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# KOREA CORPORATE GOVERNANCE SERVICE Communication on Engagement

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[2018.11 ~ 2020.2]

한국기업지배구조원

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**To our stakeholders:**

Founded in 2002 as a non-profit organization to help enhance the overall corporate governance environment in Korea, the Korea Corporate Governance Service (KCGS) has grown into a leading independent policy research center, ESG rating agency, and responsible investment advisor, providing reliable and unbiased insights to the market.

I am pleased to announce that the Korea Corporate Governance Service reaffirms its support to the United Nations Global Compact and its Ten Principles in the areas of Human Rights, Labour, Environment, and Anti-Corruption. This is our Communication on Engagement with the United Nations Global Compact. We welcome feedback on its contents.

In this Communication of Engagement, we describe the actions that our organization has taken to support the UN Global Compact and its Principles as suggested for an organization like ours. We also commit to sharing this information with our stakeholders using our primary channels of communication.

Sincerely yours,

Jhin-Young Shin  
President of KCGS

## 1 Purpose & Core Businesses

- ☐ KCGS aims to contribute to the sound development of the capital markets by presenting a desirable direction for sustainable growth through its research and rating activities in the area of corporate governance and social responsibility.

- ☐ **Core Business Areas**

1. Research on the institutions and systems relating to corporate governance and social responsibility
2. Identifying and recognizing the companies excellent in corporate governance and social responsibility
3. Rating corporate governance and social responsibility performance
4. Providing supports in relation to the Korea Stewardship Code
5. Evaluating and rating governance performance of the financial institutions
6. Advisory and consulting services on the matters relating to corporate governance and social responsibility
7. Proxy advisory services for institutional investors
8. Providing training for executive & staff members of listed firms
9. Publishing materials on corporate governance and social responsibility
10. Other activities necessary and incidental to the implementation of the above-listed activities

## 2 History

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- 2002. 6. Appointment of the 1st president, Gwang Sun Jung  
Established as Korea Corporate Governance Improvement Support Center
- 2003. 2. The 1st revision of the Code of Best Practices for Corporate Governance
- 2005. 4. Appointment of the 2nd president, Sang Gu Nam
- 2009. 7. Joined the UN Global Compact (UNGC) and the UN Principles for Responsible Investment (UN PRI)
- 2009. 9. Development of the SRI Index with KRX
- 2010. 6. Appointment of the 3rd president, Byung Ho Kang
- 2010. 8. Renamed as Korea Corporate Governance Service (KCGS)
- 2012. 2. Started proxy advisory service
- 2013. 6. Appointment of the 4th President, Kyung Suh Park
- 2016. 2. Launched the Voting Information Plaza (VIP) service
- 2016. 6. Appointment of the 5th president, Myeong Hyeon Cho
- 2016.12. Published Korea Stewardship Code
- 2017. 9. New Member Organizations: Korea Securities Depository and Korea Securities Finance Corp.
- 2017.12. New Member Organization: Korean Institute of Certified Public Accountants
- 2018. 9. New Member Organization: KOSCOM
- 2019. 6. Appointment of the 6th president, Jhin Young Shin

### 3 Business Areas by Division

Policy Research Division	Analysis Division		Stewardship Code (SC) Center	Business Management Team
	Analysis Team 1&3 ESG Ratings	Analysis Team 2 RI and Proxy		
Research on ESG policy and institutions	Rating listed firms' ESG performance	Proxy advisory services for general meetings of shareholders	Providing supports/advisory services for SC signatories	Planning & budgeting, establishing/revising internal rules, and external relations
Commissioned research on ESG and CSR	Assigning and announcing ESG grades	Providing supports for responsible investing	Providing supports for SC Development Council	HR, training, and internal events
Hosting public hearings and symposiums, and joining as a panelist	Revising rating models, codes of best practices, and guidelines	Offering ESG evaluation and analysis reports	Providing data relating to SC	Accounting, tax, and general affairs
Advisory for establishing and revising codes of best practices and guidelines	Providing supports for listed firms' ESG enhancement	Advisory services for the revision of internal proxy voting guidelines	Establishing and revising SC guidebook and guidelines	IT system development and maintenance

