

## ACTIVE SUPPORT TO BE PROVIDED TO PROMOTE VOLUNTARY EFFORTS OF LISTED COMPANIES IN ENHANCING THEIR VALUE

– 1<sup>st</sup> policy seminar on the Corporate Value-up Program was held –

- ✓ A set of guidelines will be prepared to support how listed companies set out plans tailored to their own needs and circumstances to boost their values and communicate with the market.
- ✓ Bold incentives, including various tax incentives, will be provided to encourage voluntary participation from companies.
- ✓ A “Korea value-up index” will be introduced and the stewardship code will be revised to support institutional investors, including pension funds, in evaluating companies’ efforts and performance for improving corporate value and in making investment accordingly.
- ✓ A second policy seminar will be held in May to gather comments from businesses on the details of the guidelines with an aim to finalize the guidelines in the first half of this year.

The Financial Services Commission held the first seminar on the Corporate Value-up Program for the advancement of the Korean stock market together with the Korea Exchange, other related institutions, and industry groups on February 26. At today’s seminar, key details of the Corporate Value-up Program, which have been jointly prepared by related institutions, were introduced to facilitate discussions and collect opinions from various stakeholders.

### 1<sup>ST</sup> POLICY SEMINAR ON CORPORATE VALUE-UP PROGRAM

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| <b>Date &amp; Location</b> | February 26, 2024, Monday, 09:30~11:30<br>Market Square Conference Hall at Korea Exchange  |
| <b>Agenda</b>              | <ul style="list-style-type: none"> <li>· Corporate Value-up Program (KRX)</li> <li>· Policy Efforts to Enhance Corporate Value in Other Countries and Their Key Takeaways (KCMI)</li> <li>· Changes in Dividend Payment Practices and Plans to Promote Corporate Value Enhancement Efforts (KLCA)</li> </ul>   |
| <b>Participants</b>        | <ul style="list-style-type: none"> <li>· (Authorities &amp; relevant organizations) Financial Services Commission (FSC), Financial Supervisory Service (FSS), Korea Exchange (KRX), Korea Capital Market Institute (KCMI), Korea Listed Companies Association (KLCA), KOSDAQ Listed Companies Association (KOSDAQ Association), Korea Institute of Corporate Governance and Sustainability (KCGS)</li> <li>· (Investors &amp; financial investment business) National Pension Service, NH Investment &amp; Securities, Samsung Asset Management</li> <li>· (Listed companies) POSCO International, Leeno Industrial Inc.</li> <li>· (Academia) Kwun Jae Yeol (Professor, Kyung Hee Univ.), Lee Jun Seo (Professor, Dongguk Univ.)</li> </ul> |

FSC Chairman Kim Joo-hyun delivered opening remarks outlining the government’s reform initiatives to bring about fundamental changes in our capital markets. They include (a) establishing a fair and transparent market order, (b) improving accessibility to capital markets, and (c) strengthening protection for general shareholders.

To build up a positive feedback loop in our capital markets where listed companies are able to get proper valuation for sound growth and investors are able to share the profit of that growth and reinvest in the Korean capital market, the government needs to support companies' voluntary efforts to raise their value, the Chairman said.

He added that the Corporate Value-up Program will be implemented continuously as a mid- to long-term project to support companies' value enhancement efforts and promote management practices that place a priority on shareholder value.

Key details of the Corporate Value-up Program are as follows.

In order to actively support listed companies' self-driven efforts to improve their corporate value, the government and relevant organizations set out a framework to implement the Corporate Value-up Program. The framework consists of three pillars: (a) supporting listed companies to prepare, implement and communicate their corporate value-up plans, (b) supporting investors in making informed evaluations and investments in companies that demonstrate outstanding improvements or high value, and (c) establishing a dedicated system to support the implementation of the Corporate Value-up Program.

**First pillar.** A set of guidelines will be provided to support listed companies' voluntary disclosure on their corporate value-up plans, along with bold incentives to encourage their self-initiated participation.

The guidelines will provide key principles, what needs to be included in companies' value-up plans, and how to disclose the plans in order to help them prepare, implement, and communicate their corporate value-up plans on a voluntary basis. Under the guidelines, listed companies are advised to (a) draw up their corporate value-up plans<sup>1</sup> every year with a medium- to long-term perspective, having the board of directors play a key role in preparing and implementing the plans, (b) publish the plans on their website, and (c) make a voluntary disclosure to KRX.

In order to incentivize companies to enhance their corporate value and increase shareholder returns, the government explores a range of tax incentives and benefits. Companies chosen for their high corporate value or outstanding improvements in value may receive awards and preferential treatment in tax policies.

**Second pillar.** The Corporate Value-up Program aids investors in assessing companies' initiatives and performance aimed at enhancing corporate value, enabling investors to make investment decisions accordingly.

The "Korea Value-up Index" composed of best practice companies—listed companies that have proven records of profitability or those anticipated to boost their corporate value—will be developed so that institutional investors, including pension funds, can utilize it as a benchmark index. ETFs that track the Korea Value-up index will also be listed to facilitate retail investors' access to these companies.

