
KOREA CORPORATE GOVERNANCE SERVICE

Communication on Engagement

(Mar. 2020 ~ Feb. 2022)

Korea Corporate Governance Service

Contents

I. Statement of Continued Support	1
II. About Korea Corporate Governance Service [KCGS]	2
1. Purpose & Core Business	2
2. History	3
3. Business Areas by Division	4
III. Key Achievements	5
(Goal 1) Enhanced Service Quality and Expertise	
1. Rating listed firms' ESG and renewal of rating models	5
2. Publishing reports on ESG & SC issues and trends	6
3. Providing proxy advisory service	7
4. Expanded scope and coverage of RI advisory service	8
(Goal 2) Expanded Supports for ESG Enhancement and SC Implementation	
5. ESG enhancement supports through ESG ratings & ESG evaluation reports	9
6. Presentations/conferences for firms & institutional investors	11
7. Supports for joining & implementing stewardship code	12
(Goal 3) Increased Internal and External Cooperation	
8. Research for member organizations & providing ESG data	13
9. Commissioned research projects, research partnerships & policy suggestions	14

To our stakeholders:

Founded in 2002 as a non-profit organization to help enhance the overall corporate governance environment in Korea, 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 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,

In Sook Shim
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 financial institutions
6. Advisory and consulting service on the matters relating to corporate governance and social responsibility
7. Proxy advisory service for institutional investors
8. Education and 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

- 2002. 6. Establishment of the organization
Appointment of the 1st president, Gwang Sun Jung
- 2003. 2. 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)
- 2013. 6. Appointment of the 4th President, Kyung Suh Park
- 2013. 10. Full disclosure of corporate governance grades
- 2014. 5. MOU with the Korea Entrepreneurship Foundation and the
National Research Foundation of Korea
- 2015. 1. Selected as the lead proxy advisor of the National Pension
(NPS) of Korea
- 2016. 6. Appointment of the 5th president, Myeong Hyeon Cho
- 2016.12. Published the 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
- 2021.10. Appointment of the 7th president, In Sook Shim

3 Business Areas by Division

Policy Research Division	Analysis Division			Stewardship Code (SC) Center	Business Management Team
	ESG Business Development Team	ESG Ratings Team	Responsible Investment Team		
ESG/ SC Research	Expanding new ESG businesses	Rating listed firms' ESG performance	Proxy advisory of listed companies	Establishing/ revising SC guidebook and guidelines	Establishing vision/ management goals/management innovation measures
Advisory for ESG policies/ institutions	Building/ running integrated DB	Assigning/ announcing ESG grades	Supports for responsible investing	Advisory for SC adoption/ implementation	IT/computing system maintenance
Establishing codes of best practices/ guidelines	Supports for facilitation of ESG bonds	Supports for ESG enhancement	Consulting on exercise of shareholder rights	Collecting/ providing data for Voting Information Plaza	HRD, crafting/ revising internal policies
Hosting conferences and public hearings	Exploring/ identifying new growth engines	Revising codes of best practices/ guidelines	Consulting on the revision of internal proxy voting guidelines	Operating SC Development Council	PR, hosting internal/external events

III

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 ESG codes of best practices revised reflective of global ESG trends

□ 950 listed firms for ESG, and 111 FIs for Governance in 2021

※ 908 listed firms for ESG and 110 FIs for Governance in 2020

Rating process		Rated firms finalized and preliminary research done	Rating and data validation	Company Feedback (# and % of firms)	
Environmental & Social (950 firms)		May	June - August	Aug. ~Sept. (E:311·32.7%, S:334·36.2%)	
Governance (1,005 firms)	non-FIs (894 firms)	April	May - July	July-Aug.	(273·30.5%)
	FIs (111 firms)				(72·64.9%)

□ ESG Codes of Best Practices updated reflective of global trends and to support the expansion of ESG management

Category	Features
Environmental	The new code reflected local/global trends with regard to voluntary environmental reporting structures and drives the integration of the environmental management process into the enterprise-wide risk management process.

Social	The new code added new sections on leadership and governance and risk management to drive the non-financial risk management to link with socially responsible management and general management strategies.
Governance	The new code places board leadership up front and emphasizes the roles and responsibilities of the board for ESG and sustainability issues.

2 Publishing reports on ESG & SC issues and trends

- ◆ To raise its standing as a specialized ESG research center, KCGS publishes market-leading and empirical in-depth reports.