## II Key Achievements

□ Under the three mid- to long-term goals of 'enhanced service quality and expertise', 'expanded supports for ESG enhancement and SC implementation', and 'increased internal & external cooperation', KCGS has made the following achievements:

## (Goal 1) Enhanced Service Quality and Expertise

### 1 Rating listed firms' ESG and renewal of rating models

- ◆ Listed firms and financial institutions rated for their ESG performance (the widest coverage in Korea), and the rating models revised reflective of global trends, policy, and market environments

#### □ 875 listed firms\* for ESG, and 99 FIs\*\* for Governance

\* 746 firms on KOSPI and 129 on KOSDAQ

\*\* 49 on KOSPI, 2 on KOSDAQ, and 48 non-listed firms

Rating process		Rated firms finalized and preliminary research done	Rating and data validation	Feedback from firms (# and % of the firms providing feedback)	
Environmental & Social (875 firms)		June	July ~ August	September (E:116·13%, S:129·15%)	
Governance (924 firms)	non-FIs (825 firms)	March	April ~ May	June	(207·25%)
	FIs (99 firms)				(72·73%)

#### □ ESG rating models revisited and follow-up measures taken, for remedying inefficiency in the rating system and questions and for reflecting changes in policy and market environments

Category		Improvement	
Common		Inefficiency in rating system and questions tackled	
Environmental		A stronger focus on non-financial reporting and risk management	Questions reorganized from the management process perspective
Social			Increased alignment between social responsibility and firm value
Governance	non-FIs	Code of best practices for audit committee taken into account	Score deviation depending on the asset size reduced, e.g. establishment and operation of the audit committee
	FIs		Financial regulatory changes reflected, including the Act on Corporate Governance of Financial Companies, and effectiveness raised by reducing evaluation categories

## 2 Publishing reports on ESG & SC issues and their trends

- ◆ To raise the standing as a specialized ESG research center, KCGS has expanded the publication of market-leading and empirical in-depth reports.

- **KCGS is producing a variety of reports for various target readers. In addition to the periodicals, different teams have added new in-depth analysis reports based on their rating and analysis activities.\***

\* Issue Paper(Analysis Team 1&3), KCGS Policy Research(Policy Research Division), Governance Analysis Report(Analysis Team 3), Governance Watch(a RI Report, Analysis Team 2)

Name of report	Publishing team	Purpose and theme	Target reader	# of reports produced in 2019
KCGS Report	Editorial Board (Analysis Team 1·2·3, and SC Center)	Latest information and trends relating to ESG, CSR, and SC	All	Vol. 1~12 (35 reports)
Corporate Governance Review		Contributions on ESG and CSR by academia and industry experts		Vol. 1~4 (14 reports)
ESG Latest Issue Analysis	Editorial Board (Policy Research Division)	Timely issue analysis		2 reports
Issue Paper*	Analysis Team 1·3	In-depth analysis based on ESG rating data		7 reports
RI Report (paid service)	Analysis Team 2	ESG issues and global trends for RI service subscribers	Institutional investors (some available to all)	64 reports
Proxy Report		AGM preview and in-depth analysis of institutional investors' voting records	All	4 reports



