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# South Korea Corporate Governance 2020 Review

During the pandemic year, discussion on environmental, social and corporate governance (ESG) topics remained robust globally including South Korea. In July 2020, the Ministry of Economy and Finance disclosed a detailed national development strategy on the Digital New Deal and Green New Deal. In Q3 2020, South Korea was one of the top countries with strong ESG fund growth, according to *ESG Clarity*.<sup>1</sup> 2020 also witnessed significant corporate governance developments in the country. This insight summarizes key updates in the past year and 2021 outlook.

## Legislative changes to foster corporate governance reform

Since President Moon Jae-In took office in May 2017, the government has been striving to reform the governance structure of *chaebols* the family-controlled conglomerates. In addition, there were legislative amendments on the following corporate governance areas:

1. **Executives' accountability:** Park Yong-Jin and 12 other assemblymen proposed forming dismissal standards of unsuitable executives who were accused of corruption or decreasing firm value;
2. **Board independence:** Outside directors are prohibited from serving more than six years in a company as per the Enforcement Decree of the Capital Markets Act. In addition, Mr. Park proposed owners or affiliated shareholders are also prohibited to serve in the Independent Director Recommendation Committee;
3. **Board diversity – gender:** Companies with assets of more than two trillion won are expected to have at least one female board director effective summer 2020;
4. **Shareholder rights protection and enhancement:** In January 2020, the Financial Services Commission clarified the scope of the “5% rule”, a special regime that requires shareholders holding over 5% of a company's issued capital to disclose a report of shareholding intent

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<sup>1</sup> <https://esgclarityasia.com/koreas-sustainable-funds-see-huge-inflows-in-q3/>

about influencing the company. Under the amended rule, shareholder engagement on dividend policy and corporate governance are exempted from the rule. Other proposed amendments include multiple derivative action, concentrated vote system, and electronics voting;

5. **Investor communications prior to annual general meeting:** To facilitate investors to make a better-informed decision during the proxy season, companies are required to disclose details of executive remuneration in the previous year, as well as background and rationale of recommending director candidates.

### Activists, shareholder activism and company responses

The momentum of shareholder activism remained strong, despite fewer Korean companies being targeted by activists in 2020. Our analysis shows that six companies were targeted by activists in the past year, compared to the peak number of 14 in 2018. While some previous activists' campaigns were unsuccessful, companies' responses to minority shareholders' concerns continued. For example, Hyundai Motor is still attempting to resolve circular shareholding issue and improve shareholder return despite winning the proxy fight with Elliott in 2019.<sup>2</sup>

The National Pension Service (NPS), South Korea's largest institutional investor and the world's third-largest pension fund, also showed signs to step up its stewardship activities. Since its adoption of the country's stewardship code in 2018, it has furthered active ownership through exercising its voting rights, for example related to compensation for directors and auditors.<sup>3</sup> In February 2020, it was reported that NPS officially changed the purpose for holding shares in 56 companies from "non-engagement investing" to "general investing" in regulatory filings, under which NPS is allowed to file fewer regulatory filings than before changes in shareholding.<sup>4</sup>

### 2021 Outlook

In line with regulatory changes on corporate governance, we expect both local and foreign institutional investors to raise their expectations and intensify shareholder activism accordingly. Gender diversity on the board and board independence continue to be the key focus, as evidenced in the Glass Lewis and ISS' respective South Korea proxy voting policy updates 2021. Further information can be found in our upcoming insight Proxy Advisers' Policy Updates for 2021.

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<sup>2</sup> <http://www.businesskorea.co.kr/news/articleView.html?idxno=53180>

<sup>3</sup> <http://www.koreaherald.com/view.php?ud=20200205000443>

<sup>4</sup> <https://www.bloomberg.com/news/articles/2020-02-10/korea-s-600-billion-pension-fund-to-be-more-active-shareholder?sref=FRYc8cFL>

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