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<sup>1</sup> The Guidelines will advise that the plans include (i) assessment of current status, (ii) goals, (iii) measures to achieve the goals, and (iv) evaluation on implementation and communication with investors.

The stewardship code will be revised<sup>2</sup> to ensure that institutional investors, such as pension funds, take into their investment consideration listed companies' value enhancement initiatives.

In addition, KRX will compile data from KRX Market Data System and publish major financial indicators of companies—e.g. price book value ratio (PBR), price earnings ratio (PER), return on equity (ROE), dividend payout ratio, and dividend yield—by market segments and business sectors, to enable investors to compare them more conveniently.

**Third pillar.** A dedicated support system will be established to implement the Corporate Value-up Program as a mid- to long-term agenda. A dedicated department will be set up in KRX and an advisory board will also be set up to support improvements and updates to the Corporate Value-up Program. KRX will launch a web portal to help investors more conveniently search various types of information on the Corporate Value-up Program, such as disclosure status of companies on their corporate value-up plans.

Led by this dedicated support network, various assistance programs will be provided to encourage active participation of companies, including training on disclosure for listed companies, business consulting and English translation service for SMEs, and joint IR and online PR. KRX and associations of listed companies (KLCA and KOSDAQ Association) will continue to host a series of meetings with their member companies.

The FSC and relevant organizations plan to finalize the guidelines in the first half of this year after a second seminar in May this year to gather more feedbacks from companies about key details of the draft guidelines. The government will implement support measures and incentives to make sure that companies that are ready to disclose and implement their corporate value-up plans are able to do so from the second half of this year.

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<sup>2</sup> The revised stewardship code will clarify institutional investors' responsibilities to check whether the companies they are investing in have corporate value enhancement plans in place and are implementing them and communicating with investors.

## **FREQUENTLY ASKED QUESTIONS**

### **Q1: Is it possible to resolve the problem of “Korea discount” only with the Corporate Value-up Program?**

A1: The “Korea discount” is an outcome of multiple factors coming to play in combination. The government has been pursuing various policies with aims to upgrade our capital markets. We have made efforts to establish a fair order in stock market trading, make our capital market regulations more consistent with global standards, and protect the rights and interests of general shareholders. Alongside these efforts made thus far, the corporate value-up support measures are aimed at assisting companies’ self-initiated efforts to improve their valuation to ultimately bring about fundamental changes in the market. Once these measures come together to have greater effects of boosting confidence in our capital markets and spreading the culture of prioritizing shareholder values, we expect that it can help to resolve the problem of “Korea discount.”

### **Q2: If the program is run on a voluntary basis, wouldn’t it be less effective because of low participation by companies? Shouldn’t there be mandatory disclosure requirement or stronger penalties, such as the possibility of delisting?**

A2: Instead of coercing companies to boost valuation, it is more realistic and desirable to provide incentives to encourage participation on a voluntary basis. The success (or failure) of the Corporate Value-up Program depends on how sincerely and earnestly companies prepare their value-up plans and communicate with the market. Mandatory disclosures may lead to tokenism, making companies filing meaningless and perfunctory disclosures. Thus, the Corporate Value-up Program will be run on a voluntary basis to ensure that each listed company can prepare and carry out a corporate value-up plan suitable for its own situation and needs, while providing bold incentives and promoting active evaluation and investment from institutional investors to encourage participation.

### **Q3: There may be concerns that increasing dividends and treasury stock cancellations in the short term can work against the company’ competitiveness.**

A3: The Corporate Value-up Program is intended to boost corporate values over a medium- to long-term. Dividends, buybacks, and treasury stock cancellations can be effective ways to increase shareholder returns. However, the Corporate Value-up Program is focused on encouraging companies to draw up medium- to long-term valuation enhancement strategies through, for example, R&D investment, expanding operation into new business, investment in human capital, and have companies communicate these efforts with the market.

### **Q4: In what ways is this program different from the one in Japan?**

A4: There are similarities to Japan’s case in that the program aims to encourage listed companies to voluntarily set up and disclose valuation enhancement plans. However, there are differences, because the guidelines will take into account the situation and needs of local companies and the program will encourage voluntary participation of companies through provision of a range of incentives and support

programs. To be more specific, first, the program offers a more detailed set of guidelines to facilitate companies in drawing up their value-up plans. Second, the program offers bold incentives, including an array of tax benefits, awards and other tax incentives and management consulting support for outstanding businesses, and a dedicated support system from KRX. Third, the program encourages institutional investors, such as pension funds, to invest in best practice companies through the revised stewardship code.

**Q5: When is the deadline for preparing the value enhancement plan?**

A5: There will be a second seminar organized by KRX in May to gather more feedbacks from companies about the contents of the guidelines. Based on the feedbacks and discussion, the details of the guidelines will be finalized and a dedicated web portal will be set up in June. Starting in the second half of 2024, companies that are ready to disclose their value-up plans will be able to do so. There will be no specific deadline for disclosing value-up plans as it may require adequate time for review. However, if needed, companies may publish a timeline for preparation of their plans.

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