□ KCGS is publishing a variety of reports for various target readers.

Name of report	Publishing team	Purpose and theme	Target reader	# of reports 2020	# of reports 2021
KCGS Report	Editorial Board (Analysis Division)	Latest information & trends relating to ESG, CSR, and SC	All	Vol. 1~12 (33 reports)	Vol. 1~12 (36 reports)
Corporate Governance Review	Editorial Board (Policy Research Division)	Contributions on ESG and CSR by academia and industry experts		Vol. 1~4 (9 reports)	Vol. 1~4 (12 reports)
ESG Latest Issue Analysis		Timely issue analysis		8 reports	8 reports
Issue Paper*	ESG Ratings Team	In-depth analysis based on ESG rating data		4 reports	–
RI Report (paid service)	Responsible Investment Team	ESG issues and global trends for RI service subscribers	Institutional investors	22 reports	27 reports
RI Trends Report		AGM preview and RI/AGM analysis	All	5 reports*	9 reports
SC Trends	SC Center	Global/local trends, best practices, and issues relating to SC		2 reports	3 reports
Stewardship Code Report					

KCGS Research Report	Policy Research Division	Analysis papers by Ph.D. researchers		3 reports	4 reports
KCGS Policy Research		KCGS-wide analyses and views on key ESG issues		3 reports	4 reports

* The AGM preview and in-depth analyses of institutional investors' voting records for the 2020 season expanded to RI trend reports in 2021.

3 Providing 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

☐ Proxy advisory clients on the steady increase

- o In the 2021 season, proxy clients up by 2 and RI clients up by 7

< # of Clients by Year >

	2017	2018	2019	2020	2021
Proxy Advisory	11	11	14	19	21
Responsible Investing	9	6	7	8	15

☐ Models developed for enhanced service quality

- o RI service from asset owners' perspective developed
- o Extra functions* added to raise the convenience of the PASS users (clients) and help raise work efficiency

* Integrated inquiry for RI reports, notices dispatched when reports are registered, enhanced data management efficiency, etc.

☐ 9 RI trend reports published

- o 2 AGM previews – addressing controlling shareholders holding concurrent positions, cash dividend expansion, changing pension funds, institutional investors' shareholder engagement, and the restricted terms of office of outside directors

- 7 In-depth reviews* – addressing shareholder proposals and BOD's responses, shareholder engagement on ESG, carbon debt, executive compensation disclosure, treasury shares in mergers, related-party transactions by non-disclosure business groups, screening strategy for the coal phase-out*

* 4 RI reviews and 3 AGM reviews

☐ **Standardization of English proxy advisory service and publication in an overseas publication**

- English proxy advisory service for foreign institutional investors (4 in 2021 and 9 in 2020)
- The English proxy advisory report standardized
- A publication run in an overseas governance publication*

* Global Proxy Watch Vol. 25 No. 29

4 Expanded scope and coverage of RI advisory service

◆ A new service supporting shareholder engagement, stable provision of existing services such as RI reports and client seminars, and commissioned RI service provision

☐ **Shareholder engagement support service launched**

- **Engagement Monitoring*** provided focused on key governance matters, including ownership structure, related-party transactions, capital allocation, and board of directors

* 52 monitoring services for two asset management firms in 2021

- **Shareholder engagement support services for institutional investors on 9 engagement cases**, following Engagement Monitoring

☐ **Stable provision of RI reports and enhanced timeliness of Issue Reports**

- Global ESG News, ESG Insight, Watch, etc.
- Issue Reports written and sent to clients* within avg. 0.44 days**

after the occurrence of an event

* 27 issue reports (16 in 2020)

** 63% of the reports sent to clients within the same day
(40% in 2020, 12.5% in 2019)

☐ **Client Seminars**

o A seminar held for proxy advisory clients after the AGM season
(13 clients in 2021, 9 clients in 2020)

* To provide a comparison of KCGS recommendations and actual voting records, introduce the revised voting guidelines, and listen to suggestions

☐ **Commissioned RI services conducted**

- o Measures to facilitate responsible investing at Korea Postbank (Dec'21)
- o Proxy analysis DB construction for the National Pension Service of Korea (Dec'21)
- o Research on ESG evaluation system for the Government Employees Pension Service (Feb'22)

