



Korea Corporate
Governance Service

(www.cgs.or.kr)

Press Release

Date of Release

April 10, 2020 (Friday)

Proxy Review of Q1 2020 Annual General Meetings

I. Scope

Korea Corporate Governance Service (KCGS) issued voting recommendations for institutional investors on the proposals put to vote at the annual general meetings held in the first quarter of 2020 of 353 companies with a 12/31 fiscal year-end. Of the 353 firms, 238 are listed on the KOSPI market, 109 on the KOSDAQ, and the remainder 6 on the KONEX. The review was conducted based on the KCGS Proxy Voting Guidelines updated in January 2019.

II. Proxy Review Result

The 353 firms reviewed by KCGS tabled 2,460 proposals¹⁾ and the majority of them (1,323 or 53.8%) were to elect directors. Of the 2,460 items, the agency issued negative voting recommendations against 369 or 15%. Out of the 353 firms, the number of firms that received at least one negative voting recommendation amounted to 206 or 58.4%.

The overall ratio of the negative voting recommendations is more or less the same as that of the previous year (15.9%). Looking at the breakdown, however, with the amendment to the Enforcement Decree of the Commercial Act, there came a big drop in the negative vote recommendations against independent director nominees from 23.7% to 15.9%. Meanwhile, the negative recommendation ratio against financial statements and dividends, and directors' remuneration cap rose compared to last year's figures.

< 2020 AGM Proxy Review Results >

Category	Grand total	F/S · Dividends	Amendments to AoI	Governing bodies								Director remuneration cap	Auditor remuneration cap	Other occasional items *
				Board of directors				Auditing body			Total			
				Inside director	Non-executive director	Independent director	subtotal	Audit committee member	Auditor	subtotal				
Negative voting recommendation(%)	15.0	10.1	10.8	5.6	1.5	15.9	10.0	13.8	43.1	19.4	12.7	31.4	0.7	31.6
Negative voting recommendation(#)	369	35	18	25	1	69	95	42	31	73	168	111	1	36
# of proposals	2,460	348	167	446	66	435	947	304	72	376	1,323	353	155	114

* Company split-offs, creation/revision of severance pay guidelines, stock option plans, stock split-ups, capital reserve reductions, etc.

1) Limited to management proposals

(Election of directors) KCGS recommended against 168 or 12.7% of the 1,323 proposals of electing directors and audit committee members or auditors. The breakdown under this category shows that the ratio of the negative voting recommendations against independent directors stands at 15.9%, much lower than that of the previous year (23.7%).

Although more companies were reviewed by KCGS this proxy season than in the previous year (300 firms), the number of negative voting recommendations against independent directors dropped. This is mainly due to the fact that the companies turned to appoint new directors replacing those having served long consecutive terms, to align with the amended Enforcement Decree of the Commercial Act.

By breakdown of reasons, compared to the figures from last year, fewer independent director nominees were recommended against over independence issues including long-term service²⁾ and conflicting interests³⁾. In the meantime, more director candidates were recommended against due to the reasons such as low attendance, damage to company value, inappropriate concurrent positions, and administrative or judicial sanctions.

Noteworthy is the tendency to appoint as an independent director those who have a direct and indirect relationship with the controlling shareholder through various channels, beyond those having an explicit transactional relationship with the company.

< Number of negative voting recommendations against independent directors by reason 2016 ~ 2020 > ⁴⁾

Reason	2016	2017	2018	2019	2020
Long consecutive terms	33	58	30	39	4
Low attendance	24	30	20	10	22
Independence issue (conflicting interests)	55	54	36	43	30
Others	13	23	21	8	17
Total	125	165	107	100	73

(Impact of long-term service banning) Effective from January 29, 2020, the Enforcement Decree of the Commercial Act was amended, and independent directors are banned from serving the company or its affiliated firm for several consecutive terms.⁵⁾

2) If the consecutive terms including the prospective term exceed seven years in service

3) If the nominee is a party related to a legal entity or individual acting as a legal representative for litigation, advisor, or external auditor of the company, or in a competing or cooperative business relationship with the company

4) Since a nominee may fall under multiple reasons, the total of the reasons exceeds the number of negative recommendations.

5) According to Article 34(5) of the amended Enforcement Decree of the Commercial Act, an independent director of a listed firm can hold his/her office for a period up to six years. If an independent director serves a listed firm as well as its affiliated company, his maximum term of office may extend to nine years.

In the 2020 AGM season, the companies reviewed by KCGS tabled 435 proposals of electing independent directors, of which 258 proposals (59.3%) sought to elect a new independent director, higher than the figure from last year (50.8%).

A significant drop was witnessed in the number of proposals seeking to re-elect the directors whose independence is doubted due to a long period of service, including the case where an independent director having served for more than 18 years was replaced.

KCGS issued negative voting recommendations against some of the proposals trying to circumvent the new rule and keep the directors for a longer period than allowed by appointing the same person after the corporate split-up or by electing an existing non-executive director to an independent director position.

Meanwhile, some other companies replaced a majority of their independent directors to align with the new rule, and two large listed firms having KRW2 trillion in total assets replaced their independent directors entirely.

(Auditing body) KCGS issued negative vote recommendations against 31 proposals (43.1%) of electing a corporate auditor. The ratio is the highest of the agenda types recommended against by the agency.

While the new Enforcement Decree of the Commercial Act only restricts the terms of independent directors, there is no reasonable reason not to apply the same standard to auditors who should also maintain independence from management. KCGS is of the opinion that the auditor nominees who will serve more than seven years also have their independence undermined. Under this standard, of the 31 negative recommendations against auditor nominees, long consecutive terms took the highest portion (21 proposals) in the breakdown by reason.