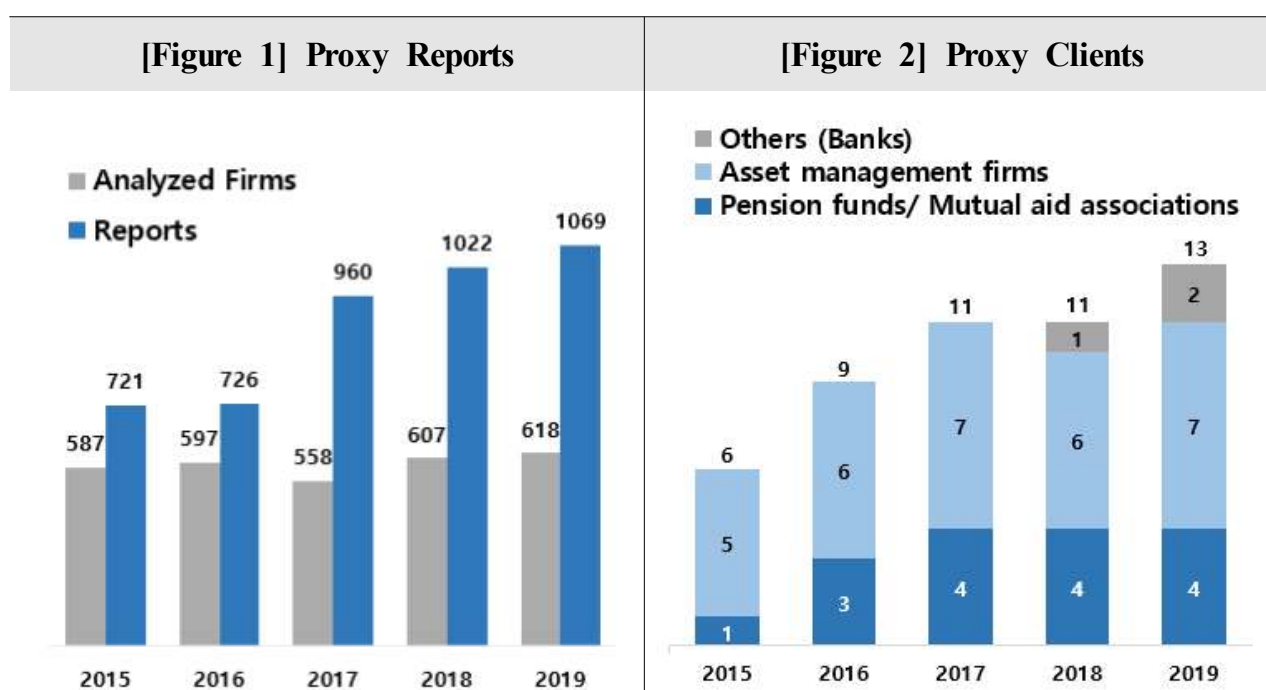
SC Trends	SC Center	Global trends and best practices relating to SC		2 reports
KCGS Research Report	Policy Research Division	Analysis papers by Ph.D. researchers		5 reports
<b>KCGS Policy Research*</b>		KCGS-wide analysis and views on key ESG issues		3 reports
<b><i>Governance Analysis Report*</i></b> (tentative name)	<i>Analysis Team 3</i>	<i>A comprehensive report aimed at supporting substantive ESG enhancement</i>	<i>A certain group of companies</i>	<i>Planning done To be published after 2020</i>

### 3 Proxy advisory service

◆ Quality enhancement to respond to the increased demand for professional analysis and transparency and to raise the agency's position; and increased client base through English reports

- **1,069 proxy reports prepared for 664 general meetings of shareholders held by 618 firms**
  - o The volume of the reports is growing every year (10.3% of 5-year CAGR)
- **Models developed for the themes that need in-depth analysis**
  - o Models for analyzing dividend level<sup>1)</sup> and director remuneration cap<sup>2)</sup> developed, and methods of applying firm valuation data prepared
  - o Negative voting recommendation percentages rose with the models applied, 1) 2.0%→7.1%, 2) 2.1%→26.8%
- **Customized proxy services based on the client's own proxy voting standards**
  - o 791 customized proxy reports produced (5% up against 754 in 2018)

- ☐ **A new webpage created to receive feedback from companies for increased transparency and participation by companies**
  - o 51 firms, 215 cases of feedback
- ☐ **Clients are growing every year (5-year CAGR at 21.3%) and an English version of the proxy reports are produced to attract overseas institutional investors.**
  - o 2 new contracts with overseas asset management firms



## 4 Expanded scope and coverage of RI advisory services

- ◆ Service coverage expanded to meet the rising importance of and demand for responsible investing, and research capabilities strengthened for better quality services

- ☐ **The content of responsible investing reports strengthened and the reports reorganized**
  - o In-depth analysis reports newly created or expanded, and reports delivering simple facts reduced or discontinued

	2017	2018	2019	Note
Issue Report	9	14	32	Expanded

ESG Insight	2	5	<b>10</b>	
Governance Watch	-	-	<b>13</b>	New
Global ESG News	7	20	<b>9</b>	Reduced
ESG Policy Update	7	20	-	Discontinued

☐ **Governance monitoring services developed to support shareholder engagement activities**

