

REVISED GUIDELINES ON CORPORATE GOVERNANCE DISCLOSURE TO STRENGTHEN SHAREHOLDER PROTECTION

The FSC introduced revisions to the guidelines on corporate governance disclosure for listed companies which aim to strengthen shareholder protections beginning from the end of May regulatory filing this year.

BACKGROUND

Corporate governance disclosure was introduced on listed companies in March 2017 to encourage companies to voluntarily self-disclose their compliance with the core principles of corporate governance or to provide explanations in case of non-compliance, thereby promoting more transparency in corporate management. Corporate governance disclosure filing was voluntary when first introduced in March 2017. Afterwards, in accordance to the plan for a gradual expansion of application, it became mandatory in 2019 for KOSPI-listed firms holding total asset of KRW2 trillion or more. Starting from 2022, the mandatory filing has been expanded to KOSPI-listed firms with total asset of KRW1 trillion or more and the total number of companies this year that will be subject to the mandatory filing of corporate governance disclosure is expected to increase to 265 entities.

	Total asset	No. of entities subject to mandatory filing
2019 ~ 2021	KRW2 trillion or more	175
2022	KRW1 trillion or more	265 (+90 expected)
2024	KRW500 billion or more	406 (+231 expected)
2026	All KOSPI-listed firms	733 (+558 expected)

* Financial companies and investment businesses are not included in the numbers.

The corporate governance disclosure system has made contributions to boosting management transparency of listed firms. As more entities will become subject to the mandatory filing from this year, the authorities are introducing the following revisions to improve the guidelines on corporate governance disclosure.

KEY DETAILS

I. ESTABLISH A RULE ON SHAREHOLDER PROTECTION IN BUSINESS SPLIT OFF

A split off is a divestment method where a parent company carves out a part of its business and creates a subsidiary which is then wholly owned by the parent company. As few companies have recently split off their business and went ahead with IPO of new subsidiaries, the issue has become contentious. Those in favor argue that IPO of a new subsidiary after a split off is inevitable to ensure the growth of a new business sector as doing so allows large scale fundraising without a

concern for diluting shares of the controlling shareholder. On the other hand, those in opposition contend that doing so violates the shareholder rights of the parent company and brings harm to minority shareholders.

While continuing to seek regulatory improvements regarding this issue, the authorities plan to begin with a measure that will help encourage companies and their shareholders to resort to autonomous mediation. In this regard, a detailed principle on shareholder protection has been newly introduced for corporate governance disclosure where companies will need to describe internal shareholder protection policy when changes in their ownership structure occur following a split off, merger, transfer, etc. Following this rule, companies will need to describe in their corporate governance disclosure reports internal measures for shareholder protection, such as collection of opinions from minority shareholders and protection of rights of shareholders that are opposed to a change in ownership structure, or otherwise provide explanations on reason for non-compliance. Moreover, on the shareholder communication section, companies will need to indicate details of communication with minority shareholders. This will help encourage companies to actively provide critical information to minority shareholders.

II. STRENGTHEN DUTY TO EXPLAIN FOR INTERNAL TRANSACTIONS WITH AFFILIATED FIRMS

Under the revised guidelines, companies will need to more actively explain to their shareholders any details and reasons for board decisions on internal transactions with affiliated firms and self-dealings involving the management and controlling shareholders. This will help strengthen disclosure of information and control over such activities.

III. CEO SUCCESSION POLICY & AUDIT COMMITTEE

(CEO SUCCESSION POLICY) Currently, companies often resort to perfunctory listing of CEO appointment procedures on their corporate governance disclosure reports. Under the revised guidelines, only companies that have clearly indicated key details about their CEO succession policy will be recognized to be in compliance with the guidelines.

(AUDIT COMMITTEE) Under the current rules, companies with assets of KRW1 trillion or more and below KRW2 trillion are subject to the mandatory filing of corporate governance disclosure from this year but are not required to set up an audit committee. The revised guidelines will require them to describe plans for setting up an audit committee—if they have plans to do so—in order to help strengthen internal control measures.

SCHEDULE & FURTHER PLAN

The revised guidelines on corporate governance disclosure will begin to apply from this year's regulatory filing deadline which is May 31, 2022. The KRX and the Korea Listed Companies Association will offer relevant information and education on key revisions in March-April and provide a more tailored learning and consulting program

to companies that have become subject to the mandatory filing for the first time this year. Between June and September, the KRX and the Korea Corporate Governance Service will perform inspections to check compliance according to the revised guidelines.

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