same hereinafter) and foreign organizations dealing with the securities and derivatives;
- Business related to the system export and provision of advisory services to the foreign exchanges and organizations dealing with the securities and derivatives;
- Business related to the introduction and operation of spot electronic trading of petroleum;
- Business related to the establishment and operation of the gold spot market;
- Business related to the establishment and operation of the emission trading market;
- Business related to the provision of order information and the operation of information and communications networks in relation to the OTC transaction of securities of the person, etc. who have issued securities through the brokerage of online small investments (hereinafter referred to as the “crowdfunding company”).
- Business related to the support for the moderation of mergers and acquisitions of small-medium enterprises and venture businesses, etc.
- Other business delegated pursuant to the laws and subordinate statutes; and
- Any other businesses incidental to the businesses stipulated above

2) Organization Chart



* As of the end of December 2016

III. Outcome of Compliance with the 10 Principles

< The 10 Principles of the UN Global Compact>

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

1. Human Rights

The KRX respects and supports various human rights declarations and policies to realize the universal values of protection and respect of human rights. Particularly, the KRX conducts various activities in order to protect and respect the human rights of entire stakeholders including not only its executive and employees but also capital market participants who use its services.

To protect the human rights of executives and employees, the KRX set up a dedicated organization for improving its overall organizational culture and is making enterprise-wide efforts accordingly. This is expected to contribute to improving the human rights of executive and employees given the direct impact on satisfying a high-level and fundamental desires and need for presence of each individual such as pride in business and organization and also love for colleagues and family. In addition, the KRX has various systems for the protection of rights and interest of executives and employees such as training on sexual harrassment prevention, employee counselling center and grievance handling committee.

Also, as an operator of the capital market, the KRX runs the dispute mediation and deliberation committee formed by experts coming from various sectors such as law, academia, securities/futures and consumer protection.

In order to boost the investment interest in listed corporations which actively undertake social responsibilities, the KRX has announced three sets of "New Social Responsibility Index (ESG) Series" since December 2015. Each index consists of 100-150 issues selected based on environment, social responsibilities, corporate governance,

etc. The Index is used as an underlying index for the index-linked products and thus contributes to the spread of social responsibility investment culture of institutional investors, etc.

The KRX also operates a public interest reporting system in order to prevent activities that infringe upon the health and safety of the public, environmental protection, interest and fair competition of consumers. In addition, the KRX cooperates with the government for its human rights policies such as the Anti-Corruption and Civil Rights Commission.

The KRX continues to push forward with the businesses regarding the financial education, human resource development, overseas cooperation and social welfare through the KRX Happy Foundation established in 2011 in order to spread the culturing of sharing and fully take social responsibilities. In the process, the KRX received the Minister of Health and Welfare Award in October last year in recognition of its contribution to the promotion of welfare for vulnerable elderly people including providing customized welfare service for the elderly.

2. Labour

The KRX complies with not only essential domestic laws and regulations such as the Constitution and Labour Standards Act, but the international pacts and guidelines related to labour and the International Labour Organization Code.

Also, the KRX has established a trusted relationship between labour and management through close cooperation in order to strongly assure the key three rights of labour such as right to organize, collective bargaining and collective action. The KRX ensures the fair trade union activities and strive for collective bargaining.

<Information on Labour Union>

Details	
Name	KRX Labour Union
Date of Establishment	July 9, 1963
No. of Union Members	621
Adoption of Work Hour Exemption System (Yes or No)	Yes
Higher Labour Union	Korean Confederation of Trade Union

The KRX strictly complies with a relevant legal framework to prohibit forced labour from occurring and has done away with the restriction on eligibility for job applicants in order to eliminate discrimination at the time of recruitment. For instance, the KRX prevents discrimination based on educational background, age, social status and region that applicants come from and offers fair recruitment opportunities for applicants.

With regards to working conditions for employees, the KRX is working to improve the quality of life of employees and create an atmosphere that encourages them to focus well on their works by operating various systems.