- o Feedback on individual monitoring results on portfolio stocks and sending out reports

\* To include the services for private shareholder letters

- o A monitoring guidebook developed: checklists, etc. included

☐ **A report dispatching system constructed and implemented to enhance the stability and timeliness of the services**

- o A monthly plan executed: sending out at least 4~5 reports
- o Issue Reports to reach clients within an average of 1.5 days after the occurrence of the event

☐ **RI analyst capabilities strengthened and data accumulation and sharing process enhanced**

- o Securities firm analysts and corporate valuation experts invited for their lectures to KCGS analysts (8 sessions in total)
- o A financial analysis tool and a manual to write a report for individual stocks created

**[Figure 3] RI Advisory Service Modules**

Category	Basic	Standard	Advanced	Premium
Types of services	<ul style="list-style-type: none"> <li>· ESG scores/grades</li> <li>· ESG Evaluation Reports</li> <li>· ESG Insight</li> <li>· Issue Report</li> </ul>	<ul style="list-style-type: none"> <li>· RI Universe</li> <li>· RI Index</li> <li>· Governance Watch</li> <li>· Global ESG News</li> </ul>	<ul style="list-style-type: none"> <li>· Proxy Reports</li> <li>· Consulting for internal proxy voting guidelines</li> </ul>	<ul style="list-style-type: none"> <li>· Consulting for the exercise of shareholder rights</li> <li>· In-depth analysis &amp; consulting for individual AGM agenda items</li> </ul>

## (Goal 2) Expanded supports for ESG enhancement and SC implementation

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### ESG enhancement supports through ESG ratings and ESG evaluation reports

- ◆ ESG grades announced and an award ceremony held to encourage firms to enhance their ESG practices, and the evaluation reports and consulting services provided

- **825 firms rated and 746 firms' grades announced**, following the final decision by the ESG Rating Committee (8th Oct.)

Composite grade	(Total)	S	A+	A	B+	B	C	D
# of firms	746	-	8	50	135	259	266	28
(previous year)	(727)	(0)	(11)	(41)	(101)	(261)	(278)	(35)

- **13 good ESG performers selected and an award ceremony held** (22nd Oct.)

#### o Governance Awards

Name of award	Listed firms (no-FIs)	FIs
Grand Prize	KT&G	
Best ESG	S-Oil	KB Financial Group
Good ESG	Hansol Logistics (Improved ESG) GS Home Shopping (KOSDAQ)	BNK Financial Group, Standard Chartered Bank Korea

#### o ESG Awards

Name of award	Listed firms (no-FIs)	FIs
Grand Prize	POSCO International	
Best ESG	SK Networks	-
Good ESG	Pulmuone CJ Freshway(KOSDAQ)	Shinhan Financial Group Samsung Fire&Marine Insurance

- **Standard ESG reports are provided to the rated firms to induce voluntary improvements in ESG practices**

- o Scores, ranking, grade, weaknesses, and improvements covered
- o Editing and design revisited for better readability and accessibility
- o English version of the standard reports are ready for increased use of

the analysis and rating results

☐ **In-depth evaluation expanded and advisory services provided for listed firms' ESG improvements**

- o Increased in-depth interviews for qualitative assessment and test evaluation of the governance of business groups
- o Proactively responding to increasing demand for our consulting (via office visit, telephone, e-mail, etc.)

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**Presentations and conferences for companies and institutional investors**

◆ Presentations, public hearings, and seminars organized targeted at firms and institutional investors, for raising awareness of ESG as well as KCGS

☐ **ESG presentation sessions in April<sup>1)</sup> and December<sup>2)</sup>(new)**

- o In addition to the presentation in the first half of the year going over the overall aspects of ESG ratings and key changes, a new presentation session has been added for the second half-year to explain the ESG rating results and collect feedback from companies
- o The number of attending firms and individuals: 1) 214 persons from 164 firms, 2) 107 persons from 72 firms

☐ **A public hearing titled 'Policy Measures for Raising Effectiveness of General Shareholders Meetings' held in May 2019**

- o A forum is created to exchange views on the matters relating to stewardship code, including implementation trends, diffusion, establishment, and regulatory improvement.

