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법무법인(유) 세종

Korean ESG obligations

2021.01.19

On 14 January 2021, the Financial Services Commission (the "**FSC**") announced plans to comprehensively reform the corporate disclosure framework. The key plans related to ESG are:

1. Who will need to disclose corporate governance reports

Since 2019, the Korea Exchange has required companies listed on the KOSPI Stock Market Division with total assets of KRW 2 trillion or more to disclose corporate governance reports. Through amendments to the relevant exchange regulations, the Korea Exchange will gradually expand the companies subject to mandatory disclosure starting from 2022.

	Applicable Period			
	2019 (in force)	2022	2024	2026
Total asset amount	KRW 2 trillion or more	KRW 1 trillion or more	KRW 500 billion or more	All listed companies on the KOSPI Stock Market Division

2. Promotion of disclosure of sustainable management reports and release of the ESG Information Disclosure Guidance

Currently around 100 companies publish sustainable management reports every year, but as of 2019, despite the expansion of ESG-related investments, only 20 companies voluntarily disclose such reports to the Korea Exchange. The FSC has sought to increase the number of disclosures from such low levels, and to clarify the standards when preparing such reports.

- Phase 1 (by 2025): promote voluntary disclosure of sustainable management reports.
- Phase 2 (from 2025 to 2030): Make disclosure of sustainable management reports mandatory for companies of a certain size listed on the KOSPI Stock Market Division.
- Phase 3 (2030 and later): Make disclosure of sustainable management reports mandatory for all companies listed on the KOSPI Stock Market Division.

Further, the Korea Exchange plans to release the ESG Information Disclosure Guidance in January 2021 containing:

- general principles of ESG information disclosure such as accuracy, clarity, comparability, and timing;
- "Best Practice" having regard to industry characteristics to standardize disclosures;
- model cases in relation to materiality assessment procedures and stakeholder communication channels; and
- international standards for disclosure indicators (GRI, WFE, etc.), disclosure procedures and disclosure methods.

3. Regulatory reform in relation to proxy advisory firms

Proxy advisory firms provide the services of analyzing agenda items of the general shareholders' meetings and advising institutional investors on the exercise of their voting rights. In recent times, engagement by institutional investors of proxy advisory firms has been increasing and their influence on the market has increased significantly.

However, there have been no laws or regulations restricting such proxy advisory firms from engaging institutional investors and companies as their clients at the same time and have been criticized for not addressing potential conflict of interests. There has been public criticism of the lack of tools to verify whether a proxy advisory firm has sufficient expertise and credentials to provide their services, and the lack of transparency on the sources of data and their tactics.

To address these issues, the FSC plans to supervise proxy advisory firms by releasing in 2021 the Guidelines for Engaging Proxy Advisory Firms. It is expected that such guidelines would require, among others, the following:

- each proxy advisory firm to provide periodic information to financial investment company clients on such firm's code of conduct, conflict of interest policy and control measures, analysis capabilities and credentials; and
- such financial investment company clients to disclose such information to the public.

In addition, the FSC is contemplating introducing a registration or reporting system for proxy advisory firms and establishing the legal basis for the supervision of such firms under the Capital Market and Financial Investment Business Act.

4. Possible amendment to the Stewardship Code

In December 2016, the Korea Stewardship Code: Principles on the Stewardship Responsibilities of Institutions investors was enacted. As of November 2020, 133 institutional investors have adopted such Stewardship Code. The FSC announced that it will evaluate the progress in the implementation of such Stewardship Code and consider whether any amendments to strengthen fiduciary duties related to ESG are required. It is expected that such amendments will be in

the fourth quarter of 2021.

Key Contacts

Yong Kook Lee
Senior Advisor

+82-2-316-4855
ykooklee@shinkim.com

Kyung Hwa Moon
Partner

+82-2-316-4018
khmoon@shinkim.com

Soo Young Song
Partner

+82-2-316-1636
sysong@shinkim.com

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