(Goal 2) Expanded Supports for ESG Enhancement and SC Implementation

5 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; evaluation reports provided; improved utilization of the evaluation system

☐ **1,005 firms assigned rating grades and all the rated firms' grades announced.**

Integrated grade		(Total)	S	A+	A	B+	B	C	D
# of firms	2021	765	-	14	171	136	211	221	12
	2020	760	-	16	92	134	260	236	22

- ☐ **Good performers of governance and ESG selected and an award ceremony held: 13 firms in 2021, 15 firms in 2020**

○ Governance Awards

Name of award	2020		2021	
	Listed Firms (Non-FIs)	FIs	Listed Firms (Non-FIs)	FIs
Grand Prize	Standard Chartered Bank Korea		Standard Chartered Bank Korea	
Best Governance	POSCO	Shinhan Financial Group	(not selected)	(not selected)
Good Governance	KT AmorePacific (Improved, Good) Everdigm (KOSDAQ)	BNK Financial Group	SK Innovation (KOSPI, Good) LG U+ (KOSPI, Improved) Hyundai Everdigm (KOSDAQ, Good)	KB Kookmin Card Hyundai Capital

○ ESG Awards

Name of award	2020		2021	
	Listed Firms (Non-FIs)	FIs	Listed Firms (Non-FIs)	FIs
Grand Prize	POSCO International		Pulmuone	
Best ESG	Pulmuone	KB Financial Group	S-Oil	(not selected)
Good ESG	S-Oil LX International (Improved, Good) CJ Freshway (KOSDAQ)	DGB Financial Group JB Financial Group	KIA (KOSPI, Good) Hyundai Bioland (Improved, KOSDAQ) SK Materials (KOSDAQ, Good)	Samsung Card DGB Financial Group (Improved)

- ☐ **In-depth interview scope expanded and utilization of ESG ratings reports increased**

- The interviewee scope expanded to include those voluntarily asking for an interview, in addition to the interviewees selected based on qualitative governance evaluation elements
- Korean and English ESG Ratings Reports provided to help rated firms diagnose and improve their ESG management quality. Institutional investors can refer to the reports when constructing an

ESG portfolio.

☐ **ESG Evaluation System (Web) enhanced for increased utilization**

- Continued improvement of the web-based ESG evaluation system referring to the feedback provided by the users for improved user convenience (firms and KCGS)

☐ **ESG consulting for listed firms and cooperation with related agencies**

- Consulting on ESG practice improvement based on the listed firms' rating results and responding to the inquiries from non-listed firms and public institutions
- Consulting for many government ministries, including the fair market division and new deal financing division of the Financial Services Commission, and the commercial affairs division of the Ministry of Justice; responding to and consulting for public institutions; responding for the materials request from the National Assembly

6

Presentations and conferences for firms and institutional investors

- ◆ Presentation sessions held to drive changes in awareness of the firms and market and raise the awareness of KCGS. Identifying and expanding new ESG businesses

☐ **ESG presentation sessions in January 2021**

- An online (zoom) presentation to provide a summary of the 2020 rating outcome and the planned schedule for the 2021 ratings
- A summary of the 2020 rating outcome and features released on the evaluation website

☐ **The 1st Responsible Investing Forum held in January 2020**

- Invited listed companies to share KCGS criteria of voting decisions

- **(Jointly with Korea Capital Market Institute)** A policy seminar held in October 2020 titled ‘Plans to Amend the Commercial Code and the Anti-trust Law and Pending Issues’

□ **New ESG businesses**

- o ‘Establishment and operation of products for firms with good ESG performance,’ KB Kookmin Bank (Oct’21)
- o ‘Development of a model to monitor ESG investment performance of asset managers dealing with indirect investment assets, Korea Development Bank (Sept’21)