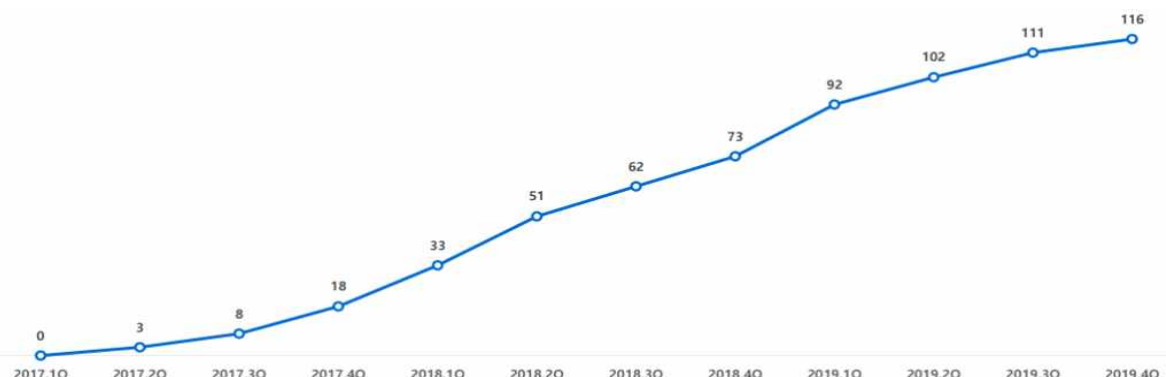
☐ **(Jointly with Korea Capital Market Institute) A policy seminar held in May titled 'Active Ownership of Institutional Investors: Local State of Play and Challenges'**

## 7 Supports for joining and implementing stewardship code

- ◆ Information on the adoption of the stewardship code(SC), global and local trends, and exercise of shareholder rights provided, SC advisory services offered, and external activities proactively carried out for the wider diffusion of the SC

- ☐ The list of SC signatories including those in the preparing stage and global and local trends offered (sc.cgs.or.kr)
- ☐ Global and local institutional investors' voting records provided (vip.cgs.or.kr)

[Figure 4] # of Korea Stewardship Code Signatories



## (Goal 3) Increased Internal and External Cooperation

### 8 Conducting research and providing ESG data for member organizations

- ◆ Member organizations' businesses and challenges examined in depth to suggest solutions, and ESG analysis results provided for proactive collaboration

- ☐ Research conducted upon 3 member organizations' request

Member organization	Research Topic
Korea Exchange	Analysis & assessment of 2018 corporate governance reports (COE)
Korea Securities	Review of separation of voting rights due to stock

<b>Depository</b>	lending (empty voting)
<b>Korea Securities Finance Corp.</b>	Study on the role of KSFC to enhance the liquidity of foreign currencies held by local securities firms

- ☐ **Source data to produce an ESG index and ESG rating data provided**
  - o ESG rating results provided for Korean Exchange for their ESG index (ESG Leaders 150) and ongoing collaboration for the operation of the index
  - o Governance rating data provided for KOSDAQ Listed Companies Association for their examination of the transparency category of 'KOSDAQ Grand Prix' (34 companies additionally evaluated)

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## **Commissioned research projects, research partnerships, and policy suggestions**

- ◆ Research projects commissioned by external parties in the areas of ESG, sustainable management, and responsible investing conducted to raise the agency's status as an expert group; external activities carried out proactively; and policy suggestions offered

- ☐ **Commissioned research projects conducted in the areas of ESG, RI, and stewardship code**
  - o 'Dividend Policy and Appropriateness Assessment' commissioned by National Pension Service
  - o 'Research on the adoption of stewardship code by Teachers' Pension' commissioned by Teachers' Pension
- ☐ **Proactively responding to the requests for research partnerships from the Government, the National Assembly, and major agencies**
  - o Korea Fair Trade Commission, National Pension Research Institute, Prime Minister's Office, Financial Services Commission, Ministry of Economy and Finance, Korea Exchange, Ministry of Gender Equality and Family, and many others

☐ **Attending academic conferences, seminars, and company conferences for presentations and panel discussion**

- o Korea Capital Market Institute, Korea Finance Association, Korea Derivatives Association, and many companies