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Press Release

June 18, 2013

MEASURES TO IMPROVE FINANCIAL INSTITUTION'S CORPORATE GOVERNANCE

The FSC formed a task force team¹ to work on 'measures to improve financial institution's corporate governance (hereinafter 'measures')' on April 19, 2013 and came up with the draft of measures based on what have been discussed so far.

The FSC will proceed with follow-up measures in the nearest future, building upon the opinions gathered from academia and financial industry at the public hearing held on Monday, June 17.

TASK FORCE DISCUSSIONS

Financial institution's corporate governance is nearing the level of international standards thanks to continuous efforts to improve corporate governance since the Asian financial crisis in 1997. Such efforts still fell short of actual changes in practices. Compared to general corporations, financial institutions' poor governance has a greater risk as it poses direct threat to the financial system. In this respect, financial institutions' corporate governance needs to have greater accountability and better represent interests of all stakeholders including depositors and financial regulators.

Under such awareness, the team has drafted the measures focused on two respects: i) how to bring about actual changes to financial institutions' governance behavior; and ii) how to make corporate governance of financial institutions better represent public interest.

- i) The FSC has set a minimum level of standards and adopted the 'Comply or Explain' principle to respect diversity of financial institutions within the minimum boundaries of institutional framework in implementing corporate governance rules. Financial institutions will be required to disclose more information on their corporate governance and continuously monitor their own compliance situation.
- ii) The FSC has raised standards for responsibility and transparency of financial institutions towards their stakeholders so that their corporate governance could well represent both interest of shareholders and the public interest. Boards of directors will be granted greater authority to hold management in check and asked to enhance their transparency and responsibility in nominating, evaluating, and remunerating outside directors. Boards' activities will be under strengthened monitoring by shareholders.

KEY CONTENTS OF THE MEASURES

1. The FSC will stipulate financial institution's risk management, supervising conflicts of interest, and implementing corporate governance policy as authority of the board which currently relies on management.

¹ - Chief commissioner: Professor Park Kyung-suh
- Commissioners from the private sector: Park Kyung-suh (Korea Univ.), Park Chang-seop (SC Financial Group), Park Young-seog (Sogang Univ.), Yang Ihl-soo (Samil PwC), Koo Bon-seong (Korea Institute of Finance), Song Okryul (SNU), Kim Sun-woong (Center for Good Corporate Governance)
- Commissioners from the government bodies and agencies: general director of Financial Policy Bureau, FSS assistant deputy governor

2. Status of ‘chief executive nominating committee²,’ which currently is a non-permanent committee, will be raised to permanent ‘board member nominating committee’ affiliated to the board of directors. The board will be given more authority and responsibility related to managing, recommending, and screening potential chief executive nominees.
3. The permanent committee will be required to devise a detailed chief executive succession plan and publicly announce the plan and procedure.
4. Financial institutions will be required to introduce outside director’s remuneration system based on level of contribution (participation to board meetings, etc.) and responsibility as well as publicly announce remuneration information. Financial institutions will be mandated to publicly announce details about financial benefits that outside directors received including indirect profits earned from provision of goods and services.
5. Financial institutions will be obliged to submit a proposal for nominating an outside director to general shareholder’s meeting separate from other agendas and publicly announce each nomination process.
6. Maximum coverage ratio of directors and executives insurance will be limited to a certain level.
7. Like in other major advanced economies, domestic financial institutions will be obliged to write and publicly announce a detailed annual report on corporate governance.

FUTURE PLAN

The FSC will proceed with follow-up measures based on opinions raised during Monday’s public hearing and come up with ‘Best Practice Guideline on Corporate Governance’.

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For any inquiry, please contact Foreign Press & Relations Team at aykim@korea.kr

² Major roles: chief executive succession plan, chief executive nominee management, chief executive nominee recommendation, chief executive nominee screening