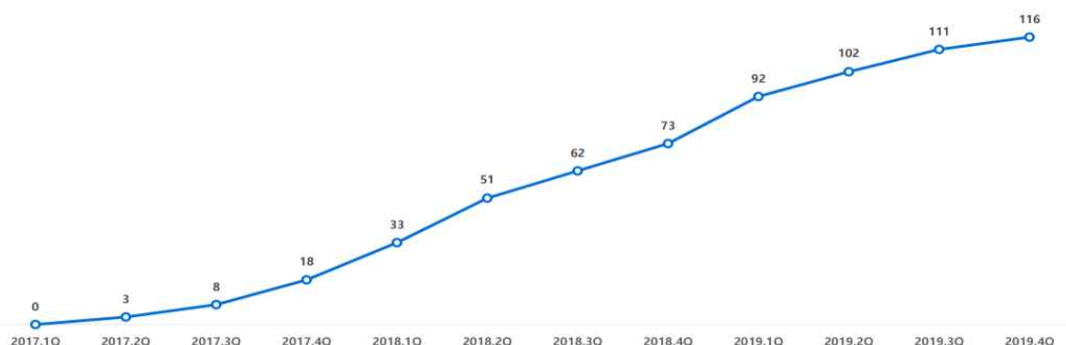
7 Supports for joining and implementing stewardship code

- ◆ Analysis on the achievements of the stewardship code (SC) and the revision of the code. Supports for the implementation of the SC by offering information on global and local trends of SC and the exercise of shareholder rights

- **The list of SC signatories including those in the preparing stage and global and local trends provided (sc.cgs.or.kr)**

- **Global and local institutional investors' voting records provided (vip.cgs.or.kr)**

[Figure 4] # of Korea Stewardship Code Signatories (as of Dec 31, 2021)



※ Quarterly cumulative

- ☐ **A paper on SC achievements and a draft of the revised code submitted to the Financial Services Commission in October 2021**
 - o 「Analysis on the Performance of the Korea Stewardship Code: 2017~2020」
 - o 「Revised Korea Stewardship Code (Draft)」
- ☐ **Korea Stewardship Code Council meetings in May and July 2021**
 - o To collect the opinions from the Council on the details of the revised SC and the direction of the revision

(Goal 3) Increased Internal and External Cooperation

8 Research for member organizations and providing ESG data

- ◆ Member organizations' businesses and challenges examined in depth to suggest solutions. ESG rating outcome and company analysis reports provided for proactive collaboration

- ☐ **Research projects upon 3 member organizations' request**

Member organization	Research Topic	
	2020	2021
Korea Exchange	Analysis & assessment of 2019 corporate governance reports (COE)	Analysis of 2021 corporate governance reports
Korea Securities Depository	Research on China and India's measures to facilitate voting and the introduction of dual class stock	Voting service infrastructure, legal trends, and implications: a focus on ESG elements
Korea Securities Finance Corp.	Ways for institutional improvement to create an investment pool from private university funds	ESG utilization by securities financing firms and ways to support capital markets in ESG areas

- ☐ **Source data to produce ESG indices and ESG rating data provided**
 - o ESG ratings data and company analysis reports offered on the ESG portal of the Korea Exchange
 - o ESG rating outcome provided to the Korea Securities Depository

- o Governance rating data provided for KOSDAQ Listed Companies Association for their examination of the transparency category of 'KOSDAQ Grand Prix'

9

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 in the areas of ESG and RI**

	Ordering Agency	Name of the Research Project
'20	Korea Fair Trade commission	Research on the sophistication of disclosures of the key details of the business groups subject to disclosure requirement
	Ministry of Environment	Measures to increase the financial institutions' utilization of the Enviance System by improving the financial support system for businesses operating green management
	National Pension Service	Dividend policy and adequacy evaluation
	Korea Investment Management	Ways to expand shareholder activities in the new changing environment of the capital market
'21	Financial Supervisory Service	Case studies of the ESG policy implementations in key European countries: ways to link with the financial hub policy
	Korea Forestry Service	Research on the development of a standard ESG evaluation system for the forestry area
	Presidential Commission on Jobs	Linking ESG with jobs
	Korea Environmental Industry & Technology Institute	Improvement of the disclosure items (draft) in line with the expansion of the environmental information subject to disclosure
	Ministry of Environment	Certification of external reviewers of K-green bonds and the establishment of the support system for green bond issuers

- ☐ **Proactively responding to the requests for research partnerships from the Government, the National Assembly, and major agencies**
 - o Korea Fair Trade Commission, National Assembly, Financial Services Commission, Korea Institute of Procurement, Korea Forest Service, Korea Environmental Industry & Technology Institute, and many others

- ☐ **Attending academic conferences, seminars, and company conferences for presentations and panel discussion**
 - o Korea Finance Association, Korea Association for Government Accounting, Korea Commercial Law Association, Korean Banking and Financial Law Association, and many companies