

## LARGE KOSPI-LISTED COMPANIES TO MAKE MANDATORY DISCLOSURE OF KEY INFORMATION ABOUT CORPORATE GOVERNANCE FROM 2019

The FSC approved amendments to the KRX's Kospi Market Disclosure Regulations. The amendments are intended to make it mandatory for Kospi-listed companies with total assets of more than KRW 2 trillion to disclose key information about their corporate governance from 2019.

### **Background**

Good corporate governance is essential for a company's sustainable growth, enabling investors to have confidence in the company's future and make long-term investments. With the introduction of stewardship code, the role and responsibility of institutional investors have become increasingly important. Accordingly, investors' demand for corporate governance transparency is growing as well. Against this backdrop, the FSC and the KRX intend to progressively turn the disclosure of corporate governance, which has been on a voluntary basis since 2017<sup>1</sup>, into a mandatory requirement for Kospi-listed companies from 2019.

### **Key amendments**

#### **1. Mandatory disclosure of corporate governance information**

Kospi-listed companies with total assets of more than KRW 2 trillion<sup>2</sup> are required to disclose a corporate governance report no later than two months after the statutory deadline for submission of annual reports. In the corporate governance report, companies should disclose whether they *comply* with key principles<sup>3</sup> of corporate governance and *explain* why if they do not comply. The KRX plans to provide guidelines on disclosure of corporate governance by March 2019, which specify information that companies should include in their corporate governance report.

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<sup>1</sup> Under the voluntary scheme, 70 companies in 2017 and 95 companies in 2018 disclosed their corporate governance information.

<sup>2</sup> As of end-2017, 189 companies, accounting for 25% of Kospi-listed companies, will be subject to mandatory disclosure of corporate governance. The FSC is considering expanding the mandatory disclosure to all Kospi-listed companies from 2021.

<sup>3</sup> The key principles are composed of 10 essential principles from the Corporate Governance Code by the Korea Corporate Governance Service (KCGS) and the G20/OECD Principles of Corporate Governance

## **2. Disciplinary actions for violation of corporate governance disclosure rules**

The amendments laid the ground for disciplinary actions for violation of corporate governance disclosure rules. If a company fails to disclose its corporate governance report within the deadline or makes a false disclosure, the company will be designated as an unfaithful disclosure corporation by the KRX and levied with penalty points.<sup>4</sup> When a company makes an error or omits key information, the KRX will first ask the company to address the issue. If the company does not comply with the KRX's request, then the company will be faced with disciplinary actions.

### **Follow-ups**

The KRX will provide specific standards and guidelines in regard with mandatory disclosure of corporate governance information. The draft of the KRX guidelines has been discussed among various market participants and will be finalized in March 2019.

The FSC will continue our policy efforts to create an environment where disclosure of corporate governance information can encourage more active engagement of shareholders. The FSC will support facilitation of electronic voting system and improvement of listed companies' annual general meeting practices to help shareholders better exercise their rights. The FSC will also provide legal interpretations as needed to ease legal uncertainty for institutional investors to exercise their rights as responsible shareholders, and improve the rules for large shareholding disclosures (also known as the '5% rule').

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<sup>4</sup> Depending on how many penalty points a company has, it may result in suspension of its stock trading, imposition of monetary penalty, or designation as an administrative issue.