(Director remuneration cap) 31.4% of the proposals of approving the remuneration cap for directors received negative recommendations by KCGS. The rate is a bit higher than the percentage from last year (27.1%).

The KCGS proxy voting guidelines updated in January last year additionally take into account whether the remuneration is tied to performance and the actual payment rate relative to the cap. In line with the guidelines, KCGS expressed concern about the practice where the remuneration cap is set at a far higher level than the actual payments.

KCGS issued negative vote recommendations against 111 firms' proposals of approving the director remuneration cap, who failed to show a correlation between remuneration and performance while having a record of paying a lower percentage of the proposed cap.

As the new form of the notice of an annual general meeting used from 2020 requires the total sum of the remuneration actually paid for the preceding business year (2019), more information is provided to shareholders on this category of agenda items this proxy season.

Still, only a very limited number of firms explained the rationale for computing the proposed remuneration cap or why they proposed a remuneration cap higher than the amounts paid actually. Thus, more detailed information needs to be provided to allow better-informed decisions by shareholders.

(Dividends) The companies reviewed by KCGS this proxy season presented 348 proposals of approving financial statements and dividend payouts, of which the agency issued negative recommendations against 35 firms (10.1%) citing an excessively small size of payouts. Both the number and ratio of the negative recommendations increased in this category compared to the figures from last year (21 firms, 6.8%).

The firms whose dividend proposals received a negative recommendation shared the same trend of not being aggressive in shareholder return, paying lower dividends than the industry peers even when they had room to increase payouts considering their capital allocation status, size of cash inflows, (planned) investment activities, and level of profit fluctuations.

Thus, shareholders, if they are paid a small dividend repeatedly, are advised to more closely monitor capital allocation at their portfolio companies.

(Amendments to articles of incorporation) 142 corporations proposed to amend their articles of incorporation this proxy season. Of these, 18 firms received a negative voting recommendation from KCGS on grounds of a potential violation of shareholder rights and deteriorated corporate value.

Seven proposals were recommended against because they sought to change the requirements for a resolution by a shareholders' meeting without a justifiable reason or

tried to authorize the board of directors to approve the financial statements.

KCGS also recommended against the proposals seeking to adopt an audit committee system in place of a corporate auditor to nullify shareholders' attempts to propose an auditor nominee.

Investors are advised to pay heed as a firm tried to adopt a supermajority system in a bid to weaken an external corporate governance mechanism triggered by changing corporate control.

(Executive officer severance payment policy) Of the firms reviewed by KCGS, 36 companies tabled a proposal to amend their policy on executive officer severance payment, up from 23 last year. The increase is mainly due to the 20 companies who proposed similar amendments as a respective member of four business groups.

11 firms or 30.6% received a negative voting recommendation under this category, of which eight firms proposed similar amendments as a respective member of three business groups, and they were recommended against for the same reasons.

Specifically, two firms belonging to the same business group proposed to authorize the board of directors to decide on whether to pay a severance payment to the directors who are dismissed under the applicable law or the company's relevant regulation. KCGS recommended against these proposals over the potential deterioration of company value⁶⁾.

Against four firms under two business groups, negative voting recommendations were issued out of a concern of an excessively large severance payment because the severance payment rates were raised excessively at the group level. Two other companies belonging to the same business group also received a negative voting recommendation because they proposed to change the authority to decide on a special reward without providing a justifiable rationale.

(Corporate split-up) Of the companies reviewed by KCGS, nine firms proposed a corporate split-up, three times more than the figure from the previous annual proxy season. Most of the proposals (eight firms) sought a simple division or split-off, and a

6) In a possible case, the board of directors may decide to pay severance payment to a director who has been dismissed by the resolution at the general meeting of shareholders for deteriorated corporate value or shareholder interests. Such a decision aggravates the agency problem and gives rise to company value reduction.

company proposed a spin-off to convert to a holding company. The increase is attributable to the increased need for business restructuring and more funding sources amid the overall economic downturn in the domestic markets last year.

Looking at the rationales for the divisions, a firm explained that they needed a division to convert the surviving company to a holding company; another to sell a business division after the division; and the remaining seven companies to enhance business focus and corporate value. Of these, KCGS did not find any element likely to undermine shareholders' rights and interests.

III. Implications

A visible achievement has been made in the 2020 annual general meeting season in terms of external corporate governance controls thanks to the amendment to the Enforcement Decree of the Commercial Act and the changed form of the notice of a general shareholders' meeting.

The number of independent directors holding office for several consecutive terms dropped by a large margin, and an environment has been created to help shareholders make more informed decisions as the new notice form required the companies to provide detailed information about their director nominees prior to an annual general meeting. Such required information included whether the nominee had any tax arrears, had been a management member in a poorly-performing company, or had any legal disqualification, along with detailed career history, actual remuneration data, and the rationale for the nomination.

Having said that, the quality of disclosure still needs improvements. Companies provided somewhat uniform reasons for nominating directors and the firms belonging to the same business group provided the same uniform notice. From the shareholders' perspective, firms have yet to provide more quality information.

Contact for inquiry	Lee Suwon, Team Leader (+82-2-6951-3851, swlee@cgs.or.kr) Jung Hanwook, Lead Analyst (02-6951-3724, jhwook@cgs.or.kr) Yoon Sojung, Analyst (02-6951-3723, sjyoon@cgs.or.kr) Team 2, Analysis Division, KCGS
----------------------------	--