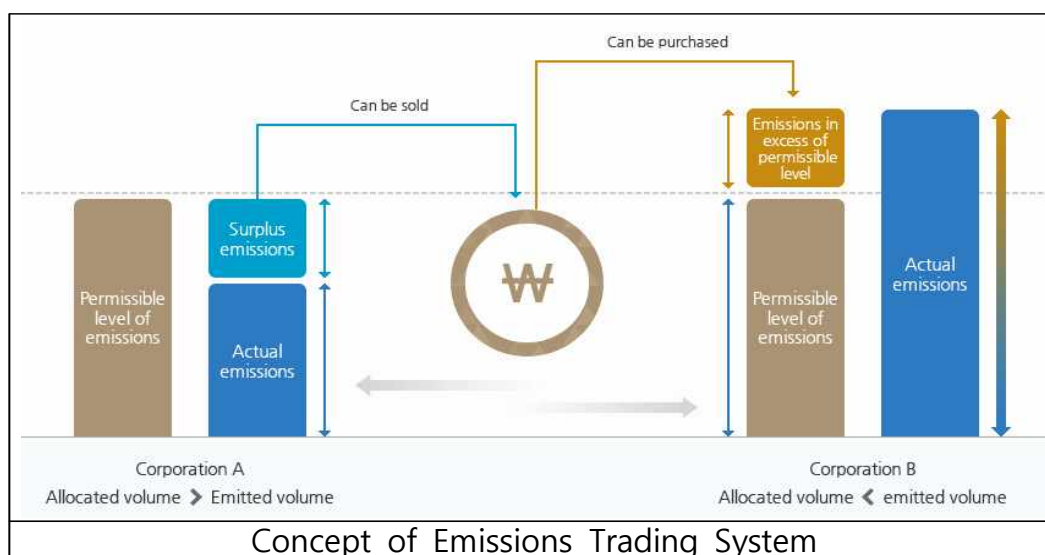
< Key Systems for Working Condition Improvement >

Details	
Family Day	To support the government's policy for work-life balance and create a family-friendly working environment, every Wednesday and Friday are designated as family days.
Flex Hours	To adjust working hours or give options to select working hours in order to suit the situation of employees (e.g. childcare, long distance commute)
Protection of Maternity	Maternity leave, leave for child caring, reduction of working hours during pregnancy, leave for medical checkup during pregnancy, reduction of working hours during childcare period
Day Care Center	To operate in-house child care center to support employees' work and childcare concurrently and reduce child-rearing burden

3. Environment

The KRX does not produce pollutants but participates in the government's policy implementation to fully undertake its social responsibilities and support sustainable growth.

Particularly, the KRX has been operating the emissions market since January 2015 to implement the emissions trading system regarding greenhouse gas which is a main culprit for climate change. As of June last year, the cumulative trading volume exceeded 3 million tons. Under the emissions trading system, on an annual basis, the government assigns the emissions permits to the workplaces which emit greenhouse gas, and each workplace assesses the actual emission volume so that it can trade with other workplaces if there is any surplus or shortage in the emissions. Accordingly, this enables to establish a sustainable growth base by ensuring the flexibility of handling surplus or deficit of emission quotas for individual businesses while complying with the full emission quota throughout the workplaces.



4. Anti-corruption

The KRX runs anti-corruption system to reinforce its employee's sense of anti-corruption and integrity. Specifically, the KRX has in place training to strengthen the ethics of executives and employees and conducts full-time monitoring and internal/external evaluation to prevent corruption from occurring.

< Key Systems for Anti-Corruption >

Details	
Integrity training according to seniority	Training for new hires and those who have been promoted
Contract conclusion for work integrity	Contracting for work integrity at the time of management performance contract conclusion for executives
Integrity evaluation for high positions	Internal evaluation for the integrity, efforts for living the value of integrity and initiatives for integrity of high position holders
Evaluation on impact of corruption	Analyzing and reviewing the factors that cause corruption at the time of making and revising internal policies
Integrity assessment of the Anti-Corruption and Civil Rights Commission	Diagnosing the level of integrity and factors that cause corruption

Particularly, in order to meet the demands from society for anti-corruption, such as the enforcement of the Improper Solicitation and Graft Act, the KRX is sparing no efforts in providing the

information and training on anti-corruption and integrity by operating an internal bulletin board called "Integrity Plaza" and reinforcing the integrity duties of executives and employees through the revision of the Code of Conduct.

As a company which actively undertakes its social responsibilities, the KRX will take the initiatives in conducting activities contributing to society by a sustainable business environment. Your strong support and interest would be highly appreciated.

Thank you.

KRX's COP Report for 2016



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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